

REPUBLIC OF THE MARSHALL ISLANDS

**FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT**

YEAR ENDED SEPTEMBER 30, 2006

REPUBLIC OF THE MARSHALL ISLANDS

FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2006

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INDEPENDENT AUDITORS' REPORT

His Excellency Kessai Note
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, 2006, 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.

Except as discussed in the following paragraphs, 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 respective financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of RepMar's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the respective financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Management has not included Kwajalein Atoll Joint Utilities Resources, Inc. in RepMar's financial statements. Accounting principles generally accepted in the United States of America require Kwajalein Atoll Joint Utilities Resources, Inc. to be presented as a major component unit and financial information about Kwajalein Atoll Joint Utilities Resources, Inc. to be part of the aggregate discretely presented component units, thus increasing the assets, liabilities, revenues, and expenses of the aggregate discretely presented component units, and changing their net assets. The amount by which this departure would affect the assets, liabilities, net assets, revenues, and expenses of the aggregate discretely presented component units is not reasonably determinable.

In addition, the financial statements of Air Marshall Islands, Inc. have not been audited, and we were not engaged to audit these financial statements as part of our audit of RepMar's basic financial statements. The financial activities of Air Marshall Islands, Inc. are included in RepMar's basic financial statements as a discretely presented component unit and represent 3% and 5%, respectively, of the assets and revenues of RepMar's aggregate discretely presented component units.

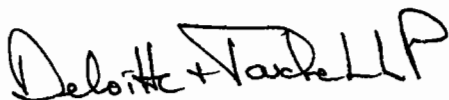
In our opinion, because of the omission of Kwajalein Atoll Joint Utilities Resources, Inc., as discussed in the third paragraph above, and had the financial statements of Air Marshall Islands, Inc. been audited, as discussed in the fourth paragraph above, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the aggregate discretely presented component units of the Republic of the Marshall Islands as of September 30, 2006, or the changes in financial position thereof for the year then ended.

Further, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Republic of the Marshall Islands as of September 30, 2006, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis, on pages 3 through 11, as well as the Schedule of Revenues, Expenditures, and Changes in Deficit - Budget and Actual - General Fund and notes thereto, as set forth in Section III of the foregoing table of contents, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the management of RepMar. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit such information and we do not express an opinion on it.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated June 15, 2007, on our consideration of the Republic of the Marshall Islands' (primary government only) internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.



June 15, 2007

REPUBLIC OF THE MARSHALL ISLANDS

Management's Discussion and Analysis Year Ended September 30, 2006

Our discussion and analysis of the Republic of the Marshall Islands ("RepMar") financial performance provides and overview RepMar's financial activities for the fiscal year ended September 30, 2006. Please read it in conjunction with RepMar's basic financial statements, which follow this section. Fiscal year 2005 comparative information has been included, where appropriate.

FINANCIAL HIGHLIGHTS

- For the fiscal year ended September 30, 2006, RepMar's total net assets, as restated, increased by \$14.1 million (or 29.4%) from \$48.3 million in the prior year to \$62.4 million. This increase is primarily attributable to the receipt of donated assets from the Government of Japan of \$4.5 million and the net increase in the corpus of the Compact Trust Fund of \$8.0 million.
- During fiscal year 2006, RepMar's expenses for governmental activities were \$95 million, including expenses recorded or payments made or due to the autonomous agencies, and were funded in part by \$76.6 million in program revenues and \$32.5 million in taxes and other general revenues. Program revenues increased by \$4.1 million (or 5.7%) from \$72.5 million in the prior year to \$76.6 million, which was attributable primarily to the earnings of the Compact Trust Fund. General revenues increased marginally by \$1.2 million (or 0.4%) from \$31.3 million in the prior year to \$32.5 million, which was attributable primarily to an increase in gross revenue taxes. Expenses, on the other hand, decreased by \$7.1 million (or 7%) from \$102.1 million in the prior year to \$95.4 million. The decrease in expenses was primarily due to a one-time payment in the prior year of \$15 million, being the United States' FY 2004 and FY 2005 contributions for the establishment of the Trust Fund, offset by an increase in education and health-related expenses in 2006 compared with 2005 of \$6.8 million.
- For the fiscal year ended September 30, 2006, the General Fund reported charges to general fund appropriations (including transfers out) of \$34.9 million, \$0.8 million in excess of reported revenues (and transfers in) of \$34.1 million. General fund appropriations were down \$1.2 million (or 3.2%) from fiscal year 2005 primarily due to a decrease in transfers out to other governmental funds of \$1.0 million (down from \$2.5 million in 2005 to \$1.5 million in 2006). Charges to appropriations, including transfers out, of \$35.1 million were lower than budgeted amounts of \$37.3 million. Furthermore, revenues collected of \$34.1 million were lower than budgeted amounts of \$37.2 million, resulting in an overall net budgetary deficit for fiscal year 2006 of \$0.9 million.
- At September 30, 2006, the General Fund reported a total fund balance deficit of \$5.9 million, which is an increase of \$0.8 million (or 16.4%) from the prior year deficit of \$5.1 million. This negative change in the deficit is primarily attributable to an increase in the deficit of the unreserved general fund balance of \$1.0 million (or 18.8%).

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to RepMar's basic financial statements. RepMar's basic financial statements comprise three components: 1) governmental-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 budgetary schedules, which are prepared on the budgetary basis of accounting, and other optional supplementary information, in addition to the basic financial statements themselves, which includes combining statements for governmental funds and component units.

REPUBLIC OF THE MARSHALL ISLANDS

Management's Discussion and Analysis Year Ended September 30, 2006

Government-wide Financial Statements

The government-wide statements report information about RepMar as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the government's assets and liabilities. 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 statements report RepMar's net assets and how they have changed. Net assets - 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 you need to consider 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.

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.

Fund Financial Statements

The fund financial statements provide more detailed information about RepMar's most significant funds - not RepMar as a whole. Funds are accounting devices that RepMar uses to keep track of specific sources of funding and spending for particular purposes.

- Some funds are required by Nitijela legislation.
- RepMar establishes other funds to control and manage money for particular purposes (like 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).

RepMar has two kinds of funds:

- Governmental funds - Most of RepMar's basic services are reported in governmental funds, which 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 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.

REPUBLIC OF THE MARSHALL ISLANDS

Management's Discussion and Analysis Year Ended September 30, 2006

Fund Financial Statements, Continued

- Fiduciary funds - RepMar is the trustee, or fiduciary, for other assets that because of trust arrangement, 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. We exclude these activities from RepMar's government-wide financial statements because RepMar cannot use these assets to finance its operations.

A FINANCIAL ANALYSIS OF REPMAR AS A WHOLE

Net assets may serve over time as a useful indicator of a government's financial position. At the end of fiscal year 2006, RepMar's assets exceeded liabilities by \$62.4 million. 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 summary of Net Assets (condensed) presented below, with comparable balances for fiscal year 2005, discloses this relationship:

		RepMar's Net Assets As of September 30	
		<u>2006</u>	<u>2005</u>
Current and other assets	\$	73,920,679	\$ 64,119,971
Capital assets		<u>76,825,995</u>	<u>69,689,284</u>
Total Assets		<u>150,746,674</u>	<u>133,809,255</u>
Long-term liabilities		63,260,171	63,878,315
Other liabilities		<u>25,041,396</u>	<u>21,657,875</u>
Total Liabilities		<u>88,301,567</u>	<u>85,536,190</u>
Net assets:			
Invested in capital assets, net of related debt		54,128,155	46,905,499
Restricted net assets		48,637,785	48,895,897
Unrestricted net assets		<u>(40,320,833)</u>	<u>(47,528,331)</u>
Total net assets	\$	<u>62,445,107</u>	<u>48,273,065</u>

At the end of fiscal year 2006, RepMar's unrestricted net asset deficiency was \$40.3 million, a decrease of \$7.2 million (or 15.2%) from the prior year. This deficit is the result of having long-term commitments that are greater than currently available resources. Specifically, RepMar did not include in past annual budgets the full amounts needed to finance future liabilities arising from Asian Development Bank (ADB) and other loans as well as to pay for unused employee leave balances. RepMar will include these amounts in future years' budgets as they become due. The bulk of RepMar's assets lie in its Compact Trust Fund, investments (non-capital assets) and long-term liabilities.

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Management's Discussion and Analysis Year Ended September 30, 2006

Changes in Net Assets

For the year ended September 30, 2006, net assets of the primary government increased by \$14.1 million, an increase of 29.4% from the prior year's restated amount of \$48.3 million. This result indicates that RepMar's financial condition, as a whole, improved from the prior year. For the year ended September 30, 2006, net assets of the primary government changed as follows, with comparable amounts for fiscal year 2005:

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

	<u>2006</u>	<u>2005</u>
Revenues:		
Program revenues:		
Charges for services	\$ 8,101,072	\$ 8,482,662
Operating grants and contributions	47,826,990	36,546,491
Capital grants and contributions	20,678,059	27,502,292
General revenues:		
Taxes	25,142,867	24,255,202
Grants and contributions not restricted	4,000,000	4,000,000
Fishing rights	1,500,000	1,355,984
Ship registry	1,000,000	1,000,000
Unrestricted investment earnings	422,880	70,926
Other	471,035	650,077
Total revenues	109,142,903	103,863,634
Expenses:		
President and Cabinet	1,715,084	1,710,779
Office of the Chief Secretary	1,088,924	815,198
Special appropriations	5,396,036	10,754,933
Council of Iroij	443,283	426,275
Office of the Auditor-General	738,577	756,884
Public Service Commission	497,151	445,111
Office of the Attorney General	650,212	670,852
Education	24,243,349	22,003,745
Health and Environment	20,985,881	17,300,345
Transportation and Communication	3,373,908	4,863,746
Resources and Development	1,804,198	2,249,113
Internal Affairs	2,701,868	3,049,924
Justice	3,683,678	3,133,091
Finance	6,707,948	3,773,906
Foreign Affairs and Trade	2,858,167	3,040,997
Public Works	5,276,038	4,840,611
Nitijela	1,931,478	1,642,174
Judiciary	833,651	763,718
Environmental Protection Authority	464,942	441,988
Nuclear claims related	3,390,938	3,129,236
Interest on long-term debt	869,357	1,015,763
Capital projects	5,167,226	237,262
Other	148,967	15,000,687
Total expenses	94,970,861	102,066,338
Excess before special items	14,172,042	1,797,296
Special items	-	1,900,000
Change in net assets	\$ 14,172,042	\$ 3,697,296

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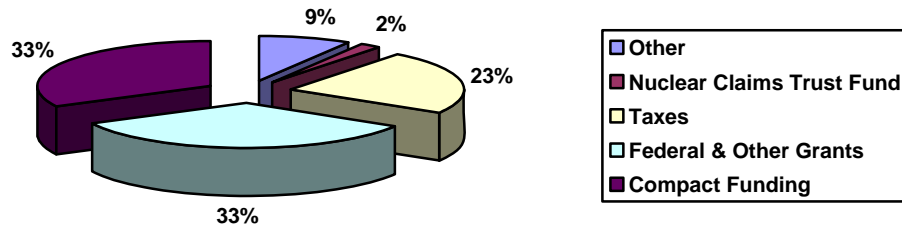
Management's Discussion and Analysis Year Ended September 30, 2006

Other expenses in fiscal year 2006, excluding the one-off payment of \$15.0 million in the prior year to establish the Trust Fund, consisted of expenses within Special Appropriations of \$5.4 million, down from \$10.8 million (or 49.8%) in fiscal year 2005, the Ministry of Education of \$24.2 million, up from \$22.0 million (or 10.2%) in fiscal year 2005, the Ministry of Health and Environment of \$21.0 million, up from \$17.3 million (or 21.3%) in fiscal year 2005, the Ministry of Transportation and Communication of \$3.4 million, down from \$4.9 million (or 30.6%) in fiscal year 2005, the Ministry of Internal Affairs of \$2.7 million, down from \$3.0 million (or 11.4%) in fiscal year 2005, the Ministry of Justice of \$3.7 million, up from \$3.1 million (or 17.6%), the Ministry of Finance of \$6.7 million, up from \$3.8 million (or 77.4%) in fiscal year 2005, the Ministry of Foreign Affairs and Trade of \$2.9 million, down from \$3.0 million (or 6.0%) in fiscal year 2005, and nuclear claims related of \$3.4 million, up from \$3.1 million (or 8.4%) in fiscal year 2005.

RepMar's revenues from governmental activities, including local revenues, Compact and other grant funding, totaled \$109.1 million in fiscal year 2006. The cost of governmental activities totaled \$95 million; the excess representing an increase in net assets of \$14.1 million.

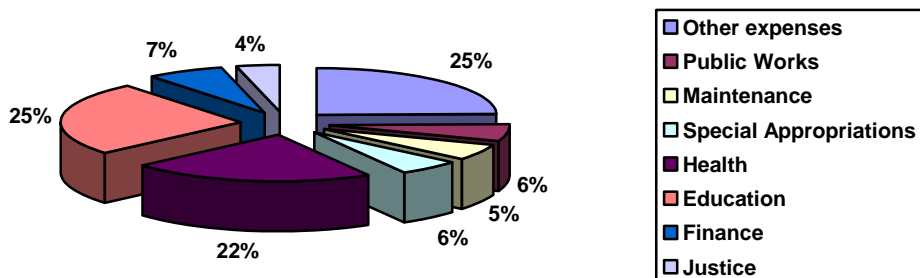
Graphs 1 and 2 below show the major components of revenues and cost of governmental activities.

Graph 1
RepMar's Revenue Sources
For the Year Ended September 30, 2006



As in prior years, Compact funding and federal and other grants are the major sources of revenue for RepMar, which comprise 66% of the total revenues for fiscal year 2006. The remaining 34% is predominantly comprised of local sourced tax revenues, including income taxes and gross revenue taxes.

Graph 2
RepMar's Cost of Governmental Activities
For the Year Ended September 30, 2006



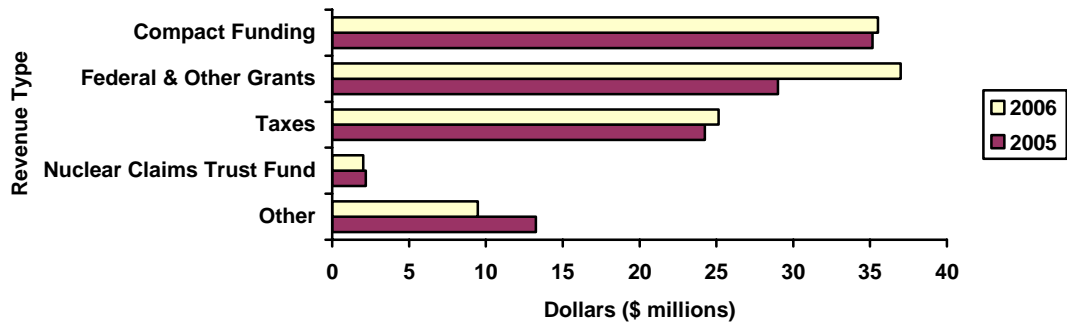
REPUBLIC OF THE MARSHALL ISLANDS

Management's Discussion and Analysis Year Ended September 30, 2006

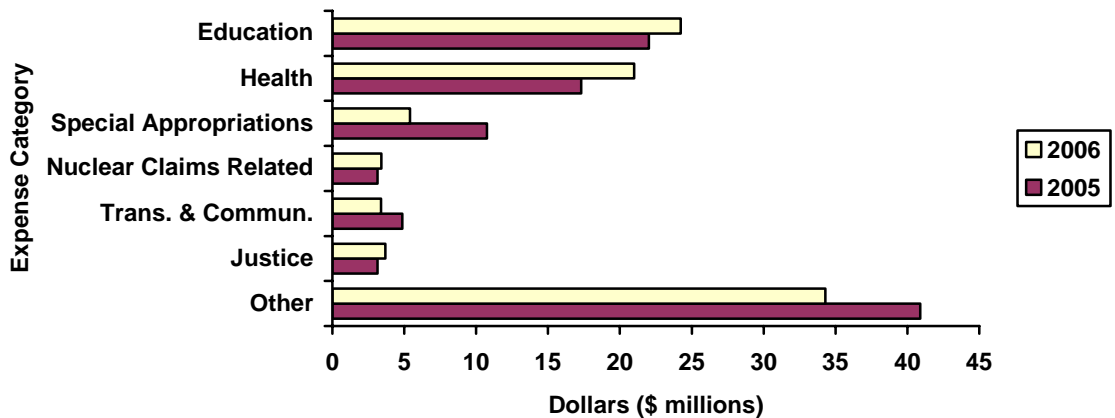
Other expenses that make up a portion of the costs of governmental activities include nuclear claims related expenses (\$3.4 million); ministerial expenses within the Ministry of Transportation and Communication (\$3.4 million), the Ministry of Foreign Affairs and Trade (\$2.9 million), and the Ministry of Internal Affairs (\$2.7 million); legislative expenses within the Nitijela (\$1.9 million); and executive expenses within the President's Office and Cabinet (\$1.7 million).

Graphs 3 and 4 below show a comparison of the major components of revenues and cost of governmental activities for fiscal years 2005 and 2006.

Graph 3
RepMar's Revenue Sources
For the Years Ended September 30



Graph 4
RepMar's Cost of Governmental Activities
For the Years Ended September 30



Special appropriation expenses in fiscal year 2006 consisted mainly of subsidies to component units of \$3.1 million, down from \$7.0 million (or 55.7%) in fiscal year 2005, government utility billings of \$0 million, down from \$1.2 million (or 100%) in fiscal year 2005, and land leases/leased housing of \$1.1 million, the same as in fiscal year 2005.

REPUBLIC OF THE MARSHALL ISLANDS

Management's Discussion and Analysis Year Ended September 30, 2006

FINANCIAL ANALYSIS OF REPMAR'S FUNDS

As noted earlier, RepMar uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. As of the end of fiscal year 2006, RepMar's governmental funds reported a combined fund balance of \$50.9 million, which represents an increase of \$7 million (or 15.8%) in comparison with fiscal year 2005. This increase is primarily attributable to an increase in fund balance of the Compact Trust Fund of \$8.0 million partially offset by a decrease in fund balance of the General Fund of \$0.8 million. Of this total combined fund balance, \$58.7 million is reserved to indicate that it is not available for new spending because it has already been committed: 1) to generate income for future operations (\$41.9 million); 2) to liquidate contracts and purchase orders of the prior period (\$10.8 million); or 3) for a variety of other restricted purposes (\$6.0 million). The combined unreserved deficit of RepMar's governmental funds is \$7.8 million, an increase of \$5.5 million (or 238%) from fiscal year 2005. This deficit will be funded through future budgetary surpluses.

General Fund Budgetary Highlights

During the course of the fiscal year, management and elected officials of RepMar revised the General Fund budget. The revised budget included an increase in overall budgetary appropriations of \$2.2 million. The primary reason for the upward revision was due to emergency payments appropriated the Marshalls Energy Company, Inc. in order to assist in the payment of delinquent billings relating to fuel shipments.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

RepMar's investment in capital assets for its governmental activities as of September 30, 2006 amounted to \$146 million, net of accumulated depreciation of \$69.2 million, leaving a net book value of \$76.8 million. RepMar's capital assets include electrical and water infrastructure, roads and bridges, heavy equipment, ships, buildings, and various projects under construction. (See table below). This represents a net increase of \$7.1 million (or 10.2%) from fiscal year 2005, as restated.

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

	<u>2006</u>	<u>2005</u>
Electrical distribution	\$ 7,878,802	\$ 8,896,817
Buildings	34,639,328	31,389,182
Water infrastructure system	5,730,182	6,114,858
Docks, roads and bridges	9,131,840	9,699,875
Ships	8,792,503	9,335,193
Software	887,825	1,035,796
Heavy equipment	933,767	1,022,427
Dry-dock	581,456	775,275
Construction in progress	<u>8,250,292</u>	<u>1,419,861</u>
	<u>\$ 76,825,995</u>	<u>\$ 69,689,284</u>

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Management's Discussion and Analysis Year Ended September 30, 2006

Capital Assets, Continued

Major capital asset additions for fiscal year 2006 were as follows:

- Construction by the Government of Japan of the Atama Memorial Hospital in Delap in the amount of \$4.5 million.
- Ongoing construction in progress of educational facilities in the amount of \$6.8 million.

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

Long-term Debt

The Government Borrowing Act of 1985 authorizes RepMar to borrow for such purposes as approved by the Nitijela. Since 1991 RepMar has entered into twelve separate loans with the Asian Development Bank (See table below). Long-term debt obligations decreased by \$0.1 million (or 0.1%) in fiscal year 2005, net of loan draw downs of \$0.1 million.

RepMar's Outstanding Debt Asian Development Bank September 30,

	<u>2006</u>	<u>2005</u>
Fisheries Development Project	\$ 3,203,851	\$ 3,237,783
Typhoon Rehabilitation	477,692	482,693
Basic Education Project	7,490,453	7,569,729
Majuro Water Supply Project No. 1	685,777	692,865
Health and Population Project	5,062,317	5,122,633
Majuro Water Supply Project No. 2	8,303,958	8,303,958
Public Sector Reform Program	11,290,181	11,290,181
Ebeye Health and Infrastructure Project	8,953,626	8,953,626
Skills Training and Vocational Education Project	4,923,345	4,923,345
Fiscal and Financial Management Program No. 1	3,815,700	3,815,700
Fiscal and Financial Management Program No. 2	8,388,966	8,388,966
Outer Island Transport Infrastructure Project	<u>448,905</u>	<u>350,966</u>
	<u>\$ 63,044,771</u>	<u>\$ 63,132,445</u>

Additional information on RepMar's long-term debt can be found in note 6 to the financial statements.

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Management's Discussion and Analysis
Year Ended September 30, 2006

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

Economic growth as measured by Gross Domestic Product (GDP) continued over fiscal year 2005 with modest GDP growth in fiscal year 2006 of 3.0%. This was driven predominantly by increased government capital expenditures. The Marshall Islands' economy is extremely vulnerable to external shocks because of its small and open nature and this was never more evident than during fiscal year 2006. The effect of increasing fuel prices placed stress on RepMar's budget not only in the transport and energy sectors but also on public sector enterprises, most notably the Marshalls Energy Company, Inc. (MEC). RepMar struggled to cope with these shocks despite continued inflows through Compact revenues. Revenue performance lagged mainly due to high fuel prices and a drop in fishing license permits, with import taxes and fishing license revenues falling short of anticipated amounts by \$912,000 and \$880,000, respectively. Fuel tax revenues were also expected to increase, however, due to MEC's problems with securing fuel supplies and the subsequent lack of fishing vessels visiting the Marshall Islands to buy fuel, anticipated fuel tax revenues fell short by \$906,000. These shortfalls were partially offset by a one-time cash transfer in from the Intergenerational Trust Fund. Despite these problems, the impacts of the flow-on effects of Compact revenues continued to support the economy.

