

**REPUBLIC OF THE MARSHALL ISLANDS**

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

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**YEAR ENDED SEPTEMBER 30, 2011**

# REPUBLIC OF THE MARSHALL ISLANDS

## FINANCIAL STATEMENTS YEAR ENDED SEPTEMBER 30, 2011

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## **INDEPENDENT AUDITORS' REPORT**

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

We have audited the accompanying financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Republic of the Marshall Islands (RepMar), as of and for the year ended September 30, 2011, which collectively comprise RepMar's basic financial statements as set forth in Section II of the foregoing table of contents. These financial statements are the responsibility of the management of RepMar. Our responsibility is to express an opinion on the respective financial statements based on our audit. We did not audit the financial statements of the Marshall Islands National Telecommunications Authority, which represents 21%, 7% and 7%, respectively, of the assets, net assets and revenues of RepMar's discretely presented component units. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion expressed herein, insofar as it relates to the amounts included for the Marshall Islands National Telecommunications Authority, is based solely on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of RepMar's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provides a reasonable basis for our opinions.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Republic of the Marshall Islands as of September 30, 2011, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

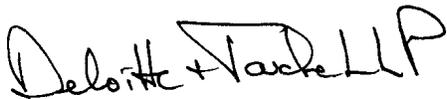
As discussed in Note 1 to the financial statements, during the year ended September 30, 2011, RepMar adopted Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

As discussed in Note 1 to the financial statements, the beginning net assets of the aggregate discretely presented component units has been restated for the correction of an error.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 8, 2013, on our consideration of the Republic of the Marshall Islands' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

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

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

February 8, 2013

## REPUBLIC OF THE MARSHALL ISLANDS

### Management's Discussion and Analysis Year Ended September 30, 2011

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, 2011. We encourage readers to consider the information presented here in conjunction with RepMar's basic financial statements, which follow this section. Fiscal year 2010 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 \$88.4 million (net assets), increasing by \$0.3 million (or 0.4%) from \$88.1 million in the prior year. Of this amount, \$68.5 million represents RepMar's investment in capital assets, \$50 million represents amounts restricted for various purposes, with the remaining deficiency of \$30.1 million to be funded from future governmental activities.
- During the current fiscal year, RepMar's expenses for governmental activities were \$107.2 million, including special appropriations made to the autonomous agencies, and were funded in part by \$62.6 million in program revenues and \$44.9 million in taxes and other general revenues. Program revenues decreased by \$6.8 million (or 9.7%) from \$69.4 million in the prior year to \$62.6 million, which was attributable primarily to the decrease in operating grants and contributions. Expenses increased \$8.4 million (or 8.5%) from \$98.8 million in the prior year to \$107.2 million, which was attributable primarily to the increase in special appropriations made to the autonomous agencies.
- During the year ended September 30, 2011, RepMar adopted Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.
- For the current fiscal year, the General Fund reported expenditures (and transfers out) of \$38.6 million, \$0.3 million in excess of revenues (and transfers in) of \$38.3 million. General fund revenues (and transfers in) were up \$1.3 million (or 3.6%) from prior year primarily due to an increase in fishing rights collections. Concurrently, General Fund expenditures (and transfers out) were up \$1.5 million (or 4%) from prior year primarily due to an increase in expenditures associated with debt service payments on Asian Development Bank (ADB) loans. Debt service of \$2.2 million was expended from the General Fund in prior year whereas \$2.6 million was expended from the General Fund during the current fiscal year with an additional portion of \$1 million expended from the Republic of China Projects Fund.

#### 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.

# REPUBLIC OF THE MARSHALL ISLANDS

## Management's Discussion and Analysis Year Ended September 30, 2011

### **Government-wide Financial Statements**

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

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

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

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

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

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

### **Fund Financial Statements**

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

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

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

# REPUBLIC OF THE MARSHALL ISLANDS

Management's Discussion and Analysis  
Year Ended September 30, 2011

## **Fund Financial Statements, Continued**

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

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

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

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

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

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

## **Notes to the Financial Statements**

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 24 through 62 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 63 through 65 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 66 through 103 of this report.

# REPUBLIC OF THE MARSHALL ISLANDS

## Management's Discussion and Analysis Year Ended September 30, 2011

### A FINANCIAL ANALYSIS OF REPMAR AS A WHOLE

#### Net Assets

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of RepMar, assets exceeded liabilities by \$88.4 million at the close of the most recent fiscal year. However, all these net assets are either restricted as to the purpose they can be used for or are invested in capital assets. RepMar uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although RepMar's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate the liabilities. The majority of RepMar's net assets are comprised of its capital assets net of its 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 \$33.2 million while its current liabilities were \$19.5 million. Restricted net assets represent resources that are subject to external constraints. The table below summarizes RepMar's net assets at the close of the current year compared with prior year.

	RepMar's Net Assets As of September 30	
	<u>2011</u>	<u>2010</u>
Current and other assets	\$ 83,761,685	\$ 95,984,359
Capital assets	<u>88,382,015</u>	<u>89,721,559</u>
<b>Total Assets</b>	<u>172,143,700</u>	<u>185,705,918</u>
Long-term liabilities	64,254,739	56,282,578
Other liabilities	<u>19,469,234</u>	<u>41,348,469</u>
<b>Total Liabilities</b>	<u>83,723,973</u>	<u>97,631,047</u>
Net assets:		
Invested in capital assets, net of related debt	68,536,742	69,235,298
Restricted net assets:		
Future operations	38,415,752	40,961,484
Compact related	4,084,971	4,049,315
Other purposes	7,500,905	7,606,052
Unrestricted net assets	<u>(30,118,643)</u>	<u>(33,777,278)</u>
<b>Total Net Assets</b>	<u>\$ 88,419,727</u>	<u>\$ 88,074,871</u>

At the end of the current fiscal year, RepMar's unrestricted net asset deficiency was \$30.2 million, an improvement on the prior year amount by \$3.6 million (or 10.8%). 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.

# REPUBLIC OF THE MARSHALL ISLANDS

## Management's Discussion and Analysis Year Ended September 30, 2011

### Changes in Net Assets

As discussed earlier, net assets of the primary government increased by \$0.3 million, which represents an increase of 0.4% from the prior year's amount of \$88.1 million. This result indicates that RepMar's financial condition, as a whole, improved from the prior year. The table below summarizes RepMar's change in net assets for the current fiscal year as compared with prior year.

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

	<u>2011</u>	<u>2010</u>
<b>Revenues:</b>		
Program revenues:		
Charges for services	\$ 9,010,225	\$ 8,765,338
Operating grants and contributions	41,116,247	46,719,025
Capital grants and contributions	<u>12,465,662</u>	<u>13,867,437</u>
	<u>62,592,134</u>	<u>69,351,800</u>
General revenues:		
Taxes	25,258,814	25,243,331
Grants and contributions not restricted	11,833,717	11,935,416
Fishing rights	3,000,000	2,000,011
Ship registry	3,750,000	3,000,000
Unrestricted investment earnings	194,545	133,841
Other	<u>907,413</u>	<u>1,182,633</u>
	<u>44,944,489</u>	<u>43,495,232</u>
Total revenues	<u>107,536,623</u>	<u>112,847,032</u>
<b>Expenses:</b>		
President and Cabinet	1,752,738	1,820,567
Office of the Chief Secretary	1,502,145	1,148,778
Special appropriations	13,281,163	8,996,233
Council of Iroij	474,888	443,785
Nitijela	1,794,122	1,680,688
Office of the Auditor-General	953,699	861,991
Public Service Commission	478,839	477,931
Judiciary	813,273	672,026
Office of the Attorney General	708,726	632,476
Education	34,405,086	33,023,726
Health and Environment	20,941,601	20,612,117
Transportation and Communication	1,122,723	913,024
Resources and Development	1,672,056	1,985,166
Internal Affairs	3,214,436	3,474,730
Justice	3,513,273	3,637,702
Finance	7,305,451	7,488,356
Foreign Affairs and Trade	3,231,375	3,423,868
Public Works	4,495,458	4,673,378
Environmental Protection Authority	733,592	736,405
Nuclear claims related	1,007,678	1,049,440
Interest on long-term debt	1,437,971	898,740
Capital projects	<u>2,351,474</u>	<u>168,837</u>
Total expenses	<u>107,191,767</u>	<u>98,820,034</u>
<b>Change in net assets</b>	344,856	14,026,998
<b>Net assets – beginning of year</b>	<u>88,074,871</u>	<u>74,047,873</u>
<b>Net assets – end of year</b>	<u>\$ 88,419,727</u>	<u>\$ 88,074,871</u>

REPUBLIC OF THE MARSHALL ISLANDS

Management's Discussion and Analysis  
Year Ended September 30, 2011

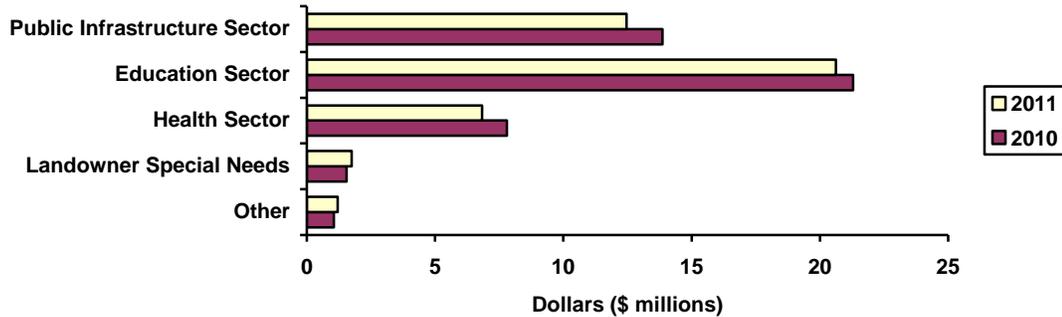
Changes in Net Assets, Continued

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

- Overall revenues decreased in the current year by \$5.3 million (or 4.7%) due to a decrease in program revenues of \$6.8 million (or 9.7%) offset by an increase in general revenues of \$1.5 million (or 3.3%) as compared with prior year.

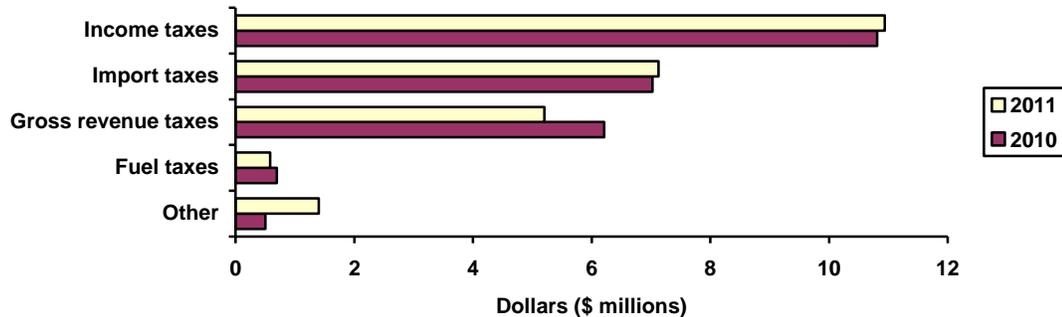
The decrease in program revenues is primarily attributable to a decrease in operating grants and contributions of \$5.6 million (or 12%), as compared with prior year, which was attributable primarily to the decrease in investment earnings generated by the Compact Trust Fund. The increase in general revenues is primarily attributable to an increase in fishing rights collections of \$1 million (or 50%) and ship registry revenues of \$0.7 million (or 25%) as compared with prior year. A significant portion of RepMar's program revenues involve contributions from the Government of the United States under the Compact of Free Association. A graphic summary of overall Compact grant revenues received by RepMar for the current year compared with prior year follows:

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



A significant portion of RepMar's general revenues involves tax revenue collections. A graphic summary of RepMar's tax revenue collections for the current year compared with prior year follows:

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



# REPUBLIC OF THE MARSHALL ISLANDS

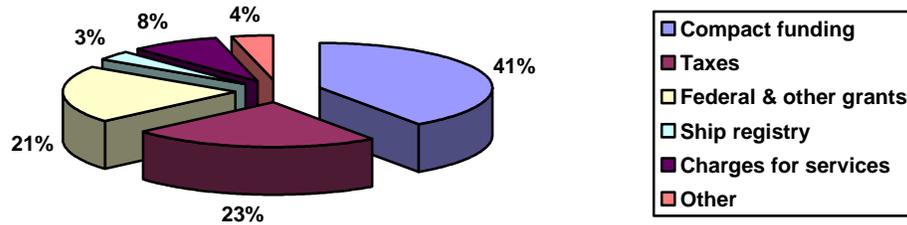
## Management's Discussion and Analysis Year Ended September 30, 2011

### Changes in Net Assets, Continued

- Cost of governmental activities increased in the current year by \$8.4 million (or 8.5%) compared with prior year. Education and health related expenses comprised of \$55.3 million (or 51.6%) of total expenses in the current year as compared with \$53.6 million (or 54.3%) in the prior year, which reflects RepMar's highest priorities in terms of expenditure appropriations.

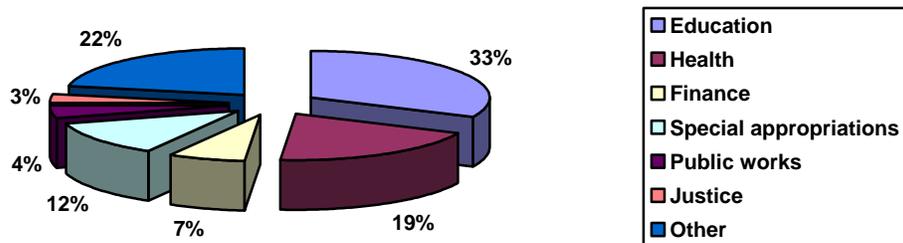
Graphs 3 and 4 below indicate the major components of revenues and cost of governmental activities.

Graph 3  
RepMar's Revenue Sources  
For the Year Ended September 30, 2011



As in prior years, Compact funding and federal and other grants are the major sources of revenue for RepMar, which comprise 62% of the total revenues for the current year. The remaining 38% is predominantly comprised of local sourced tax revenues, including income taxes and gross revenue taxes.

Graph 4  
RepMar's Cost of Governmental Activities  
For the Year Ended September 30, 2011



Other expenses that make up a portion of the costs of governmental activities include ministerial expenses within the Ministry of Foreign Affairs and Trade (\$3.2 million), the Ministry of Internal Affairs (\$3.2 million), the Ministry of Transportation and Communication (\$1.1 million), and the Ministry of Resources and Development (\$1.7 million); legislative expenses within the Nitijela (\$1.8 million); and executive expenses within the President's Office and Cabinet (\$1.8 million).

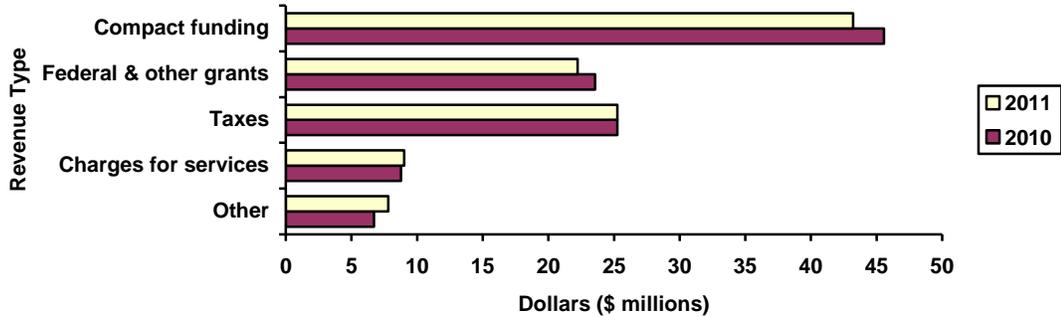
**REPUBLIC OF THE MARSHALL ISLANDS**

Management's Discussion and Analysis  
Year Ended September 30, 2011

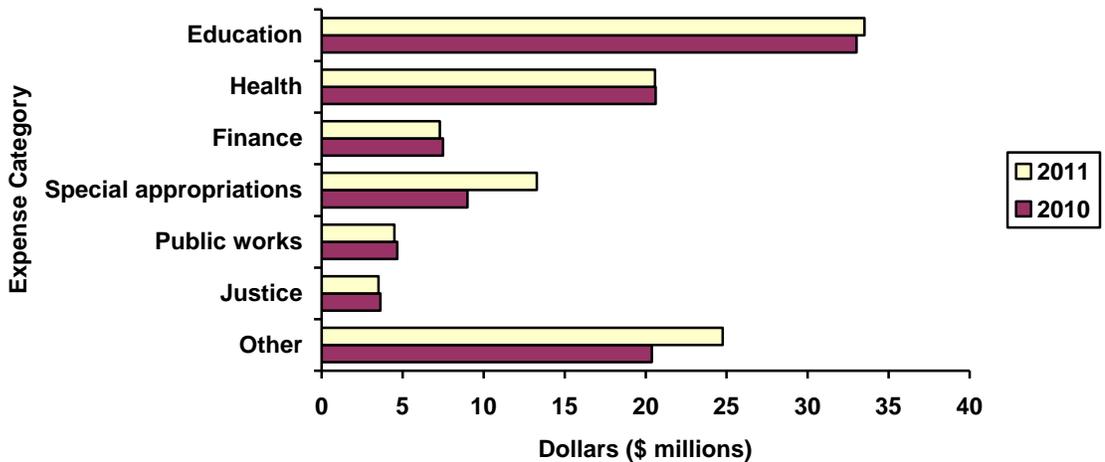
**Changes in Net Assets, Continued**

Graphs 5 and 6 below show a comparison of the major components of revenues and cost of governmental activities for fiscal years 2010 and 2011.

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



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



Special appropriations expenses in the current year includes an expenditure associated with a one-off transfer of \$3.2 million from RepMar's share of the Compact Trust Fund to the United States and the Republic of China. Other expenses in the current year includes ministerial expenses within the Ministry of Transportation and Communication of \$1.1 million, up from \$0.9 million in the prior year; the Ministry of Foreign Affairs and Trade of \$3.2 million, down from \$3.4 million in the prior year; the Ministry of Internal Affairs of \$3.2 million, down from \$3.4 million in the prior year; legislative expenses within the Nitijela of \$1.8 million, up from \$1.7 million in the prior year; and executive expenses within the President's Office and Cabinet of \$1.8 million, unchanged from the prior year.

## REPUBLIC OF THE MARSHALL ISLANDS

Management's Discussion and Analysis  
Year Ended September 30, 2011

### 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 \$68.1 million, which represents an increase of \$10 million (or 17.2%) in comparison with the prior year. This increase is primarily attributable to an increase in fund balance of the General Fund. Of this total combined fund balance, \$50 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; \$8 million is designated as restricted and is constrained for specific purposes which are externally imposed; \$6.4 million is designated as committed and is constrained for specific purposes which are internally imposed; and \$2.7 million is designated as assigned and intended to be used for specific purposes that are neither considered restricted or committed. The combined unassigned fund balance of RepMar's governmental funds is \$0.9 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 \$1.2 million. Total fund balance was \$14.5 million compared with a total fund balance of \$4.8 million at the end of the prior fiscal year, an improvement of \$9.7 million. The increase in the overall fund balance of the General Fund was primarily the result of loan proceeds received from the Asian Development Bank Public Sector Program loan of \$9.9 million.

The Grants Assistance Fund has a total fund balance of \$7.3 million, which primarily represents Compact Sector grant revenues received not yet expended at year end. The net increase in fund balance during the current year in the Grants Assistance Fund was \$1.4 million (or 22.8%), which primarily was the result of unexpended Compact revenue and Republic of China Projects revenue receipts of \$0.5 million and \$1.1 million, respectively.

The Compact Trust Fund has a total fund balance of \$38.4 million, all of which is reserved for the funding of future operations of the primary government commencing in fiscal year 2023. The net decrease in fund balance during the current year in the Compact Trust Fund was \$2.5 million (or 6.2%), which reflects a transfer of \$3.2 million from RepMar's share of the Trust Fund to the United States' and Republic of China's share of the Trust Fund.

### GENERAL FUND BUDGETARY HIGHLIGHTS

During the course of the fiscal year, minor budget revisions of \$0.5 million were made by management and elected officials of RepMar to the General Fund budget. Revenues collected (including transfers in) of \$37.8 million were higher than budgeted amounts of \$35.9 million due primarily to increased fishing rights revenues and tax collections, which exceeded budgeted amounts. In addition, charges to appropriations (including transfers out) of \$38.9 million were higher than budgeted amounts of \$36.4 million due primarily to expenditures associated with centralized utility billings, Majuro landowner electricity bills, land lease payments, and ADB debt service exceeding budgeted amounts.

# REPUBLIC OF THE MARSHALL ISLANDS

## Management's Discussion and Analysis Year Ended September 30, 2011

### CAPITAL ASSET AND DEBT ADMINISTRATION

#### Capital Assets

RepMar's investment in capital assets for its governmental activities as of September 30, 2011 amounted to \$183.9 million (including \$3.1 million of construction in progress), net of accumulated depreciation of \$95.5 million, leaving a net book value of \$88.4 million. This represents a net decrease of \$1.3 million (or 1.5%) from the prior year. RepMar's capital assets include electrical and water infrastructure, roads and bridges, heavy equipment, ships, buildings, and various projects under construction.

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

	<u>2011</u>	<u>2010</u>
Electrical distribution	\$ 2,788,724	\$ 3,806,740
Buildings	64,296,031	61,464,261
Water infrastructure system	3,806,801	4,191,477
Docks, roads and bridges	6,291,661	6,859,697
Ships	6,286,972	6,838,702
Software	995,972	1,249,944
Heavy equipment	768,136	943,818
Construction in progress	3,147,718	4,366,920
	\$ 88,382,015	\$ 89,721,559

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

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

<u>Infrastructure Project</u>	<u>Current Year Additions (\$ millions)</u>	<u>Completed Cost (\$ millions)</u>
Woja Elementary School, Ailinglaplap	\$ 0.1	\$ 1.4
Delap Elementary School Ph. II	\$ 0.4	\$ 1.1
Jabwor Elementary School,	\$ 0.4	\$ 1.4
Tarawa Elementary School, Mili	\$ 0.4	\$ 0.4
Wotje Elementary School	\$ 0.9	\$ 0.9
Ailuk Elementary School, Ailuk	\$ 0.5	\$ 0.5

- Acquisition of heavy equipment in the amount of \$0.1 million.
- Ongoing construction in progress of the following infrastructure projects:

<u>Infrastructure Project</u>	<u>Current Year Additions (\$ millions)</u>	<u>Estimated Completed Cost (\$ millions)</u>
Buoj Elementary School	\$ 0.2	\$ 0.8
Loen Elementary School	\$ 0.2	\$ 0.4
Majuro Hospital Redevelopment	\$ 0.8	\$ 4.0

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

# REPUBLIC OF THE MARSHALL ISLANDS

## Management's Discussion and Analysis Year Ended September 30, 2011

### Long-term Debt

The Government Borrowing Act of 1985 authorizes RepMar to borrow for such purposes as approved by the Nitijela. Since 1991 RepMar has entered into thirteen separate loans with the ADB (See table below). Long-term debt obligations increased by \$7.8 million (or 13.7%) in the current fiscal year.

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

	<u>2011</u>	<u>2010</u>
Fisheries Development Project	\$ 2,818,124	\$ 2,888,483
Typhoon Rehabilitation	422,464	432,509
Basic Education Project	6,630,687	6,786,786
Majuro Water Supply Project No. 1	606,247	620,735
Health and Population Project	4,491,559	4,596,061
Majuro Water Supply Project No. 2	7,306,279	7,472,580
Public Sector Reform Program	10,274,188	10,499,964
Ebeye Health and Infrastructure Project	7,461,360	7,834,427
Skills Training and Vocational Education Project	4,410,497	4,615,636
Fiscal and Financial Management Program No. 1	2,238,400	2,569,300
Fiscal and Financial Management Program No. 2	7,340,346	7,864,656
Outer Island Transport Infrastructure Project	486,370	507,517
Public Sector Program Loan	<u>9,979,846</u>	<u>-</u>
	<u>\$ 64,466,367</u>	<u>\$ 56,688,654</u>

During the year ended September 30, 2011, RepMar entered into a new loan agreement with the ADB in the amount of \$10 million for the purpose of onlending to the Marshalls Energy Company, Inc. (MEC) through a subsidiary loan agreement to assist in the restructuring of certain commercial bank debt of MEC.

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

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

During fiscal years 2010 and 2011, the Marshall Islands' economy suffered small drops in GDP (averaging around 2% per year). The fiscal year 2012 forecast indicates that this trend may continue or, at best, the national economic outlook will continue to remain fairly static. Only the fishery sector is forecasted to show modest growth. Employment also has shown little, if any, growth in the last two years and will regrettably fall in fiscal year 2012 as the cuts in both U.S. and Marshallese staff at the U.S. Army base in Kwajalien are implemented.

