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

Financial Statements

September 30, 2010 and 2009

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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, 2010 and 2009. 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, 2010	September 30, 2009
Assets		
Cash and investments	$ 112,820,210	$ 90,860,495
Accrued investment income	167	1,012
Total assets	112,820,377	90,861,507
Liabilities		
Accrued expenses	25,833	177,506
Due to "D" Account Trust	-	232,236
Total liabilities	25,833	409,742
Restricted net assets	$ 112,794,544	$ 90,451,765

Financial Highlights - Net Assets at September 30, 2010

The fair value of the Trust Fund's net assets was $112.8 million as of September 30, 2010, compared to $90.4 million at September 30, 2009. The increase is attributable to contributions from member governments and gains in global equity markets during the fiscal year ended September 30, 2010. Net investment income totaled $8.9 million for the year ended September 30, 2010. The increase in net assets for the year ended September 30, 2010 after contributions from the Governments of the United States and the Republic of China (Taiwan) was $22.3 million. At September 30, 2010, the Trust Fund's assets consisted of exchange traded funds invested in domestic and international equities and exchange traded funds invested in fixed income securities. Accrued expenses represent amounts payable for legal and other professional services incurred during the fiscal year.

Financial Highlights - Net Assets at September 30, 2009

The fair value of the Trust Fund's net assets was $90.4 million as of September 30, 2009, compared to $76.3 million at September 30, 2008. Net investment income totaled $1.1 million during the year ended September 30, 2009. The increase in net assets for the year ended September 30, 2009 after contributions from the Governments of the United States and the Republic of China (Taiwan) was $14.1 million. At September 30, 2009, the Trust Fund's assets consisted of exchange traded funds invested in domestic and international equities, fixed income securities, and real estate investment trusts. Accrued expenses represent amounts payable for legal and other professional services incurred during the fiscal year.

On September 3, 2009, the Trust Fund Committee approved the transfer of additional assets, purchased with the Government of the Republic of China's (Taiwan) $1.75 million contribution (of May 3, 2007) to the "D" Account Trust. On October 15, 2009, $232,236 was transferred to the "D" Account, which 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.

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

	Year ended September 30,	
	2010	2009
Contributions	$ 13,532,214	$ 13,184,291
Net investment income	8,930,946	1,067,217
	22,463,160	14,251,508
Administrative expenses	120,381	127,736
Changes in net assets	22,342,779	14,123,772
Net assets, beginning	90,451,765	76,327,993
Net assets, ending	$ 112,794,544	$ 90,451,765

Financial Highlights - Changes in Net Assets for Fiscal Year Ended September 30, 2010

On October 2, 2009, a scheduled contribution of $11.1 million was received by the Trust Fund from the Government of the United States. On April 8, 2010, a scheduled contribution of $2.4 million was received from the Government of the Republic of China (Taiwan). Net investment income of $8.9 million was earned during the fiscal year ended September 30, 2010, net of investment expenses of $651,166. The dollar weighted return on cash equivalents and invested assets is approximately 8.23%. The Trust Fund operated under a cancellable agreement to pay a professional investment advisory firm 0.45% of assets under management. The Trust Fund incurred $468,614 of fees to the investment advisory firm in fiscal year 2010, and investment custodian fees of $182,552, which together comprise investment expenses.

Financial Highlights - Changes in Net Assets for Fiscal Year Ended September 30, 2009

On October 6, 2008, a scheduled contribution of $10.8 million received by the Trust Fund from the Government of the United States. On May 5, 2009, a $0.75 million contribution receivable at September 30, 2008, was received from the Government of the Republic of China (Taiwan). On June 5, 2009, another scheduled contribution of $2.4 million was received from the Government of the Republic of China (Taiwan). Net investment income of $1.1 million was earned during the fiscal year ended September 30, 2009, net of investment expenses of $524,340. The dollar weighted return on cash equivalents and invested assets is approximately 1.07%. 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 $358,245 of fees to the investment advisory firm in fiscal year 2009, and investment custodian fees of $166,095, which together comprise investment expenses.