Although employment has grown considerably since the late 1990s, overall employment has fallen over the past two fiscal years, particularly in fiscal year 2005 with the closure of the PMOP fish loining plant. However, this trend is expected to reverse with the anticipated reopening of the loining plant in late 2007. Under new management and with private investment that will double production capacity, it is anticipated that the new plant will employ up to 500 workers.

For fiscal year 2007, the budget approved by the Nitijela continues RepMar's focus on the education and health sectors, with \$39.4 million and \$23.2 million, respectively, of the \$124.6 million budget designated to fund these priority areas, including their infrastructure needs. Compact revenues for fiscal year 2007 have been directed solely to fund these priority areas. With an educated and healthy workforce and a stable macroeconomic environment, RepMar is endeavoring to set a strong base for private sector growth. With improvements in the policy environment such as secured transactions, labor and immigration laws, and review of the land registration process, RepMar is hopeful that the ground work is set to entice greater private investment. This is already reflected by the reopening of the fish loining plant, the commencement of direct charter flights between Tokyo and Majuro by Japan Airlines providing a huge boost to the local tourism industry, and the establishment of the Marshall Islands Shipping Corporation with a private sector board proving a more reliable and cost effective inter-island shipping service.

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, 2006

	<u>Primary Government</u>	<u>Component Units</u>
<u>ASSETS</u>		
Current assets:		
Cash and cash equivalents	\$ 3,763,649	\$ 9,361,234
Time certificates of deposit	518,958	6,234,745
Investments	-	2,680,270
Receivables, net of allowance for uncollectibles	5,552,988	24,452,614
Advances	1,239,681	-
Inventories	-	5,180,873
Due from primary government	-	353,457
Other current assets	-	569,681
Restricted assets:		
Cash and cash equivalents	15,175,413	-
Time certificates of deposit	55,000	-
Total current assets	<u>26,305,689</u>	<u>48,832,874</u>
Noncurrent assets:		
Restricted assets:		
Investments	41,627,147	-
Investments	318,630	198,085
Due from component units	5,669,213	-
Capital assets, net of accumulated depreciation	76,825,995	61,035,390
Other noncurrent assets	-	1,773,375
Total noncurrent assets	<u>124,440,985</u>	<u>63,006,850</u>
Total assets	<u>\$ 150,746,674</u>	<u>\$ 111,839,724</u>
<u>LIABILITIES</u>		
Current liabilities:		
Current portion of long-term obligations	\$ 1,402,317	\$ 7,972,911
Accounts payable	5,311,308	10,150,294
Customer deposits	-	1,367,368
Accrued interest payable	575,204	-
Compensated absences payable	1,091,841	-
Other liabilities and accruals	2,763,781	3,950,710
Due to component units	990,231	100,000
Due to external parties	12,906,714	-
Deferred revenue	-	885,935
Total current liabilities	<u>25,041,396</u>	<u>24,427,218</u>
Noncurrent liabilities:		
Noncurrent portion of long-term obligations	61,642,454	30,110,634
Compensated absences payable, net of current portion	1,617,717	-
Due to primary government	-	7,669,213
Total noncurrent liabilities	<u>63,260,171</u>	<u>37,779,847</u>
Total liabilities	<u>88,301,567</u>	<u>62,207,065</u>
Commitments and contingencies		
<u>NET ASSETS</u>		
Invested in capital assets, net of related debt	54,128,155	38,784,019
Restricted for:		
Nonexpendable:		
Future operations	41,877,147	-
Expendable:		
Compact related	2,110,359	-
Other purposes	4,650,279	490,640
Unrestricted (deficits)	<u>(40,320,833)</u>	<u>10,358,000</u>
Total net assets	<u>62,445,107</u>	<u>49,632,659</u>
Total liabilities and net assets	<u>\$ 150,746,674</u>	<u>\$ 111,839,724</u>

See accompanying notes to basic financial statements.

REPUBLIC OF THE MARSHALL ISLANDS

Statement of Activities
Year Ended September 30, 2006

	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
Functions/Programs						
Primary government:						
Governmental activities:						
President and Cabinet	\$ 1,715,084	\$ -	\$ 51,428	\$ 320,169	\$ (1,343,487)	\$ -
Office of the Chief Secretary	1,088,924	-	398,775	146,136	(544,013)	-
Special appropriations	5,396,036	-	-	423,772	(4,972,264)	-
Council of Iroij	443,283	-	-	425	(442,858)	-
Office of the Auditor-General	738,577	-	258,539	-	(480,038)	-
Public Service Commission	497,151	-	-	523	(496,628)	-
Office of the Attorney General	650,212	63,102	-	14,930	(572,180)	-
Education	24,243,349	168,609	20,863,783	993,152	(2,217,805)	-
Health and Environment	20,985,881	6,669,600	10,525,692	4,465,456	674,867	-
Transportation and Communication	3,373,908	221,560	390,000	846,838	(1,915,510)	-
Resources and Development	1,804,198	8,233	457,030	874,842	(464,093)	-
Internal Affairs	2,701,868	31,539	90,135	477,390	(2,102,804)	-
Justice	3,683,678	553,571	-	299,907	(2,830,200)	-
Finance	6,707,948	329,603	2,709,573	203,072	(3,465,700)	-
Foreign Affairs and Trade	2,858,167	35,667	68,414	332,888	(2,421,198)	-
Public Works	5,276,038	15,664	-	843,970	(4,416,404)	-
Nitijela	1,931,478	-	200,115	95,000	(1,636,363)	-
Judiciary	833,651	3,924	-	349	(829,378)	-
Environmental Protection Authority	464,942	-	465,450	-	508	-
Nuclear claims related	3,390,938	-	3,330,466	-	(60,472)	-
Future operations	-	-	8,017,590	-	8,017,590	-
Capital projects	5,167,226	-	-	10,339,240	5,172,014	-
Unallocated interest - long-term debt	869,357	-	-	-	(869,357)	-
Other	148,967	-	-	-	(148,967)	-
Total primary government	\$ 94,970,861	\$ 8,101,072	\$ 47,826,990	\$ 20,678,059	\$ (18,364,740)	\$ -
Component units:						
Marshalls Energy Company, Inc.	\$ 26,785,586	\$ 21,272,620	\$ -	\$ 650,000	\$ -	\$ (4,862,966)
Marshall Islands Development Bank	3,136,822	3,309,573	-	-	-	172,751
Marshall Islands National Telcom. Authority	7,168,666	6,818,179	-	160,627	-	(189,860)
RMI Ports Authority	2,643,765	2,011,038	-	14,026,800	-	13,394,073
Other nonmajor component units	18,416,486	13,064,319	-	1,000,000	-	(4,352,167)
Total component units	\$ 58,151,325	\$ 46,475,729	\$ -	\$ 15,837,427	\$ -	\$ 4,161,831
General revenues:						
Taxes:						
Income taxes					11,120,846	-
Import taxes					7,823,578	-
Gross revenue taxes					4,777,975	-
Fuel taxes					777,634	-
Penalties and interest					112,570	-
Other					530,264	-
Grants and contributions not restricted to specific programs					4,000,000	-
Fishing rights					1,500,000	-
Ship registry					1,000,000	-
Unrestricted investment earnings					422,880	368,886
Contributions from primary government					-	5,516,498
Other					471,035	-
Total general revenues					32,536,782	5,885,384
Change in net assets					14,172,042	10,047,215
Net assets at the beginning of the year, as restated					48,273,065	39,585,444
Net assets at the end of the year					\$ 62,445,107	\$ 49,632,659

See accompanying notes to basic financial statements.

REPUBLIC OF THE MARSHALL ISLANDS

Balance Sheet
Governmental Funds
September 30, 2006

	Special Revenue			Permanent	Other Governmental Funds	Total
	General	U.S Federal Grants	Compact Sector	Compact Trust		
ASSETS						
Cash and cash equivalents	\$ 1,424,070	\$ -	\$ -	\$ -	\$ 2,339,579	\$ 3,763,649
Time certificates of deposit	-	-	-	-	518,958	518,958
Investments	-	-	-	-	318,630	318,630
Receivables, net:						
Taxes	2,295,514	-	-	-	45,071	2,340,585
Federal agencies	13,442	1,019,184	3,314	-	364,023	1,399,963
General	225,572	-	-	-	1,137,228	1,362,800
Other	28,796	-	-	-	420,844	449,640
Due from other funds	693,038	-	2,242,074	250,000	6,698,756	9,883,868
Due from component units	-	-	-	-	5,669,213	5,669,213
Advances	1,105,539	54,069	62,051	-	18,022	1,239,681
Restricted assets:						
Cash and cash equivalents	15,153,145	-	-	-	22,268	15,175,413
Time certificates of deposit	55,000	-	-	-	-	55,000
Investments	-	-	-	41,627,147	-	41,627,147
Total assets	\$ 20,994,116	\$ 1,073,253	\$ 2,307,439	\$ 41,877,147	\$ 17,552,592	\$ 83,804,547
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable	\$ 2,483,549	\$ 535,201	\$ 762,182	\$ -	\$ 1,530,376	\$ 5,311,308
Other liabilities and accruals	1,484,270	202,468	-	-	431,296	2,118,034
Loan payable	541,353	-	-	-	-	541,353
Interest payable	380,494	-	-	-	-	380,494
Retention payable	-	-	645,747	-	-	645,747
Deferred revenue	155,516	-	-	-	-	155,516
Due to component units	990,231	-	-	-	-	990,231
Due to other funds	20,869,718	337,856	51,303	-	1,531,705	22,790,582
Total liabilities	26,905,131	1,075,525	1,459,232	-	3,493,377	32,933,265
Fund balances (deficits):						
Reserved for:						
Related assets	72,395	-	-	41,877,147	6,010,111	47,959,653
Encumbrances	268,431	1,357,087	7,058,963	-	2,070,857	10,755,338
Unreserved:						
General fund	(6,251,841)	-	-	-	-	(6,251,841)
Special revenue funds	-	(1,359,359)	(6,210,756)	-	5,405,613	(2,164,502)
Capital projects funds	-	-	-	-	469,561	469,561
Permanent fund	-	-	-	-	103,073	103,073
Total fund balances (deficits)	(5,911,015)	(2,272)	848,207	41,877,147	14,059,215	50,871,282
Total liabilities and fund balances	\$ 20,994,116	\$ 1,073,253	\$ 2,307,439	\$ 41,877,147	\$ 17,552,592	

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	76,825,995
Other long-term assets are not available to pay for current-period expenditures and, therefore, are not reported in the funds	155,516
Long-term liabilities, including loans payable, are not due and payable in the current period and therefore are not reported in the funds. The liabilities include:	
Accrued interest payable	(194,710)
Loans payable	(62,503,418)
Compensated absences payable	(2,709,558)
	(65,407,686)
Net assets of governmental activities	\$ 62,445,107

See accompanying notes to basic financial statements.

REPUBLIC OF THE MARSHALL ISLANDS

Statement of Revenues, Expenditures, and Changes in Fund Balances (Deficits)
 Governmental Funds
 Year Ended September 30, 2006

	Special Revenue			Permanent	Other Governmental Funds	Total
	General	U.S Federal Grants	Compact Sector	Compact Trust		
Revenues:						
Compact funding	\$ -	\$ -	\$ 35,312,542	\$ -	\$ 197,294	\$ 35,509,836
Taxes	25,142,867	-	-	-	-	25,142,867
Federal and other grants	4,000,000	10,746,613	-	2,500,000	8,206,685	25,453,298
Sales	-	-	-	-	358,014	358,014
Ship registry	1,000,000	-	-	-	-	1,000,000
Fishing rights	1,500,000	-	-	-	-	1,500,000
Net increase in the fair value of investments	-	-	-	4,686,879	-	4,686,879
Interest and dividends	143,565	-	-	830,711	279,315	1,253,591
Fees and charges	114,162	-	-	-	7,628,896	7,743,058
Other	301,184	-	-	-	169,851	471,035
Total revenues	32,201,778	10,746,613	35,312,542	8,017,590	16,840,055	103,118,578
Expenditures:						
Current:						
President and Cabinet	1,824,543	-	-	-	333,692	2,158,235
Office of the Chief Secretary	537,623	177,665	-	-	297,598	1,012,886
Special appropriations	4,895,841	-	100,000	-	400,000	5,395,841
Council of Iroij	441,542	-	-	-	425	441,967
Nitijela	1,738,161	-	-	-	187,389	1,925,550
Office of the Auditor-General	448,171	92,172	-	-	197,294	737,637
Public Service Commission	480,672	-	-	-	-	480,672
Judiciary	-	-	-	-	830,773	830,773
Office of the Attorney General	630,579	-	-	-	17,059	647,638
Ministries:						
Education	4,249,940	4,268,156	14,272,953	-	1,247,063	24,038,112
Health and Environment	2,666,974	3,477,122	6,564,097	-	7,965,086	20,673,279
Transportation and Communication	2,016,406	390,000	-	-	437,842	2,844,248
Resources and Development	380,193	71,218	254,734	-	1,015,860	1,722,005
Internal Affairs	1,748,622	90,135	-	-	818,742	2,657,499
Justice	2,615,226	-	-	-	810,629	3,425,855
Finance	3,325,284	769,805	1,688,306	-	765,745	6,549,140
Foreign Affairs and Trade	2,460,959	57,888	-	-	303,266	2,822,113
Public Works	1,343,992	-	-	-	922,408	2,266,400
Environmental Protection Authority	-	37,786	425,814	-	-	463,600
Nuclear claims related	-	-	-	-	3,552,465	3,552,465
Debt service:						
Principal repayment	726,966	-	-	-	-	726,966
Interest	917,713	-	-	-	-	917,713
Capital outlays	-	-	11,997,657	-	-	11,997,657
Other	-	-	-	103,445	45,522	148,967
Total expenditures	33,449,407	9,431,947	35,303,561	103,445	20,148,858	98,437,218
Excess (deficiency) of revenues over (under) expenditures	(1,247,629)	1,314,666	8,981	7,914,145	(3,308,803)	4,681,360
Other financing sources (uses):						
Loan proceeds	-	-	-	-	97,939	97,939
Operating transfers in	1,901,987	-	490,244	101,073	8,763,300	11,256,604
Operating transfers out	(1,485,926)	(1,314,666)	(980,126)	-	(5,296,464)	(9,077,182)
Total other financing sources (uses), net	416,061	(1,314,666)	(489,882)	101,073	3,564,775	2,277,361
Net change in fund balances (deficits)	(831,568)	-	(480,901)	8,015,218	255,972	6,958,721
Fund balances (deficits) at the beginning of the year, as restated	(5,079,447)	(2,272)	1,329,108	33,861,929	13,803,243	43,912,561
Fund balances (deficits) at the end of the year	\$ (5,911,015)	\$ (2,272)	\$ 848,207	\$ 41,877,147	\$ 14,059,215	\$ 50,871,282

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, 2006

Amounts reported for governmental activities in the statement of activities on page 13 are different because:

Net change in fund balances - total governmental funds from page 15	\$ 6,958,721
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period, including increases to construction in progress	7,136,711
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds	502,836
The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction has any effect on net assets. This amount is the net effect of these differences in the treatment of long - term debt and related items	(87,674)
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore, are not reported as expenditures in governmental funds. These expenses include accrued annual leave and interest payable that are reported in the statement of activities, but not in funds	<u>(338,552)</u>
Change in net assets of governmental activities as presented on page 13.	\$ <u>14,172,042</u>

See accompanying notes to basic financial statements.

REPUBLIC OF THE MARSHALL ISLANDS

Statement of Fiduciary Net Assets
Fiduciary Funds
September 30, 2006

	<u>Private Purpose Trust</u>	<u>Agency</u>
<u>ASSETS</u>		
Cash and cash equivalents	\$ 1,474,481	\$ -
Time certificates of deposit	4,060,743	-
Receivables, net:		
Contributions	2,088,814	-
Other	637,182	-
Investments	54,750,258	
Due from other funds	12,754,144	152,570
Capital assets, net of accumulated depreciation	<u>104,279</u>	<u>-</u>
Total assets	<u>75,869,901</u>	<u>\$ 152,570</u>
<u>LIABILITIES</u>		
Accounts payable	123,479	\$ -
Other liabilities and accruals	<u>592,703</u>	<u>152,570</u>
Total liabilities	<u>716,182</u>	<u>\$ 152,570</u>
<u>NET ASSETS</u>		
Held in trust for:		
Social security benefits	61,179,319	
Nuclear claims	1,244,135	
Land use distributions	<u>12,730,265</u>	
Total net assets	<u>\$ 75,153,719</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, 2006

	<u>Private Purpose Trust</u>
Additions:	
Contributions:	
Private employees	\$ 7,487,349
Government employees	3,642,155
Penalties and interest	314,022
Total contributions	<u>11,443,526</u>
Investment earnings:	
Net increase in the fair value of investments	4,049,646
Interest and dividends	1,544,682
Total investment earnings	5,594,328
Less investment expense	139,718
Net investment earnings	<u>5,454,610</u>
Other	<u>15,823,231</u>
Total additions	<u>32,721,367</u>
Deductions:	
Land use distributions	11,489,373
Benefits	11,018,951
Administrative expenses	896,473
Transfers out	2,015,800
Total deductions	<u>25,420,597</u>
Change in net assets	7,300,770
Net assets at the beginning of the year	<u>67,852,949</u>
Net assets at the end of the year	<u>\$ 75,153,719</u>

See accompanying notes to basic financial statements.

REPUBLIC OF THE MARSHALL ISLANDS

Combining Statement of Net Assets
Component Units
September 30, 2006

	Marshalls Energy Company, Inc.	Marshall Islands Development Bank	Marshall Islands National Telecom. Authority	RMI Ports Authority	Nonmajor Component Units	Total
ASSETS						
Current assets:						
Cash and cash equivalents	\$ 2,037,380	\$ 2,385,782	\$ 1,023,469	\$ 1,376,536	\$ 2,538,067	\$ 9,361,234
Time certificates of deposit	-	2,148,970	1,162,904	1,621,600	1,301,271	6,234,745
Investments	-	423,748	2,256,522	-	-	2,680,270
Receivables, net:						
General	2,256,104	-	559,020	890,549	1,912,168	5,617,841
Loans	-	11,867,053	-	-	-	11,867,053
Other	-	868,056	397,289	4,874,341	828,034	6,967,720
Inventories	2,663,490	-	183,615	-	2,333,768	5,180,873
Due from primary government	-	-	-	-	353,457	353,457
Other current assets	34,611	-	40,394	46,473	448,203	569,681
Total current assets	6,991,585	17,693,609	5,623,213	8,809,499	9,714,968	48,832,874
Noncurrent assets:						
Investments	-	-	-	-	198,085	198,085
Capital assets, net of accumulated depreciation	10,769,790	1,704,584	16,101,749	24,979,255	7,480,012	61,035,390
Other noncurrent assets	-	291,391	1,481,984	-	-	1,773,375
Total noncurrent assets	10,769,790	1,995,975	17,583,733	24,979,255	7,678,097	63,006,850
Total assets	\$ 17,761,375	\$ 19,689,584	\$ 23,206,946	\$ 33,788,754	\$ 17,393,065	\$ 111,839,724
LIABILITIES						
Current liabilities:						
Current portion of long-term debt	\$ 5,934,062	\$ 400,000	\$ 778,805	\$ -	\$ 860,044	\$ 7,972,911
Accounts payable	1,315,838	379,253	447,560	6,180,001	1,827,642	10,150,294
Customer deposits	-	1,155,456	211,912	-	-	1,367,368
Other liabilities and accruals	1,055,582	206,329	54,351	110,801	2,523,647	3,950,710
Due to component units	-	-	-	-	100,000	100,000
Deferred revenue	-	-	-	78,000	807,935	885,935
Total current liabilities	8,305,482	2,141,038	1,492,628	6,368,802	6,119,268	24,427,218
Noncurrent liabilities:						
Noncurrent portion of long-term debt	12,706,140	2,800,000	14,068,492	-	536,002	30,110,634
Due to primary government	-	5,669,213	-	-	2,000,000	7,669,213
Total noncurrent liabilities	12,706,140	8,469,213	14,068,492	-	2,536,002	37,779,847
Total liabilities	21,011,622	10,610,251	15,561,120	6,368,802	8,655,270	62,207,065
NET ASSETS						
Invested in capital assets, net of related debt	1,887,732	1,704,584	2,736,436	24,979,255	7,476,012	38,784,019
Restricted	-	242,355	-	-	248,285	490,640
Unrestricted	(5,137,979)	7,132,394	4,909,390	2,440,697	1,013,498	10,358,000
Total net assets	(3,250,247)	9,079,333	7,645,826	27,419,952	8,737,795	49,632,659
	\$ 17,761,375	\$ 19,689,584	\$ 23,206,946	\$ 33,788,754	\$ 17,393,065	\$ 111,839,724

See accompanying notes to basic financial statements.