Total salaries have increased slightly in both the public and private sectors but inflation, as reflected in the Consumer Price Index (CPI), has increased significantly over the last year, driven not least by the increasing level of global oil prices, which have now reached the highs of 2008/09 when the "economic emergency" within the Marshall Islands was declared. These "cost of living" increases have the effect of reducing the public's purchasing power causing less money to flow through the national economy as a whole which, in turn, impacts on RepMar's revenue levels.

## REPUBLIC OF THE MARSHALL ISLANDS

### Management's Discussion and Analysis Year Ended September 30, 2011

Two initiatives were formulated in 2010 i.e. the Comprehensive Adjustment Program (CAP) and the Tax and Revenue Reform and Modernization Program (TRAM). The CAP Advisory Group recommended various expenditure reductions to be implemented over three years that could, when fully implemented, achieve a fiscal saving of \$7-8 million annually. It should be noted that the individual targets proposed by the CAP Commission were already scheduled to be implemented in fiscal year 2012. Nevertheless, the RepMar Cabinet (endorsed by the Nitijela) had already progressed proactively by reducing the fiscal year 2010 budget by 5%, and the fiscal year 2011 budget by 5.5%. These were done in spite of the specific reduction in the CAP in order to begin the process of reducing the overall total public expenditure.

The fiscal year 2012 revenue forecast for the General Fund comprised of \$34.64 million, which represents a drop in revenues of \$735,000 on the fiscal year 2011 forecast. Grants and other revenues for fiscal year 2012 were forecasted at \$96.52 million against a forecast of \$95.27 million for fiscal year 2011 raising total fiscal year 2012 forecasted revenue to \$131.16 million, which is slightly higher than \$130.65 million in FY 2011.

Expenditures have, in total, been restrained at the current fiscal year 2011 budget levels. Given the current revenue forecasts, the individual budgets for all Ministries have generally been held at current year levels, less any one-off exceptional items included in the current year total. As emphasized above, this represents a significant cut in real terms due to inflation and increases in the CPI.

In keeping with RepMar's development emphasis on health and education, the fiscal year 2012 budget represents an increase in General Fund contributions to the Education sector by \$500,000, while contributions to the Health sector remain the same. Additional funding to the Health sector is further provided under the Republic of China Capital project and Special Appropriations. The General Fund's payroll burden during fiscal year 2011 totaled 52.8% (\$18.7 million) of the General Fund Budget, with government obligations committing 37.7% (\$13.3 million) and the remaining 9.5% (\$3.3 million) for general operations.

The Marshall Islands economy still faces a broad range of problems and it is essential therefore the planned CAP and TRAM reforms are implemented, as planned, in fiscal year 2012. It is also essential that an increasing fiscal surplus, in the form of an annual contribution to the Compact Trust Fund, is achieved each year over the next decade so that at the cessation of the U.S. Compact grants in fiscal year 2024, Compact Trust Fund income, together with the amount of the annual contribution, at that time, will be sufficient to replace these grants.

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

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

# REPUBLIC OF THE MARSHALL ISLANDS

## Statement of Net Assets September 30, 2011

	Primary Government	Component Units
<u>ASSETS</u>		
Current assets:		
Cash and cash equivalents	\$ 10,195,632	\$ 5,391,761
Time certificates of deposit	299,429	3,687,856
Receivables, net of allowance for uncollectibles	15,186,723	29,127,721
Advances	397,821	-
Inventories	-	11,993,725
Due from component units	456,196	170,967
Due from external parties	265,355	-
Other current assets	-	635,902
Restricted assets:		
Cash and cash equivalents	6,441,761	-
Total current assets	33,242,917	51,007,932
Noncurrent assets:		
Restricted assets:		
Cash and cash equivalents	-	500,007
Time certificates of deposit	-	295,000
Investments	38,415,752	-
Investments	566,880	5,719,877
Due from component units	11,536,136	66,374
Capital assets:		
Nondepreciable capital assets	3,147,718	6,226,508
Other capital assets, net of accumulated depreciation	85,234,297	118,659,324
Other noncurrent assets	-	49,808
Total noncurrent assets	138,900,783	131,516,898
Total assets	\$ 172,143,700	\$ 182,524,830
<u>LIABILITIES</u>		
Current liabilities:		
Current portion of long-term obligations	\$ 2,308,777	\$ 2,817,969
Short-term debt	-	3,577,014
Accounts payable	9,621,678	17,753,050
Customer deposits	-	1,156,305
Other liabilities and accruals	3,037,732	10,429,427
Payable to federal agencies	847,620	-
Retention payable	479,488	87,829
Contracts payable	715,094	1,108,716
Accrued interest payable	292,813	-
Compensated absences payable	1,299,594	-
Due to primary government	-	3,573,086
Due to component units	551,741	170,967
Deferred revenues	314,697	2,800,865
Total current liabilities	19,469,234	43,475,228
Noncurrent liabilities:		
Noncurrent portion of long-term obligations	62,157,590	34,612,810
Compensated absences payable, net of current portion	2,097,149	-
Due to primary government	-	11,536,136
Due to component units	-	66,374
Total noncurrent liabilities	64,254,739	46,215,320
Total liabilities	83,723,973	89,690,548
Commitments and contingencies		
<u>NET ASSETS</u>		
Invested in capital assets, net of related debt	68,536,742	88,935,075
Restricted for:		
Nonexpendable:		
Future operations	38,415,752	-
Expendable:		
Compact related	4,084,971	-
Other purposes	7,500,905	402,163
Unrestricted (deficits)	(30,118,643)	3,497,044
Total net assets	88,419,727	92,834,282
Total liabilities and net assets	\$ 172,143,700	\$ 182,524,830

See accompanying notes to basic financial statements.

**REPUBLIC OF THE MARSHALL ISLANDS**

**Statement of Activities  
Year Ended September 30, 2011**

	Program Revenues				Net (Expenses) Revenues and Changes in Net Assets	
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government	Component Units
<b>Functions/Programs</b>						
<b>Primary government:</b>						
<b>Governmental activities:</b>						
President and Cabinet	\$ 1,752,738	\$ -	\$ -	\$ -	\$ (1,752,738)	\$ -
Office of the Chief Secretary	1,502,145	-	1,067,854	-	(434,291)	-
Special appropriations	13,281,163	-	-	1,000,000	(12,281,163)	-
Council of Iroij	474,888	-	-	-	(474,888)	-
Nitijela	1,794,122	-	6,301	-	(1,787,821)	-
Office of the Auditor-General	953,699	-	313,844	-	(639,855)	-
Public Service Commission	478,839	-	-	-	(478,839)	-
Judiciary	813,273	41,254	187,808	-	(584,211)	-
Office of the Attorney General	708,726	49,618	-	-	(659,108)	-
Education	34,405,086	31,581	22,554,319	4,472,235	(7,346,951)	-
Health and Environment	20,941,601	7,571,962	10,831,980	-	(2,537,659)	-
Transportation and Communication	1,122,723	120	-	-	(1,122,603)	-
Resources and Development	1,672,056	18,075	64,031	-	(1,589,950)	-
Internal Affairs	3,214,436	74,641	220,818	-	(2,918,977)	-
Justice	3,513,273	576,955	68,730	-	(2,867,588)	-
Finance	7,305,451	453,661	4,284,319	-	(2,567,471)	-
Foreign Affairs and Trade	3,231,375	53,225	364,353	-	(2,813,797)	-
Public Works	4,495,458	139,133	-	-	(4,356,325)	-
Environmental Protection Authority	733,592	-	551,973	-	(181,619)	-
Nuclear claims related	1,007,678	-	1,001,926	-	(5,752)	-
Future operations	-	-	(555,092)	-	(555,092)	-
Capital projects	2,351,474	-	153,083	6,993,427	4,795,036	-
Unallocated interest - long-term debt	1,437,971	-	-	-	(1,437,971)	-
<b>Total primary government</b>	<b>\$ 107,191,767</b>	<b>\$ 9,010,225</b>	<b>\$ 41,116,247</b>	<b>\$ 12,465,662</b>	<b>(44,599,633)</b>	<b>-</b>
<b>Component units:</b>						
College of the Marshall Islands	\$ 12,065,174	\$ 1,526,479	\$ 4,564,521	\$ 4,273,468	-	(1,700,706)
Marshalls Energy Company, Inc.	47,398,782	45,305,029	-	-	-	(2,093,753)
Marshall Islands Development Bank	2,020,453	2,696,987	-	-	-	676,534
Marshall Islands Marine Resources Authority	3,368,917	3,177,554	39,029	-	-	(152,334)
Marshall Islands National Telecom. Authority	10,501,927	7,737,809	-	1,975	-	(2,762,143)
RMI Ports Authority	5,873,742	2,638,689	-	3,809,943	-	574,890
Other nonmajor component units	21,414,105	16,173,539	300,354	1,310,376	-	(3,629,836)
<b>Total component units</b>	<b>\$ 102,643,100</b>	<b>\$ 79,256,086</b>	<b>\$ 4,903,904</b>	<b>\$ 9,395,762</b>	<b>-</b>	<b>(9,087,348)</b>
<b>General revenues:</b>						
<b>Taxes:</b>						
Income taxes					10,940,722	-
Import taxes					7,125,836	-
Gross revenue taxes					5,203,741	-
Immovable property					1,175,051	-
Fuel taxes					586,005	-
Penalties and interest					96,234	-
Other					131,225	-
Grants and contributions not restricted to specific programs					11,833,717	-
Fishing rights					3,000,000	-
Ship registry					3,750,000	-
Unrestricted investment earnings					194,545	2,237,212
Contributions from primary government					-	9,375,164
Other					907,413	-
<b>Total general revenues</b>					<b>44,944,489</b>	<b>11,612,376</b>
<b>Change in net assets</b>					<b>344,856</b>	<b>2,525,028</b>
Net assets at the beginning of the year, as previously reported						92,350,705
Prior-period adjustment (Note 1V)						(2,041,451)
Net assets at the beginning of the year, as restated					88,074,871	90,309,254
Net assets at the end of the year					<b>\$ 88,419,727</b>	<b>\$ 92,834,282</b>

See accompanying notes to basic financial statements.

**REPUBLIC OF THE MARSHALL ISLANDS**

Balance Sheet  
Governmental Funds  
September 30, 2011

		Special Revenue	Permanent		
	General	Grants Assistance	Compact Trust	Other Governmental Funds	Total
<b>ASSETS</b>					
Cash and cash equivalents	\$ 5,796,652	\$ -	\$ -	\$ 4,398,980	\$ 10,195,632
Time certificates of deposit	-	-	-	299,429	299,429
Investments	566,880	-	-	-	566,880
Receivables, net:					
Taxes	2,385,354	-	-	93,800	2,479,154
Federal agencies	80,183	5,300,439	-	-	5,380,622
General	1,952,135	3,641,414	-	1,231,014	6,824,563
Other	-	-	-	502,384	502,384
Due from other funds	3,339,569	7,155,144	-	3,720,692	14,215,405
Due from component units	10,992,332	1,000,000	-	-	11,992,332
Advances	83,763	103,703	-	210,355	397,821
Restricted assets:					
Cash and cash equivalents	6,441,761	-	-	-	6,441,761
Investments	-	-	38,415,752	-	38,415,752
Total assets	<u>\$ 31,638,629</u>	<u>\$ 17,200,700</u>	<u>\$ 38,415,752</u>	<u>\$ 10,456,654</u>	<u>\$ 97,711,735</u>
<b>LIABILITIES AND FUND BALANCES</b>					
<b>Liabilities:</b>					
Accounts payable	\$ 4,040,460	\$ 4,154,596	\$ -	\$ 1,426,622	\$ 9,621,678
Other liabilities and accruals	2,312,757	354,038	-	370,937	3,037,732
Payable to federal agencies	-	847,620	-	-	847,620
Retention payable	-	479,488	-	-	479,488
Contracts payable	-	715,094	-	-	715,094
Deferred revenue	430,868	-	-	-	430,868
Due to component units	551,741	-	-	-	551,741
Due to other funds	9,808,630	3,339,569	-	801,851	13,950,050
Total liabilities	<u>17,144,456</u>	<u>9,890,405</u>	<u>-</u>	<u>2,599,410</u>	<u>29,634,271</u>
<b>Fund balances:</b>					
Nonspendable	11,559,212	-	38,415,752	-	49,974,964
Restricted	916,694	5,651,931	-	1,484,745	8,053,370
Committed	-	-	-	6,372,499	6,372,499
Assigned	838,046	1,896,535	-	-	2,734,581
Unassigned	1,180,221	(238,171)	-	-	942,050
Total fund balances	<u>14,494,173</u>	<u>7,310,295</u>	<u>38,415,752</u>	<u>7,857,244</u>	<u>68,077,464</u>
Total liabilities and fund balances	<u>\$ 31,638,629</u>	<u>\$ 17,200,700</u>	<u>\$ 38,415,752</u>	<u>\$ 10,456,654</u>	
Amounts reported for governmental activities in the statement of net assets are different because:					
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds					88,382,015
Deferred revenue reported in the funds are recognized as revenue in the governmental activities					116,171
Long-term liabilities, including loans payable, are not due and payable in the current period and therefore are not reported in the funds. The liabilities include:					
				(292,813)	
				(64,466,367)	
				(3,396,743)	
					(68,155,923)
Net assets of governmental activities					<u>\$ 88,419,727</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, 2011

	General	Special Revenue	Permanent	Other Governmental Funds	Total
		Grants Assistance	Compact Trust		
<b>Revenues:</b>					
Taxes	\$ 25,258,814	\$ -	\$ -	\$ -	\$ 25,258,814
Federal and other grants	4,547,916	60,452,696	-	778,652	65,779,264
Sales	-	-	-	152,916	152,916
Ship registry	3,750,000	-	-	-	3,750,000
Fishing rights	3,000,000	-	-	-	3,000,000
Net decrease in the fair value of investments	-	-	(555,092)	-	(555,092)
Interest and dividends	194,545	-	-	-	194,545
Fees and charges	176,593	-	-	8,680,716	8,857,309
Contributions from component units	214,286	-	-	-	214,286
Other	907,413	-	-	-	907,413
<b>Total revenues</b>	<b>38,049,567</b>	<b>60,452,696</b>	<b>(555,092)</b>	<b>9,612,284</b>	<b>107,559,455</b>
<b>Expenditures:</b>					
<b>Current:</b>					
President and Cabinet	1,678,068	87,375	-	-	1,765,443
Office of the Chief Secretary	495,429	1,006,752	-	-	1,502,181
Special appropriations	9,210,541	860,785	3,209,837	-	13,281,163
Council of Iroij	453,314	20,950	-	-	474,264
Nitijela	1,788,295	6,301	-	-	1,794,596
Office of the Auditor-General	599,754	351,676	-	-	951,430
Public Service Commission	455,154	-	-	-	455,154
Judiciary	603,756	-	-	215,078	818,834
Office of the Attorney General	684,989	24,850	-	-	709,839
<b>Ministries:</b>					
Education	3,374,352	27,653,424	-	1,701,378	32,729,154
Health and Environment	2,829,635	10,591,941	-	7,018,803	20,440,379
Transportation and Communication	491,178	297,900	-	-	789,078
Resources and Development	625,594	957,876	-	-	1,583,470
Internal Affairs	2,065,816	1,039,156	-	50,089	3,155,061
Justice	2,590,348	253,054	-	392,445	3,235,847
Finance	3,191,545	3,955,774	-	-	7,147,319
Foreign Affairs and Trade	2,619,720	469,253	-	4,098	3,093,071
Public Works	956,605	594,000	-	58,110	1,608,715
Environmental Protection Authority	176,718	551,973	-	-	728,691
Nuclear claims related	-	-	-	1,007,678	1,007,678
<b>Debt service:</b>					
Principal repayment	1,154,267	1,047,866	-	-	2,202,133
Interest	1,422,706	-	-	-	1,422,706
Capital outlay	-	6,659,167	-	-	6,659,167
<b>Total expenditures</b>	<b>37,467,784</b>	<b>56,430,073</b>	<b>3,209,837</b>	<b>10,447,679</b>	<b>107,555,373</b>
Excess (deficiency) of revenues over (under) expenditures	581,783	4,022,623	(3,764,929)	(835,395)	4,082
<b>Other financing sources (uses):</b>					
Loan proceeds	9,979,846	-	-	-	9,979,846
Operating transfers in	253,240	1,739,770	1,219,197	6,158,629	9,370,836
Operating transfers out	(1,095,068)	(4,405,697)	-	(3,855,071)	(9,355,836)
<b>Total other financing sources (uses), net</b>	<b>9,138,018</b>	<b>(2,665,927)</b>	<b>1,219,197</b>	<b>2,303,558</b>	<b>9,994,846</b>
<b>Net change in fund balances</b>	<b>9,719,801</b>	<b>1,356,696</b>	<b>(2,545,732)</b>	<b>1,468,163</b>	<b>9,998,928</b>
Fund balances at the beginning of the year	4,774,372	5,953,599	40,961,484	6,389,081	58,078,536
Fund balances at the end of the year	\$ 14,494,173	\$ 7,310,295	\$ 38,415,752	\$ 7,857,244	\$ 68,077,464

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, 2011

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

Net change in fund balances - total governmental funds	\$ 9,998,928
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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	\$ 4,141,317	
Depreciation expense, net	<u>(5,480,861)</u>	
		(1,339,544)

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

Loan proceeds	(9,979,846)	
Repayment of ADB Loans	<u>2,202,133</u>	
		(7,777,713)

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

Deferred revenues		(37,832)
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Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. For the current year, these activities consist of:

Change in accrued interest payable	(15,265)	
Change in compensated absences payable	<u>(483,718)</u>	
		<u>(498,983)</u>

Change in net assets of governmental activities	\$ <u>344,856</u>
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See accompanying notes to basic financial statements.

# REPUBLIC OF THE MARSHALL ISLANDS

## Statement of Fiduciary Net Assets Fiduciary Funds September 30, 2011

	<u>Private Purpose Trust</u>	<u>Agency</u>
<u>ASSETS</u>		
Cash and cash equivalents	\$ 1,265,266	\$ -
Time certificates of deposit	2,300,000	-
Receivables, net:		
Contributions	2,519,145	-
Other	342,414	-
Investments	60,206,339	-
Due from other funds	972,140	164,484
Capital assets, net of accumulated depreciation	31,227	-
Total assets	<u>67,636,531</u>	<u>\$ 164,484</u>
<u>LIABILITIES</u>		
Accounts payable	82,016	\$ -
Other liabilities and accruals	147,465	164,484
Due to other funds	1,401,979	-
Total liabilities	<u>1,631,460</u>	<u>\$ 164,484</u>
<u>NET ASSETS</u>		
Held in trust for:		
Social security benefits	64,985,530	
Nuclear claims	57,862	
Land use distributions	961,679	
Total net assets	<u>\$ 66,005,071</u>	

See accompanying notes to basic financial statements.

# REPUBLIC OF THE MARSHALL ISLANDS

## Statement of Changes in Fiduciary Net Assets Fiduciary Funds Year Ended September 30, 2011

	<u>Private Purpose Trust</u>
Additions:	
Contributions:	
Private employees	\$ 9,545,474
Government employees	3,939,534
Penalties and interest	3,412,009
	<u>16,897,017</u>
Allowance for doubtful accounts	<u>(4,375,888)</u>
Total contributions	<u>12,521,129</u>
Investment income (loss):	
Net decrease in the fair value of investments	(1,528,637)
Interest and dividends	1,614,191
	<u>85,554</u>
Total investment income	<u>85,554</u>
Less investment expense	<u>141,765</u>
Net investment loss	<u>(56,211)</u>
Other:	
Compact funding	16,871,520
Other	339,090
	<u>17,210,610</u>
Total additions	<u>29,675,528</u>
Deductions:	
Land use distributions	45,435,144
Benefits	15,482,884
Administrative expenses	837,285
Transfers out	15,000
	<u>61,770,313</u>
Total deductions	<u>61,770,313</u>
Change in net assets	(32,094,785)
Net assets at the beginning of the year	<u>98,099,856</u>
Net assets at the end of the year	<u>\$ 66,005,071</u>

See accompanying notes to basic financial statements.

# REPUBLIC OF THE MARSHALL ISLANDS

## Combining Statement of Net Assets (Deficiency) Component Units September 30, 2011

	College of the Marshall Islands	Marshalls Energy Company, Inc.	Marshall Islands Development Bank	Marshall Islands Marine Resources Authority	Marshall Islands National Telecom. Authority	RMI Ports Authority	Nonmajor Component Units	Total
<b>ASSETS</b>								
Current assets:								
Cash and cash equivalents	\$ 549,019	\$ 592,436	\$ 55,361	\$ 564,117	\$ 692,277	\$ 138,171	\$ 2,800,380	\$ 5,391,761
Time certificates of deposit	-	-	-	1,806,121	351,401	1,530,334	-	3,687,856
Receivables, net	1,947,440	6,717,983	15,905,461	203,293	1,376,491	948,896	2,028,157	29,127,721
Inventories	340,466	8,972,900	-	-	267,897	-	2,412,462	11,993,725
Due from component units	-	-	-	-	-	170,967	-	170,967
Other current assets	111,735	-	-	-	-	39,771	484,396	635,902
<b>Total current assets</b>	<b>2,948,660</b>	<b>16,283,319</b>	<b>15,960,822</b>	<b>2,573,531</b>	<b>2,688,066</b>	<b>2,828,139</b>	<b>7,725,395</b>	<b>51,007,932</b>
Noncurrent assets:								
Cash and cash equivalents - restricted	-	-	500,007	-	-	-	-	500,007
Time certificates of deposit - restricted	-	-	-	-	-	295,000	-	295,000
Investments	36,255	-	423,748	5,259,874	-	-	-	5,719,877
Capital assets:								
Nondepreciable capital assets	1,601,220	22,700	45,577	-	880,321	3,664,480	12,210	6,226,508
Capital assets, net of accumulated depreciation	17,894,118	7,635,224	1,252,224	101,599	34,011,789	46,827,514	10,936,856	118,659,324
Due from component units	-	-	-	-	-	66,374	-	66,374
Other noncurrent assets	-	-	49,808	-	-	-	-	49,808
<b>Total noncurrent assets</b>	<b>19,531,593</b>	<b>7,657,924</b>	<b>2,271,364</b>	<b>5,361,473</b>	<b>34,892,110</b>	<b>50,853,368</b>	<b>10,949,066</b>	<b>131,516,898</b>
<b>Total assets</b>	<b>\$ 22,480,253</b>	<b>\$ 23,941,243</b>	<b>\$ 18,232,186</b>	<b>\$ 7,935,004</b>	<b>\$ 37,580,176</b>	<b>\$ 53,681,507</b>	<b>\$ 18,674,461</b>	<b>\$ 182,524,830</b>
<b>LIABILITIES</b>								
Current liabilities:								
Current portion of long-term debt	\$ -	\$ 835,583	\$ 469,120	\$ -	\$ 1,167,437	\$ 110,599	\$ 235,230	\$ 2,817,969
Short-term debt	-	3,577,014	-	-	-	-	-	3,577,014
Accounts payable	883,751	13,563,956	287,424	256,837	490,703	34,724	2,235,655	17,753,050
Customer deposits	-	-	858,639	-	297,666	-	-	1,156,305
Other liabilities and accruals	1,088,376	3,522,596	8,834	168,445	101,559	737,264	4,802,353	10,429,427
Retention payable	87,829	-	-	-	-	-	-	87,829
Contracts payable	491,714	-	-	-	-	617,002	-	1,108,716
Due to primary government	-	356,196	-	-	100,000	-	3,116,890	3,573,086
Due to component units	-	-	-	-	-	-	170,967	170,967
Deferred revenues	1,545,446	560,421	307,492	125,888	-	-	261,618	2,800,865
<b>Total current liabilities</b>	<b>4,097,116</b>	<b>22,415,766</b>	<b>1,931,509</b>	<b>551,170</b>	<b>2,157,365</b>	<b>1,499,589</b>	<b>10,822,713</b>	<b>43,475,228</b>
Noncurrent liabilities:								
Noncurrent portion of long-term debt	-	5,054,425	800,000	-	28,002,557	53,930	701,898	34,612,810
Due to primary government	-	8,871,467	1,764,669	-	900,000	-	-	11,536,136
Due to component units	-	-	-	-	-	-	66,374	66,374
<b>Total noncurrent liabilities</b>	<b>-</b>	<b>13,925,892</b>	<b>2,564,669</b>	<b>-</b>	<b>28,902,557</b>	<b>53,930</b>	<b>768,272</b>	<b>46,215,320</b>
<b>Total liabilities</b>	<b>4,097,116</b>	<b>36,341,658</b>	<b>4,496,178</b>	<b>551,170</b>	<b>31,059,922</b>	<b>1,553,519</b>	<b>11,590,985</b>	<b>89,690,548</b>
<b>NET ASSETS (DEFICIENCY)</b>								
Invested in capital assets, net of related debt	19,495,338	2,041,690	1,297,801	101,599	4,722,116	50,327,465	10,949,066	88,935,075
Restricted	36,255	-	277,386	-	-	-	88,522	402,163
Unrestricted	(1,148,456)	(14,442,105)	12,160,821	7,282,235	1,798,138	1,800,523	(3,954,112)	3,497,044
<b>Total net assets (deficiency)</b>	<b>18,383,137</b>	<b>(12,400,415)</b>	<b>13,736,008</b>	<b>7,383,834</b>	<b>6,520,254</b>	<b>52,127,988</b>	<b>7,083,476</b>	<b>92,834,282</b>
	<b>\$ 22,480,253</b>	<b>\$ 23,941,243</b>	<b>\$ 18,232,186</b>	<b>\$ 7,935,004</b>	<b>\$ 37,580,176</b>	<b>\$ 53,681,507</b>	<b>\$ 18,674,461</b>	<b>\$ 182,524,830</b>

See accompanying notes to basic financial statements.