ParenteBeard

Independent Auditors' Report

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 Trust Fund for the People of the Republic of the Marshall Islands (a District of Columbia not for profit corporation) as of September 30, 2010 and 2009, and the related statement 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 assets, liabilities and net assets of Trust Fund for the People of the Republic of the Marshall Islands as of September 30, 2010 and 2009 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 March 18, 2011, 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, is not a required part of the basic financial statements but is 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
March 18, 2011

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

Statement of Net Assets
September 30, 2010 and 2009

	2010	2009
Assets		
Cash equivalents	$ 916,791	$ 2,202,304
Investments, at fair value:		
Exchange traded fund - fixed income	24,583,296	22,710,739
Exchange traded fund - equity	82,067,866	61,683,518
Exchange traded fund - alternative	5,252,257	4,263,934
	111,903,419	88,658,191
Accrued investment income	167	1,012
Total assets	$ 112,820,377	$ 90,861,507
Liabilities and Restricted Net Assets		
Liabilities		
Accrued expenses	$ 25,833	$ 177,506
Due to “D” Account Trust	-	232,236
Total liabilities	25,833	409,742
Restricted Net Assets	112,794,544	90,451,765
Total liabilities and restricted net assets	$ 112,820,377	$ 90,861,507

See notes to financial statements

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

Statement of Changes in Net Assets
Years Ended September 30, 2010 and 2009

	2010	2009
Additions		
Contributions:		
Government of the United States of America	$ 11,132,214	$ 10,784,291
Government of the Republic of China (Taiwan)	2,400,000	2,400,000
Total contributions	13,532,214	13,184,291
Investment income:		
Interest and dividends	2,629,745	2,283,540
Net increase (decrease) in the fair value of investments	6,952,367	(691,983)
Total investment earnings	9,582,112	1,591,557
Less: investment expenses	651,166	524,340
Net investment income	8,930,946	1,067,217
Total additions	22,463,160	14,251,508
Deduction		
Administrative expenses	120,381	127,736
Change in net assets	22,342,779	14,123,772
Restricted Net Assets, Beginning	90,451,765	76,327,993
Restricted Net Assets, Ending	$ 112,794,544	$ 90,451,765

See notes to financial statements

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 216 and Section 217 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.

1. Summary of Significant Accounting Policies (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. The Trust Fund's 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 or 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.

1. Summary of Significant Accounting Policies (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’s 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 are 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 or losses resulting from changes in the fair value of investments. Amounts due to broker represent purchases of securities as of the fiscal year end which have not settled and for which payment has not yet been transferred to the broker.

1. Summary of Significant Accounting Policies (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 may not exceed 10% of the fixed income portfolio's assets at time of investment, without 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 attain cumulative annualized total returns (net of fees and commissions) that exceed the Barclays U.S. 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.

Fixed income and equity investments consist of exchange traded funds (ETFs). 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.

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.

   Total amounts included in the "A" Account as of September 30, 2010 and 2009, were $101,329,039 and $81,371,299, respectively.

1. Summary of Significant Accounting Policies (Continued)

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 218 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.

   Additions to the “C” Account during the years ended September 30, 2010 and 2009 were $2,385,039 and $-0-, respectively. The actual amount that is ultimately 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. Nominal amounts included in the “C” Account as of September 30, 2010 and 2009 were $11,465,505 and $9,080,466, respectively.

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.

1. Summary of Significant Accounting Policies (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.

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.

2. Contributions (Continued)

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.

Contributions to the Trust Fund's "A" Account from inception are 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
October 6, 2008	10.78	United States
May 5, 2009	0.75	Republic of China (Taiwan)
June 5, 2009	2.40	Republic of China (Taiwan)
October 2, 2009	11.13	United States
April 8, 2010	2.40	Republic of China (Taiwan)
Total contributions from inception through September 30, 2010	$ 102.18	

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	Contribution (Millions)
2004	$ 7.00
2005	7.59
2006	8.22
2007	8.95
2008	9.71
2009	10.78
2010	11.13
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	Contribution (Millions)
2004	$ 1.00
2005	0.75
2006	0.75
2007	0.75
2008	0.75
2009	2.40
2010 - 2023	2.40

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, 2010 and 2009 were $6,851,912 and $6,181,201, respectively. At October 1, 2007, the fair value of the “D” Account Trust did not include a $1.75 million 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 on May 3, 2007. On July 31, 2008, $1.5 million 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. 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 to the “D” Account Trust. On October 15, 2009, $232,236 was transferred to the “D” Account 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.

3. Investments

During the fiscal years ended September 30, 2010 and 2009, the Trust Fund realized net losses from the sale of investments of $176,344 and $116,435, respectively. The calculation of net realized investment gains and losses 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 gain of $-0- and $260,311 to the “D” Account Trust during the fiscal years ended September 30, 2010 and 2009 was $6,952,367 and $(691,983), respectively. These amounts take into account the changes in fair value of invested assets (including purchases and sales) that occurred during each year. The cumulative net unrealized gain (loss) on investments held at September 30, 2010 and 2009 was $232,883 and $(6,895,827), respectively.

