Trust Fund for the People of the Republic of the Marshall Islands

Financial Statements

September 30, 2008 and 2007

ParenteBeard

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September 30, 2008 and 2007

Management's Discussion and Analysis
For the Fiscal Years Ended September 30, 2008 and 2007

The following represents the Joint Trust Fund Committee's management discussion and analysis of the Trust Fund for the People of the Republic of the Marshall Islands' (Trust Fund) financial performance for the years ended September 30, 2008 and 2007. Please read it in conjunction with the Trust Fund's financial statements, which follow this section.

The Trust Fund for the People of the Republic of the Marshall Islands
Net Assets Summary

	September 30, 2008	September 30, 2007
Assets		
Cash and investments	$77,744,243	$85,516,477
Accrued investment income	28,974	172,759
Contribution receivable	750,000	-
Total Assets	78,523,217	85,689,236
Liabilities		
Accrued expenses	135,532	108,992
Due to broker	2,059,692	-
Due to "D" Account Trust	-	1,766,424
Total Liabilities	2,195,224	1,875,416
Restricted Net Assets	$76,327,993	$83,813,820

Financial Highlights - Net Assets at September 30, 2008

The fair value of the Trust Fund's net assets was $76.3 million as of September 30, 2008, compared to $83.8 million at September 30, 2007. The decrease is attributable to the volatility experienced in the equity markets during the fiscal year ended September 30, 2008, offset by contributions from the Government of the United States of America (United States) on October 9, 2007 of $9.7 million and a contribution receivable from the Government of the Republic of China (Taiwan) of $750,000. Net investment losses totaled ($17.9) million for the year ended September 30, 2008. The decrease in net assets for the year ended September 30, 2008 after contributions from the Governments of the United States and the Republic of China (Taiwan) was ($7.5) million. At September 30, 2008, the Trust Fund's assets consisted of exchange traded funds invested in domestic and international equities and an exchange traded fund, invested in fixed income securities. Accrued expenses represent amounts payable for legal and other professional services incurred during the fiscal year.

"Due to broker" represents amounts due for purchases of securities as of September 30, 2008 but settled subsequent to fiscal year end.

During July 2008, $1,500,000 was transferred to the "D" Account Trust based on the estimated fair value of the original contribution reduced by subsequent investment losses occurring through the effective date of the transfer.

Financial Highlights - Net Assets at September 30, 2007

The fair value of the Trust Fund's net assets was $83.8 million as of September 30, 2007, compared to $63.1 million at September 30, 2006. The increase is attributed to the contributions from Governments of the United States and the Republic of China (Taiwan) on October 6, 2006 and May 3, 2007 of $8.9 million and $750,000, respectively, and net investment income of $11.0 million for the year ended September 30, 2007, which produced approximately half of the increase in invested assets. At September 30, 2007, the Trust Fund's assets consisted primarily of exchange traded funds invested in domestic and international equities and an exchange traded fund invested in fixed income securities. Accrued expenses represent amounts payable for legal and other professional services incurred during the fiscal year.

At September 30, 2007 the fair value of "D" Account Trust excluded a $1,750,000 contribution from the Republic of China (Taiwan), deposited in error to the account of the Trust Fund for the People of the Republic of the Marshall Islands during the fiscal year ended September 30, 2007. This amount and the investment income earned on the contribution are recorded as "Due to "D" Account Trust" in the accompanying financial statements as of September 30, 2007. In July 2008, the liability was satisfied by means of an asset transfer from the Trust Fund to the "D" Account Trust.

The Trust Fund for the People of the Republic of the Marshall Islands
Changes in Net Assets Summary

	Year ended September 30,	
	2008	**2007**
Contributions	$10,463,700	$ 9,699,592
Net investment income (losses)	(17,877,296)	11,023,579
Total Additions	(7,413,596)	20,723,171
Administrative expenses	72,231	9,869
Total Deductions	72,231	9,869
Changes in Net Assets	(7,485,827)	20,713,302
Net Assets - Beginning	83,813,820	63,100,518
Net Assets - Ending	$76,327,993	$83,813,820

Financial Highlights - Changes in Net Assets for Fiscal Year Ended September 30, 2008

On October 9, 2007, a scheduled contribution of $9.7 million was made to the Trust Fund by the Government of the United States. During the year ended September 30, 2008, a contribution receivable from the Government of the Republic of China (Taiwan) of $750,000 was recognized. Investment losses of ($17,877,296) were incurred during the fiscal year ended September 30, 2008, including investment expenses of $599,963, which represent a dollar weighted return on cash equivalents and invested assets of approximately (21.29)%. The Trust Fund operates under a cancellable agreement to pay a professional investment advisory firm 0.45% of assets under management. The Trust Fund incurred $424,202 of fees to the investment advisory firm in fiscal year 2008, and investment custodian fees of $175,761, which are included in investment expenses.

The U.S. Department of the Interior (DOI) contributed staff time, equipment usage, and incidental expenses during the fiscal year ended September 30, 2008. No amounts have been recorded in the accompanying financial statements to reflect these transactions. The estimated value of these services and supplies is approximately $60,000.