REPUBLIC OF THE MARSHALL ISLANDS

Combining Statement of Revenues, Expenses, and Changes in Net Assets
Component Units
Year Ended September 30, 2006

	Marshalls Energy Company, Inc.	Marshall Islands Development Bank	Marshall Islands National Telecom. Authority	RMI Ports Authority	Nonmajor Component Units	Total
Operating revenues:						
Charges for services	\$ 11,513,582	\$ 2,868,818	\$ 6,818,179	\$ 1,938,809	\$ 11,605,303	\$ 34,744,691
Sales	9,759,038	-	-	-	658,230	10,417,268
Other	-	440,755	-	72,229	800,786	1,313,770
Total operating revenues	<u>21,272,620</u>	<u>3,309,573</u>	<u>6,818,179</u>	<u>2,011,038</u>	<u>13,064,319</u>	<u>46,475,729</u>
Operating expenses:						
Cost of services	21,850,907	1,629,838	3,159,009	1,880,619	13,908,816	42,429,189
Administration costs	2,227,152	1,381,615	645,604	-	2,937,707	7,192,078
Depreciation and amortization	1,088,841	233,473	1,958,039	763,146	1,368,171	5,411,670
Total operating expenses	<u>25,166,900</u>	<u>3,244,926</u>	<u>5,762,652</u>	<u>2,643,765</u>	<u>18,214,694</u>	<u>55,032,937</u>
Operating income (loss)	<u>(3,894,280)</u>	<u>64,647</u>	<u>1,055,527</u>	<u>(632,727)</u>	<u>(5,150,375)</u>	<u>(8,557,208)</u>
Nonoperating revenues (expenses):						
Contributions from the primary government	820,000	347,300	-	-	4,349,198	5,516,498
Net increase in the fair value of investments	-	119,266	131,436	-	-	250,702
Interest income	-	-	-	61,191	56,993	118,184
Interest expense	(1,618,686)	-	(761,929)	-	(115,301)	(2,495,916)
Contributions to the primary government	-	-	(386,350)	-	-	(386,350)
Other	-	108,104	(257,735)	-	(86,491)	(236,122)
Total nonoperating revenues (expenses), net	<u>(798,686)</u>	<u>574,670</u>	<u>(1,274,578)</u>	<u>61,191</u>	<u>4,204,399</u>	<u>2,766,996</u>
Capital contributions	650,000	-	160,627	14,026,800	1,000,000	15,837,427
Net income (loss)	<u>(4,042,966)</u>	<u>639,317</u>	<u>(58,424)</u>	<u>13,455,264</u>	<u>54,024</u>	<u>10,047,215</u>
Net assets at the beginning of the year	<u>792,719</u>	<u>8,440,016</u>	<u>7,704,250</u>	<u>13,964,688</u>	<u>8,683,771</u>	<u>39,585,444</u>
Net assets at the end of the year	<u>\$ (3,250,247)</u>	<u>\$ 9,079,333</u>	<u>\$ 7,645,826</u>	<u>\$ 27,419,952</u>	<u>\$ 8,737,795</u>	<u>\$ 49,632,659</u>

See accompanying notes to basic financial statements.

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements September 30, 2006

(1) Summary of Significant Accounting Policies

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

A. Reporting Entity

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

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

Each blended and discretely presented component unit of RepMar has a September 30 year-end except for the Four-Atoll Medical Fund, which has a December 31 year-end. The Ministry of Education Headstart Program, which was previously reported, had a November 30 year-end. Effective October 1, 2005, the operations of this component unit reverted back to the Ministry of Education and is accounted for within the Compact Sector Grants Fund.

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

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

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements
September 30, 2006

(1) Summary of Significant Accounting Policies, Continued

A. Reporting Entity, Continued

i. Blended Component Units

The following Component Units are blended within the Primary Government:

Four Atoll Medical Fund, a Governmental Fund Type - Special Revenue Fund. This fund accounts for transactions from the distribution of annual proceeds from the Nuclear Claims Trust Fund.

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

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

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

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

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

ii. Discretely Presented Component Units

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

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

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements
September 30, 2006

(1) Summary of Significant Accounting Policies, Continued

A. Reporting Entity, Continued

ii. Discretely Presented Component Units, Continued

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

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

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

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

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

P.O. Box 245
Majuro, Marshall Islands 96960

iii. Related Organizations

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

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements
September 30, 2006

(1) Summary of Significant Accounting Policies, Continued

A. Reporting Entity, Continued

iv. Omitted Governmental Funds

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

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

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

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

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

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

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

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

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

B. Government-Wide Financial Statements

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

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements September 30, 2006

(1) Summary of Significant Accounting Policies, Continued

B. Government-Wide Financial Statements, Continued

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

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

- Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt that are attributed to the acquisition, construction or improvement of those assets.
- Restricted net assets - nonexpendable consists of permanent funds in which donors or other outside sources have stipulated that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to the principal.
- Restricted net assets - expendable consists of resources in which RepMar is legally or contractually obligated to spend resources in accordance with restrictions either externally imposed by creditors, grantors, contributors, and the like, or imposed by law.
- Unrestricted net assets consist of net assets, which do not meet the definition of the two preceding categories. Unrestricted net assets often are designated, (for example, internally restricted), to indicate that management does not consider them to be available for general operations.

The government-wide Statement of Net Assets reports \$48,637,785 of restricted net assets, of which \$4,482,907 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

The fund financial statements present a balance sheet and a statement of revenues, expenditures, and changes in fund balances for its major and aggregated non-major funds.

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements
September 30, 2006

(1) Summary of Significant Accounting Policies, Continued

C. Fund Financial Statements, Continued

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

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

D. Measurement Focus and Basis of Accounting

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

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

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

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

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements
September 30, 2006

(1) Summary of Significant Accounting Policies, Continued

D. Measurement Focus and Basis of Accounting, Continued

Proprietary funds 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 proprietary fund's principal ongoing operations. All other revenues are reported as nonoperating. Operating expenses includes the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

RepMar reports the following fund types:

1. Governmental Fund Types

i. General Fund

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

ii. Special Revenue Funds

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

iii. Capital Projects Funds

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

iv. Permanent Funds

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

2. Fiduciary Fund Types

i. Private Purpose Funds

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

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

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements
September 30, 2006

(1) Summary of Significant Accounting Policies, Continued

D. Measurement Focus and Basis of Accounting, Continued

2. Fiduciary Fund Types, Continued

ii. Agency Funds

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

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

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

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

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

E. Reporting Standards

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

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements
September 30, 2006

(1) Summary of Significant Accounting Policies, Continued

F. Cash and Cash Equivalents and Time Certificates of Deposit

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

G. Investments

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

H. Receivables

In general, tax revenue is recognized on the government-wide 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".

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

I. Inventories and Prepaid Items

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

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

J. Interfund Receivables/Payables

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

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, 2006

(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 completely restricted through loan agreements or enabling legislation. Specifically, RepMar has collateralized a credit card facility with a time certificate of deposit of \$55,000. Furthermore, cash and cash equivalents and investments, totaling \$15,175,413 and \$41,627,147, respectively, are restricted in that they are not available to be used in current operations.

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 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 their being earned. In the governmental fund financial statements deferred revenue represents monies received or revenues accrued which have not been earned or do not meet the "available" criterion for revenue recognition under the modified accrual basis of accounting. The deferred revenue in the governmental fund types has primarily resulted as federal funds are received in advance of eligible expenditures.

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements
September 30, 2006

(1) Summary of Significant Accounting Policies, Continued

O. Compensated Absences

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

P. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

The unreserved fund balances for the governmental funds represent the amount available for budgeting future operations. The reserve for related assets as of September 30, 2006, is represented by the following assets:

	<u>General</u>	U.S. Federal <u>Grants</u>	Compact <u>Sector</u>	Compact <u>Trust</u>	Other Governmental <u>Funds</u>	<u>Totals</u>
Cash and cash equivalents	\$ 17,395	\$ -	\$ -	\$ -	\$ -	\$ 17,395
Investments	-	-	-	-	318,630	318,630
Due from other funds	-	-	-	250,000	-	250,000
Due from component units	-	-	-	-	5,669,213	5,669,213
Restricted assets:						
Cash and cash equivalents	-	-	-	-	22,268	22,268
Time certificates of deposit	55,000	-	-	-	-	55,000
Investments	-	-	-	41,627,147	-	41,627,147
	<u>\$ 72,395</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 41,877,147</u>	<u>\$ 6,010,111</u>	<u>\$ 47,959,653</u>

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 risks in any of the past three fiscal years.

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements
September 30, 2006

(1) Summary of Significant Accounting Policies, Continued

R. New Accounting Standards

During fiscal year 2006, RepMar implemented the following pronouncements:

- GASB Statement No. 44, *Economic Condition Reporting: The Statistical Section, an amendment to NCGA Statement 1*, which improves the understandability and usefulness of statistical section information and adds information from the new financial reporting model for state and local governments required by GASB Statement No. 34.
- GASB Statement No. 47, *Accounting for Termination Benefits*, which establishes guidance for state and local governmental employers on accounting and financial reporting for termination benefits. These benefits include incentives for voluntary terminations (e.g., early retirement window programs) and severance payments with respect to involuntary terminations.
- GASB Technical Bulletin No. 2004-2, *Recognition of Pension and Other Postemployment Benefit Expenditures/Expense and Liabilities by Cost-Sharing Employers*, which clarifies the requirements of GASB Statement Nos. 27 and 45 for recognition of pension and other postemployment benefit expenditures/expense and liabilities by cost-sharing employers.

The implementation of these pronouncements did not have a material impact on the accompanying financial statements.

In April 2004, GASB issued Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. GASB Statement No. 43 establishes uniform financial reporting for other postemployment benefit plans by state and local governments. The provisions of this Statement are effective for periods beginning after December 15, 2007. Management does not believe that the implementation of this statement will have a material effect on the financial statements of RepMar.

In June 2004, GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. GASB Statement No. 45 establishes standards for the measurement, recognition, and display of other post employment benefits expense/expenditures and related liabilities, note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers. The provisions of this Statement are effective for periods beginning after December 15, 2008. Management does not believe that the implementation of this statement will have a material effect on the financial statements of RepMar.

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

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements
September 30, 2006

(1) Summary of Significant Accounting Policies, Continued

S. Reclassifications

Due to the provisions of GASB Statement No. 34, major governmental funds presented in a previous year may not be major funds presented in the current year.

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.

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

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements
September 30, 2006

(2) Deposits and Investments, Continued

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

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

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

A. Deposits

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

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

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

As of September 30, 2006, the carrying amount of the primary government's total cash and cash equivalents and time certificates of deposit were \$19,529,672 and the corresponding bank balances were \$19,954,417. Of the bank balance amounts, \$19,003,366 is maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2006, bank deposits in the amount of \$666,296 were FDIC insured. RepMar does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized. Accordingly, these deposits are exposed to custodial credit risk.

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements
September 30, 2006

(2) Deposits and Investments, Continued

A. Deposits, Continued

As of September 30, 2006, the carrying amount of the fiduciary fund's total cash and cash equivalents and time certificates of deposit was \$5,535,224 and the corresponding bank balances were \$5,891,752. Of the bank balance amounts, \$57,242 is maintained in financial institutions subject to FDIC insurance. RepMar does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized. Accordingly, these deposits are exposed to custodial credit risk.

As of September 30, 2006, the carrying amount of the discretely presented component units' total cash and cash equivalents and time certificates of deposit were \$15,595,979 and the corresponding bank balances were \$16,043,292. Of the bank balance amounts, \$7,451,795 is maintained in financial institutions subject to FDIC insurance. As of September 30, 2006, bank deposits in the amount of \$1,076,331 were FDIC insured. The component units do not require collateralization of their cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized. Accordingly, these deposits are exposed to custodial credit risk.

B. Investments

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

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

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

Investments of the primary government as of September 30, 2006, are as follows:

Compact Trust Fund:	
Money market funds	\$ 155,888
Common equity securities	<u>41,471,259</u>
	<u>\$ 41,627,147</u>

Additionally, as of September 30, 2006, the MIDA Fund holds approximately 4% of the shares of Pacific Forum Lines in the amount of \$318,630. As the fair market value of this investment is not readily available, such has been recorded at cost.

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements
September 30, 2006

(2) Deposits and Investments, Continued

B. Investments, Continued

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, 2006.

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, 2006, there were no investments in any one issuer that exceeded 5% of total investments.

Investments of the fiduciary funds as of September 30, 2006, are as follows:

Marshall Islands Social Security Administration (MISSA):	
Money market funds	\$ 112,795
Common equity securities	8,494,606
Mutual funds	<u>38,623,258</u>
	\$ <u>47,230,659</u>

Additionally, as of September 30, 2006, the MISSA holds approximately 31% of the shares of Bank of Marshall Islands, totaling \$6,275,464, which is accounted for under the equity method.

Nuclear Claims Trust Fund (NCTF):	
U.S. Treasury obligations	\$ 126,709
U.S. Government agencies	200,084
Corporate notes and bonds	<u>42,739</u>
Total fixed income securities	369,532
Common equity securities	784,717
Money market funds	<u>89,886</u>
	\$ <u>1,244,135</u>

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements
September 30, 2006

(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%) percent of the market value of the Fund shall be invested in the stock of any one corporation, and that not more than twenty-five percent (25%) percent of the market value of the Fund shall be invested in any one industry group.

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

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

MISSA and NCTF investments are held and administered by trustees in accordance with various trustee agreements. Based on negotiated trust and custody contracts, all of these investments were held respectively in the name of MISSA and NCTF by their custodial financial institutions at September 30, 2006.

As of September 30, 2006, the NCTF's investments in debt securities were as follows:

	Moody's Credit Rating	Investment Maturities (In Years)					Fair Value
		Less Than 1	1 to 5	6 to 10	Greater Than 10		
U.S. Treasury obligations	Aaa	\$ -	\$ 69,292	\$ 57,417	\$ -	\$ 126,709	
U.S. Government agencies	Aaa	-	93,852	57,054	49,178	200,084	
Corporate notes	Aaa	-	11,463	-	-	11,463	
Corporate notes	Aa2	-	8,016	-	-	8,016	
Corporate notes	Aa3	-	15,541	7,719	-	23,260	
		<u>\$ -</u>	<u>\$ 198,164</u>	<u>\$ 122,190</u>	<u>\$ 49,178</u>	<u>\$ 369,532</u>	

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements
September 30, 2006

(2) Deposits and Investments, Continued

B. Investments, Continued

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, 2006, there were no investments in any one issuer that exceeded 5% of total investments.

Investments of the discretely presented component units as of September 30, 2006, are as follows:

Marshall Islands Development Bank:	
Common equity securities	\$ <u>423,748</u>
Marshall Islands National Telecommunications Authority (MINTA):	
Common equity securities	\$ 2,140,998
Money market funds	<u>115,524</u>
	\$ <u>2,256,522</u>
College of the Marshall Islands:	
Mutual funds	\$ <u>198,085</u>

(3) Receivables

Receivables as of September 30, 2006, for the primary government's individual major governmental funds, and nonmajor governmental funds in the aggregate, including applicable allowances for uncollectible accounts, are as follows:

	<u>General</u>	U.S. Federal <u>Grants</u>	Compact <u>Sector</u>	Compact <u>Trust</u>	Nonmajor And Other <u>Funds</u>	<u>Totals</u>
Receivables:						
Taxes	\$ 2,295,514	\$ -	\$ -	\$ -	\$ 45,071	\$ 2,340,585
Federal agencies	13,442	1,019,184	3,314	-	412,312	1,448,252
General	308,069	-	-	-	3,931,788	4,239,857
Loans	-	-	-	-	14,301,639	14,301,639
Other	<u>616,272</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,119,478</u>	<u>5,735,750</u>
	3,233,297	1,019,184	3,314	-	23,810,288	28,066,083
Less: allowance for uncollectibles	<u>(669,973)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(19,200,526)</u>	<u>(19,870,499)</u>
Net receivables	<u>\$ 2,563,324</u>	<u>\$ 1,019,184</u>	<u>\$ 3,314</u>	<u>\$ -</u>	<u>\$ 4,609,762</u>	<u>\$ 8,195,584</u>

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

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements
September 30, 2006

(3) Receivables, Continued

Marshall Islands Scholarship, Grant and Loan Board

Loans to qualified Marshallese students under a student financial assistance program, interest free, uncollateralized with no set repayment terms, and may be converted to grants at a later date if the recipients meet certain criteria. These loans have been fully provided for in the allowance for uncollectibles. During the year ended September 30, 2006, loans in the amount of \$1,423,090 were converted to grants as the recipients met the criteria for conversion. \$ 9,932,852

Marshall Islands Development Authority

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

ADB Development Projects Fund

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

Less allowance for uncollectibles 14,301,639
(14,301,639)

\$ -

(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, 2006, are summarized as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	U.S. Federal Grants	\$ 337,856
General	Compact Sector Grants	51,303
General	Nonmajor governmental funds	303,879
Compact Sector Grants	General	2,242,074
Compact Trust Fund	General	250,000
Nonmajor governmental funds	General	4,595,707
Nonmajor governmental funds	Nonmajor governmental funds	1,227,826
Fiduciary Funds - Kwajalein Atoll Trust	General	875,223
Fiduciary Funds - Section 212 Kwajalein Landowners	General	12,754,144
Fiduciary Funds - Unclaimed Property	General	<u>152,570</u>
		<u>\$ 22,790,582</u>

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements
September 30, 2006

(4) Interfund Receivables and Payables, Continued

Receivables and payables between funds reflected as due to/from component units in the statement of net assets at September 30, 2006, are summarized as follows:

	<u>Due From</u>	<u>Due To</u>
<u>Primary Government</u>		
General Fund:		
RMI Ports Authority	\$ -	\$ 172,152
Nonmajor component units	-	818,079
Nonmajor Governmental Funds:		
Marshall Islands Development Bank	<u>5,669,213</u>	<u>-</u>
	<u>\$ 5,669,213</u>	<u>\$ 990,231</u>
 <u>Discretely Presented Component Units</u>		
RMI Ports Authority:		
Nonmajor component units	\$ <u>-</u>	\$ <u>100,000</u>

The amount recorded as due from component units of the primary government of \$5,669,213 does not equal the corresponding due to primary government of the discretely presented component units of \$7,669,213 due to an allowance for doubtful accounts recorded by the General Fund and the nonmajor governmental funds of \$400,000 and \$1,600,000, respectively.

The amount recorded as due from component units of the discretely presented component units of \$-0- does not equal the corresponding due to component units of the discretely presented component units of \$100,000 due to an allowance for doubtful accounts recorded by the RMI Ports Authority of \$100,000.

Receivables and payables between funds reflected as due to/from primary government in the statement of net assets at September 30, 2006, are summarized as follows:

	<u>Due From</u>	<u>Due To</u>
<u>Discretely Presented Component Units</u>		
Marshall Islands Development Bank:		
Nonmajor governmental funds	\$ -	\$ 5,669,213
Nonmajor component units:		
General Fund	353,457	400,000
Nonmajor governmental funds	<u>-</u>	<u>1,600,000</u>
	<u>\$ 353,457</u>	<u>\$ 7,669,213</u>

The amount recorded as due from primary government of the discretely presented component units of \$353,457 does not equal the corresponding due to component units of the primary government of \$990,231 due to an allowance for doubtful accounts of \$172,152 recorded by the RMI Ports Authority and \$464,622 recorded by the nonmajor component units.

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements
September 30, 2006

(5) Fixed Assets

Capital asset activities for the year ended September 30, 2006, are as follows:

Primary Government Governmental Activities:	Estimated Useful Lives	Balance October 1, 2005	Additions	Retirements	Balance September 30, 2006
Electrical distribution	30 yrs	\$ 30,540,465	\$ -	\$ -	\$ 30,540,465
Buildings	30 – 40 yrs	58,140,610	4,915,456	-	63,056,066
Water infrastructure system	25 yrs	9,616,908	-	-	9,616,908
Docks, roads and bridges	25 – 30 yrs	14,486,813	-	-	14,486,813
Ships	25 yrs	13,567,254	-	-	13,567,254
Software	10 yrs	1,479,708	-	-	1,479,708
Heavy equipment	3 – 10 yrs	2,014,024	134,520	-	2,148,544
Dry-dock	15 yrs	2,907,282	-	-	2,907,282
		<u>132,753,064</u>	<u>5,049,976</u>	-	<u>137,803,040</u>
Less accumulated depreciation		<u>(64,483,641)</u>	<u>(4,743,696)</u>	-	<u>(69,227,337)</u>
		68,269,423	306,280	-	68,575,703
Construction in progress		<u>1,419,861</u>	<u>6,830,431</u>	-	<u>8,250,292</u>
		<u>\$ 69,689,284</u>	<u>\$ 7,136,711</u>	<u>\$ -</u>	<u>\$ 76,825,995</u>

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

President and Cabinet	\$ 3,186
Office of the Chief Secretary	73,890
Public Service Commission	15,000
Education	298,659
Health and Environment	281,539
Transportation and Communication	521,658
Resources and Development	80,225
Internal Affairs	37,563
Justice	246,541
Finance	150,296
Foreign Affairs and Trade	30,906
Public Works	3,002,930
Nitijela	<u>1,303</u>
	<u>\$ 4,743,696</u>

Discretely Presented Component Units:	Balance October 1, 2005	Additions	Retirements	Balance September 30, 2006
Telecom plant facilities	\$ 29,433,287	\$ 3,071,358	\$ (2,750,136)	\$ 29,754,509
Building and leasehold Improvements	18,718,163	442,609	-	19,160,772
Power plant facilities	14,720,739	-	-	14,720,739
Machinery and equipment	15,647,149	833,329	(148,351)	16,332,127
Aircraft	9,858,608	634,579	-	10,493,187
Airport/seaport facilities	<u>18,841,778</u>	<u>14,623,191</u>	-	<u>33,464,969</u>
	107,219,724	19,605,066	(2,898,487)	123,926,303
Less accumulated depreciation	<u>(61,485,636)</u>	<u>(5,417,118)</u>	<u>1,410,706</u>	<u>(65,492,048)</u>
	45,734,088	14,187,948	(1,487,781)	58,434,255
Construction in progress	<u>2,915,192</u>	<u>14,765,377</u>	<u>(15,057,576)</u>	<u>2,622,993</u>
	<u>\$ 48,649,280</u>	<u>\$ 28,953,325</u>	<u>\$ (16,545,357)</u>	<u>\$ 61,057,248</u>

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements
September 30, 2006

(6) 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, 2006, the primary government had the following long-term debt outstanding:

A. Asian Development Bank (ADB) Loans

Loan Number 1102 MAR (SF) - Fisheries Development Project Loan (SDR 2,432,599), non-interest bearing with a service charge of 1% per annum on the amount of the loan withdrawn from the Loan Account. Semiannual loan payments commenced January 1, 2003 in an amount of SDR 24,300, increasing to SDR 48,600 on January 1, 2012. \$ 3,203,851

Loan Number 1218 MAR (SF) - Typhoon Rehabilitation Loan (SDR 364,000), non-interest bearing with a service charge of 1% per annum on the amount of the loan withdrawn from the Loan Account. Semiannual loan payments commenced May 15, 2003 in an amount of SDR 3,600, increasing to SDR 7,300 on May 15, 2013. 477,692

Loan Number 1249 MAR (SF) - Basic Education Project Loan (SDR 5,717,446), non-interest bearing with a service charge of 1% per annum on the amount of the loan withdrawn from the Loan Account. Semiannual loan payments commenced April 15, 2004 in an amount of SDR 57,200, increasing to SDR 114,300 on April 15, 2014. 7,490,453

