

REPUBLIC OF THE MARSHALL ISLANDS

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

YEAR ENDED SEPTEMBER 30, 2016

REPUBLIC OF THE MARSHALL ISLANDS

FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2016

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INDEPENDENT AUDITORS' REPORT

Her Excellency Dr. Hilda C. Heine
President
Republic of the Marshall Islands:

Report on the Financial Statements

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, 2016, and the related notes to the financial statements, which collectively comprise RepMar's basic financial statements as set forth in Section III of the foregoing table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective net position or 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, 2016, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis-of-Matters

Implementation of New Accounting Standards

As discussed in Note 1 to the financial statements, RepMar adopted Governmental Accounting Standards Board (GASB) Statement No. 72, *Fair Value Measurement and Application*, effective October 1, 2015.

Federal Grants Receivable

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.

Social Security Obligations

As discussed in Note 13 to the financial statements, the Marshall Islands Social Security Administration may be unable to meet its future benefit obligations.

Debt Guarantee

As discussed in Note 13 to the financial statements, the Marshall Islands National Telecommunications Authority is in default of certain debt to the Rural Utilities Service for which RepMar is the guarantor.

Our opinions are not modified with respect to these matters.

Other Matters

Required Supplementary Information:

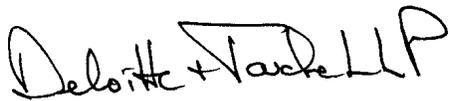
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, as set forth in Section II of the foregoing table of contents, as well as the Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - General Fund, as set forth in Section IV of the foregoing table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise RepMar's basic financial statements. The Other Supplementary Information, as set forth in Section V of the foregoing table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The Other Supplementary Information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Other Supplementary Information set forth in Section V of the foregoing table of contents is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 28, 2017, on our consideration of RepMar's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering RepMar's internal control over financial reporting and compliance.

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

June 28, 2017

REPUBLIC OF THE MARSHALL ISLANDS

Management's Discussion and Analysis Year Ended September 30, 2016

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, 2016. We encourage readers to consider the information presented here in conjunction with RepMar's basic financial statements, which follow this section. Fiscal year 2015 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 \$131.9 million (net position), increasing by \$10.9 million (or 9%) from \$121 million in the prior year. Of this amount, \$73.7 million represents RepMar's investment in capital assets; \$76.2 million represents amounts restricted for various purposes, with the remaining deficiency of \$18 million to be funded from future governmental activities.
- During the current fiscal year, RepMar's expenses for governmental activities were \$123 million, including special appropriations made to the autonomous agencies, and were funded in part by \$59.4 million in program revenues and \$72.7 million in taxes and other general revenues. Program revenues increased by \$1.7 million (or 2.9%) from \$57.7 million in the prior year to \$59.4 million, which was attributable primarily to the increase in capital grants and contributions. Taxes and other general revenues increased by \$13 million (or 21.9%) from \$59.7 million in the prior year to \$72.7 million, which was attributable primarily to the increase in unrestricted grants and contributions. Expenses increased by \$10.6 million (or 9.4%) from \$112.4 million in the prior year to \$123 million, which was attributable primarily to an increase in health, special appropriations, and general government expenses.
- The Compact Trust Fund experienced an increase in fund balance of \$7.7 million in the current fiscal year, increasing RepMar's trust fund balance to \$62 million from \$54.3 million in the prior year (up 14.3%).
- For the current fiscal year, General Fund revenues (and other financing sources) of \$66.7 million exceeded General Fund expenditures (and other financing uses) of \$63.8 million. General fund revenues (and other financing sources) were up \$13.4 million (or 25.1%) from prior year primarily due to an increase in fishing revenue contributions from the Marshall Islands Marine Resources Authority (MIMRA) of \$10.5 million (or 66.7%) and tax revenues of \$3 million (or 11.9%) from prior year. Concurrently, General Fund expenditures (and other financing uses) were up \$10.8 million (or 20.3%) from prior year primarily due to an increase in special appropriations of \$3.3 million (or 19.7%) and transfers out of \$3.5 million (or 145.8%) from prior year.

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 position presents information on all of RepMar's assets and liabilities, with the difference between the two reported as net position. 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.

REPUBLIC OF THE MARSHALL ISLANDS

Management's Discussion and Analysis
Year Ended September 30, 2016

Government-wide Financial Statements, Continued

The two government-wide financial statements report RepMar's net position and how such has changed. Net position, 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 position is an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of RepMar, additional non-financial factors such as changes in RepMar's tax base, the condition of RepMar's roads and infrastructure, and the quality of services needs to be considered.

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

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

The government-wide financial statements can be found on pages 18 and 19 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 20 and 21 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 position and a statement of change in fiduciary net position. The basic fiduciary fund financial statements can be found on pages 23 and 24 of this report.

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Management's Discussion and Analysis Year Ended September 30, 2016

Fund Financial Statements, Continued

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 25 and 26 of this report.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 27 through 70 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 71 through 73 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 74 through 113 of this report.

A FINANCIAL ANALYSIS OF REPMAR AS A WHOLE

Net Position

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of RepMar, assets exceeded liabilities by \$131.9 million at the close of the most recent fiscal year; however, such is either restricted as to the purpose it can be used for or is 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 position is 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 \$43 million while its current liabilities were \$15.2 million. Restricted net position represents resources that are subject to external constraints. The table below summarizes RepMar's net position at the close of the current year compared with prior year.

RepMar's Net Position As of September 30

	Governmental Activities 2016	Governmental Activities 2015	Total Percentage Change 2016-2015
Current and other assets	\$ 113,018,993	\$ 99,192,229	13.9%
Capital assets	89,899,775	95,211,885	-5.6%
Total assets	202,918,768	194,404,114	4.4%
Long-term debt outstanding	56,570,046	59,501,530	-4.9%
Other liabilities	14,495,623	13,907,202	4.2%
Total liabilities	71,065,669	73,408,732	-3.2%
Net position:			
Net investment in capital assets	73,686,740	77,656,327	-5.1%
Restricted	76,201,723	67,335,963	13.2%
Unrestricted	(18,035,364)	(23,996,908)	-24.8%
Total net position	\$ 131,853,099	\$ 120,995,382	9.0%

REPUBLIC OF THE MARSHALL ISLANDS

Management's Discussion and Analysis Year Ended September 30, 2016

Net Position, Continued

At the end of the current fiscal year, RepMar's unrestricted net position deficiency was \$18 million, a decrease of the prior year amount by \$6 million (or 24.8%). 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.

Total liabilities decreased by \$2.3 million (or 3.2%) from the prior year amount of \$73.4 million to \$71.1 million, which was primarily attributable to a decrease in Asian Development Bank (ADB) loans payable of \$3 million (or 5%) due to current year debt service reduction.

Changes in Net Position

As discussed earlier, net position of the primary government increased by \$10.9 million, which represents an increase of 9% from the prior year's amount of \$121 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 position for the current fiscal year as compared with prior year.

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

	Governmental Activities 2016	Governmental Activities 2015	Total Percentage Change 2016-2015
Revenues:			
Program revenues:			
Charges for services	\$ 9,766,542	\$ 10,016,741	-2.5%
Operating grants and contributions	44,037,490	44,101,356	-0.1%
Capital grants and contributions	5,590,317	3,616,346	54.6%
	<u>59,394,349</u>	<u>57,734,443</u>	2.9%
General revenues:			
Taxes	28,479,894	25,445,105	11.9%
Grants and contributions	37,391,558	27,191,385	37.5%
Ship registry	6,125,000	6,000,000	2.1%
Other general revenues	738,370	1,025,652	-28.0%
	<u>72,734,822</u>	<u>59,662,142</u>	21.9%
Total revenues	<u>132,129,171</u>	<u>117,396,585</u>	12.5%
Expenses:			
Education	30,333,274	30,064,761	0.9%
Health and environment	29,710,503	26,998,896	10.0%
Finance	6,476,974	6,962,996	-7.0%
Special appropriations	20,246,673	17,429,232	16.2%
Foreign affairs and trade	3,425,239	2,949,115	16.1%
Public works	2,958,555	2,964,782	-0.2%
Justice	3,547,264	3,715,297	-4.5%
Internal affairs	5,579,462	2,979,583	87.3%
Capital projects	3,230,111	2,456,841	31.5%
Resources and development	3,108,595	2,552,204	21.8%
Transportation and communication	1,184,358	1,998,389	-40.7%
President and cabinet	1,916,979	1,552,716	23.5%
Nitijela	1,843,264	1,930,597	-4.5%
Nuclear claims related	1,378,009	1,341,689	2.7%
Interest	740,169	519,425	42.5%
Other	7,334,534	5,977,157	22.7%
Total expenses	<u>123,013,963</u>	<u>112,393,680</u>	9.4%
	9,115,208	5,002,905	82.2%
Special item	(3,800,000)	-	
Contributions to permanent funds	5,542,509	(2,618,493)	-311.7%
Change in net position	10,857,717	2,384,412	355.4%
Net position, beginning of year	120,995,382	118,610,970	2.0%
Net position, end of year	<u>\$ 131,853,099</u>	<u>\$ 120,995,382</u>	9.0%

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Management’s Discussion and Analysis
Year Ended September 30, 2016

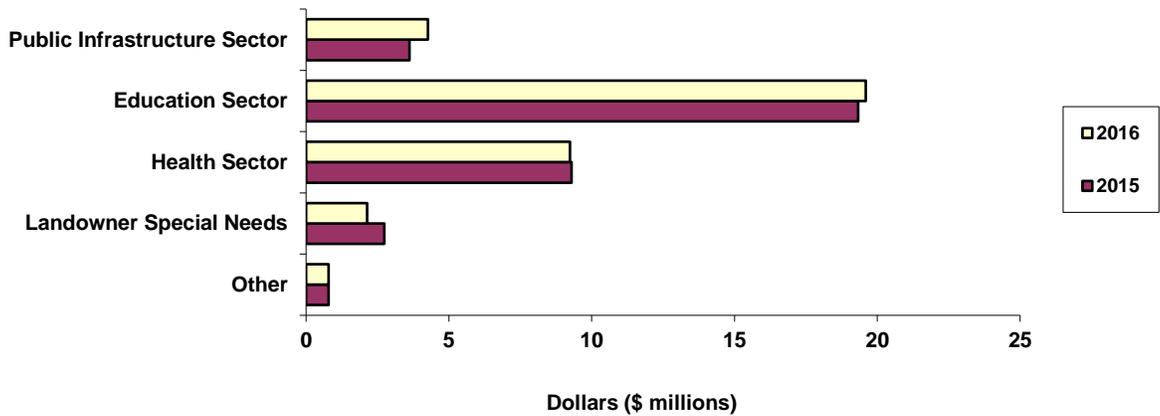
Changes in Net Position, Continued

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

- Total revenues increased by \$14.7 million (or 12.5%) compared with prior year. General revenues increased by \$13 million (or 21.9%) as compared with prior year whereas program revenues increased by \$1.7 million (or 2.9%) as compared with prior year. The increase in general revenues reflects a \$10.5 million (or 66.7%) increase in contributions from MIMRA due to an increase in collections from fishing rights revenues and a \$3.1 million (or 11.9%) increase in tax revenues due to an increase in collections from withholding taxes, import taxes, and gross revenue taxes. The increase in program revenues reflects the recognition in the current year of \$1.3 million in donated capital equipment from the Government of Japan.
- At the same time, cost of governmental activities increased in the current year by \$10.6 million (or 9.4%) as compared with prior year, which was attributable primarily to an increase in health, special appropriations, and general government expenses.
- The Compact Trust Fund experienced an increase in fund balance of \$7.7 million in the current fiscal year, increasing RepMar’s trust fund balance to \$62 million from \$54.3 million in the prior year (up 14.3%).

A significant portion of RepMar’s program revenues involve contributions from the Government of the United States under the Compact of Free Association. Overall funding from Compact sector grant revenues increased modestly by \$0.3 million (or 0.8%) from prior year primarily due to an increase in education and public infrastructure sector funding offset by a decrease in landowner special needs funding. A graphic summary of overall Compact sector grant revenues received by RepMar for the current year compared with the prior year follows:

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



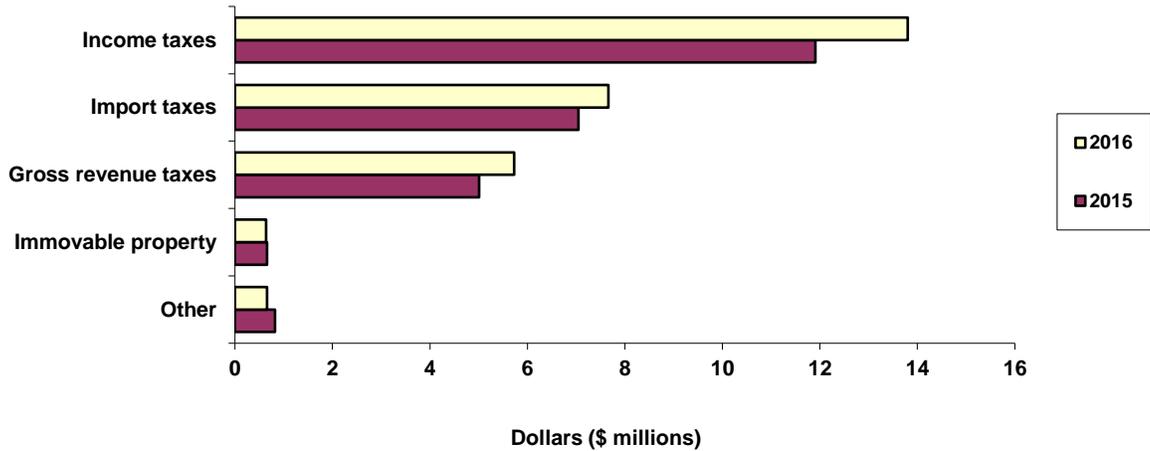
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Management’s Discussion and Analysis
Year Ended September 30, 2016

Changes in Net Position, Continued

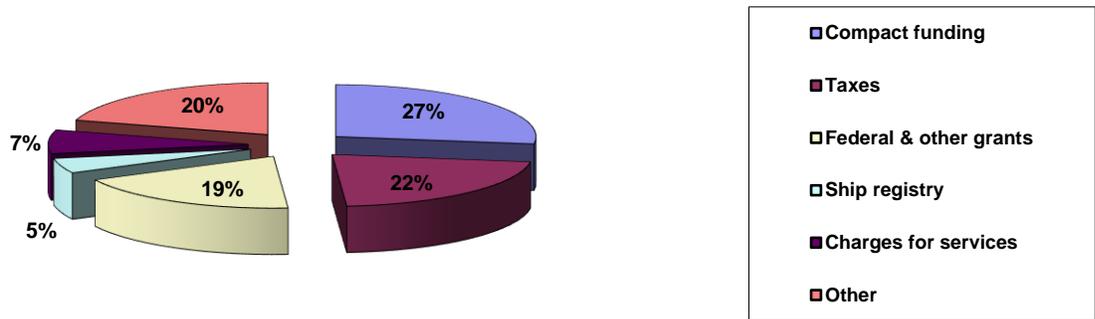
A significant portion of RepMar’s general revenues involves tax revenue collections. At \$28.5 million in the current year, tax revenues increased by \$3 million (or 11.9%) compared with \$25.5 million collected in the prior year. A graphic summary of RepMar’s tax revenue collections for the current year compared with the prior year follows:

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



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, 2016



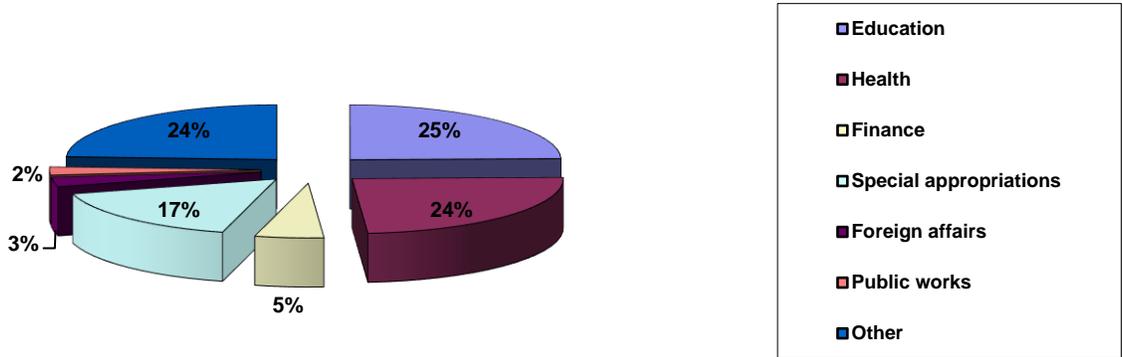
Compact funding, local taxes and federal and other grants are the major sources of revenue for RepMar, which comprise 68% of total revenues for the current year. The remaining 32% is primarily comprised of ship registry fees, fishing revenue contributions from MIMRA, and various fees and service charges.

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Management’s Discussion and Analysis
Year Ended September 30, 2016

Changes in Net Position, Continued

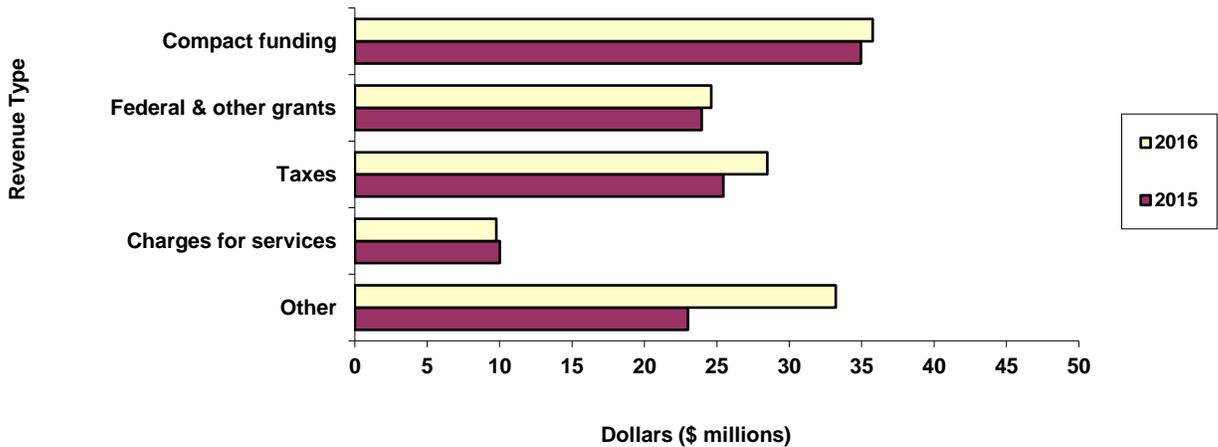
Graph 4
RepMar’s Cost of Governmental Activities
For the Year Ended September 30, 2016



Other expenses that make up a portion of the costs of governmental activities include ministerial expenses within the Ministry of Justice (\$3.5 million), the Ministry of Internal Affairs (\$5.6 million), the Ministry of Transportation and Communication (\$1.2 million), and the Ministry of Resources and Development (\$3.1 million); legislative expenses within the Nitijela (\$1.8 million); and executive expenses within the President’s Office and Cabinet (\$1.9 million).

Graphs 5 and 6 below show a comparison of the major components of revenues and cost of governmental activities for the current year compared with the prior year follows:

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

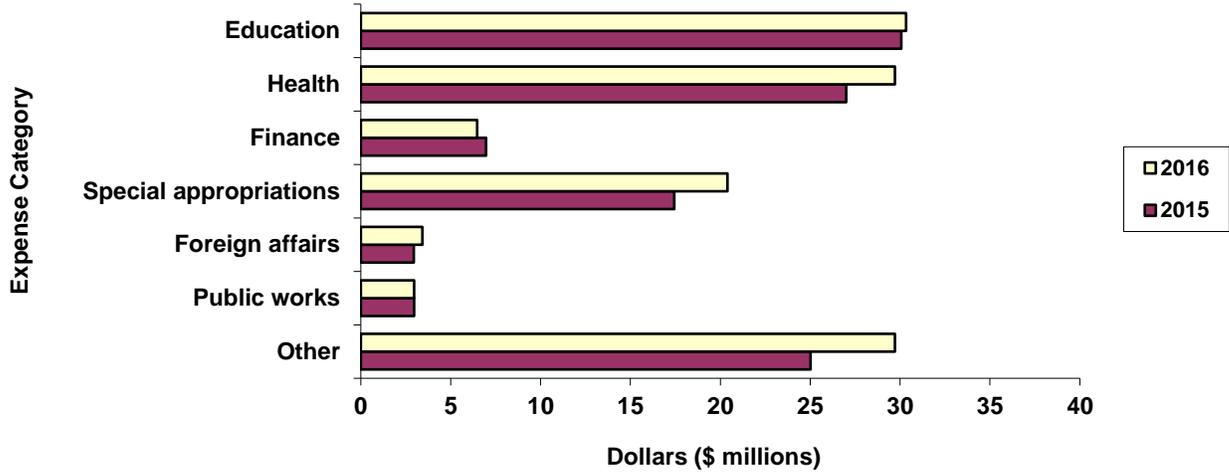


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Management’s Discussion and Analysis
Year Ended September 30, 2016

Changes in Net Position, Continued

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 \$3.1 million, up from \$2.6 million in the prior year; the Ministry of Transportation and Communication of \$1.2 million, down from \$2 million in the prior year; the Ministry of Justice of \$3.5 million, down from \$3.7 million in the prior year; the Ministry of Internal Affairs of \$5.6 million, up from \$3 million in the prior year; legislative expenses within the Nitijela of \$1.8 million, down from \$1.9 million in the prior year; and executive expenses within the President’s Office and Cabinet of \$1.9 million, constant with the prior year.

Analysis of Changes in Net Position

During the current fiscal year, RepMar’s total net position increased by \$10.9 million compared with an increase in the prior fiscal year of \$2.4 million. This represents an increase year on year in the change in net position of \$8.5 million (or 355.4%). The key elements of this increase are: (1) an increase in contributions from component units of \$10.4 million; (2) an increase in tax revenues of \$3.1 million; (3) an increase in Compact Trust earnings of \$8.1 million; (5) an increase in expenses, net of program revenues, of \$8.9 million; and (6) a special item of \$3.8 million representing the write-off of previously capitalized costs of \$3.8 million associated with the transfer of University of South Pacific campus capital assets. The elements of these changes are reflected below:

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Management's Discussion and Analysis
Year Ended September 30, 2016

Analysis of Changes in Net Position, Continued

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

	Governmental Activities 2016	Governmental Activities 2015	Total Percentage Change 2016-2015
General revenues:			
Taxes	\$ 28,479,894	\$ 25,445,105	11.9%
Grants and contributions	11,032,825	11,200,000	-1.5%
Contributions from component units	26,358,733	15,991,385	64.8%
Ship registry	6,125,000	6,000,000	2.1%
Other general revenues	<u>738,370</u>	<u>1,025,652</u>	-28.0%
Total general revenues	<u>72,734,822</u>	<u>59,662,142</u>	21.9%
Expenses, net of program revenues:			
Education	8,503,841	7,908,736	7.5%
Health and environment	5,669,970	3,547,261	59.8%
Special appropriations	20,396,673	16,676,835	22.3%
Finance	2,544,899	2,808,578	-9.4%
Public works	1,494,364	2,943,519	-49.2%
Resources and development	2,979,923	2,340,809	27.3%
Justice	2,825,578	2,993,007	-5.6%
Internal affairs	5,314,375	2,473,715	114.8%
Foreign affairs and trade	3,156,109	2,892,715	9.1%
President and cabinet	1,916,979	1,552,716	23.5%
Capital projects	(80,456)	312,303	-125.8%
Nitijela	1,843,264	1,930,337	-4.5%
Transportation and communication	1,182,278	1,998,117	-40.8%
Nuclear claims related	79,803	87,975	-9.3%
Interest	740,169	519,425	42.5%
Other	<u>5,051,845</u>	<u>3,673,189</u>	37.5%
Total expenses	<u>63,619,614</u>	<u>54,659,237</u>	16.4%
	9,115,208	5,002,905	82.2%
Special items	(3,800,000)	-	
Contributions to permanent fund	<u>5,542,509</u>	<u>(2,618,493)</u>	-311.7%
Change in net position	<u>\$ 10,857,717</u>	<u>\$ 2,384,412</u>	355.4%

General revenues increased by \$13 million (or 21.9%) from the previous fiscal year. The increase was primarily due to increases in fishing revenue contributions from MIMRA and tax revenues of \$10.5 million (or 66.7%) and \$3.1 million (or 11.9%), respectively, compared with the prior year.

Expenses, net of program revenues, increased by \$8.9 million (or 16.4%) from the previous fiscal year. The increase was primarily due to an increase in special appropriations of \$3.7 million (or 22.3%) compared with the prior year; the recognition of donated capital assets of \$1.3 million from the Government of Japan in the current year; and an increase in disaster mitigation costs overseen by the Office of the Chief Secretary of \$1.4 million in the current year.