Financial Highlights - Changes in Net Assets for Fiscal Year Ended September 30, 2007

On October 6, 2006, a contribution of $8.9 million was made by the Government of the United States. On May 3, 2007, a contribution of $750,000 was made by the Government of the Republic of China (Taiwan). Investment income of $11,023,579 was earned during the fiscal year ended September 30, 2007, net of investment expenses of $224,483, and represents a dollar weighted return on cash equivalents and invested assets of approximately 14.17%. The Trust Fund entered into a cancellable agreement to pay a professional investment advisory firm 0.45% of assets under management. The Trust Fund incurred $55,022 of fees to the investment advisory firm in fiscal year 2007 which are recorded as investment expenses. The Trust Fund separately incurred investment custodian fees of $169,461 which are also included as a component of investment expenses.

The U.S. Department of the Interior (DOI) contributed staff time, equipment usage and incidental expenses during the fiscal year ended September 30, 2007. No amounts have been recorded in the accompanying financial statements to reflect these transactions. The estimated value of these services and supplies is approximately $60,000.

ParenteBeard

Independent Auditors' Report

To the Joint Trust Fund Committee
Trust Fund for the People of the Republic of the Marshall Islands

We have audited the accompanying statements of net assets of Trust Fund for the People of the Republic of the Marshall Islands (a District of Columbia not for profit corporation) as of September 30, 2008 and 2007, and the related statements of changes in net assets for the years then ended. These financial statements are the responsibility of Trust Fund for the People of the Republic of the Marshall Islands' management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the statements of net assets of Trust Fund for the People of the Republic of the Marshall Islands as of September 30, 2008 and 2007 and the changes in its net assets for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 22, 2010, on our consideration of Trust Fund for the People of the Republic of the Marshall Islands' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

The management's discussion and analysis on pages 1 through 3, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

ParenteBeard LLC

Malvern, Pennsylvania
February 22, 2010

Statements of Net Assets
September 30, 2008 and 2007

	2008	2007
Assets		
Cash and cash equivalents	$ 6,766,136	$ 459,320
Investments, at fair value:		
Exchange traded fund - fixed income	18,834,669	19,108,821
Exchange traded funds - equity	48,149,841	60,644,550
Exchange traded funds - alternative	3,993,597	5,303,786
	70,978,107	85,057,157
Accrued investment income	28,974	172,759
Contribution receivable	750,000	-
Total Assets	$78,523,217	$85,689,236
Liabilities and Restricted Net Assets		
Liabilities		
Accrued expenses	$ 135,532	$ 108,992
Due to broker	2,059,692	-
Due to “D” Account Trust	-	1,766,424
Total Liabilities	2,195,224	1,875,416
Restricted Net Assets	76,327,993	83,813,820
Total Liabilities and Restricted Net Assets	$78,523,217	$85,689,236

Statements of Changes in Net Assets
Year Ended September 2008 and 2007

	2008	2007
Additions		
Contributions:		
Government of the United States of America	$ 9,713,700	$ 8,949,592
Government of the Republic of China (Taiwan)	750,000	750,000
Total Contributions	10,463,700	9,699,592
Investment income:		
Interest and dividends	2,876,737	2,141,443
Net increase (decrease) in the fair value of investments	(20,154,070)	9,106,619
Total Investment Earnings (Losses)	(17,277,333)	11,248,062
Less: investment expenses	599,963	224,483
Net Investment Income (Losses)	(17,877,296)	11,023,579
Total Additions	(7,413,596)	20,723,171
Deductions		
Administrative expenses	72,231	9,869
Changes in Net Assets	(7,485,827)	20,713,302
Net Assets - Beginning	83,813,820	63,100,518
Net Assets - Ending	$76,327,993	$83,813,820

See notes to financial statements.

Note 1 - Summary of Significant Accounting Policies

Overview of the Trust Fund:

Compact

The Compact of Free Association between the Governments of the United States of America (United States) and the Federated States of Micronesia and the Republic of the Marshall Islands was approved by the United States Congress in Section 201 of Public Law 99-239 (January 14, 1986) and went into effect with respect to the Republic of the Marshall Islands on October 21, 1986 as amended by Public Law 108-188 approved December 17, 2003 (Compact) and provided legislation to establish The Trust Fund for the People of the Republic of the Marshall Islands (Trust Fund).

Trust Fund

The Compact provides for the establishment of the Trust Fund. Pursuant to the provisions of the Compact and its subsidiary *Agreement Between the Government of the United States of America and the Government of the Republic of the Marshall Islands* (Original Parties) *Implementing Section 215 and Section 216 of the Compact, as Amended, regarding a Trust Fund* (Trust Fund Agreement), the *Trust Fund for the People of the Republic of the Marshall Islands* was incorporated in Washington, D.C. on April 28, 2004, as a nonprofit corporation. The purpose of the Trust Fund is to contribute to the economic advancement and long-term budgetary self-reliance of the Republic of the Marshall Islands by providing an annual source of revenue through fiscal year 2023. After fiscal year 2023, the Trust Fund will provide an annual source of revenue for assistance in specific sectors described in Section 211 of the Compact, or other sectors as mutually agreed by the Original Parties, with priorities in education and health care. In accordance with the agreement, the situs of the Trust Fund was established within the United States. The Original Parties are committed to contribute to the Trust Fund amounts described in the Compact, subsequent contributors may contribute to the Trust Fund if first approved by all Joint Trust Fund Committee (Committee) voting members. By a majority vote of the Committee, other voting or non-voting members may be appointed from Subsequent Contributors that contribute to the Trust Fund from time to time, provided that the United States maintains the majority vote in the Committee.