Loan Number 1250 MAR (SF) - Majuro Water Supply Project Loan No. 1 (SDR 478,496), non-interest bearing with a service charge of 1% per annum on the amount of the loan withdrawn from the Loan Account. Semiannual loan payments commenced November 15, 2003 in an amount of SDR 4,800, increasing to SDR 9,600 on November 15, 2013. 685,777

Loan Number 1316 RMI (SF) - Health and Population Project Loan (SDR 3,858,516), non-interest bearing with a service charge of 1% per annum on the amount of the loan withdrawn from the Loan Account. Semiannual loan payments commence January 1, 2005 in an amount of SDR 38,600, increasing to SDR 77,200 on January 1, 2015. 5,062,317

Loan Number 1389 RMI (SF) - Majuro Water Supply Project Loan No. 2 (SDR 6,062,000), non-interest bearing with a service charge of 1% per annum on the amount of the loan withdrawn from the Loan Account. Semiannual loan payments commence March 1, 2006 in an amount of SDR 60,700, increasing to SDR 121,200 on March 1, 2016. 8,303,958

Loan Number 1513 RMI (SF) - Public Sector Reform Program Loan (SDR 8,241,000), non-interest bearing with a service charge of 1% per annum on the amount of the loan withdrawn from the Loan Account. Semiannual loan payments commence June 1, 2007 in an amount of SDR 82,400, increasing to SDR 164,800 on June 1, 2017. 11,290,181

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements
September 30, 2006

(6) Long-term Obligations, Continued

Primary Government, Continued

A. Asian Development Bank (ADB) Loans, Continued

Loan Number 1694 RMI (SF) - Ebeye Health and Infrastructure Project Loan (SDR 6,918,118), non-interest bearing with a service charge of 1% per annum on the amount of the loan withdrawn from the Loan Account. Semiannual loan payments commence February 1, 2008 in an amount of SDR 144,127.	8,953,626
Loan Number 1791 RMI (SF) - Skills Training and Vocational Education Project Loan (SDR 3,483,174), non-interest bearing with a service charge of 1% per annum on the amount of the loan withdrawn from the Loan Account. Semiannual loan payments commence May 15, 2009 in an amount of SDR 72,566, at which time the service charge increases to 1.5% per annum.	4,923,345
Loan Number 1828 RMI - Fiscal and Financial Management Program Loan No. 1 (\$4,000,000), interest at the ADB's pool-based variable lending rate system for U.S. dollar loans (6.34% at September 30, 2006), a front-end fee of 1%, and a commitment charge of 0.75% per annum on the amount of the loan unwithdrawn from the Loan Account. Semiannual loan payments commence November 15, 2004 in an initial amount of \$89,900 with graduated increases of 5% to \$276,100 through May 15, 2016.	3,815,700
Loan Number 1829 RMI (SF) - Fiscal and Financial Management Program Loan No. 2 (SDR 6,320,000), non-interest bearing with a service charge of 1% per annum on the amount of the loan withdrawn from the Loan Account. Semiannual loan payments commence November 15, 2009 in an amount of SDR 197,500, at which time the service charge increases to 1.5% per annum.	8,388,966
Loan Number 1948 RMI (SF) - Outer Island Transport Infrastructure Project (SDR 5,304,000), non-interest bearing with a service charge of 1% per annum on the amount of the loan withdrawn from the Loan Account. On September 15, 2006, the ADB closed the Loan Account and reduced the loan amount to SDR 297,775. Semiannual loan payments commence February 1, 2011 in an amount of SDR 110,500, at which time the service charge increases to 1.5% per annum.	<u>448,905</u>
	<u>\$ 63,044,771</u>

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements
September 30, 2006

(6) Long-term Obligations, Continued

Primary Government, Continued

A. Asian Development Bank (ADB) Loans, 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 and Service Charge</u>	<u>Total</u>
2007	\$ 1,402,317	\$ 1,219,090	\$ 2,621,407
2008	1,369,934	817,305	2,187,239
2009	1,497,704	786,545	2,284,249
2010	2,152,498	797,380	2,949,878
2011	2,202,002	775,925	2,977,927
2012 – 2016	12,794,346	3,122,595	15,916,941
2017 – 2021	12,991,938	1,966,778	14,958,716
2022 – 2026	12,580,298	1,219,571	13,799,869
2027 – 2031	10,486,959	593,781	11,080,740
2032 – 2036	5,340,990	130,412	5,471,402
2037	225,785	1,132	226,917
	<u>\$ 63,044,771</u>	<u>\$ 11,430,514</u>	<u>\$ 74,475,285</u>

As of September 30, 2006, RepMar is delinquent in certain debt service payments relative to the abovementioned Asian Development Bank loans. Specifically, these delinquent payments amount to \$921,847, representing \$541,353 in principal payments and \$380,494 in interest and service charges. As these delinquent amounts represent matured debt that is currently due and payable, the delinquent portion is reported as a governmental fund liability within the General Fund at September 30, 2006.

Other long-term liabilities will be liquidated in the future from governmental funds. During the year ended September 30, 2006, 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, 2005</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance September 30, 2006</u>	<u>Due Within One Year</u>
Loans payable:					
ADB loans	\$ 63,132,445	\$ 97,939	\$ (185,613)	\$ 63,044,771	\$ 1,402,317
Other:					
Compensated absences	<u>2,565,716</u>	<u>143,842</u>	<u>-</u>	<u>2,709,558</u>	<u>1,091,841</u>
	<u>\$ 65,698,161</u>	<u>\$ 241,781</u>	<u>\$ (185,613)</u>	<u>\$ 65,754,329</u>	<u>\$ 2,494,158</u>

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements
September 30, 2006

(6) Long-term Obligations, Continued

Discretely Presented Component Units

As of September 30, 2006, the discretely presented component units had the following long-term debt outstanding:

Marshalls Energy Company, Inc. (MEC)

Loan with the Federal Financing Bank (FFB), dated November 17, 1997, with interest based on the FFB rates at the date of the loan advances and range from 5.49% to 7.25% per annum. Principal and interest are payable in quarterly installments of \$273,770 through January 2, 2018, with loan repayments guaranteed by the Rural Utilities Service (RUS). The mortgage notes have been unconditionally guaranteed by RepMar, under which RepMar will make debt service payments to RUS in the event of default by MEC, and have been collateralized by a leasehold mortgage and security agreement over the assets of MEC. These notes are subject to certain coverage ratio requirements. MEC is not in compliance with these ratio requirements as of September 30, 2006. \$ 8,903,916

Loan with a bank, dated January 13, 2006, with interest at 2.5% per annum over the bank's reference rate (10.75% at September 30, 2006). Principal and interest are payable in monthly installments of \$64,500 through January 10, 2009. The loan has been unconditionally guaranteed by RepMar, under which the bank shall exercise lien upon and right of set-off against money, securities, deposits and property of RepMar in possession of the bank in the event of default by MEC, and have been collateralized by accounts receivable and a security agreement over the assets of MEC. 1,645,811

Debt repayment agreement with a supplier, dated April 27, 2006, with interest at 18% per annum. Principal and interest are payable in twenty-four monthly installments commencing with \$200,000 for six months and increasing to \$322,307 for the remaining eighteen months with a guarantee from RepMar. 5,090,475

Bank credit line of \$3,000,000, with various terms, due on various dates, interest at the bank's reference rate plus 2.5% (10.75% at September 30, 2006), collateralized by a general security agreement over all assets of MEC and a guarantee from RepMar. 3,000,000

18,640,202

Marshall Islands Development Bank (MIDB)

Loan payable to the International Commercial Bank of China, due August 6, 2014, payable semi-annually in installments of \$200,000 plus interest at 5% per annum, uncollateralized. 3,200,000

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements
September 30, 2006

(6) Long-term Obligations, Continued

Discretely Presented Component Units, Continued

Marshall Islands National Telecommunications Authority (MINTA)

Loan with the RUS (formerly the Rural Electrification Administration) from the Rural Electrification and Telephone Revolving Fund, dated August 17, 1989 of \$18.8 million, and increased by \$3.999 million on April 23, 1993, with interest at 5% per annum. The \$18.8 million loan has been unconditionally guaranteed by RepMar, under which RepMar will make debt service payments to RUS in the event of default by MINTA. Mortgages over specific MINTA ground leases and essentially all assets of MINTA have collateralized both loans. 14,847,297

Air Marshall Islands, Inc. (AMI)

Loan with a bank, dated December 9, 2005, with interest at 7.5% per annum. Principal and interest are payable in monthly installments of \$21,638 through December 9, 2009. The loan has been collateralized by a TCD of the Marshall Islands Development Bank of \$1,000,000 and a guarantee by RepMar. 748,826

Tobolar Copra Processing Plant, Inc. (TCPPI)

Bank credit line of \$1,000,000, with various terms, due on various dates, interest at the bank's reference rate plus 2.5% (10% at September 30, 2006), collateralized by a general security agreement over all assets of TCPPI and a guarantee from RepMar. 647,220
\$ 38,083,545

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

<u>Year ending September 30,</u>	<u>Principal</u>	<u>Interest and Service Charge</u>	<u>Total</u>
2007	\$ 7,972,911	\$ 2,311,820	\$ 10,284,731
2008	2,528,437	1,835,384	4,363,821
2009	2,523,112	1,561,574	4,084,686
2010	5,540,223	1,340,758	6,880,981
2011	1,664,435	1,019,349	2,683,784
2012 – 2016	8,730,000	3,649,953	12,379,953
2017 – 2021	5,443,273	1,529,138	6,972,411
2022 – 2026	3,630,731	356,581	3,987,312
2027	<u>50,423</u>	<u>723</u>	<u>51,146</u>
	<u>\$ 38,083,545</u>	<u>\$ 13,605,280</u>	<u>\$ 51,688,825</u>

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements
September 30, 2006

(6) Long-term Obligations, Continued

Discretely Presented Component Units, Continued

Changes in long-term liabilities of discretely presented component units for the year ended September 30, 2006, are as follows:

	Balance October 1, 2005	Additions	Reductions	Balance September 30, 2006	Due Within One Year
Loans payable:					
MEC	\$ 9,415,887	\$ 10,755,299	\$ (1,530,984)	\$ 18,640,202	\$ 5,934,062
MIDB	3,600,000	-	(400,000)	3,200,000	400,000
MINTA	15,588,721	-	(741,424)	14,847,297	778,805
RMIPA	26,992	-	(26,992)	-	-
AMI	855,912	894,864	(1,001,950)	748,826	212,824
TCPPI	<u>800,000</u>	<u>1,000,000</u>	<u>(1,152,780)</u>	<u>647,220</u>	<u>647,220</u>
	30,287,512	12,650,163	(4,854,130)	38,083,545	7,972,911
Due to primary government	9,000,000	-	(1,330,787)	7,669,213	-
Other	<u>116,854</u>	<u>-</u>	<u>(116,854)</u>	<u>-</u>	<u>-</u>
	<u>\$ 39,404,366</u>	<u>\$ 12,650,163</u>	<u>\$ (6,301,771)</u>	<u>\$ 45,752,758</u>	<u>\$ 7,972,911</u>

(7) 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, 2006, are as follows:

	Transfers Out	Transfers In
General Fund:		
Nonmajor governmental funds	\$ <u>1,485,926</u>	\$ <u>1,901,987</u>
U.S. Federal Grants Fund:		
Nonmajor governmental funds	<u>1,314,666</u>	<u>-</u>
Compact Sector Fund:		
Nonmajor governmental funds	<u>980,126</u>	<u>490,244</u>
Compact Trust Fund:		
Nonmajor governmental funds	<u>-</u>	<u>101,073</u>
Nonmajor governmental funds:		
General Fund	1,901,987	1,485,926
U.S. Federal Grants Fund	-	1,478,288
Compact Sector Funds	490,244	980,126
Compact Trust Fund	101,073	-
Fiduciary funds	-	2,015,800
Nonmajor governmental funds	<u>2,803,160</u>	<u>2,803,160</u>
	<u>5,296,464</u>	<u>8,763,300</u>
Fiduciary funds:		
Nonmajor governmental funds	<u>2,015,800</u>	<u>-</u>
	<u>\$ 11,092,982</u>	<u>\$ 11,256,604</u>

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements
September 30, 2006

(7) Operating Transfers In/Out, Continued

The difference between transfers out and the corresponding transfers in relates to timing differences with the inclusion of the financial statements of the Four-Atoll Medical Fund, a nonmajor governmental fund, with a year end of December 31, 2006. During the year ended September 30, 2006, the U.S. Federal Grants Fund recorded a transfer out to the Four-Atoll Medical Fund in the amount of \$1,314,666 whereas the Four-Atoll Medical Fund recorded a corresponding transfer in of \$1,478,288.

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

During the year ended September 30, 2006, RepMar made a one-time transfer of \$2,003,060 from the Intergenerational Trust Fund to the General Fund (\$1,901,987) and the Compact Trust Fund (\$101,073) representing budgetary support for General Fund operations, and satisfaction of RepMar's contribution to the Trust Fund in accordance with Section 216 of the Compact of Free Association.

(8) Contingencies

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, 2006 is \$8,303,372.

Insurance Coverage

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

Federal Grants

RepMar participates in a number of federally assisted grant programs and other various U.S. Department of the Interior grants. These programs are subject to financial and compliance audits to ascertain if Federal laws and guidelines have been followed. Cumulative questioned costs of \$5,735,163 relating to fiscal years 2004 through 2006 have been set forth in RepMar's Single Audit Report for the year ended September 30, 2006, including \$3,514,381 in questioned costs pertaining to subgrantees for which questioned costs remain unresolved for more than six months after issuance of their respective Single Audit reports. In addition, RepMar is considered to have responsibility for any questioned costs that may result from Single Audits of subgrantees who have not satisfied the audit requirements of OMB Circular A-133. The ultimate disposition of these questioned costs can be determined only by final action of the respective grantor agencies. Therefore, no provision for any liability that may result upon resolution of this matter has been made in the accompanying financial statements.

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements
September 30, 2006

(8) Contingencies, Continued

Nuclear Claims Trust Fund (NCTF)

Section 177(c) of the Compact of Free Association (the Compact) provides, on a one-time grant basis, the amount of \$150,000,000 to RepMar to be used to establish a trust fund from which annual distributions are to be made in accordance with Article II of the Agreement between the Government of the United States and RepMar for Implementation of Section 177 of the Compact (the Agreement). Pursuant to the Agreement, RepMar established the NCTF from which these distributions are made. Over a period of fifteen years, the Nuclear Claims Tribunal (NCT) received \$45,750,000 from the NCTF that was made available for whole or partial payment of monetary awards. During the year ended September 30, 2006, NCT received \$2,015,800 from the NCTF, which included funds to fund partial payment of monetary awards. As of September 30, 2006, NCT has committed to the distribution of monetary awards for personal injury claims of \$17,660,162 and of property damage claims of \$1,083,472,335, which will be paid out against the reserved fund balance and future sums that NCT expects to receive from the NCTF. The reserved fund balance of the NCTF is \$1,244,135 as of September 30, 2006. 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.

Compact Trust Fund

Section 216(a) of the Compact, as amended, provides for 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 are conditioned upon RepMar contributing to the trust fund at least \$25 million on October 1, 2003, \$2.5 million prior to October 1, 2004, and a final \$2.5 million prior to October 1, 2005. As of September 30, 2006, RepMar has contributed the required amounts. The Trust Fund Agreement required the establishment of the "Trust Fund for the People of the Republic of the Marshall Islands" by the United States in consultation with RepMar; however, the trust fund was not established until September 2005. Prior to the establishment of the trust fund, the contributions provided by the United States and RepMar were deposited into a cash management account within the Intergenerational Trust Fund.

Intergenerational Trust Fund

RepMar maintains a deposit with the Marshall Islands Development Bank (MIDB) in the amount of \$5,669,213. Based on mutually agreed terms, the deposit accrues interest at the rate of 4% per annum and matures on May 8, 2018. In the event that RepMar redeems this deposit at an earlier date, receipt of funds may be dependent upon the underlying collectibility of loans issued by MIDB, as the Bank does not appear to have readily available cash reserves to meet early redemption. Furthermore, in the event that RepMar is unable to liquidate this deposit at an earlier date, such may be deemed to constitute a cash transfer out to MIDB.

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.

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements September 30, 2006

(8) Contingencies, 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 2006, RepMar appropriated \$866,677 to fund such leases.

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.

(9) Commitments

RepMar has made the following commitments as of September 30, 2006:

- a) Guaranteed a bank debt of Tobolar Copra Processing Plant, Inc. (TCPPI) with a letter of guarantee. At September 30, 2006, TCPPI had guaranteed bank debt totaling \$647,220.
- 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, 2006, MINTA had guaranteed debt totaling \$14,847,297.
- 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, 2006, MEC had guaranteed debt totaling \$8,903,916.
- d) RepMar has entered into lease agreements with certain landowners for the use of land situated at the Majuro international airport. The terms of the lease agreements are for a 25-year period commencing September 1, 1996. Annual lease rental commitments are \$305,613 per year.
- e) RepMar has issued a letter of guarantee in the amount of \$178,000 plus interest for the benefit of the Delap Assembly of God Church for a loan issued by Marshall Islands Development Bank.
- f) In accordance with Cabinet Minute C.M. 121 (2003), the Cabinet of RepMar has issued a government guarantee in the amount of \$5,000,000 for a loan obtained by the Marshall Islands Development Bank. At September 30, 2006, MIDB had guaranteed debt totaling \$3,200,000.

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements
September 30, 2006

(9) Commitments, Continued

- g) On February 19, 2004, the Cabinet of RepMar approved a joint venture Memorandum of Agreement with a local private corporation whereby RepMar granted and conveyed controlling ownership interest to the corporation of the hotel facility owned by Majuro Resort, Inc. On September 9, 2004, the Cabinet of RepMar approved the appointment of a Committee to re-visit the privatization of the hotel facility including obtaining an independent valuation of the property. As of September 30, 2006, no transfer in ownership has occurred.
- h) In accordance with Cabinet Minute C.M. 057 (2004), the Cabinet of RepMar has guaranteed a credit card facility with a time certificate of deposit totaling \$55,000.
- i) In accordance with Cabinet Minute C.M. 139 (2004), the Cabinet of RepMar has issued a government guarantee in the amount of \$800,000 for a loan obtained by Air Marshall Islands, Inc. (AMI). In accordance with Cabinet Minute C.M. 145 (2005), the government guarantee was increased by \$200,000. At September 30, 2006, AMI had guaranteed debt totaling \$748,826.
- j) In accordance with Cabinet Minute C.M. 163 (2005), the Cabinet of RepMar has issued a government guarantee in the amount of \$5,000,000 for a loan and line of credit facility obtained by MEC. At September 30, 2006, MEC had guaranteed debt totaling \$4,645,811.
- k) In accordance with Cabinet Minute C.M. 055 (2006), 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, 2006, MEC had guaranteed debt totaling \$5,090,475.

(10) Individual Deficit Fund Balances or Deficit Retained Earnings

Specific individual funds which had significant individual deficit fund balances or retained earnings as at September 30, 2006, are as follows:

Major Governmental Funds

General Fund \$ 5,911,015

Nonmajor Component Units

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

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements
September 30, 2006

(11) Subsequent Events

On November 6, 2006, the Nitijela of RepMar, in accordance with Public Law 2006-73, enacted legislation repealing the Marshall Islands Intergenerational Trust Fund Act of 1999. Accordingly, the assets and related fund balance within this fund were transferred to the General Fund.

On December 8, 2006, the Cabinet of RepMar, in accordance with Cabinet Minute C.M. 145 (2006), issued a government guarantee for and on behalf of the Marshalls Energy Company, Inc. (MEC) to a fuel supplier for amounts owing in the event of any shortfall on MEC's obligation to the fuel supplier.

On March 15, 2007, the Cabinet of RepMar, in accordance with Cabinet Minute C.M. 027(2007), approved a loan by the Marshall Islands Development Bank of \$600,000.

On April 18, 2007, the Cabinet of RepMar, in accordance with Cabinet Minute C.M. 048 (2007), authorized the collateralization of General Fund tax revenues for a \$12,000,000 loan obtained by the Marshalls Energy Company, Inc.

(12) Restatement

	<u>General</u>	U.S. Federal <u>Grants</u>	Compact <u>Sector</u>	Compact <u>Trust</u>	Nonmajor Governmental <u>Funds</u>	Total Governmental <u>Funds</u>	Government <u>Wide</u>
Fund balance (deficit)/ net assets previously reported at September 30, 2005	\$ (5,079,447)	\$ (2,272)	\$ 1,329,108	\$ 33,861,929	\$ 14,244,289	\$ 44,353,607	\$ 12,904,127
Exclusion of unaudited financial statements of the Ministry of Education Headstart Program previously reported	-	-	-	-	(441,046)	(441,046)	(441,046)
Understatement of capital assets previously reported	-	-	-	-	-	-	35,809,984
Fund balance (deficit)/ net assets as restated at October 1, 2005	<u>\$ (5,079,447)</u>	<u>\$ (2,272)</u>	<u>\$ 1,329,108</u>	<u>\$ 33,861,929</u>	<u>\$ 13,803,243</u>	<u>\$ 43,912,561</u>	<u>\$ 48,273,065</u>

REPUBLIC OF THE MARSHALL ISLANDS
REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED SEPTEMBER 30, 2006

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Revenues, Expenditures and Changes in Deficit - Budget and Actual
 General Fund
 Year Ended September 30, 2006

	Budgeted Amounts		Actual - Budgetary Basis (see Note 1)	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues:				
Taxes	\$ 26,565,133	\$ 26,565,133	\$ 25,142,867	\$ (1,422,266)
Fishing rights	2,380,000	2,380,000	1,500,000	(880,000)
Fees and charges	696,436	696,436	114,162	(582,274)
Interest and dividends	240,310	240,310	143,565	(96,745)
Other	5,079,065	5,129,158	5,301,184	172,026
Total revenues	34,960,944	35,011,037	32,201,778	(2,809,259)
Expenditures:				
Current:				
General government:				
President and Cabinet	1,858,549	1,844,216	1,774,368	69,848
Office of the Chief Secretary	670,880	541,922	537,623	4,299
Special appropriations	5,178,163	8,100,793	6,527,926	1,572,867
Council of Iroij	406,692	441,592	441,542	50
Office of the Auditor-General	560,433	597,726	596,077	1,649
Public Service Commission	465,709	480,708	480,672	36
Office of the Attorney General	840,948	637,204	634,999	2,205
Ministries	22,006,960	21,447,198	20,874,185	573,013
Nitijela	1,678,807	1,743,802	1,740,396	3,406
Total expenditures	33,667,141	35,835,161	33,607,788	2,227,373
Excess (deficiency) of revenues over (under) expenditures	1,293,803	(824,124)	(1,406,010)	(581,886)
Other financing sources:				
Operating transfers in	-	2,200,000	1,901,987	(298,013)
Other financing uses:				
Operating transfers out	(1,403,853)	(1,485,926)	(1,485,926)	-
Net change in deficit	(110,050)	(110,050)	(989,949)	(879,899)
Unreserved deficit at the beginning of the year	(5,261,892)	(5,261,892)	(5,261,892)	-
Unreserved deficit at the end of the year	\$ (5,371,942)	\$ (5,371,942)	\$ (6,251,841)	\$ (879,899)

See accompanying notes to required supplementary information - budgetary reporting.