REPUBLIC OF THE MARSHALL ISLANDS

Management's Discussion and Analysis Year Ended September 30, 2016

FINANCIAL ANALYSIS OF REPMAR'S FUNDS

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

Governmental Funds

The focus of RepMar's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing RepMar's financing requirements. In particular, 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 \$101.7 million, which represents an increase of \$12.9 million (or 14.5%) in comparison with the prior year. This increase is primarily attributable to an excess of receipts over expenditures for the General Fund and the Grants Assistance Fund of \$2.9 million and \$1.8 million, respectively, together with an increase in the fair value of RepMar's investments in the Compact Trust Fund of \$7.7 million. Of this total combined fund balance, \$71 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; \$11.2 million is designated as restricted and is constrained for specific purposes which are externally imposed; and \$12.4 million is designated as committed and is constrained for specific purposes which are internally imposed. The combined unassigned fund balance of RepMar's governmental funds is \$7.1 million.

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 was \$7.2 million, an increase of \$3.8 million from the prior year \$3.4 million. Total fund balance was \$18.9 million compared with a total fund balance of \$16 million at the end of the prior fiscal year, an increase of \$2.9 million. The increase in the overall fund balance of the General Fund was primarily the result of the increase in contributions from MIMRA.

The Grants Assistance Fund has a total fund balance of \$12.8 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 \$1.8 million (or 16.6%).

The Compact Trust Fund has a total fund balance of \$62 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 \$7.7 million (or 14.3%), which reflects a net increase in the value of trust fund investments of \$5.5 million and a \$2.2 million contribution from the General Fund.

GENERAL FUND BUDGETARY HIGHLIGHTS

During the course of the fiscal year, budget revisions of \$7.5 million were made by management and elected officials of RepMar to the General Fund budget. Revenues collected (including transfers in) of \$65.8 million were lower than budgeted amounts of \$69.4 million due primarily to lower than anticipated fees and charges collections, which fell short of budgeted amounts by \$2.7 million. In addition, charges to appropriations (including transfers out) of \$69.5 million were lower than budgeted amounts of \$70.7 million due primarily to lower actual ministerial expenditures.

REPUBLIC OF THE MARSHALL ISLANDS

Management's Discussion and Analysis Year Ended September 30, 2016

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

RepMar's investment in capital assets for its governmental activities as of September 30, 2016 amounted to \$201.7 million, net of accumulated depreciation of \$111.8 million, leaving a net book value of \$89.9 million. This represents a decrease of \$5.3 million (or 5.6%) from the \$95.2 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.

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

	Governmental Activities 2016	Governmental Activities 2015	Total Percentage Change 2016-2015
Electrical distribution	\$ 1,216,979	\$ 1,327,772	-8.3%
Buildings	62,018,696	64,041,051	-3.2%
Water infrastructure system	1,907,508	2,286,162	-16.6%
Docks, roads and bridges	3,805,682	4,350,956	-12.5%
Ships	13,381,682	14,144,972	-5.4%
Software	649,574	424,001	53.2%
Heavy equipment	5,321,041	4,290,864	24.0%
Construction in progress	1,598,613	4,346,107	-63.2%
Total	\$ 89,899,775	\$ 95,211,885	-5.6%

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

- 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>
Laura Elementary School Classroom	\$ 0.72	\$ 1.80
Jaluit High School Boys Dormitory	\$ 0.28	\$ 0.73

- Acquisition of various heavy equipment in the amount of \$1.97 million funded primarily by donated capital assets of \$1.3 million from the Government of Japan.
- Acquisition of a PACS system by the Ministry of Health in the amount of \$0.37 million.

On May 26, 2016, RepMar transferred ownership in the Long Island Hotel to the University of South Pacific Marshall Islands. This facility was acquired by RepMar in 2015 in the amount of \$3,800,000. This transfer is presented as a special item in the financial statements.

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 fourteen separate loans with the ADB (See table below). Long-term debt obligations decreased by \$2.9 million (or 4.9%) in the current fiscal year.

REPUBLIC OF THE MARSHALL ISLANDS

Management's Discussion and Analysis
Year Ended September 30, 2016

Long-term Debt, Continued

RepMar's Outstanding Debt
Asian Development Bank
September 30,

	Governmental Activities 2016	Governmental Activities 2015	Total Percentage Change 2016-2015
Fisheries Development Project	\$ 2,114,534	\$ 2,255,252	-6.2%
Typhoon Rehabilitation	336,102	356,471	-5.7%
Basic Education Project	5,460,633	5,772,557	-5.4%
Majuro Water Supply Project No. 1	490,339	519,316	-5.6%
Health and Population Project	3,760,048	3,969,051	-5.3%
Majuro Water Supply Project No. 2	6,309,022	6,641,076	-5.0%
Public Sector Reform Program	9,145,307	9,371,083	-2.4%
Ebeye Health and Infrastructure Project	5,596,027	5,969,093	-6.2%
Skills Training and Vocational Education Project	3,384,802	3,589,941	-5.7%
Fiscal and Financial Management Program No. 1	-	539,000	-100.0%
Fiscal and Financial Management Program No. 2	4,718,794	5,243,104	-10.0%
Outer Island Transport Infrastructure Project	380,631	401,779	-5.3%
Public Sector Program Loan	9,979,846	9,979,846	0.0%
Fiscal Reform and Debt Management Project	<u>4,893,961</u>	<u>4,893,961</u>	0.0%
Total	<u>\$ 56,570,046</u>	<u>\$ 59,501,530</u>	-4.9%

As mentioned above, total long-term debt decreased by \$2.9 million (or 4.9%) during the current year. This decrease resulted from declining principal balances associated with debt service payments.

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

In FY16, the continued positive revenue and fund balance trends noted in this report together with those positive trends from 2015 as compared to fiscal year 2014 reflect as much an increase in unrestricted grants and subsidies from internal and external sources as they do any significant increase in tax growth from a fundamentally improving economy. The economically robust fishing sector has allowed contributions from MIMRA to RepMar to significantly increase.

The FY18 initial Global Budget will decrease by \$5.1 million mainly as a result of foreign grants, Compact Sector grants and SEG. The tentative budget envelopes for each Fund are preliminary and may change after consultations take place. The RMI Decrement plan calls for a total of 9.9% cut in expenditures by FY2023. So far RepMar has taken a 3% decrement in the FY15 budget and none for FY16 or FY17, but calls for an additional 1% cut in FY2018.

With expansionary fiscal policy and booming donor funding, the medium-term prospects for the economy are positive. Baseline projections formed on current policy indicate a growth ceiling of 6 percent in FY2017 and 2 percent in FY 2018 as recent budgets are enacted and donor funds are drawn down. For the remainder of the amended Compact period without significant private sector initiative, the economy is expected to grow modestly by 0.4 percent. In FY2024, the economy dips by 1 percent as the switch from annual sector grants to reduced Compact Trust Fund drawdowns is implemented. While fiscal policy manages to maintain balance, reflecting the historic pattern, in FY2024 a large fiscal deficit is projected without adjustment.

REPUBLIC OF THE MARSHALL ISLANDS

Management's Discussion and Analysis Year Ended September 30, 2016

During the period of investment since the outset of FY2016, the annualized rate of return has been 5.2%. Assuming the pledged contributions from the Republic of China (ROC) continue, it is expected that a smooth transition to Compact Trust Fund distributions from FY2024 onward will occur at the real value of sector grants that terminate at the end of the FY2023 and in the absence of market volatility. However, achieving such a level does not mean the risk of subsequent periodic fiscal shocks are eliminated.

RepMar's external debt remains significant, and was characterized by the IMF in a recent Debt Sustainable Analysis (DSA) as reaching levels that placed the RMI at a "high risk of debt distress". Nevertheless, external debt continued to decline as a percentage of the GDP, falling from a level of 72% of GDP at the start of the amended Compact to 50% in FY2015. The growing and high levels of subsidies to the State-owned Enterprise sector remains a major issue of concern.

A fiscally responsible scenario is needed to set the nation on a fiscally sustainable path. There is a need for donor support to provide the right incentives and conditions to foster a better result. Clearly, continued expansion of government will be limited in an environment of declining real Compact flows, and the private sector must become the engine of growth, if the economy is to expand.

Important risks cloud the positive economic outlook. In the short term, further delays in the implementation of infrastructure projects and potential loss of a correspondent banking relationship could lower growth. Over the medium term, extreme weather-related events, inadequate fiscal consolidation, and delays with social security reform could pose threats. On the upside, a decisive push for structural reforms could boost long-term growth.

A recent International Monetary Fund (IMF) staff mission has recommended the strengthening of economic policy framework to enhance economic resilience and lift potential economic growth. Amongst the mission's recommendations, four key areas were emphasized: (i) securing fiscal sustainability; (ii) adapting to climate change; (iii) facilitating private sector growth; and (iv) ensuring financial stability.

RepMar has developed the Decrement Management Plan (DMP) prepared for the scheduled decline in U.S. Compact grants until FY2023. Fully implemented, this plan should generate a gradual fiscal adjustment of 4 percentage points of GDP over the remaining seven years of the amended Compact agreement. Along with complementary measures that can generate additional fiscal savings, this could generate a fiscal surplus of 3 percent of GDP by FY2023 and onwards. In turn, this would help preserve the inflation-adjusted value of Compact Trust Fund beyond FY2023, which is needed both to safeguard an important resource for future generations and to cope with the market volatility in investment returns.

To ensure successful fiscal adjustments over the medium-term, the social security system needs to be put on a sustainable path. Under the current structure, the social security fund's reserves could be depleted by early FY2022.

Regarding climate change, the Marshall Islands is one of the most vulnerable countries to rising sea levels. With this in mind, RepMar needs to plan for both structural and cyclical fiscal costs stemming from climate change. Intensified efforts have been initiated to mitigate natural disaster risk and build resilience, including through the Joint National Action Plan (JNAP) that contains climate-change adaptation and disaster risk-management strategies.

To facilitate private sector growth, State Owned Enterprise (SOE) reform is key. In that context, important progress has been made by restructuring the Marshalls Energy Company (MEC), and by enacting the State-Owned Enterprise Act in October 2015. Management recognizes the necessity for continued reforms at SOE's, several of which continue to pose drains on limited RepMar resources. Air Marshall Islands, MINTA and Tobolar all have negative cash flows and persist in needing RepMar subsidies each year. Among its component units, only MIMRA has been a net revenue provider to the primary government but the long-term future of continued support from the fishing sector cannot be taken for granted.

REPUBLIC OF THE MARSHALL ISLANDS

Management's Discussion and Analysis
Year Ended September 30, 2016

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 Position
September 30, 2016

	Primary Government	Component Units
<u>ASSETS</u>		
Current assets:		
Cash and cash equivalents	\$ 10,852,013	\$ 11,028,068
Time certificates of deposit	475,930	31,642,614
Receivables, net of allowance for uncollectibles	21,896,183	37,617,307
Advances	1,018,658	-
Inventories	-	5,860,411
Due from component units, net of allowance for uncollectibles	944,624	237,702
Due from external parties	445,608	-
Other current assets	-	1,545,219
Restricted assets:		
Cash and cash equivalents	7,375,606	-
Total current assets	43,008,622	87,931,321
Noncurrent assets:		
Restricted assets:		
Cash and cash equivalents	-	582,002
Time certificates of deposit	-	2,025,699
Investments	62,020,322	-
Investments	-	12,904,071
Due from component units	6,991,799	-
Capital assets:		
Nondepreciable capital assets	1,598,613	35,925,015
Other capital assets, net of accumulated depreciation	88,301,162	98,284,923
Other noncurrent assets	998,250	6,250,258
Total noncurrent assets	159,910,146	155,971,968
Total assets	\$ 202,918,768	\$ 243,903,289
<u>LIABILITIES</u>		
Current liabilities:		
Short-term debt	\$ 202,133	\$ -
Current portion of long-term obligations	2,510,509	26,838,680
Accounts payable	7,268,053	12,596,867
Customer deposits	-	2,143,203
Other liabilities and accruals	2,560,074	8,579,814
Retention payable	266,067	-
Contracts payable	-	1,198,428
Accrued interest payable	203,865	-
Compensated absences payable	1,126,256	-
Due to primary government	-	2,140,080
Due to component units	551,741	237,702
Unearned revenues	500,000	3,005,876
Total current liabilities	15,188,698	56,740,650
Noncurrent liabilities:		
Noncurrent portion of long-term obligations	54,059,537	4,354,339
Compensated absences payable, net of current portion	1,817,434	-
Due to primary government	-	10,698,947
Total noncurrent liabilities	55,876,971	15,053,286
Total liabilities	71,065,669	71,793,936
Commitments and contingencies		
<u>NET POSITION</u>		
Net investment in capital assets	73,686,740	110,627,320
Restricted for:		
Future operations - nonexpendable	62,020,322	-
Compact related	6,051,515	-
Other purposes	8,129,886	3,241,338
Unrestricted (deficits)	(18,035,364)	58,240,695
Total net position	131,853,099	172,109,353
Total liabilities and net position	\$ 202,918,768	\$ 243,903,289

See accompanying notes to basic financial statements.

REPUBLIC OF THE MARSHALL ISLANDS

Statement of Activities
Year Ended September 30, 2016

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Position	
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government	Component Units
Primary government:						
Governmental activities:						
President and Cabinet	\$ 1,916,979	\$ -	\$ -	\$ -	\$ (1,916,979)	\$ -
Office of the Chief Secretary	2,452,831	-	1,054,005	-	(1,398,826)	-
Special appropriations	20,396,673	-	-	-	(20,396,673)	-
Council of Iroij	452,208	-	-	-	(452,208)	-
Nitijela	1,843,264	-	-	-	(1,843,264)	-
Office of the Auditor-General	1,443,458	-	490,333	-	(953,125)	-
Public Service Commission	469,410	-	-	-	(469,410)	-
Judiciary	1,020,079	104,279	-	-	(915,800)	-
Office of the Attorney General	768,331	77,572	-	-	(690,759)	-
Education	30,333,274	-	21,274,669	554,764	(8,503,841)	-
Health and Environment	29,710,503	8,102,294	15,259,513	678,726	(5,669,970)	-
Transportation and Communication	1,184,358	2,080	-	-	(1,182,278)	-
Resources and Development	3,108,595	21,626	107,046	-	(2,979,923)	-
Internal Affairs	5,579,462	25,354	239,733	-	(5,314,375)	-
Justice	3,547,264	721,686	-	-	(2,825,578)	-
Finance	6,476,974	498,713	3,433,362	-	(2,544,899)	-
Foreign Affairs and Trade	3,425,239	69,450	199,680	-	(3,156,109)	-
Public Works	2,958,555	143,488	1,643	1,319,060	(1,494,364)	-
Environmental Protection Authority	728,217	-	556,500	-	(171,717)	-
Nuclear claims related	1,378,009	-	1,298,206	-	(79,803)	-
Capital projects	3,080,111	-	122,800	3,037,767	80,456	-
Unallocated interest - long-term debt	740,169	-	-	-	(740,169)	-
Total primary government	\$ 123,013,963	\$ 9,766,542	\$ 44,037,490	\$ 5,590,317	(63,619,614)	-
Component units:						
Air Marshall Islands, Inc.	4,330,269	4,105,437	-	-	-	(224,832)
College of the Marshall Islands	11,309,664	7,919,466	-	463,677	-	(2,926,521)
Marshalls Energy Company, Inc.	25,221,655	29,090,989	1,695,383	-	-	5,564,717
Marshall Islands Development Bank	2,368,171	4,015,810	-	-	-	1,647,639
Marshall Islands Marine Resources Authority	29,786,575	31,666,145	865,468	-	-	2,745,038
Marshall Islands National Telecom. Authority	9,895,272	8,530,097	-	2,409	-	(1,362,766)
RMI Ports Authority	6,896,700	4,172,639	-	7,171,168	-	4,447,107
Other nonmajor component units	22,321,739	14,816,173	332,083	320,243	-	(6,853,240)
Total component units	\$ 112,130,045	\$ 104,316,756	\$ 2,892,934	\$ 7,957,497	-	3,037,142
General revenues:						
Taxes:						
Income taxes					13,799,837	-
Import taxes					7,658,691	-
Gross revenue taxes					5,724,781	-
Immovable property					641,377	-
Fuel taxes					499,539	-
Penalties and interest					48,051	-
Other					107,618	-
Grants and contributions not restricted to specific programs					11,032,825	-
Contributions from component units					26,358,733	-
Ship registry					6,125,000	-
Unrestricted investment earnings					175,686	2,135,986
Contributions from primary government					-	14,306,048
Other					562,684	-
Total general revenues					72,734,822	16,442,034
Contributions to permanent funds					5,542,509	-
Special item - transfer of capital assets					(3,800,000)	-
Total general revenues, contributions and special items					74,477,331	16,442,034
Change in net position					10,857,717	19,479,176
Net position at the beginning of the year, as previously reported					120,995,382	147,081,712
Implementation of GASB 72					-	5,548,465
Net position at the beginning of the year, as restated					<u>120,995,382</u>	<u>152,630,177</u>
Net position at the end of the year					<u>\$ 131,853,099</u>	<u>\$ 172,109,353</u>

See accompanying notes to basic financial statements.

REPUBLIC OF THE MARSHALL ISLANDS

**Balance Sheet
Governmental Funds
September 30, 2016**

		Special Revenue	Permanent		
	General	Grants Assistance	Compact Trust	Other Governmental Funds	Total
ASSETS					
Cash and cash equivalents	\$ 6,947,554	\$ -	\$ -	\$ 3,904,459	\$ 10,852,013
Time certificates of deposit	-	-	-	475,930	475,930
Receivables, net:					
Taxes	2,467,824	-	-	116,875	2,584,699
Federal agencies	554,674	14,719,033	-	-	15,273,707
General	265,444	1,762,652	-	1,735,969	3,764,065
Other	-	-	-	273,712	273,712
Due from other funds	12,485,897	11,283,176	-	3,121,735	26,890,808
Due from component units	7,936,423	-	-	-	7,936,423
Advances	205,009	230,463	-	583,186	1,018,658
Other assets	998,250	-	-	-	998,250
Restricted assets:					
Cash and cash equivalents	7,375,606	-	-	-	7,375,606
Investments	-	-	62,020,322	-	62,020,322
Total assets	<u>\$ 39,236,681</u>	<u>\$ 27,995,324</u>	<u>\$ 62,020,322</u>	<u>\$ 10,211,866</u>	<u>\$ 139,464,193</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Note payable	\$ 202,133	\$ -	\$ -	\$ -	\$ 202,133
Accounts payable	3,646,722	1,638,786	-	1,982,545	7,268,053
Other liabilities and accruals	1,485,387	763,733	-	310,954	2,560,074
Retention payable	-	266,067	-	-	266,067
Due to component units	551,741	-	-	-	551,741
Unearned revenue	500,000	-	-	-	500,000
Due to other funds	13,959,303	12,485,897	-	-	26,445,200
Total liabilities	<u>20,345,286</u>	<u>15,154,483</u>	<u>-</u>	<u>2,293,499</u>	<u>37,793,268</u>
Fund balances:					
Nonspendable	8,934,673	-	62,020,322	-	70,954,995
Restricted	2,753,372	7,537,938	-	951,847	11,243,157
Committed	14,251	5,371,640	-	6,966,520	12,352,411
Unassigned	7,189,099	(68,737)	-	-	7,120,362
Total fund balances	<u>18,891,395</u>	<u>12,840,841</u>	<u>62,020,322</u>	<u>7,918,367</u>	<u>101,670,925</u>
Total liabilities and fund balances	<u>\$ 39,236,681</u>	<u>\$ 27,995,324</u>	<u>\$ 62,020,322</u>	<u>\$ 10,211,866</u>	

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds	89,899,775
Long-term liabilities, including loans payable, are not due and payable in the current period and therefore are not reported in the funds. These liabilities include:	
Accrued interest payable	(203,865)
Loans payable	(56,570,046)
Compensated absences payable	(2,943,690)
	<u>(59,717,601)</u>
Net position of governmental activities	<u>\$ 131,853,099</u>

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, 2016

	General	Special Revenue	Permanent	Other Governmental Funds	Total
		Grants Assistance	Compact Trust		
Revenues:					
Taxes	\$ 28,479,894	\$ -	\$ -	\$ -	\$ 28,479,894
Federal and other grants	4,392,625	54,611,658	-	337,289	59,341,572
Sales	-	-	-	213,301	213,301
Ship registry	6,125,000	-	-	-	6,125,000
Net change in the fair value of investments	-	-	5,542,509	-	5,542,509
Interest and dividends	158,955	-	-	16,731	175,686
Fees and charges	175,917	-	-	9,377,324	9,553,241
Contributions from component units	26,358,733	-	-	-	26,358,733
Other	562,684	-	-	-	562,684
Total revenues	66,253,808	54,611,658	5,542,509	9,944,645	136,352,620
Expenditures:					
Current:					
President and Cabinet	1,742,394	171,399	-	-	1,913,793
Office of the Chief Secretary	1,838,228	614,603	-	-	2,452,831
Special appropriations	20,334,066	462,607	-	-	20,796,673
Council of Iroij	452,208	-	-	-	452,208
Nitijela	1,798,366	37,625	-	5,970	1,841,961
Office of the Auditor-General	953,125	490,333	-	-	1,443,458
Public Service Commission	454,410	-	-	-	454,410
Judiciary	-	20,000	-	1,000,079	1,020,079
Office of the Attorney General	768,331	-	-	-	768,331
Ministries:					
Education	5,980,352	21,019,809	-	1,882,213	28,882,374
Health and Environment	3,944,898	15,570,323	-	10,026,619	29,541,840
Transportation and Communication	481,322	-	-	-	481,322
Resources and Development	1,195,650	1,832,720	-	-	3,028,370
Internal Affairs	2,963,363	2,558,645	-	3,678	5,525,686
Justice	3,188,514	-	-	256,259	3,444,773
Finance	3,585,540	2,843,674	-	-	6,429,214
Foreign Affairs and Trade	3,056,984	199,680	-	3,919	3,260,583
Public Works	1,296,741	1,643	-	76,375	1,374,759
Environmental Protection Authority	183,313	544,904	-	-	728,217
Nuclear claims related	-	-	-	1,378,009	1,378,009
Debt service:					
Principal repayment	2,931,484	-	-	-	2,931,484
Interest	721,118	-	-	-	721,118
Capital outlay	-	4,623,733	-	-	4,623,733
Total expenditures	57,870,407	50,991,698	-	14,633,121	123,495,226
Excess (deficiency) of revenues over (under) expenditures	8,383,401	3,619,960	5,542,509	(4,688,476)	12,857,394
Other financing sources (uses):					
Operating transfers in	465,427	300,000	2,200,000	5,527,918	8,493,345
Operating transfers out	(5,937,510)	(2,090,408)	-	(465,427)	(8,493,345)
Total other financing sources (uses), net	(5,472,083)	(1,790,408)	2,200,000	5,062,491	-
Net change in fund balances	2,911,318	1,829,552	7,742,509	374,015	12,857,394
Fund balances at the beginning of the year	15,980,077	11,011,289	54,277,813	7,544,352	88,813,531
Fund balances at the end of the year	\$ 18,891,395	\$ 12,840,841	\$ 62,020,322	\$ 7,918,367	\$ 101,670,925

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, 2016

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

Net change in fund balances - total governmental funds	\$ 12,857,394
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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	\$ 2,084,858	
Depreciation expense, net	<u>(4,916,028)</u>	(2,831,170)

Some capital additions were donated by the Government of Japan.	1,319,060
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Special item: transfer of capital assets to the University of South Pacific	(3,800,000)
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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 position. For the current year, these amounts consist of:

Repayment of ADB loans	\$ 2,931,484	
Repayment of asset purchase agreement	<u>400,000</u>	3,331,484

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

Change in accrued interest payable	<u>(19,051)</u>
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Change in net position of governmental activities	\$ <u>10,857,717</u>
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See accompanying notes to basic financial statements.

REPUBLIC OF THE MARSHALL ISLANDS

Statement of Fiduciary Net Position
Fiduciary Funds
September 30, 2016

	Private Purpose Trust	Agency
<u>ASSETS</u>		
Cash and cash equivalents	\$ 970,364	\$ -
Receivables, net:		
Contributions	1,951,979	-
Other	793,487	-
Investments	63,827,072	-
Due from other funds	1,012,931	164,484
Capital assets, net of accumulated depreciation	65,112	-
Total assets	68,620,945	\$ 164,484
<u>LIABILITIES</u>		
Accounts payable	100,166	\$ -
Other liabilities and accruals	293,516	164,484
Due to other funds	1,623,023	-
Total liabilities	2,016,705	\$ 164,484
<u>NET POSITION</u>		
Held in trust for:		
Social security benefits	65,609,068	
Nuclear claims	57,862	
Land use distributions	937,310	
Total net position	\$ 66,604,240	

See accompanying notes to basic financial statements.