After the initial twenty (20) years, beginning October 1, 2023, the Original Parties will consult regarding the future composition of the Committee. The Committee shall remain the same, unless otherwise agreed by the Original Parties.

The composition of the Committee consists of four voting members from the United States appointed by the Government of the United States, which include the Chairman of the Joint Trust Fund Committee, two voting members appointed by and for the Government of the Republic of the Marshall Islands, and one voting member appointed by and for the Government of the Republic of China (Taiwan). The Committee has the authority to make decisions, appoint administrators and managers, and significantly influence operations. It also has the primary accountability for fiscal matters.

Note 1 - Summary of Significant Accounting Policies (Continued)

Trust Fund (Continued)

The Government of the United States may unilaterally withdraw the accumulated market value of its contributions from the Trust Fund, plus any undistributed income under certain circumstances which include the Government of the Republic of the Marshall Islands' gross misuse of the Trust Fund's financial resources. The Trust Fund's operations may be terminated by written agreement of the Original Parties.

On May 2, 2005 the Trust Fund entered into a Subsequent Contributor Accession Agreement between the Government of the United States and the Government of the Republic of the Marshall Islands in accordance with Section 216 and Section 217 of the Compact of Free Association Act of 2003, as amended, and the Government of the Republic of China (Taiwan). The Government of the Republic of China (Taiwan) has agreed to contribute to the Trust Fund during the Trust Fund period as described in more detail in Note 2. As provided by the Subsidiary Agreement to the Compact, the "D" Account Trust was set up as a separate trust to be funded by contributions of the Government of the Republic of China (Taiwan) in accordance with the schedule of payments prescribed by the Accession Agreement. Income from the "D" Account Trust may be utilized by the Government of the Republic of the Marshall Islands at any time after the "D" Account Trust has a corpus of $10,000,000 and proper prior consultation has been made by the Government of the Republic of the Marshall Islands with the Government of the Republic of China (Taiwan). The funds held in the "D" Account Trust are not under the control of the Joint Trust Fund Committee, and the corpus of the "D" Account Trust is not a component of the Trust Fund for the People of the Marshall Islands.

Tax Exempt Status

As provided by the terms of the Compact, the Trust Fund is exempt from income tax.

Trust Fund Financial Statements

The statement of net assets and the statement of changes in net assets are private purpose trust financial statements. They report information on all of the Trust Fund's assets, liabilities, net assets, and activities. Trust Fund activities are supported primarily by contributions by the Original Parties and investment income. The Trust Fund has no business or proprietary type activities that rely on fees and charges for support.

Contributions represent amounts paid by the Original Parties and the Republic of China (Taiwan) to help meet the operational requirements of the Trust Fund; such contributions represent principal.

Note 1 - Summary of Significant Accounting Policies (Continued)

Trust Fund Financial Statements (Continued)

The financial statements provide information on the net assets and changes in net assets of the Trust. The Trust Fund is designed to contribute to the long-term budgetary self-reliance of the Republic of the Marshall Islands by establishing a trust fund to provide the Government of the Republic of the Marshall Islands with an ongoing source of revenue after Fiscal Year 2023; recognizing that it is the mutual intention of the Governments of the United States and the Republic of the Marshall Islands that the Government of the United States discontinue annual grant assistance beyond fiscal year 2023. The Trust Fund consists of three accounts the “A” Account, the “B” Account, and the “C” Account, respectively (collectively, the Accounts). Each account has a specific purpose with respect to the use of contributions and income derived from investments as specified by the Trust Fund Agreement in accordance with the special purpose of the Trust Fund.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The Trust Fund financial statements use the economic resources measurement focus and are prepared using the accrual basis of accounting. Contributions are recorded when due and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Additional contributions are recognized as revenue as soon as all eligibility requirements imposed by the Compact have been met. Investment earnings are recorded as earned, since they are both measurable and available.

The Trust Fund has adopted applicable Government Accounting Standards Board (GASB) pronouncements. With this measurement focus, all assets and all liabilities associated with the operation of the Trust Fund are included in the accompanying statement of net assets. The Trust Fund’s net assets are restricted for future use after fiscal year 2023.

Cash Equivalents - Money Market Funds Credit Risk

The Trust Fund’s policy is to report cash equivalents at cost which approximates fair value. Cash equivalents consist of money market investments in Blackrock Liquidity Funds. This portfolio invests in first-tier only securities, primarily including: domestic and foreign corporate obligations, domestic and foreign bank obligations, securities issued or guaranteed by the U.S. government or its agencies, and fully collateralized repurchase agreements. Investments in money market funds were not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Although the funds seek to preserve the value of the investment at $1.00 per share, it is possible to lose money investing in these funds.