**REPUBLIC OF THE MARSHALL ISLANDS**

Combining Statement of Revenues, Expenses, and Changes in Net Assets (Deficiency)  
Component Units  
Year Ended September 30, 2011

	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	\$ 580,609	\$ 18,047,014	\$ 1,903,222	\$ 3,166,046	\$ 7,737,809	\$ 2,638,689	\$ 9,956,678	\$ 44,030,067
Sales	724,714	27,258,015	-	-	-	-	5,707,074	33,689,803
Other	221,156	-	793,765	11,508	-	-	509,787	1,536,216
Total operating revenues	<u>1,526,479</u>	<u>45,305,029</u>	<u>2,696,987</u>	<u>3,177,554</u>	<u>7,737,809</u>	<u>2,638,689</u>	<u>16,173,539</u>	<u>79,256,086</u>
Operating expenses:								
Cost of services	7,961,496	43,520,614	172,835	1,981,053	4,841,060	2,254,831	17,656,232	78,388,121
Administration costs	1,567,532	1,232,460	1,604,628	-	607,705	-	1,591,474	6,603,799
Depreciation and amortization	1,783,588	1,320,592	242,990	26,337	2,818,842	3,103,046	2,009,136	11,304,531
Total operating expenses	<u>11,312,616</u>	<u>46,073,666</u>	<u>2,020,453</u>	<u>2,007,390</u>	<u>8,267,607</u>	<u>5,357,877</u>	<u>21,256,842</u>	<u>96,296,451</u>
Operating income (loss)	<u>(9,786,137)</u>	<u>(768,637)</u>	<u>676,534</u>	<u>1,170,164</u>	<u>(529,798)</u>	<u>(2,719,188)</u>	<u>(5,083,303)</u>	<u>(17,040,365)</u>
Nonoperating revenues (expenses):								
Contributions from the primary government	3,073,164	862,243	-	-	-	-	5,439,757	9,375,164
Equity in net earnings of joint venture	-	-	-	1,864,384	-	-	-	1,864,384
Net change in the fair value of investments	(13)	-	153,342	-	16,006	-	-	169,335
Interest income	-	-	9,064	73,646	-	120,783	-	203,493
Interest expense	-	(803,509)	-	-	(1,431,165)	(17,965)	(253,528)	(2,506,167)
Grants and other contributions	4,564,521	-	-	39,029	-	-	300,354	4,903,904
Contributions to the primary government	-	-	-	(883,629)	-	(500,000)	-	(1,383,629)
Other	(752,558)	(521,607)	-	(477,898)	(803,155)	2,100	96,265	(2,456,853)
Total nonoperating revenues (expenses), net	<u>6,885,114</u>	<u>(462,873)</u>	<u>162,406</u>	<u>615,532</u>	<u>(2,218,314)</u>	<u>(395,082)</u>	<u>5,582,848</u>	<u>10,169,631</u>
Capital contributions	<u>4,273,468</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,975</u>	<u>3,809,943</u>	<u>1,310,376</u>	<u>9,395,762</u>
Change in net assets (deficiency)	<u>1,372,445</u>	<u>(1,231,510)</u>	<u>838,940</u>	<u>1,785,696</u>	<u>(2,746,137)</u>	<u>695,673</u>	<u>1,809,921</u>	<u>2,525,028</u>
Net assets (deficiency) at the beginning of the year, as previously reported	17,010,692	(9,342,457)	12,897,068	5,598,138	9,266,391	51,432,315	5,488,558	92,350,705
Prior-period adjustment (Note 1V)	-	(1,826,448)	-	-	-	-	(215,003)	(2,041,451)
Net assets (deficiency) at the beginning of the year, as restated	<u>17,010,692</u>	<u>(11,168,905)</u>	<u>12,897,068</u>	<u>5,598,138</u>	<u>9,266,391</u>	<u>51,432,315</u>	<u>5,273,555</u>	<u>90,309,254</u>
Net assets (deficiency) at the end of the year	<u>\$ 18,383,137</u>	<u>\$ (12,400,415)</u>	<u>\$ 13,736,008</u>	<u>\$ 7,383,834</u>	<u>\$ 6,520,254</u>	<u>\$ 52,127,988</u>	<u>\$ 7,083,476</u>	<u>\$ 92,834,282</u>

See accompanying notes to basic financial statements.

# REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements  
September 30, 2011

## (1) Summary of Significant Accounting Policies

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

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

### A. Reporting Entity

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

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

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

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

# REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements  
September 30, 2011

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

### A. Reporting Entity, Continued

#### i. Blended Component Units

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

The following Component Units are blended within the Primary Government:

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

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

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

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

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

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

#### ii. Discretely Presented Component Units

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

# REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements  
September 30, 2011

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

### A. Reporting Entity, Continued

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

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

Marshalls Energy Company, Inc. (MEC): MEC was granted a corporate charter by the Cabinet of RepMar on February 2, 1984 to engage in the business of generating and transmitting electricity, and the import and marketing of petroleum products. MEC is governed by a seven-member Board of Directors appointed by the Cabinet of RepMar. RepMar guarantees principal and interest payments to the Rural Utilities Service in the event of default by MEC on a Federal Financing Bank loan. RepMar provides financial support to MEC through legislative appropriations.

Marshall Islands Development Bank (MIDB): MIDB was established under Public Law No. 1988-1 to promote the development and expansion of the economy of the Marshall Islands and is governed by a seven-member Board of Directors appointed by the Cabinet. MIDB has received funds under Sections 111 and 211 of the Compact of Free Association and funds from the U.S. Department of Agriculture under the Rural Housing and Community Development Service Housing Preservation Grant. RepMar guarantees principal and interest payments to the International Commercial Bank of China in the event of default by MIDB. RepMar has the ability to impose its will on MIDB.

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

Marshall Islands National Telecommunications Authority (MINTA): MINTA was incorporated under Public Law No. 1990-105 to engage in the business of providing local and international telecommunication services. MINTA is governed by an eight-member Board of Directors elected by a majority vote of its shareholders. RepMar owns a voting majority of MINTA stock. RepMar guarantees principal and interest payments to the Rural Utilities Service in the event of default by MINTA on Rural Electrification and Telephone Revolving Fund loans.

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

# REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements  
September 30, 2011

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

### A. Reporting Entity, Continued

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

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

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

P.O. Box 245  
Majuro, Marshall Islands 96960

#### iii. Related Organizations

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

#### iv. Omitted Governmental Funds

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

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

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

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

# REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements  
September 30, 2011

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

### A. Reporting Entity, Continued

#### iv. Omitted Governmental Funds, Continued

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

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

### B. Government-Wide Financial Statements

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

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

The Statement of Net Assets presents all of the reporting entity's non-fiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

- Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt that are attributed to the acquisition, construction or improvement of those assets.
- Restricted net assets - nonexpendable consists of permanent funds in which donors or other outside sources have stipulated that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to the principal.
- Restricted net assets - expendable consists of resources in which RepMar is legally or contractually obligated to spend resources in accordance with restrictions either externally imposed by creditors, grantors, contributors, and the like, or imposed by law.

# REPUBLIC OF THE MARSHALL ISLANDS

## Notes to Financial Statements September 30, 2011

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

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

- Unrestricted net assets consist of net assets, which do not meet the definition of the two preceding categories. Unrestricted net assets often are designated, (for example, internally restricted), to indicate that management does not consider them to be available for general operations.

The government-wide Statement of Net Assets reports \$50,001,628 of restricted net assets, of which \$7,500,905 is restricted by enabling legislation.

The Statement of Activities demonstrates the degree to which the direct expenses of given functions or segments are offset by program revenues. Direct expenses are those that are clearly identifiable within a specific function or segment. Program revenues include charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not meeting the definition of program revenues are, instead, reported as general revenue.

#### C. Fund Financial Statements

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

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

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

##### Government-Wide Financial Statements:

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

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

# REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements  
September 30, 2011

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

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

#### Governmental Fund Financial Statements:

Governmental fund financial statements account for the general governmental activities of RepMar and are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as they become susceptible to accrual; generally when they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, RepMar considers revenues to be available if they are collected within 90 days of the end of the current fiscal period.

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

GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - For State and Local Governments*, as amended by GASB Statement No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - For State and Local Governments: Omnibus*, sets forth minimum criteria (percentage of the assets, liabilities, revenues or expenditures/expenses for either fund category or the governmental and enterprise combined) for the determination of major funds. Major individual governmental funds are reported as separate columns in the fund financial statements. The nonmajor funds are combined in a column in the fund financial statements and detailed in the combining statements. RepMar reports the following major funds:

#### Governmental Funds:

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

**Grants Assistance Fund** - a Special Revenue Fund that accounts for all financial transactions that are subgranted to RepMar, including United States Congress appropriations under United States Public Law 99-239, as amended, Title II, Article I, Section 211(a) and approved by Nitijela resolution 123 to promote economic advancement and budgetary self-reliance as well as other direct grants that RepMar received from the United States government and other donor countries.

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

# REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements  
September 30, 2011

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

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

#### Fiduciary Funds:

Private Purpose Funds - these funds are used to account for resources held in trust under which principal and income benefit certain individuals. These include funds held in trust by the Marshall Islands Social Security Administration (MISSA) for the beneficiaries of the MISSA Retirement Fund; funds received under the Interim Use Agreement for the benefit of Kwajalein landowners; and funds received under Section 177 of the Compact of Free Association for the benefit of victims related to the United States Nuclear Testing Program.

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

#### Component Unit Financial Statements:

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

### E. Reporting Standards

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

### F. Cash and Cash Equivalents and Time Certificates of Deposit

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

# REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements  
September 30, 2011

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

### G. Investments

Investments and related investment earnings are recorded at fair value. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

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

### H. Receivables

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

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

### I. Inventories and Prepaid Items

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

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

### J. Interfund Receivables/Payables

During the course of its operations, RepMar records transactions between individual funds for goods provided or services rendered. Receivables and payables resulting from transactions between funds are classified as "due from other funds" or "due to other funds" on the governmental fund balance sheet.

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

# REPUBLIC OF THE MARSHALL ISLANDS

## Notes to Financial Statements September 30, 2011

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

#### K. Restricted Assets

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

#### L. Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets (e.g. roads, bridges, docks, water and sewer lines, water catchments, and other similar items), are reported in the governmental activity column of the government-wide financial statements. Such assets, whether purchased or constructed, are recorded at historical cost or estimated historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. RepMar currently holds no title to land. Singular pieces of machinery and equipment that equal or exceed \$50,000 are capitalized. Buildings and infrastructure projects with a cost that equals or exceeds \$100,000 are capitalized. The costs of normal maintenance and repairs that do not add to the value of assets or materially extend asset lives are not capitalized.

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

#### M. Interfund/Intrafund Transactions

As a general rule, the effect of interfund activity has been eliminated in the government-wide financial statements. Exceptions to this rule are: 1) activities between funds reported as governmental activities and funds reported as business-type activities and 2) activities between funds that are reported in different functional categories in either the governmental or business-type activities column. Elimination of these activities would distort the direct costs and program revenues for the functions concerned.

#### N. Deferred Revenue

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

#### O. Compensated Absences

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

# REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements  
September 30, 2011

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

### P. Fund Equity

GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, was implemented, effective for the fiscal year ending September 30, 2011. It establishes fund balance classifications 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. As a result of implementing this statement, there were significant changes in RepMar's fund structure. Funds that did not meet the new special revenue fund definition were moved to the General Fund. Amounts previously reported as reserved and unreserved fund balance are now reported under the following fund balance classifications:

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

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

A formal minimum fund balance policy has not been adopted.

### Q. Risk Financing

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

# REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements  
September 30, 2011

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

### R. New Accounting Standards

During fiscal year 2011, RepMar implemented the following pronouncements:

- GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which establishes fund balance classifications that 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 the governmental funds. The Statement requires governments to disclose information in the notes about the processes through which constraints are imposed, as well as accounting policies that determine whether restricted, committed, assigned, and unassigned amounts are considered to be spent. This Statement also provides guidance for classifying stabilization amounts on the face of the balance sheet and requires disclosure of certain information about stabilization arrangements in the notes to the financial statements. As a result of implementation, the Statement of Revenues, Expenditures and Changes in Fund Balance for Governmental Funds have been restated due to reclassification of funds. Beginning fund balance for the Other Governmental Funds decreased by \$487,235 while the General Fund increased by \$487,235. Details on RepMar's fund balance classifications are reflected in note 11.
- GASB Statement No. 59, *Financial Instruments Omnibus*, which updates and improves existing standards regarding financial reporting of certain financial instruments and external investment pools. The implementation of this pronouncement did not have a material effect on the accompanying financial statements.

In December 2009, GASB issued Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, which amends Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, and addresses issues related to measurement of OPEB obligations by certain employers participating in agent multiple-employer OPEB plans. The provisions of Statement 57 related to the use and reporting of the alternative measurement method are effective immediately. The provisions related to the frequency and timing of measurements are effective for actuarial valuations first used to report funded status information in OPEB plan financial statements for periods beginning after June 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of RepMar.

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

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements  
September 30, 2011

(1) Summary of Significant Accounting Policies, Continued

R. New Accounting Standards, Continued

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

In December 2010, GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which is intended to enhance the usefulness of its Codification by incorporating guidance that previously could only be found in certain Financial Accounting Standards Board (FASB) and American Institute of Certified Public Accountants (AICPA) pronouncements. The provisions of this statement are effective for periods beginning after December 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of RepMar.

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

In July 2011, GASB issued Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions* (an amendment of GASB Statement No. 53), which will improve financial reporting by state and local governments by clarifying the circumstances in which hedge accounting continues to be applied when a swap counterparty, or a swap counterparty's credit support provider, is replaced. The provisions of this statement are effective for periods beginning after June 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of RepMar.

S. Encumbrances

RepMar utilizes encumbrance accounting to identify fund obligations. Encumbrances represent commitments related to unperformed contracts for goods. At September 30, 2011, 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>
\$ 779,621	\$ 7,926,214	\$ -	\$ 1,193,519	\$ 9,899,354

# REPUBLIC OF THE MARSHALL ISLANDS

## Notes to Financial Statements September 30, 2011

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

#### T. Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenditures and expenses during the reporting period. Actual results could differ from those estimates.

#### U. Total Columns

Total columns are presented primarily to facilitate financial analysis. The Management's Discussion and Analysis includes certain prior year summarized comparative information in total. Such information does not include sufficient detail to constitute a full comparative presentation. Accordingly, such information should be read in conjunction with RepMar's financial statements for the year ended September 30, 2010 from which summarized information was derived.

#### V. Restatement

Subsequent to the issuance of the Marshalls Energy Company, Inc. (MEC) 2010 financial statements, MEC determined that fuel inventory was overstated by \$777,823 and that capital assets was overstated by \$1,048,625. Furthermore, subsequent to the issuance of the Tobolar Copra Processing Plant, Inc. (TCPPI) 2010 financial statements, TCPPI determined that copra oil inventory was overstated by \$215,003. The effect of these restatements on net assets is a decrease in net assets as of October 1, 2010 of the component units' column of \$2,041,451 from \$92,350,705 to \$90,309,254.

### (2) Deposits and Investments

GASB Statement No. 40 addresses common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk and foreign currency risk. As an element of interest rate risk, disclosure is required of investments that have fair values that are highly sensitive to changes in interest rates. GASB Statement No. 40 also requires disclosure of formal policies related to deposit and investment risks.

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

- (a) Public monies shall not be deposited with any financial institution that is not a member of the Federal Deposit Insurance Corporation (FDIC) of the United States or the Federal Savings and Loan Insurance Corporation (FSLIC) of the United States, unless the Secretary of Finance is satisfied, on the advice of the Banking Commissioner, that a financial institution (although not a member of the FDIC or FSLIC), owns sufficient assets to cover the total amount of the deposit;

# REPUBLIC OF THE MARSHALL ISLANDS

## Notes to Financial Statements September 30, 2011

### (2) Deposits and Investments, Continued

- (b) The demand deposit account shall be continuously maintained to cover not less than seventy-five percent of the cash expenditures projected to be expended over the next succeeding ninety day period;
- (c) All deposits, accounts and funds maintained pursuant to this Act shall be subordinate deposits, accounts and funds of the General Fund; and
- (d) No withdrawal of monies shall be made out of or charged against time or savings deposits, accounts or funds maintained pursuant to this Act except to transfer funds into the demand deposit account of the General Fund. All expenditures shall be made out of or charged against the demand deposit account of the General Fund only.

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

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

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

#### A. Deposits

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

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

# REPUBLIC OF THE MARSHALL ISLANDS

## Notes to Financial Statements September 30, 2011

### (2) Deposits and Investments, Continued

#### A. Deposits, Continued

GASB Statement No. 40 amended GASB Statement No. 3 to in effect eliminate disclosure for deposits falling into categories 1 and 2 but retained disclosures for deposits falling under category 3. Category 3 deposits are those deposits that have exposure to custodial credit risk. Custodial credit risk is the risk that in the event of a bank failure, RepMar's deposits may not be returned to it. Such deposits are not covered by depository insurance and are either uncollateralized, or collateralized with securities held by the pledging financial institution or held by the pledging financial institution but not in the depositor-government's name. RepMar does not have a deposit policy for custodial credit risk.

As of September 30, 2011, the carrying amount of the primary government's total cash and cash equivalents and time certificates of deposit was \$16,936,822 and the corresponding bank balances were \$17,766,182. Of the bank balances, \$15,449,039 is maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2011, bank deposits in the amount of \$4,920,222 were FDIC insured. RepMar does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized. Accordingly, these deposits are exposed to custodial credit risk.

As of September 30, 2011, the carrying amount of the fiduciary fund's total cash and cash equivalents and time certificates of deposit was \$3,565,266 and the corresponding bank balances were \$4,095,756. Of the bank balances, \$289,786 is maintained in financial institutions subject to FDIC insurance. As of September 30, 2011, bank deposits in the amount of \$289,786 were FDIC insured. RepMar does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized. Accordingly, these deposits are exposed to custodial credit risk.

As of September 30, 2011, the carrying amount in the aggregate of the discretely presented component units' total cash and cash equivalents and time certificates of deposit was \$9,874,624 and the corresponding bank balances were \$10,885,976. Of the bank balances, \$4,585,323 is maintained in financial institutions subject to FDIC insurance. As of September 30, 2011, bank deposits in the amount of \$3,972,210 were FDIC insured. The component units do not require collateralization of their cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized. Accordingly, these deposits are exposed to custodial credit risk.

#### B. Investments

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

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

**REPUBLIC OF THE MARSHALL ISLANDS**

Notes to Financial Statements  
September 30, 2011

(2) Deposits and Investments, Continued

B. Investments, Continued

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

Investments of the primary government as of September 30, 2011, are as follows:

Compact Trust Fund:	
Money market funds	\$ 897,522
Equity mutual funds	24,493,390
Fixed income mutual funds	9,998,599
Other	<u>3,026,241</u>
	<u>\$ 38,415,752</u>

Additionally, as of September 30, 2011, the primary government holds approximately 4% of the outstanding shares of Pacific Forum Lines and Pacific Islands Development Bank with carrying amounts of \$318,630 and \$248,250, respectively. As the fair market value of these investments is not readily available, such has been recorded at cost.

Custodial credit risk for investments is the risk that in the event of the failure of the counterparty to the transaction, RepMar will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. RepMar's investments are held and administered by trustees in accordance with various trustee agreements. Based on negotiated trust and custody contracts, all of these investments were held in RepMar's name by RepMar's custodial financial institutions at September 30, 2011.

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

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

Concentration of credit risk for investments is the risk of loss attributed to the magnitude of an entity's investment in a single issuer. GASB Statement No. 40 requires disclosure by issuer and amount of investments in any one issuer that represents five percent (5%) or more of total investments for RepMar. As of September 30, 2011, 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, 2011

(2) Deposits and Investments, Continued

B. Investments, Continued

Investments in marketable securities of the fiduciary funds as of September 30, 2011, are as follows:

Marshall Islands Social Security Administration (MISSA):	
Money market funds	\$ 232,877
Common equity securities	7,589,971
Mutual funds	<u>42,847,356</u>
	\$ <u>50,670,204</u>
 Nuclear Claims Trust Fund (NCTF):	
Money market funds	\$ <u>47,401</u>

Additionally, as of September 30, 2011, MISSA holds approximately 10% of the outstanding shares of Marshall Islands Service Corporation, totaling \$30,000, which is accounted for at cost, and approximately 31% of the outstanding shares of Bank of Marshall Islands (BOMI), totaling \$9,458,734, which is accounted for under the equity method.

A summary of unaudited financial information as of and for the nine months ended September 30, 2011, for investees accounted for using the equity method of accounting for investments, is as follows:

Assets	\$ <u>69,968,128</u>
Liabilities	\$ <u>40,609,245</u>
Net earnings	\$ <u>1,872,932</u>

For the year ended September 30, 2011, net increase in fair value of investments included equity in net earnings of BOMI amounting to \$808,092.

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.

# REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements  
September 30, 2011

## (2) Deposits and Investments, Continued

### B. Investments, Continued

- (ii) Corporate obligations and mortgage-backed securities - Obligations of any public or private entity or corporation created or existing under the laws of RepMar or of the United States or any state, territory or commonwealth thereof, or obligations of any other government or economic community which are payable in United States dollars, or pass through and other mortgage-backed securities provided that the obligation is an agency of the United States Government or is rated in one of the four highest categories by two nationally recognized rating agencies in the United States. No investment under this heading shall exceed five percent of the market value of the Fund or ten percent of the outstanding value of the issue at the time of purchase.
- (iii) Preferred and common stocks - Shares of preferred or common stocks of any corporation created or existing under the laws of RepMar or under the laws of the United States or any state, territory or commonwealth thereof provided that the purchase of such shares shall be considered reasonable and prudent by MISSA's investment advisor at the time of purchase, that not more than fifteen percent (15%) of the market value of the Fund shall be invested in the stock of any one corporation, and that not more than twenty-five percent (25%) of the market value of the Fund shall be invested in any one industry group.
- (iv) Insurance company obligations - Contracts and agreements supplemental thereto providing for participation in one or more accounts of a life insurance company authorized to do business in the Republic or in any state, territory or commonwealth of the United States provided that the total market value of these investments at no time shall exceed ten percent (10%) of all investments of the Fund.

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

MISSA and NCTF investments are held and administered by trustees in accordance with various trustee agreements. Based on negotiated trust and custody contracts, all of these investments were held respectively in the name of MISSA and NCTF by their custodial financial institutions at September 30, 2011.

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, 2011, 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, 2011

(2) Deposits and Investments, Continued

B. Investments, Continued

Investments of the discretely presented component units as of September 30, 2011, are as follows:

College of the Marshall Islands (CMI):	
Money market funds	\$ 217
Common equity securities	9,018
Mutual funds	<u>27,020</u>
	\$ <u>36,255</u>

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

Marshall Islands Development Bank:	
Common equity securities	\$ <u>423,748</u>

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

Marshall Islands Marine Resources Authority (MIMRA):	
Investment in joint venture	\$ <u>5,259,874</u>

On May 1, 2005, MIMRA entered into a joint venture agreement with a third party to form the Marshall Islands Fishing Corporation (MIFCO), an ongoing association for the purpose of engaging in the purse seine fishing business. The association was formally organized during fiscal year 2006 with the purchase of the vessel, RMI201. MIMRA's contributed capital was \$2,940,000, which represented a 49% interest of the vessel's value of \$6,000,000.

A summary of unaudited financial information as of and for the year ended December 31, 2011, for investees accounted for using the equity method of accounting for investments, is as follows:

Assets	\$ <u>16,447,303</u>
Liabilities	\$ <u>4,547,859</u>
Net earnings	\$ <u>4,660,014</u>

For the year ended September 30, 2011, MIMRA recognized equity in net earnings of MIFCO of \$1,864,384.