REPUBLIC OF THE MARSHALL ISLANDS

Statement of Changes in Fiduciary Net Position Fiduciary Funds Year Ended September 30, 2016

	<u>Private Purpose Trust</u>
Additions:	
Contributions:	
Private employees	\$ 9,990,770
Government employees	4,519,820
Penalties and interest	<u>721,491</u>
Total contributions	<u>15,232,081</u>
Investment income:	
Net change in the fair value of investments	3,267,199
Interest and dividends	<u>1,563,717</u>
Total investment income	4,830,916
Less investment expense	<u>131,161</u>
Net investment income	<u>4,699,755</u>
Other:	
Compact funding	21,216,600
Other	<u>251,037</u>
	<u>21,467,637</u>
Total additions	<u>41,399,473</u>
Deductions:	
Land use distributions	21,038,890
Benefits	20,433,323
Administrative expenses	<u>972,878</u>
Total deductions	<u>42,445,091</u>
Change in net position held in trust for:	
Social security benefits	(1,223,328)
Land use distributions	177,710
Net position at the beginning of the year	<u>67,649,858</u>
Net position at the end of the year	<u>\$ 66,604,240</u>

See accompanying notes to basic financial statements.

REPUBLIC OF THE MARSHALL ISLANDS

Combining Statement of Net Position Component Units September 30, 2016

	Air Marshall Islands, Inc.	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
ASSETS									
Current assets:									
Cash and cash equivalents	\$ 556,573	\$ 595,685	\$ 811,413	\$ 2,652,073	\$ 2,381,775	\$ 1,693,982	\$ 426,092	\$ 1,910,475	\$ 11,028,068
Time certificates of deposit	-	-	2,099,316	-	28,220,863	763,288	559,147	-	31,642,614
Receivables, net	212,236	1,775,578	5,963,965	20,669,356	4,538,924	1,175,480	1,348,649	1,933,119	37,617,307
Inventories	576,168	777,928	2,214,047	51,700	-	256,903	-	1,983,665	5,860,411
Due from component units	-	-	-	-	-	-	237,702	-	237,702
Other current assets	56,750	158,879	264,330	-	-	20,424	14,817	1,030,019	1,545,219
Total current assets	1,401,727	3,308,070	11,353,071	23,373,129	35,141,562	3,910,077	2,586,407	6,857,278	87,931,321
Noncurrent assets:									
Restricted:									
Cash and cash equivalents	-	-	-	582,002	-	-	-	-	582,002
Time certificates of deposit	-	-	-	325,699	-	-	1,700,000	-	2,025,699
Investments	-	1,164,819	-	6,440,333	5,298,919	-	-	-	12,904,071
Capital assets:									
Nondepreciable capital assets	-	372,306	1,914,739	48,110	878,500	818,642	31,474,657	418,061	35,925,015
Capital assets, net of accumulated depreciation	8,609,351	14,964,226	8,780,038	670,827	305,109	20,941,168	37,862,987	6,151,217	98,284,923
Other noncurrent assets	123,434	-	421,700	-	-	4,853,401	851,723	-	6,250,258
Total noncurrent assets	8,732,785	16,501,351	11,116,477	8,066,971	6,482,528	26,613,211	71,889,367	6,569,278	155,971,968
Total assets	\$ 10,134,512	\$ 19,809,421	\$ 22,469,548	\$ 31,440,100	\$ 41,624,090	\$ 30,523,288	\$ 74,475,774	\$ 13,426,556	\$ 243,903,289
LIABILITIES									
Current liabilities:									
Current portion of long-term debt	\$ 954,522	\$ -	\$ 1,138,184	\$ 256,118	\$ -	\$ 23,881,466	\$ 359,813	\$ 248,577	\$ 26,838,680
Accounts payable	1,761,928	786,760	4,327,297	161,924	265,170	669,281	597,816	4,026,691	12,596,867
Customer deposits	-	-	-	1,686,228	-	456,975	-	-	2,143,203
Other liabilities and accruals	308,495	816,956	2,883,788	10,799	129,545	225,488	194,389	4,010,354	8,579,814
Contracts payable	-	-	-	-	-	-	1,198,428	-	1,198,428
Due to primary government	-	-	354,366	-	-	1,000,000	785,714	-	2,140,080
Due to component units	237,702	-	-	-	-	-	-	-	237,702
Unearned revenues	198,599	1,327,696	1,048,393	342,240	-	-	-	88,948	3,005,876
Total current liabilities	3,461,246	2,931,412	9,752,028	2,457,309	394,715	26,233,210	3,136,160	8,374,570	56,740,650
Noncurrent liabilities:									
Noncurrent portion of long-term debt	378,468	-	1,904,648	581,123	-	-	183,260	1,306,840	4,354,339
Due to primary government	3,116,890	-	6,991,619	590,438	-	-	-	-	10,698,947
Total noncurrent liabilities	3,495,358	-	8,896,267	1,171,561	-	-	183,260	1,306,840	15,053,286
Total liabilities	6,956,604	2,931,412	18,648,295	3,628,870	394,715	26,233,210	3,319,420	9,681,410	71,793,936
NET POSITION									
Net investment in capital assets	8,609,351	15,336,532	7,651,945	718,937	1,183,609	2,031,745	68,794,571	6,300,630	110,627,320
Restricted	-	1,791,760	312,308	279,581	443,886	-	-	413,803	3,241,338
Unrestricted	(5,431,443)	(250,283)	(4,143,000)	26,812,712	39,601,880	2,258,333	2,361,783	(2,969,287)	58,240,695
Total net position	3,177,908	16,878,009	3,821,253	27,811,230	41,229,375	4,290,078	71,156,354	3,745,146	172,109,353
	\$ 10,134,512	\$ 19,809,421	\$ 22,469,548	\$ 31,440,100	\$ 41,624,090	\$ 30,523,288	\$ 74,475,774	\$ 13,426,556	\$ 243,903,289

See accompanying notes to basic financial statements.

REPUBLIC OF THE MARSHALL ISLANDS

Combining Statement of Revenues, Expenses, and Changes in Net Position Component Units Year Ended September 30, 2016

	Air Marshall Islands, Inc.	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
Operating revenues:									
Charges for services	\$ 3,302,907	\$ 571,950	\$ 17,087,488	\$ 3,690,892	\$ 31,596,106	\$ 8,530,097	\$ 3,855,409	\$ 8,382,706	\$ 77,017,555
Sales	-	874,086	12,003,501	-	-	-	-	6,202,800	19,080,387
Grants	-	5,936,757	-	148,860	-	-	-	-	6,085,617
Other	802,530	536,673	-	176,058	70,039	-	317,230	230,667	2,133,197
Total operating revenues	<u>4,105,437</u>	<u>7,919,466</u>	<u>29,090,989</u>	<u>4,015,810</u>	<u>31,666,145</u>	<u>8,530,097</u>	<u>4,172,639</u>	<u>14,816,173</u>	<u>104,316,756</u>
Operating expenses:									
Cost of services	2,512,881	7,181,638	21,775,509	111,469	3,413,516	5,048,342	3,110,113	17,092,405	60,245,873
Administration costs	563,104	2,686,651	1,711,038	1,986,236	-	801,349	-	3,369,478	11,117,856
Depreciation and amortization	1,057,240	1,437,268	1,243,235	270,466	107,421	2,791,120	3,726,691	1,684,569	12,318,010
Total operating expenses	<u>4,133,225</u>	<u>11,305,557</u>	<u>24,729,782</u>	<u>2,368,171</u>	<u>3,520,937</u>	<u>8,640,811</u>	<u>6,836,804</u>	<u>22,146,452</u>	<u>83,681,739</u>
Operating income (loss)	<u>(27,788)</u>	<u>(3,386,091)</u>	<u>4,361,207</u>	<u>1,647,639</u>	<u>28,145,208</u>	<u>(110,714)</u>	<u>(2,664,165)</u>	<u>(7,330,279)</u>	<u>20,635,017</u>
Nonoperating revenues (expenses):									
Contributions from the primary government	1,334,153	2,805,667	942,400	-	-	1,644,465	-	7,579,363	14,306,048
Equity in net earnings of joint venture	-	-	-	-	794,704	-	-	-	794,704
Net change in the fair value of investments	-	52,499	-	711,552	-	24,669	-	-	788,720
Interest income	-	-	-	-	441,615	-	110,947	-	552,562
Interest expense	(98,495)	-	(307,905)	-	-	(1,169,992)	(54,921)	(155,660)	(1,786,973)
Grants and other contributions	-	-	1,695,383	-	865,468	-	-	332,083	2,892,934
Contributions to the primary government	-	-	(183,968)	-	(26,285,938)	-	-	-	(26,469,906)
Other	(98,549)	(4,107)	-	-	20,300	(84,469)	(4,975)	(19,627)	(191,427)
Total nonoperating revenues (expenses), net	<u>1,137,109</u>	<u>2,854,059</u>	<u>2,145,910</u>	<u>711,552</u>	<u>(24,163,851)</u>	<u>414,673</u>	<u>51,051</u>	<u>7,736,159</u>	<u>(9,113,338)</u>
Net income (loss) before capital contributions	1,109,321	(532,032)	6,507,117	2,359,191	3,981,357	303,959	(2,613,114)	405,880	11,521,679
Capital contributions	-	463,677	-	-	-	2,409	7,171,168	320,243	7,957,497
Change in net position	<u>1,109,321</u>	<u>(68,355)</u>	<u>6,507,117</u>	<u>2,359,191</u>	<u>3,981,357</u>	<u>306,368</u>	<u>4,558,054</u>	<u>726,123</u>	<u>19,479,176</u>
Net position at the beginning of the year, as previously reported	2,068,587	16,946,364	(2,685,864)	19,903,574	37,248,018	3,983,710	66,598,300	3,019,023	147,081,712
Implementation of GASB 72	-	-	-	5,548,465	-	-	-	-	5,548,465
Net position at the beginning of the year, as restated	<u>2,068,587</u>	<u>16,946,364</u>	<u>(2,685,864)</u>	<u>25,452,039</u>	<u>37,248,018</u>	<u>3,983,710</u>	<u>66,598,300</u>	<u>3,019,023</u>	<u>152,630,177</u>
Net position at the end of the year	<u>\$ 3,177,908</u>	<u>\$ 16,878,009</u>	<u>\$ 3,821,253</u>	<u>\$ 27,811,230</u>	<u>\$ 41,229,375</u>	<u>\$ 4,290,078</u>	<u>\$ 71,156,354</u>	<u>\$ 3,745,146</u>	<u>\$ 172,109,353</u>

See accompanying notes to basic financial statements.

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements
September 30, 2016

(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.

The financial statements of the component units have been included in the financial reporting entity in accordance with GASB Statement No. 14, *The Financial Reporting Entity*, as amended by GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units* and GASB Statement No. 61, *The Financial Reporting Entity: Omnibus - an Amendment of GASB Statements No. 14 and 34*. Component units are entities that are legally separate organizations for which RepMar's elected officials are financially accountable or other organizations for which the nature and significance of their relationship with RepMar are such that exclusion would cause RepMar's basic financial statements to be misleading or incomplete. RepMar is financially accountable because it appoints the members of the governing authorities of each of the component units and because it is able to impose its will on these organizations or because the organizations provide specific financial benefits or impose specific financial burdens on RepMar.

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements
September 30, 2016

(1) Summary of Significant Accounting Policies, Continued

A. Reporting Entity, Continued

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 position and results of operations of the following legally separate entities are presented as part of RepMar's operations:

- 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.

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:

- 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.
- 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.

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements
September 30, 2016

(1) Summary of Significant Accounting Policies, Continued

A. Reporting Entity, Continued

- Marshall Islands Development Bank (MIDB): MIDB was established under Public Law No. 1988-1 to promote development and expansion of the Marshall Islands economy 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 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.

The component units' column of the basic financial statements also includes the financial data of the following nonmajor component units: 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, Office of Commerce and Investment, and Tobolar Copra Processing Authority. The component units' column does not include the financial data of the Marshall Islands Visitors Authority and the RMI Environmental Protection Authority due to absence of individual component unit financial statements. The omission of these component units is not considered material to the component units' column reporting unit.

In addition, RepMar's single fiduciary component unit is subject to legislative and executive controls. This component unit, while meeting the definition of a component unit and while legally separate, is presented in the fund financial statements of RepMar; however, has been omitted from the government-wide financial statements as the resources are not available to fund operations of RepMar. The fiduciary component unit is as follows:

- Marshall Islands Social Security Administration (MISSA), a Fiduciary Fund Type - Private Purpose Trust Fund. MISSA was established to provide a financially sound social security system with pension benefits and early retirement and operates under the authority of a seven-member Board of Directors appointed by the Cabinet of RepMar.

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements
September 30, 2016

(1) Summary of Significant Accounting Policies, Continued

A. Reporting Entity, Continued

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

RepMar is also 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.

B. Government-Wide Financial Statements

The Statement of Net Position 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 Position presents all of the reporting entity's non-fiduciary assets, deferred outflows of resources, liabilities and deferred inflows of resources, with the difference reported as net position. Net position is reported in three categories:

- Net investment in capital assets 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 position results when constraints placed on net position use are either externally imposed by creditors, grantors, contributors, and the like, or imposed by law.
- Unrestricted net position consists of net position, which does not meet the definition of the two preceding categories. Unrestricted net position often is designated, (for example, internally restricted), to indicate that management does not consider such to be available for general operations.

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements
September 30, 2016

(1) Summary of Significant Accounting Policies, Continued

B. Government-Wide Financial Statements, Continued

The government-wide Statement of Net Position reports \$76,201,723 of restricted net position, of which \$8,129,886 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.

Governmental Fund Financial Statements - the 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.

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements
September 30, 2016

(1) Summary of Significant Accounting Policies, Continued

D. Measurement Focus and Basis of Accounting, Continued

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.

Fiduciary funds and discretely presented component units financial statements - the fiduciary funds and discretely presented component units financial statements are reported using the economic measurement focus and the accrual basis of accounting, similar to government-wide financial statements, as described above.

Contributions for fiduciary funds are recorded when due and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Additional contributions are recognized as revenue as soon as all eligibility requirements have been met. Investment earnings are recorded as earned, since they are both measurable and available.

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.

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:

- 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 - this special revenue fund 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.

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements
September 30, 2016

(1) Summary of Significant Accounting Policies, Continued

D. Measurement Focus and Basis of Accounting, Continued

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

The nonmajor governmental funds are comprised of special revenue funds, which account for financial resources obtained from specific revenue sources and used for restricted purposes.

In addition, RepMar reports the following fund types:

- Private Purpose Trust 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.

E. 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 position/balance sheet.

F. Investments

Investments and related investment earnings of the primary government and the discretely presented component units are recorded at fair value using quoted market prices. Fair value is the price that would be received to sell an asset or paid to transfer a liability (ie., the exit price) in an orderly transaction between market participants at the date as of which the fair value of an asset or liability is determined.

RepMar categorizes its fair value measurements within the fair value hierarchy established by GAAP. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs. In certain instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy is based on the lowest level of input that is significant to the fair measurement. Investments not categorized under the fair value hierarchy are shown at either Net Asset Value (NAV) or amortized cost.

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements
September 30, 2016

(1) Summary of Significant Accounting Policies, Continued

F. Investments, Continued

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.

RepMar holds approximately 13% of the outstanding shares of Pacific Islands Development Bank with a carrying amount of \$998,250. This equity interest does not meet the definition of an investment as the asset is held primarily for economic development. Accordingly, such is presented within the accompanying financial statements as other assets.

G. 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.

H. Inventories

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

I. 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. Receivables and payables resulting from transactions between component units and the primary government are classified as "due to/from primary government" or "due to/from component units" on the governmental fund balance sheet and the statement of net position. Interfund receivables and payables have been eliminated from the statement of net position.

J. Restricted Assets

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

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements
September 30, 2016

(1) Summary of Significant Accounting Policies, Continued

K. 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.

L. Deferred Outflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (deduction of net position) until then. RepMar has no items that qualify for reporting in this category.

M. Unearned Revenue

In the government-wide financial statements, unearned revenue is recognized when cash, receivables or other assets are recorded prior to being earned. In the governmental fund financial statements, unearned 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. Unearned revenue of the discretely presented component units primarily represents amounts received for tuition and fees, certain auxiliary activities, and fuel sales prior to the end of the fiscal year but are related to the subsequent accounting period.

N. Long-term Debt

The liabilities reported in the government-wide financial statements include long-term obligations incurred under various Asian Development Bank loans and compensated absences payable. Long-term obligations of component units are recorded as liabilities in the discretely presented component unit's column.

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, 2016

(1) Summary of Significant Accounting Policies, Continued

P. Deferred Inflows of Resources

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (additions to net position) until then. RepMar has no items that qualify for reporting in this category.

Q. Fund Balances

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:

- Nonspendable - 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.
- 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 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 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.

R. Risk Financing

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

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements
September 30, 2016

(1) Summary of Significant Accounting Policies, Continued

S. New Accounting Standards

During fiscal year 2016, RepMar implemented the following pronouncements:

- GASB Statement No. 72, *Fair Value Measurement and Application*, which addresses accounting and financial reporting issues related to fair value measurements and requires entities to expand their fair value disclosures by determining major categories of debt and equity securities within the fair value hierarchy on the basis of the nature and risk of the investment. The implementation of this statement required additional disclosures to be made about fair value measurements, the level of fair value hierarchy, and valuation techniques. Additionally, the implementation resulted in the re-measurement of equity investments from cost-basis to NAV, as cost-basis measurement is no longer an allowable measurable method for equity investments and resulted in the restatement of RepMar's 2015 financial statements. Net position as of October 1, 2015 for discretely presented component units increased by \$5,548,465 as a result of the implementation of GASB Statement No. 72. Refer to Note 2B for more information regarding RepMar's investments.
- GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, which eliminates two of the four categories of authoritative GAAP that exist under the existing hierarchy prescribed by Statement No. 55. The two categories that will remain under the new standard are (1) GASB Statements and (2) GASB technical bulletins and implementation guides in addition to AICPA guidance that the GASB clears. The implementation of this statement did not have a material effect on the accompanying financial statements.
- GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*, addresses for certain external investment pools and their participants the accounting and financial reporting implications that result from changes in the regulatory provisions referenced by previous accounting and financial reporting standards. Those provisions were based on the Investment Company Act of 1940, Rule 2a7. Rule 2a7 contains the Securities and Exchange Commission's regulations that apply to money market funds and were significantly amended in 2014. The implementation of this statement did not have a material effect on the accompanying financial statements.

In June 2015, GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, which aligns the reporting requirements for pensions and pension plans not covered in GASB Statements 67 and 68 with the reporting requirements in Statement 68. The provisions in Statement No. 73 are effective for fiscal years beginning after June 15, 2015, with the exception of the provisions that address employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement 68, which are effective for fiscal years beginning after June 15, 2016. 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, 2016

(1) Summary of Significant Accounting Policies, Continued

S. New Accounting Standards, Continued

In June 2015, GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, and addresses financial reporting requirements for governments whose employees are provided with postemployment benefits other than pensions (other postemployment benefits or OPEB). The provisions in Statement No. 74 are effective for fiscal years beginning after June 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the financial statements of RepMar.

In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, and provides guidance on reporting by governments that provide OPEB to their employees and for governments that finance OPEB for employees of other governments. The provisions in Statement No. 75 are effective for fiscal years beginning after June 15, 2017. Management does not believe that the implementation of this statement will have a material effect on the financial statements of RepMar.

In August 2015, GASB issued Statement No. 77, *Tax Abatement Disclosures*, which requires governments that enter into tax abatement agreements to disclose certain information about the agreements. The provisions in Statement No. 77 are effective for fiscal years beginning after December 15, 2015. Management does not believe that the implementation of this statement will have a material effect on the financial statements of RepMar.

In December 2015, GASB issued Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, which addresses a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The provisions in Statement No. 78 are effective for fiscal years beginning after December 15, 2015. Management does not believe that the implementation of this statement will have a material effect on the financial statements of RepMar.

In January 2016, GASB issued Statement No. 80, *Blending Requirements for Certain Component Units - an amendment of GASB Statement No. 14*, which improves financial reporting by clarifying the financial statement presentation requirements for certain component units. The provisions in Statement No. 80 are effective for fiscal years beginning after June 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the financial statements of RepMar.

In March 2016, GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*, which improves accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The provisions in Statement No. 81 are effective for fiscal years beginning after December 15, 2016. 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, 2016

(1) Summary of Significant Accounting Policies, Continued

S. New Accounting Standards, Continued

In March 2016, GASB issued Statement No. 82, *Pension Issues - an amendment of GASB Statements No. 67, No. 68, and No. 73*, which addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The provisions in Statement No. 82 are effective for fiscal years beginning after June 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the financial statements of RepMar.

T. Encumbrances

RepMar utilizes encumbrance accounting to identify fund obligations. Encumbrances represent commitments related to unperformed contracts for goods. At September 30, 2016, 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>
\$ 7,493,695	\$16,364,750	\$ -	\$ 111,992	\$23,970,437

U. 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 deferred outflows of resources, liabilities and deferred inflows of resources, 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.

V. 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, 2015 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.

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements
September 30, 2016

(2) Deposits and Investments, Continued

Investment guidelines to be followed by the Secretary of Finance are as follows:

- (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 an Act;
- (b) In his judgment are in excess of the amounts necessary for meeting the immediate requirements of RepMar; and
- (c) In his judgment will not impede or hamper the necessary financial operations of RepMar.

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

The investment policy for the Compact Trust Fund (the Trust Fund), which was adopted by the Trust Fund Committee on September 15, 2010 and amended through March 11, 2014, requires the Trust Fund to allocate its managed investment portfolios among domestic and foreign equity and fixed income securities. All or a portion of the Trust Fund may be invested in exchange traded funds ("ETFs"), mutual funds, real estate investment trusts ("REITs"), common trust funds ("commingled vehicles"), hedge funds, private equity funds, and other pooled investment vehicles ("pooled vehicles"). Equity securities issued by ETFs, mutual funds, REITs, commingled and pooled vehicles which invest exclusively in fixed income securities are considered to be fixed income securities for the purpose of compliance with the Trust Fund's investment policy. The fair values of ETFs, mutual funds, commingled and pooled vehicles are generally determined by the fair value of the underlying marketable equity and debt securities owned, which are principally common stocks and bonds, respectively. The fair value of REITs is generally based upon the quoted market value of underlying REIT units owned. Publicly traded ETFs, mutual funds, REITs, and similar vehicles may trade at prices above or below the fair values of the underlying investments owned; therefore the fair value of such investments may differ from the sum of the fair values of the underlying investments owned.

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements
September 30, 2016

(2) Deposits and Investments, Continued

The Trust Fund's equity investment objective is for its various portfolios to achieve total returns similar to their benchmark equity indices. Benchmark indices include the Russell 2500, the S&P 500 and the MSCI ACWI ex-US Index.

The core fixed income portfolios may be invested in securities issued by the U.S. government and government agencies, foreign governments, domestic and international corporate securities, including asset-backed and mortgage-backed obligations. The fixed income portfolio may invest in high yield securities; however the average quality of the fixed income portfolio must be rated "investment grade" by at least one nationally recognized rating agency at the time of purchase.

Private equity funds are a form of pooled investment vehicle, typically limited partnerships controlled by a private equity firm that acts as general partner. The general partner seeks to obtain specific dollar commitments from qualified institutional and accredited investors to invest capital in the fund as limited partners. The passive limited partners fund pro rata portions of their commitments when the general partner has identified an appropriate opportunity, which may be venture capital in the form of equity securities, convertible debt securities, or real estate for which no active markets exist. Venture capital is often used to finance new products and technologies, expand working capital, make acquisitions, or finance leveraged buyouts. A typical private equity fund could make between 15 and 25 separate investments over a ten-year life, with no single investment exceeding 10% of the total capital commitment. The fair values of the underlying investments held by each private equity fund are generally determined by management of the equity investee or as determined by the general partner or manager of the private equity fund and is based upon the Trust Fund's percentage ownership of the underlying investments. Investments in private equity funds generally tend to be illiquid for significant periods of time.

Hedge funds are a form of pooled investment vehicle, generally a limited partnership or a foreign (off-shore) investment corporation, that seeks to maximize absolute returns whose offering memorandum allows for the fund to take both long and short positions, use leverage and derivatives, and invest in many markets. Hedge funds often take large risks using a broad range of speculative strategies, including investing in unconventional and illiquid investments. The fair value of the Trust Fund's investment in a hedge fund is determined by the hedge fund manager and is based upon the Trust Fund's percentage ownership of the underlying investments.

Derivatives, options and futures are permitted investments for the purpose of reducing risk and efficient portfolio management. Derivatives, options and futures may not be used for speculative purposes.

Asset allocations are targets and will be dictated by current and anticipated market conditions, and may be amended by the Trust Fund Committee from time to time. Tactical ranges anticipate fluctuation and provide flexibility for each investment manager's portfolio to vary within the range without the need for immediate rebalancing.

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.

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements September 30, 2016

(2) Deposits and Investments, Continued

A. Deposits, Continued

As of September 30, 2016, the carrying amount of the primary government's total cash and cash equivalents and time certificates of deposit was \$18,703,549 and the corresponding bank balances were \$19,633,741. Of the bank balances, \$17,341,142 is maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2016, bank deposits in the amount of \$1,252,463 were FDIC insured. Bank deposits of \$2,292,599 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, 2016, the carrying amount of the fiduciary fund's total cash and cash equivalents was \$970,364 and the corresponding bank balances were \$1,278,170. Of the bank balances, \$930,183 is maintained in financial institutions subject to FDIC insurance. As of September 30, 2016, bank deposits in the amount of \$250,000 were FDIC insured. Bank deposits of \$347,987 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, 2016, the carrying amount in the aggregate of the discretely presented component units' total cash and cash equivalents and time certificates of deposit was \$45,278,383 and the corresponding bank balances were \$45,787,867. Of the bank balances, \$7,917,817 is maintained in financial institutions subject to FDIC insurance. As of September 30, 2016, bank deposits in the amount of \$2,824,836 were FDIC insured. Bank deposits of \$37,870,050 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.