Investments

Investments are reported at fair value unless a legal contract exists which guarantees a higher value. Investment income consists of interest, dividends and net investment gains (if any) resulting from increases in the fair value of investments. Amounts due to broker represent purchases of securities as of fiscal year end but subsequently settled and transferred to the broker.

Note 1 - Summary of Significant Accounting Policies (Continued)

Investments (Continued)

The Trust Fund Committee has authorized the Trust Fund to invest in corporate bonds of U.S. issuers rated “A” or above by Moody's or Standard & Poor’s. The Trust Fund Committee does not authorize investment in bonds with a lower split rating. High yield corporate debt is an acceptable asset class for Trust Fund investment but exposure should not exceed 10% of the fixed income portfolio’s assets at time of investment, without gaining additional approval from the Trust Fund Committee.

The Trust Fund Committee expects the portion of assets invested in exchange traded funds, used to closely replicate the performance of recognized bond indices, will obtain cumulative annualized total returns net of fees and commissions that exceed the Barclays Aggregate Bond Index, by a minimum of 50 basis points per year over moving 5 year periods or maintain premium performance when compared to a peer group of similarly oriented investment managers. Corporate bonds have added default risk, so they generally have higher yields than bonds and other debt instruments issued by governments and government agencies.

Domestic and international equity fund investments consist of exchange traded funds (ETFs) (iShares closed-end mutual funds). Fair value of ETFs is based upon quoted market values. The fair value of these exchange traded funds is determined by the fair value of the underlying marketable securities, principally equities and bonds. Fair value of the fund’s underlying investments is generally determined by quoted market values.

Alternative investments consist of real estate investment trusts (REITS). Fair value is based upon quoted market value of REIT units traded on the New York Stock Exchange (NYSE).

Restricted Net Assets

Restricted net assets consist of the “A”, “B”, and “C” Accounts as described below are subject to legal, regulatory, budgetary, or other restrictions in accordance with the Compact.

1. The “A” Account:

   a. The “A” Account, which established upon the effective date of the Compact, as amended, shall form the Corpus and consist of contributions from the Original Parties and subsequent contributors. Except as otherwise provided in the Trust Fund Agreement, it also consists of the income from the investments made from contributions (principal), and transfers from the “B” Account and “C” Account in accordance with the Trust Fund Agreement.

   b. Through September 30, 2022, payment of allowable expenses of the Trust Fund shall be made from the “A” Account. During this period, the amount, if any, of income in each fiscal year which remains after such payment of expenses shall be reinvested into the “A” Account. Except as provided in the Trust Fund Agreement, or upon termination of the Trust Fund, no funds may be removed from the “A” Account.

Note 1 - Summary of Significant Accounting Policies (Continued)

Restricted Net Assets (Continued)

Total amounts included in the “A” Account as of September 30, 2008 and 2007, were $67,247,527 and $74,733,354, respectively.

2. The “B” Account:

   a. On October 1, 2022, the “B” Account shall be created.

   b. During fiscal year 2023, all income earned in fiscal year 2023 shall be deposited into the “B” Account for disbursement in fiscal year 2024.

   c. For fiscal year 2024 and thereafter, the “B” Account shall consist of the prior year’s income from investment of funds in the “A” Account.

3. The “C” Account:

   a. Shall be created at the same time as the “A” Account, and beginning in fiscal year 2004 through fiscal year 2022, any annual income on the Trust Fund over six percent (6%) shall be deposited in the “C” Account, up to the limit specified in (b) below. Beginning in fiscal year 2023, the “C” Account shall be replenished from the “B” Account in accordance with paragraph 6 below;

   b. Shall contain no more than three times the estimated equivalent of the fiscal year 2023 annual grant assistance, including estimated inflation calculated in accordance with Section 217 of the Compact. Any excess above the estimated amount shall return to the “A” Account; and

   c. May be drawn on, to the extent it contains sufficient funds, to address any shortfall in the “B” Account after fiscal year 2023, if income on the “A” Account falls below the previous year’s distribution (not including any amount distributed that year for special needs) adjusted for inflation to the Government of the Republic of the Marshall Islands and for special needs agreed to by the Committee.

   At September 30, 2008 the “C” Account had not yet been funded. Total amounts allocated to the “C” Account during the years ended September 30, 2008 and 2007 were $-0- and $6,350,626, respectively. The actual amount that will ultimately be transferred to the “C” Account will be determined by the Joint Trust Fund Committee based on actual cumulative investment performance through the date of the transfer.

4. After fiscal year 2023, if the income in the “B” Account is less than the previous year’s distribution to the Government of the Republic of the Marshall Islands, and the “C” Account cannot cover the shortfall in the “B” Account, then the principal and reinvested income not available for distribution (corpus) shall not be accessed to compensate for the shortfall.

Note 1 - Summary of Significant Accounting Policies (Continued)

Restricted Net Assets (Continued)

5. The Committee may disburse to the Government of the Republic of the Marshall Islands from the “B” Account (supplemented from the “C” Account if the “B” Account is insufficient):

   a. In fiscal year 2024, an amount equal to the annual grant assistance provided by the Government of the United States to the Government of the Republic of the Marshall Islands in fiscal year 2023, plus an inflation adjustment; and

   b. Beginning in fiscal year 2025 and thereafter, an amount of funds no more than the amount equal to the United States annual financial assistance to the Republic of the Marshall Islands in fiscal year 2023 plus a cumulative inflation adjustment thereon, plus any additional amounts for special needs as approved above.