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Required Supplementary Information - Budgetary Reporting September 30, 2006

(1) Budgetary Information

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

Formal budget integration is employed as a management control device during the year for all funds. The Cabinet has the authority to reprogram budgeted estimates in accordance with the Constitution. All annual appropriations lapse at fiscal year end unless otherwise specified by law. Supplemental appropriations may occur throughout the year. Unexpended encumbrances at each fiscal year end are carried forward until they are expended or canceled without further legislative action. RepMar does not establish budgets for the operations of its other governmental funds.

Accounting principles used in developing data on a budgetary basis differ from those used in preparing the financial statements in conformity with GAAP. Amounts included on the Statement of Revenues, Expenditures, and Changes in Deficit - Budget and Actual - General Fund (which are presented on a non-GAAP budgetary basis) are reconciled to unreserved deficit of the Governmental Fund Balance Sheet within the other changes in unreserved deficit section of that statement.

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.

REPUBLIC OF THE MARSHALL ISLANDS
OTHER SUPPLEMENTARY INFORMATION
YEAR ENDED SEPTEMBER 30, 2006

REPUBLIC OF THE MARSHALL ISLANDS

Combining Schedule of Expenditures by Account
 Governmental Funds
 Year Ended September 30, 2006

	Special Revenue			Permanent	Other Governmental Funds	Total
	General	U.S Federal Grants	Compact Sector	Compact Trust		
Expenditures:						
Salaries and wages	\$ 14,552,821	\$ 3,222,750	\$ 14,373,182	\$ -	\$ 2,374,190	\$ 34,522,943
Capital outlay	435,466	904,848	12,437,116	-	1,098,653	14,876,083
Grants and subsidies	5,741,805	209,431	2,084,611	-	4,939,167	12,975,014
Medical supplies	3,220	3,721	23,217	-	6,798,211	6,828,369
Contractual services	255,972	1,527,622	1,309,173	-	2,116,729	5,209,496
Travel	1,760,941	1,392,160	628,272	-	546,162	4,327,535
Utilities	1,891,059	-	881,625	-	83,463	2,856,147
Supplies and materials	485,285	599,973	1,405,988	-	218,242	2,709,488
Leased housing	1,365,178	1,500	385,810	-	73,500	1,825,988
POL	704,679	28,643	138,808	-	392,107	1,264,237
Rentals	1,027,795	13,929	83,678	-	134,554	1,259,956
Food stuffs	578,957	-	401,764	-	125,009	1,105,730
Professional services	668,652	-	21,340	103,445	276,724	1,070,161
Interest	917,713	-	-	-	-	917,713
Allowances	715,033	1,750	42,950	-	-	759,733
Principal repayment	726,966	-	-	-	-	726,966
Communications	479,781	14,489	93,742	-	124,707	712,719
Freight	12,121	52,361	53,794	-	16,883	135,159
Printing and reproduction	68,075	11,465	28,022	-	7,855	115,417
Insurance	93,858	-	12,895	-	3,696	110,449
Other	964,030	1,447,305	897,574	-	819,006	4,127,915
	<u>\$ 33,449,407</u>	<u>\$ 9,431,947</u>	<u>\$ 35,303,561</u>	<u>\$ 103,445</u>	<u>\$ 20,148,858</u>	<u>\$ 98,437,218</u>

See Accompanying Independent Auditors' Report.

REPUBLIC OF THE MARSHALL ISLANDS
GENERAL FUND

September 30, 2006

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

Statement of Revenues, Expenditures by Function, and Changes in Deficit
 General Fund
 Year Ended September 30, 2006
 (with comparative totals for the year ended September 30, 2005)

	2006	2005
Revenues:		
Taxes:		
Income	\$ 11,120,846	\$ 10,894,299
Import	7,823,578	7,767,872
Gross revenue	4,777,975	3,882,324
Fuel	777,634	1,061,877
Penalties and interest	112,570	98,736
Other	530,264	550,094
	<u>25,142,867</u>	<u>24,255,202</u>
Fishing rights	1,500,000	1,355,984
Fees and charges	114,162	506,176
Interest and dividends	143,565	70,926
Other:		
Taiwan grant	4,000,000	4,000,000
Ship registry	1,000,000	1,000,000
Contributions from component units	-	144,016
Other	301,184	641,263
	<u>5,301,184</u>	<u>5,785,279</u>
Total revenues	<u>32,201,778</u>	<u>31,973,567</u>
Expenditures:		
Current:		
General government:		
President and Cabinet:		
Office of the President	163,949	264,631
President and Ministers	582,760	566,579
Cabinet Operations	533,779	427,943
Customary Law Commission	142,450	114,169
RMI/USP Joint Secondary Education Project	272,880	167,160
National Band	128,725	129,779
	<u>1,824,543</u>	<u>1,670,261</u>
Office of the Chief Secretary:		
Administration	148,508	179,123
Deputy Chief Secretary - Ebeye	91,579	103,883
EPPSO	179,286	184,157
OEPPC	83,253	74,238
Disaster Office	34,997	51,309
	<u>537,623</u>	<u>592,710</u>
Special appropriations:		
Government electricity bills - Majuro	-	1,131,110
Government electricity bills - Ebeye	-	47,761
Jaluit Power Plant subsidy	225,000	-
KAJUR subsidy - Ebeye	715,895	697,600
Wotje Power Plant subsidy	195,000	-
Land leases	858,081	874,819
Leased housing	247,057	224,039
Marshall Islands Visitors Authority	149,100	122,763
MWSC water subsidy	60,000	99,400
International subscriptions/membership fees	338,429	274,363
Disaster matching	18,237	40,908
Prior year liabilities	-	587,772
Public works - Ebeye	-	103,206
Copra price stabilization subsidy	894,600	894,600
ADB loan repayment	1,644,719	1,572,914
Sport and Youth Development	-	100,997
Micronesian Legal Services	73,000	99,400
Constitutional Convention	27,450	244,607
Rural Development Program	-	223,650
Past due USP Membership Fees	50,000	-
Air Marshall Islands	396,865	400,000
Past due travel	40,000	-
Past due Electoral Office overtime	9,945	-
Past due Grant-in-aid matching	57,058	-
Emergency payments	540,084	-
Contingencies fund	-	85,774
	<u>6,540,520</u>	<u>7,825,683</u>

See Accompanying Independent Auditors' Report.

REPUBLIC OF THE MARSHALL ISLANDS

Statement of Revenues, Expenditures by Function, and Changes in Deficit, Continued
 General Fund
 Year Ended September 30, 2006
 (with comparative totals for the year ended September 30, 2005)

	2006	2005
Expenditures, continued:		
Current, continued:		
General government, continued:		
Council of Iroij:		
Administration	86,163	86,469
Members	355,379	338,635
	<u>441,542</u>	<u>425,104</u>
Nitijela:		
Operations	542,321	493,018
General membership	992,202	973,338
Speaker's contingency	80,228	123,122
Committee	65,689	43,562
Legislative counsel	57,721	43,946
	<u>1,738,161</u>	<u>1,676,986</u>
Office of the Auditor-General:		
Auditor-General salary	42,660	-
Operations	208,216	207,514
Single audit - local match	197,295	-
	<u>448,171</u>	<u>207,514</u>
Public Service Commission:		
Members	106,921	95,178
Administration	373,751	345,127
	<u>480,672</u>	<u>440,305</u>
Office of the Attorney General	630,579	662,325
Ministries:		
Ministry of Education	4,249,940	3,182,959
Ministry of Health and Environment	2,666,974	2,250,284
Ministry of Transportation and Communication	2,016,406	2,512,326
Ministry of Resources and Development	380,193	1,823,243
Ministry of Internal Affairs	1,748,622	1,902,583
Ministry of Justice	2,615,226	2,668,335
Ministry of Finance	3,325,284	2,009,213
Ministry of Foreign Affairs and Trade	2,460,959	2,543,809
Ministry of Public Works	1,343,992	1,167,809
	<u>20,807,596</u>	<u>20,060,561</u>
Total general government	<u>33,449,407</u>	<u>33,561,449</u>
Other:		
Other	-	4,393
Total other	-	4,393
Total expenditures	<u>33,449,407</u>	<u>33,565,842</u>
Deficiency of revenues under expenditures	<u>(1,247,629)</u>	<u>(1,592,275)</u>
Other financing sources:		
Operating transfers in:		
Intergenerational Trust Fund	1,901,987	-
Other financing uses:		
Operating transfers out:		
Infrastructure Maintenance (Compact Matching)	-	674,287
Transportation Services Fund	-	48,124
Section 213 Audit Fund	-	108,927
Section 211 Compact Capital Account Fund	-	16,300
Other Capital Projects Fund	-	18,080
Judiciary Fund	908,992	908,992
Intergenerational Trust Fund	-	316,635
Postal Services Fund	112,340	42,418
Marshall Islands Scholarship, Grant and Loan Board Fund	70,353	-
Local Government Fund	394,241	394,240
Total other financing uses	<u>1,485,926</u>	<u>2,528,003</u>
Net change in deficit	(831,568)	(4,120,278)
Deficit at the beginning of the year	(5,079,447)	(959,169)
Deficit at the end of the year	<u>\$ (5,911,015)</u>	<u>\$ (5,079,447)</u>

See Accompanying Independent Auditors' Report.

REPUBLIC OF THE MARSHALL ISLANDS

Statement of Revenues, Expenditures and Changes in Deficit
Budget and Actual - General Fund
Year Ended September 30, 2006

	Budgeted Amounts		Actual - Budgetary Basis	Variance
	Original	Final		
Revenues:				
Taxes:				
Income	\$ 11,150,670	\$ 11,150,670	\$ 11,120,846	\$ (29,824)
Import	8,736,864	8,736,864	7,823,578	(913,286)
Gross revenue	4,217,792	4,217,792	4,777,975	560,183
Fuel	1,683,938	1,683,938	777,634	(906,304)
Penalties and interest	121,507	121,507	112,570	(8,937)
Other	654,362	654,362	530,264	(124,098)
	<u>26,565,133</u>	<u>26,565,133</u>	<u>25,142,867</u>	<u>(1,422,266)</u>
Fishing rights	2,380,000	2,380,000	1,500,000	(880,000)
Fees and charges	696,436	696,436	114,162	(582,274)
Interest and dividends	240,310	240,310	143,565	(96,745)
Taiwan grant	4,000,000	4,000,000	4,000,000	-
Ship registry	1,000,000	1,000,000	1,000,000	-
Other	79,065	129,158	301,184	172,026
	<u>5,079,065</u>	<u>5,129,158</u>	<u>5,301,184</u>	<u>172,026</u>
Total revenues	<u>34,960,944</u>	<u>35,011,037</u>	<u>32,201,778</u>	<u>(2,809,259)</u>
Expenditures:				
Current:				
General government:				
President and Cabinet:				
Office of the President	249,846	171,399	161,724	9,675
President and Ministers	574,457	582,760	582,760	-
Cabinet Operations	439,399	542,054	541,549	505
Customary Law Commission	174,347	144,571	142,450	2,121
RMI/USP Joint Secondary Education Project	278,376	272,976	217,160	55,816
National Band	142,124	130,456	128,725	1,731
	<u>1,858,549</u>	<u>1,844,216</u>	<u>1,774,368</u>	<u>69,848</u>
Office of the Chief Secretary:				
Administration	214,979	150,454	148,508	1,946
Deputy Chief Secretary - Ebeye	94,530	91,630	91,579	51
EPPSO	229,619	179,286	179,286	-
OEPPC	88,016	83,416	83,253	163
Disaster Office	43,736	37,136	34,997	2,139
	<u>670,880</u>	<u>541,922</u>	<u>537,623</u>	<u>4,299</u>
Special appropriations:				
Jaluit Power Plant subsidy	223,650	225,000	225,000	-
KAJUR subsidy - Ebeye	695,800	715,919	715,895	24
Wotje Power Plant subsidy	193,830	195,000	195,000	-
Land leases	661,010	859,179	858,081	1,098
Leased housing	328,268	247,058	247,057	1
Marshall Islands Visitors Authority	149,100	149,100	149,100	-
MWSC water subsidy	59,640	60,000	60,000	-
International subscriptions/membership fees	288,429	338,429	325,835	12,594
Disaster matching	198,800	18,237	18,237	-
Copra price stabilization subsidy	894,600	894,600	894,600	-
ADB loan repayment	994,000	2,022,872	1,644,719	378,153
Micronesia Legal Services	99,400	73,211	73,000	211
Constitutional Convention	24,850	27,450	27,450	-
Past due USP Membership Fees	99,400	50,000	50,000	-
Air Marshall Islands	99,400	398,559	396,865	1,694
Past due travel	39,760	40,000	40,000	-
Past due Electoral Office overtime	8,946	9,945	9,945	-
Legal Aid fund	19,880	17	-	17
Past due MLS electric billings	22,862	-	-	-
Past due Grant-in-aid matching	76,538	73,990	57,058	16,932
Emergency payments	-	1,702,227	540,084	1,162,143
	<u>5,178,163</u>	<u>8,100,793</u>	<u>6,527,926</u>	<u>1,572,867</u>
Council of Iroij:				
Administration	82,545	86,183	86,163	20
Members	324,147	355,409	355,379	30
	<u>406,692</u>	<u>441,592</u>	<u>441,542</u>	<u>50</u>

See Accompanying Independent Auditors' Report.

REPUBLIC OF THE MARSHALL ISLANDS

Statement of Revenues, Expenditures and Changes in Deficit, Continued
Budget and Actual - General Fund
Year Ended September 30, 2006

	Budgeted Amounts		Actual - Budgetary Basis	Variance
	Original	Final		
Expenditures, continued:				
Current, continued:				
General government, continued:				
Office of the Auditor-General:				
Auditor-General salary	42,230	42,230	42,660	(430)
Operations	208,203	209,496	207,673	1,823
Single audit - local match	310,000	346,000	345,744	256
	<u>560,433</u>	<u>597,726</u>	<u>596,077</u>	<u>1,649</u>
Public Service Commission:				
Members	93,250	106,950	106,921	29
Administration	372,459	373,758	373,751	7
	<u>465,709</u>	<u>480,708</u>	<u>480,672</u>	<u>36</u>
Office of the Attorney General	<u>840,948</u>	<u>637,204</u>	<u>634,999</u>	<u>2,205</u>
Ministries:				
Ministry of Education	4,833,818	4,326,420	4,321,421	4,999
Ministry of Health and Environment	3,409,223	2,750,684	2,678,319	72,365
Ministry of Transportation and Communication	1,985,814	2,024,545	2,018,846	5,699
Ministry of Resources and Development	565,943	481,415	376,730	104,685
Ministry of Internal Affairs	2,013,982	2,002,284	1,741,714	260,570
Ministry of Justice	2,803,396	2,692,334	2,615,640	76,694
Ministry of Finance	2,511,551	3,338,519	3,312,632	25,887
Ministry of Foreign Affairs and Trade	2,463,784	2,462,754	2,462,736	18
Ministry of Public Works	1,419,449	1,368,243	1,346,147	22,096
	<u>22,006,960</u>	<u>21,447,198</u>	<u>20,874,185</u>	<u>573,013</u>
Nitijela:				
Operations	522,269	542,365	541,731	634
General Membership	970,894	992,162	992,202	(40)
Speaker's Contingency	70,505	85,067	82,923	2,144
Committee	56,341	66,434	65,819	615
Legislative Counsel	58,798	57,774	57,721	53
	<u>1,678,807</u>	<u>1,743,802</u>	<u>1,740,396</u>	<u>3,406</u>
Total expenditures	<u>33,667,141</u>	<u>35,835,161</u>	<u>33,607,788</u>	<u>2,227,373</u>
Excess (deficiency) of revenues over (under) expenditures	<u>1,293,803</u>	<u>(824,124)</u>	<u>(1,406,010)</u>	<u>(581,886)</u>
Other financing sources:				
Operating transfers in:				
Intergenerational Trust Fund	-	2,200,000	1,901,987	(298,013)
Other financing uses:				
Operating transfers out:				
Judiciary Fund	908,992	908,992	908,992	-
Postal Services Fund	30,267	112,340	112,340	-
Marshall Islands Scholarship, Grant and Loan Board Fund	70,353	70,353	70,353	-
Local Government Fund	394,241	394,241	394,241	-
	<u>1,403,853</u>	<u>1,485,926</u>	<u>1,485,926</u>	<u>-</u>
Net change in deficit	<u>(110,050)</u>	<u>(110,050)</u>	<u>(989,949)</u>	<u>(879,899)</u>
Unreserved deficit at the beginning of the year	<u>(5,261,892)</u>	<u>(5,261,892)</u>	<u>(5,261,892)</u>	<u>-</u>
Unreserved deficit at the end of the year	<u>\$ (5,371,942)</u>	<u>\$ (5,371,942)</u>	<u>\$ (6,251,841)</u>	<u>\$ (879,899)</u>

See Accompanying Independent Auditors' Report.

REPUBLIC OF THE MARSHALL ISLANDS

Combined Balance Sheet
 Nonmajor Governmental Funds
 September 30, 2006
 (with comparative totals as of September 30, 2005)

	Other	Other	Other	Totals	
	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Permanent</u>	<u>2006</u>	<u>2005</u>
ASSETS					
Cash and cash equivalents	\$ 2,339,579	\$ -	\$ -	\$ 2,339,579	\$ 3,259,843
Time certificates of deposit	518,958	-	-	518,958	418,819
Investments	-	318,630	-	318,630	318,630
Receivables, net:					
Taxes	45,071	-	-	45,071	35,105
Federal agencies	364,023	-	-	364,023	709,539
General	1,137,228	-	-	1,137,228	1,191,765
Other	317,875	-	102,969	420,844	378,720
Due from other funds	6,226,399	472,253	104	6,698,756	3,882,740
Due from component units	-	-	5,669,213	5,669,213	-
Advances	18,022	-	-	18,022	38,337
Restricted assets:					
Cash and cash equivalents	-	22,268	-	22,268	71,024
Total assets	<u>\$ 10,967,155</u>	<u>\$ 813,151</u>	<u>\$ 5,772,286</u>	<u>\$ 17,552,592</u>	<u>\$ 10,304,522</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 1,530,376	\$ -	\$ -	\$ 1,530,376	\$ 1,117,111
Other liabilities and accruals	431,296	-	-	431,296	727,120
Deferred revenue	-	-	-	-	426,004
Due to other funds	1,531,705	-	-	1,531,705	1,331,551
Total liabilities	<u>3,493,377</u>	<u>-</u>	<u>-</u>	<u>3,493,377</u>	<u>3,601,786</u>
Fund balances:					
Reserved for:					
Related assets	-	340,898	5,669,213	6,010,111	389,654
Encumbrances	2,068,165	2,692	-	2,070,857	1,041,385
Unreserved:					
Special revenue funds	5,405,613	-	-	5,405,613	4,802,136
Capital projects funds	-	469,561	-	469,561	469,561
Permanent fund	-	-	103,073	103,073	-
Total fund balances	<u>7,473,778</u>	<u>813,151</u>	<u>5,772,286</u>	<u>14,059,215</u>	<u>6,702,736</u>
Total liabilities and fund balanc	<u>\$ 10,967,155</u>	<u>\$ 813,151</u>	<u>\$ 5,772,286</u>	<u>\$ 17,552,592</u>	<u>\$ 10,304,522</u>

See Accompanying Independent Auditors' Report.

REPUBLIC OF THE MARSHALL ISLANDS

Combined Statement of Revenues, Expenditures by Function,
and Changes in Fund Balances
Nonmajor Governmental Funds
Year Ended September 30, 2006
(with comparative totals for the year ended September 30, 2005)

	Other	Other	Other	Totals	
	Special Revenue	Capital Projects	Permanent	2006	2005
Revenues:					
Compact funding	\$ 197,294	\$ -	\$ -	\$ 197,294	\$ 7,697,427
Federal and other grants	8,206,685	-	-	8,206,685	10,319,165
Interest and dividends	-	-	279,315	279,315	-
Fees and charges	7,628,896	-	-	7,628,896	7,147,783
Sales	358,014	-	-	358,014	187,440
Other	169,851	-	-	169,851	177,408
Total revenues	16,560,740	-	279,315	16,840,055	25,529,223
Expenditures by Function:					
Current:					
General government:					
President and Cabinet	333,692	-	-	333,692	50,000
Office of the Chief Secretary	297,598	-	-	297,598	168,476
Special appropriations	400,000	-	-	400,000	472,419
Council of Iroij	425	-	-	425	2,487
Nitijela	187,389	-	-	187,389	16,000
Office of the Auditor-General	197,294	-	-	197,294	217,854
Public Service Commission	-	-	-	-	10,523
Judiciary	830,773	-	-	830,773	768,711
Office of the Attorney-General	17,059	-	-	17,059	12,989
Ministry of Education	1,198,307	48,756	-	1,247,063	5,942,762
Ministry of Health and Environment	7,965,086	-	-	7,965,086	6,102,459
Ministry of Transportation and Communicati	339,903	97,939	-	437,842	4,610,637
Ministry of Resources and Development	1,015,860	-	-	1,015,860	425,006
Ministry of Internal Affairs	818,742	-	-	818,742	1,006,103
Ministry of Justice	810,629	-	-	810,629	561,114
Ministry of Finance	765,745	-	-	765,745	821,741
Ministry of Foreign Affairs and Trade	303,266	-	-	303,266	66,112
Ministry of Public Works	922,408	-	-	922,408	704,197
Environmental Protection Authority	-	-	-	-	1,295
Nuclear claims related	3,552,465	-	-	3,552,465	3,131,331
Other	-	-	45,522	45,522	-
Total expenditures	19,956,641	146,695	45,522	20,148,858	25,092,216
Excess (deficiency) of revenues over (under) expenditures	(3,395,901)	(146,695)	233,793	(3,308,803)	437,007
Other financing sources (uses):					
Loan proceeds	-	97,939	-	97,939	1,041,041
Operating transfers in	8,763,300	-	-	8,763,300	7,626,563
Operating transfers out	(3,293,404)	-	(2,003,060)	(5,296,464)	(9,971,883)
Total other financing sources (uses), net	5,469,896	97,939	(2,003,060)	3,564,775	(1,304,279)
Net change in fund balances	2,073,995	(48,756)	(1,769,267)	255,972	(867,272)
Fund balances at the beginning of the year	5,399,783	861,907	7,541,553	13,803,243	7,570,008
Fund balances at the end of the year	\$ 7,473,778	\$ 813,151	\$ 5,772,286	\$ 14,059,215	\$ 6,702,736

See Accompanying Independent Auditors' Report.