B. Investments

Primary Government

Investments of the primary government as of September 30, 2016, are as follows:

Compact Trust Fund:

Common trust funds:

Domestic Equity	\$ 18,821,191
International Equity	17,610,943
Fixed Income	11,753,683
Hedge Fund	6,167,886
Real Estate	4,159,706
Private Markets	3,500,019
Money market funds	<u>6,894</u>

\$ 62,020,322

At September 30, 2016, all fixed income investments were held in ETFs.

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements
September 30, 2016

(2) Deposits and Investments, Continued

B. Investments, Continued

Primary Government, Continued

The Trust Fund's fixed income allocation consists of a Mercer Investment Management Opportunistic Fixed Income mutual fund ("MIM OFI") and a Mercer Investment Management Core Fixed Income Fund ("MIM CFI"); the performance of these funds is expected to closely replicate the performance of 50% of the JP Morgan Government Bond Index Emerging Market Global Diversified Index and 50% Bank of America/Merrill Lynch Global High Yield, and 100% of the Barclays Capital U.S. Aggregate Bond Index, respectively. The bonds held by MIM OFI vary in credit quality with an average overall rating of "BB" as rated by Moody's as of September 30, 2016. High yield debt receiving a credit rating below "A" comprises approximately 83.6% of the MIM OFI fixed income portfolio as rated by Moody's at September 30, 2016. At September 30, 2016, the weighted average maturity of the bonds comprising MIM OFI is 3.7 years. The bonds held by MIM CFI vary in credit quality with an average overall rating of "Aa3" as rated by Moody's as of September 30, 2016. High yield debt receiving a credit rating below "A" comprises approximately 32.2% of the MIM CFI fixed income portfolio as rated by Moody's at September 30, 2016. At September 30, 2016, the weighted average maturity of the bonds comprising MIM CFI is 8.23 years.

The Trust Fund's investment policy does not require direct investment in fixed maturity securities ("Bonds") as a means of managing its exposure to loss of principal due to increasing interest rates. The Trust Fund's investment policy requires the performance of each investment class to be periodically compared with an associated benchmark. Bonds and bond funds generally decrease in value in response to rising interest rates. Bonds, however, have a fixed date of maturity and do not have exposure to loss of principal from rising interest rates, whereas shares of a common trust fund, ETF, or similar investment vehicle have no maturity date.

The Trust Fund's exposure to foreign currency risk is derived from its investment in common trust funds, ETFs and REITs that hold investments in securities of foreign issuers and sovereigns.

The Trust Fund's investment in hedge funds includes ownership of the Mercer Hedge Fund Series A fund. Mercer Hedge Funds Investors SPC, who incorporated the hedge fund, are registered under the Mutual Funds Law of the Cayman Islands. The fair value of the Trust Fund's position in the pool is equivalent to the value of the pool shares.

Foreign currency risk is the risk that changes in foreign exchange rates will adversely affect the fair values of an investment or deposit. At September 30, 2016, the Trust Fund held approximately \$16,565,000 in securities of foreign issuers held in common trust funds. Of this amount, approximately \$3,532,000 was held in securities whose functional currency is the Euro, \$1,961,000 whose functional currency is the British pound, \$1,818,000 whose functional currency is the Japanese yen, and \$9,254,000 in functional currencies of 35 other countries.

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, 2016, there were no investments in any one issuer that exceeded 5% of total investments.

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements
September 30, 2016

(2) Deposits and Investments, Continued

B. Investments, Continued

Primary Government, Continued

The Trust Fund has the following recurring fair value measurements as of September 30, 2016:

	<u>Total</u>	<u>Fair Value Measurements Using</u>		
		<u>Quoted Prices In Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Investments by fair value level:				
Common trust funds:				
Domestic Equity	\$ 18,821,191	\$ 18,821,191	\$ -	\$ -
International Equity	17,610,943	17,610,943	-	-
Fixed Income	11,753,683	11,753,683	-	-
Real Estate	<u>4,159,706</u>	<u>4,159,706</u>	-	-
	52,345,523	<u>\$ 52,345,523</u>	<u>\$ -</u>	<u>\$ -</u>
Investments measured at NAV:				
Hedge Fund	6,167,886			
Private Markets	3,500,019			
Investments measured at amortized cost:				
Money market funds	<u>6,894</u>			
	<u>\$ 62,020,322</u>			

Fiduciary Funds

Investments in marketable securities of the Marshall Islands Social Security Administration (MISSA) and the Nuclear Claims Trust Fund (NCTF) as of September 30, 2016, are as follows:

Money market funds	\$ 278,519
Common equity securities	4,274,618
Mutual funds	<u>44,715,832</u>
	\$ <u>49,268,969</u>

Fiduciary funds have the following recurring fair value measurements as of September 30, 2016:

	<u>Total</u>	<u>Fair Value Measurements Using</u>		
		<u>Quoted Prices In Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Investments by fair value level:				
Equity securities	\$ 4,274,618	\$ 4,274,618	\$ -	\$ -
Mutual funds	<u>44,715,832</u>	<u>44,715,832</u>	-	-
	48,990,450	<u>\$ 48,990,450</u>	<u>\$ -</u>	<u>\$ -</u>
Investments measured at amortized cost:				
Money market funds	<u>278,519</u>			
	<u>\$ 49,268,969</u>			

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements
September 30, 2016

(2) Deposits and Investments, Continued

B. Investments, Continued

Fiduciary Funds, Continued

Additionally, MISSA owns 65,609 shares of common stock of Marshall Islands Holdings, Inc. (MIHI), which represents approximately 37% of the outstanding shares of MIHI as of September 30, 2016. MIHI engages in all aspects of holding company activities in the Marshall Islands and which is the sole shareholder of Bank of Marshall Islands (BOMI). MISSA also owns 3,000 shares of common stock of Marshall Islands Service Corporation (MISC), which represents approximately 1% of the outstanding shares of MISC as at September 30, 2016. MISC is majority-owned by MIHI. The investment in MIHI is accounted for on the equity method since the investment constitutes 20% or more of the voting stock of MIHI. At September 30, 2016, MISSA's investment in MIHI amounted to \$14,528,103. The investment in MISC is accounted for at the Net Asset Value. At September 30, 2016, MISSA's investment in MISC amounted to \$30,000. During the year ended September 30, 2016, MISSA received dividend payments from MIHI of \$458,902. For the year ended September 30, 2016, MISSA recognized \$1,559,427 of equity in net earnings of MIHI.

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 from 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, 2016

(2) Deposits and Investments, Continued

B. Investments, Continued

Fiduciary Funds, 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, 2016.

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, 2016, there were no investments in any one issuer that exceeded 5% of total investments.

Discretely Presented Component Units

Investments of the discretely presented component units as of September 30, 2016, are as follows:

College of the Marshall Islands (CMI):	
Money market funds	\$ 2,430
Common equity securities	305,423
Mutual funds	<u>856,966</u>
	<u>\$ 1,164,819</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, and fixed income securities.

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements
September 30, 2016

(2) Deposits and Investments, Continued

B. Investments, Continued

Discretely Presented Component Units, Continued

CMI has the following recurring fair value measurements as of September 30, 2016:

	<u>Total</u>	Fair Value Measurements Using		
		Quoted Prices		
		In Active	Significant	Significant
		Markets for	Other	Unobservable
	Identical	Observable	Unobservable	
	Assets	Inputs	Inputs	
	(Level 1)	(Level 2)	(Level 3)	
Investments by fair value level:				
Equity securities	\$ 305,423	\$ 305,423	\$ -	\$ -
Mutual funds	<u>856,966</u>	<u>856,966</u>	<u>-</u>	<u>-</u>
	1,162,389	<u>\$ 1,162,389</u>	<u>\$ -</u>	<u>\$ -</u>
Investments measured at amortized cost:				
Money market funds	<u>2,430</u>			
	<u>\$ 1,164,819</u>			

Marshall Islands Development Bank:
Common equity securities \$ 6,440,333

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.

MIDB owns 26,376 shares of common stock of Marshall Islands Holdings, Inc. (MIHI), which represents approximately 15% of the outstanding shares of MIHI as of September 30, 2016. MIDB also owns 3,000 shares of common stock of Marshall Islands Service Corporation (MISC), which represents approximately 1% of the outstanding shares of MISC as of September 30, 2016. MISC is majority-owned by MIHI. The investments in MIHI and MISC are accounted for at the Net Asset Value.

Marshall Islands Marine Resources Authority (MIMRA):
Investment in joint venture \$ 5,298,919

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.

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements
September 30, 2016

(2) Deposits and Investments, Continued

B. Investments, Continued

Discretely Presented Component Units, Continued

A summary of audited financial information as of and for the year ended December 31, 2015, for investees accounted for using the equity method of accounting for investments, is as follows:

Assets	\$ <u>15,094,635</u>
Liabilities	\$ <u>3,771,047</u>
Net earnings	\$ <u>2,042,284</u>

For the year ended September 30, 2016, MIMRA recognized equity in net earnings of MIFCO of \$794,704.

(3) Receivables

Primary Government

Receivables as of September 30, 2016, for the primary government's individual major governmental funds, nonmajor governmental funds in the aggregate, and fiduciary funds, including applicable allowance for uncollectible accounts, are as follows:

	<u>General</u>	<u>Grants Assistance</u>	<u>Compact Trust</u>	<u>Nonmajor Governmental Funds</u>	<u>Fiduciary Funds</u>	<u>Totals</u>
Receivables:						
Taxes	\$ 2,467,824	\$ -	\$ -	\$ 116,875	\$ -	\$ 2,584,699
Federal agencies	554,674	14,719,033	-	-	-	15,273,707
General	687,987	1,954,588	-	7,667,912	-	10,310,487
Contributions	-	-	-	-	9,618,548	9,618,548
Loans	4,368,787	-	-	17,879,184	-	22,247,971
Other	<u>420,973</u>	<u>-</u>	<u>-</u>	<u>273,712</u>	<u>78,994</u>	<u>773,679</u>
	8,500,245	16,673,621	-	25,937,683	9,697,542	60,809,091
Less: allowance for uncollectible accounts	<u>(5,212,303)</u>	<u>(191,936)</u>	<u>-</u>	<u>(23,811,127)</u>	<u>(6,952,076)</u>	<u>(36,167,442)</u>
Net receivables	\$ <u>3,287,942</u>	\$ <u>16,481,685</u>	\$ <u>-</u>	\$ <u>2,126,556</u>	\$ <u>2,745,466</u>	\$ <u>24,641,649</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.

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

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements
September 30, 2016

(3) Receivables, Continued

Primary Government, Continued

General Fund, Continued:

Loan receivable from 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, 2016, loans in the amount of \$281,259 were converted to grants as the recipients met the criteria for conversion.

\$ 17,879,184

Discretely Presented Component Units

Receivables as of September 30, 2016, for the discretely presented component units, including applicable allowance for uncollectible accounts, are as follows:

	Air Marshall Islands, Inc.	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	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 927,506	\$ -	\$ 927,506
General	854,710	3,180,888	10,821,871	-	4,889,024	1,606,091	1,726,259	6,984,065	30,062,908
Loans	-	-	-	24,533,569	-	-	-	-	24,533,569
Other	-	267,848	1,679,828	700,910	452,263	319,930	194,954	603,161	4,218,894
	854,710	3,448,736	12,501,699	25,234,479	5,341,287	1,926,021	2,848,719	7,587,226	59,742,877
Less: allowance for uncollectible Accounts	(642,474)	(1,673,158)	(6,537,734)	(4,565,123)	(802,363)	(750,541)	(1,500,070)	(5,654,107)	(22,125,570)
Net receivables	\$ 212,236	\$ 1,775,578	\$ 5,963,965	\$ 20,669,356	\$ 4,538,924	\$ 1,175,480	\$ 1,348,649	\$ 1,933,119	\$ 37,617,307

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. The majority of the loan portfolio is unsecured, while the remaining portion is secured by various forms of collateral. These loans are cosigned by third parties. The basis for expected repayment of a majority of consumer and housing loans is the continued employment of the borrower and allotment agreements between MIDB and the borrower's employer. All loans are at fixed rates ranging from 4% - 12% per annum.

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements
September 30, 2016

(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, 2016, are summarized as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Due From Other Funds</u>	<u>Due To Other Funds</u>
General	Grants Assistance	\$ 12,485,897	\$ 12,485,897
Grants Assistance	General	11,283,176	11,283,176
Nonmajor governmental funds	General	1,498,712	1,498,712
Nonmajor governmental funds	Fiduciary Funds - Private Purpose Trust	1,623,023	-
Fiduciary Funds - Private Purpose Trust	General	-	1,012,931
Fiduciary Funds - Agency	General	-	<u>164,484</u>
		27,890,808	26,445,200
Fiduciary Funds - Private Purpose Trust	General	1,012,931	1,623,023
Fiduciary Funds - Agency	General	<u>164,484</u>	<u>-</u>
		\$ <u>28,068,223</u>	\$ <u>28,068,223</u>

Receivables and payables between funds reflected as due to/from component units at September 30, 2016, are summarized as follows:

	<u>Due From</u>	<u>Due To</u>
General Fund:		
Marshall's Energy Company, Inc.	\$ 7,345,985	\$ -
Marshall Islands Development Bank	590,438	-
Marshall Islands Marine Resources Authority	-	330,000
RMI Ports Authority	-	152,678
Nonmajor component units	<u>-</u>	<u>69,063</u>
	\$ <u>7,936,423</u>	\$ <u>551,741</u>

The amount recorded by the General Fund due from the Marshall's Energy Company, Inc. of \$7,345,985 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 \$37,960 and matures on May 31, 2034.

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>
2017	\$ 354,366	\$ 71,997	\$ 426,363
2018	419,833	35,687	455,520
2019	329,251	126,269	455,520
2020	364,380	91,140	455,520
2021	369,884	85,636	455,520
2022 - 2026	1,934,924	342,676	2,277,600
2027 - 2031	2,085,526	192,074	2,277,600
2032 - 2034	<u>1,487,821</u>	<u>37,141</u>	<u>1,524,962</u>
	\$ <u>7,345,985</u>	\$ <u>982,620</u>	\$ <u>8,328,605</u>

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements
September 30, 2016

(4) Interfund Receivables and Payables, Continued

Primary Government, Continued

The amount recorded by the General Fund due from the Marshall Islands Development Bank (MIDB) of \$590,438 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.

The amount recorded as due from component units of the primary government of \$7,936,423 does not equal the corresponding due to primary government of the discretely presented component units of \$12,839,027 due to an allowance for doubtful accounts recorded by the General Fund and the Grants Assistance Fund of \$3,302,604 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 a \$551,741 allowance for doubtful accounts recorded by the respective component units.

Receivables and payables between funds reflected as due to/from primary government at September 30, 2016, are summarized as follows:

	Due From	Due To
Air Marshall Islands, Inc.:		
General Fund	\$ -	\$ 1,516,890
Grants Assistance Fund	-	1,600,000
Marshall's Energy Company, Inc.:		
General Fund	-	7,345,985
Marshall Islands Development Bank:		
General Fund	-	590,438
Marshall Islands National Telecommunications Authority:		
General Fund	-	1,000,000
RMI Ports Authority:		
General Fund	-	785,714
	\$ -	\$ 12,839,027

The amount recorded by the Marshall Islands National Telecommunications Authority (MINTA) due to the General Fund of \$1,000,000 includes Compact of Free Association Infrastructure Maintenance Sector grant funds borrowed by MINTA of \$700,000. 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 and, as a result, all amounts due have been reclassified as current liabilities. The remaining amount of \$300,000 represents an advance from the General Fund for the purpose of providing funding for the 4G LTE Project, which is to be reimbursed by MINTA.

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements
September 30, 2016

(4) Interfund Receivables and Payables, Continued

Discretely Presented Component Units

Receivables and payables between funds reflected as due to/from component units at September 30, 2016, are summarized as follows:

	<u>Due From</u>	<u>Due To</u>
RMI Ports Authority:		
Air Marshall Islands, Inc.	\$ 237,702	\$ -
Air Marshall Islands, Inc.:		
RMI Ports Authority	<u>-</u>	<u>237,702</u>
	\$ <u>237,702</u>	\$ <u>237,702</u>

The amount recorded by the RMI Ports Authority due from Air Marshall Islands, Inc. of \$237,702 accrues interest at the rate of 8% per annum and matured on March 30, 2013.

(5) Capital Assets

Capital asset activities for the year ended September 30, 2016, are as follows:

Primary Government

	Estimated Useful Lives	Balance October 1, 2015	Additions	Transfers	Retirements	Balance September 30, 2016
Depreciable capital assets:						
Electrical distribution	30 yrs	\$ 30,540,465	\$ -	\$ -	\$ -	\$ 30,540,465
Buildings	30 - 40 yrs	108,393,234	-	120,574	-	108,513,808
Water infrastructure system	25 yrs	9,616,908	-	-	-	9,616,908
Docks, roads and bridges	25 - 30 yrs	14,722,760	-	-	-	14,722,760
Ships	25 yrs	24,082,254	-	-	-	24,082,254
Software	10 yrs	2,539,710	368,415	-	-	2,908,125
Heavy equipment	3 - 10 yrs	<u>7,844,671</u>	<u>1,568,560</u>	<u>400,000</u>	<u>(117,930)</u>	<u>9,695,301</u>
		<u>197,740,002</u>	<u>1,936,975</u>	<u>520,574</u>	<u>(117,930)</u>	<u>200,079,621</u>
Less accumulated depreciation:						
Electrical distribution		(29,212,693)	(110,793)	-	-	(29,323,486)
Buildings		(44,352,183)	(2,142,929)	-	-	(46,495,112)
Water infrastructure system		(7,330,746)	(378,654)	-	-	(7,709,400)
Docks, roads and bridges		(10,371,804)	(545,274)	-	-	(10,917,078)
Ships		(9,937,282)	(763,290)	-	-	(10,700,572)
Software		(2,115,709)	(142,842)	-	-	(2,258,551)
Heavy equipment		<u>(3,553,807)</u>	<u>(832,246)</u>	<u>-</u>	<u>11,793</u>	<u>(4,374,260)</u>
		<u>(106,874,224)</u>	<u>(4,916,028)</u>	<u>-</u>	<u>11,793</u>	<u>(111,778,459)</u>
Total depreciable capital assets, net		90,865,778	(2,979,053)	520,574	(106,137)	88,301,162
Nondepreciable capital assets:						
Construction in progress		<u>4,346,107</u>	<u>1,573,080</u>	<u>(4,320,574)</u>	<u>-</u>	<u>1,598,613</u>
		\$ <u>95,211,885</u>	\$ <u>(1,405,973)</u>	\$ <u>(3,800,000)</u>	\$ <u>(106,137)</u>	\$ <u>89,899,775</u>

During the year ended September 30, 2016, RepMar recognized certain capital assets of \$1,319,060 that were donated by the Government of Japan.

On May 26, 2016, RepMar transferred ownership in the Long Island Hotel to the University of South Pacific Marshall Islands. This facility was acquired by RepMar in 2015 in the amount of \$3,800,000. This transfer is presented as a special item in the accompanying financial statements.

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements
September 30, 2016

(5) Capital Assets, Continued

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

President and Cabinet	\$ 3,186
Public Service Commission	15,000
Education	1,405,945
Health and Environment	566,536
Transportation and Communication	703,036
Resources and Development	80,225
Internal Affairs	53,776
Justice	102,491
Finance	47,760
Foreign Affairs and Trade	164,656
Public Works	1,772,114
Nitijela	<u>1,303</u>
	<u>\$ 4,916,028</u>

Discretely Presented Component Units

	Estimated Useful Lives	Balance October 1, 2015	Additions	Retirements	Balance September 30, 2016
Depreciable capital assets:					
Buildings	3 - 34 yrs	\$ 51,849,949	\$ 227,694	\$ (5,774,262)	\$ 46,303,381
Utility plant	3 - 40 yrs	102,129,090	4,543,161	(25,993,366)	80,678,885
Machinery and equipment	2 - 25 yrs	47,771,231	4,672,887	(741,391)	51,702,727
Infrastructure	5 - 50 yrs	<u>47,192,132</u>	<u>11,687,362</u>	<u>-</u>	<u>58,879,494</u>
		248,942,402	21,131,104	(32,509,019)	237,564,487
Less accumulated depreciation		<u>(150,593,415)</u>	<u>(12,074,301)</u>	<u>23,388,152</u>	<u>(139,279,564)</u>
Total depreciable capital assets, net		98,348,987	9,056,803	(9,120,867)	98,284,923
Nondepreciable capital assets:					
Land		372,306	-	-	372,306
Construction in progress		<u>36,891,897</u>	<u>10,652,199</u>	<u>(11,991,387)</u>	<u>35,552,709</u>
		<u>37,264,203</u>	<u>10,652,199</u>	<u>(11,991,387)</u>	<u>35,925,015</u>
		<u>\$ 135,613,190</u>	<u>\$ 19,709,002</u>	<u>\$ (21,112,254)</u>	<u>\$ 134,209,938</u>

(6) Short-term Debt

Primary Government

On October 21, 2015, RepMar obtained a short-term bank loan in the amount of \$1,200,000 to finance payment of RUS loan arrears owed by the Marshall Islands National Telecommunications Authority, interest at 6% per annum, principal and interest due in monthly installments of \$104,000, due and payable on November 30, 2016.

Short-term debt activity for the year ended September 30, 2016, was as follows:

	Beginning Balance	Draws	Repayments	Ending Balance
Bank loan	\$ <u>-</u>	\$ <u>1,200,000</u>	\$ <u>(997,867)</u>	\$ <u>202,133</u>

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements
September 30, 2016

(6) Short-term Debt, Continued

Discretely Presented Component Units

Marshalls Energy Company, Inc. (MEC):

On June 5, 2015, MEC obtained a short-term bank loan to finance fuel purchases in the amount of \$1,500,000, interest at 7.5% per annum, principal and interest payable in a lump sum on December 31, 2015, collateralized by receivables and inventory. This bank loan was paid in full during the year ended September 30, 2016.

Tobolar Copra Processing Authority (TCPA):

On October 6, 2014, TCPA renewed a bank credit line of \$1,700,000 to finance the buying of copra, interest at 7.5% per annum, due and payable on October 5, 2015, collateralized by a guarantee from RepMar. On June 23, 2016, the amount outstanding of \$1,430,000 was refinanced as a term loan.

Short-term debt activity for the year ended September 30, 2016, was as follows:

	<u>Beginning Balance</u>	<u>Draws</u>	<u>Repayments</u>	<u>Ending Balance</u>
MEC:				
Bank loan	\$ 2,351,607	\$ -	\$ (2,351,607)	\$ -
TCPA:				
Bank credit line	<u>1,794,327</u>	<u>-</u>	<u>(1,794,327)</u>	<u>-</u>
	\$ <u>4,145,934</u>	\$ <u>-</u>	\$ <u>(4,145,934)</u>	\$ <u>-</u>

(7) Long-term Obligations

Primary Government

Under the Government Borrowing Act of 1985, RepMar may borrow money for such purposes as approved by the Nitijela of RepMar. As of September 30, 2016, 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.	\$ 2,114,534
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.	336,102
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.	5,460,633

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements
September 30, 2016

(7) Long-term Obligations, Continued

Primary Government, Continued

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.	490,339
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.	3,760,048
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.	6,309,022
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.	9,145,307
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.	5,596,027
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.	3,384,802
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.	4,718,794
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.	380,631

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements
September 30, 2016

(7) Long-term Obligations, Continued

Primary Government, Continued

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

Loan Number 2950 RMI (SF) - Fiscal Reform and Debt Management Project (SDR 3,242,000), 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 May 15, 2021 in an amount of SDR 101,313, at which time the service charge increases to 1.5% per annum. 4,893,961

\$ 56,570,046

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.