6. Beginning in fiscal year 2023, the Committee shall transfer to the “A” Account any funds in the “B” Account in excess of the amount approved for disbursement in the following fiscal year, in accordance with paragraph 5 above, unless such excess funds are needed to bring the “C” Account to its maximum permitted level.

7. A special account (the “D” Account Trust), was established to allow contribution by the Republic of the Marshall Islands for revenues or income from unanticipated sources. This account may not be commingled with the Trust Fund, and must have a separate account number. The Republic of the Marshall Islands shall have access to funds in this account for unanticipated shortfalls or other purposes. Funds in this account are not part of the Trust Fund corpus and are not under the control of the Joint Trust Fund Committee. The Republic of China (Taiwan) has been the principal contributor to the “D” Account Trust.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Reclassification of Prior Year Amounts

Certain amounts from the prior year have been reclassified to conform to the current year presentation and did not affect the changes in total net assets or total net assets.

Note 2 - Contributions

The Government of the United States will contribute to the Trust Fund annually for twenty years from the effective date of the Compact, amounts set forth in Section 216 of the Compact. Upon termination of the annual financial assistance under Section 211 of the Compact, the proceeds of the Trust Fund shall thereafter be used for the purposes described in Section 211 of the Compact or as otherwise mutually agreed by the Original Parties.

The Government of the United States contributions to the Trust Fund were conditioned on the Government of the Republic of the Marshall Islands contributing at least $25 million to the Trust Fund, prior to October 1, 2003, $2,500,000 prior to October 1, 2004, and $2,500,000 prior to October 1, 2005. Any funds received by the Republic of the Marshall Islands under Section 111 (d) of Public Law 99-239 (January 14, 1986), or successor provisions, would be contributed to the Trust Fund as a Government of the Republic of the Marshall Islands contribution.

A history of contributions to the Trust Fund's "A" Account from inception is as follows:

Date	Amount (Millions)	Contributor
June 1, 2004	$25.00	Republic of the Marshall Islands
June 3, 2004	7.00	United States
October 5, 2004	7.59	United States
February 17, 2005	1.50	Republic of the Marshall Islands
May 19, 2005	1.00	Republic of the Marshall Islands
May 19, 2005	1.75	Republic of China (Taiwan)
October 6, 2005	2.50	Republic of the Marshall Islands
October 18, 2005	8.22	United States
May 15, 2006	0.75	Republic of China (Taiwan)
October 6, 2006	8.95	United States
May 3, 2007	0.75	Republic of China (Taiwan)
October 9, 2007	9.71	United States
Accrued	0.75	Republic of China (Taiwan)
Total Contributions through September 30, 2008	$75.47	

Note 2 - Contributions (Continued)

Past received and future scheduled contributions to the Trust Fund "A" Account by the Government of the United States during the Trust Fund period are as follows:

Fiscal Year	Amount (Millions)
2004	$ 7.00
2005	7.59
2006	8.22
2007	8.95
2008	9.71
2009	9.50
2010	10.00
2011	10.50
2012	11.00
2013	11.50
2014	12.00
2015	12.50
2016	13.00
2017	13.50
2018	14.00
2019	14.50
2020	15.00
2021	15.50
2022	16.00
2023	16.50

The amounts of scheduled contributions as shown are subject to an inflation adjustment for each United States fiscal year by the percent that equals two-thirds of the percent change in the United States Gross Domestic Product Implicit Price Deflator, or 5 percent, whichever is less in any one year, using the beginning of fiscal period 2004 as a base.

Past received and future scheduled contributions to the Trust Fund "A" Account by the Government of the Republic of China (Taiwan) during the Trust Fund period are as follows:

Fiscal Year	Amount (Millions)
2004	$1.00
2005	0.75
2006	0.75
2007	0.75
2008	0.75
2009	2.40
2010 - 2023	2.40

Note 2 - Contributions (Continued)

Contributions to the "D" Account Trust are not reflected in the accompanying financial statements. As described in Note 1, the "D" Account Trust was set up to allow for additional income to the Trust Fund from unanticipated sources. These contributions may not be commingled with assets of the Trust Fund and are required to have a separate account number. The Government of the Republic of the Marshall Islands has access to funds in this account for unanticipated shortfalls or other purposes. Funds in the "D" Account Trust are not part of the corpus of the Trust Fund for the People of the Marshall Islands.

Total amounts included in the "D" Account Trust as of September 30, 2008 and 2007 were $4,494,624 and $3,728,248, respectively. At September 30, 2007 the fair value of the "D" Account Trust did not include a $1,750,000 contribution from the Republic of China (Taiwan) which was deposited in error to the account of the Trust Fund for the People of the Republic of the Marshall Islands during the fiscal year ended September 30, 2007. This amount and the investment income earned on the contribution are recorded as a liability in the accompanying financial statements as of September 30, 2007. During July 2008, $1,500,000 was transferred to the "D" Account Trust based on the estimated fair value of the original contribution, reduced by subsequent net investment losses occurring through the effective date of the transfer.