3. Investments (Continued)

The cost and fair values of cash equivalents, investments and related activity for the years ended September 30, 2010 and 2009 are as follows:

		Fair Value (In Thousands)						
Investment Security	Cost	Beginning Fair Value 10/1/09	Purchases	Sales	Subtotal	Ending Fair Value 9/30/10	Net Unrealized Gain Allocated to "D" Account Trust	Change in Fair Value
2010								
Cash equivalents	$ 917	$ 2,202	$52,120	$53,405	$ 917	$ 917	$ -	$ -
Exchange traded funds:								
Fixed Income	22,757	22,711	1,021	-	23,732	24,583	-	851
Domestic Equity	47,657	38,613	4,845	454	43,004	46,675	-	3,671
International Equity	34,647	23,070	13,906	3,222	33,754	35,393	-	1,639
Alternative (REITs)	6,609	4,264	197	-	4,461	5,252	-	791
	$112,587	$90,860	$72,089	$57,081	$105,868	$112,820	$ -	$6,952

		Fair Value (In Thousands)						
Investment Security	Cost	Beginning Fair Value 10/1/08	Purchases	Sales	Subtotal	Ending Fair Value 9/30/09	Net Unrealized Gain Allocated to "D" Account Trust	Change in Fair Value
2009								
Cash equivalents	$ 2,202	$ 6,766	$26,394	$30,958	$ 2,202	$ 2,202	$ -	$ -
Exchange traded funds:								
Fixed Income	21,736	18,835	2,633	-	21,468	22,711	-	1,243
Domestic Equity	43,360	29,919	10,174	-	40,093	38,613	(58)	(1,538)
International Equity	24,045	18,231	5,427	1,422	22,236	23,070	(74)	760
Alternative (REITs)	6,413	3,993	1,318	18	5,293	4,264	(128)	(1,157)
	$97,756	$77,744	$45,946	$32,398	$91,292	$90,860	$(260)	$ (692)

The Trust Fund has an investment policy which was initially adopted on August 19, 2005 and subsequently amended and adopted on September 15, 2010. The investment policy has been established to reflect the growth objectives and risk tolerance of the Committee. Asset allocations are targets and will be dictated by current and anticipated market conditions. Tactical ranges anticipate fluctuation and provide flexibility for the investment manager's portfolio to vary within the range without the need for immediate rebalancing.

3. Investments (Continued)

The asset allocation for the Trust Fund's invested assets as of September 30, 2010 and 2009 is as follows:

Investment Class	% of Fund Strategic		% of Fund Tactical Range		% Allocation at 9/30/10	
Fixed Income	26.0	%	21.0 - 31.0	%	21.8	%
Domestic Equity	43.0		38.0 - 48.0		41.4	
International Equity	26.0		21.0 - 31.0		31.4	
Alternative Investments	5.0		00.0 - 10.0		4.6	
Cash	0.0		00.0 - 03.0		0.8	

Investment Class	% of Fund Strategic		% of Fund Tactical Range		% Allocation at 9/30/09	
Fixed Income/Cash	25.0	%	20.0 - 30.0	%	27.4	%
Domestic Equity	40.0		35.0 - 45.0		42.5	
International Equity	30.0		25.0 - 35.0		25.4	
Alternative Investments	5.0		00.0 - 10.0		4.7	

At September 30, 2010 and 2009, approximately 22% and 25%, 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) and iShares IBOXX High Yield Corporate (HYG), ETFs which each hold diversified portfolios (bonds issued by more than 100 different issuers). The bonds held by AGG vary in credit quality, with an average overall rating of "Aa1" and "AAA" as rated by Moody's and "AA+" and "AAA" as rated by Standard & Poor's as of September 30, 2010 and 2009, respectively. High yield debt receiving a credit rating below "A" comprises approximately 50% of the fixed income portfolio as rated by Moody's and 10% as rated by Standard & Poor's at September 30, 2010. High yield debt receiving a credit rating below "A" comprises approximately 11% of the fixed income portfolio as rated by Moody's and 11% as rated by Standard & Poor's at September 30, 2009.

The bonds held by HYG vary in credit qualities, with an average overall rating of B2 for both years as rated by Moody's and "B+" and "B" as rated by Standard & Poor's as of September 30, 2010 and 2009, respectively. High yield debt receiving a credit rating below "B" comprises approximately 23% of the fixed income portfolio as rated by Moody's and 18% as rated by Standard & Poor's at September 30, 2010. High yield debt receiving a credit below "B" comprises approximately 25% of the fixed income portfolio as rated by Moody's and 17% as rated by Standard & Poor's at September 30, 2009.