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>
2017	\$ 2,510,509	\$ 603,690	\$ 3,114,199
2018	2,623,411	574,028	3,197,439
2019	2,623,411	544,077	3,167,488
2020	3,247,151	563,483	3,810,634
2021	3,402,573	535,611	3,938,184
2022 - 2026	17,265,508	2,084,608	19,350,116
2027 - 2031	15,173,047	1,103,323	16,276,370
2032 - 2036	9,412,884	286,821	9,699,705
2037	<u>311,552</u>	<u>1,714</u>	<u>313,266</u>
	\$ <u>56,570,046</u>	\$ <u>6,297,355</u>	\$ <u>62,867,401</u>

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements
September 30, 2016

(7) Long-term Obligations, Continued

Discretely Presented Component Units

As of September 30, 2016, the discretely presented component units had the following long-term debt outstanding:

Air Marshall Islands, Inc. (AMI):

Note payable to Marshall Islands Development Bank, dated May 30, 2013, interest at 6.5% per annum, with principal and interest due in monthly installments of \$51,100, due May 30, 2018. The loan has been collateralized by certain aircraft operated by AMI and a guarantee from RepMar. Loan proceeds of \$2,500,000 were used to fund Dash 8 aircraft improvements. \$ 1,095,289

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>
2017	\$ 716,821	\$ 109,615	\$ 826,436
2018	<u>378,468</u>	<u>8,756</u>	<u>387,224</u>
	<u>\$ 1,095,289</u>	<u>\$ 118,371</u>	<u>\$ 1,213,660</u>

Marshalls Energy Company, Inc. (MEC):

Loan payable to 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). On June 22, 2012, RUS granted a two-year \$2 million loan deferment giving MEC a two-year break from having to make payments to RUS. Effective June 22, 2012 through March 31, 2014, interest payments of \$25,000 were due quarterly. Thereafter, quarterly payments of \$299,121 are due. The loan will mature on December 31, 2019. 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 in compliance with these ratio requirements as of September 30, 2016. \$ 3,042,832

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>
2017	\$ 1,138,184	\$ 58,376	\$ 1,196,560
2018	1,192,241	4,300	1,196,541
2019	<u>712,407</u>	<u>-</u>	<u>712,407</u>
	<u>\$ 3,042,832</u>	<u>\$ 62,676</u>	<u>\$ 3,105,508</u>

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements
September 30, 2016

(7) Long-term Obligations, Continued

Discretely Presented Component Units, Continued

Marshall Islands Development Bank (MIDB):

Bank loan dated September 22, 2015, interest at 6.5% per annum, principal and interest due in monthly installments of \$25,265 through November 30, 2019, collateralized by time certificate of deposit. Loan proceeds of \$1,090,500 were used to consolidate prior year loans. \$ 837,241

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>
2017	\$ 256,118	\$ 47,062	\$ 303,180
2018	273,409	29,771	303,180
2019	291,771	11,409	303,180
2020	<u>15,943</u>	<u>85</u>	<u>16,028</u>
	\$ <u>837,241</u>	\$ <u>88,327</u>	\$ <u>925,568</u>

Marshall Islands National Telecommunications Authority (MINTA):

Loans payable to 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 up to \$1,500,000 annually in the event of default by MINTA. Mortgages over specific MINTA ground leases and essentially all assets of MINTA have collateralized both loans. \$ 23,881,466

MINTA previously defaulted on its loan payments to RUS. In April 2013, MINTA began making reduced monthly loan payments covering slightly more than loan interest. At September 30, 2016, MINTA owed approximately \$2,150,000 in RUS arrearages. MINTA was previously formally notified by RUS of the loan default and has not received an update from RUS as to whether a change has occurred in its status. Thus, all amounts due are reclassified as current liabilities. Subsequent to year end, MINTA received a subsidy of \$1,800,000 from RepMar.

RMI Ports Authority (RMIPA):

Bank loan dated October 12, 2012, interest at 7.5% per annum, principal and interest due in monthly installments of \$20,125 through October 30, 2017, collateralized by time certificate of deposit. Loan proceeds of \$1,000,000 were used to fund various capital improvement projects. \$ 250,380

Bank loan dated January 11, 2013, interest at 7% per annum, principal and interest due in monthly installments of \$12,300 through December 31, 2018, collateralized by time certificate of deposit. Loan proceeds of \$700,000 were used to fund various capital improvement projects. 292,693

\$ 543,073

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements
September 30, 2016

(7) Long-term Obligations, Continued

Discretely Presented Component Units, Continued

RMI Ports Authority (RMIPA), 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>
2017	\$ 359,813	\$ 29,377	\$ 389,190
2018	157,757	8,518	166,275
2019	<u>25,503</u>	<u>445</u>	<u>25,948</u>
	<u>\$ 543,073</u>	<u>\$ 38,340</u>	<u>\$ 581,413</u>

Majuro Atoll Waste Company (MAWC):

Bank loan dated September 26, 2013, interest at 8% per annum, principal and interest due in monthly installments of \$2,935 through September 30, 2017, collateralized by a 2013 Freightliner Garbage Truck. Loan proceeds of \$120,000 were used to fund various operating expenses. \$ 33,635

Annual repayment requirements to maturity for principal and interest are as follow:

<u>Year ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	<u>\$ 33,635</u>	<u>\$ 1,471</u>	<u>\$ 35,106</u>

Tobolar Copra Processing Authority (TCPA):

Term loan with a bank refinanced from a bank credit line in the amount of \$1,430,000, dated June 23, 2016, interest at 8.5% per annum, principal and interest due in monthly installments of \$25,500 through June 30, 2022, collateralized by a general security agreement over all assets of TCPA and a guarantee from the Marshall Islands Development Bank. \$ 1,253,134

Bank loan dated August 15, 2013, interest at 7.5% per annum, principal and interest due in monthly installments of \$2,781 through October 15, 2028, collateralized by a general security agreement over all assets of TCPA and a guarantee from RepMar. Loan proceeds of \$300,000 were used to fund capital expenditures. 268,648
\$ 1,521,782

Annual repayment requirements to maturity for principal and interest are as follow:

<u>Year ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 214,942	\$ 124,431	\$ 339,373
2018	240,405	98,966	339,371
2019	261,482	77,890	339,372
2020	215,641	57,731	273,372
2021	234,629	38,743	273,372
2022 - 2026	287,174	53,647	340,821
2027 - 2028	<u>67,509</u>	<u>5,311</u>	<u>72,820</u>
	<u>\$ 1,521,782</u>	<u>\$ 456,719</u>	<u>\$ 1,978,501</u>

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements
September 30, 2016

(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, 2016, the following changes occurred in liabilities reported as part of the primary government's long-term liabilities in the statement of net position:

	Balance October 1, 2015	Additions	Reductions	Balance September 30, 2016	Due Within One Year
Loans payable:					
ADB loans	\$ 59,501,530	\$ -	\$ (2,931,484)	\$ 56,570,046	\$ 2,510,509
Other:					
Compensated					
Absences	2,943,690	2,246,247	(2,246,247)	2,943,690	1,126,256
Other	<u>400,000</u>	<u>-</u>	<u>(400,000)</u>	<u>-</u>	<u>-</u>
	<u>\$ 62,845,220</u>	<u>\$ 2,246,247</u>	<u>\$ (5,577,731)</u>	<u>\$ 59,513,736</u>	<u>\$ 3,636,765</u>

On April 23, 2013, RepMar acquired Ann's Palace at a cost of \$1,500,000 and entered into a purchase agreement with the owner that required a down payment of \$300,000 within seven days of execution of the agreement with the remaining amount owed to be paid in quarterly instalments of \$100,000 commencing October 5, 2013. The outstanding amount owed of \$400,000 was paid in full in 2016.

Discretely Presented Component Units

Changes in long-term liabilities of discretely presented component units for the year ended September 30, 2016, are as follows:

	Balance October 1, 2015	Additions	Reductions	Balance September 30, 2016	Due Within One Year
Loans payable:					
AMI	\$ 1,628,990	\$ -	\$ (533,701)	\$ 1,095,289	\$ 716,821
MEC	4,117,579	-	(1,074,747)	3,042,832	1,138,184
MIDB	1,066,789	-	(229,548)	837,241	256,118
MINTA	25,361,478	-	(1,480,012)	23,881,466	23,881,466
RMIPA	877,252	-	(334,179)	543,073	359,813
MAWC	64,786	-	(31,151)	33,635	33,635
TCPA	<u>281,242</u>	<u>1,430,000</u>	<u>(189,460)</u>	<u>1,521,782</u>	<u>214,942</u>
	33,398,116	1,430,000	(3,872,798)	30,955,318	26,600,979
Due to primary government	<u>13,713,993</u>	<u>343,005</u>	<u>(1,217,971)</u>	<u>12,839,027</u>	<u>2,140,080</u>
	<u>\$ 47,112,109</u>	<u>\$ 1,773,005</u>	<u>\$ (5,090,769)</u>	<u>\$ 43,794,345</u>	<u>\$ 28,741,059</u>

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Notes to Financial Statements
September 30, 2016

(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.	\$ 292,817
Savings account established in accordance with Section 211(d)(2) of the Compact of Free Association, as amended, for the purpose of funding RepMar's infrastructure maintenance plan.	2,066,064
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.	2,176,137
Savings accounts collateralizing a credit card facility.	62,410
Deposit account established in accordance with ADB Loan 2659-RMI (SF).	2,488,607
Deposit account established to satisfy a court judgment pertaining to Civil Action 2014-133.	199,997
Savings account established for the purpose of accounting for funds held by RepMar in a custodial capacity relating to unclaimed property.	<u>89,574</u>
	\$ <u>7,375,606</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>62,020,322</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).	\$ 582,002
Time certificate of deposit collateralizing bank loans payable.	<u>325,699</u>
	<u>907,701</u>

RMI Ports Authority:

Time certificate of deposit collateralizing bank loans payable.	<u>1,700,000</u>
	\$ <u>2,607,701</u>

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements
September 30, 2016

(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, 2016, are as follows:

	<u>Transfers Out</u>	<u>Transfers In</u>
General Fund:		
Grants Assistance Fund	\$ 300,000	\$ -
Compact Trust Fund	2,200,000	-
Nonmajor governmental funds	<u>3,437,510</u>	<u>465,427</u>
	<u>5,937,510</u>	<u>465,427</u>
Grants Assistance Fund:		
Nonmajor governmental funds	<u>2,090,408</u>	<u>300,000</u>
Compact Trust Fund:		
General Fund	<u>-</u>	<u>2,200,000</u>
Nonmajor governmental funds:		
General Fund	465,427	3,437,510
Grants Assistance Fund	<u>-</u>	<u>2,090,408</u>
	<u>465,427</u>	<u>5,527,918</u>
	<u>\$ 8,493,345</u>	<u>\$ 8,493,345</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 \$650,000 from the General Fund to the Compact Trust Fund to fund additional contributions; \$1,766,067 from the General Fund to the Nonmajor Governmental Funds to finance Judicial branch operations and scholarships; \$350,000 from the Grants Assistance Fund to the Compact Trust Fund to fund additional contributions; \$2,108,629 from the Grants Assistance Fund to the Nonmajor Governmental Funds to finance scholarships and Four-atoll medical costs; and \$452,328 from the Nonmajor Governmental Funds to the General Fund to fund general operations.

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements
September 30, 2016

(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 Islands Development Bank investment	\$ 998,250	\$ -	\$ -	\$ -	\$ 998,250
Loan receivable – MEC	7,345,985	-	-	-	7,345,985
Loan receivable – MIDB	590,438	-	-	-	590,438
Permanent fund principal	-	-	62,020,322	-	62,020,322
Restricted:					
Health	-	511,225	-	-	511,225
Capacity building	-	163,374	-	-	163,374
Environmental	-	10,486	-	-	10,486
Ebeye special needs	-	949,283	-	-	949,283
Infrastructure maintenance	-	2,140,565	-	-	2,140,565
Disaster assistance	-	3,592,488	-	-	3,592,488
Compact – other	-	41,070	-	-	41,070
Education – scholarships	-	1,593	-	778,491	780,084
ADB loan projects	2,690,962	-	-	-	2,690,962
Telecommunications and ICT Technical Assistance					
Project Grant (World Bank)	-	81,756	-	-	81,756
Credit card collateralization	62,410	-	-	-	62,410
Nuclear claims related	-	-	-	173,356	173,356
Committed:					
Judiciary	-	-	-	316,960	316,960
Health and environment	-	-	-	5,923,978	5,923,978
Transportation and communication	-	-	-	28,639	28,639
Internal affairs	14,251	-	-	53,280	67,531
Justice	-	-	-	359	359
Foreign affairs and trade	-	-	-	175,963	175,963
Public works	-	-	-	127,655	127,655
Land registration authority	-	-	-	18,118	18,118
National Training Council	-	-	-	315,700	315,700
Sea Patrol	-	-	-	5,868	5,868
Capital projects	-	5,226,794	-	-	5,226,794
Other	-	144,846	-	-	144,846
Unassigned	7,189,099	(68,737)	-	-	7,120,362
	<u>\$ 18,891,395</u>	<u>\$ 12,840,841</u>	<u>\$ 62,020,322</u>	<u>\$ 7,918,367</u>	<u>\$ 101,670,925</u>

Restricted fund balance of the nonmajor governmental funds includes unexpended funds of \$81,756 received under the Telecommunications and ICT Technical Assistance Project Grant (TF15226) funded by the World Bank. During the year ended September 30, 2016, no expenditures associated with this grant were incurred and no additional funds were received.

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements
September 30, 2016

(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, 2016, 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"	\$ 48,815,708
RepMar - "D Account"	<u>13,204,614</u>
	\$ <u>62,020,322</u>

At September 30, 2016, 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"	\$ 213,393,876
Republic of China - "A Account" and "C Account"	<u>32,335,949</u>
	\$ <u>245,729,825</u>

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements
September 30, 2016

(13) Contingencies and Commitments

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, 2016, 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, 2016. 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.

Marshall Islands National Telecommunications Authority (MINTA)

MINTA is in default on its loan payments to RUS. As a result, RepMar made subsidy payments to MINTA to fund MINTA's debt service payments. At September 30, 2016, MINTA owed \$2,150,000 in RUS arrearages. RepMar has demonstrated the ability and willingness in the past to provide financing for MINTA's debt payments. In 2016, RepMar provided subsidy payments of \$1,344,465 to MINTA to meet debt service payments. MINTA has been formally notified by RUS that it is in default; however, RUS has not taken any additional action or modified any terms of the loan agreements nor has MINTA received an update from RUS as to whether a change has occurred in its loan status. The ability of MINTA to continue as a going concern is dependent upon MINTA management's plan and the resolution of the aforementioned issue. No provision for any liability that may result upon resolution of this matter has been made in the accompanying financial statements.

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 2016 have been set forth in RepMar's Single Audit Report for the year ended September 30, 2016. 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.

Economic Dependency

During the year ended September 30, 2016, RepMar's General Fund recorded contributions from component units of \$26,358,733, which represents 40% of total General Fund revenues. These contributions primarily represent fisheries revenues collected by the Marshall Islands Marine Resources Authority (MIMRA) and, as a result, the General Fund is economically dependent upon. If a significant reduction in the level of budgetary support from MIMRA due to the migratory nature of this economic resource were to occur, it may have an effect on the General Fund's programs and activities.

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements
September 30, 2016

(13) Contingencies and Commitments, Continued

Marshalls Energy Company, Inc. (MEC)

As of September 30, 2016, MEC is in compliance 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 Social Security Administration (MISSA)

In June 2016, MISSA obtained an actuarial valuation of the Retirement Fund as of October 1, 2014. The valuation reported actuarial accrued liabilities and market value of assets for the Retirement Fund of \$442,510,000 and \$72,367,000, respectively, as of October 1, 2014. The funded ratio of the Retirement Fund as of October 1, 2014 is 16%. As of September 30, 2016, MISSA recorded total fund equity of \$65,588,834 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.

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 2016, RepMar appropriated \$951,605 to fund such leases.

College of the Marshall Islands has entered into a thirty year ground lease agreement. Future minimum annual lease payments under this lease are as follows:

<u>Year ending</u> <u>September 30,</u>	<u>Total</u>
2017	\$ 95,080
2018	95,080
2019	95,080
2020	95,080
2021	98,280
2022 - 2026	494,599
2027 - 2031	427,399
2032 - 2036	104,418
2037 - 2041	84,418
2042 - 2044	<u>47,651</u>
	\$ <u>1,637,085</u>

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements
September 30, 2016

(13) Contingencies and Commitments, Continued

Leases, Continued

Marshall Islands National Telecommunications Authority has long-term commitments for several ground leases and satellite circuit leases. Leases are both cancelable and noncancelable operating leases. Future minimum annual lease payments under these leases are as follows:

<u>Year ending September 30,</u>	<u>Total</u>
2017	\$ 802,811
2018	457,513
2019	361,485
2020	325,566
2021	54,625
2022 - 2025	150,104
2027 - 2030	144,381
2032 - 2036	139,623
2037 - 2041	<u>69,466</u>
	\$ <u>2,505,574</u>

Litigation

RepMar is party to various legal proceedings, many of which are normal recurrences in governmental operations. The Attorney General of RepMar is of the opinion that the probable outcome of suits existing at September 30, 2016 is not predictable. No provision for any liability has been made in the accompanying financial statements because management believes that no unfavorable outcome is likely to occur.

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 increased to \$4,000,000, payable in monthly installments of \$333,333 and further increased 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.

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements
September 30, 2016

(13) Contingencies and Commitments, Continued

Trust Company of the Marshall Islands, Continued

On July 22, 2015, RepMar agreed to further amend the financial provisions of this Joint Venture Agreement whereby annual payments payable by TCMI through December 31 of each year would be as follows:

<u>Year ending</u> <u>December 31,</u>	<u>Total</u>
2016	\$ 6,500,000
2017	\$ 7,000,000
2018	\$ 7,500,000
2019	\$ 7,500,000
2020	\$ 8,000,000

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.

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, 2016 is \$11,261,393.

Loan Guarantees

Marshall Islands Development Bank (MIDB) has pledged an escrow account in support of certain USDA Rural Development housing loans, the balance of which amounted to \$11,027,518 as of September 30, 2016. In the event of default, MIDB could be exposed to an amount in excess of the escrow account balance, an amount that is presently indeterminable. No provision for any liability that may result from this matter has been provided for within the accompanying financial statements.

Air Marshall Islands, Inc. (AMI)

At September 30, 2016, AMI is liable to the Marshall Islands Social Security Administration (MISSA) for certain delinquent employee and employer contributions, totaling \$831,577, 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 November 30, 2012, the High Court entered judgment against AMI in favor of MISSA for \$1,411,985, inclusive of penalties relating to delinquent contributions. On December 3, 2015, the High Court entered an additional judgment in favor of MISSA against AMI for \$367,836 (inclusive of penalties, court costs, and attorney's fees) for non-payment of delinquent employee and employer contributions. During the year ended September 30, 2016, RepMar made payments to MISSA on behalf of AMI of \$300,000 associated with this court judgment.

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements
September 30, 2016

(13) Contingencies and Commitments, Continued

Budgetary Compliance

For the year ended September 30, 2016, significant over-expenditures exceeding appropriations within the General Fund were as follows:

Land Leases	\$ 254,058
Majuro Landowners Electricity Bills	\$ 1,512,909
Copra stabilization subsidy	\$ 1,245,087
Majuro Water and Sewer Company	\$ 150,000
AMI Repayment Plan	\$ 538,153
Ministry of Internal Affairs	\$ 790,954

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

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.

Other Commitments

Significant commitments of the primary government as of September 30, 2016, are as follows:

- a) Guaranteed bank debt of Air Marshall Islands, Inc. (AMI) with a letter of guarantee. At September 30, 2016, AMI had guaranteed debt totaling \$1,095,289.
- b) Guaranteed bank debt of Tobolar Copra Processing Authority (TCPA) with a letter of guarantee. At September 30, 2016, TCPA had guaranteed bank debt totaling \$268,648.
- c) Guaranteed debt of MEC in respect to a loan from the United States Rural Utilities Service (RUS) with a letter of guarantee. At September 30, 2016, MEC had guaranteed RUS debt totaling \$3,042,832.
- d) Guaranteed debt of Marshall Islands National Telecommunications Authority (MINTA) in respect of a loan from RUS with a letter of guarantee. At September 30, 2016, MINTA had guaranteed RUS debt totaling \$23,881,466.
- 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 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. 158 (2012), 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 not to exceed \$10,000,000. At September 30, 2016, MEC had guaranteed debt to a fuel supplier totaling \$2,685,211.
- h) 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, 2016

(14) Subsequent Events

On October 27, 2016, the Cabinet of RepMar authorized and approved a \$5,000,000 loan from the International Cooperation and Development Fund for the Home Energy Efficiency and Renewable Energy Projects.

REPUBLIC OF THE MARSHALL ISLANDS
REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED SEPTEMBER 30, 2016

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, 2016

	Budgeted Amounts		Actual - Budgetary Basis (see Note 1)	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues:				
Taxes	\$ 28,596,512	\$ 29,233,010	\$ 28,479,894	\$ (753,116)
Fees and charges	2,725,309	2,725,309	18,678	(2,706,631)
Interest and dividends	-	-	158,955	158,955
Other	30,225,000	37,080,987	36,640,884	(440,103)
Total revenues	<u>61,546,821</u>	<u>69,039,306</u>	<u>65,298,411</u>	<u>(3,740,895)</u>
Expenditures:				
President and Cabinet	1,779,377	2,000,743	1,892,081	108,662
Office of the Chief Secretary	724,973	1,828,663	1,677,413	151,250
Special appropriations	25,685,309	28,154,696	28,824,411	(669,715)
Council of Iroij	500,751	499,845	499,181	664
Office of the Auditor-General	1,687,274	2,258,954	1,803,150	455,804
Public Service Commission	475,543	474,439	462,008	12,431
Office of the Attorney General	834,309	847,495	739,997	107,498
Ministries	24,292,748	25,996,891	25,263,052	733,839
Environmental Protection Authority	184,119	184,119	183,313	806
Nitijela	1,922,367	2,110,954	1,857,759	253,195
Total expenditures	<u>58,086,770</u>	<u>64,356,799</u>	<u>63,202,365</u>	<u>1,154,434</u>
Excess of revenues over expenditures	<u>3,460,051</u>	<u>4,682,507</u>	<u>2,096,046</u>	<u>(2,586,461)</u>
Other financing sources (uses):				
Operating transfers in	314,000	314,000	465,427	151,427
Operating transfers out	(5,136,583)	(6,359,039)	(6,251,758)	107,281
Other financing sources (uses), net	<u>(4,822,583)</u>	<u>(6,045,039)</u>	<u>(5,786,331)</u>	<u>258,708</u>
	(1,362,532)	(1,362,532)	(3,690,285)	(2,327,753)
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				
	<u>1,362,532</u>	<u>1,362,532</u>	<u>7,051,032</u>	<u>5,688,500</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,360,747</u>	<u>\$ 3,360,747</u>

See accompanying notes to required supplementary information - budgetary reporting.

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Required Supplementary Information - Budgetary Reporting September 30, 2016

(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 2016, Public Law No. 2015-44, was passed by the Nitijela on September 24, 2015. A Supplemental Budget Act for fiscal year 2016, Public Law 2016-01, was passed by the Nitijela on March 11, 2016. 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	Reserve for Encumbrances
Budgetary basis – Fund 100100	\$ <u>3,360,747</u>	\$ <u>7,051,032</u>
GASB 54 Funds included within the General Fund:		
Reimbursable Fund	(38,773)	41,985
Judiciary Fund	2,250	-
ADB Development Fund	<u>(412,906)</u>	<u>400,678</u>
	<u>(449,429)</u>	<u>442,663</u>
General Fund	\$ <u>2,911,318</u>	\$ <u>7,493,695</u>

See Accompanying Independent Auditors' Report.

REPUBLIC OF THE MARSHALL ISLANDS
OTHER SUPPLEMENTARY INFORMATION
YEAR ENDED SEPTEMBER 30, 2016

REPUBLIC OF THE MARSHALL ISLANDS

Combining Schedule of Expenditures by Account Governmental Funds Year Ended September 30, 2016

	General	Special Revenue	Permanent	Other	Total
		Grants Assistance	Compact Trust	Governmental Funds	
Expenditures:					
Salaries and wages	\$ 18,474,170	\$ 20,374,428	\$ -	\$ 1,104,020	\$ 39,952,618
Grants and subsidies	16,362,606	8,764,314	-	1,270,019	26,396,939
Utilities	5,093,620	1,856,323	-	95,589	7,045,532
Contractual services	1,084,732	6,187,306	-	6,221,208	13,493,246
Capital outlay	1,266,066	4,721,869	-	351,200	6,339,135
Travel	1,620,850	1,347,315	-	1,085,620	4,053,785
Medical supplies	520,918	96,242	-	3,433,636	4,050,796
Principal repayment	2,931,484	-	-	-	2,931,484
Supplies and materials	453,319	2,400,084	-	228,794	3,082,197
Leased housing	1,401,371	508,682	-	56,250	1,966,303
Rentals	2,670,351	225,374	-	24,223	2,919,948
Food stuffs	804,097	1,029,232	-	6,680	1,840,009
Interest	763,251	-	-	-	763,251
Communications	522,430	269,450	-	89,659	881,539
POL	436,046	422,644	-	67,167	925,857
Allowances	871,450	7,000	-	2,800	881,250
Professional services	573,680	364,241	-	87,927	1,025,848
Printing and reproduction	146,144	69,909	-	5,862	221,915
Insurance	125,541	33,421	-	29,330	188,292
Freight	16,274	80,155	-	26,001	122,430
Other	1,732,007	2,233,709	-	447,136	4,412,852
	<u>\$ 57,870,407</u>	<u>\$ 50,991,698</u>	<u>\$ -</u>	<u>\$ 14,633,121</u>	<u>\$ 123,495,226</u>

See Accompanying Independent Auditors' Report.