Note 3 - Investments

During the fiscal years ended September 30, 2008 and 2007, the Trust Fund realized net gains from the sale of investments of $52,395 and $11,038, respectively. The calculation of net realized investment gains is independent of the calculation of the net increase (decrease) in the fair value of investments. Realized gains and losses on investments that had been held in more than one fiscal year and sold in the current year may have been recognized as an increase or decrease in the fair value of investments reported in the prior year. The net increase (decrease) in the fair value of investments net of the allocation of loss of $266,424 and $11,651 to the "D" Account Trust during the fiscal years ended September 30, 2008 and 2007 was $(20,154,070) and $9,106,619, respectively. These amounts take into account the changes in fair value of invested assets (including purchases and sales) that occurred during each year. The net unrealized gain (loss) on investments (net of the allocation of loss of $-0- and $11,651 to the "D" Account Trust) held at September 30, 2008 and 2007 was $(6,320,278) and $13,886,187, respectively.

Note 3 - Investments (Continued)

The cost and fair value of investments and activity in the investment accounts as of and for the years ended September 30, 2008 and 2007 is as follows:

2008

		Fair Value (In Thousands)							
Investment Security	**Cost**	**Beginning Fair Value 10/1/07**	**Purchases**	**Sales**	**Transfer to "D" Account Trust**	**Subtotal**	**Ending Fair Value 9/30/08**	**Net Unrealized Loss Allocated to "D" Account Trust**	**Change in Fair Value**
Cash equivalents	$ 6,766	$ 459	$37,751	$29,944	$1,500	$ 6,766	$ 6,766	$ -	$ -
Fixed Income Fund	19,103	19,109	494	501	-	19,102	18,835	-	(267)
Domestic Equity Funds	33,128	33,467	5,213	300	-	38,380	29,919	81	(8,380)
International Equity Funds	20,100	27,177	6,863	5,908	-	28,132	18,231	50	(9,851)
Alternative Funds (REITs)	4,968	5,304	2,718	2,238	-	5,784	3,993	135	(1,656)
	$84,065	$85,516	$53,039	$38,891	$1,500	$98,164	$77,744	$266	$(20,154)

2007

		Fair Value (In Thousands)						
Investment Security	**Cost**	**Beginning Fair Value 10/1/06**	**Purchases**	**Sales**	**Subtotal**	**Ending Fair Value 9/30/07**	**Net Unrealized Loss Allocated to "D" Account Trust**	**Change in Fair Value**
Cash equivalents	$ 459	$ 319	$24,713	$24,573	$ 459	$ 459	$ -	$ -
Fixed Income Fund	19,110	22,335	-	3,197	19,138	19,109	-	(29)
Domestic Equity Funds	28,299	19,423	10,366	-	29,789	33,467	(22)	3,656
International Equity Funds	19,315	17,441	4,412	-	21,853	27,177	24	5,348
Alternative Funds (REITs)	4,459	3,507	1,675	-	5,182	5,304	10	132
	$71,642	$63,025	$41,166	$27,770	$76,421	$85,516	$ 12	$9,107

The Trust Fund has an investment policy which was initially adopted on August 19, 2005 and subsequently amended on August 27, 2008. The investment policy has been established to reflect the growth objectives and risk tolerance of the Committee. The investment policy also permits a portion of the Trust Fund to engage in currency hedging and make investments in alternative investments. Not more than 10% of the Trust Fund's assets may be invested in any one security without specific consideration and approval by the Committee, except for United States Treasury and Agency Obligations.

Note 3 - Investments (Continued)

On August 27, 2008, the Trust Fund Committee approved the following asset allocation for the Trust Fund's invested assets:

Investment Class	% of Fund Strategic	% of Fund Tactical Range	% Allocation at 9/30/08
Fixed Income/Cash	25.0	20.0 - 30.0	32.9
Domestic Public Equity	40.0	35.0 - 45.0	38.5
International Equity	30.0	25.0 - 35.0	23.5
Alternative Investments	5.0	0.0 - 10.0	5.1

The initial investment policy applicable to fiscal year ended September 30, 2007 provided for the following asset allocation in the Trust Fund's invested assets:

Investment Class	% of Fund Strategic	% of Fund Tactical Range	% Allocation at 9/30/07
Fixed Income/Cash	37.0	32.0 - 42.0	22.9
Domestic Public Equity	36.0	31.0 - 41.0	39.1
International Equity	21.0	16.0 - 26.0	31.8
Alternative Investments	6.0	1.0 - 11.0	6.2

At September 30, 2008 and 2007, 24.23% and 22.30%, respectively, of investments were held in ETFs used to closely replicate the performance of recognized bond indices. The Trust's fixed income allocation consisted of iShares Barclays Aggregate Bonds (AGG), an ETF that holds a diversified portfolio of over 100 different corporate bonds. The bonds held vary in credit qualities, with an average overall rating of AAA as rated by Moody's and AAA as rated by Standard & Poor's at September 30, 2008 and 2007. High yield debt receiving a credit rating below "A" comprises 11.20% and 19.21% of the fixed income portfolio as rated by Moody's and 10.18% and 18.44% as rated by Standard & Poor's at September 30, 2008 and 2007, respectively.