REPUBLIC OF THE MARSHALL ISLANDS

Combined Statement of Revenues, Expenditures by Account,
and Changes in Fund Balances
Nonmajor Governmental Funds
Year Ended September 30, 2006
(with comparative totals for the year ended September 30, 2005)

	Other Special Revenue	Other Capital Projects	Other Permanent	Totals	
				2006	2005
Revenues:					
Compact funding	\$ 197,294	\$ -	\$ -	\$ 197,294	\$ 7,697,427
Federal and other grants	8,206,685	-	-	8,206,685	10,319,165
Interest and dividends	-	-	279,315	279,315	-
Fees and charges	7,628,896	-	-	7,628,896	7,147,783
Sales	358,014	-	-	358,014	187,440
Other	169,851	-	-	169,851	177,408
Total revenues	16,560,740	-	279,315	16,840,055	25,529,223
Expenditures by Account:					
Grants and subsidies	4,939,167	-	-	4,939,167	5,628,192
Salaries and wages	2,374,190	-	-	2,374,190	4,094,104
Medical supplies	6,798,211	-	-	6,798,211	5,166,313
Contractual services	1,970,034	146,695	-	2,116,729	2,106,947
Capital outlay	1,098,653	-	-	1,098,653	4,049,181
Travel	546,162	-	-	546,162	575,883
Food stuffs	125,009	-	-	125,009	471,818
Supplies and materials	218,242	-	-	218,242	288,508
POL	392,107	-	-	392,107	406,932
Rentals	134,554	-	-	134,554	136,480
Communications	124,707	-	-	124,707	109,283
Insurance	3,696	-	-	3,696	23,637
Utilities	83,463	-	-	83,463	140,311
Leased housing	73,500	-	-	73,500	55,786
Freight	16,883	-	-	16,883	91,780
Professional services	276,724	-	-	276,724	89,447
Printing and reproduction	7,855	-	-	7,855	1,546
Other	773,484	-	45,522	819,006	1,656,068
Total expenditures	19,956,641	146,695	45,522	20,148,858	25,092,216
Excess (deficiency) of revenues over (under) expenditures	(3,395,901)	(146,695)	233,793	(3,308,803)	437,007
Other financing sources (uses):					
Loan proceeds	-	97,939	-	97,939	1,041,041
Operating transfers in	8,763,300	-	-	8,763,300	7,626,563
Operating transfers out	(3,293,404)	-	(2,003,060)	(5,296,464)	(9,971,883)
Total other financing sources (uses), net	5,469,896	97,939	(2,003,060)	3,564,775	(1,304,279)
Net change in fund balances	2,073,995	(48,756)	(1,769,267)	255,972	(867,272)
Fund balances at the beginning of the year	5,399,783	861,907	7,541,553	13,803,243	7,570,008
Fund balances at the end of the year	\$ 7,473,778	\$ 813,151	\$ 5,772,286	\$ 14,059,215	\$ 6,702,736

See Accompanying Independent Auditors' Report.

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

September 30, 2006

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, 2006, follows:

Reimbursable Fund

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

Public Works Fund

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

Land Registration Authority Fund

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

Marine Resources Fund

This fund was established under Public Law No. 1988-12 and accounts for the exploration, exploitation, regulation, corporation and management of marine resources within the Marshall Islands prior to the establishment of the Marshall Islands Marine Resources Authority.

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.

Ministry of Justice Fund

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

See Accompanying Independent Auditors' Report.

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

September 30, 2006

Alternative Energy Fund

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

National Environmental Protection Authority Fund

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

Resident Workers Training Account Fund

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

Airport Trust Fund

This fund was established under Public Law No. 1983-26 to account for airport development, improvement and maintenance, and to meet the salaries and expenses of the Director of Civil Aviation and his staff.

Ministry of Transportation and Communications 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.

Ministry of Resources and Development 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 Resources and Development through the use of their shipping vessels.

Ships Operations Fund

This fund was established to account for all charges, fees and other monies collected or generated by the Ministry of Transportation and Communications through the use of their shipping vessels prior to the establishment of the Transportation Services Fund.

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.

See Accompanying Independent Auditors' Report.

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

September 30, 2006

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.

Local Government Fund

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

Four-Atoll Medical Fund

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

Section 177 Administration Fund

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

Section 215(a)(1) Communications Fund

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

See Accompanying Independent Auditors' Report.

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

September 30, 2006

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

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

Section 216(a)(3) Scholarship Fund

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

Section 221(b) Education and Health Care Fund

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

Section 213 Audit Fund

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

Other Direct Assistance Fund

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

Republic of China Projects Fund

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

Marshall Islands Scholarship Grant and Loan Board

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

Health Care Revenue Fund

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

Marshall Islands Health Fund

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

See Accompanying Independent Auditors' Report.

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

September 30, 2006

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, 2006
(with comparative totals as of September 30, 2005)**

	Reimbursable	Public Works	Land Distribution Authority	Marine Resources	Changed Circumstances Fund	Judiciary	Ministry of Justice	Alternative Energy	National Environmental Protection Authority	Resident Workers Training Account	Airport Revolving	Ministry of Transportation and Communications
ASSETS												
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Time certificates of deposit	-	-	-	-	-	-	-	-	-	-	-	-
Receivables, net:												
Taxes	-	-	-	-	-	-	-	-	-	-	-	-
Federal agencies	124,377	-	-	-	-	-	-	-	-	45,071	-	-
General	-	-	-	-	-	-	-	-	-	-	-	-
Other	-	31,946	18,118	-	54,458	639,053	258,139	416	92,736	524,760	-	-
Due from other funds	-	-	-	-	-	-	-	-	-	-	-	-
Advances	400	-	-	-	-	-	-	-	-	-	-	-
Total assets	\$ 124,777	\$ 31,946	\$ 18,118	\$ -	\$ 54,458	\$ 639,053	\$ 258,139	\$ 416	\$ 92,736	\$ 569,831	\$ -	\$ -

LIABILITIES AND FUND BALANCES

(DEFICITS)												
Liabilities:												
Accounts payable	\$ 124	\$ -	\$ -	\$ -	\$ -	\$ 2,919	\$ 47,368	\$ -	\$ -	\$ 54,350	\$ -	\$ -
Other liabilities and accruals	-	-	-	-	-	-	-	-	-	-	-	-
Deferred revenue	-	-	-	-	-	-	-	-	-	-	-	-
Due to other funds	104,078	-	-	-	-	-	-	-	-	-	-	-
Total liabilities	104,202	-	-	-	-	2,919	47,368	-	-	54,350	-	-
Fund balances (deficits):												
Reserved for:												
Encumbrances	500	-	-	-	-	7,403	3,426	-	-	-	-	-
Unreserved (deficit)	20,075	31,946	18,118	-	54,458	628,731	207,345	416	92,736	515,481	-	-
Total fund balances (deficits)	20,575	31,946	18,118	-	54,458	636,134	210,771	416	92,736	515,481	-	-
Total liabilities and fund balances	\$ 124,777	\$ 31,946	\$ 18,118	\$ -	\$ 54,458	\$ 639,053	\$ 258,139	\$ 416	\$ 92,736	\$ 569,831	\$ -	\$ -

Continued

See Accompanying Independent Auditors' Report.

REPUBLIC OF THE MARSHALL ISLANDS
NONMAJOR GOVERNMENTAL FUNDS
SPECIAL REVENUE FUNDS

Combining Balance Sheet, Continued
September 30, 2006
(with comparative totals as of September 30, 2005)

	Ministry of Resources and Development	Ships Operations	Postal Service	Sea Patrol	Transportation Services	Registrar General	Ministry of Internal Affairs	Local Government	Four-Atoll Medical	Section 177 Administration	Section 21-5(a)(1) Communi- cations	Section 216(a)(1) Surveillance and Enforcement
ASSETS												
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Time certificates of deposit	-	-	-	-	-	-	-	-	-	-	-	-
Receivables, net:												
Taxes	-	-	-	-	-	-	-	-	-	-	-	-
Federal agencies	-	-	-	-	-	-	-	-	-	-	-	-
General	-	-	-	-	977	-	-	-	-	-	-	-
Other	-	-	1,888	5,793	26,808	391	36,068	299,892	48,289	68,828	40,380	690
Due from other funds	-	-	710	-	-	-	-	-	97,635	-	-	-
Advances	-	-	-	-	-	-	-	-	-	-	-	-
Total assets	\$ -	\$ -	\$ 2,598	\$ 5,793	\$ 27,785	\$ 391	\$ 36,068	\$ 299,892	\$ 145,924	\$ 68,828	\$ 40,380	\$ 690
LIABILITIES AND FUND BALANCES												
(DEFICITS)												
Liabilities:												
Accounts payable	\$ -	\$ -	\$ 2,598	\$ -	\$ 1,832	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Other liabilities and accruals	-	-	-	-	-	-	-	-	-	-	-	-
Deferred revenue	-	-	-	-	-	-	-	-	-	-	-	-
Due to other funds	-	-	-	-	-	-	-	-	-	-	-	-
Total liabilities	-	-	2,598	-	1,832	-	-	-	-	-	-	-
Fund balances (deficits):												
Reserved for:												
Encumbrances	-	-	5,273	-	8,970	-	-	-	-	-	40,380	-
Unreserved (deficit)	-	-	(5,273)	5,793	16,983	391	36,068	299,892	145,924	68,828	-	690
Total fund balances (deficits)	-	-	-	5,793	25,953	391	36,068	299,892	145,924	68,828	40,380	690
Total liabilities and fund balances	\$ -	\$ -	\$ 2,598	\$ 5,793	\$ 27,785	\$ 391	\$ 36,068	\$ 299,892	\$ 145,924	\$ 68,828	\$ 40,380	\$ 690

Continued

See Accompanying Independent Auditors' Report.

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

**Combining Balance Sheet, Continued
September 30, 2006
(with comparative totals as of September 30, 2005)**

Section 216(a)(3) Scholarship	Section 221(b) Education and Health Care	Section 213 Audit	Other Direct Assistance	Republic of China Projects	Marshall Islands Scholarship, Grant and Loan Board	Health Care Revenue Fund	Marshall Islands Health Fund	Nuclear Claims Tribunal	Totals	
									2006	2005
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 102,284	\$ 206,642	\$ 1,815,247	\$ 215,406	\$ 2,339,579	\$ 3,259,843
-	-	-	-	-	-	-	506,645	12,313	518,958	418,819
-	-	239,646	-	-	-	-	-	-	45,071	55,105
-	-	-	-	-	-	-	-	-	364,023	709,539
-	-	-	-	-	-	-	1,136,251	-	1,137,228	1,191,765
-	-	-	-	-	83,400	31,251	153,233	1,702	317,875	378,720
1,593	-	-	333,677	2,465,304	-	1,227,826	-	-	6,226,399	3,410,487
-	-	-	-	-	-	16,912	-	-	18,022	38,337
\$ 1,593	\$ -	\$ 239,646	\$ 333,677	\$ 2,465,304	\$ 185,684	\$ 1,482,631	\$ 3,611,376	\$ 229,421	\$ 10,967,155	\$ 9,442,615

ASSETS

Cash and cash equivalents
Time certificates of deposit
Receivables, net:
Taxes
Federal agencies
General
Other
Due from other funds
Advances
Total assets

LIABILITIES AND FUND BALANCES

(DEFICITS)

Liabilities:
Accounts payable
Other liabilities and accruals
Deferred revenue
Due to other funds
Total liabilities

Fund balances (deficits):

Reserved for:
Encumbrances
Unreserved (deficit)
Total fund balances (deficits)
Total liabilities and fund
balances

\$ -	\$ -	\$ 44,125	\$ 141,094	\$ 173,162	\$ 13,500	\$ 598,193	\$ 398,918	\$ 52,193	\$ 1,530,376	\$ 1,117,111
-	-	-	47,479	-	-	207,863	158,122	17,832	431,296	727,120
-	-	195,521	-	-	-	-	-	-	-	426,004
-	4,280	-	-	-	-	-	1,227,826	-	1,531,705	1,331,551
-	4,280	239,646	188,573	173,162	13,500	806,056	1,784,866	70,025	3,493,377	3,601,786
-	-	422,732	218,255	958,712	402,514	-	-	-	2,068,165	1,038,693
1,593	(4,280)	(422,732)	(73,151)	1,333,430	(230,330)	676,575	1,826,510	159,396	5,405,613	4,802,136
1,593	(4,280)	-	145,104	2,292,142	172,184	676,575	1,826,510	159,396	7,473,778	5,840,829
\$ 1,593	\$ -	\$ 239,646	\$ 333,677	\$ 2,465,304	\$ 185,684	\$ 1,482,631	\$ 3,611,376	\$ 229,421	\$ 10,967,155	\$ 9,442,615

See Accompanying Independent Auditors' Report.

REPUBLIC OF THE MARSHALL ISLANDS
NON-MAJOR GOVERNMENTAL FUNDS
SPECIAL REVENUE FUNDS

Combining Statement of Revenues, Expenditures By Function,
and Changes in Fund Balances (Deficits)
Year Ended September 30, 2006
(with comparative totals for the year ended September 30, 2005)

	Reimbursable	Public Works	Land Distribution Authority	Marine Resources	Changed Circumstances Fund	Judiciary	Ministry of Justice	Alternative Energy	National Environmental Protection Authority	Resident Workers Training Account	Airport Revolving	Ministry of Transportation and Communications
Revenues:												
Compact funding	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Federal and other grants	321,433	-	-	-	-	-	-	-	-	-	-	-
Fees and charges	106,618	15,714	-	-	3,924	473,883	-	-	-	168,609	-	-
Sales	-	-	-	-	-	-	-	-	-	-	-	-
Other	-	1,537	-	-	-	-	-	-	-	-	-	-
Total revenues	428,051	17,251	-	-	3,924	473,883	-	-	-	168,609	-	-
Expenditures by Function:												
Current:												
General government:												
President and Cabinet	-	-	-	-	-	-	-	-	-	-	-	-
Office of the Chief Secretary	-	-	-	-	-	-	-	-	-	-	-	-
Special appropriations	-	-	-	-	-	-	-	-	-	-	-	-
Council of Iroij	-	-	-	-	-	-	-	-	-	-	-	-
Nitijela	-	-	-	-	-	-	-	-	-	-	-	-
Office of the Auditor-General	-	-	-	-	-	-	-	-	-	-	-	-
Public Service Commission	-	-	-	-	-	-	-	-	-	-	-	-
Judiciary	-	-	-	-	-	821,019	-	-	-	-	-	-
Attorney-General	12,126	-	-	-	-	-	-	-	-	-	-	-
Ministry of Education	-	-	-	-	-	-	-	-	-	-	-	-
Ministry of Health and Environment	-	-	-	-	-	-	-	-	-	-	-	-
Ministry of Transportation and Communication	-	-	-	-	-	-	-	-	-	-	-	-
Ministry of Resources and Development	6,467	-	-	-	-	-	-	-	-	-	-	-
Ministry of Internal Affairs	-	-	-	-	-	-	-	-	-	-	-	-
Ministry of Justice	-	-	-	-	-	-	336,086	-	-	-	-	-
Ministry of Finance	414,684	-	-	-	-	-	-	-	-	-	-	-
Ministry of Foreign Affairs and Trade	-	-	-	-	-	-	-	-	-	-	-	-
Ministry of Public Works	-	-	-	-	-	-	-	-	-	-	-	-
Environmental Protection Authority	-	-	-	-	-	-	-	-	-	-	-	-
Nuclear claims related	-	-	-	-	-	-	-	-	-	-	-	-
Total expenditures	433,277	-	-	-	-	821,019	336,086	-	-	-	-	-
Excess (deficiency) of revenues over (under) expenditures	(5,226)	17,251	-	-	-	(817,095)	137,797	-	-	168,609	-	-
Other financing sources (uses):												
Operating transfers in	-	-	-	-	-	908,992	-	-	-	-	-	-
Operating transfers out	-	-	-	-	-	-	-	-	-	-	-	-
Total other financing sources (uses), net	-	-	-	-	-	908,992	-	-	-	-	-	-
Net change in fund balances (deficit)	(5,226)	17,251	-	-	-	91,897	137,797	-	-	168,609	-	-
Fund balances (deficits) at the beginning of the year	25,801	14,695	18,118	-	54,458	544,237	72,974	416	92,736	346,872	-	-
Fund balances (deficits) at the end of the year	\$ 20,575	\$ 31,946	\$ 18,118	\$ -	\$ 54,458	\$ 636,134	\$ 210,771	\$ 416	\$ 92,736	\$ 515,481	\$ -	\$ -

See Accompanying Independent Auditors' Report.

Continued

REPUBLIC OF THE MARSHALL ISLANDS
NONMAJOR GOVERNMENTAL FUNDS
SPECIAL REVENUE FUNDS

**Combining Statement of Revenues, Expenditures By Function,
and Changes in Fund Balances (Deficits), Continued**
Year Ended September 30, 2006
(with comparative totals for the year ended September 30, 2005)

	Ministry of Resources and Development	Ships Operations	Postal Service	Sea Patrol	Transportation Services	Registrar General	Ministry of Internal Affairs	Local Government	Four-Atoll Medical	Section 177 Administration	Section 215(e)(1) Communications	Section 216(e)(1) Surveillance and Enforcement
Revenues:												
Compact funding	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Federal and other grants	-	-	-	-	-	-	-	-	-	-	-	-
Fees and charges	-	-	52,721	79,688	26,600	-	31,539	-	-	-	-	-
Sales	-	-	161,050	-	196,964	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	7,500	-	-	-	-	-
Total revenues	-	-	<u>213,771</u>	<u>79,688</u>	<u>223,564</u>	-	<u>39,039</u>	-	-	-	-	-
Expenditures by Function:												
Current:												
General government:												
President and Cabinet	-	-	-	-	-	-	-	-	-	-	-	-
Office of the Chief Secretary	-	-	-	-	-	-	-	-	-	-	-	-
Special appropriations	-	-	-	-	-	-	-	-	-	-	-	-
Council of Iroij	-	-	-	-	-	-	-	-	-	-	-	-
Nitijela	-	-	-	-	-	-	-	-	-	-	-	-
Office of the Auditor-General	-	-	-	-	-	-	-	-	-	-	-	-
Public Service Commission	-	-	-	-	-	-	-	-	-	-	-	-
Judiciary	-	-	-	-	-	-	-	-	-	-	-	-
Attorney-General	-	-	-	-	-	-	-	-	-	-	-	-
Ministry of Education	-	-	-	-	-	-	-	-	-	-	-	-
Ministry of Health and Environment	-	-	-	-	-	-	-	-	-	-	-	-
Ministry of Transportation and Communication	-	-	-	-	197,611	-	-	-	-	-	20,000	-
Ministry of Resources and Development	-	-	-	-	-	-	-	-	-	-	-	-
Ministry of Internal Affairs	-	-	-	-	-	-	47,006	228,922	-	-	-	-
Ministry of Justice	-	-	-	-	-	-	-	-	-	-	-	-
Ministry of Finance	-	-	326,111	-	-	-	-	-	-	-	-	-
Ministry of Foreign Affairs and Trade	-	-	-	-	-	-	-	-	-	-	-	-
Ministry of Public Works	-	-	-	-	-	-	-	-	-	-	-	-
Environmental Protection Authority	-	-	-	-	-	-	-	-	-	-	-	-
Nuclear claims related	-	-	-	-	-	-	-	-	1,390,631	-	-	-
Total expenditures	-	-	<u>326,111</u>	<u>123,333</u>	<u>197,611</u>	-	<u>47,006</u>	<u>228,922</u>	<u>1,390,631</u>	-	<u>20,000</u>	-
Excess (deficiency) of revenues over (under) expenditures	-	-	<u>(112,340)</u>	<u>(43,645)</u>	<u>25,953</u>	-	<u>(7,967)</u>	<u>(228,922)</u>	<u>(1,390,631)</u>	-	<u>(20,000)</u>	-
Other financing sources (uses):												
Operating transfers in	-	-	112,340	-	-	-	-	394,241	1,478,288	-	-	-
Operating transfers out	-	-	-	-	-	-	-	-	-	-	-	-
Total other financing sources (uses), net	-	-	<u>112,340</u>	-	-	-	-	<u>394,241</u>	<u>1,478,288</u>	-	-	-
Net change in fund balances (deficit)	-	-	-	<u>(43,645)</u>	<u>25,953</u>	-	<u>(7,967)</u>	<u>165,319</u>	<u>87,657</u>	-	<u>(20,000)</u>	-
Fund balances (deficits) at the beginning of the year	-	-	-	<u>49,438</u>	-	<u>391</u>	<u>44,035</u>	<u>134,573</u>	<u>58,267</u>	<u>68,828</u>	<u>60,380</u>	<u>690</u>
Fund balances (deficits) at the end of the year	-	-	-	<u>5,793</u>	<u>25,953</u>	<u>391</u>	<u>36,068</u>	<u>299,892</u>	<u>145,924</u>	<u>68,828</u>	<u>40,380</u>	<u>690</u>

See Accompanying Independent Auditors' Report.