**REPUBLIC OF THE MARSHALL ISLANDS**

Notes to Financial Statements  
September 30, 2011

**(3) Receivables**

Receivables as of September 30, 2011, 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	\$ 2,385,354	\$ -	\$ -	\$ 93,800	\$ -	\$ 2,479,154
Federal agencies	80,183	5,300,439	-	-	-	5,380,622
General	2,600,723	3,833,350	-	1,231,014	-	7,665,087
Contributions	-	-	-	-	12,254,069	12,254,069
Loans	4,368,787	-	-	16,750,703	-	21,119,490
Other	<u>194,928</u>	<u>-</u>	<u>-</u>	<u>540,393</u>	<u>104,668</u>	<u>839,989</u>
	9,629,975	9,133,789	-	18,615,910	12,358,737	49,738,411
Less: allowance for uncollectible						
Accounts	<u>(5,212,303)</u>	<u>(191,936)</u>	<u>-</u>	<u>(16,788,712)</u>	<u>(9,497,178)</u>	<u>(31,690,129)</u>
Net receivables	<u>\$ 4,417,672</u>	<u>\$ 8,941,853</u>	<u>\$ -</u>	<u>\$ 1,827,198</u>	<u>\$ 2,861,559</u>	<u>\$ 18,048,282</u>

Loans receivable of the primary government are summarized as follows:

**Primary Government**

**General Fund:**

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

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

**\$ 4,368,787**

**Nonmajor Governmental Funds:**

Loans to qualified Marshallese students under a student financial assistance program, interest free, uncollateralized with no set repayment terms, and may be converted to grants at a later date if the recipients meet certain criteria. These loans have been fully provided for in the allowance for uncollectible accounts. During the year ended September 30, 2011, loans in the amount of \$89,093 were converted to grants as the recipients met the criteria for conversion. \$ 16,750,703

**REPUBLIC OF THE MARSHALL ISLANDS**

Notes to Financial Statements  
September 30, 2011

(3) Receivables, Continued

Discretely Presented Component Units

Receivables as of September 30, 2011, for the discretely presented component units, including applicable allowance for uncollectible accounts, are as follows:

	College of the Marshall Islands	Marshalls Energy Company, Inc.	Marshall Islands Development Bank	Marshall Islands Marine Resources Authority	Marshall Islands National Telecom. Authority	RMI Ports Authority	Non-major Component Units	Totals
Receivables:								
Federal agencies	\$ 233,090	\$ -	\$ -	\$ -	\$ -	\$ 526,042	\$ -	\$ 759,132
General	2,116,606	11,261,806	-	171,942	1,963,851	878,575	5,904,316	22,297,096
Loans	-	-	31,174,069	-	-	-	-	31,174,069
Other	<u>631,217</u>	<u>894,873</u>	<u>472,680</u>	<u>968,234</u>	<u>316,175</u>	<u>303,633</u>	<u>540,211</u>	<u>4,127,023</u>
	2,980,913	12,156,679	31,646,749	1,140,176	2,280,026	1,708,250	6,444,527	58,357,320
Less: allowance for uncollectible accounts	<u>(1,033,473)</u>	<u>(5,438,696)</u>	<u>(15,741,288)</u>	<u>(936,883)</u>	<u>(903,535)</u>	<u>(759,354)</u>	<u>(4,416,370)</u>	<u>(29,229,599)</u>
Net receivables	<u>\$ 1,947,440</u>	<u>\$ 6,717,983</u>	<u>\$ 15,905,461</u>	<u>\$ 203,293</u>	<u>\$ 1,376,491</u>	<u>\$ 948,896</u>	<u>\$ 2,028,157</u>	<u>\$ 29,127,721</u>

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

Marshall Islands Development Bank (MIDB)

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

Investment Development Fund	\$ 4,330,669
Compact Section 211	942,716
Republic of the Marshall Islands	25,888,673
Housing Preservation Grant	<u>12,011</u>
	<u>\$ 31,174,069</u>

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

**REPUBLIC OF THE MARSHALL ISLANDS**

Notes to Financial Statements  
September 30, 2011

(4) Interfund Receivables and Payables

Receivables and payables between funds reflected as due to/from other funds in the combined balance sheet at September 30, 2011, are summarized as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Grants Assistance	\$ 3,339,569
Grants Assistance	General	7,155,144
Nonmajor governmental funds	General	1,516,862
Nonmajor governmental funds	Fiduciary Funds - Private Purpose Trust	1,401,979
Nonmajor governmental funds	Nonmajor governmental funds	801,851
Fiduciary Funds - Private Purpose Trust	General	972,140
Fiduciary Funds - Agency	General	<u>164,484</u>
		<u>\$ 15,352,029</u>

Receivables and payables between funds reflected as due to/from component units in the statement of net assets at September 30, 2011, are summarized as follows:

	<u>Due From</u>	<u>Due To</u>
<u>Primary Government</u>		
General Fund:		
Marshalls Energy Company, Inc.	\$ 9,227,663	\$ -
Marshall Islands Development Bank	1,764,669	-
Marshall Islands Marine Resources Authority	-	330,000
Marshall Islands National Telecommunications Authority	1,000,000	-
RMI Ports Authority	-	152,678
Nonmajor component units	<u>-</u>	<u>69,063</u>
	<u>\$ 11,992,332</u>	<u>\$ 551,741</u>

The amount recorded by the General Fund due from the Marshalls Energy Company, Inc. of \$9,227,663 represents a subsidiary loan agreement under an Asian Development Bank (ADB) loan (Loan Number 2659 RMI (SF)) received by RepMar from the ADB. Interest accrues at the rate of 1% per annum through September 30, 2018 and at 1.5% per annum thereafter with principal and interest payments due of \$34,758 and matures on May 31, 2034.

The amount recorded by the General Fund due from the Marshall Islands Development Bank (MIDB) of \$1,764,669 accrues interest at the rate of 4% per annum and matures on May 8, 2018. In the event that RepMar redeems this receivable at an earlier date, receipt of funds may be dependent upon the underlying collectability of loans issued by MIDB, as MIDB does not appear to have readily available cash reserves to meet early redemption. Furthermore, in the event that RepMar is unable to liquidate this amount at an earlier date, such may be deemed to constitute a cash transfer out to MIDB. Due to the long term nature of this receivable, such has been included within the reserve for related assets at the governmental fund level and as a long-term receivable at the government-wide level.

**REPUBLIC OF THE MARSHALL ISLANDS**

Notes to Financial Statements  
September 30, 2011

(4) Interfund Receivables and Payables, Continued

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

The amount recorded as due from component units of the primary government of \$11,992,332 does not equal the corresponding due to primary government of the discretely presented component units of \$15,109,222 due to an allowance for doubtful accounts recorded by the General Fund and the Grants Assistance Fund of \$1,516,890 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 of \$0 due to an allowance for doubtful accounts recorded by the respective component units of \$551,741.

	<u>Due From</u>	<u>Due To</u>
<u>Discretely Presented Component Units</u>		
RMI Ports Authority:		
Nonmajor component units	\$ 237,341	\$ -
Nonmajor component units:		
RMI Ports Authority	-	237,341
	\$ 237,341	\$ 237,341

The amount recorded by the RMI Ports Authority due from the nonmajor component units of \$237,341 accrues interest at the rate of 8% per annum and matures on March 30, 2013.

Receivables and payables between funds reflected as due to/from primary government in the statement of net assets at September 30, 2011, are summarized as follows:

	<u>Due From</u>	<u>Due To</u>
<u>Discretely Presented Component Units</u>		
Marshall's Energy Company, Inc.:		
General Fund	\$ -	\$ 9,227,663
Marshall Islands Development Bank:		
General Fund	-	1,764,669
Marshall Islands National Telecommunications Authority:		
Grants Assistance Fund	-	1,000,000
Nonmajor component units:		
General Fund	-	1,516,890
Grants Assistance Fund	-	1,600,000
	\$ -	\$ 15,109,222

**REPUBLIC OF THE MARSHALL ISLANDS**

Notes to Financial Statements  
September 30, 2011

(5) Capital Assets

Capital asset activities of the primary government's governmental activities for the year ended September 30, 2011, are as follows:

	Estimated Useful Lives	Balance October 1, 2010	Additions	Retirements	Balance September 30, 2011
Depreciable capital assets:					
Electrical distribution	30 yrs	\$ 30,540,465	\$ -	\$ -	\$ 30,540,465
Buildings	30 - 40 yrs	98,952,130	5,526,895	-	104,479,025
Water infrastructure system	25 yrs	9,616,908	-	-	9,616,908
Docks, roads and bridges	25 - 30 yrs	14,486,813	-	-	14,486,813
Ships	25 yrs	13,793,254	-	-	13,793,254
Software	10 yrs	2,539,710	-	-	2,539,710
Heavy equipment	3 - 10 yrs	2,567,899	136,584	(302,960)	2,401,523
Dry-dock	15 yrs	<u>2,907,282</u>	-	-	<u>2,907,282</u>
		<u>175,404,461</u>	<u>5,663,479</u>	<u>(302,960)</u>	<u>180,764,980</u>
Less accumulated depreciation:					
Electrical distribution		(26,733,725)	(1,018,016)	-	(27,751,741)
Buildings		(37,487,868)	(2,695,126)	-	(40,182,994)
Water infrastructure system		(5,425,431)	(384,676)	-	(5,810,107)
Docks, roads and bridges		(7,627,116)	(568,036)	-	(8,195,152)
Ships		(6,954,552)	(551,730)	-	(7,506,282)
Software		(1,289,767)	(253,971)	-	(1,543,738)
Heavy equipment		(1,624,081)	(258,272)	248,966	(1,633,387)
Dry-dock		<u>(2,907,282)</u>	-	-	<u>(2,907,282)</u>
		<u>(90,049,822)</u>	<u>(5,729,827)</u>	<u>248,966</u>	<u>(95,530,683)</u>
Total depreciable capital assets, net		85,354,639	(66,348)	(53,994)	85,234,297
Construction in progress		<u>4,366,920</u>	<u>4,307,693</u>	<u>(5,526,895)</u>	<u>3,147,718</u>
		<u>\$ 89,721,559</u>	<u>\$ 4,241,345</u>	<u>\$ (5,580,889)</u>	<u>\$ 88,382,015</u>

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

President and Cabinet	\$ 3,186
Public Service Commission	15,000
Education	1,209,870
Health and Environment	501,555
Transportation and Communication	327,839
Resources and Development	80,225
Internal Affairs	52,913
Justice	257,253
Finance	150,296
Foreign Affairs and Trade	164,656
Public Works	2,965,731
Nitijela	<u>1,303</u>
	<u>\$ 5,729,827</u>

(6) Short-term Debt

Discretely Presented Component Units

Marshalls Energy Company, Inc. (MEC):

Ninety-day term loans with a bank, interest at 7.5% per annum, to finance fuel purchases collateralized by a guarantee from RepMar. \$ 3,577,014

**REPUBLIC OF THE MARSHALL ISLANDS**

Notes to Financial Statements  
September 30, 2011

(6) Short-term Debt, Continued

Discretely Presented Component Units, Continued

Marshall Islands Development Bank (MIDB):

In July 2010, MIDB obtained a \$1,000,000 loan from an affiliate bank with interest at 7.5% per annum and payable on May 6, 2011. The proceeds were used to fund partial withdrawals by RepMar from its certificate of deposit with MIDB. This loan was settled in full in May 2011.

Tobolar Copra Processing Plant, Inc. (TCPPI):

In the normal course of the company's operations, TCPPI obtains short-term borrowings primarily for the purpose of funding the purchase of raw copra from producers. TCPPI has a bank credit line amounting to \$1,500,000 as of September 30, 2011, which is collateralized by a general security agreement over all assets of TCPPI and a guarantee from RepMar. Notes drawn are subject to interest at bank's reference rate plus 2.5% and are repaid on various maturity dates but not to exceed 180 days from loan drawdown.

Short-term debt activity for the year ended September 30, 2011, was as follows:

	<u>Beginning Balance</u>	<u>Draws</u>	<u>Repayments</u>	<u>Ending Balance</u>
MEC:				
Bank credit line	\$ 948,118	\$ 11,000,000	\$ (8,371,104)	\$ 3,577,014
MIDB:				
Bank credit line	764,063	-	(764,063)	-
TCPPI:				
Bank credit line	<u>          -</u>	<u>1,500,000</u>	<u>(1,500,000)</u>	<u>          -</u>
	<u>\$ 1,712,181</u>	<u>\$ 12,500,000</u>	<u>\$ (10,635,167)</u>	<u>\$ 3,577,014</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, 2011, the primary government had the following long-term debt outstanding:

Asian Development Bank (ADB) Loans

Loan Number 1102 MAR (SF) - Fisheries Development Project Loan (SDR 2,432,599), non-interest bearing with a service charge of 1% per annum on the amount of the loan withdrawn from the Loan Account. Semi-annual loan payments commenced January 1, 2002 in an amount of SDR 24,300, increasing to SDR 48,600 on January 1, 2012. \$ 2,818,124

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. 422,464

# REPUBLIC OF THE MARSHALL ISLANDS

## Notes to Financial Statements September 30, 2011

### (7) Long-term Obligations, Continued

#### Primary Government, Continued

#### Asian Development Bank (ADB) Loans, Continued

Loan Number 1249 MAR (SF) - Basic Education Project Loan (SDR 5,717,446), non-interest bearing with a service charge of 1% per annum on the amount of the loan withdrawn from the Loan Account. Semi-annual loan payments commenced April 15, 2004 in an amount of SDR 57,200, increasing to SDR 114,300 on April 15, 2014.	6,630,687
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.	606,247
Loan Number 1316 RMI (SF) - Health and Population Project Loan (SDR 3,858,516), non-interest bearing with a service charge of 1% per annum on the amount of the loan withdrawn from the Loan Account. Semi-annual loan payments commenced January 1, 2005 in an amount of SDR 38,600, increasing to SDR 77,200 on January 1, 2015.	4,491,559
Loan Number 1389 RMI (SF) - Majuro Water Supply Project Loan No. 2 (SDR 6,062,000), non-interest bearing with a service charge of 1% per annum on the amount of the loan withdrawn from the Loan Account. Semi-annual loan payments commenced March 1, 2006 in an amount of SDR 60,700, increasing to SDR 121,200 on March 1, 2016.	7,306,279
Loan Number 1513 RMI (SF) - Public Sector Reform Program Loan (SDR 8,241,000), non-interest bearing with a service charge of 1% per annum on the amount of the loan withdrawn from the Loan Account. Semi-annual loan payments commenced June 1, 2007 in an amount of SDR 82,400, increasing to SDR 164,800 on June 1, 2017.	10,274,188
Loan Number 1694 RMI (SF) - Ebeye Health and Infrastructure Project Loan (SDR 6,918,118), non-interest bearing with a service charge of 1% per annum on the amount of the loan withdrawn from the Loan Account. Semi-annual loan payments commenced February 1, 2008 in an amount of SDR 144,127.	7,461,360
Loan Number 1791 RMI (SF) - Skills Training and Vocational Education Project Loan (SDR 3,483,174), non-interest bearing with a service charge of 1.5% per annum on the amount of the loan withdrawn from the Loan Account. Semi-annual loan payments commenced May 15, 2009 in an amount of SDR 72,566.	4,410,497
Loan Number 1828 RMI - Fiscal and Financial Management Program Loan No. 1 (\$4,000,000), interest at the ADB's pool-based variable lending rate system for U.S. dollar loans (5.03% at September 30, 2011), a front-end fee of 1%, and a commitment charge of 0.75% per annum on the amount of the loan unwithdrawn from the Loan Account. Semi-annual loan payments commenced November 15, 2004 in an initial amount of \$89,900 with graduated increases of 5% to \$276,100 through May 15, 2016.	2,238,400

**REPUBLIC OF THE MARSHALL ISLANDS**

Notes to Financial Statements  
September 30, 2011

(7) Long-term Obligations, Continued

Primary Government, Continued

Asian Development Bank (ADB) Loans, Continued

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. 7,340,346

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. 486,370

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 onlend a portion of the loan proceeds for the purpose of restructuring certain commercial bank debt. 9,979,846

\$ 64,466,367

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 September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 2,308,777	\$ 818,738	\$ 3,127,515
2013	2,351,099	782,189	3,133,288
2014	2,489,869	729,417	3,219,286
2015	2,720,209	672,358	3,392,567
2016	2,936,607	611,682	3,548,289
2017 – 2021	14,251,633	2,560,353	16,811,986
2022 – 2026	15,711,241	1,777,252	17,488,493
2027 – 2031	13,618,979	914,205	14,533,184
2032 – 2036	7,852,043	215,931	8,067,974
2037	225,910	1,132	227,042
	<u>\$ 64,466,367</u>	<u>\$ 9,083,257</u>	<u>\$ 73,549,624</u>

**REPUBLIC OF THE MARSHALL ISLANDS**

Notes to Financial Statements  
September 30, 2011

(7) Long-term Obligations, Continued

Discretely Presented Component Units

As of September 30, 2011, the discretely presented component units had the following long-term debt outstanding:

Marshalls Energy Company, Inc. (MEC)

Loan with the Federal Financing Bank (FFB), dated November 17, 1997, interest based on the FFB rates at the date of the loan advances and range from 5.49% to 7.25% per annum, with principal and interest payable in quarterly installments of \$273,770 through January 2, 2018, with loan repayments guaranteed by the Rural Utilities Service (RUS). The mortgage notes have been unconditionally guaranteed by RepMar, under which RepMar will make debt service payments to RUS in the event of default by MEC, and have been collateralized by a leasehold mortgage and security agreement over the assets of MEC. These notes are subject to certain coverage ratio requirements. MEC is not in compliance with these ratio requirements as of September 30, 2011. \$ 5,890,008

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>
2012	\$ 835,583	\$ 259,513	\$ 1,095,096
2013	1,001,781	367,091	1,368,872
2014	858,785	236,308	1,095,093
2015	914,406	180,690	1,095,096
2016	973,518	121,580	1,095,098
2017 – 2020	<u>1,305,935</u>	<u>62,933</u>	<u>1,368,868</u>
	<u>\$ 5,890,008</u>	<u>\$ 1,228,115</u>	<u>\$ 7,118,123</u>

Marshall Islands Development Bank (MIDB)

Loan payable to the International Commercial Bank of China, due August 6, 2014, payable in semi-annual installments of \$200,000 plus interest at 5% per annum. The loan has been unconditionally guaranteed by RepMar, under which RepMar will make debt service payments to the bank in the event of default by MIDB. \$ 1,200,000

Loan with a bank, dated April 15, 2009, interest at 7.5% per annum, with principal and interest payable in monthly installments of \$10,000 through March 28, 2012. Loan proceeds of \$325,000 were used to fund partial withdrawals by RepMar from its certificate of deposit. 69,120

\$ 1,269,120

**REPUBLIC OF THE MARSHALL ISLANDS**

Notes to Financial Statements  
September 30, 2011

(7) Long-term Obligations, Continued

Discretely Presented Component Units, Continued

Marshall Islands Development Bank (MIDB), 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>
2012	\$ 469,120	\$ 57,692	\$ 526,812
2013	400,000	35,041	435,041
2014	400,000	15,250	415,250
	<u>\$ 1,269,120</u>	<u>\$ 107,983</u>	<u>\$ 1,377,103</u>

Marshall Islands National Telecommunications Authority (MINTA)

Loans with the RUS (formerly the Rural Electrification Administration) from the Rural Electrification and Telephone Revolving Fund, dated August 17, 1989 of \$18,800,000, increased by \$3,999,000 on April 23, 1993, and further increased by \$18,500,000, with interest at 3.64% to 5% per annum. Certain portions of these loans have been unconditionally guaranteed by RepMar, under which RepMar will make debt service payments to RUS in the event of default by MINTA. Mortgages over specific MINTA ground leases and essentially all assets of MINTA have collateralized both loans. \$ 29,169,994

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>
2012	\$ 1,167,437	\$ 1,379,552	\$ 2,546,989
2013	1,225,174	1,321,815	2,546,989
2014	1,285,791	1,261,198	2,546,989
2015	1,349,432	1,197,558	2,546,990
2016	1,416,248	1,130,741	2,546,989
2017 – 2021	8,206,271	4,528,675	12,734,946
2022 – 2026	8,827,985	2,338,296	11,166,281
2027 – 2031	5,691,656	627,165	6,318,821
	<u>\$ 29,169,994</u>	<u>\$ 13,785,000</u>	<u>\$ 42,954,994</u>

RMI Ports Authority (RMIPA)

Loan with a bank, dated April 6, 2010, interest at 8.5% per annum, with principal and interest payable in monthly installments of \$9,330 through March 28, 2013. The loan has been collateralized by a TCD of RMIPA of \$295,000. \$ 164,529

**REPUBLIC OF THE MARSHALL ISLANDS**

Notes to Financial Statements  
September 30, 2011

(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>
2012	\$ 110,599	\$ 10,691	\$ 121,290
2013	<u>53,930</u>	<u>1,310</u>	<u>55,240</u>
	<u>\$ 164,529</u>	<u>\$ 12,001</u>	<u>\$ 176,530</u>

Air Marshall Islands, Inc. (AMI)

Loan with a bank, dated November 27, 2009, interest at 13.5% per annum, with principal and interest payable in monthly installments of \$31,500 through November 28, 2014. The loan has been collateralized by certain aircraft operated by AMI. \$ 937,128

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>
2012	\$ 235,230	\$ 114,425	\$ 349,655
2013	301,444	76,556	378,000
2014	344,753	33,247	378,000
2015	<u>55,701</u>	<u>906</u>	<u>56,607</u>
	<u>\$ 937,128</u>	<u>\$ 225,134</u>	<u>\$ 1,162,262</u>

(8) Change in Long-term Obligations

Primary Government

Other long-term liabilities will be liquidated in the future from governmental funds. During the year ended September 30, 2011, the following changes occurred in liabilities reported as part of the primary government's long-term liabilities in the statement of net assets:

	<u>Balance October 1, 2010</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance September 30, 2011</u>	<u>Due Within One Year</u>
Loans payable:					
ADB loans	\$ 56,688,654	\$ 9,979,846	\$ (2,202,133)	\$ 64,466,367	\$ 2,308,777
Other:					
Compensated absences	<u>2,913,025</u>	<u>2,414,960</u>	<u>(1,931,242)</u>	<u>3,396,743</u>	<u>1,299,594</u>
	<u>\$ 59,601,679</u>	<u>\$ 12,394,806</u>	<u>\$ (4,133,375)</u>	<u>\$ 67,863,110</u>	<u>\$ 3,608,371</u>

**REPUBLIC OF THE MARSHALL ISLANDS**

Notes to Financial Statements  
September 30, 2011

(8) Change in Long-term Obligations, Continued

Discretely Presented Component Units

Changes in long-term liabilities of discretely presented component units for the year ended September 30, 2011, are as follows:

	Balance October 1, <u>2010</u>	<u>Additions</u>	<u>Reductions</u>	Balance September <u>30, 2011</u>	Due Within <u>One Year</u>
Loans payable:					
MEC	\$ 14,822,527	\$ -	\$ (8,932,519)	\$ 5,890,008	\$ 835,583
MIDB	1,779,767	-	(510,647)	1,269,120	469,120
MINTA	30,050,952	-	(880,958)	29,169,994	1,167,437
RMIPA	250,379	-	(85,850)	164,529	110,599
AMI	<u>1,171,455</u>	<u>-</u>	<u>(234,327)</u>	<u>937,128</u>	<u>235,230</u>
	48,075,080	-	(10,644,301)	37,430,779	2,817,969
Due to primary government	4,839,806	10,572,788	(303,372)	15,109,222	3,573,086
Due to component units	<u>180,926</u>	<u>110,358</u>	<u>(53,943)</u>	<u>237,341</u>	<u>170,967</u>
	<u>\$ 53,095,812</u>	<u>\$ 10,683,146</u>	<u>\$ (11,001,616)</u>	<u>\$ 52,777,342</u>	<u>\$ 6,562,022</u>

(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.	\$ 290,541
Savings account established in accordance with Section 211(d)(2) of the Compact of Free Association, as amended, for the purpose of funding RepMar's infrastructure maintenance plan.	3,619,418
Savings account established in accordance with Section 211(e) of the Compact of Free Association, as amended, for the purpose of funding RepMar's disaster assistance emergency fund.	1,355,773
Deposit account established for the purpose of receiving payments pursuant to the Compact of Free Association, as amended.	206,803
Savings account collateralizing a credit card facility.	50,308
Deposit account established in accordance with ADB Loan 2659-RMI (SF).	844,118
Savings account established for the purpose of accounting for funds held by RepMar in a custodial capacity relating to unclaimed property.	<u>74,800</u>
	<u>\$ 6,441,761</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>\$ 38,415,752</u>
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**REPUBLIC OF THE MARSHALL ISLANDS**

Notes to Financial Statements  
September 30, 2011

(9) Restricted Assets, Continued

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).      \$ 500,007

RMI Ports Authority:

Time certificate of deposit collateralizing loan payable to a bank.      \$ 295,000

(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, 2011, are as follows:

	<u>Transfers Out</u>	<u>Transfers In</u>
General Fund:		
Compact Trust Fund	\$ 819,197	\$ -
Nonmajor governmental funds	<u>275,871</u>	<u>253,240</u>
	<u>1,095,068</u>	<u>253,240</u>
Grants Assistance Fund:		
Grants Assistance Fund	1,739,770	1,739,770
Compact Trust Fund	400,000	-
Nonmajor governmental funds	<u>2,265,927</u>	<u>-</u>
	<u>4,405,697</u>	<u>1,739,770</u>
Compact Trust Fund:		
General Fund	-	819,197
Grants Assistance Fund	<u>-</u>	<u>400,000</u>
	<u>-</u>	<u>1,219,197</u>
Nonmajor governmental funds:		
General Fund	253,240	275,871
Grants Assistance Fund	-	2,265,927
Fiduciary funds	-	15,000
Nonmajor governmental funds	<u>3,601,831</u>	<u>3,601,831</u>
	<u>3,855,071</u>	<u>6,158,629</u>
Fiduciary funds:		
Nonmajor governmental funds	<u>15,000</u>	<u>-</u>
	<u>\$ 9,370,836</u>	<u>\$ 9,370,836</u>

**REPUBLIC OF THE MARSHALL ISLANDS**

Notes to Financial Statements  
September 30, 2011

**(10) Operating Transfers In/Out, Continued**

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.