The Trust does not have a formal investment policy that requires investment in fixed maturity securities as a means of managing its exposure to loss of principal due to increasing interest rates. The Trust Fund's investment policy requires the performance of each investment class to be periodically compared with an associated benchmark. The Trust Fund's allocation to fixed income investments is in the form of an investment in an ETF which is intended to track the return of the Barclays Aggregate Bond Index. The ETF manager is expected to manage the interest rate and credit risks related to the ETF's underlying portfolio. At September 30, 2008 and 2007 the weighted average maturity of the bonds comprising the fixed income fund was 7.17 and 7.15 years, respectively. Bonds and bond funds generally decrease in value in response to rising interest rates; however, bonds have a fixed date of maturity and therefore have less exposure to loss of principal from rising interest rates in comparison to a fixed income ETF which does not have a fixed date of maturity.

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

Note 3 - Investments (Continued)

The Trust Fund's exposure to foreign currency at September 30, 2008 and 2007 is as follows:

Currency	Fair Value Securities of Foreign Issuers Held by Exchange Traded Funds
	(In Thousands)
2008	
Australian Dollar	$ 750
Brazilian Real	7
British Pound	2,702
Czech Koruna	14
Danish Krone	115
European Euro	4,071
Hong Kong Dollar	1,070
Hungarian Forint	51
Indonesian Rupiah	144
Israeli New Shekel	293
Japanese Yen	4,114
Malaysian Ringgit	328
Mexican Peso	203
Norwegian Krone	105
Philippine Peso	205
Singapore Dollar	146
South African Rand	159
South Korean Won	127
Swedish Krona	253
Swiss Franc	935
Taiwan New Dollar	1,556
Thai Baht	148
Turkish Lira	302
	$17,798

Note 3 - Investments (Continued)

Currency	Fair Value Securities of Foreign Issuers Held by Exchange Traded Funds
2007	(In Thousands)
Australian Dollar	$ 116
British Pound	8,361
Czech Koruna	78
Danish Krone	36
European Euro	4,882
Hong Kong Dollar	824
Hungarian Forint	70
Indonesian Rupiah	92
Israeli New Shekel	118
Japanese Yen	5,163
Malaysian Ringgit	13
Mexican Peso	241
Norwegian Krone	271
Philippine Peso	62
Singapore Dollar	255
South African Rand	323
South Korean Won	55
Swedish Krona	664
Swiss Franc	681
Taiwan New Dollar	1,543
Thai Baht	84
Turkish Lira	49
	$23,981

Note 4 - Subsequent Event

On September 3, 2009, the Trust Fund Committee approved the transfer from the "A" Account to the "D" Account of additional assets, purchased with the Government of the Republic of China's (Taiwan) $1.75 million contribution, on May 3, 2007, deposited in error from the "A" Account (as described in the last paragraph of Note 2) to the "D" Account Trust. The amount of the transfer was $232,236 and represents the difference between the value of those assets as of April 30, 2008 and $1.5 million transferred to the "D" Account on July 31, 2008.

Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

To the Joint Trust Fund Committee
Trust Fund for the People of the Republic of the Marshall Islands

We have audited the accompanying statement of net assets of the Trust Fund for the People of the Republic of the Marshall Islands (a District of Columbia not for profit corporation herein referred to as Trust Fund) as of September 30, 2008, and the related statement of changes in net assets for the year then ended, and have issued our report thereon dated February 22, 2010. 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.

Internal Control over Financial Reporting

In planning and performing our audit, we considered Trust Fund's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Trust Fund's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Trust Fund's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Trust Fund's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of Trust Fund's financial statements that is more than inconsequential will not be prevented or detected by Trust Fund's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material misstatement of the financial statements will not be prevented or detected by Trust Fund's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described below is a material weakness.

We consider the following deficiencies to be significant deficiencies in internal control:

Condition #1:

The lack of adequate record keeping does not allow management to properly determine and disclose the amount of annual deposit, which may be required to be made to the "C" account or the balance of the "C" Account included in the Trust Fund's financial statements.

***Criteria*:**

The Compact Subsidiary Agreement requires that any annual net increase in the Trust Fund's net assets, exclusive of contributions to the Trust Fund, in excess of six percent (not to exceed a maximum limit) be deposited into the "C" Account.

Cause of Condition:

The Trust Fund Committee engaged the services of a contract accounting service to prepare basic accounting records; however, the Committee did not engage the contract accounting service to calculate the annual increase in net assets, exclusive of contributions, necessary to determine the amount of deposit into the "C" Account which might be required in any given year.

Effect of Condition:

The Trust Fund's inability to calculate the annual increase in its net assets, exclusive of contributions, used to determine the amount of deposit into the "C" Account which might be required, resulted in the Trust Fund's inability to timely comply with this requirement of the Compact Subsidiary Agreement for fiscal year ended September 30, 2008. Accordingly, the independent auditor prepared this calculation for disclosure in the financial statements, and management reviewed and approved the calculation.

Recommendation:

We recommend that the Joint Trust Fund Committee contract with a third party to calculate the annual increase in net assets, exclusive of contributions, in accordance with the Compact Subsidiary Agreement so that appropriate amounts can be properly transferred to the "C" Account on a timely basis.