REPUBLIC OF THE MARSHALL ISLANDS

GENERAL FUND

September 30, 2016

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, 2016 (with comparative totals for the year ended September 30, 2015)

	2016	2015
Revenues:		
Taxes:		
Income	\$ 13,799,837	\$ 11,905,940
Import	6,525,081	6,016,713
Import - CMI	1,133,610	1,030,036
Gross revenue	5,724,781	5,011,830
Immovable property	641,377	660,788
Fuel	499,539	695,134
Penalties and interest	48,051	50,766
Other	107,618	73,898
	<u>28,479,894</u>	<u>25,445,105</u>
Fees and charges	18,678	28,449
Interest and dividends	158,955	163,933
Other:		
Taiwan grant	3,600,000	3,600,000
Ship registry	6,125,000	6,000,000
Contribution from MI Marine Resources Authority	26,285,938	15,773,000
Contribution from RMI Ports Authority	72,795	218,385
Other	557,151	446,884
	<u>36,640,884</u>	<u>26,038,269</u>
Total revenues	<u>65,298,411</u>	<u>51,675,756</u>
Expenditures:		
President and Cabinet:		
Office of the President	731,670	464,184
President and Ministers	541,894	573,383
Cabinet Operations	468,830	511,963
	<u>1,742,394</u>	<u>1,549,530</u>
Office of the Chief Secretary:		
Administration	1,209,471	258,340
Deputy Chief Secretary - Ebeye	78,817	58,436
Economic Policy, Planning and Statistics Office	223,141	209,847
Office of Environmental Planning and Policy Coordination	129,867	86,613
	<u>1,641,296</u>	<u>613,236</u>
Special appropriations:		
Micronesia Presidential Summit	2,111	48,312
President's Inauguration	39,621	-
Ann's Palace Renovation	400,000	400,000
National Election - Ebeye	66,064	11,885
Constitution Day - Ebeye	4,739	4,709
National Election	520,960	122,139
Air Marshall Islands, Inc.	496,000	67,480
Air Marshall Islands, Inc. Repairs	-	408,065
MOFA Renovation	-	5,815
KALGOV (MISSA)	636,498	627,894
Majuro Atoll Waste Company	130,678	130,678
Traditional Leaders Meeting	8,457	87,392
Centralized Utility Billings - Majuro	959,316	1,544,932
Nuclear Victim's Day	7,909	-
Outer Island Solar Support	347,200	-
MI National Telecommunications Authority loan payment	1,242,133	1,863,000
MISC Repairs and Maintenance	477,152	50,000
MOPW Repairs and Maintenance - Majuro	37,703	-
Marshall Islands Shipping Corporation	460,028	1,260,085
MOE Snack/Hot Lunch Program	494,137	368,965
I-Law Software for Nitijela	96,200	-
Outer Island Projects	194,994	-
MISC Ship	800,056	-
Majuro Seaport Terminal	79,360	-
Senator's Office Rental	198,400	-
MOPW Repairs and Maintenance - Ebeye	45,632	-
Ebeye Public Works	19,840	-
National Energy Support Account	595,200	475,168
PSC Training	9,525	34,362
Water Project	22,911	-
MI National Telecommunications Authority supplement	450,000	-
Court judgment	200,000	-
WUTMI	39,680	-
APICU	-	1,954
MOE Food Program	31,963	-
Alele Corporation	84,705	139,802
Local Government payments	176,795	-
Majuro Jail Project	-	18,089
MALGOV (MISSA)	-	30,165
Centralized Utility Billings - Ebeye	33,691	-
Land leases	1,202,180	936,479
Majuro Landowners Electricity	3,277,106	3,068,615
Leased housing	202,191	196,339
Marshall Islands Visitors Authority	49,600	-

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, 2016
(with comparative totals for the year ended September 30, 2015)

	<u>2016</u>	<u>2015</u>
Expenditures, continued:		
Special appropriations, continued:		
Contingency Fund	158,587	180,683
International Subscriptions/Membership Fees	371,218	285,372
Prior Year Liabilities	1,902,206	138,947
Copra Stabilization Subsidy	2,303,890	797,600
Constitution Day - Majuro	68,194	91,369
Micronesia Legal Service Corporation	74,400	74,400
Constitutional Convention	15,395	-
CMI Endowment Fund	-	150,000
Majuro Water and Sewer Company, Inc.	150,000	-
University of South Pacific renovation	496,000	-
AMI Repayment Plan	538,153	2,994,483
Emergency Payments	115,288	74,408
	<u>20,334,066</u>	<u>16,689,586</u>
Council of Iroij:		
Administration	116,260	100,724
Members	335,948	321,294
	<u>452,208</u>	<u>422,018</u>
Nitijela:		
Operations	528,286	434,673
General membership	1,007,881	1,197,734
Speaker's contingency	88,792	55,777
Committee	44,711	13,475
Legislative counsel	128,696	106,127
	<u>1,798,366</u>	<u>1,807,786</u>
Office of the Auditor-General:		
Operations	588,884	487,338
Single audit - local match	364,241	348,592
	<u>953,125</u>	<u>835,930</u>
Public Service Commission:		
Members	126,214	125,934
Administration	328,196	494,281
	<u>454,410</u>	<u>620,215</u>
Office of the Attorney General	<u>697,780</u>	<u>779,253</u>
Ministries:		
Ministry of Education	5,660,571	5,750,334
Ministry of Health and Environment	3,944,898	2,787,851
Ministry of Transportation and Communication	481,322	506,548
Ministry of Resources and Development	1,172,125	1,055,408
Ministry of Internal Affairs	2,852,889	1,844,101
Ministry of Justice	3,188,514	3,142,844
Ministry of Finance	2,587,729	2,974,103
Ministry of Foreign Affairs and Trade	3,056,984	2,697,734
Ministry of Public Works	1,296,741	1,353,494
	<u>24,241,773</u>	<u>22,112,417</u>
Environmental Protection Authority	<u>183,313</u>	<u>170,143</u>
Debt service:		
ADB loan repayment:		
Principal repayment	2,931,484	2,715,634
Interest charges	721,118	733,114
	<u>3,652,602</u>	<u>3,448,748</u>
Total expenditures	<u>56,151,333</u>	<u>49,048,862</u>
Excess of revenues over expenditures	<u>9,147,078</u>	<u>2,626,894</u>
Other financing sources:		
Operating transfers in:		
Ministry of Justice Fund	465,427	452,328
Total other financing sources	<u>465,427</u>	<u>452,328</u>
Other financing uses:		
Operating transfers out:		
Judiciary Fund	555,209	585,665
Compact Trust Fund	2,200,000	650,000
Section 211(d)(2) Infrastructure Maintenance Fund	300,000	-
Marshall Islands Scholarship, Grant and Loan Board Fund	683,973	773,077
Marshall Islands Health Fund	1,805,440	-
Marshall Islands Judiciary Fund	343,288	357,725
Marshall Islands Public School System Fund	314,248	-
Nuclear Claims Tribunal	49,600	49,600
Total other financing uses	<u>6,251,758</u>	<u>2,416,067</u>
Net change in fund balance	3,360,747	663,155
Fund balance at the beginning of the year	14,975,813	14,312,658
Fund balance at the end of the year	<u>\$ 18,336,560</u>	<u>\$ 14,975,813</u>

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, 2016

	Budgeted Amounts		Actual -	
	Original	Final	Budgetary Basis	Variance
Revenues:				
Taxes:				
Income	\$ 13,072,639	\$ 13,072,639	\$ 13,799,837	\$ 727,198
Import	5,374,698	5,374,698	6,525,081	1,150,383
Import - CMI	914,412	914,412	1,133,610	219,198
Gross revenue	8,362,343	8,362,343	5,724,781	(2,637,562)
Immovable property	63,882	700,380	641,377	(59,003)
Fuel	608,428	608,428	499,539	(108,889)
Penalties and interest	81,030	81,030	48,051	(32,979)
Other	119,080	119,080	107,618	(11,462)
	<u>28,596,512</u>	<u>29,233,010</u>	<u>28,479,894</u>	<u>(753,116)</u>
Fees and charges	<u>2,725,309</u>	<u>2,725,309</u>	<u>18,678</u>	<u>(2,706,631)</u>
Interest and dividends	-	-	158,955	158,955
Taiwan grant	3,600,000	3,600,000	3,600,000	-
Ship registry	6,625,000	6,625,000	6,125,000	(500,000)
MI Marine Resources Authority	20,000,000	26,285,938	26,285,938	-
RMI Ports Authority	-	-	72,795	72,795
Other	-	570,049	557,151	(12,898)
	<u>30,225,000</u>	<u>37,080,987</u>	<u>36,640,884</u>	<u>(440,103)</u>
Total revenues	<u>61,546,821</u>	<u>69,039,306</u>	<u>65,298,411</u>	<u>(3,740,895)</u>
Expenditures:				
President and Cabinet:				
Office of the President	744,216	961,206	847,848	113,358
President and Ministers	570,757	555,757	547,840	7,917
Cabinet Operations	464,404	483,780	496,393	(12,613)
	<u>1,779,377</u>	<u>2,000,743</u>	<u>1,892,081</u>	<u>108,662</u>
Office of the Chief Secretary:				
Administration	279,872	1,345,490	1,238,034	107,456
Deputy Chief Secretary - Ebeye	78,400	89,688	79,844	9,844
EPPSO	236,295	258,119	227,209	30,910
OEPPC	130,406	135,366	132,326	3,040
	<u>724,973</u>	<u>1,828,663</u>	<u>1,677,413</u>	<u>151,250</u>
Special appropriations:				
Micronesia Presidential Summit	2,111	2,111	2,111	-
President's Inauguration	-	39,620	39,621	(1)
Ann's Palace Renovation	545,600	396,800	400,000	(3,200)
National Election - Ebeye	26,595	65,593	66,064	(471)
Constitution Day - Ebeye	4,960	4,960	4,739	221
National Election	582,790	543,391	550,920	(7,529)
Air Marshall Islands, Inc.	529,000	529,000	496,000	33,000
Air Marshall Islands, Inc. Repairs	12,979	12,979	-	12,979
KALGOV (MISSA)	-	636,498	636,498	-
Majuro Atoll Waste Company	130,678	130,678	130,678	-
Traditional Leaders Meeting	9,896	9,181	9,627	(446)
Centralized Utility Billings - Majuro	1,220,160	1,220,160	959,316	260,844
Nuclear Victim's Day	9,920	9,920	9,920	-
Outer Island Solar Support	347,200	347,200	347,200	-
MI National Telecommunications Authority	1,488,000	1,188,000	1,242,133	(54,133)
MISC Repairs and Maintenance	477,152	477,152	477,152	-
Public Works Repair and Maintenance - Majuro	69,379	69,379	76,258	(6,879)
Marshall Islands Shipping Corporation	1,260,085	1,260,085	1,260,085	-
MOE Snack/Hot Lunch Program	793,600	793,600	494,137	299,463
I-law software for Nitijiela	99,200	99,200	99,200	-
Outer Island and Majuro Public Works Projects	347,200	347,178	221,784	125,394
MISC Ship	1,686,400	1,686,400	1,686,400	-
Majuro Sea Terminal	79,360	79,360	79,360	-
Senator's Office Rental	198,400	198,400	198,400	-
Public Works Repair and Maintenance - Ebeye	45,632	45,632	45,632	-
Ebeye KALGOV	19,840	19,840	19,840	-
National Energy Support Account	595,200	595,200	595,200	-
PSC Training	30,410	30,410	15,822	14,588
Water Project	1,837,184	1,831,184	1,337,911	493,273
MI National Telecommunications Authority supplement	-	446,400	450,000	(3,600)
Court Judgment	-	198,400	200,000	(1,600)
Solar Project (Honda)	-	198,400	-	198,400
WUTMI	-	39,680	39,680	-
MOE Food Program	-	-	31,963	(31,963)
Alele Corporation	145,211	165,211	102,246	62,965
Outer Island Economic Development Projects	992,000	962,242	747,594	214,648
Centralized Utility Billings - Ebeye	75,132	75,132	40,055	35,077
Land leases	951,605	951,605	1,205,663	(254,058)
Majuro Landowners Electricity	1,764,197	1,764,197	3,277,106	(1,512,909)
Leased housing	329,797	329,797	212,281	117,516
Marshall Islands Visitors Authority	-	49,600	49,600	-
Contingency Fund	198,400	198,400	158,587	39,813
International Subscriptions/Membership Fees	409,542	409,542	371,218	38,324
Disaster Matching	3,214	3,240	-	3,240
Prior Year Liabilities	2,260,260	2,234,660	2,208,123	26,537
Copra Stabilization Subsidy	595,200	1,740,315	2,985,402	(1,245,087)
ADB loan repayment	4,038,700	4,071,270	3,652,602	418,668
Constitution Day - Majuro	9,920	69,220	71,552	(2,332)

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, 2016**

	Budgeted Amounts		Actual - Budgetary Basis	Variance
	Original	Final		
Expenditures, continued:				
Special appropriations, continued:				
Micronesia Legal Service Corporation	74,400	74,400	74,400	-
Constitutional Convention	793,600	759,874	43,733	716,141
CMI Endowment Fund	99,200	99,200	99,200	-
Majuro Water and Sewer Company, Inc.	-	-	150,000	(150,000)
USP Renovation	496,000	496,000	496,000	-
AMI Repayment Plan	-	-	538,153	(538,153)
Emergency Payments	-	148,800	117,245	31,555
	<u>25,685,309</u>	<u>28,154,696</u>	<u>28,824,411</u>	<u>(669,715)</u>
Council of Iroij:				
Administration	93,874	128,602	142,920	(14,318)
Members	406,877	371,243	356,261	14,982
	<u>500,751</u>	<u>499,845</u>	<u>499,181</u>	<u>664</u>
Office of the Auditor-General:				
Operations	586,263	673,467	610,688	62,779
Single audit - local match	1,101,011	1,585,487	1,192,462	393,025
	<u>1,687,274</u>	<u>2,258,954</u>	<u>1,803,150</u>	<u>455,804</u>
Public Service Commission:				
Members	95,108	95,108	126,214	(31,106)
Administration	380,435	379,331	335,794	43,537
	<u>475,543</u>	<u>474,439</u>	<u>462,008</u>	<u>12,431</u>
Office of the Attorney General	<u>834,309</u>	<u>847,495</u>	<u>739,997</u>	<u>107,498</u>
Ministries:				
Ministry of Education	5,972,054	5,775,968	5,738,683	37,285
Ministry of Health and Environment	4,279,163	4,491,554	4,143,489	348,065
Ministry of Transportation and Communication	612,960	1,179,734	505,532	674,202
Ministry of Resources and Development	1,263,992	1,341,730	1,331,828	9,902
Ministry of Internal Affairs	2,073,789	2,265,622	3,056,576	(790,954)
Ministry of Justice	3,257,423	3,314,400	3,221,490	92,910
Ministry of Finance	2,426,106	2,702,364	2,676,404	25,960
Ministry of Foreign Affairs and Trade	3,380,902	3,536,455	3,235,907	300,548
Ministry of Public Works	1,026,359	1,389,064	1,353,143	35,921
	<u>24,292,748</u>	<u>25,996,891</u>	<u>25,263,052</u>	<u>733,839</u>
Environmental Protection Authority	<u>184,119</u>	<u>184,119</u>	<u>183,313</u>	<u>806</u>
Nitijela:				
Operations	573,711	637,852	558,950	78,902
General Membership	1,079,483	1,156,111	1,022,949	133,162
Speaker's Contingency	87,744	135,852	101,352	34,500
Committee	47,263	46,973	45,812	1,161
Legislative Counsel	134,166	134,166	128,696	5,470
	<u>1,922,367</u>	<u>2,110,954</u>	<u>1,857,759</u>	<u>253,195</u>
Total expenditures	<u>58,086,770</u>	<u>64,356,799</u>	<u>63,202,365</u>	<u>1,154,434</u>
Excess of revenues over expenditures	<u>3,460,051</u>	<u>4,682,507</u>	<u>2,096,046</u>	<u>(2,586,461)</u>
Other financing sources:				
Operating transfers in:				
Ministry of Justice Fund	314,000	314,000	465,427	151,427
Other financing uses:				
Operating transfers out:				
Compact Trust Fund	3,273,600	2,182,400	2,200,000	(17,600)
Section 211(d)(2) Infrastructure Maintenance Fund	-	300,000	300,000	-
Judiciary Fund	1,054,837	1,052,923	555,209	497,714
Marshall Islands Scholarship Fund	758,546	758,546	683,973	74,573
Marshall Islands Health Fund	-	1,820,000	1,805,440	14,560
Marshall Islands Judiciary Fund	-	-	343,288	(343,288)
Marshall Islands Public School System Fund	-	195,570	314,248	(118,678)
Nuclear Claims Tribunal	49,600	49,600	49,600	-
Local Government Fund	-	-	-	-
	<u>5,136,583</u>	<u>6,359,039</u>	<u>6,251,758</u>	<u>107,281</u>
	(1,362,532)	(1,362,532)	(3,690,285)	(2,327,753)
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	<u>1,362,532</u>	<u>1,362,532</u>	<u>7,051,032</u>	<u>5,688,500</u>
Net change in fund balance	\$ -	\$ -	\$ 3,360,747	\$ 3,360,747

See Accompanying Independent Auditors' Report.

REPUBLIC OF THE MARSHALL ISLANDS

NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE FUNDS

September 30, 2016

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, 2016, 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 of 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, 2016

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, 2016

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, 2016**

	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
ASSETS									
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Time certificates of deposit	-	-	-	-	-	-	-	-	-
Receivables, net:									
Taxes	-	-	-	-	-	-	116,875	-	-
General	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	810	-	-
Due from other funds	127,685	18,118	173,989	177,010	302,177	-	516,481	5,868	28,639
Advances	-	-	1,974	-	4,006	-	(1,804)	-	-
Total assets	<u>\$ 127,685</u>	<u>\$ 18,118</u>	<u>\$ 175,963</u>	<u>\$ 177,010</u>	<u>\$ 306,183</u>	<u>\$ -</u>	<u>\$ 632,362</u>	<u>\$ 5,868</u>	<u>\$ 28,639</u>
LIABILITIES AND FUND BALANCES									
Liabilities:									
Accounts payable	\$ 30	\$ -	\$ -	\$ (1,500)	\$ 305,824	\$ -	\$ 315,064	\$ -	\$ -
Other liabilities and accruals	-	-	-	178,510	-	-	1,598	-	-
Due to other funds	-	-	-	-	-	-	-	-	-
Total liabilities	<u>30</u>	<u>-</u>	<u>-</u>	<u>177,010</u>	<u>305,824</u>	<u>-</u>	<u>316,662</u>	<u>-</u>	<u>-</u>
Fund balances:									
Restricted	-	-	-	-	-	-	-	-	-
Committed	127,655	18,118	175,963	-	359	-	315,700	5,868	28,639
Total fund balances	<u>127,655</u>	<u>18,118</u>	<u>175,963</u>	<u>-</u>	<u>359</u>	<u>-</u>	<u>315,700</u>	<u>5,868</u>	<u>28,639</u>
Total liabilities and fund balances	<u>\$ 127,685</u>	<u>\$ 18,118</u>	<u>\$ 175,963</u>	<u>\$ 177,010</u>	<u>\$ 306,183</u>	<u>\$ -</u>	<u>\$ 632,362</u>	<u>\$ 5,868</u>	<u>\$ 28,639</u>

See Accompanying Independent Auditors' Report.

REPUBLIC OF THE MARSHALL ISLANDS

**NONMAJOR GOVERNMENTAL FUNDS
SPECIAL REVENUE FUNDS**

**Combining Balance Sheet, Continued
September 30, 2016**

	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	Elimination	Total
ASSETS										
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ 303,577	\$ 314,664	\$ 2,503,360	\$ 782,858	\$ -	\$ -	\$ 3,904,459
Time certificates of deposit	-	-	-	475,930	-	-	-	-	-	475,930
Receivables, net:										
Taxes	-	-	-	-	-	-	-	-	-	116,875
General	-	-	-	-	-	-	1,735,969	-	-	1,735,969
Other	-	-	75,721	-	9,099	71,352	116,730	-	-	273,712
Due from other funds	391	50,719	97,635	-	-	3,612,944	1,623,023	-	(3,612,944)	3,121,735
Advances	-	2,170	-	-	-	96,344	480,496	-	-	583,186
Total assets	\$ 391	\$ 52,889	\$ 173,356	\$ 779,507	\$ 323,763	\$ 6,284,000	\$ 4,739,076	\$ -	\$ (3,612,944)	\$ 10,211,866
LIABILITIES AND FUND BALANCES										
Liabilities:										
Accounts payable	\$ -	\$ -	\$ -	\$ 1,016	\$ 6,803	\$ 367,472	\$ 987,836	\$ -	\$ -	\$ 1,982,545
Other liabilities and accruals	-	-	-	-	-	126,510	4,336	-	-	310,954
Due to other funds	-	-	-	-	-	-	3,612,944	-	(3,612,944)	-
Total liabilities	-	-	-	1,016	6,803	493,982	4,605,116	-	(3,612,944)	2,293,499
Fund balances:										
Restricted	-	-	173,356	778,491	-	-	-	-	-	951,847
Committed	391	52,889	-	-	316,960	5,790,018	133,960	-	-	6,966,520
Total fund balances	391	52,889	173,356	778,491	316,960	5,790,018	133,960	-	-	7,918,367
Total liabilities and fund balances	\$ 391	\$ 52,889	\$ 173,356	\$ 779,507	\$ 323,763	\$ 6,284,000	\$ 4,739,076	\$ -	\$ (3,612,944)	\$ 10,211,866

See Accompanying Independent Auditors' Report.

REPUBLIC OF THE MARSHALL ISLANDS

**NONMAJOR GOVERNMENTAL FUNDS
SPECIAL REVENUE FUNDS**

**Combining Schedule of Revenues, Expenditures By Function,
and Changes in Fund Balances
Year Ended September 30, 2016**

	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	13,670	-	69,450	-	677,621	-	424,244	-	2,080
Interest	-	-	-	-	-	-	-	-	-
Sales	129,818	-	-	-	44,065	-	-	-	-
Total revenues	143,488	-	69,450	-	721,686	-	424,244	-	2,080
Expenditures by Function:									
Current:									
Nitijela	-	-	-	-	-	5,970	-	-	-
Judiciary	-	-	-	-	-	-	-	-	-
Ministry of Education	-	-	-	-	-	-	473,098	-	-
Ministry of Health and Environment	-	-	-	-	-	-	-	-	-
Ministry of Internal Affairs	-	-	-	-	-	-	-	-	-
Ministry of Justice	-	-	-	-	256,259	-	-	-	-
Ministry of Foreign Affairs and Trade	-	-	3,919	-	-	-	-	-	-
Ministry of Public Works	76,375	-	-	-	-	-	-	-	-
Nuclear claims related	-	-	-	-	-	-	-	-	-
Total expenditures	76,375	-	3,919	-	256,259	5,970	473,098	-	-
Excess (deficiency) of revenues over (under) expenditures	67,113	-	65,531	-	465,427	(5,970)	(48,854)	-	2,080
Other financing sources (uses):									
Operating transfers in	-	-	-	-	-	-	-	-	-
Operating transfers out	-	-	-	-	(465,427)	-	-	-	-
Total other financing sources (uses), net	-	-	-	-	(465,427)	-	-	-	-
Net change in fund balances	67,113	-	65,531	-	-	(5,970)	(48,854)	-	2,080
Fund balances at the beginning of the year	60,542	18,118	110,432	-	359	5,970	364,554	5,868	26,559
Fund balances at the end of the year	\$ 127,655	\$ 18,118	\$ 175,963	\$ -	\$ 359	\$ -	\$ 315,700	\$ 5,868	\$ 28,639

See Accompanying Independent Auditors' Report.