**(11) Fund Balances**

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

	<u>General</u>	<u>Grants Assistance</u>	<u>Compact Trust</u>	<u>Nonmajor Governmental Funds</u>	<u>Totals</u>
Fund balances:					
Nonspendable:					
Pacific Forum Lines investment	\$ 318,630	\$ -	\$ -	\$ -	\$ 318,630
Pacific Islands Development Bank investment	248,250	-	-	-	248,250
Loan receivable – MEC	9,227,663	-	-	-	9,227,663
Loan receivable – MIDB	1,764,669	-	-	-	1,764,669
Permanent fund principal	-	-	38,415,752	-	38,415,752
Restricted:					
Education	-	362,691	-	-	362,691
Health and environment	-	10,487	-	-	10,487
Capacity building	-	201,064	-	-	201,064
Ebeye special needs	-	231,598	-	-	231,598
Landowner special needs	-	10,472	-	-	10,472
Infrastructure maintenance	-	3,469,702	-	-	3,469,702
Disaster assistance	-	1,323,254	-	-	1,323,254
Compact – other	-	41,070	-	-	41,070
Education – scholarships	-	1,593	-	1,168,489	1,170,082
ADB loan projects	866,386	-	-	-	866,386
Credit card collateralization	50,308	-	-	-	50,308
Nuclear claims related	-	-	-	316,256	316,256
Committed:					
Nitijela	-	-	-	4,600	4,600
Judiciary	-	-	-	219,619	219,619
Education	-	-	-	590,553	590,553
Health and environment	-	-	-	5,168,842	5,168,842
Transportation and communication	-	-	-	18,457	18,457
Internal affairs	-	-	-	106,021	106,021
Justice	-	-	-	6,228	6,228
Foreign affairs and trade	-	-	-	143,883	143,883
Public works	-	-	-	96,178	96,178
Land registration authority	-	-	-	18,118	18,118
Assigned:					
Majuro Capital Improvement Projects	-	1,429,708	-	-	1,429,708
Laura Dock	-	300,000	-	-	300,000
Other ROC projects	-	166,827	-	-	166,827
Other	838,046	-	-	-	838,046
Unassigned	1,180,221	(238,171)	-	-	942,050
	<u>\$ 14,494,173</u>	<u>\$ 7,310,295</u>	<u>\$ 38,415,752</u>	<u>\$ 7,857,244</u>	<u>\$ 68,077,464</u>

# REPUBLIC OF THE MARSHALL ISLANDS

## Notes to Financial Statements September 30, 2011

### (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, 2011, RepMar has contributed the required amounts to the "A Account" as required under Article 16 of the Trust Fund Agreement; however, Article 21 of the Trust Fund Agreement states that the United States may withdraw the Present Market Value of its contributions to the "A Account" if certain events occur.

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

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

At September 30, 2011, the fair market value of contributions to the Compact Trust Fund "A Account" by the United States and the Republic of China, including associated undistributed income, is as follows:

United States - "A Account"	\$ 82,472,438
Republic of China - "A Account"	<u>11,755,261</u>
	\$ <u>94,227,699</u>

### (13) Contingencies and Commitments

#### Sick Leave

It is the policy of RepMar to record expenditures for sick leave when leave is actually taken. Sick leave is compensated time for absence during working hours arising from employee illness or injury. The estimated accumulated amount of unused sick leave as of September 30, 2011 is \$9,737,456.

#### Marshall Islands Social Security Administration (MISSA)

In March 2012, MISSA obtained an actuarial valuation of the Retirement Fund as of October 1, 2011. The valuation reported actuarial accrued liabilities for the Retirement Fund of \$287,327,000. As of September 30, 2011, MISSA recorded total fund equity of \$64,943,274 in the Retirement Fund, as funds available to fund future benefit obligations. These conditions indicate that MISSA may be unable to meet its future benefit obligations.

## REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements  
September 30, 2011

### (13) Contingencies and Commitments, Continued

#### Federal Grants

RepMar participates in a number of federally assisted grant programs and other various U.S. Department of the Interior grants. These programs are subject to financial and compliance audits to ascertain if Federal laws and guidelines have been followed. Questioned costs relating to fiscal years 2005 through 2011 have been set forth in RepMar's Single Audit Report for the year ended September 30, 2011. In addition, RepMar is considered to have responsibility for any questioned costs that may result from Single Audits of subgrantees who have not satisfied the audit requirements of OMB Circular A-133. The ultimate disposition of these questioned costs can be determined only by final action of the respective grantor agencies. Therefore, no provision for any liability that may result upon resolution of this matter has been made in the accompanying financial statements.

#### Nuclear Claims Trust Fund (NCTF)

Section 177(c) of the Compact of Free Association (the Compact) provides, on a one-time grant basis, the amount of \$150,000,000 to RepMar to be used to establish a trust fund from which annual distributions are to be made in accordance with Article II of the Agreement between the Government of the United States and RepMar for Implementation of Section 177 of the Compact (the Agreement). Pursuant to the Agreement, RepMar established the NCTF from which these distributions are made. Over a period of fifteen years, the Nuclear Claims Tribunal (NCT) received \$45,750,000 from the NCTF that was made available for whole or partial payment of monetary awards. During the year ended September 30, 2011, NCT received \$15,000 from the NCTF, which included funds to fund partial payment of monetary awards. As of September 30, 2011, 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, 2011. Accordingly, additional funds will have to be made available through future earnings of the funds invested in the NCTF after the end of the Compact or from a renegotiated financial settlement of damages with the United States.

#### Insurance Coverage

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

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

MEC is currently in noncompliance with certain coverage ratio requirements relating to a loan agreement with the RUS. The mortgage notes have been unconditionally guaranteed by RepMar. RepMar may be liable for the debt service payments to RUS in the event of default by MEC (see note 14).

#### 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.

# REPUBLIC OF THE MARSHALL ISLANDS

## Notes to Financial Statements September 30, 2011

### (13) Contingencies and Commitments, Continued

#### 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 2011, RepMar appropriated \$732,375 to fund such leases.

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

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

<u>Year ending September 30</u>	<u>Total</u>
2012	\$ 813,965
2013	722,565
2014	715,488
2015	676,512
2016	103,350
2017 - 2021	424,019
2022 - 2026	413,841
2027 - 2031	<u>396,459</u>
	<u>\$ 4,266,199</u>

#### Trust Company of the Marshall Islands

Under the Joint Venture Agreement, as amended, between RepMar and the Trust Company of the Marshall Islands, Inc. (TCMI) dated September 14, 1990, and as amended August 18, 1995, after meeting certain contractual working capital requirements, annual gross revenues of the programs managed by TCMI are shared using a graduated schedule. On August 1, 2002, RepMar agreed to set aside the financial provisions of this Joint Venture Agreement in favor of an annual payment of \$1,000,000, payable in quarterly installments of \$250,000 through December 31, 2006. On December 6, 2006, RepMar agreed to again set aside the financial provisions of this Joint Venture Agreement in favor of an annual payment of \$2,000,000, payable in quarterly installments of \$500,000 through December 31, 2009. On June 8, 2009, RepMar agreed to further amend the financial provisions of this Joint Venture Agreement whereby an annual payment of \$3,000,000 is payable by TCMI through December 31, 2010 in monthly installments of \$250,000, with an effective date of July 1, 2008. For the period January 1, 2011 through December 31, 2013, the annual payment amount increases to \$4,000,000, payable in monthly installments of \$333,333 and further increases to an annual payment amount of \$5,000,000 for the period January 1, 2014 through December 31, 2018, payable in monthly installments of \$416,667. During the year ended September, 30, 2011, RepMar received \$3,750,000 under this Joint Venture Agreement.

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

# REPUBLIC OF THE MARSHALL ISLANDS

## Notes to Financial Statements September 30, 2011

### (13) Contingencies and Commitments, Continued

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

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

#### Other Commitments

Significant commitments of the primary government as of September 30, 2011, are as follows:

- a) Guaranteed a bank debt of Tobolar Copra Processing Plant, Inc. (TCPPI) with a letter of guarantee. At September 30, 2011, TCPPI had no recorded bank debt.
- b) Guaranteed a debt of Marshall Islands National Telecommunications Authority (MINTA) in respect of a loan from the United States Rural Utilities Service (RUS, formerly Rural Electrification Administration) with a letter of guarantee. At September 30, 2011, MINTA had guaranteed debt totaling \$29,169,994.
- c) Guaranteed a debt of Marshalls Energy Company, Inc. (MEC) in respect to a loan from the United States Rural Utilities Service (RUS) with a letter of guarantee. At September 30, 2011, MEC had guaranteed debt totaling \$5,890,008.
- d) Guaranteed a bank debt of MEC with a letter of guarantee. At September 30, 2011, MEC had guaranteed bank debt totaling \$3,577,014.
- e) RepMar has entered into lease agreements with certain landowners for the use of land situated at the Majuro international airport. The terms of the lease agreements are for a 25-year period commencing September 1, 1996. Annual lease rental commitments are \$305,613 per year.
- f) RepMar has issued a letter of guarantee in the amount of \$178,000 plus interest for the benefit of the Delap Assembly of God Church for a loan issued by Marshall Islands Development Bank.
- g) In accordance with Cabinet Minute C.M. 121 (2003), the Cabinet of RepMar has issued a government guarantee in the amount of \$5,000,000 for a loan obtained by the Marshall Islands Development Bank. At September 30, 2011, MIDB had guaranteed debt totaling \$1,200,000.
- h) In accordance with Cabinet Minutes C.M. 055 (2007) and C.M. 064 (2011), the Cabinet of RepMar has issued a government guarantee for and on behalf of MEC to a fuel supplier for amounts owing by MEC relating to the purchase of fuel products. At September 30, 2011, MEC had guaranteed debt to a fuel supplier totaling \$12,350,811.

## REPUBLIC OF THE MARSHALL ISLANDS

### Notes to Financial Statements September 30, 2011

#### (14) Subsequent Events

On October 10, 2011, the Cabinet of RepMar approved financial support for Air Marshall Islands, Inc. (AMI) in the amount of \$1,600,000 for the purpose of funding the Dash 8 D-Check. On March 16, 2012, the Marshall Islands Marine Resources Authority provided AMI with a \$1,600,000 capital grant.

On March 6, 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.

On April 24 and September 10, 2012, the Cabinet of RepMar approved financial support for the Marshall Islands National Telecommunications Authority in the combined amount of \$719,000 to fund Rural Utilities Service (RUS) loan payments.

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

On June 22, 2012, the Cabinet of RepMar approved financial support for AMI in the amount of \$500,000 for the purpose of funding delinquent contributions to the Marshall Islands Social Security Administration (MISSA).

On July 12, 2012, MEC and a commercial local bank agreed to extend the maturity of short term loans from September 20, 2012 to July 20, 2015.

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

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

**REPUBLIC OF THE MARSHALL ISLANDS**

**REQUIRED SUPPLEMENTARY INFORMATION**

**YEAR ENDED SEPTEMBER 30, 2011**

**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, 2011

	<u>Budgeted Amounts</u>		Actual - Budgetary Basis (see Note 1)	Variance with Final Budget - Positive (Negative)
	<u>Original</u>	<u>Final</u>		
<b>Revenues:</b>				
Taxes	\$ 24,329,864	\$ 24,629,864	\$ 25,258,814	\$ 628,950
Fishing rights	2,000,000	2,000,000	3,000,000	1,000,000
Fees and charges	370,079	370,079	25,219	(344,860)
Interest and dividends	200,302	200,302	194,545	(5,757)
Other	8,226,525	8,456,972	9,091,130	634,158
Total revenues	<u>35,126,770</u>	<u>35,657,217</u>	<u>37,569,708</u>	<u>1,912,491</u>
<b>Expenditures:</b>				
President and Cabinet	1,900,509	1,897,697	1,708,853	188,844
Office of the Chief Secretary	647,071	646,616	501,220	145,396
Special appropriations	8,749,118	9,048,368	11,947,471	(2,899,103)
Council of Iroij	400,585	402,661	453,403	(50,742)
Office of the Auditor-General	828,106	871,852	866,274	5,578
Public Service Commission	461,665	461,665	464,877	(3,212)
Office of the Attorney General	736,895	735,320	639,154	96,166
Ministries	17,805,941	17,996,220	18,161,182	(164,962)
Environmental Protection Authority	190,194	190,170	176,718	13,452
Nitijela	1,860,616	1,860,578	1,809,064	51,514
Total expenditures	<u>33,580,700</u>	<u>34,111,147</u>	<u>36,728,216</u>	<u>(2,617,069)</u>
Excess of revenues over expenditures	<u>1,546,070</u>	<u>1,546,070</u>	<u>841,492</u>	<u>(704,578)</u>
<b>Other financing sources (uses):</b>				
Loan proceeds	-	-	9,979,846	9,979,846
Operating transfers in	250,002	250,002	253,240	3,238
Operating transfers out	(2,240,742)	(2,240,742)	(2,029,730)	211,012
Other financing sources (uses), net	<u>(1,990,740)</u>	<u>(1,990,740)</u>	<u>8,203,356</u>	<u>10,194,096</u>
Net change in unreserved fund balance	<u>(444,670)</u>	<u>(444,670)</u>	<u>9,044,848</u>	<u>9,489,518</u>
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>444,670</u>	<u>444,670</u>	<u>779,621</u>	<u>334,951</u>
Net change in fund balance	-	-	9,824,469	9,824,469
Fund balance at the beginning of the year	<u>4,287,137</u>	<u>4,287,137</u>	<u>4,287,137</u>	<u>-</u>
Fund balance at the end of the year	<u>\$ 4,287,137</u>	<u>\$ 4,287,137</u>	<u>\$ 14,111,606</u>	<u>\$ 9,824,469</u>

See accompanying notes to required supplementary information - budgetary reporting.

## REPUBLIC OF THE MARSHALL ISLANDS

### Notes to Required Supplementary Information - Budgetary Reporting September 30, 2011

#### (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 2011, Public Law No. 2010-43, was passed by the Nitijela on September 17, 2010. 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.

See Accompanying Independent Auditors' Report.

**REPUBLIC OF THE MARSHALL ISLANDS**

**OTHER SUPPLEMENTARY INFORMATION**

**YEAR ENDED SEPTEMBER 30, 2011**

# REPUBLIC OF THE MARSHALL ISLANDS

## Combining Schedule of Expenditures by Account Governmental Funds Year Ended September 30, 2011

	General	Special Revenue	Permanent	Other	Total
		Grants Assistance	Compact Trust	Governmental Funds	
Expenditures:					
Salaries and wages	\$ 16,635,361	\$ 18,190,193	\$ -	\$ 671,302	\$ 35,496,856
Capital outlay	198,889	7,952,215	-	201,024	8,352,128
Grants and subsidies	6,069,720	10,739,511	-	1,338,779	18,148,010
Medical supplies	-	164,580	-	4,816,212	4,980,792
Contractual services	624,909	4,188,230	-	1,185,688	5,998,827
Travel	970,950	1,417,235	-	878,045	3,266,230
Utilities	4,031,608	2,722,443	-	75,058	6,829,109
Supplies and materials	307,067	2,318,232	-	149,189	2,774,488
Leased housing	681,243	1,210,395	-	77,280	1,968,918
POL	318,557	333,705	-	94,897	747,159
Rentals	1,418,539	178,483	-	22,079	1,619,101
Food stuffs	208,741	1,538,230	-	89,304	1,836,275
Professional services	382,521	357,656	-	256,896	997,073
Principal repayment	1,154,267	1,047,866	-	-	2,202,133
Interest	1,422,706	-	-	-	1,422,706
Allowances	717,839	25,679	-	25,691	769,209
Communications	445,407	274,460	-	84,607	804,474
Freight	28,125	39,020	-	33,524	100,669
Printing and reproduction	53,483	87,251	-	7,092	147,826
Insurance	74,624	42,290	-	15,177	132,091
Other	1,723,228	3,602,399	3,209,837	425,835	8,961,299
	<u>\$ 37,467,784</u>	<u>\$ 56,430,073</u>	<u>\$ 3,209,837</u>	<u>\$ 10,447,679</u>	<u>\$ 107,555,373</u>

See Accompanying Independent Auditors' Report.

**REPUBLIC OF THE MARSHALL ISLANDS**

**GENERAL FUND**

September 30, 2011

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, 2011 (with comparative totals for the year ended September 30, 2010)

	2011	2010
Revenues:		
Taxes:		
Income	\$ 10,940,722	\$ 10,811,629
Import	7,125,836	7,027,847
Gross revenue	5,203,741	6,209,142
Immovable property	1,175,051	242,017
Fuel	586,005	693,782
Penalties and interest	96,234	89,896
Other	131,225	169,018
	<u>25,258,814</u>	<u>25,243,331</u>
Fishing rights	3,000,000	2,000,011
Fees and charges	25,219	40,130
Interest and dividends	194,545	133,841
Other:		
Taiwan grant	3,600,000	4,000,000
Ship registry	3,750,000	3,000,000
Japan grant	619,431	-
Contribution from RMI Ports Authority	214,286	-
Other	907,413	1,182,633
	<u>9,091,130</u>	<u>8,182,633</u>
Total revenues	<u>37,569,708</u>	<u>35,599,946</u>
Expenditures:		
President and Cabinet:		
Office of the President	269,647	410,513
President and Ministers	578,794	580,729
Cabinet Operations	378,455	392,282
Customary Law Commission	194,055	161,501
RMI/USP Joint Secondary Education Project	257,117	272,356
	<u>1,678,068</u>	<u>1,817,381</u>
Office of the Chief Secretary:		
Administration	216,448	248,303
Deputy Chief Secretary - Ebeye	16,212	71,426
Economic Policy, Planning and Statistics Office	142,519	150,684
Office of Environmental Planning and Policy Coordination	78,087	72,414
Disaster Office	42,163	36,011
	<u>495,429</u>	<u>578,838</u>
Special appropriations:		
Marshall Islands Shipping Corporation	844,546	894,600
Alele Corporation	82,669	64,429
General Election	121,564	-
Majuro Capital Improvement Projects	23,950	-
Dry Dock (RMIS Lomor)	180,010	-
MOF Accounting System Upgrade	122,600	-
Air Marshall Islands	362,378	235,541
RMI National Census	-	4,356
Centralized Utility Billings	2,007,792	1,266,717
Land leases	1,204,003	865,778
Majuro Landowners electricity bills	1,537,118	1,150,219
Leased housing	212,727	212,017
Marshall Islands Visitors Authority	37,535	39,760
MWSC water subsidy	90,382	37,150
International subscriptions/membership fees	329,941	352,107
Prior Year Liabilities	777,627	478,181
Copra price stabilization subsidy	1,245,600	1,318,002
ADB loan repayment	2,559,060	2,217,975
Constitutional Convention	28,152	29,820
Micronesia Legal Service Corporation	19,860	-
Kumit Wellness Center	-	99,400
Contingencies	-	212,145
Ebeye Public Works	-	397,600
Marshall Islands National Telecommunications Authority	-	1,015,064
	<u>11,787,514</u>	<u>10,890,861</u>

See Accompanying Independent Auditors' Report.

**REPUBLIC OF THE MARSHALL ISLANDS**

Schedule of Revenues, Expenditures by Function, and Changes in  
Fund Balance - General Fund (Fund 100100), Continued  
Year Ended September 30, 2011  
(with comparative totals for the year ended September 30, 2010)

	2011	2010
Expenditures, continued:		
Council of Iroij:		
Administration	88,083	86,902
Members	365,231	324,105
	453,314	411,007
Nitijela:		
Operations	432,457	475,505
General membership	1,198,339	1,012,430
Speaker's contingency	37,711	77,193
Committee	13,699	4,077
Legislative counsel	106,089	61,416
	1,788,295	1,630,621
Office of the Auditor-General:		
Operations	248,078	218,237
Single audit - local match	351,676	316,657
	599,754	534,894
Public Service Commission:		
Members	92,564	92,564
Administration	362,590	370,367
	455,154	462,931
Office of the Attorney General	635,371	608,980
Ministries:		
Ministry of Education	3,374,352	3,584,535
Ministry of Health and Environment	2,829,635	2,584,021
Ministry of Transportation and Communication	491,178	510,705
Ministry of Resources and Development	607,519	604,897
Ministry of Internal Affairs	1,734,910	1,928,165
Ministry of Justice	2,590,348	2,929,900
Ministry of Finance	2,674,711	2,330,693
Ministry of Foreign Affairs and Trade	2,619,720	2,840,319
Ministry of Public Works	956,605	1,097,632
	17,878,978	18,410,867
Environmental Protection Authority	176,718	164,177
Total expenditures	35,948,595	35,510,557
Excess of revenues over expenditures	1,621,113	89,389
Other financing sources:		
Loan proceeds	9,979,846	-
Operating transfers in:		
Republic of China Fund	-	947,841
Ministry of Justice Fund	253,240	427,167
	253,240	1,375,008
Total other financing sources	10,233,086	1,375,008
Other financing uses:		
Operating transfers out:		
Compact Trust Fund	37,978,325	36,587,850
Judiciary Fund	819,197	-
Marshall Islands Scholarship, Grant and Loan Board Fund	603,756	672,025
Marshall Islands Judiciary Fund	17,511	120,631
Nuclear Claims Tribunal	208,710	-
Local Government Fund	49,650	-
	330,906	284,637
Total other financing uses	2,029,730	1,077,293
Net change in fund balance	9,824,469	387,104
Fund balance at the beginning of the year	4,287,137	3,900,033
Fund balance at the end of the year	\$ 14,111,606	\$ 4,287,137

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, 2011

	Budgeted Amounts		Actual - Budgetary Basis	Variance
	Original	Final		
<b>Revenues:</b>				
<b>Taxes:</b>				
Income	\$ 10,298,360	\$ 10,298,360	\$ 10,940,722	\$ 642,362
Import	7,857,217	7,857,217	7,125,836	(731,381)
Gross revenue	5,112,232	5,112,232	5,203,741	91,509
Immovable property	406,145	706,145	1,175,051	468,906
Fuel	491,156	491,156	586,005	94,849
Penalties and interest	95,000	95,000	96,234	1,234
Other	69,754	69,754	131,225	61,471
	<u>24,329,864</u>	<u>24,629,864</u>	<u>25,258,814</u>	<u>628,950</u>
Fishing rights	2,000,000	2,000,000	3,000,000	1,000,000
Fees and charges	370,079	370,079	25,219	(344,860)
Interest and dividends	200,302	200,302	194,545	(5,757)
Taiwan grant	3,600,000	3,600,000	3,600,000	-
Ship registry	3,750,000	3,750,000	3,750,000	-
Japan grant	-	-	619,431	619,431
RMI Ports Authority	500,000	500,000	214,286	(285,714)
Other	376,525	606,972	607,413	300,441
	<u>8,226,525</u>	<u>8,456,972</u>	<u>9,091,130</u>	<u>634,158</u>
<b>Total revenues</b>	<u>35,126,770</u>	<u>35,657,217</u>	<u>37,569,708</u>	<u>1,912,491</u>
<b>Expenditures:</b>				
<b>President and Cabinet:</b>				
Office of the President	411,891	373,351	282,401	90,950
President and Ministers	554,200	590,333	578,956	11,377
Cabinet Operations	451,414	451,009	386,839	64,170
Customary Law Commission	225,887	225,887	203,540	22,347
RMI/USP Joint Secondary Education Project	257,117	257,117	257,117	-
	<u>1,900,509</u>	<u>1,897,697</u>	<u>1,708,853</u>	<u>188,844</u>
<b>Office of the Chief Secretary:</b>				
Administration	260,077	259,622	219,914	39,708
Deputy Chief Secretary - Ebeye	66,195	66,195	16,212	49,983
EPPSO	188,417	188,417	142,519	45,898
OEPPC	91,422	91,422	78,087	13,335
Disaster Office	40,960	40,960	44,488	(3,528)
	<u>647,071</u>	<u>646,616</u>	<u>501,220</u>	<u>145,396</u>
<b>Special appropriations:</b>				
Marshall Islands Shipping Corporation	844,546	844,546	844,546	-
Alele Corporation	82,669	82,669	82,669	-
General Election	187,677	187,677	153,063	34,614
Majuro Capital Improvement Projects	93,839	93,839	73,850	19,989
Dry Dock (RMIS Lomor)	178,740	178,740	180,010	(1,270)
V7AB Antenna Project	69,510	69,510	-	69,510
Pacific Islands Development Bank	248,250	248,250	-	248,250
MOF Accounting System Upgrade	198,600	198,600	198,973	(373)
Air Marshall Islands	337,377	337,377	362,378	(25,001)
Centralized Utility Billings	972,819	972,819	2,007,792	(1,034,973)
Ebeye KALGOV	121,990	121,990	-	121,990
Land leases	727,248	727,248	1,204,003	(476,755)
Majuro Landowners electricity bills	422,645	422,645	1,537,118	(1,114,473)
Leased housing	213,990	213,240	212,727	513
Marshall Islands Visitors Authority	37,535	37,535	37,535	-
MWSC water subsidy	84,455	84,455	90,382	(5,927)
International subscriptions/membership fees	329,808	329,808	329,941	(133)
Prior Year Liabilities	369,608	669,608	779,812	(110,204)
Copra price stabilization subsidy	1,191,600	1,191,600	1,245,600	(54,000)
ADB loan repayment	1,988,200	1,988,200	2,559,060	(570,860)
Constitutional Convention	28,152	28,152	28,152	-
Micronesia Legal Service Corporation	19,860	19,860	19,860	-
	<u>8,749,118</u>	<u>9,048,368</u>	<u>11,947,471</u>	<u>(2,899,103)</u>
<b>Council of Iroij:</b>				
Administration	95,099	87,099	88,172	(1,073)
Members	305,486	315,562	365,231	(49,669)
	<u>400,585</u>	<u>402,661</u>	<u>453,403</u>	<u>(50,742)</u>
<b>Office of the Auditor-General:</b>				
Auditor-General salary	57,831	57,831	-	57,831
Operations	255,691	299,437	250,019	49,418
Single audit - local match	514,584	514,584	616,255	(101,671)
	<u>828,106</u>	<u>871,852</u>	<u>866,274</u>	<u>5,578</u>

See Accompanying Independent Auditors' Report.