Continued

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

**Combining Statement of Revenues, Expenditures By Function,
and Changes in Fund Balances (Deficits), Continued
Year Ended September 30, 2006
(with comparative totals for the year ended September 30, 2005)**

	Section 216(a)(3) Scholarship	Section 221(b) Education and Health Care	Section 213 Audit	Other Direct Assistance	Republic of China Projects	Marshall Islands Scholarship, Grant and Loan Board	Health Care Revenue Fund	Marshall Islands Health Fund	Nuclear Claims Tribunal	Totals
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
Revenues:										
Compact funding	\$ -	\$ -	\$ 197,294	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 197,294
Federal and other grants	-	-	-	507,051	6,942,018	70,353	365,830	-	-	8,206,685
Fees and charges	-	-	-	-	-	-	233,682	6,435,918	-	7,628,896
Sales	-	-	-	-	-	-	-	358,014	-	358,014
Other	-	-	-	-	-	13,131	130,369	16,440	874	169,851
Total revenues	-	-	197,294	507,051	6,942,018	83,484	729,881	6,452,358	874	16,560,740
Expenditures by Function:										
Current:										
General government:										
President and Cabinet	-	-	-	33,692	300,000	-	-	-	-	333,692
Office of the Chief Secretary	-	-	-	178,724	118,874	-	-	-	-	297,598
Special appropriations	-	-	-	-	400,000	-	-	-	-	400,000
Council of Iroij	-	-	-	-	425	-	-	-	-	425
Nitijela	-	-	-	89,795	97,594	-	-	-	-	187,389
Office of the Auditor-General	-	-	197,294	-	-	-	-	-	-	197,294
Public Service Commission	-	-	-	-	-	-	-	-	-	217,854
Judiciary	-	-	-	-	-	-	-	-	-	10,523
Attorney-General	-	-	-	-	9,754	-	-	-	-	830,773
Ministry of Education	-	-	-	-	4,933	-	-	-	-	17,059
Ministry of Health and Environment	-	-	-	-	1,41,641	1,056,666	-	-	-	1,198,307
Ministry of Transportation and Communication	-	-	-	-	-	-	4,395,048	3,570,038	-	1,198,307
Ministry of Resources and Development	-	-	-	-	122,292	-	-	-	-	7,965,086
Ministry of Internal Affairs	-	-	-	135,086	874,307	-	-	-	-	339,903
Ministry of Justice	-	-	-	-	542,814	-	-	-	-	1,015,860
Ministry of Finance	-	-	-	-	351,210	-	-	-	-	818,742
Ministry of Foreign Affairs and Trade	-	-	-	7,974	24,950	-	-	-	-	810,629
Ministry of Public Works	-	-	-	-	295,292	-	-	-	-	765,745
Environmental Protection Authority	-	-	-	-	922,408	-	-	-	-	303,266
Nuclear claims related	-	-	-	-	-	-	-	-	-	922,408
Total expenditures	-	-	197,294	445,271	4,206,494	1,056,666	4,395,048	3,570,038	2,161,834	3,552,465
Excess (deficiency) of revenues over (under) expenditures	-	-	-	61,780	2,735,524	(973,182)	(3,665,167)	2,882,320	(2,160,960)	(3,395,901)
Other financing sources (uses):										
Operating transfers in	-	-	-	-	(490,244)	1,050,479	2,803,160	(2,803,160)	2,015,800	8,763,300
Operating transfers out	-	-	-	-	(490,244)	1,050,479	2,803,160	(2,803,160)	2,015,800	(3,293,404)
Total other financing sources (uses), net	-	-	-	-	(490,244)	1,050,479	2,803,160	(2,803,160)	2,015,800	5,469,896
Net change in fund balances (deficit)	-	-	-	61,780	2,245,280	77,297	(862,007)	79,160	(145,160)	2,073,995
Fund balances (deficits) at the beginning of the year	1,593	(4,280)	-	83,324	46,862	94,887	1,538,582	1,747,350	304,556	5,399,783
Fund balances (deficits) at the end of the year	\$ 1,593	\$ (4,280)	\$ -	\$ 145,104	\$ 2,292,142	\$ 172,184	\$ 676,575	\$ 1,826,510	\$ 159,396	\$ 7,473,778
										\$ 5,840,829

See Accompanying Independent Auditors' Report.

REPUBLIC OF THE MARSHALL ISLANDS
NONMAJOR GOVERNMENTAL FUNDS
SPECIAL REVENUE FUNDS

Combining Statement of Revenues, Expenditures By Account,
and Changes in Fund Balances (Deficits)
Year Ended September 30, 2006
(with comparative totals for the year ended September 30, 2005)

	Reimbursable	Public Works	Land Distribution Authority	Marine Resources	Changed Circumstances Fund	Judiciary	Ministry of Justice	Alternative Energy	National Environmental Protection Authority	Resident Workers Training Account	Airport Revolving	Ministry of Transportation and Communications
Revenues:												
Compact funding	\$ 321,433	-	-	-	\$ -	-	-	-	\$ -	-	\$ -	-
Federal and other grants	106,618	15,714	-	-	-	3,924	473,883	-	-	168,609	-	-
Fees and charges	-	-	-	-	-	-	-	-	-	-	-	-
Sales	-	-	-	-	-	-	-	-	-	-	-	-
Other	-	1,537	-	-	-	-	-	-	-	-	-	-
Total revenues	428,051	17,251	-	-	-	3,924	473,883	-	-	168,609	-	-
Expenditures by Account:												
Grants and subsidies	-	-	-	-	-	-	-	-	-	-	-	-
Salaries and wages	339,343	-	-	-	-	576,237	-	-	-	-	-	-
Medical supplies	-	-	-	-	-	7,513	10,268	-	-	-	-	-
Contractual services	13,596	-	-	-	-	5,446	61,734	-	-	-	-	-
Capital outlay	36,053	-	-	-	-	63,192	33,025	-	-	-	-	-
Travel	-	-	-	-	-	200	92,096	-	-	-	-	-
Food stuffs	4,247	-	-	-	-	14,179	34,092	-	-	-	-	-
Supplies and materials	5,318	-	-	-	-	13,639	53,261	-	-	-	-	-
POL	-	-	-	-	-	1,500	2,020	-	-	-	-	-
Rentals	170	-	-	-	-	17,705	6,913	-	-	-	-	-
Communications	2,500	-	-	-	-	743	2,470	-	-	-	-	-
Insurance	-	-	-	-	-	9,769	-	-	-	-	-	-
Utilities	29,232	-	-	-	-	64,500	-	-	-	-	-	-
Leased housing	-	-	-	-	-	-	5,395	-	-	-	-	-
Freight	39	-	-	-	-	6,040	5,904	-	-	-	-	-
Professional services	750	-	-	-	-	678	1,438	-	-	-	-	-
Printing and reproduction	526	-	-	-	-	39,678	27,470	-	-	-	-	-
Other	1,503	-	-	-	-	821,019	336,086	-	-	-	-	-
Total expenditures	433,277	-	-	-	-	821,019	336,086	-	-	-	-	-
Excess (deficiency) of revenues over (under) expenditures	(5,226)	17,251	-	-	-	(817,095)	137,797	-	-	168,609	-	-
Other financing sources (uses):												
Operating transfers in	-	-	-	-	-	908,992	-	-	-	-	-	-
Operating transfers out	-	-	-	-	-	-	-	-	-	-	-	-
Total other financing sources (uses), net	-	-	-	-	-	908,992	-	-	-	-	-	-
Net change in fund balances (deficit)	(5,226)	17,251	-	-	-	91,897	137,797	-	-	168,609	-	-
Fund balances (deficits) at the beginning of the year	25,801	14,695	18,118	-	54,458	544,237	72,974	416	92,736	346,872	-	-
Fund balances (deficits) at the end of the year	20,575	31,946	18,118	-	54,458	636,134	210,771	416	92,736	515,481	\$ -	-

Continued

See Accompanying Independent Auditors' Report.

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

**Combining Statement of Revenues, Expenditures By Account,
and Changes in Fund Balances (Deficits), Continued
Year Ended September 30, 2006
(with comparative totals for the year ended September 30, 2005)**

	Ministry of Development	Ships Operations	Postal Service	Sea Patrol	Transportation Services	Registrar General	Ministry of Internal Affairs	Local Government	Four-Atoll Medical	Section 177 Administration	Section 215(a)(1) Communi- cations	Section 216(a)(1) Surveillance and Enforcement
Revenues:	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Compact funding	-	-	-	-	-	-	-	-	-	-	-	-
Federal and other grants	-	-	-	-	-	-	-	-	-	-	-	-
Fees and charges	-	-	52,721	79,688	26,600	-	31,539	-	-	-	-	-
Sales	-	-	161,050	-	196,964	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	7,500	-	-	-	-	-
Total revenues	-	-	213,771	79,688	223,564	-	39,039	-	-	-	-	-
Expenditures by Account:												
Grants and subsidies	-	-	-	-	-	-	-	228,922	-	-	20,000	-
Salaries and wages	-	-	218,283	-	-	-	-	-	-	-	-	-
Medical supplies	-	-	30,000	-	-	-	-	-	1,390,631	-	-	-
Contractual services	-	-	286	-	3,886	-	3,241	-	-	-	-	-
Capital outlay	-	-	23,672	25,735	-	-	9,195	-	-	-	-	-
Travel	-	-	-	-	-	-	-	-	-	-	-	-
Food stuffs	-	-	4,020	-	20,073	-	-	-	-	-	-	-
Supplies and materials	-	-	4,028	94,598	6,450	-	21,992	-	-	-	-	-
POL	-	-	11,216	-	161,337	-	7,613	-	-	-	-	-
Rentals	-	-	17,377	3,000	2,656	-	2,000	-	-	-	-	-
Communications	-	-	-	-	-	-	-	-	-	-	-	-
Insurance	-	-	-	-	-	-	-	-	-	-	-	-
Utilities	-	-	13,469	-	-	-	-	-	-	-	-	-
Leased housing	-	-	-	-	-	-	-	-	-	-	-	-
Freight	-	-	1,451	-	1,000	-	60	-	-	-	-	-
Professional services	-	-	-	-	-	-	-	-	-	-	-	-
Printing and reproduction	-	-	-	-	-	-	-	-	-	-	-	-
Other	-	-	2,309	-	2,209	-	2,905	-	-	-	-	-
Total expenditures	-	-	326,111	123,333	197,611	-	47,006	228,922	1,390,631	-	20,000	-
Excess (deficiency) of revenues over (under) expenditures	-	-	(112,340)	(43,645)	25,953	-	(7,967)	(228,922)	(1,390,631)	-	(20,000)	-
Other financing sources (uses):												
Operating transfers in	-	-	112,340	-	-	-	-	394,241	1,478,288	-	-	-
Operating transfers out	-	-	-	-	-	-	-	-	-	-	-	-
Total other financing sources (uses), net	-	-	112,340	-	-	-	-	394,241	1,478,288	-	-	-
Net change in fund balances (deficit)	-	-	-	(43,645)	25,953	-	(7,967)	165,319	87,657	-	(20,000)	-
Fund balances (deficits) at the beginning of the year	-	-	-	49,438	-	391	44,035	134,573	58,267	68,828	60,380	690
Fund balances (deficits) at the end of the year	\$ -	\$ -	\$ -	\$ 5,793	\$ 25,953	\$ 391	\$ 36,068	\$ 299,892	\$ 145,924	\$ 68,828	\$ 40,380	\$ 690

Continued

See Accompanying Independent Auditors' Report.

REPUBLIC OF THE MARSHALL ISLANDS
NONMAJOR GOVERNMENTAL FUNDS
SPECIAL REVENUE FUNDS

Combining Statement of Revenues, Expenditures By Account,
and Changes in Fund Balances (Deficits), Continued
Year Ended September 30, 2006
(with comparative totals for the year ended September 30, 2005)

	Section 216(a)(3) Scholarship	Section 221(b) Education and Health Care	Section 213 Audit	Other Direct Assistance	Republic of China Projects	Marshall Islands Scholarship, Grant and Loan Board	Health Care Revenue Fund	Marshall Islands Health Fund	Nuclear Claims Tribunal	Totals	
										2006	2005
Revenues:											
Compact funding	\$ -	\$ -	\$ 197,294	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 197,294	\$ 7,697,427
Federal and other grants	-	-	-	507,051	6,942,018	70,353	365,830	-	-	8,206,685	10,319,165
Fees and charges	-	-	-	-	-	-	233,682	6,435,918	-	7,628,896	7,147,783
Sales	-	-	-	-	-	-	-	-	-	338,014	187,440
Other	-	-	-	-	-	13,131	130,369	16,440	874	169,851	177,408
Total revenues	-	-	197,294	507,051	6,942,018	83,484	729,881	6,452,358	874	16,560,740	25,529,223
Expenditures by Account:											
Grants and subsidies	-	-	-	-	2,257,518	1,003,456	-	-	1,429,271	4,939,167	5,178,192
Salaries and wages	-	-	-	43,720	348,246	-	58,856	353,560	435,945	2,374,190	4,094,104
Medical supplies	-	-	-	-	-	-	4,041,059	2,757,152	-	6,798,211	5,166,313
Contractual services	-	-	-	136,806	162,905	-	-	140,000	91,911	1,970,034	761,930
Capital outlay	-	-	-	62,431	942,636	5,397	-	-	-	1,098,653	4,032,605
Travel	-	-	-	77,814	11,494	14,691	94,674	-	-	546,162	575,883
Food stuffs	-	-	-	12,640	-	-	-	-	-	125,009	471,818
Supplies and materials	-	-	-	33,021	94,341	-	-	-	5,900	218,242	288,508
POL	-	-	-	2,148	50,165	-	-	-	-	392,107	406,932
Rentals	-	-	-	-	26,813	12,000	-	-	80,835	134,534	136,480
Freight	-	-	-	-	3,065	4,978	-	30,440	25,718	124,707	109,283
Communications	-	-	-	8,355	-	-	-	-	-	3,696	23,637
Insurance	-	-	-	483	-	-	-	-	-	-	-
Utilities	-	-	-	650	-	-	-	30,343	-	83,463	140,311
Leased housing	-	-	-	-	9,000	-	-	-	-	73,500	55,786
Printing and reproduction	-	-	-	-	8,938	-	-	-	-	16,883	91,780
Other	-	-	197,294	50,746	5,000	-	-	-	10,990	276,724	89,447
	-	-	-	5,213	-	-	-	-	-	7,855	1,546
	-	-	-	11,244	-	-	-	-	-	-	-
	-	-	-	445,271	4,206,494	1,056,666	4,395,048	3,570,038	2,161,834	19,956,641	23,280,623
Total expenditures	-	-	197,294	445,271	4,206,494	1,056,666	4,395,048	3,570,038	2,161,834	19,956,641	23,280,623
Excess (deficiency) of revenues over (under) expenditures	-	-	-	61,780	2,735,524	(973,182)	(3,665,167)	2,882,320	(2,160,960)	(3,395,901)	2,248,600
Other financing sources (uses):											
Operating transfers in	-	-	-	-	-	1,050,479	2,803,160	-	2,015,800	8,763,300	7,592,183
Operating transfers out	-	-	-	-	(490,244)	-	-	(2,803,160)	-	(3,293,404)	(9,971,883)
Total other financing sources (uses), net	-	-	-	-	(490,244)	1,050,479	2,803,160	(2,803,160)	2,015,800	5,469,896	(2,379,700)
Net change in fund balances (deficit)	-	-	-	61,780	2,245,280	77,297	(862,007)	79,160	(145,160)	2,073,995	(131,100)
Fund balances (deficits) at the beginning of the year	1,593	(4,280)	-	83,324	46,862	94,887	1,538,582	1,747,350	304,556	5,399,783	5,971,929
Fund balances (deficits) at the end of the year	\$ 1,593	\$ (4,280)	\$ -	\$ 145,104	\$ 2,292,142	\$ 172,184	\$ 676,575	\$ 1,826,510	\$ 159,396	\$ 7,473,778	\$ 5,840,829

See Accompanying Independent Auditors' Report.

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

September 30, 2006

Capital projects funds are used to account for the acquisition and construction of major capital facilities other than those financed by proprietary funds and trust funds. A brief discussion of RepMar's Nonmajor Governmental Funds - Capital Projects Funds as of September 30, 2006, follows:

Section 211 Compact Capital Account

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

Section 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 annual Public Infrastructure Sector Grant be set aside with an equal contribution from RepMar for the purpose of funding infrastructure maintenance programs as approved by the Government of the United States.

Other Capital Projects Fund

This fund accounts for miscellaneous monies received that are specifically designated for capital-related projects.

Section 111 Investment Development Fund

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

Marshall Islands Development Authority (MIDA) Fund

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

Asian Development Bank (ADB) Development Projects

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

See Accompanying Independent Auditors' Report.

REPUBLIC OF THE MARSHALL ISLANDS
NONMAJOR CAPITAL PROJECTS FUNDS

Combining Balance Sheet
September 30, 2006
(with comparative totals as of September 30, 2005)

	Section 211 Capital Account	Other Capital Projects	Section 111 Investment Development	MIDA	ADB Development Projects	Totals	
						2006	2005
<u>ASSETS</u>							
Investments	\$ -	\$ -	\$ -	\$ 318,630	\$ -	\$ 318,630	\$ 318,630
Due from other funds	-	-	472,253	-	-	472,253	472,253
Restricted assets:							
Cash and cash equivalents	-	-	-	-	22,268	22,268	71,024
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 472,253</u>	<u>\$ 318,630</u>	<u>\$ 22,268</u>	<u>\$ 813,151</u>	<u>\$ 861,907</u>
<u>FUND BALANCES</u>							
Fund balances:							
Reserved for:							
Related assets	\$ -	\$ -	\$ -	\$ 318,630	\$ 22,268	\$ 340,898	\$ 389,654
Encumbrances	2,692	-	-	-	-	2,692	2,692
Unreserved	(2,692)	-	472,253	-	-	469,561	469,561
Total fund balances	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 472,253</u>	<u>\$ 318,630</u>	<u>\$ 22,268</u>	<u>\$ 813,151</u>	<u>\$ 861,907</u>

See Accompanying Independent Auditors' Report.

REPUBLIC OF THE MARSHALL ISLANDS
NONMAJOR CAPITAL PROJECTS FUNDS

Combining Statement of Expenditures by Function,
and Changes in Fund Balances
Year Ended September 30, 2006
(with comparative totals for the year ended September 30, 2005)

	Section 211 Capital Account	Other Capital Projects	Section 111 Investment Development	MIDA	ADB Development Projects	Totals	
						2006	2005
Expenditures by function:							
Ministry of Education	\$ -	\$ -	\$ -	\$ -	\$ 48,756	\$ 48,756	\$ 1,013,250
Ministry of Transportation and Communication	-	-	-	-	97,939	97,939	798,343
Total expenditures	-	-	-	-	146,695	146,695	1,811,593
Other financing sources:							
Loan proceeds	-	-	-	-	97,939	97,939	1,041,041
Operating transfers in	-	-	-	-	-	-	34,380
Other financing sources	-	-	-	-	97,939	97,939	1,075,421
Net change in fund balances	-	-	-	-	(48,756)	(48,756)	(736,172)
Fund balances at the beginning of the year	-	-	472,253	318,630	71,024	861,907	1,598,079
Fund balances at the end of the year	\$ -	\$ -	\$ 472,253	\$ 318,630	\$ 22,268	\$ 813,151	\$ 861,907

See Accompanying Independent Auditors' Report.

REPUBLIC OF THE MARSHALL ISLANDS
NONMAJOR CAPITAL PROJECTS FUNDS

Combining Statement of Expenditures by Account,
and Changes in Fund Balances
Year Ended September 30, 2006
(with comparative totals for the year ended September 30, 2005)

	Section 211 Capital Account	Other Capital Projects	Section 111 Investment Development	MIDA	ADB Development Projects	Totals	
						2006	2005
Expenditures by account:							
Contractual services	\$ -	\$ -	\$ -	\$ -	\$ 146,695	\$ 146,695	\$ 1,345,017
Grants and subsidies	-	-	-	-	-	-	450,000
Capital outlay	-	-	-	-	-	-	16,576
Total expenditures	-	-	-	-	146,695	146,695	1,811,593
Other financing sources:							
Loan proceeds	-	-	-	-	97,939	97,939	1,041,041
Operating transfers in	-	-	-	-	-	-	34,380
Other financing sources	-	-	-	-	97,939	97,939	1,075,421
Net change in fund balances	-	-	-	-	(48,756)	(48,756)	(736,172)
Fund balances at the beginning of the year	-	-	472,253	318,630	71,024	861,907	1,598,079
Fund balances at the end of the year	\$ -	\$ -	\$ 472,253	\$ 318,630	\$ 22,268	\$ 813,151	\$ 861,907

See Accompanying Independent Auditors' Report.

REPUBLIC OF THE MARSHALL ISLANDS
NONMAJOR GOVERNMENTAL FUNDS - PERMANENT FUNDS

September 30, 2006

Permanent funds are used to account for resources that are legally restricted to the extent that only earnings, and not principal, may be used to support programs for the benefit of the government. A brief discussion of RepMar's Permanent Funds as of September 30, 2006, follows:

Intergenerational Trust Fund

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

See Accompanying Independent Auditors' Report.

REPUBLIC OF THE MARSHALL ISLANDS
FIDUCIARY FUNDS - PRIVATE PURPOSE TRUSTS

September 30, 2006

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, 2006, 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 Statement of Fiduciary Net Assets
 Fiduciary Funds - Private Purpose Trusts
 September 30, 2006
 (with comparative totals as of September 30, 2005)

	Marshall Islands Social Security Admin.	Kwajalein Atoll Trust	Section 212 Kwajalein Landowners	Nuclear Claims Trust	Totals	
					2006	2005
ASSETS						
Cash and cash equivalents	\$ 1,474,481	\$ -	\$ -	\$ -	\$ 1,474,481	\$ 1,297,934
Time certificates of deposit	4,060,743	-	-	-	4,060,743	3,865,788
Receivables, net:						
Contributions	2,088,814	-	-	-	2,088,814	2,251,928
Other	637,182	-	-	-	637,182	534,684
Investments	53,506,123	-	-	1,244,135	54,750,258	51,204,942
Due from other funds	-	875,223	11,878,921	-	12,754,144	8,770,674
Capital assets, net of accumulated depreciation	104,279	-	-	-	104,279	163,464
Total assets	<u>61,871,622</u>	<u>875,223</u>	<u>11,878,921</u>	<u>1,244,135</u>	<u>75,869,901</u>	<u>68,089,414</u>
LIABILITIES						
Accounts payable	99,600	-	23,879	-	123,479	89,463
Other liabilities and accruals	592,703	-	-	-	592,703	147,002
Total liabilities	<u>692,303</u>	<u>-</u>	<u>23,879</u>	<u>-</u>	<u>716,182</u>	<u>236,465</u>
NET ASSETS						
Held in trust for:						
Social security benefits	61,179,319	-	-	-	61,179,319	55,870,444
Nuclear claims	-	-	-	1,244,135	1,244,135	3,211,831
Land use distributions	-	875,223	11,855,042	-	12,730,265	8,770,674
Total net assets	<u>\$ 61,179,319</u>	<u>\$ 875,223</u>	<u>\$ 11,855,042</u>	<u>\$ 1,244,135</u>	<u>\$ 75,153,719</u>	<u>\$ 67,852,949</u>

See Accompanying Independent Auditors' Report.