Management's Views and Planned Corrective Action:

The Joint Trust Fund Committee concurs with this recommendation and has agreed to implement as soon as practicable. The Committee has commenced discussions with its investment custodian and has determined that this service can be provided by the custodian commencing with fiscal year ended September 30, 2009.

Evaluation of Management's Comments and Planned Corrective Action:

The independent auditor has reviewed the Trust Fund Committee's corrective action plan and believes it to be a viable course of action.

Condition #2:

The Trust Fund is not capable of preparing full disclosure financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP), including Government Accounting Standards (GAS) promulgated by the Government Accounting Standards Board.

***Criteria*:**

The financial statement audit is performed in accordance with generally accepted auditing standards and requires the auditor to issue an opinion on whether or not the financial statements are presented in accordance with GAAP, including all financial statement disclosures required by GAAP and GAS.

Cause of Condition:

Although the Joint Trust Fund Committee engaged the services of a contract accounting service to maintain certain accounting records and prepare basic accounting statements, the Committee did not engage the contract accounting service to prepare annual full disclosure financial statements in accordance with GAAP and GAS requirements.

Effect of Condition:

Full disclosure financial statements were not available during the audit process. As a result, financial statement disclosures were prepared by the independent auditor and reviewed and approved by the Joint Trust Fund Committee.

Recommendation:

We recommend that the Joint Trust Fund Committee arrange for the preparation of accrual basis, full disclosure financial statements in accordance with U.S. generally accepted accounting principles (including government accounting standards) prior to the commencement of the 2010 annual audit.

Management's Views and Planned Corrective Action:

The Trust Fund Committee concurs with this recommendation and has agreed to implement as soon as practicable. The Committee has commenced discussions with its investment custodian to determine if this service can be provided by the custodian.

Evaluation of Management's Comments and Planned Corrective Action:

The independent auditor has reviewed the Joint Trust Fund Committee's corrective action plan and believes it to be a viable course of action. The timely availability of annual full disclosure financial statements prior to the scheduled commencement of the next annual audit is critical to the Trust Fund's ability to comply with the reporting provisions of the Compact Subsidiary Agreement, which require the audited financial statements to be included with the Trust Fund's Annual Report. The Annual Report is due six months following the end of the Trust Fund's fiscal year.

Condition # 3:

During our auditing procedures, we observed that the Trust Fund does not maintain original, approved Joint Trust Fund Committee meeting minutes in one central location.

***Criteria*:**

The independent auditor identified the Joint Trust Fund Committee's approval process at quarterly meetings, including the documentation of actions authorized or ratified at these meetings as the key control over the Trust Fund's investment transactions and investment policy related to investment allocation parameters by permitted investment type. Maintaining original approved meeting minutes of an entity's governing body is a generally accepted corporate governance best practice.

Cause of Condition:

While the Trust Fund Administrator maintains the Joint Trust Fund Committee meeting minutes in electronic format, the Administrator does not maintain permanent documentation of each final version as approved the Committee. Additionally, the Committee does not formally approve the minutes of the preceding Joint Trust Fund Committee meeting.

Effect of Condition:

Unauthorized investment transactions and/or allocations could potentially occur and thereby subject the Trust Fund to unacceptable and or/ unanticipated levels of investment risk. Additionally, it might be difficult to determine if the Committee minutes are in fact the approved final version of the proceedings of any particular Committee meeting.

Recommendation:

The independent auditor recommends that all minutes of every Joint Trust Fund Committee meeting be properly documented, including the approval of the prior Committee meeting minutes. A permanent original of the approved minutes should typically include the original signatures of two Committee Members and should be maintained in a central repository indefinitely. This practice will provide evidence that all significant matters and resolutions of the Committee have been properly documented and memorialized and that the Committee minutes are, in fact, the approved final version of the proceedings of each Committee meeting.

Management's Views and Planned Corrective Action:

The Joint Trust Fund Committee concurs with this recommendation and agreed to implement this recommendation effective in February 2009.

Evaluation of Management's Comments and Planned Corrective Action:

We will evaluate the effectiveness of the implementation of the Joint Trust Fund Committee's corrective action plan during the audit of the Trust Fund's financial statements as of and for the year ended September 30, 2009.

These significant deficiencies were considered in determining the nature, timing, and extent of the audit tests applied in our audit of the Trust Fund's financial statements as of and for the year ended September 30, 2008, and this communication does not affect our report on those financial statements dated February 22, 2010. We have not considered internal control since the date of our report.

The following recommendation is not considered to be a significant deficiency in internal control, but is a suggestion for improvement in operating procedure:

ParenteBeard LLC recommends that periodically, an appropriate member of the Trust Fund Committee or another appropriate person review the Trust Fund's investment composition for compliance with restrictions or limitations imposed by the Trust Fund's Subsidiary Agreement and the Trust's current investment policy.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Trust Fund's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Joint Trust Fund Committee, its respective governments, and the Trust Fund's management and is not intended to be and should not be used by anyone other than these specified parties.

ParenteBeard LLC

Malvern, Pennsylvania
February 22, 2010