# REPUBLIC OF THE MARSHALL ISLANDS

## Schedule of Revenues, Expenditures and Changes in Fund Balance, Continued Budget and Actual - General Fund (Fund 100100) Year Ended September 30, 2011

	Budgeted Amounts		Actual - Budgetary Basis	Variance
	Original	Final		
Expenditures, continued:				
Public Service Commission:				
Members	87,632	87,632	92,564	(4,932)
Administration	374,033	374,033	372,313	1,720
	<u>461,665</u>	<u>461,665</u>	<u>464,877</u>	<u>(3,212)</u>
Office of the Attorney General	736,895	735,320	639,154	96,166
Ministries:				
Ministry of Education	3,551,382	3,548,662	3,377,104	171,558
Ministry of Health and Environment	2,977,449	2,976,376	2,869,873	106,503
Ministry of Transportation and Communication	629,980	628,606	496,726	131,880
Ministry of Resources and Development	663,283	663,228	619,256	43,972
Ministry of Internal Affairs	1,820,723	1,812,819	1,794,104	18,715
Ministry of Justice	2,725,404	2,723,955	2,595,777	128,178
Ministry of Finance	2,025,014	1,992,628	2,754,701	(762,073)
Ministry of Foreign Affairs and Trade	2,343,725	2,581,095	2,690,179	(109,084)
Ministry of Public Works	1,068,981	1,068,851	963,462	105,389
	<u>17,805,941</u>	<u>17,996,220</u>	<u>18,161,182</u>	<u>(164,962)</u>
Environmental Protection Authority	190,194	190,170	176,718	13,452
Nitijela:				
Operations	486,851	512,586	444,391	68,195
General Membership	1,124,776	1,139,986	1,202,674	(62,688)
Speaker's Contingency	79,232	67,354	42,211	25,143
Committee	44,374	16,215	13,699	2,516
Legislative Counsel	125,383	124,437	106,089	18,348
	<u>1,860,616</u>	<u>1,860,578</u>	<u>1,809,064</u>	<u>51,514</u>
Total expenditures	<u>33,580,700</u>	<u>34,111,147</u>	<u>36,728,216</u>	<u>(2,617,069)</u>
Excess of revenues over expenditures	<u>1,546,070</u>	<u>1,546,070</u>	<u>841,492</u>	<u>(704,578)</u>
Other financing sources:				
Loan proceeds	-	-	9,979,846	9,979,846
Operating transfers in:				
Ministry of Justice Fund	250,002	250,002	253,240	3,238
	<u>250,002</u>	<u>250,002</u>	<u>253,240</u>	<u>3,238</u>
Other financing uses:				
Operating transfers out:				
Compact Trust Fund	813,264	813,264	819,197	(5,933)
Judiciary Fund	883,286	883,286	603,756	279,530
Marshall Islands Scholarship, Grant and Loan Board Fund	122,360	122,360	17,511	104,849
Marshall Islands Judiciary Fund	-	-	208,710	(208,710)
Nuclear Claims Tribunal	49,650	49,650	49,650	-
Local Government Fund	372,182	372,182	330,906	41,276
	<u>2,240,742</u>	<u>2,240,742</u>	<u>2,029,730</u>	<u>211,012</u>
Net change in unreserved fund balance	(444,670)	(444,670)	9,044,848	9,489,518
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	444,670	444,670	779,621	334,951
Net change in fund balance	-	-	9,824,469	9,824,469
Fund balance at the beginning of the year	4,287,137	4,287,137	4,287,137	-
Fund balance at the end of the year	<u>\$ 4,287,137</u>	<u>\$ 4,287,137</u>	<u>\$ 14,111,606</u>	<u>\$ 9,824,469</u>

See Accompanying Independent Auditors' Report.

## REPUBLIC OF THE MARSHALL ISLANDS

### NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE FUNDS

September 30, 2011

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, 2011, follows:

#### Public Works Fund

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

#### Land Registration Authority Fund

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

#### Labor (General) Fund

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

#### Labor (Bond) Fund

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

#### Ministry of Justice Fund

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

#### Marshall Islands Revised Code Fund

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

#### Resident Workers Training Account Fund

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

See Accompanying Independent Auditors' Report.

## REPUBLIC OF THE MARSHALL ISLANDS

### NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE FUNDS

September 30, 2011

#### 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, 2011

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, 2011**

	200105	200224	200318	200319	200332	200333	200340	200520	200525
	Public Works	Land Registration Authority	Labor (General)	Labor (Bond)	Ministry of Justice	Marshall Islands Revised Code	Resident Workers Training Account	Sea Patrol	Transportation Services
<b>ASSETS</b>									
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Time certificates of deposit	-	-	-	-	-	-	-	-	-
Receivables, net:									
Taxes	-	-	-	-	-	-	93,800	-	-
General	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	810	-	-
Due from other funds	100,324	18,118	144,248	109,260	198,816	4,600	713,705	5,868	18,457
Advances	-	-	-	-	8,618	-	704	-	-
Total assets	<u>\$ 100,324</u>	<u>\$ 18,118</u>	<u>\$ 144,248</u>	<u>\$ 109,260</u>	<u>\$ 207,434</u>	<u>\$ 4,600</u>	<u>\$ 809,019</u>	<u>\$ 5,868</u>	<u>\$ 18,457</u>
<b>LIABILITIES AND FUND BALANCES</b>									
<b>Liabilities:</b>									
Accounts payable	\$ 4,146	\$ -	\$ 365	\$ (1,500)	\$ 207,074	\$ -	\$ 217,875	\$ -	\$ -
Other liabilities and accruals	-	-	-	110,760	-	-	591	-	-
Due to other funds	-	-	-	-	-	-	-	-	-
Total liabilities	<u>4,146</u>	<u>-</u>	<u>365</u>	<u>109,260</u>	<u>207,074</u>	<u>-</u>	<u>218,466</u>	<u>-</u>	<u>-</u>
<b>Fund balances:</b>									
Restricted	-	-	-	-	-	-	-	-	-
Committed	96,178	18,118	143,883	-	360	4,600	590,553	5,868	18,457
Total fund balances	<u>96,178</u>	<u>18,118</u>	<u>143,883</u>	<u>-</u>	<u>360</u>	<u>4,600</u>	<u>590,553</u>	<u>5,868</u>	<u>18,457</u>
Total liabilities and fund balances	<u>\$ 100,324</u>	<u>\$ 18,118</u>	<u>\$ 144,248</u>	<u>\$ 109,260</u>	<u>\$ 207,434</u>	<u>\$ 4,600</u>	<u>\$ 809,019</u>	<u>\$ 5,868</u>	<u>\$ 18,457</u>

See Accompanying Independent Auditors' Report.

**REPUBLIC OF THE MARSHALL ISLANDS**

**NONMAJOR GOVERNMENTAL FUNDS  
SPECIAL REVENUE FUNDS**

**Combining Balance Sheet, Continued  
September 30, 2011**

	200527	200528	300612						
	Registrar General	Ministry of Internal Affairs	Four-Atoll Medical	Marshall Islands Scholarship, Grant and Loan Board	Marshall Islands Judiciary	Health Care Revenue	Marshall Islands Health	Nuclear Claims Tribunal	Total
<b>ASSETS</b>									
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ 870,175	\$ 223,792	\$ 2,457,088	\$ 847,925	\$ -	\$ 4,398,980
Time certificates of deposit	-	-	-	299,429	-	-	-	-	299,429
Receivables, net:									
Taxes	-	-	-	-	-	-	-	-	93,800
General	-	-	-	-	-	-	1,231,014	-	1,231,014
Other	-	-	218,621	-	-	268,478	14,475	-	502,384
Due from other funds	391	105,440	97,635	-	-	801,851	1,401,979	-	3,720,692
Advances	-	470	-	-	-	155,813	44,750	-	210,355
Total assets	<u>\$ 391</u>	<u>\$ 105,910</u>	<u>\$ 316,256</u>	<u>\$ 1,169,604</u>	<u>\$ 223,792</u>	<u>\$ 3,683,230</u>	<u>\$ 3,540,143</u>	<u>\$ -</u>	<u>\$ 10,456,654</u>
<b>LIABILITIES AND FUND BALANCES</b>									
<b>Liabilities:</b>									
Accounts payable	\$ -	\$ 280	\$ -	\$ 1,115	\$ 4,173	\$ 155,588	\$ 837,506	\$ -	\$ 1,426,622
Other liabilities and accruals	-	-	-	-	-	244,465	15,121	-	370,937
Due to other funds	-	-	-	-	-	-	801,851	-	801,851
Total liabilities	<u>-</u>	<u>280</u>	<u>-</u>	<u>1,115</u>	<u>4,173</u>	<u>400,053</u>	<u>1,654,478</u>	<u>-</u>	<u>2,599,410</u>
<b>Fund balances:</b>									
Restricted	-	-	316,256	1,168,489	-	-	-	-	1,484,745
Committed	391	105,630	-	-	219,619	3,283,177	1,885,665	-	6,372,499
Total fund balances	<u>391</u>	<u>105,630</u>	<u>316,256</u>	<u>1,168,489</u>	<u>219,619</u>	<u>3,283,177</u>	<u>1,885,665</u>	<u>-</u>	<u>7,857,244</u>
Total liabilities and fund Balances	<u>\$ 391</u>	<u>\$ 105,910</u>	<u>\$ 316,256</u>	<u>\$ 1,169,604</u>	<u>\$ 223,792</u>	<u>\$ 3,683,230</u>	<u>\$ 3,540,143</u>	<u>\$ -</u>	<u>\$ 10,456,654</u>

See Accompanying Independent Auditors' Report.

**REPUBLIC OF THE MARSHALL ISLANDS**

**NONMAJOR GOVERNMENTAL FUNDS  
SPECIAL REVENUE FUNDS**

**Combining Schedule of Revenues, Expenditures By Function,  
and Changes in Fund Balances (Deficits)  
Year Ended September 30, 2011**

	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	\$ -	\$ -	\$ -	\$ -	\$ 68,730	\$ -	\$ -	\$ -	\$ -
Fees and charges	74,759	-	53,225	-	543,370	-	347,836	-	-
Sales	64,374	-	-	-	33,585	-	-	-	120
Total revenues	139,133	-	53,225	-	645,685	-	347,836	-	120
Expenditures by Function:									
Current:									
Judiciary	-	-	-	-	-	-	-	-	-
Ministry of Education	-	-	-	-	-	-	277,056	-	-
Ministry of Health and Environment	-	-	-	-	-	-	-	-	-
Ministry of Internal Affairs	-	-	-	-	-	-	-	-	-
Ministry of Justice	-	-	-	-	392,445	-	-	-	-
Ministry of Foreign Affairs and Trade	-	-	4,098	-	-	-	-	-	-
Ministry of Public Works	58,110	-	-	-	-	-	-	-	-
Nuclear claims related	-	-	-	-	-	-	-	-	-
Total expenditures	58,110	-	4,098	-	392,445	-	277,056	-	-
Excess (deficiency) of revenues over (under) expenditures	81,023	-	49,127	-	253,240	-	70,780	-	120
Other financing sources (uses):									
Operating transfers in	-	-	-	-	-	-	-	-	-
Operating transfers out	-	-	-	-	(253,240)	-	-	-	-
Total other financing sources (uses), net	-	-	-	-	(253,240)	-	-	-	-
Net change in fund balances (deficits)	81,023	-	49,127	-	-	-	70,780	-	120
Fund balances (deficits) at the beginning of the year	15,155	18,118	94,756	-	360	4,600	519,773	5,868	18,337
Fund balances at the end of the year	\$ 96,178	\$ 18,118	\$ 143,883	\$ -	\$ 360	\$ 4,600	\$ 590,553	\$ 5,868	\$ 18,457

See Accompanying Independent Auditors' Report.

**REPUBLIC OF THE MARSHALL ISLANDS**

**NONMAJOR GOVERNMENTAL FUNDS  
SPECIAL REVENUE FUNDS**

**Combining Schedule of Revenues, Expenditures By Function,  
and Changes in Fund Balances (Deficits), Continued  
Year Ended September 30, 2011**

	200527	200528	300612	Marshall Islands Scholarship, Grant and Loan Board	Marshall Islands Judiciary	Health Care Revenue	Marshall Islands Health	Nuclear Claims Tribunal	Total
	Registrar General	Ministry of Internal Affairs	Four-Atoll Medical						
Revenues:									
Federal and other grants	\$ -	\$ -	\$ -	\$ -	\$ 187,808	\$ 522,114	\$ -	\$ -	\$ 778,652
Fees and charges	-	19,804	-	31,581	38,179	379,771	7,192,191	-	8,680,716
Sales	-	54,837	-	-	-	-	-	-	152,916
Total revenues	<u>-</u>	<u>74,641</u>	<u>-</u>	<u>31,581</u>	<u>225,987</u>	<u>901,885</u>	<u>7,192,191</u>	<u>-</u>	<u>9,612,284</u>
Expenditures by Function:									
Current:									
Judiciary	-	-	-	-	215,078	-	-	-	215,078
Ministry of Education	-	-	-	1,424,322	-	-	-	-	1,701,378
Ministry of Health and Environment	-	-	-	-	-	3,268,870	3,749,933	-	7,018,803
Ministry of Internal Affairs	-	50,089	-	-	-	-	-	-	50,089
Ministry of Justice	-	-	-	-	-	-	-	-	392,445
Ministry of Foreign Affairs and Trade	-	-	-	-	-	-	-	-	4,098
Ministry of Public Works	-	-	-	-	-	-	-	-	58,110
Nuclear claims related	-	-	959,024	-	-	-	-	48,654	1,007,678
Total expenditures	<u>-</u>	<u>50,089</u>	<u>959,024</u>	<u>1,424,322</u>	<u>215,078</u>	<u>3,268,870</u>	<u>3,749,933</u>	<u>48,654</u>	<u>10,447,679</u>
Excess (deficiency) of revenues over (under) expenditures	<u>-</u>	<u>24,552</u>	<u>(959,024)</u>	<u>(1,392,741)</u>	<u>10,909</u>	<u>(2,366,985)</u>	<u>3,442,258</u>	<u>(48,654)</u>	<u>(835,395)</u>
Other financing sources (uses):									
Operating transfers in	-	-	986,926	1,296,512	208,710	3,601,831	-	64,650	6,158,629
Operating transfers out	-	-	-	-	-	-	(3,601,831)	-	(3,855,071)
Total other financing sources (uses), net	<u>-</u>	<u>-</u>	<u>986,926</u>	<u>1,296,512</u>	<u>208,710</u>	<u>3,601,831</u>	<u>(3,601,831)</u>	<u>64,650</u>	<u>2,303,558</u>
Net change in fund balances (deficits)	<u>-</u>	<u>24,552</u>	<u>27,902</u>	<u>(96,229)</u>	<u>219,619</u>	<u>1,234,846</u>	<u>(159,573)</u>	<u>15,996</u>	<u>1,468,163</u>
Fund balances (deficits) at the beginning of the year	<u>391</u>	<u>81,078</u>	<u>288,354</u>	<u>1,264,718</u>	<u>-</u>	<u>2,048,331</u>	<u>2,045,238</u>	<u>(15,996)</u>	<u>6,389,081</u>
Fund balances at the end of the year	<u>\$ 391</u>	<u>\$ 105,630</u>	<u>\$ 316,256</u>	<u>\$ 1,168,489</u>	<u>\$ 219,619</u>	<u>\$ 3,283,177</u>	<u>\$ 1,885,665</u>	<u>\$ -</u>	<u>\$ 7,857,244</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 (Deficits)  
Year Ended September 30, 2011**

	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	\$ -	\$ -	\$ -	\$ -	\$ 68,730	\$ -	\$ -	\$ -	\$ -
Fees and charges	74,759	-	53,225	-	543,370	-	347,836	-	-
Sales	64,374	-	-	-	33,585	-	-	-	120
Total revenues	<u>139,133</u>	<u>-</u>	<u>53,225</u>	<u>-</u>	<u>645,685</u>	<u>-</u>	<u>347,836</u>	<u>-</u>	<u>120</u>
Expenditures by Account:									
Grants and subsidies	-	-	-	-	-	-	-	-	-
Salaries and wages	-	-	-	-	-	-	97,625	-	-
Medical supplies	-	-	-	-	-	-	-	-	-
Contractual services	-	-	-	-	-	-	13,740	-	-
Capital outlay	4,910	-	-	-	97,531	-	2,617	-	-
Travel	-	-	-	-	36,764	-	21,112	-	-
Food stuffs	6,054	-	-	-	80,568	-	-	-	-
Supplies and materials	12,568	-	2,813	-	66,324	-	17,112	-	-
POL	31,014	-	920	-	52,708	-	1,155	-	-
Rentals	3,465	-	-	-	554	-	3,000	-	-
Allowances	-	-	-	-	-	-	-	-	-
Communications	-	-	-	-	6,685	-	13,504	-	-
Insurance	-	-	-	-	2,555	-	-	-	-
Utilities	-	-	-	-	-	-	-	-	-
Leased housing	-	-	-	-	23,280	-	-	-	-
Freight	-	-	-	-	-	-	-	-	-
Professional services	-	-	-	-	-	-	-	-	-
Printing and reproduction	-	-	-	-	5,618	-	452	-	-
Other	99	-	365	-	19,858	-	106,739	-	-
Total expenditures	<u>58,110</u>	<u>-</u>	<u>4,098</u>	<u>-</u>	<u>392,445</u>	<u>-</u>	<u>277,056</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of revenues over (under) expenditures	<u>81,023</u>	<u>-</u>	<u>49,127</u>	<u>-</u>	<u>253,240</u>	<u>-</u>	<u>70,780</u>	<u>-</u>	<u>120</u>
Other financing sources (uses):									
Operating transfers in	-	-	-	-	-	-	-	-	-
Operating transfers out	-	-	-	-	(253,240)	-	-	-	-
Total other financing sources (uses), net	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(253,240)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances (deficits)	81,023	-	49,127	-	-	-	70,780	-	120
Fund balances (deficits) at the beginning of the year	15,155	18,118	94,756	-	360	4,600	519,773	5,868	18,337
Fund balances at the end of the year	<u>\$ 96,178</u>	<u>\$ 18,118</u>	<u>\$ 143,883</u>	<u>\$ -</u>	<u>\$ 360</u>	<u>\$ 4,600</u>	<u>\$ 590,553</u>	<u>\$ 5,868</u>	<u>\$ 18,457</u>

See Accompanying Independent Auditors' Report.

**REPUBLIC OF THE MARSHALL ISLANDS**

**NONMAJOR GOVERNMENTAL FUNDS  
SPECIAL REVENUE FUNDS**

**Combining Schedule of Revenues, Expenditures By Account,  
and Changes in Fund Balances (Deficits), Continued  
Year Ended September 30, 2011**

	200527	200528	300612	Marshall Islands Scholarship, Grant and Loan Board	Marshall Islands Judiciary	Health Care Revenue	Marshall Islands Health	Nuclear Claims Tribunal	Total
	Registrar General	Ministry of Internal Affairs	Four-Atoll Medical	Marshall Islands Scholarship, Grant and Loan Board	Marshall Islands Judiciary	Health Care Revenue	Marshall Islands Health	Nuclear Claims Tribunal	Total
Revenues:									
Federal and other grants	\$ -	\$ -	\$ -	\$ -	\$ 187,808	\$ 522,114	\$ -	\$ -	\$ 778,652
Fees and charges	-	19,804	-	31,581	38,179	379,771	7,192,191	-	8,680,716
Sales	-	54,837	-	-	-	-	-	-	152,916
Total revenues	-	74,641	-	31,581	225,987	901,885	7,192,191	-	9,612,284
Expenditures by Account:									
Grants and subsidies	-	-	-	1,293,314	-	45,465	-	-	1,338,779
Salaries and wages	-	-	-	55,325	-	215,419	302,933	-	671,302
Medical supplies	-	-	-	-	-	2,568,373	2,247,839	-	4,816,212
Contractual services	-	7,912	959,024	-	5,012	-	200,000	-	1,185,688
Capital outlay	-	2,975	-	3,958	11,745	77,288	-	-	201,024
Travel	-	32,585	-	17,104	28,218	59,453	682,809	-	878,045
Food stuffs	-	1,468	-	-	1,214	-	-	-	89,304
Supplies and materials	-	3,843	-	57	12,085	24,188	10,199	-	149,189
POL	-	-	-	-	9,100	-	-	-	94,897
Rentals	-	-	-	12,000	3,060	-	-	-	22,079
Allowances	-	-	-	-	25,691	-	-	-	25,691
Communications	-	-	-	17,969	11,690	21,913	12,846	-	84,607
Insurance	-	-	-	-	561	-	12,061	-	15,177
Utilities	-	-	-	-	35,012	-	40,046	-	75,058
Leased housing	-	-	-	-	54,000	-	-	-	77,280
Freight	-	-	-	-	119	33,405	-	-	33,524
Professional services	-	-	-	-	736	57,160	199,000	-	256,896
Printing and reproduction	-	-	-	-	1,022	-	-	-	7,092
Other	-	1,306	-	24,595	15,813	166,206	42,200	48,654	425,835
Total expenditures	-	50,089	959,024	1,424,322	215,078	3,268,870	3,749,933	48,654	10,447,679
Excess (deficiency) of revenues over (under) expenditures	-	24,552	(959,024)	(1,392,741)	10,909	(2,366,985)	3,442,258	(48,654)	(835,395)
Other financing sources (uses):									
Operating transfers in	-	-	986,926	1,296,512	208,710	3,601,831	-	64,650	6,158,629
Operating transfers out	-	-	-	-	-	-	(3,601,831)	-	(3,855,071)
Total other financing sources (uses), net	-	-	986,926	1,296,512	208,710	3,601,831	(3,601,831)	64,650	2,303,558
Net change in fund balances (deficits)	-	24,552	27,902	(96,229)	219,619	1,234,846	(159,573)	15,996	1,468,163
Fund balances (deficits) at the beginning of the year	391	81,078	288,354	1,264,718	-	2,048,331	2,045,238	(15,996)	6,389,081
Fund balances at the end of the year	\$ 391	\$ 105,630	\$ 316,256	\$ 1,168,489	\$ 219,619	\$ 3,283,177	\$ 1,885,665	\$ -	\$ 7,857,244

See Accompanying Independent Auditors' Report.

## REPUBLIC OF THE MARSHALL ISLANDS

### FIDUCIARY FUNDS - PRIVATE PURPOSE TRUSTS

September 30, 2011

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, 2011, follows:

#### Marshall Islands Social Security Administration (MISSA)

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

#### Kwajalein Atoll Trust Fund

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

#### Section 212 Kwajalein Landowners Fund

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

#### Nuclear Claims Trust Fund

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

See Accompanying Independent Auditors’ Report.