REPUBLIC OF THE MARSHALL ISLANDS

Combining Statement of Changes in Fiduciary Net Assets
 Fiduciary Funds - Private Purpose Trusts
 Year Ended September 30, 2006
 (with comparative totals for the year ended September 30, 2005)

	Marshall Islands Social Security Admin.	Kwajalein Atoll Trust	Section 212 Kwajalein Landowners	Nuclear Claims Trust	Totals	
					2006	2005
Additions:						
Contributions:						
Private employees	\$ 7,487,349	\$ -	\$ -	\$ -	\$ 7,487,349	\$ 7,968,979
Government employees	3,642,155	-	-	-	3,642,155	3,704,239
Penalties and interest	314,022	-	-	-	314,022	248,004
Total contributions	11,443,526	-	-	-	11,443,526	11,921,222
Investment earnings:						
Net increase in the fair value of investments	4,023,719	-	-	25,927	4,049,646	6,807,587
Interest and dividends	1,463,140	-	34,764	46,778	1,544,682	1,290,283
Total investment earnings	5,486,859	-	34,764	72,705	5,594,328	8,097,870
Less investment expense	115,117	-	-	24,601	139,718	143,005
Net investment earnings	5,371,742	-	34,764	48,104	5,454,610	7,954,865
Other:						
Compact funding	-	-	15,414,200	-	15,414,200	15,176,800
Other	409,031	-	-	-	409,031	272,370
	409,031	-	15,414,200	-	15,823,231	15,449,170
Total additions	17,224,299	-	15,448,964	48,104	32,721,367	35,325,257
Deductions:						
Land use distributions	-	-	11,489,373	-	11,489,373	11,169,586
Benefits	11,018,951	-	-	-	11,018,951	10,673,660
Administrative expenses	896,473	-	-	-	896,473	826,840
Transfers out	-	-	-	2,015,800	2,015,800	2,187,728
Total deductions	11,915,424	-	11,489,373	2,015,800	25,420,597	24,857,814
Change in net assets	5,308,875	-	3,959,591	(1,967,696)	7,300,770	10,467,443
Net assets at the beginning of the year	55,870,444	875,223	7,895,451	3,211,831	67,852,949	57,385,506
Net assets at the end of the year	\$ 61,179,319	\$ 875,223	\$ 11,855,042	\$ 1,244,135	\$ 75,153,719	\$ 67,852,949

See Accompanying Independent Auditors' Report.

REPUBLIC OF THE MARSHALL ISLANDS
NONMAJOR COMPONENT UNITS

September 30, 2006

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, 2006, follows:

Air Marshall Islands, Inc. (AMI)

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

College of the Marshall Islands (CMI)

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

Majuro Resort, Inc. (MRI)

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

Majuro Water and Sewer Company, Inc. (MWSC)

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

Marshall Islands Marine Resources Authority (MIMRA)

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

Marshall Islands 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.

See Accompanying Independent Auditors' Report.

REPUBLIC OF THE MARSHALL ISLANDS
NONMAJOR COMPONENT UNITS

September 30, 2006

RMI Environmental Protection Authority (EPA)

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

Tobolar Copra Processing Plant, Inc. (TCPPI)

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

See Accompanying Independent Auditors' Report.

**REPUBLIC OF THE MARSHALL ISLANDS
NONMAJOR COMPONENT UNITS**

**Combining Statement of Net Assets
September 30, 2006
(with comparative totals as of September 30, 2005)**

	Air Marshall Islands, Inc.	College of the Marshall Islands	Majuro Resort, Inc.	Majuro Water and Sewer Company, Inc.	Marshall Islands Marine Resources Authority	Marshall Islands Visitors Authority	RMI Environmental Protection Authority	Tobolar Copra Processing Plant, Inc.	Totals
	2006	2006	2006	2006	2006	2006	2006	2006	2005
ASSETS									
Current assets:									
Cash and cash equivalents	\$ 26,158	\$ 2,033,975	\$ 33,008	\$ 56,011	\$ 101,321	\$ 138,324	\$ 73,628	\$ 75,642	\$ 2,538,067
Time certificates of deposit	-	50,000	-	-	1,231,271	20,000	-	-	1,301,271
Receivables, net:									
General	102,470	1,193,520	229,686	53,475	143,632	-	13,280	176,105	1,912,168
Other	-	746,457	-	-	11,422	70,155	-	-	828,034
Inventories	588,279	272,477	48,303	118,808	-	-	-	1,305,901	2,333,768
Due from primary government	353,457	-	-	-	-	-	-	-	353,457
Other current assets	206,507	60,814	53,914	-	1,474	30,156	63,491	31,847	448,203
Total current assets	1,276,871	4,357,243	364,911	228,294	1,489,120	258,635	150,399	1,589,495	9,978,220
Noncurrent assets:									
Investments	-	198,085	-	-	-	-	-	-	198,085
Capital assets, net of accumulated depreciation	1,848,754	2,226,449	2,093,287	53,436	351,799	-	-	906,287	7,480,012
Total noncurrent assets	1,848,754	2,424,534	2,093,287	53,436	351,799	-	-	906,287	7,678,097
Total assets	\$ 3,125,625	\$ 6,781,777	\$ 2,458,198	\$ 281,730	\$ 1,840,919	\$ 258,635	\$ 150,399	\$ 2,495,782	\$ 17,393,065
LIABILITIES									
Current liabilities:									
Bank overdraft	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Current portion of long-term debt	212,824	-	-	-	-	-	-	647,220	860,044
Accounts payable	909,562	153,648	543,258	11,430	16,785	8,307	15,929	168,723	1,827,642
Other liabilities and accruals	156,743	225,378	216,454	1,059,026	320,659	10,303	5,828	529,256	2,523,647
Due to primary government	-	-	-	-	-	-	-	-	-
Due to component units	-	-	-	-	-	-	-	100,000	250,207
Deferred revenue	142,997	664,938	-	-	-	-	-	698,219	939,128
Total current liabilities	1,422,126	1,043,964	759,712	1,070,456	337,444	18,610	21,757	1,445,199	6,569,272
Noncurrent liabilities:									
Noncurrent portion of long-term debt	536,002	-	-	-	-	-	-	-	536,002
Due to primary government	2,000,000	-	-	-	-	-	-	-	2,000,000
Other noncurrent liabilities	-	-	-	-	-	-	-	-	-
Total noncurrent liabilities	2,536,002	-	-	-	-	-	-	-	2,536,002
Total liabilities	3,958,128	1,043,964	759,712	1,070,456	337,444	18,610	21,757	1,445,199	8,655,270
NET ASSETS									
Invested in capital assets, net of related debt	1,848,754	2,226,449	2,093,287	53,436	351,799	-	-	902,287	7,476,012
Restricted	-	248,285	-	-	-	-	-	-	248,285
Unrestricted	(2,681,257)	3,263,079	(394,801)	(842,162)	1,151,676	240,025	128,642	148,296	1,013,498
Total net assets	(832,503)	5,737,813	1,698,486	(788,726)	1,503,475	240,025	128,642	1,050,583	8,737,795
	\$ 3,125,625	\$ 6,781,777	\$ 2,458,198	\$ 281,730	\$ 1,840,919	\$ 258,635	\$ 150,399	\$ 2,495,782	\$ 17,393,065

See Accompanying Independent Auditors' Report.

REPUBLIC OF THE MARSHALL ISLANDS
NONMAJOR COMPONENT UNITS

Combining Statement of Revenues, Expenses,
and Changes in Net Assets
Year Ended September 30, 2006
(with comparative totals for the year ended September 30, 2005)

	Air Marshall Islands, Inc.	College of the Marshall Islands	Majuro Resort, Inc.	Majuro Water and Sewer Company, Inc.	Marshall Islands Marine Resources Authority	Marshall Islands Visitors Authority	RMI Environmental Protection Authority	Tobolar Copra Processing Plant, Inc.	Totals
	2006	2006	2006	2006	2006	2006	2006	2006	2005
Operating revenues:									
Charges for services	\$ 3,408,535	\$ 3,038,207	\$ 2,272,971	\$ 837,485	\$ 1,969,044	\$ 14,059	\$ 65,002	\$ -	\$ 11,605,303
Sales	178,167	421,643	-	182,313	-	-	-	475,917	2,909,976
Other	3,586,702	3,459,850	2,272,971	1,069,323	2,074,042	22,104	103,410	475,917	15,176,759
Total operating revenues									
Operating expenses:									
Cost of services	3,519,756	5,262,921	1,404,655	1,163,219	1,477,021	-	-	1,081,244	17,002,898
Administration costs	425,232	809,937	957,593	-	-	342,038	126,018	276,889	1,280,804
Depreciation and amortization	698,207	249,994	192,313	27,828	101,137	-	-	98,692	1,067,216
Total operating expenses	4,643,195	6,322,852	2,554,561	1,191,047	1,578,158	342,038	126,018	1,456,825	19,350,918
Operating income (loss)	(1,056,493)	(2,863,002)	(281,590)	(121,724)	495,884	(319,934)	(22,608)	(980,908)	(4,174,159)
Nonoperating revenues (expenses):									
Contributions from the primary government	-	3,226,435	-	-	-	222,763	-	900,000	5,597,862
Interest income	-	18,046	-	-	38,947	-	-	-	54,254
Contributions to the primary government	(68,433)	-	-	-	-	-	-	-	(144,016)
Interest expense	(45,792)	-	-	-	-	-	-	(46,868)	(9,007)
Other		13,756	(12,038)	(41,706)	-	-	(711)	-	625,034
Total nonoperating revenues (expenses), net	(114,225)	3,258,237	(12,038)	(41,706)	38,947	222,763	(711)	853,132	6,124,127
Capital contributions	-	1,000,000	-	-	-	-	-	-	1,000,000
Net income (loss)	(1,170,718)	1,395,235	(293,628)	(163,430)	534,831	(97,171)	(23,319)	(127,776)	2,057,814
Net assets at the beginning of the year	338,215	4,342,578	1,992,114	(625,296)	968,644	337,196	151,961	1,178,359	6,771,806
Net assets at the end of the year	\$ (832,503)	\$ 5,737,813	\$ 1,698,486	\$ (788,726)	\$ 1,503,475	\$ 240,025	\$ 128,642	\$ 1,050,583	\$ 8,829,620

See Accompanying Independent Auditors' Report.

REPUBLIC OF THE MARSHALL ISLANDS
COMPACT OF FREE ASSOCIATION SECTOR GRANTS

Combining Balance Sheet
September 30, 2006
(with comparative totals as of September 30, 2005)

	Section 211(a)(1) Education		Section 211(a)(2) Health		Section 211(a)(3) Private Sector Development		Section 211(a)(4) Capacity Building		Section 211(a)(5) Environment		Section 211(b)(1) Kwajalein Environment		Section 211(b)(2) Landowners Special Needs		Section 211(d)(1) Public Infrastructure		Section 211(d)(2) Infrastructure Maintenance		Supplemental Education		Totals		
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	
ASSETS																							
Receivables:																							
Federal agencies																							
Due from other funds																							
Advances																							
Total assets	\$ 826,630	\$ 148,955	\$ 12,049	\$ 10,595	\$ 980	\$ 11,575	\$ -	\$ -	\$ 49,482	\$ 604	\$ -	\$ -	\$ 51,996	\$ -	\$ 3,314	\$ 76,738	\$ -	\$ 883,812	\$ -	\$ 3,314	\$ 2,242,074	\$ 641,415	
	46,842	12,049		980		11,575			49,482	604			51,996		3,314	76,738		883,812		2,242,074	62,051	2,201,230	
	\$ 873,472	\$ 161,004	\$ -	\$ 11,575	\$ -	\$ 50,086	\$ -	\$ -	\$ 50,086	\$ -	\$ -	\$ -	\$ 51,996	\$ -	\$ 198,756	\$ 76,738	\$ -	\$ 883,812	\$ -	\$ 2,307,439	\$ 62,051	\$ 3,004,391	
LIABILITIES AND FUND BALANCES																							
Liabilities:																							
Accounts payable	\$ 125,781	\$ 43,586	\$ -	\$ 4,369	\$ -	\$ 17,743	\$ -	\$ -	\$ 15,323	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 316,003	\$ 89,720	\$ 149,657	\$ 762,182	\$ -	\$ 762,182	\$ -	\$ 994,954	
Payable to federal agencies	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	295,145	
Retention payable	-	-	-	-	-	-	-	-	-	-	-	-	-	-	575,330	70,417	-	645,747	-	645,747	-	148,155	
Due to component units	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	60,538	
Due to other funds	-	-	-	-	-	18,408	-	-	-	-	32,895	-	-	-	-	-	-	-	-	-	-	176,491	
Total liabilities	125,781	43,586	-	4,369	-	36,151	-	-	15,323	-	32,895	-	-	-	891,333	160,137	149,657	762,182	-	1,459,232	51,303	1,675,283	
Fund balances:																							
Reserved for:																							
Encumbrances	-	-	-	-	-	-	-	-	-	-	-	-	-	-	6,628,296	262,521	168,146	7,058,963	2,454,404	7,058,963	2,454,404	2,454,404	
Unreserved (deficit)	747,691	117,418	117,418	7,206	7,206	(36,151)	(36,151)	(36,151)	34,763	34,763	(32,895)	(32,895)	51,996	(7,320,873)	(345,920)	566,009	(6,210,756)	(1,125,296)	(6,210,756)	848,207	1,329,108	(1,125,296)	
Total fund balances	747,691	117,418	117,418	7,206	7,206	(36,151)	(36,151)	(36,151)	34,763	34,763	(32,895)	(32,895)	51,996	(692,577)	(83,399)	734,155	848,207	848,207	848,207	848,207	848,207	1,329,108	1,329,108
Total liabilities and fund balances	\$ 873,472	\$ 161,004	\$ -	\$ 11,575	\$ -	\$ 50,086	\$ -	\$ -	\$ 50,086	\$ -	\$ -	\$ -	\$ 51,996	\$ 198,756	\$ 198,756	\$ 76,738	\$ 883,812	\$ 2,307,439	\$ 2,307,439	\$ 2,307,439	\$ 62,051	\$ 3,004,391	

See Accompanying Independent Auditors' Report.

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

**Combining Statement of Revenues, Expenditures by Function,
and Changes in Fund Balances**

**September 30, 2006
(with comparative totals as of September 30, 2005)**

	Section 211(a)(1) Education	Section 211(a)(2) Health	Section 211(a)(3) Private Sector Development	Section 211(a)(4) Capacity Building	Section 211(a)(5) Environment	Section 211(b)(1) Kwajalein Environment	Section 211(b)(2) Landowners Special Needs	Section 211(d)(1) Public Infrastructure	Section 211(d)(2) Infrastructure Maintenance	Supplemental Education	Totals
	2006	2006	2006	2006	2006	2006	2006	2006	2006	2006	2006
Revenues:											
Compact funding	\$ 12,049,081	\$ 6,682,740	\$ 361,940	\$ 309,947	\$ 222,142	\$ 205,522	\$ 1,308,388	\$ 9,496,589	\$ 200,000	\$ 4,476,193	\$ 35,312,542
Expenditures by Function:											
Current:											
General government:											
Special appropriations	-	-	100,000	-	-	-	-	-	-	-	100,000
Office of the Auditor-General	-	-	-	-	-	-	-	-	-	-	61,764
Ministry of Education	10,510,070	6,564,097	-	-	-	-	-	-	-	3,762,883	14,272,953
Ministry of Health and Environment	-	-	-	-	-	-	-	-	-	-	6,564,097
Ministry of Resources and Development	-	-	254,734	-	-	-	-	-	-	-	254,734
Ministry of Justice	-	-	-	-	-	-	-	-	-	-	114,737
Ministry of Finance	100,016	-	-	331,898	-	-	1,256,392	-	-	-	71,870
Environmental Protection Authority	-	-	-	-	221,815	203,999	-	-	-	-	1,688,306
Capital outlay	-	-	-	-	-	-	-	10,189,166	1,808,491	-	14,200
Total expenditures	10,610,086	6,564,097	354,734	331,898	221,815	203,999	1,256,392	10,189,166	1,808,491	3,762,883	26,054,245
Excess (deficiency) of revenues over (under) expenditures	1,438,995	118,643	7,206	(21,951)	327	1,523	51,996	(692,577)	(1,608,491)	713,310	8,981
Other financing sources (uses):											
Operating transfers in	-	-	-	-	-	-	-	-	490,244	-	490,244
Operating transfers out	(685,715)	-	-	-	-	-	-	-	-	(294,411)	(980,126)
Total other financing sources (uses), net	(685,715)	-	-	-	-	-	-	-	490,244	(294,411)	(1,882,945)
Net change in fund balances	753,280	118,643	7,206	(21,951)	327	1,523	51,996	(692,577)	(1,118,247)	418,899	(480,901)
Fund balances at the beginning of the year	(5,589)	(1,225)	-	(14,200)	34,436	(34,418)	-	-	1,034,848	315,256	1,329,108
Fund balances at the end of the year	\$ 747,691	\$ 117,418	\$ 7,206	\$ (36,151)	\$ 34,763	\$ (32,895)	\$ 51,996	\$ (692,577)	\$ (83,399)	\$ 734,155	\$ 848,207
											\$ 1,329,108

See Accompanying Independent Auditors' Report.

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

**Combining Statement of Revenues, Expenditures by Account,
and Changes in Fund Balances
September 30, 2006
(with comparative totals as of September 30, 2005)**

	Section 211(a)(1) Education	Section 211(a)(2) Health	Section 211(a)(3) Private Sector Development	Section 211(a)(4) Capacity Building	Section 211(a)(5) Environment	Section 211(b)(1) Kwajalein Environment	Section 211(b)(2) Landowners Special Needs	Section 211(d)(1) Public Infrastructure	Section 211(d)(2) Infrastructure Maintenance	Supplemental Education	Totals	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	
Revenues:												
Compact funding	\$ 12,049,081	\$ 6,682,740	\$ 361,940	\$ 309,947	\$ 222,142	\$ 205,522	\$ 1,308,388	\$ 9,496,589	\$ 200,000	\$ 4,476,193	\$ 35,312,542	\$ 27,467,288
Expenditures by Account:												
Salaries and wages	7,308,091	4,989,603	119,205	-	145,580	171,054	-	104,587	-	1,535,062	14,373,182	13,200,425
Capital outlay	449,448	10,306	29,202	-	7,283	8,333	-	10,029,539	1,782,885	120,120	12,437,116	5,878,869
Grants and subsidies	868,999	-	111,184	-	-	-	970,896	-	-	133,532	2,084,611	2,452,744
Utilities	208,161	342,154	-	-	17,601	-	285,496	-	-	28,213	881,625	803,424
Leased housing	-	385,810	-	-	-	-	-	-	-	-	385,810	684,558
Supplies and materials	316,845	104,391	5,964	-	5,907	9,319	-	2,566	-	960,996	1,405,988	603,968
Contractual services	363,604	72,068	7,052	331,898	19,667	-	-	45,598	4,266	465,020	1,309,173	473,679
Travel	157,435	284,992	37,855	-	10,231	8,293	-	3,156	-	126,310	628,272	442,292
Food stuffs	235,356	84,199	10,142	-	-	-	-	-	-	72,067	401,764	312,912
Allowances	42,950	-	-	-	-	-	-	-	-	-	42,950	42,950
Professional services	-	-	-	-	-	-	-	-	21,340	-	21,340	105,262
Medical supplies	-	23,217	-	-	-	-	-	-	-	-	23,217	92,642
Communications	43,504	26,891	6,500	-	3,321	7,000	-	-	-	6,526	93,742	83,768
POI	44,341	65,082	5,488	-	4,505	-	-	237	-	19,155	138,808	76,853
Rentals	34,086	30,109	10,000	-	-	-	-	3,483	-	6,000	83,678	71,035
Freight	27,530	25,964	300	-	-	-	-	-	-	-	53,794	40,573
Printing and reproduction	9,127	11,564	3,938	-	2,210	-	-	-	-	1,183	28,022	23,198
Insurance	408	5,029	-	-	510	-	-	-	-	6,948	12,895	2,878
Other	500,201	102,718	7,904	-	5,000	-	-	-	-	281,751	897,574	705,165
Total expenditures	10,610,086	6,564,097	354,734	331,898	221,815	203,999	1,256,392	10,189,166	1,808,491	3,762,883	35,303,561	26,054,245
Excess (deficiency) of revenues over (under) expenditures	1,438,995	118,643	7,206	(21,951)	327	1,523	51,996	(692,577)	(1,608,491)	713,310	8,981	1,413,043
Other financing sources (uses):												
Operating transfers in	-	-	-	-	-	-	-	-	490,244	-	490,244	674,287
Operating transfers out	(685,715)	-	-	-	-	-	-	-	-	(294,411)	(980,126)	(1,882,945)
Total other financing sources (uses), net	(685,715)	-	-	-	-	-	-	-	490,244	(294,411)	(489,882)	(1,208,658)
Net change in fund balances	753,280	118,643	7,206	(21,951)	327	1,523	51,996	(692,577)	(1,118,247)	418,899	(480,901)	204,385
Fund balances at the beginning of the year	(5,589)	(1,225)	-	(14,200)	34,436	(34,418)	-	-	1,034,848	315,256	1,329,108	1,124,723
Fund balances at the end of the year	\$ 747,691	\$ 117,418	\$ 7,206	\$ (36,151)	\$ 34,763	\$ (32,895)	\$ 51,996	\$ (692,577)	\$ (83,399)	\$ 734,155	\$ 848,207	\$ 1,329,108

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