REPUBLIC OF THE MARSHALL ISLANDS

**NONMAJOR GOVERNMENTAL FUNDS
SPECIAL REVENUE FUNDS**

**Combining Schedule of Revenues, Expenditures By Function,
and Changes in Fund Balances, Continued
Year Ended September 30, 2016**

	200527	200528	300612	Marshall Islands Scholarship, Grant and Loan Board	Marshall Islands Judiciary	Health Care Revenue	Marshall Islands Health	Nuclear Claims Tribunal	Elimination	Total
	Registrar General	Ministry of Internal Affairs	Four-Atoll Medical							
Revenues:										
Federal and other grants	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 337,289	\$ -	\$ -	\$ -	\$ 337,289
Fees and charges	-	20,068	-	-	67,897	413,590	7,688,704	-	-	9,377,324
Interest	-	-	-	15,797	934	-	-	-	-	16,731
Sales	-	5,286	-	-	34,132	-	-	-	-	213,301
Total revenues	-	25,354	-	15,797	102,963	750,879	7,688,704	-	-	9,944,645
Expenditures by Function:										
Current:										
Nitijela	-	-	-	-	-	-	-	-	-	5,970
Judiciary	-	-	-	-	1,000,079	-	-	-	-	1,000,079
Ministry of Education	-	-	-	1,409,115	-	-	-	-	-	1,882,213
Ministry of Health and Environment	-	-	-	-	-	3,940,432	6,086,187	-	-	10,026,619
Ministry of Internal Affairs	-	3,678	-	-	-	-	-	-	-	3,678
Ministry of Justice	-	-	-	-	-	-	-	-	-	256,259
Ministry of Foreign Affairs and Trade	-	-	-	-	-	-	-	-	-	3,919
Ministry of Public Works	-	-	-	-	-	-	-	-	-	76,375
Nuclear claims related	-	-	1,328,409	-	-	-	-	49,600	-	1,378,009
Total expenditures	-	3,678	1,328,409	1,409,115	1,000,079	3,940,432	6,086,187	49,600	-	14,633,121
Excess (deficiency) of revenues over (under) expenditures	-	21,676	(1,328,409)	(1,393,318)	(897,116)	(3,189,553)	1,602,517	(49,600)	-	(4,688,476)
Other financing sources (uses):										
Operating transfers in	-	-	1,298,206	1,476,175	898,497	3,450,506	1,805,440	49,600	(3,450,506)	5,527,918
Operating transfers out	-	-	-	-	-	-	(3,450,506)	-	3,450,506	(465,427)
Total other financing sources (uses), net	-	-	1,298,206	1,476,175	898,497	3,450,506	(1,645,066)	49,600	-	5,062,491
Net change in fund balances	-	21,676	(30,203)	82,857	1,381	260,953	(42,549)	-	-	374,015
Fund balances at the beginning of the year	391	31,213	203,559	695,634	315,579	5,529,065	176,509	-	-	7,544,352
Fund balances at the end of the year	\$ 391	\$ 52,889	\$ 173,356	\$ 778,491	\$ 316,960	\$ 5,790,018	\$ 133,960	\$ -	\$ -	\$ 7,918,367

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, 2016**

	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	13,670	-	69,450	-	677,621	-	424,244	-	2,080
Interest	-	-	-	-	-	-	-	-	-
Sales	129,818	-	-	-	44,065	-	-	-	-
Total revenues	<u>143,488</u>	<u>-</u>	<u>69,450</u>	<u>-</u>	<u>721,686</u>	<u>-</u>	<u>424,244</u>	<u>-</u>	<u>2,080</u>
Expenditures by Account:									
Grants and subsidies	-	-	-	-	-	-	-	-	-
Salaries and wages	-	-	-	-	3,978	-	41,477	-	-
Medical supplies	-	-	-	-	-	-	-	-	-
Contractual services	-	-	-	-	4,000	-	346,194	-	-
Capital outlay	50,000	-	-	-	67,814	-	27,040	-	-
Travel	-	-	2,919	-	26,154	-	23,009	-	-
Food stuffs	-	-	-	-	1,154	-	5,026	-	-
Supplies and materials	6,760	-	-	-	92,815	-	5,155	-	-
POL	17,830	-	1,000	-	30,190	-	2,454	-	-
Rentals	-	-	-	-	100	-	8,283	-	-
Allowances	-	-	-	-	-	-	2,800	-	-
Communications	-	-	-	-	-	-	5,893	-	-
Insurance	-	-	-	-	2,392	-	1,659	-	-
Utilities	-	-	-	-	-	-	822	-	-
Leased housing	-	-	-	-	-	-	-	-	-
Freight	-	-	-	-	6,396	-	-	-	-
Professional services	-	-	-	-	-	5,970	-	-	-
Printing and reproduction	-	-	-	-	4,647	-	1,215	-	-
Other	1,785	-	-	-	16,619	-	2,071	-	-
Total expenditures	<u>76,375</u>	<u>-</u>	<u>3,919</u>	<u>-</u>	<u>256,259</u>	<u>5,970</u>	<u>473,098</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of revenues over (under) expenditures	<u>67,113</u>	<u>-</u>	<u>65,531</u>	<u>-</u>	<u>465,427</u>	<u>(5,970)</u>	<u>(48,854)</u>	<u>-</u>	<u>2,080</u>
Other financing sources (uses):									
Operating transfers in	-	-	-	-	-	-	-	-	-
Operating transfers out	-	-	-	-	(465,427)	-	-	-	-
Total other financing sources (uses), net	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(465,427)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	67,113	-	65,531	-	-	(5,970)	(48,854)	-	2,080
Fund balances at the beginning of the year	<u>60,542</u>	<u>18,118</u>	<u>110,432</u>	<u>-</u>	<u>359</u>	<u>5,970</u>	<u>364,554</u>	<u>5,868</u>	<u>26,559</u>
Fund balances at the end of the year	<u>\$ 127,655</u>	<u>\$ 18,118</u>	<u>\$ 175,963</u>	<u>\$ -</u>	<u>\$ 359</u>	<u>\$ -</u>	<u>\$ 315,700</u>	<u>\$ 5,868</u>	<u>\$ 28,639</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, 2016

	200527	200528	300612	Marshall Islands Scholarship, Grant and Loan Board	Marshall Islands Judiciary	Health Care Revenue	Marshall Islands Health	Nuclear Claims Tribunal	Elimination	Total
	Registrar General	Ministry of Internal Affairs	Four-Atoll Medical							
Revenues:										
Federal and other grants	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 337,289	\$ -	\$ -	\$ -	\$ 337,289
Fees and charges	-	20,068	-	-	67,897	413,590	7,688,704	-	-	9,377,324
Interest	-	-	-	15,797	934	-	-	-	-	16,731
Sales	-	5,286	-	-	34,132	-	-	-	-	213,301
Total revenues	-	25,354	-	15,797	102,963	750,879	7,688,704	-	-	9,944,645
Expenditures by Account:										
Grants and subsidies	-	-	-	1,270,019	-	-	-	-	-	1,270,019
Salaries and wages	-	-	-	61,294	573,620	186,651	237,000	-	-	1,104,020
Medical supplies	-	-	-	-	-	3,202,180	231,456	-	-	3,433,636
Contractual services	-	-	1,328,409	-	-	10,214	4,532,391	-	-	6,221,208
Capital outlay	-	692	-	-	44,801	160,853	-	-	-	351,200
Travel	-	-	-	14,514	64,451	86,407	868,166	-	-	1,085,620
Food stuffs	-	500	-	-	-	-	-	-	-	6,680
Supplies and materials	-	1,782	-	-	119,585	2,697	-	-	-	228,794
POL	-	-	-	-	7,967	-	7,726	-	-	67,167
Rentals	-	-	-	15,840	-	-	-	-	-	24,223
Allowances	-	-	-	-	-	-	-	-	-	2,800
Communications	-	-	-	17,477	48,443	2,845	15,001	-	-	89,659
Insurance	-	-	-	-	-	-	25,279	-	-	29,330
Utilities	-	-	-	-	39,870	-	54,897	-	-	95,589
Leased housing	-	-	-	-	56,250	-	-	-	-	56,250
Freight	-	340	-	-	-	19,265	-	-	-	26,001
Professional services	-	-	-	-	23,931	58,026	-	-	-	87,927
Printing and reproduction	-	-	-	-	-	-	-	-	-	5,862
Other	-	364	-	29,971	21,161	211,294	114,271	49,600	-	447,136
Total expenditures	-	3,678	1,328,409	1,409,115	1,000,079	3,940,432	6,086,187	49,600	-	14,633,121
Excess (deficiency) of revenues over (under) expenditures	-	21,676	(1,328,409)	(1,393,318)	(897,116)	(3,189,553)	1,602,517	(49,600)	-	(4,688,476)
Other financing sources (uses):										
Operating transfers in	-	-	1,298,206	1,476,175	898,497	3,450,506	1,805,440	49,600	(3,450,506)	5,527,918
Operating transfers out	-	-	-	-	-	-	(3,450,506)	-	3,450,506	(465,427)
Total other financing sources (uses), net	-	-	1,298,206	1,476,175	898,497	3,450,506	(1,645,066)	49,600	-	5,062,491
Net change in fund balances	-	21,676	(30,203)	82,857	1,381	260,953	(42,549)	-	-	374,015
Fund balances at the beginning of the year	391	31,213	203,559	695,634	315,579	5,529,065	176,509	-	-	7,544,352
Fund balances at the end of the year	\$ 391	\$ 52,889	\$ 173,356	\$ 778,491	\$ 316,960	\$ 5,790,018	\$ 133,960	\$ -	\$ -	\$ 7,918,367

See Accompanying Independent Auditors' Report.

REPUBLIC OF THE MARSHALL ISLANDS

FIDUCIARY FUNDS - PRIVATE PURPOSE TRUSTS

September 30, 2016

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, 2016, 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 Position
Fiduciary Funds - Private Purpose Trusts
September 30, 2016

DILOG Fund Number		350610	510610	300614	
	Marshall Islands Social Security Admin.	Kwajalein Atoll Trust	Section 212 Kwajalein Landowners	Nuclear Claims Trust	Total
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
<u>ASSETS</u>					
Cash and cash equivalents	\$ 970,364	\$ -	\$ -	\$ -	\$ 970,364
Receivables, net:					
Contributions	1,951,979	-	-	-	1,951,979
Other	793,487	-	-	-	793,487
Investments	63,824,783	-	-	2,289	63,827,072
Due from other funds	-	421,658	535,700	55,573	1,012,931
Capital assets, net of accumulated depreciation	65,112	-	-	-	65,112
Total assets	<u>67,605,725</u>	<u>421,658</u>	<u>535,700</u>	<u>57,862</u>	<u>68,620,945</u>
<u>LIABILITIES</u>					
Accounts payable	80,118	-	20,048	-	100,166
Other liabilities and accruals	293,516	-	-	-	293,516
Due to other funds	1,623,023	-	-	-	1,623,023
Total liabilities	<u>1,996,657</u>	<u>-</u>	<u>20,048</u>	<u>-</u>	<u>2,016,705</u>
<u>NET POSITION</u>					
Restricted for:					
Social security benefits	65,609,068	-	-	-	65,609,068
Nuclear claims	-	-	-	57,862	57,862
Land use distributions	-	421,658	515,652	-	937,310
Total net position	<u>\$ 65,609,068</u>	<u>\$ 421,658</u>	<u>\$ 515,652</u>	<u>\$ 57,862</u>	<u>\$ 66,604,240</u>

See Accompanying Independent Auditors' Report.

REPUBLIC OF THE MARSHALL ISLANDS

Combining Schedule of Changes in Fiduciary Net Position
Fiduciary Funds - Private Purpose Trusts
Year Ended September 30, 2016

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>
				<u> Total </u>
Additions:				
Contributions:				
Private employees	\$ 9,990,770	\$ -	\$ -	\$ -
Government employees	4,519,820	-	-	-
Penalties and interest	721,491	-	-	-
	<u>15,232,081</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total contributions				<u>15,232,081</u>
Investment earnings:				
Net change in the fair value of investments	3,267,199	-	-	-
Interest and dividends	1,563,717	-	-	-
	<u>4,830,916</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total investment earnings				4,830,916
Less investment expense	131,161	-	-	-
	<u>4,699,755</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net investment earnings				4,699,755
Other:				
Compact funding	-	-	21,216,600	-
Other	251,037	-	-	-
	<u>251,037</u>	<u>-</u>	<u>21,216,600</u>	<u>-</u>
Total additions	<u>20,182,873</u>	<u>-</u>	<u>21,216,600</u>	<u>-</u>
Deductions:				
Land use distributions	-	-	21,038,890	-
Benefits	20,433,323	-	-	-
Administrative expenses	972,878	-	-	-
	<u>21,406,201</u>	<u>-</u>	<u>21,038,890</u>	<u>-</u>
Total deductions				42,445,091
Change in net position held in trust for:				
Social security benefits	(1,223,328)	-	-	-
Land use distributions	-	-	177,710	-
Net position at the beginning of the year	66,832,396	421,658	337,942	57,862
Net position at the end of the year	<u>\$ 65,609,068</u>	<u>\$ 421,658</u>	<u>\$ 515,652</u>	<u>\$ 57,862</u>
				<u>\$ 66,604,240</u>

See Accompanying Independent Auditors' Report.

REPUBLIC OF THE MARSHALL ISLANDS

FIDUCIARY FUNDS - AGENCY

September 30, 2016

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, 2016, 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, 2016

	Balance October 1, 2015	Additions	Deductions	Balance September 30, 2016
<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, 2016

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, 2016, follows:

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.

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.

See Accompanying Independent Auditors' Report.

REPUBLIC OF THE MARSHALL ISLANDS

NONMAJOR COMPONENT UNITS

September 30, 2016

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.

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 Position
September 30, 2016**

	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	Office of Commerce and Investment	Tobolar Copra Processing Authority	Total
ASSETS									
Current assets:									
Cash and cash equivalents	\$ 326,321	\$ 184,032	\$ 297,852	\$ 325,306	\$ 398,512	\$ 161,289	\$ 20,283	\$ 196,880	\$ 1,910,475
Receivables, net	428,669	22,898	185,649	286,863	79,012	230,318	-	699,710	1,933,119
Inventories	691,758	-	53,424	437,321	15,099	7,847	-	778,216	1,983,665
Other current assets	385,910	77,375	37,724	76,191	10,654	383,165	5,750	53,250	1,030,019
Total current assets	<u>1,832,658</u>	<u>284,305</u>	<u>574,649</u>	<u>1,125,681</u>	<u>503,277</u>	<u>782,619</u>	<u>26,033</u>	<u>1,728,056</u>	<u>6,857,278</u>
Noncurrent assets:									
Nondepreciable capital assets	56,774	361,287	-	-	-	-	-	-	418,061
Other capital assets, net of accumulated depreciation	1,856,542	410,018	1,315,501	1,138,340	65,332	227,043	23,813	1,114,628	6,151,217
Total noncurrent assets	<u>1,913,316</u>	<u>771,305</u>	<u>1,315,501</u>	<u>1,138,340</u>	<u>65,332</u>	<u>227,043</u>	<u>23,813</u>	<u>1,114,628</u>	<u>6,569,278</u>
Total assets	<u>\$ 3,745,974</u>	<u>\$ 1,055,610</u>	<u>\$ 1,890,150</u>	<u>\$ 2,264,021</u>	<u>\$ 568,609</u>	<u>\$ 1,009,662</u>	<u>\$ 49,846</u>	<u>\$ 2,842,684</u>	<u>\$ 13,426,556</u>
LIABILITIES									
Current liabilities:									
Current portion of long-term debt	\$ -	\$ 33,635	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 214,942	\$ 248,577
Accounts payable	53,167	19,220	870,211	2,351,672	2,323	95,475	17,080	617,543	4,026,691
Other liabilities and accruals	2,482,919	120,270	560,304	48,318	209,924	513,106	11,498	64,015	4,010,354
Unearned revenues	66,056	-	-	-	22,892	-	-	-	88,948
Total current liabilities	<u>2,602,142</u>	<u>173,125</u>	<u>1,430,515</u>	<u>2,399,990</u>	<u>235,139</u>	<u>608,581</u>	<u>28,578</u>	<u>896,500</u>	<u>8,374,570</u>
Noncurrent liabilities:									
Noncurrent portion of long-term debt	-	-	-	-	-	-	-	1,306,840	1,306,840
Total liabilities	<u>2,602,142</u>	<u>173,125</u>	<u>1,430,515</u>	<u>2,399,990</u>	<u>235,139</u>	<u>608,581</u>	<u>28,578</u>	<u>2,203,340</u>	<u>9,681,410</u>
NET POSITION									
Net investment in capital assets	1,913,316	771,305	1,315,501	1,138,340	65,332	227,043	23,813	845,980	6,300,630
Restricted	50,000	143,574	-	138,182	-	82,047	-	-	413,803
Unrestricted	(819,484)	(32,394)	(855,866)	(1,412,491)	268,138	91,991	(2,545)	(206,636)	(2,969,287)
Total net position	<u>1,143,832</u>	<u>882,485</u>	<u>459,635</u>	<u>(135,969)</u>	<u>333,470</u>	<u>401,081</u>	<u>21,268</u>	<u>639,344</u>	<u>3,745,146</u>
	<u>\$ 3,745,974</u>	<u>\$ 1,055,610</u>	<u>\$ 1,890,150</u>	<u>\$ 2,264,021</u>	<u>\$ 568,609</u>	<u>\$ 1,009,662</u>	<u>\$ 49,846</u>	<u>\$ 2,842,684</u>	<u>\$ 13,426,556</u>

See Accompanying Independent Auditors' Report.

REPUBLIC OF THE MARSHALL ISLANDS

NONMAJOR COMPONENT UNITS

Combining Schedule of Revenues, Expenses, and Changes in Net Position Year Ended September 30, 2016

	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	Office of Commerce and Investment	Tobolar Copra Processing Authority	Total
Operating revenues:									
Charges for services	\$ 4,095,208	\$ 127,837	\$ 1,686,344	\$ 1,267,669	\$ 61,634	\$ 1,144,014	\$ -	\$ -	\$ 8,382,706
Sales	-	41,284	1,646,932	-	419,563	181,249	-	3,913,772	6,202,800
Other	-	4,420	121,989	34,492	62,236	1,860	5,670	-	230,667
Total operating revenues	<u>4,095,208</u>	<u>173,541</u>	<u>3,455,265</u>	<u>1,302,161</u>	<u>543,433</u>	<u>1,327,123</u>	<u>5,670</u>	<u>3,913,772</u>	<u>14,816,173</u>
Operating expenses:									
Cost of services	5,169,522	677,111	1,797,121	1,645,285	-	2,854,125	-	4,949,241	17,092,405
Administration costs	-	-	1,380,400	-	561,879	-	539,387	887,812	3,369,478
Depreciation and amortization	459,445	223,382	357,405	215,435	23,945	94,478	8,209	302,270	1,684,569
Total operating expenses	<u>5,628,967</u>	<u>900,493</u>	<u>3,534,926</u>	<u>1,860,720</u>	<u>585,824</u>	<u>2,948,603</u>	<u>547,596</u>	<u>6,139,323</u>	<u>22,146,452</u>
Operating income (loss)	<u>(1,533,759)</u>	<u>(726,952)</u>	<u>(79,661)</u>	<u>(558,559)</u>	<u>(42,391)</u>	<u>(1,621,480)</u>	<u>(541,926)</u>	<u>(2,225,551)</u>	<u>(7,330,279)</u>
Nonoperating revenues (expenses):									
Contributions from the primary government	1,327,860	635,950	-	-	105,261	1,737,237	420,801	3,352,254	7,579,363
Interest expense	-	(4,069)	(13,265)	-	-	-	-	(138,326)	(155,660)
Grants and other contributions	50,000	281,789	-	-	-	-	-	294	332,083
Other	-	-	-	(542)	-	5,354	(24,439)	-	(19,627)
Total nonoperating revenues (expenses), net	<u>1,377,860</u>	<u>913,670</u>	<u>(13,265)</u>	<u>(542)</u>	<u>105,261</u>	<u>1,742,591</u>	<u>396,362</u>	<u>3,214,222</u>	<u>7,736,159</u>
Net income (loss) before capital contributions	<u>(155,899)</u>	<u>186,718</u>	<u>(92,926)</u>	<u>(559,101)</u>	<u>62,870</u>	<u>121,111</u>	<u>(145,564)</u>	<u>988,671</u>	<u>405,880</u>
Capital contributions	-	66,994	-	253,249	-	-	-	-	320,243
Change in net position	<u>(155,899)</u>	<u>253,712</u>	<u>(92,926)</u>	<u>(305,852)</u>	<u>62,870</u>	<u>121,111</u>	<u>(145,564)</u>	<u>988,671</u>	<u>726,123</u>
Net position at the beginning of the year	<u>1,299,731</u>	<u>628,773</u>	<u>552,561</u>	<u>169,883</u>	<u>270,600</u>	<u>279,970</u>	<u>166,832</u>	<u>(349,327)</u>	<u>3,019,023</u>
Net position at the end of the year	<u>\$ 1,143,832</u>	<u>\$ 882,485</u>	<u>\$ 459,635</u>	<u>\$ (135,969)</u>	<u>\$ 333,470</u>	<u>\$ 401,081</u>	<u>\$ 21,268</u>	<u>\$ 639,344</u>	<u>\$ 3,745,146</u>

See Accompanying Independent Auditors' Report.

REPUBLIC OF THE MARSHALL ISLANDS

GRANTS ASSISTANCE FUND

September 30, 2016

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, 2016, 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, 2016

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, 2016

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
ASSETS										
Receivables:										
Federal agencies	\$ -	\$ -	\$ -	\$ 935,439	\$ 4,150,099	\$ -	\$ -	\$ -	\$ 9,633,495	\$ 14,719,033
General	-	-	-	-	-	46,646	(133,994)	1,850,000	-	1,762,652
Due from other funds	40,380	690	1,593	-	-	98,200	223,995	3,487,655	7,430,663	11,283,176
Advances	-	-	-	-	120,449	-	1,603	57,046	51,365	230,463
Total assets	<u>\$ 40,380</u>	<u>\$ 690</u>	<u>\$ 1,593</u>	<u>\$ 935,439</u>	<u>\$ 4,270,548</u>	<u>\$ 144,846</u>	<u>\$ 91,604</u>	<u>\$ 5,394,701</u>	<u>\$ 17,115,523</u>	<u>\$ 27,995,324</u>
LIABILITIES AND FUND BALANCES										
(DEFICITS)										
Liabilities:										
Accounts payable	\$ -	\$ -	\$ -	\$ 139,200	\$ 178,835	\$ -	\$ 19,609	\$ 166,510	\$ 1,134,632	\$ 1,638,786
Other liabilities and accruals	-	-	-	-	121,575	-	1,416	1,397	639,345	763,733
Retention payable	-	-	-	-	-	-	-	-	266,067	266,067
Due to other funds	-	-	-	796,239	4,007,416	-	-	-	7,682,242	12,485,897
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>935,439</u>	<u>4,307,826</u>	<u>-</u>	<u>21,025</u>	<u>167,907</u>	<u>9,722,286</u>	<u>15,154,483</u>
Fund balances (deficits):										
Restricted	40,380	690	1,593	-	-	-	81,756	-	7,413,519	7,537,938
Committed	-	-	-	-	-	144,846	-	5,226,794	-	5,371,640
Unassigned	-	-	-	-	(37,278)	-	(11,177)	-	(20,282)	(68,737)
Total fund balances (deficits)	<u>40,380</u>	<u>690</u>	<u>1,593</u>	<u>-</u>	<u>(37,278)</u>	<u>144,846</u>	<u>70,579</u>	<u>5,226,794</u>	<u>7,393,237</u>	<u>12,840,841</u>
Total liabilities and fund balances	<u>\$ 40,380</u>	<u>\$ 690</u>	<u>\$ 1,593</u>	<u>\$ 935,439</u>	<u>\$ 4,270,548</u>	<u>\$ 144,846</u>	<u>\$ 91,604</u>	<u>\$ 5,394,701</u>	<u>\$ 17,115,523</u>	<u>\$ 27,995,324</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, 2016

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	Elimination	Total
Revenues:											
Federal and other grants	\$ -	\$ -	\$ -	\$ 400,308	\$ 9,840,578	\$ 26,463	\$ 869,166	\$ 7,432,825	\$ 36,042,318	\$ -	\$ 54,611,658
Expenditures by Function:											
Current:											
President and Cabinet	-	-	-	-	-	-	-	171,399	-	-	171,399
Office of the Chief Secretary	-	-	-	-	55,825	-	406,558	152,220	-	-	614,603
Special appropriations	-	-	-	-	-	-	-	462,607	-	-	462,607
Nitijela	-	-	-	-	-	-	-	37,625	-	-	37,625
Judiciary	-	-	-	-	-	-	-	20,000	-	-	20,000
Office of the Auditor-General	-	-	-	400,308	90,025	-	-	-	-	-	490,333
Ministry of Education	-	-	-	-	1,673,876	-	-	158,537	19,187,396	-	21,019,809
Ministry of Health and Environment	-	-	-	-	5,734,447	-	-	512,159	9,323,717	-	15,570,323
Ministry of Resources and Development	-	-	-	-	-	-	158,141	1,674,579	-	-	1,832,720
Ministry of Internal Affairs	-	-	-	-	239,733	-	46,046	2,272,866	-	-	2,558,645
Ministry of Finance	-	-	-	-	674,023	-	(13,908)	2,049	2,181,510	-	2,843,674
Ministry of Foreign Affairs	-	-	-	-	-	-	199,680	-	-	-	199,680
Ministry of Public Works	-	-	-	-	1,643	-	-	-	-	-	1,643
Environmental Protection Authority	-	-	-	-	-	-	10,000	-	534,904	-	544,904
Capital outlay	-	-	-	-	72,800	-	-	-	4,550,933	-	4,623,733
Total expenditures	-	-	-	400,308	8,542,372	-	806,517	5,464,041	35,778,460	-	50,991,698
Excess (deficiency) of revenues over (under) expenditures	-	-	-	-	1,298,206	26,463	62,649	1,968,784	263,858	-	3,619,960
Other financing sources (uses):											
Operating transfers in	-	-	-	-	-	-	-	-	999,640	(699,640)	300,000
Operating transfers out	-	-	-	-	(1,298,206)	-	-	(699,640)	(792,202)	699,640	(2,090,408)
Total other financing sources (uses), net	-	-	-	-	(1,298,206)	-	-	(699,640)	207,438	-	(1,790,408)
Net change in fund balances (deficits)	-	-	-	-	-	26,463	62,649	1,269,144	471,296	-	1,829,552
Fund balances (deficits) at the beginning of the year	40,380	690	1,593	-	(37,278)	118,383	7,930	3,957,650	6,921,941	-	11,011,289
Fund balances (deficits) at the end of the year	\$ 40,380	\$ 690	\$ 1,593	\$ -	\$ (37,278)	\$ 144,846	\$ 70,579	\$ 5,226,794	\$ 7,393,237	\$ -	\$ 12,840,841

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, 2016

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	Elimination	Total
Revenues:											
Federal and other grants	\$ -	\$ -	\$ -	\$ 400,308	\$ 9,840,578	\$ 26,463	\$ 869,166	\$ 7,432,825	\$ 36,042,318	\$ -	\$ 54,611,658
Expenditures by Account:											
Salaries and wages	-	-	-	36,067	3,267,198	-	101,351	18,474	16,951,338	-	20,374,428
Capital outlay	-	-	-	-	254,543	-	113,990	510,990	3,842,346	-	4,721,869
Grants and subsidies	-	-	-	-	46,000	-	-	3,645,435	5,072,879	-	8,764,314
Utilities	-	-	-	-	55,196	-	-	1,734	1,799,393	-	1,856,323
Leased housing	-	-	-	-	-	-	15,825	-	492,857	-	508,682
Supplies and materials	-	-	-	-	319,270	-	5,773	238,338	1,836,703	-	2,400,084
Contractual services	-	-	-	-	2,508,735	-	456,130	124,504	3,097,937	-	6,187,306
Travel	-	-	-	-	734,079	-	44,292	206,338	362,606	-	1,347,315
Food stuffs	-	-	-	-	461,227	-	9,716	106,057	452,232	-	1,029,232
Allowances	-	-	-	-	-	-	-	-	7,000	-	7,000
Professional services	-	-	-	364,241	-	-	-	-	-	-	364,241
Medical supplies	-	-	-	-	97,115	-	-	-	(873)	-	96,242
Communications	-	-	-	-	136,013	-	1,640	-	131,797	-	269,450
POL	-	-	-	-	131,962	-	7,726	37,709	245,247	-	422,644
Rentals	-	-	-	-	151,612	-	24,242	18,970	30,550	-	225,374
Freight	-	-	-	-	532	-	-	-	79,623	-	80,155
Printing and reproduction	-	-	-	-	38,736	-	2,752	8,840	19,581	-	69,909
Insurance	-	-	-	-	3,229	-	1,259	-	28,933	-	33,421
Other	-	-	-	-	336,925	-	21,821	546,652	1,328,311	-	2,233,709
Total expenditures	-	-	-	400,308	8,542,372	-	806,517	5,464,041	35,778,460	-	50,991,698
Excess (deficiency) of revenues over (under) expenditures	-	-	-	-	1,298,206	26,463	62,649	1,968,784	263,858	-	3,619,960
Other financing sources (uses):											
Operating transfers in	-	-	-	-	-	-	-	-	999,640	(699,640)	300,000
Operating transfers out	-	-	-	-	(1,298,206)	-	-	(699,640)	(792,202)	699,640	(2,090,408)
Total other financing sources (uses), net	-	-	-	-	(1,298,206)	-	-	(699,640)	207,438	-	(1,790,408)
Net change in fund balances (deficits)	-	-	-	-	-	26,463	62,649	1,269,144	471,296	-	1,829,552
Fund balances (deficits) at the beginning of the year	40,380	690	1,593	-	(37,278)	118,383	7,930	3,957,650	6,921,941	-	11,011,289
Fund balances (deficits) at the end of the year	\$ 40,380	\$ 690	\$ 1,593	\$ -	\$ (37,278)	\$ 144,846	\$ 70,579	\$ 5,226,794	\$ 7,393,237	\$ -	\$ 12,840,841

See Accompanying Independent Auditors' Report.