**REPUBLIC OF THE MARSHALL ISLANDS**

Combining Schedule of Fiduciary Net Assets  
Fiduciary Funds - Private Purpose Trusts  
September 30, 2011

DILOG Fund Number	350610	510610	300614		
	Marshall Islands Social Security Admin.	Kwajalein Atoll Trust	Section 212 Kwajalein Landowners	Nuclear Claims Trust	
	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>	
				Total	
	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>	
<u>ASSETS</u>					
Cash and cash equivalents	\$ 1,265,266	\$ -	\$ -	\$ -	\$ 1,265,266
Time certificates of deposit	2,300,000	-	-	-	2,300,000
Receivables, net:					
Contributions	2,519,145	-	-	-	2,519,145
Other	342,414	-	-	-	342,414
Investments	60,158,938	-	-	47,401	60,206,339
Due from other funds	-	421,658	540,021	10,461	972,140
Capital assets, net of accumulated depreciation	31,227	-	-	-	31,227
Total assets	<u>66,616,990</u>	<u>421,658</u>	<u>540,021</u>	<u>57,862</u>	<u>67,636,531</u>
<u>LIABILITIES</u>					
Accounts payable	82,016	-	-	-	82,016
Other liabilities and accruals	147,465	-	-	-	147,465
Due to other funds	1,401,979	-	-	-	1,401,979
Total liabilities	<u>1,631,460</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,631,460</u>
<u>NET ASSETS</u>					
Held in trust for:					
Social security benefits	64,985,530	-	-	-	64,985,530
Nuclear claims	-	-	-	57,862	57,862
Land use distributions	-	421,658	540,021	-	961,679
Total net assets	<u>\$ 64,985,530</u>	<u>\$ 421,658</u>	<u>\$ 540,021</u>	<u>\$ 57,862</u>	<u>\$ 66,005,071</u>

See Accompanying Independent Auditors' Report.

**REPUBLIC OF THE MARSHALL ISLANDS**

Combining Schedule of Changes in Fiduciary Net Assets  
Fiduciary Funds - Private Purpose Trusts  
Year Ended September 30, 2011

DILOG Fund Number	350610	510610	300614	
	Marshall Islands Social Security Admin.	Kwajalein Atoll Trust	Section 212 Kwajalein Landowners	Nuclear Claims Trust
	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
				Total
	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
Additions:				
Contributions:				
Private employees	\$ 9,545,474	\$ -	\$ -	\$ -
Government employees	3,939,534	-	-	-
Penalties and interest	3,412,009	-	-	-
	<u>16,897,017</u>	<u>-</u>	<u>-</u>	<u>-</u>
Allowance for doubtful accounts	(4,375,888)	-	-	-
	<u>12,521,129</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total contributions				12,521,129
Investment earnings (loss):				
Net decrease in the fair value of investments	(1,528,637)	-	-	-
Interest and dividends	1,569,394	-	44,430	367
	<u>40,757</u>	<u>-</u>	<u>44,430</u>	<u>367</u>
Total investment earnings				85,554
Less investment expense	139,265	-	-	2,500
	<u>(98,508)</u>	<u>-</u>	<u>44,430</u>	<u>(2,133)</u>
Net investment earnings (loss)				(56,211)
Other:				
Compact funding	-	-	16,871,520	-
Other	339,090	-	-	-
	<u>339,090</u>	<u>-</u>	<u>16,871,520</u>	<u>-</u>
Total additions	12,761,711	-	16,915,950	(2,133)
Deductions:				
Land use distributions	-	-	45,435,144	-
Benefits	15,482,884	-	-	-
Administrative expenses	837,285	-	-	-
Transfers out	-	-	-	15,000
	<u>16,320,169</u>	<u>-</u>	<u>45,435,144</u>	<u>15,000</u>
Total deductions				61,770,313
Change in net assets	(3,558,458)	-	(28,519,194)	(17,133)
Net assets at the beginning of the year	68,543,988	421,658	29,059,215	74,995
	<u>68,543,988</u>	<u>421,658</u>	<u>29,059,215</u>	<u>74,995</u>
Net assets at the end of the year	\$ 64,985,530	\$ 421,658	\$ 540,021	\$ 57,862
	<u>\$ 64,985,530</u>	<u>\$ 421,658</u>	<u>\$ 540,021</u>	<u>\$ 57,862</u>
				<u>\$ 66,005,071</u>

See Accompanying Independent Auditors' Report.

## REPUBLIC OF THE MARSHALL ISLANDS

### NONMAJOR COMPONENT UNITS

September 30, 2011

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, 2011, follows:

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

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

#### Kwajalein Atoll Joint Utilities Resources, Inc. (KAJUR)

KAJUR was incorporated under the laws of the Republic of the Marshall Islands on September 1, 1990, to generate and distribute utilities on the island of Ebeye. KAJUR is governed by the Board of Directors of the Marshalls Energy Company, Inc. RepMar provides financial support to KAJUR through legislative appropriations.

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

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

#### Majuro Resort, Inc. (MRI)

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

#### Majuro Water and Sewer Company, Inc. (MWSC)

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

See Accompanying Independent Auditors' Report.

## REPUBLIC OF THE MARSHALL ISLANDS

### NONMAJOR COMPONENT UNITS

September 30, 2011

#### Marshall Islands Postal Services Authority (MIPSA)

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

#### Marshall Islands Shipping Corporation (MISC)

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

#### Marshall Islands Visitors Authority (MIVA)

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

#### RMI Environmental Protection Authority (EPA)

EPA was established for the protection and management of the environment. EPA is governed by a five-member Board of Directors appointed by the President in consultation with the Minister of Resources and Development. RepMar provides financial support to EPA through legislative appropriations.

#### Tobolar Copra Processing Plant, Inc. (TCPPI)

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

See Accompanying Independent Auditors' Report.

# REPUBLIC OF THE MARSHALL ISLANDS

## NONMAJOR COMPONENT UNITS

### Combining Schedule of Net Assets (Deficiency) September 30, 2011

	Air Marshall Islands, Inc.	Kwajalein Atoll Joint Utilities Resources, Inc.	Majuro Atoll Waste Company, Inc.	Majuro Resort, Inc.	Majuro Water and Sewer Company, Inc.	Marshall Islands Postal Service Authority	Marshall Islands Shipping Corporation	Marshall Islands Visitors Authority	RMI Environmental Protection Authority	Tobolar Copra Processing Plant, Inc.	Total
<b>ASSETS</b>											
<b>Current assets:</b>											
Cash and cash equivalents	\$ 13,015	\$ 161,237	\$ 41,502	\$ 95,995	\$ 97,637	\$ 132,279	\$ 38,506	\$ 50,028	\$ 112,052	\$ 2,058,129	\$ 2,800,380
Receivables, net	124,735	557,793	23,864	280,257	255,211	30,313	137,733	165,379	56,508	396,364	2,028,157
Inventories	474,598	696,162	-	33,066	146,694	13,984	50,566	-	-	997,392	2,412,462
Other current assets	177,873	12,158	2,000	37,617	38,681	8,744	-	1,351	-	205,972	484,396
<b>Total current assets</b>	<b>790,221</b>	<b>1,427,350</b>	<b>67,366</b>	<b>446,935</b>	<b>538,223</b>	<b>185,320</b>	<b>226,805</b>	<b>216,758</b>	<b>168,560</b>	<b>3,657,857</b>	<b>7,725,395</b>
<b>Noncurrent assets:</b>											
Nondepreciable capital assets	-	-	-	-	-	-	-	-	-	12,210	12,210
Other capital assets, net of accumulated depreciation	3,966,951	3,526,918	856,738	1,406,279	234,767	76,861	164,339	32,572	52,609	618,822	10,936,856
<b>Total noncurrent assets</b>	<b>3,966,951</b>	<b>3,526,918</b>	<b>856,738</b>	<b>1,406,279</b>	<b>234,767</b>	<b>76,861</b>	<b>164,339</b>	<b>32,572</b>	<b>52,609</b>	<b>631,032</b>	<b>10,949,066</b>
<b>Total assets</b>	<b>\$ 4,757,172</b>	<b>\$ 4,954,268</b>	<b>\$ 924,104</b>	<b>\$ 1,853,214</b>	<b>\$ 772,990</b>	<b>\$ 262,181</b>	<b>\$ 391,144</b>	<b>\$ 249,330</b>	<b>\$ 221,169</b>	<b>\$ 4,288,889</b>	<b>\$ 18,674,461</b>
<b>LIABILITIES</b>											
<b>Current liabilities:</b>											
Current portion of long-term debt	\$ 235,230	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 235,230
Accounts payable	1,825,055	51,969	52,061	105,193	52,644	3,499	98,602	-	6,469	40,163	2,235,655
Other liabilities and accruals	258,214	1,350,708	75,144	1,925,240	384,632	130,092	613,391	11,592	-	53,340	4,802,353
Due to primary government	3,116,890	-	-	-	-	-	-	-	-	-	3,116,890
Due to component units	170,967	-	-	-	-	-	-	-	-	-	170,967
Deferred revenues	157,763	52,835	-	-	-	51,020	-	-	-	-	261,618
<b>Total current liabilities</b>	<b>5,764,119</b>	<b>1,455,512</b>	<b>127,205</b>	<b>2,030,433</b>	<b>437,276</b>	<b>184,611</b>	<b>711,993</b>	<b>11,592</b>	<b>6,469</b>	<b>93,503</b>	<b>10,822,713</b>
<b>Noncurrent liabilities:</b>											
Noncurrent portion of long-term debt	701,898	-	-	-	-	-	-	-	-	-	701,898
Due to component units	66,374	-	-	-	-	-	-	-	-	-	66,374
<b>Total liabilities</b>	<b>6,532,391</b>	<b>1,455,512</b>	<b>127,205</b>	<b>2,030,433</b>	<b>437,276</b>	<b>184,611</b>	<b>711,993</b>	<b>11,592</b>	<b>6,469</b>	<b>93,503</b>	<b>11,590,985</b>
<b>NET ASSETS (DEFICIENCY)</b>											
Invested in capital assets, net of related debt	3,966,951	3,526,918	856,738	1,406,279	234,767	76,861	164,339	32,572	52,609	631,032	10,949,066
Restricted	-	-	-	-	-	-	-	-	88,522	-	88,522
Unrestricted	(5,742,170)	(28,162)	(59,839)	(1,583,498)	100,947	709	(485,188)	205,166	73,569	3,564,354	(3,954,112)
<b>Total net assets (deficiency)</b>	<b>(1,775,219)</b>	<b>3,498,756</b>	<b>796,899</b>	<b>(177,219)</b>	<b>335,714</b>	<b>77,570</b>	<b>(320,849)</b>	<b>237,738</b>	<b>214,700</b>	<b>4,195,386</b>	<b>7,083,476</b>
	<b>\$ 4,757,172</b>	<b>\$ 4,954,268</b>	<b>\$ 924,104</b>	<b>\$ 1,853,214</b>	<b>\$ 772,990</b>	<b>\$ 262,181</b>	<b>\$ 391,144</b>	<b>\$ 249,330</b>	<b>\$ 221,169</b>	<b>\$ 4,288,889</b>	<b>\$ 18,674,461</b>

See Accompanying Independent Auditors' Report.

# REPUBLIC OF THE MARSHALL ISLANDS

## NONMAJOR COMPONENT UNITS

### Combining Schedule of Revenues, Expenses, and Changes in Net Assets (Deficiency) Year Ended September 30, 2011

	Air Marshall Islands, Inc.	Kwajalein Atoll Joint Utilities Resources, Inc.	Majuro Atoll Waste Company, Inc.	Majuro Resort, Inc.	Majuro Water and Sewer Company, Inc.	Marshall Islands Postal Service Authority	Marshall Islands Shipping Corporation	Marshall Islands Visitors Authority	RMI Environmental Protection Authority	Tobolar Copra Processing Plant, Inc.	Total
Operating revenues:											
Charges for services	\$ 2,618,048	\$ 4,165,024	\$ 96,237	\$ 1,224,747	\$ 1,212,507	\$ 65,820	\$ 475,450	\$ -	\$ 98,845	\$ -	\$ 9,956,678
Sales	-	-	-	1,033,618	-	375,602	281,437	-	-	4,016,417	5,707,074
Other	304,536	-	-	62,087	12,680	16,882	87,420	4,020	22,162	-	509,787
Total operating revenues	<u>2,922,584</u>	<u>4,165,024</u>	<u>96,237</u>	<u>2,320,452</u>	<u>1,225,187</u>	<u>458,304</u>	<u>844,307</u>	<u>4,020</u>	<u>121,007</u>	<u>4,016,417</u>	<u>16,173,539</u>
Operating expenses:											
Cost of services	2,443,601	5,373,513	624,878	2,348,723	1,297,928	8,452	2,224,285	275,371	643,253	2,416,228	17,656,232
Administration costs	531,320	-	-	292,559	-	400,838	-	-	-	366,757	1,591,474
Depreciation and amortization	711,402	656,289	141,048	177,754	62,644	22,112	81,296	4,073	31,333	121,185	2,009,136
Total operating expenses	<u>3,686,323</u>	<u>6,029,802</u>	<u>765,926</u>	<u>2,819,036</u>	<u>1,360,572</u>	<u>431,402</u>	<u>2,305,581</u>	<u>279,444</u>	<u>674,586</u>	<u>2,904,170</u>	<u>21,256,842</u>
Operating income (loss)	<u>(763,739)</u>	<u>(1,864,778)</u>	<u>(669,689)</u>	<u>(498,584)</u>	<u>(135,385)</u>	<u>26,902</u>	<u>(1,461,274)</u>	<u>(275,424)</u>	<u>(553,579)</u>	<u>1,112,247</u>	<u>(5,083,303)</u>
Nonoperating revenues (expenses):											
Contributions from the primary government	719,267	1,100,000	388,094	137,303	124,431	-	1,142,446	246,170	336,446	1,245,600	5,439,757
Interest expense	(159,613)	(52,070)	-	(5,909)	-	-	-	-	-	(35,936)	(253,528)
Grants and other contributions	-	-	-	-	-	-	-	300,354	-	-	300,354
Other	(158,234)	(138,668)	(34,225)	346,443	(2,699)	879	(54,970)	113,299	-	24,440	96,265
Total nonoperating revenues (expenses), net	<u>401,420</u>	<u>909,262</u>	<u>353,869</u>	<u>477,837</u>	<u>121,732</u>	<u>879</u>	<u>1,087,476</u>	<u>359,469</u>	<u>636,800</u>	<u>1,234,104</u>	<u>5,582,848</u>
Capital contributions	-	500,000	525,979	-	14,397	-	-	-	-	270,000	1,310,376
Change in net assets (deficiency)	<u>(362,319)</u>	<u>(455,516)</u>	<u>210,159</u>	<u>(20,747)</u>	<u>744</u>	<u>27,781</u>	<u>(373,798)</u>	<u>84,045</u>	<u>83,221</u>	<u>2,616,351</u>	<u>1,809,921</u>
Net assets (deficiency) at the beginning of the year, as previously reported	(1,412,900)	3,954,272	586,740	(156,472)	334,970	49,789	52,949	153,693	131,479	1,794,038	5,488,558
Prior-period adjustment	-	-	-	-	-	-	-	-	-	(215,003)	(215,003)
Net assets (deficiency) at the beginning of the year, as restated	<u>(1,412,900)</u>	<u>3,954,272</u>	<u>586,740</u>	<u>(156,472)</u>	<u>334,970</u>	<u>49,789</u>	<u>52,949</u>	<u>153,693</u>	<u>131,479</u>	<u>1,579,035</u>	<u>5,273,555</u>
Net assets (deficiency) at the end of the year	<u>\$ (1,775,219)</u>	<u>\$ 3,498,756</u>	<u>\$ 796,899</u>	<u>\$ (177,219)</u>	<u>\$ 335,714</u>	<u>\$ 77,570</u>	<u>\$ (320,849)</u>	<u>\$ 237,738</u>	<u>\$ 214,700</u>	<u>\$ 4,195,386</u>	<u>\$ 7,083,476</u>

See Accompanying Independent Auditors' Report.

**REPUBLIC OF THE MARSHALL ISLANDS**

**GRANTS ASSISTANCE FUND**

September 30, 2011

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, 2011, 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, 2011

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, 2011

<b>DILOG Fund Number</b>	<b>350200</b>	<b>350305</b>	<b>350315</b>	<b>510130</b>	<b>600350</b>	<b>700100</b>	<b>700360</b>	<b>700370</b>		
	Section 215(a)(1) Commu- nications	Section 216(a)(1) Surveillance and Enforcement	Section 216(a)(3) Scholarship	Section 213 Audit	U.S. Federal Grants	European Union Grants	Other Direct Assistance	Republic of China Projects	Compact Sector	Total
<b>ASSETS</b>										
Receivables:										
Federal agencies	\$ -	\$ -	\$ -	\$ 922,925	\$ 273,045	\$ -	\$ -	\$ -	\$ 4,104,469	\$ 5,300,439
General	-	-	-	-	-	-	(58,586)	3,700,000	-	3,641,414
Due from other funds	40,380	690	1,593	-	294,391	-	79,655	-	6,738,435	7,155,144
Due from component units	-	-	-	-	-	-	-	-	1,000,000	1,000,000
Advances	-	-	-	-	70,730	259	7,338	2,102	23,274	103,703
Total assets	<u>\$ 40,380</u>	<u>\$ 690</u>	<u>\$ 1,593</u>	<u>\$ 922,925</u>	<u>\$ 638,166</u>	<u>\$ 259</u>	<u>\$ 28,407</u>	<u>\$ 3,702,102</u>	<u>\$ 11,866,178</u>	<u>\$ 17,200,700</u>
<b>LIABILITIES AND FUND BALANCES</b>										
<b>(DEFICITS)</b>										
Liabilities:										
Accounts payable	\$ -	\$ -	\$ -	\$ 43,300	\$ 580,979	\$ 5,132	\$ 55,666	\$ 600,703	\$ 2,868,816	\$ 4,154,596
Other liabilities and accruals	-	-	-	-	57,187	-	2,706	7,282	286,863	354,038
Payable to federal agencies	-	-	-	-	-	-	-	-	847,620	847,620
Retention payable	-	-	-	-	-	-	-	-	479,488	479,488
Contracts payable	-	-	-	-	-	-	-	-	715,094	715,094
Due to other funds	-	-	-	879,625	-	58,767	-	1,197,582	1,203,595	3,339,569
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>922,925</u>	<u>638,166</u>	<u>63,899</u>	<u>58,372</u>	<u>1,805,567</u>	<u>6,401,476</u>	<u>9,890,405</u>
Fund balances (deficits):										
Restricted	40,380	690	1,593	-	-	-	-	-	5,609,268	5,651,931
Assigned	-	-	-	-	-	-	-	1,896,535	-	1,896,535
Unassigned	-	-	-	-	-	(63,640)	(29,965)	-	(144,566)	(238,171)
Total fund balances (deficits)	<u>40,380</u>	<u>690</u>	<u>1,593</u>	<u>-</u>	<u>-</u>	<u>(63,640)</u>	<u>(29,965)</u>	<u>1,896,535</u>	<u>5,464,702</u>	<u>7,310,295</u>
Total liabilities and fund balances	<u>\$ 40,380</u>	<u>\$ 690</u>	<u>\$ 1,593</u>	<u>\$ 922,925</u>	<u>\$ 638,166</u>	<u>\$ 259</u>	<u>\$ 28,407</u>	<u>\$ 3,702,102</u>	<u>\$ 11,866,178</u>	<u>\$ 17,200,700</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, 2011

<b>DILOG Fund Number</b>	<b>350200</b>	<b>350305</b>	<b>350315</b>	<b>510130</b>	<b>600350</b>	<b>700100</b>	<b>700360</b>	<b>700370</b>		
	Section 215(a)(1) Communi- cations	Section 216(a)(1) Surveillance and Enforcement	Section 216(a)(3) Scholarship	Section 213 Audit	U.S. Federal Grants	European Union Grants	Other Direct Assistance	Republic of China Projects	Compact Sector	Total
<b>Revenues:</b>										
Federal and other grants	\$ -	\$ -	\$ -	\$ 351,676	\$ 8,922,587	\$ 126,822	\$ 778,030	\$ 7,400,000	\$ 42,873,581	\$ 60,452,696
<b>Expenditures by Function:</b>										
<b>Current:</b>										
President and Cabinet	-	-	-	-	-	-	-	87,375	-	87,375
Office of the Chief Secretary	-	-	-	-	90,010	28,592	752,321	23,875	111,954	1,006,752
Special appropriations	-	-	-	-	-	-	-	860,785	-	860,785
Council of Iroij	-	-	-	-	-	-	-	20,950	-	20,950
Nitijela	-	-	-	-	-	-	6,301	-	-	6,301
Office of the Auditor-General	-	-	-	351,676	-	-	-	-	-	351,676
Office of the Attorney General	-	-	-	-	-	-	-	24,850	-	24,850
Ministry of Education	-	-	-	-	1,937,291	-	-	-	25,716,133	27,653,424
Ministry of Health and Environment	-	-	-	-	3,383,564	-	91,095	59,242	7,058,040	10,591,941
Ministry of Transportation and Communications	-	-	-	-	-	-	-	297,900	-	297,900
Ministry of Resources and Development	-	-	-	-	64,031	-	-	893,845	-	957,876
Ministry of Internal Affairs	-	-	-	-	104,844	-	115,974	818,338	-	1,039,156
Ministry of Justice	-	-	-	-	-	-	-	253,054	-	253,054
Ministry of Finance	-	-	-	-	2,159,507	42,052	4,275	(60)	1,750,000	3,955,774
Ministry of Foreign Affairs	-	-	-	-	43,331	-	-	104,900	321,022	469,253
Ministry of Public Works	-	-	-	-	-	-	-	594,000	-	594,000
Environmental Protection Authority	-	-	-	-	-	-	-	-	551,973	551,973
<b>Debt service:</b>										
Principal repayment	-	-	-	-	-	-	-	1,047,866	-	1,047,866
<b>Capital outlay</b>										
Total expenditures	-	-	-	351,676	7,935,661	70,644	969,966	5,291,025	41,811,101	56,430,073
Excess (deficiency) of revenues over (under) expenditures	-	-	-	-	986,926	56,178	(191,936)	2,108,975	1,062,480	4,022,623
<b>Other financing sources (uses):</b>										
Operating transfers in	-	-	-	-	-	-	-	-	1,739,770	1,739,770
Operating transfers out	-	-	-	-	(986,926)	-	-	(1,139,770)	(2,279,001)	(4,405,697)
Total other financing sources (uses), net	-	-	-	-	(986,926)	-	-	(1,139,770)	(539,231)	(2,665,927)
Net change in fund balances (deficits)	-	-	-	-	-	56,178	(191,936)	969,205	523,249	1,356,696
Fund balances (deficits) at the beginning of the year	40,380	690	1,593	-	-	(119,818)	161,971	927,330	4,941,453	5,953,599
Fund balances (deficits) at the end of the year	\$ 40,380	\$ 690	\$ 1,593	\$ -	\$ -	\$ (63,640)	\$ (29,965)	\$ 1,896,535	\$ 5,464,702	\$ 7,310,295

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, 2011

DILOG Fund Number	350200	350305	350315	510130	600350	700100	700360	700370		Total
	Section 215(a)(1) Communi- cations	Section 216(a)(1) Surveillance and Enforcement	Section 216(a)(3) Scholarship	Section 213 Audit	U.S. Federal Grants	European Union Grants	Other Direct Assistance	Republic of China Projects	Compact Sector	
Revenues:										
Federal and other grants	\$ -	\$ -	\$ -	\$ 351,676	\$ 8,922,587	\$ 126,822	\$ 778,030	\$ 7,400,000	\$ 42,873,581	\$ 60,452,696
Expenditures by Account:										
Salaries and wages	-	-	-	-	3,023,589	30,804	153,884	357,752	14,624,164	18,190,193
Capital outlay	-	-	-	-	490,111	-	48,099	225,265	7,188,740	7,952,215
Grants and subsidies	-	-	-	-	154,521	-	32,885	2,135,744	8,416,361	10,739,511
Utilities	-	-	-	-	53,628	-	269	-	2,668,546	2,722,443
Leased housing	-	-	-	-	8,205	-	9,000	-	1,193,190	1,210,395
Supplies and materials	-	-	-	-	221,978	23,634	164,022	457,996	1,450,602	2,318,232
Contractual services	-	-	-	-	1,757,695	819	217,444	86,799	2,125,473	4,188,230
Travel	-	-	-	-	890,901	6,140	200,894	1,808	317,492	1,417,235
Food stuffs	-	-	-	-	568,239	5,627	19,520	10,991	933,853	1,538,230
Allowances	-	-	-	-	-	-	-	-	25,679	25,679
Professional services	-	-	-	351,676	-	-	1,800	-	4,180	357,656
Principal repayment	-	-	-	-	-	-	-	1,047,866	-	1,047,866
Medical supplies	-	-	-	-	26,541	-	-	-	138,039	164,580
Communications	-	-	-	-	62,857	-	19,539	1,500	190,564	274,460
POL	-	-	-	-	60,188	2,583	8,034	27,562	235,338	333,705
Rentals	-	-	-	-	23,650	-	33,458	10,684	110,691	178,483
Freight	-	-	-	-	4,292	-	1,175	-	33,553	39,020
Printing and reproduction	-	-	-	-	8,141	-	11,317	-	67,793	87,251
Insurance	-	-	-	-	-	-	822	-	41,468	42,290
Other	-	-	-	-	581,125	1,037	47,804	927,058	2,045,375	3,602,399
Total expenditures	-	-	-	351,676	7,935,661	70,644	969,966	5,291,025	41,811,101	56,430,073
Excess (deficiency) of revenues over (under) expenditures	-	-	-	-	986,926	56,178	(191,936)	2,108,975	1,062,480	4,022,623
Other financing sources (uses):										
Operating transfers in	-	-	-	-	-	-	-	-	1,739,770	1,739,770
Operating transfers out	-	-	-	-	(986,926)	-	-	(1,139,770)	(2,279,001)	(4,405,697)
Total other financing sources (uses), net	-	-	-	-	(986,926)	-	-	(1,139,770)	(539,231)	(2,665,927)
Net change in fund balances (deficits)	-	-	-	-	-	56,178	(191,936)	969,205	523,249	1,356,696
Fund balances (deficits) at the beginning of the year	40,380	690	1,593	-	-	(119,818)	161,971	927,330	4,941,453	5,953,599
Fund balances (deficits) at the end of the year	\$ 40,380	\$ 690	\$ 1,593	\$ -	\$ -	\$ (63,640)	\$ (29,965)	\$ 1,896,535	\$ 5,464,702	\$ 7,310,295

See Accompanying Independent Auditors' Report.