3. Investments (Continued)

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 U.S. 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, 2010 and 2009, the weighted average maturity of the bonds comprising AGG was 5.97 and 5.81 years, respectively. At September 30, 2010 and 2009, the weighted average maturity of the bonds comprising HYG was 4.87 and 6.19 years, respectively. Bonds and bond funds generally decrease in value in response to rising interest rates. Bonds, however, have a fixed date of maturity and do not have exposure to loss of principal from rising interest rates, whereas shares of a fixed income ETF have no maturity date.

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

3. Investments (Continued)

The Trust Fund's exposure to foreign currencies at September 30 is as follows:

Currency	$USD Fair Value Securities of Foreign Issuers Held by Exchange Traded Funds
2010	**(In Thousands)**
Australian Dollar	$ 2,151
Bermudian Dollar	31
Brazilian Real	1,049
British Pound	5,424
Cayman Islands Dollar	1
Chilean Peso	125
Chinese Renminbi	1,161
Colombian Peso	32
Czech Koruna	47
Danish Krone	253
Egyptian Pound	27
European Euro	7,654
Hong Kong Dollar	657
Hungarian Forint	51
Indian Rupee	462
Indonesian Rupiah	169
Israeli New Shekel	208
Japanese Yen	7,280
Macanese Pataca	13
Malaysian Ringgit	180
Mauritian Rupee	8
Mexican Peso	272
New Zealand Dollar	18
Norwegian Krone	185
Peruvian Nuevo Sol	54
Philippine Peso	76
Polish Zloty	93
Russian Ruble	378
Singapore Dollar	415
South African Rand	518
South Korean Won	840
Swedish Krona	800
Swiss Franc	1,977
Taiwan New Dollar	2,323
Thai Baht	113
Turkish Lira	116
	$ 35,161

3. Investments (Continued)

Currency	$USD Fair Value Securities of Foreign Issuers Held by Exchange Traded Funds
2009	**(In Thousands)**
Australian Dollar	$ 1,400
Bermudian Dollar	12
Brazilian Real	635
British Pound	3,535
Cayman Islands Dollar	3
Chilean Peso	112
Chinese Renminbi	469
Colombian Peso	19
Czech Koruna	59
Danish Krone	152
Egyptian Pound	23
European Euro	5,774
Hong Kong Dollar	684
Hungarian Forint	54
Indian Rupee	299
Indonesian Rupiah	105
Israeli New Shekel	147
Japanese Yen	3,651
Malaysian Ringgit	22
Mauritian Rupee	4
Mexican Peso	204
Norwegian Krone	113
Peruvian Nuevo Sol	27
Philippine Peso	54
Polish Zloty	2
Russian Ruble	264
Singapore Dollar	230
South African Rand	368
South Korean Won	597
Swedish Krona	428
Swiss Franc	1,325
Taiwan New Dollar	1,959
Thai Baht	72
Turkish Lira	62
	$ 22,864

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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

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, 2010, and the related statement of changes in net assets for the year then ended, and have issued our report thereon dated March 18, 2011. 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.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described below that we consider to be significant deficiencies in internal control over financial reporting. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

We consider the following deficiency to be a significant deficiency in internal control:

Condition:

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 has retained a contract accounting service to maintain certain accounting records and prepare basic accounting statements, the scope of the contract accounting services engagement does not include preparation of the annual full disclosure financial statements in accordance with GAAP.

Currently, the contract accounting service maintains an accrual basis general ledger, prepares accrual basis financial statements, and calculates the annual income allocation to the “C” Account. However, as of the 2010 audit, neither the contract accounting service nor another third party has been engaged a) to summarize the investment activity and track the cost basis of the investments and b) to compile the foreign currency exposure by individual investment for disclosure in the financial statements.

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 2011 annual audit. Effective implementation of this recommendation will facilitate the audit process and will allow the audit to be completed closer to the fiscal year end of the Trust Fund.

Management’s Views and Planned Corrective Action:

The Trust Fund Committee concurs with this recommendation and has agreed to implement corrective action as soon as practicable. The Committee has commenced discussions with its investment custodian, its contract accounting service, and its investment advisor to determine if the parties, either individually or collectively, can provide the information for full disclosure financial statements as of the 2011 audit. The contract accounting service began tracking investment cost basis in the subsidiary ledger effective October 1, 2010.

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.

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This significant deficiency was 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, 2010, and this communication does not affect our report on those financial statements dated March 18, 2011. We have not considered internal control since the date of our report.

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
March 18, 2011