REPUBLIC OF THE MARSHALL ISLANDS

COMPACT OF FREE ASSOCIATION SECTOR GRANTS FUND

September 30, 2016

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, 2016

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, 2016

DILOG Fund Number	410100	410102	410110	410120	410140	410150	410160	410170	510100	510110	510120	Total
	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	
ASSETS												
Receivables:												
Federal agencies	\$ 813,200	\$ 2,413,730	\$ -	\$ -	\$ -	\$ 26,991	\$ 110,270	\$ -	\$ 5,805,360	\$ 463,944	\$ -	\$ 9,633,495
Due from other funds	-	-	785,407	163,374	10,486	1,119,254	-	51,051	-	1,708,603	3,592,488	7,430,663
Advances	(565)	6,970	12	-	-	36,633	2,005	2,121	7,161	(2,972)	-	51,365
Total assets	<u>\$ 812,635</u>	<u>\$ 2,420,700</u>	<u>\$ 785,419</u>	<u>\$ 163,374</u>	<u>\$ 10,486</u>	<u>\$ 1,182,878</u>	<u>\$ 112,275</u>	<u>\$ 53,172</u>	<u>\$ 5,812,521</u>	<u>\$ 2,169,575</u>	<u>\$ 3,592,488</u>	<u>\$ 17,115,523</u>
LIABILITIES AND FUND BALANCES												
(DEFICITS)												
Liabilities:												
Accounts payable	\$ 119,404	\$ 113,534	\$ 70,567	\$ -	\$ -	\$ 177,078	\$ 102,107	\$ 244	\$ 551,698	\$ -	\$ -	\$ 1,134,632
Other liabilities and accruals	272,597	85,812	203,627	-	-	56,517	2,975	6,830	9,590	1,397	-	639,345
Retention payable	-	-	-	-	-	-	-	-	238,454	27,613	-	266,067
Due to other funds	423,449	2,238,821	-	-	-	-	7,193	-	5,012,779	-	-	7,682,242
Total liabilities	<u>815,450</u>	<u>2,438,167</u>	<u>274,194</u>	<u>-</u>	<u>-</u>	<u>233,595</u>	<u>112,275</u>	<u>7,074</u>	<u>5,812,521</u>	<u>29,010</u>	<u>-</u>	<u>9,722,286</u>
Fund balances (deficits):												
Restricted	-	-	511,225	163,374	10,486	949,283	-	46,098	-	2,140,565	3,592,488	7,413,519
Unassigned	(2,815)	(17,467)	-	-	-	-	-	-	-	-	-	(20,282)
Total fund balances (deficits)	<u>(2,815)</u>	<u>(17,467)</u>	<u>511,225</u>	<u>163,374</u>	<u>10,486</u>	<u>949,283</u>	<u>-</u>	<u>46,098</u>	<u>-</u>	<u>2,140,565</u>	<u>3,592,488</u>	<u>7,393,237</u>
Total liabilities and fund balances	<u>\$ 812,635</u>	<u>\$ 2,420,700</u>	<u>\$ 785,419</u>	<u>\$ 163,374</u>	<u>\$ 10,486</u>	<u>\$ 1,182,878</u>	<u>\$ 112,275</u>	<u>\$ 53,172</u>	<u>\$ 5,812,521</u>	<u>\$ 2,169,575</u>	<u>\$ 3,592,488</u>	<u>\$ 17,115,523</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, 2016

DILOG Fund Number	410100	410102	410110	410120	410140	410150	410160	410170	510100	510110	510120	
	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
Revenues:												
Compact funding	\$ 11,323,914	\$ 5,577,466	\$ 7,230,142	\$ -	\$ 320,760	\$ 4,707,048	\$ 2,140,251	\$ 235,740	\$ 3,807,357	\$ 463,900	\$ 235,740	\$ 36,042,318
Expenditures by Function:												
Current:												
Special appropriations	-	-	-	-	-	-	-	-	-	-	-	-
Ministry of Education	11,259,475	5,308,161	-	-	-	2,064,996	-	-	554,764	-	-	19,187,396
Ministry of Health and Environment	-	-	6,731,992	-	-	1,959,615	-	-	632,110	-	-	9,323,717
Ministry of Finance	-	-	-	-	-	-	2,181,510	-	-	-	-	2,181,510
Ministry of Foreign Affairs	-	-	-	-	-	-	-	-	-	-	-	-
Environmental Protection Authority	-	-	-	-	320,760	-	-	214,144	-	-	-	534,904
Capital outlay	-	-	-	-	-	24,902	-	-	2,553,668	1,972,363	-	4,550,933
Total expenditures	11,259,475	5,308,161	6,731,992	-	320,760	4,049,513	2,181,510	214,144	3,740,542	1,972,363	-	35,778,460
Excess (deficiency) of revenues over (under) expenditures	64,439	269,305	498,150	-	-	657,535	(41,259)	21,596	66,815	(1,508,463)	235,740	263,858
Other financing sources (uses):												
Operating transfers in	-	-	-	-	-	-	-	-	-	763,900	235,740	999,640
Operating transfers out	(592,202)	-	-	-	-	(200,000)	-	-	-	-	-	(792,202)
Total other financing sources (uses), net	(592,202)	-	-	-	-	(200,000)	-	-	-	763,900	235,740	207,438
Net change in fund balances (deficits)	(527,763)	269,305	498,150	-	-	457,535	(41,259)	21,596	66,815	(744,563)	471,480	471,296
Fund balances (deficits) at the beginning of the year	524,948	(286,772)	13,075	163,374	10,486	491,748	41,259	24,502	(66,815)	2,885,128	3,121,008	6,921,941
Fund balances (deficits) at the end of the year	\$ (2,815)	\$ (17,467)	\$ 511,225	\$ 163,374	\$ 10,486	\$ 949,283	\$ -	\$ 46,098	\$ -	\$ 2,140,565	\$ 3,592,488	\$ 7,393,237

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, 2016

DILOG Fund Number	410100	410102	410110	410120	410140	410150	410160	410170	510100	510110	510120	
	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
Revenues:												
Compact funding	\$ 11,323,914	\$ 5,577,466	\$ 7,230,142	\$ -	\$ 320,760	\$ 4,707,048	\$ 2,140,251	\$ 235,740	\$ 3,807,357	\$ 463,900	\$ 235,740	\$ 36,042,318
Expenditures by Account:												
Salaries and wages	7,401,471	2,277,974	5,218,427	-	-	1,421,444	52,954	203,251	266,519	109,298	-	16,951,338
Capital outlay	354,401	263,639	327,243	-	-	264,442	25,889	-	1,608,413	998,319	-	3,842,346
Grants and subsidies	1,329,536	288,325	-	-	320,760	533,398	1,602,860	-	500,000	498,000	-	5,072,879
Utilities	474,499	56,959	613,576	-	-	650,161	-	4,198	-	-	-	1,799,393
Leased housing	445,857	8,000	-	-	-	-	6,750	-	32,250	-	-	492,857
Supplies and materials	457,579	949,491	122,771	-	-	276,316	-	4,483	23,656	2,407	-	1,836,703
Contractual services	27,300	911,679	146,435	-	-	209,255	476,360	-	1,250,127	76,781	-	3,097,937
Travel	79,826	76,755	56,471	-	-	89,966	16,697	2,212	40,679	-	-	362,606
Food stuffs	220,833	19,098	98,372	-	-	112,805	-	-	1,124	-	-	452,232
Allowances	-	7,000	-	-	-	-	-	-	-	-	-	7,000
Medical supplies	-	-	-	-	-	(873)	-	-	-	-	-	(873)
Communications	26,221	18,335	9,249	-	-	68,130	-	-	9,862	-	-	131,797
POL	89,751	18,050	29,965	-	-	101,781	-	-	5,700	-	-	245,247
Rentals	16,442	10,595	-	-	-	3,513	-	-	-	-	-	30,550
Freight	19,453	10,955	6,733	-	-	42,422	-	-	-	60	-	79,623
Printing and reproduction	7,339	1,900	10,000	-	-	342	-	-	-	-	-	19,581
Insurance	24,312	-	2,703	-	-	1,207	-	-	711	-	-	28,933
Other	284,655	389,406	90,047	-	-	275,204	-	-	1,501	287,498	-	1,328,311
Total expenditures	11,259,475	5,308,161	6,731,992	-	320,760	4,049,513	2,181,510	214,144	3,740,542	1,972,363	-	35,778,460
Excess (deficiency) of revenues over (under) expenditures	64,439	269,305	498,150	-	-	657,535	(41,259)	21,596	66,815	(1,508,463)	235,740	263,858
Other financing sources (uses):												
Operating transfers in	-	-	-	-	-	-	-	-	-	763,900	235,740	999,640
Operating transfers out	(592,202)	-	-	-	-	(200,000)	-	-	-	-	-	(792,202)
Total other financing sources (uses), net	(592,202)	-	-	-	-	(200,000)	-	-	-	763,900	235,740	207,438
Net change in fund balances (deficits)	(527,763)	269,305	498,150	-	-	457,535	(41,259)	21,596	66,815	(744,563)	471,480	471,296
Fund balances (deficits) at the beginning of the year	524,948	(286,772)	13,075	163,374	10,486	491,748	41,259	24,502	(66,815)	2,885,128	3,121,008	6,921,941
Fund balances (deficits) at the end of the year	\$ (2,815)	\$ (17,467)	\$ 511,225	\$ 163,374	\$ 10,486	\$ 949,283	\$ -	\$ 46,098	\$ -	\$ 2,140,565	\$ 3,592,488	\$ 7,393,237

See Accompanying Independent Auditors' Report.

REPUBLIC OF THE MARSHALL ISLANDS

GENERAL FUND

September 30, 2016

Education Fund

This fund was established under Public Law No. 2013-23 to account for and administer monies collected and paid under the provisions of the Marshall Islands Public School System Act 2013 and any appropriations made by the Nitijela for related purposes.

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, 2016

Asian Development Bank (ADB) Development Projects

This fund accounts for 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)), the skills training and vocational education project (ADB Loan Number 1791 RMI (SF)), and the fiscal debt management project (ADB Loan Number 2950 RMI (SF)).

See Accompanying Independent Auditors' Report.

REPUBLIC OF THE MARSHALL ISLANDS

GENERAL FUND

Combining Balance Sheet
September 30, 2016

	100100	200090	200317	200330	200335	200337	200515	300400	300600	800405	950000	960000			
	General	Education	Reimbursable	Changed Circumstances	Judiciary	Alternative Energy	EPA	Postal Service	MIDA	Local Government	ADB Development Projects	Treasury	Payroll Revolving	Elimination	Total
ASSETS															
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 22,268	\$ 6,925,286	\$ -	\$ -	\$ 6,947,554
Receivables, net:															
Taxes	2,467,824	-	-	-	-	-	-	-	-	-	-	-	-	-	2,467,824
Federal agencies	34,342	-	520,332	-	-	-	-	-	-	-	-	-	-	-	554,674
General	208,648	-	-	-	-	-	-	-	-	-	58,362	(1,566)	-	-	265,444
Due from other funds	11,817,127	-	-	54,458	436,670	443	-	-	-	14,251	122,398	13,148,907	-	(13,108,357)	12,485,897
Due from component units	7,936,423	-	-	-	-	-	-	-	-	-	-	-	-	-	7,936,423
Advances	248,829	-	13,873	-	-	-	-	-	-	-	-	(57,693)	-	-	205,009
Other assets	998,250	-	-	-	-	-	-	-	-	-	-	-	-	-	998,250
Restricted assets:															
Cash and cash equivalents	-	-	-	-	-	-	-	-	-	-	-	7,375,606	-	-	7,375,606
Total assets	<u>\$23,711,443</u>	<u>\$ -</u>	<u>\$ 534,205</u>	<u>\$ 54,458</u>	<u>\$ 436,670</u>	<u>\$ 443</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 14,251</u>	<u>\$ 203,028</u>	<u>\$27,390,540</u>	<u>\$ -</u>	<u>\$ (13,108,357)</u>	<u>\$39,236,681</u>
LIABILITIES AND FUND BALANCE															
(DEFICIT)															
Liabilities:															
Accounts payable	\$ 2,647,813	\$ -	\$ 12,346	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 673	\$ 985,890	\$ -	\$ -	\$ 3,646,722
Other liabilities and accruals	1,473,196	-	23,300	-	-	27	-	-	-	-	-	-	(11,136)	-	1,485,387
Due to component units	551,741	-	-	-	-	-	-	-	-	-	-	-	-	-	551,741
Note payable	202,133	-	-	-	-	-	-	-	-	-	-	-	-	-	202,133
Unearned revenue	500,000	-	-	-	-	-	-	-	-	-	-	-	-	-	500,000
Due to other funds	-	-	600,177	-	-	-	51,039	658	-	-	-	26,404,650	11,136	(13,108,357)	13,959,303
Total liabilities	<u>5,374,883</u>	<u>-</u>	<u>635,823</u>	<u>-</u>	<u>-</u>	<u>27</u>	<u>51,039</u>	<u>658</u>	<u>-</u>	<u>-</u>	<u>673</u>	<u>27,390,540</u>	<u>-</u>	<u>(13,108,357)</u>	<u>20,345,286</u>
Fund balance (deficit):															
Nonspendable	8,934,673	-	-	-	-	-	-	-	-	-	-	-	-	-	8,934,673
Restricted	-	-	-	-	-	-	-	-	-	202,355	2,551,017	-	-	-	2,753,372
Committed	-	-	-	-	-	-	-	-	-	14,251	-	-	-	-	14,251
Unassigned	9,401,887	-	(101,618)	54,458	436,670	416	(51,039)	(658)	-	-	-	(2,551,017)	-	-	7,189,099
Total fund balance (deficit)	<u>18,336,560</u>	<u>-</u>	<u>(101,618)</u>	<u>54,458</u>	<u>436,670</u>	<u>416</u>	<u>(51,039)</u>	<u>(658)</u>	<u>-</u>	<u>14,251</u>	<u>202,355</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>18,891,395</u>
Total liabilities and fund balance	<u>\$23,711,443</u>	<u>\$ -</u>	<u>\$ 534,205</u>	<u>\$ 54,458</u>	<u>\$ 436,670</u>	<u>\$ 443</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 14,251</u>	<u>\$ 203,028</u>	<u>\$27,390,540</u>	<u>\$ -</u>	<u>\$ (13,108,357)</u>	<u>\$39,236,681</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, 2016

	100100		200090	200317	200330	200335	200337	200515	300400	300600	800405	950000	960000		
	General	Education	Reimbursable	Changed Circumstances	Judiciary	Alternative Energy	EPA	Postal Service	MIDA	Local Government	ADB Development Projects	Treasury	Payroll Revolving	Elimination	Total
Revenues:															
Taxes	\$28,479,894	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 28,479,894
Federal and other grants	3,600,000	-	497,435	-	-	-	-	-	-	-	295,190	-	-	-	4,392,625
Ship registry	6,125,000	-	-	-	-	-	-	-	-	-	-	-	-	-	6,125,000
Interest and dividends	158,955	-	-	-	-	-	-	-	-	-	-	-	-	-	158,955
Fees and charges	18,678	-	154,989	-	2,250	-	-	-	-	-	-	-	-	-	175,917
Contributions from component units	26,358,733	-	-	-	-	-	-	-	-	-	-	-	-	-	26,358,733
Other	557,151	5,533	-	-	-	-	-	-	-	-	-	-	-	-	562,684
Total revenues	65,298,411	5,533	652,424	-	2,250	-	-	-	-	-	295,190	-	-	-	66,253,808
Expenditures by Function:															
Current:															
President and Cabinet	1,742,394	-	-	-	-	-	-	-	-	-	-	-	-	-	1,742,394
Office of the Chief Secretary	1,641,296	-	-	-	-	-	-	-	-	-	196,932	-	-	-	1,838,228
Special appropriations	20,334,066	-	-	-	-	-	-	-	-	-	-	-	-	-	20,334,066
Council of Iroij	452,208	-	-	-	-	-	-	-	-	-	-	-	-	-	452,208
Nitijela	1,798,366	-	-	-	-	-	-	-	-	-	-	-	-	-	1,798,366
Office of the Auditor-General	953,125	-	-	-	-	-	-	-	-	-	-	-	-	-	953,125
Public Service Commission	454,410	-	-	-	-	-	-	-	-	-	-	-	-	-	454,410
Office of the Attorney General	697,780	-	70,551	-	-	-	-	-	-	-	-	-	-	-	768,331
Ministry of Education	5,660,571	319,781	-	-	-	-	-	-	-	-	-	-	-	-	5,980,352
Ministry of Health and Environment	3,944,898	-	-	-	-	-	-	-	-	-	-	-	-	-	3,944,898
Ministry of Transportation and Communication	481,322	-	-	-	-	-	-	-	-	-	-	-	-	-	481,322
Ministry of Resources and Development	1,172,125	-	18,025	-	-	-	-	-	-	-	5,500	-	-	-	1,195,650
Ministry of Internal Affairs	2,852,889	-	-	-	-	-	-	-	-	-	110,474	-	-	-	2,963,363
Ministry of Justice	3,188,514	-	-	-	-	-	-	-	-	-	-	-	-	-	3,188,514
Ministry of Finance	2,587,729	-	602,621	-	-	-	-	-	-	-	395,190	-	-	-	3,585,540
Ministry of Foreign Affairs and Trade	3,056,984	-	-	-	-	-	-	-	-	-	-	-	-	-	3,056,984
Ministry of Public Works	1,296,741	-	-	-	-	-	-	-	-	-	-	-	-	-	1,296,741
Environmental Protection Authority	183,313	-	-	-	-	-	-	-	-	-	-	-	-	-	183,313
Debt service:															
Principal repayment	2,931,484	-	-	-	-	-	-	-	-	-	-	-	-	-	2,931,484
Interest	721,118	-	-	-	-	-	-	-	-	-	-	-	-	-	721,118
Total expenditures	56,151,333	319,781	691,197	-	-	-	-	-	-	-	708,096	-	-	-	57,870,407
Excess (deficiency) of revenues over (under) expenditures	9,147,078	(314,248)	(38,773)	-	2,250	-	-	-	-	-	(412,906)	-	-	-	8,383,401
Other financing sources (uses):															
Operating transfers in	465,427	314,248	-	-	555,209	-	-	-	-	-	-	-	-	(869,457)	465,427
Operating transfers out	(6,251,758)	-	-	-	(555,209)	-	-	-	-	-	-	-	-	869,457	(5,937,510)
Total other financing sources (uses), net	(5,786,331)	314,248	-	-	-	-	-	-	-	-	-	-	-	-	(5,472,083)
Net change in fund balances (deficits)	3,360,747	-	(38,773)	-	2,250	-	-	-	-	-	(412,906)	-	-	-	2,911,318
Fund balances (deficits) at the beginning of the year	14,975,813	-	(62,845)	54,458	434,420	416	(51,039)	(658)	-	14,251	615,261	-	-	-	15,980,077
Fund balances (deficits) at the end of the year	\$18,336,560	\$ -	\$ (101,618)	\$ 54,458	\$ 436,670	\$ 416	\$ (51,039)	\$ (658)	\$ -	\$ 14,251	\$ 202,355	\$ -	\$ -	\$ -	\$ 18,891,395

See Accompanying Independent Auditors' Report.

REPUBLIC OF THE MARSHALL ISLANDS

GENERAL FUND

**Combining Schedule of Expenditures By Account
Year Ended September 30, 2016**

	100100		200090	200317	200330	200335	200337	200515	300400	300600	800405	
	General	Education	Reimbursable	Changed Circumstances	Judiciary	Alternative Energy	EPA	Postal Service	MIDA	Local Government	ADB Development Projects	Total
Expenditures by Account:												
Salaries and wages	\$ 17,918,779	\$ -	\$ 555,391	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 18,474,170
Capital outlay	1,248,431	13,888	3,747	-	-	-	-	-	-	-	-	1,266,066
Grants and subsidies	15,952,132	-	-	-	-	-	-	-	-	-	410,474	16,362,606
Medical supplies	520,918	-	-	-	-	-	-	-	-	-	-	520,918
Contractual services	1,019,397	65,000	335	-	-	-	-	-	-	-	-	1,084,732
Travel	1,527,885	32,187	59,128	-	-	-	-	-	-	-	1,650	1,620,850
Utilities	5,060,825	-	32,795	-	-	-	-	-	-	-	-	5,093,620
Supplies and materials	448,368	3,689	1,262	-	-	-	-	-	-	-	-	453,319
Leased housing	1,378,414	13,957	9,000	-	-	-	-	-	-	-	-	1,401,371
POL	417,971	13,037	1,970	-	-	-	1,970	-	-	-	3,068	436,046
Rentals	2,657,461	9,540	3,350	-	-	-	-	-	-	-	-	2,670,351
Food stuffs	602,118	11,753	-	-	-	-	-	-	-	-	190,226	804,097
Professional services	558,880	-	9,300	-	-	-	-	-	-	-	5,500	573,680
Principal repayment	2,931,484	-	-	-	-	-	-	-	-	-	-	2,931,484
Interest	763,251	-	-	-	-	-	-	-	-	-	-	763,251
Allowances	855,630	15,820	-	-	-	-	-	-	-	-	-	871,450
Communications	508,213	1,305	12,912	-	-	-	-	-	-	-	-	522,430
Freight	11,926	3,400	386	-	-	-	-	-	-	-	562	16,274
Printing and reproduction	145,293	851	-	-	-	-	-	-	-	-	-	146,144
Insurance	122,070	3,000	471	-	-	-	-	-	-	-	-	125,541
Other	1,501,887	132,354	1,150	-	-	-	-	-	-	-	96,616	1,732,007
Total expenditures	\$ 56,151,333	\$ 319,781	\$ 691,197	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 708,096	\$ 57,870,407

See Accompanying Independent Auditors' Report.