## REPUBLIC OF THE MARSHALL ISLANDS

### COMPACT SECTOR GRANTS FUND

September 30, 2011

#### 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 SECTOR GRANTS FUND

September 30, 2011

### 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, 2011

<b>DILOG Fund Number</b>	<b>410100</b>	<b>410102</b>	<b>410110</b>	<b>410120</b>	<b>410140</b>	<b>410150</b>	<b>410160</b>	<b>410170</b>	<b>510100</b>	<b>510110</b>	<b>510120</b>	<b>Total</b>
	Section 211(a)(1) Education	Supplemental Education	Section 211(a)(2) Health	Section 211(a)(4) Capacity Building	Section 211(a)(5) Environment	Section 211(b)(1) Ebeye Special Needs	Section 211(b)(2) Landowners Special Needs	Section 211(b)(3) Kwajalein Environment	Section 211(d)(1) Public Infrastructure	Section 211(d)(2) Infrastructure Maintenance	Section 211(e)(1) Disaster Assistance	
<b>ASSETS</b>												
Receivables:												
Federal agencies	\$ -	\$ 743,766	\$ 210,169	\$ 132,976	\$ -	\$ 51,384	\$ -	\$ 2,019	\$ 2,964,155	\$ -	\$ -	\$ 4,104,469
Due from other funds	1,529,697	202,700	240,818	183,501	10,487	750,879	10,472	-	-	2,486,627	1,323,254	6,738,435
Due from component units	-	-	-	-	-	-	-	-	-	1,000,000	-	1,000,000
Advances	8,507	5,177	-	-	-	8,228	-	-	1,362	-	-	23,274
Total assets	<u>\$ 1,538,204</u>	<u>\$ 951,643</u>	<u>\$ 450,987</u>	<u>\$ 316,477</u>	<u>\$ 10,487</u>	<u>\$ 810,491</u>	<u>\$ 10,472</u>	<u>\$ 2,019</u>	<u>\$ 2,965,517</u>	<u>\$ 3,486,627</u>	<u>\$ 1,323,254</u>	<u>\$ 11,866,178</u>
<b>LIABILITIES AND FUND BALANCES</b>												
<b>(DEFICITS)</b>												
Liabilities:												
Accounts payable	\$ 402,877	\$ 779,962	\$ 484,437	\$ 111,194	\$ -	\$ 487,374	\$ -	\$ 9,872	\$ 576,535	\$ 16,565	\$ -	\$ 2,868,816
Other liabilities and accruals	139,158	34,425	88,218	-	-	18,852	-	3,092	2,758	360	-	286,863
Payable to federal agencies	770,734	-	-	4,219	-	72,667	-	-	-	-	-	847,620
Retention payable	-	-	-	-	-	-	-	-	479,488	-	-	479,488
Contracts payable	-	-	-	-	-	-	-	-	715,094	-	-	715,094
Due to other funds	-	-	-	-	-	-	-	11,953	1,191,642	-	-	1,203,595
Total liabilities	<u>1,312,769</u>	<u>814,387</u>	<u>572,655</u>	<u>115,413</u>	<u>-</u>	<u>578,893</u>	<u>-</u>	<u>24,917</u>	<u>2,965,517</u>	<u>16,925</u>	<u>-</u>	<u>6,401,476</u>
Fund balances (deficits):												
Restricted	225,435	137,256	-	201,064	10,487	231,598	10,472	-	-	3,469,702	1,323,254	5,609,268
Unassigned	-	-	(121,668)	-	-	-	-	(22,898)	-	-	-	(144,566)
Total fund balances (deficits)	<u>225,435</u>	<u>137,256</u>	<u>(121,668)</u>	<u>201,064</u>	<u>10,487</u>	<u>231,598</u>	<u>10,472</u>	<u>(22,898)</u>	<u>-</u>	<u>3,469,702</u>	<u>1,323,254</u>	<u>5,464,702</u>
Total liabilities and fund balances	<u>\$ 1,538,204</u>	<u>\$ 951,643</u>	<u>\$ 450,987</u>	<u>\$ 316,477</u>	<u>\$ 10,487</u>	<u>\$ 810,491</u>	<u>\$ 10,472</u>	<u>\$ 2,019</u>	<u>\$ 2,965,517</u>	<u>\$ 3,486,627</u>	<u>\$ 1,323,254</u>	<u>\$ 11,866,178</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, 2011

<b>DILOG Fund Number</b>	<b>410100</b>	<b>410102</b>	<b>410110</b>	<b>410120</b>	<b>410140</b>	<b>410150</b>	<b>410160</b>	<b>410170</b>	<b>510100</b>	<b>510110</b>	<b>510120</b>	
	Section 211(a)(1) Education	Supplemental Education	Section 211(a)(2) Health	Section 211(a)(4) Capacity Building	Section 211(a)(5) Environment	Section 211(b)(1) Ebeye Special Needs	Section 211(b)(2) Landowners Special Needs	Section 211(b)(3) Kwajalein Environment	Section 211(d)(1) Public Infrastructure	Section 211(d)(2) Infrastructure Maintenance	Section 211(e)(1) Disaster Assistance	Total
Revenues:												
Compact funding	\$ 11,068,417	\$ 5,970,990	\$ 6,835,207	\$ 428,757	\$ -	\$ 3,577,621	\$ 1,750,000	\$ 551,973	\$ 11,950,846	\$ 514,816	\$ 224,954	\$ 42,873,581
Expenditures by Function:												
Current:												
Office of the Chief Secretary	-	-	-	111,954	-	-	-	-	-	-	-	111,954
Ministry of Education	11,139,530	5,713,728	-	-	-	3,482,231	-	-	5,380,644	-	-	25,716,133
Ministry of Health and Environment	-	-	6,696,698	-	-	-	-	-	361,342	-	-	7,058,040
Ministry of Finance	-	-	-	-	-	-	1,750,000	-	-	-	-	1,750,000
Ministry of Foreign Affairs	-	-	-	321,022	-	-	-	-	-	-	-	321,022
Environmental Protection Authority	-	-	-	-	-	-	-	551,973	-	-	-	551,973
Capital outlay	-	-	-	-	-	-	-	-	5,208,860	1,093,119	-	6,301,979
Total expenditures	11,139,530	5,713,728	6,696,698	432,976	-	3,482,231	1,750,000	551,973	10,950,846	1,093,119	-	41,811,101
Excess (deficiency) of revenues over (under) expenditures	(71,113)	257,262	138,509	(4,219)	-	95,390	-	-	1,000,000	(578,303)	224,954	1,062,480
Other financing sources (uses):												
Operating transfers in	-	-	-	-	-	-	-	-	-	1,514,816	224,954	1,739,770
Operating transfers out	(471,925)	(707,076)	-	-	-	(100,000)	-	-	(1,000,000)	-	-	(2,279,001)
Total other financing sources (uses), net	(471,925)	(707,076)	-	-	-	(100,000)	-	-	(1,000,000)	1,514,816	224,954	(539,231)
Net change in fund balances (deficits)	(543,038)	(449,814)	138,509	(4,219)	-	(4,610)	-	-	-	936,513	449,908	523,249
Fund balances (deficits) at the beginning of the year	768,473	587,070	(260,177)	205,283	10,487	236,208	10,472	(22,898)	-	2,533,189	873,346	4,941,453
Fund balances (deficits) at the end of the year	\$ 225,435	\$ 137,256	\$ (121,668)	\$ 201,064	\$ 10,487	\$ 231,598	\$ 10,472	\$ (22,898)	\$ -	\$ 3,469,702	\$ 1,323,254	\$ 5,464,702

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, 2011

<b>DILOG Fund Number</b>	<b>410100</b>	<b>410102</b>	<b>410110</b>	<b>410120</b>	<b>410140</b>	<b>410150</b>	<b>410160</b>	<b>410170</b>	<b>510100</b>	<b>510110</b>	<b>510120</b>	
	Section 211(a)(1) Education	Supplemental Education	Section 211(a)(2) Health	Section 211(a)(4) Capacity Building	Section 211(a)(5) Environment	Section 211(b)(1) Ebeye Special Needs	Section 211(b)(2) Landowners Special Needs	Section 211(b)(3) Kwajalein Environment	Section 211(d)(1) Public Infrastructure	Section 211(d)(2) Infrastructure Maintenance	Section 211(e)(1) Disaster Assistance	Total
Revenues:												
Compact funding	\$ 11,068,417	\$ 5,970,990	\$ 6,835,207	\$ 428,757	\$ -	\$ 3,577,621	\$ 1,750,000	\$ 551,973	\$ 11,950,846	\$ 514,816	\$ 224,954	\$ 42,873,581
Expenditures by Account:												
Salaries and wages	7,171,700	1,836,057	4,280,035	-	-	1,027,350	-	161,726	139,827	7,469	-	14,624,164
Capital outlay	95,378	370,436	59,618	-	-	361,164	-	6,146	5,821,523	474,475	-	7,188,740
Grants and subsidies	1,286,108	125,000	-	-	-	100,000	1,750,000	325,000	4,830,253	-	-	8,416,361
Utilities	734,646	239,371	1,049,492	-	-	638,518	-	6,519	-	-	-	2,668,546
Leased housing	390,296	-	784,354	-	-	-	-	810	17,730	-	-	1,193,190
Supplies and materials	342,339	867,980	2,586	6,847	-	210,761	-	9,478	10,611	-	-	1,450,602
Contractual services	394,316	909,167	-	321,022	-	500,968	-	-	-	-	-	2,125,473
Travel	137,157	50,020	27,069	-	-	42,972	-	14,486	45,788	-	-	317,492
Food stuffs	100,206	567,033	162,007	23,746	-	80,861	-	-	-	-	-	933,853
Allowances	25,679	-	-	-	-	-	-	-	-	-	-	25,679
Professional services	4,180	-	-	-	-	-	-	-	-	-	-	4,180
Medical supplies	-	-	37,743	-	-	100,296	-	-	-	-	-	138,039
Communications	95,951	15,721	-	-	-	57,403	-	15,042	6,447	-	-	190,564
POL	121,817	38,894	7,836	-	-	53,353	-	5,902	7,536	-	-	235,338
Rentals	49,999	52,076	-	-	-	8,616	-	-	-	-	-	110,691
Freight	26,124	-	-	-	-	7,266	-	163	-	-	-	33,553
Printing and reproduction	12,771	2,330	944	42,990	-	4,933	-	3,825	-	-	-	67,793
Insurance	40,058	-	-	-	-	447	-	-	963	-	-	41,468
Other	110,805	639,643	285,014	38,371	-	287,323	-	2,876	70,168	611,175	-	2,045,375
Total expenditures	11,139,530	5,713,728	6,696,698	432,976	-	3,482,231	1,750,000	551,973	10,950,846	1,093,119	-	41,811,101
Excess (deficiency) of revenues over (under) expenditures	(71,113)	257,262	138,509	(4,219)	-	95,390	-	-	1,000,000	(578,303)	224,954	1,062,480
Other financing sources (uses):												
Operating transfers in	-	-	-	-	-	-	-	-	-	1,514,816	224,954	1,739,770
Operating transfers out	(471,925)	(707,076)	-	-	-	(100,000)	-	-	(1,000,000)	-	-	(2,279,001)
Total other financing sources (uses), net	(471,925)	(707,076)	-	-	-	(100,000)	-	-	(1,000,000)	1,514,816	224,954	(539,231)
Net change in fund balances (deficits)	(543,038)	(449,814)	138,509	(4,219)	-	(4,610)	-	-	-	936,513	449,908	523,249
Fund balances (deficits) at the beginning of the year	768,473	587,070	(260,177)	205,283	10,487	236,208	10,472	(22,898)	-	2,533,189	873,346	4,941,453
Fund balances (deficits) at the end of the year	\$ 225,435	\$ 137,256	\$ (121,668)	\$ 201,064	\$ 10,487	\$ 231,598	\$ 10,472	\$ (22,898)	\$ -	\$ 3,469,702	\$ 1,323,254	\$ 5,464,702

See Accompanying Independent Auditors' Report.

# REPUBLIC OF THE MARSHALL ISLANDS

## GENERAL FUND

September 30, 2011

### 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, 2011

Asian Development Bank (ADB) Development Projects

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

See Accompanying Independent Auditors' Report.

**REPUBLIC OF THE MARSHALL ISLANDS**

**GENERAL FUND**

**Combining Balance Sheet  
September 30, 2011**

	<b>100100</b>	<b>200090</b>	<b>200317</b>	<b>200330</b>	<b>200335</b>	<b>200515</b>	<b>300400</b>	<b>300600</b>	<b>800405</b>		
	General	Reimbursable	Changed Circumstances	Judiciary	Alternative Energy	Postal Service	MIDA	Local Government	ADB Development Projects	Elimination	Total
<b>ASSETS</b>											
Cash and cash equivalents	\$ 5,774,384	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 22,268	\$ -	\$ 5,796,652
Investments	248,250	-	-	-	-	-	318,630	-	-	-	566,880
Receivables, net:											
Taxes	2,385,354	-	-	-	-	-	-	-	-	-	2,385,354
Federal agencies	-	80,183	-	-	-	-	-	-	-	-	80,183
General	1,952,135	-	-	-	-	-	-	-	-	-	1,952,135
Due from other funds	3,460,500	-	54,458	25,612	416	-	-	14,251	-	(215,668)	3,339,569
Due from component units	10,992,332	-	-	-	-	-	-	-	-	-	10,992,332
Advances	78,383	5,380	-	-	-	-	-	-	-	-	83,763
Restricted assets:											
Cash and cash equivalents	6,441,761	-	-	-	-	-	-	-	-	-	6,441,761
<b>Total assets</b>	<b>\$ 31,333,099</b>	<b>\$ 85,563</b>	<b>\$ 54,458</b>	<b>\$ 25,612</b>	<b>\$ 416</b>	<b>\$ -</b>	<b>\$ 318,630</b>	<b>\$ 14,251</b>	<b>\$ 22,268</b>	<b>\$ (215,668)</b>	<b>\$ 31,638,629</b>
<b>LIABILITIES AND FUND BALANCES</b>											
<b>(DEFICITS)</b>											
Liabilities:											
Accounts payable	\$ 4,036,188	\$ 4,272	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 4,040,460
Other liabilities and accruals	2,299,329	13,428	-	-	-	-	-	-	-	-	2,312,757
Deferred revenue	430,868	-	-	-	-	-	-	-	-	-	430,868
Due to component units	551,741	-	-	-	-	-	-	-	-	-	551,741
Due to other funds	9,903,367	120,273	-	-	-	658	-	-	-	(215,668)	9,808,630
<b>Total liabilities</b>	<b>17,221,493</b>	<b>137,973</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>658</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(215,668)</b>	<b>17,144,456</b>
Fund balances (deficits):											
Nonspendable	11,240,582	-	-	-	-	-	318,630	-	-	-	11,559,212
Restricted	894,426	-	-	-	-	-	-	-	22,268	-	916,694
Assigned	838,046	-	-	-	-	-	-	-	-	-	838,046
Unassigned	1,138,552	(52,410)	54,458	25,612	416	(658)	-	14,251	-	-	1,180,221
<b>Total fund balances (deficits)</b>	<b>14,111,606</b>	<b>(52,410)</b>	<b>54,458</b>	<b>25,612</b>	<b>416</b>	<b>(658)</b>	<b>318,630</b>	<b>14,251</b>	<b>22,268</b>	<b>-</b>	<b>14,494,173</b>
<b>Total liabilities and fund balances</b>	<b>\$ 31,333,099</b>	<b>\$ 85,563</b>	<b>\$ 54,458</b>	<b>\$ 25,612</b>	<b>\$ 416</b>	<b>\$ -</b>	<b>\$ 318,630</b>	<b>\$ 14,251</b>	<b>\$ 22,268</b>	<b>\$ (215,668)</b>	<b>\$ 31,638,629</b>

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, 2011**

	100100	200090	200317	200330	200335	200515	300400	300600	800405		
	General	Reimbursable	Changed Circumstances	Judiciary	Alternative Energy	Postal Service	MIDA	Local Government	ADB Development Projects	Elimination	Total
<b>Revenues:</b>											
Taxes	\$ 25,258,814	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 25,258,814
Federal and other grants	4,219,431	328,485	-	-	-	-	-	-	-	-	4,547,916
Ship registry	3,750,000	-	-	-	-	-	-	-	-	-	3,750,000
Fishing rights	3,000,000	-	-	-	-	-	-	-	-	-	3,000,000
Interest and dividends	194,545	-	-	-	-	-	-	-	-	-	194,545
Fees and charges	25,219	148,299	-	3,075	-	-	-	-	-	-	176,593
Contributions from component units	214,286	-	-	-	-	-	-	-	-	-	214,286
Other	907,413	-	-	-	-	-	-	-	-	-	907,413
<b>Total revenues</b>	<b>37,569,708</b>	<b>476,784</b>	<b>-</b>	<b>3,075</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>38,049,567</b>
<b>Expenditures by Function:</b>											
<b>Current:</b>											
President and Cabinet	1,678,068	-	-	-	-	-	-	-	-	-	1,678,068
Office of the Chief Secretary	495,429	-	-	-	-	-	-	-	-	-	495,429
Special appropriations	9,210,541	-	-	-	-	-	-	-	-	-	9,210,541
Council of Iroij	453,314	-	-	-	-	-	-	-	-	-	453,314
Nitijela	1,788,295	-	-	-	-	-	-	-	-	-	1,788,295
Office of the Auditor-General	599,754	-	-	-	-	-	-	-	-	-	599,754
Public Service Commission	455,154	-	-	-	-	-	-	-	-	-	455,154
Judiciary	-	-	-	603,756	-	-	-	-	-	-	603,756
Office of the Attorney General	635,371	49,618	-	-	-	-	-	-	-	-	684,989
Ministry of Education	3,374,352	-	-	-	-	-	-	-	-	-	3,374,352
Ministry of Health and Environment	2,829,635	-	-	-	-	-	-	-	-	-	2,829,635
Ministry of Transportation and Communication	491,178	-	-	-	-	-	-	-	-	-	491,178
Ministry of Resources and Development	607,519	18,075	-	-	-	-	-	-	-	-	625,594
Ministry of Internal Affairs	1,734,910	-	-	-	-	-	-	330,906	-	-	2,065,816
Ministry of Justice	2,590,348	-	-	-	-	-	-	-	-	-	2,590,348
Ministry of Finance	2,674,711	516,834	-	-	-	-	-	-	-	-	3,191,545
Ministry of Foreign Affairs and Trade	2,619,720	-	-	-	-	-	-	-	-	-	2,619,720
Ministry of Public Works	956,605	-	-	-	-	-	-	-	-	-	956,605
Environmental Protection Authority	176,718	-	-	-	-	-	-	-	-	-	176,718
<b>Debt service:</b>											
Principal repayment	1,154,267	-	-	-	-	-	-	-	-	-	1,154,267
Interest	1,422,706	-	-	-	-	-	-	-	-	-	1,422,706
<b>Total expenditures</b>	<b>35,948,595</b>	<b>584,527</b>	<b>-</b>	<b>603,756</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>330,906</b>	<b>-</b>	<b>-</b>	<b>37,467,784</b>
Excess (deficiency) of revenues over (under) expenditures	1,621,113	(107,743)	-	(600,681)	-	-	-	(330,906)	-	-	581,783
<b>Other financing sources (uses):</b>											
Loan proceeds	9,979,846	-	-	-	-	-	-	-	-	-	9,979,846
Operating transfers in	253,240	-	-	603,756	-	-	-	330,906	-	(934,662)	253,240
Operating transfers out	(2,029,730)	-	-	-	-	-	-	-	-	934,662	(1,095,068)
<b>Total other financing sources (uses), net</b>	<b>8,203,356</b>	<b>-</b>	<b>-</b>	<b>603,756</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>330,906</b>	<b>-</b>	<b>-</b>	<b>9,138,018</b>
<b>Net change in fund balances (deficits)</b>	<b>9,824,469</b>	<b>(107,743)</b>	<b>-</b>	<b>3,075</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>9,719,801</b>
<b>Fund balances (deficits) at the beginning of the year</b>	<b>4,287,137</b>	<b>55,333</b>	<b>54,458</b>	<b>22,537</b>	<b>416</b>	<b>(658)</b>	<b>318,630</b>	<b>14,251</b>	<b>22,268</b>	<b>-</b>	<b>4,774,372</b>
<b>Fund balances (deficits) at the end of the year</b>	<b>\$ 14,111,606</b>	<b>\$ (52,410)</b>	<b>\$ 54,458</b>	<b>\$ 25,612</b>	<b>\$ 416</b>	<b>\$ (658)</b>	<b>\$ 318,630</b>	<b>\$ 14,251</b>	<b>\$ 22,268</b>	<b>\$ -</b>	<b>\$ 14,494,173</b>

See Accompanying Independent Auditors' Report.

**REPUBLIC OF THE MARSHALL ISLANDS**

**GENERAL FUND**

**Combining Schedule of Expenditures By Account  
Year Ended September 30, 2011**

	100100	200090	200317	200330	200335	200515	300400	300600	800405	
	General	Reimbursable	Changed Circumstances	Judiciary	Alternative Energy	Postal Service	MIDA	Local Government	ADB Development Projects	Total
Expenditures by Account:										
Salaries and wages	\$ 15,599,823	\$ 472,929	\$ -	\$ 562,609	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 16,635,361
Capital outlay	188,438	8,381	-	2,070	-	-	-	-	-	198,889
Grants and subsidies	5,738,814	-	-	-	-	-	-	330,906	-	6,069,720
Contractual services	624,834	-	-	75	-	-	-	-	-	624,909
Travel	946,443	14,708	-	9,799	-	-	-	-	-	970,950
Utilities	4,029,993	1,293	-	322	-	-	-	-	-	4,031,608
Supplies and materials	302,601	1,532	-	2,934	-	-	-	-	-	307,067
Leased housing	654,243	9,000	-	18,000	-	-	-	-	-	681,243
POL	311,895	2,261	-	4,401	-	-	-	-	-	318,557
Rentals	1,418,039	500	-	-	-	-	-	-	-	1,418,539
Food stuffs	207,193	1,288	-	260	-	-	-	-	-	208,741
Professional services	376,969	5,146	-	406	-	-	-	-	-	382,521
Principal repayment	1,154,267	-	-	-	-	-	-	-	-	1,154,267
Interest	1,422,706	-	-	-	-	-	-	-	-	1,422,706
Allowances	717,839	-	-	-	-	-	-	-	-	717,839
Communications	428,715	15,238	-	1,454	-	-	-	-	-	445,407
Freight	28,125	-	-	-	-	-	-	-	-	28,125
Printing and reproduction	48,483	5,000	-	-	-	-	-	-	-	53,483
Insurance	72,429	2,195	-	-	-	-	-	-	-	74,624
Other	1,676,746	45,056	-	1,426	-	-	-	-	-	1,723,228
Total expenditures	<u>\$ 35,948,595</u>	<u>\$ 584,527</u>	<u>\$ -</u>	<u>\$ 603,756</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 330,906</u>	<u>\$ -</u>	<u>\$ 37,467,784</u>

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