THE PERFORMETER ®
and the A.F.T.E.R. Analysis

A Financial Statement Analysis Using Indicators of the Financial Health and Success

and a

Status Report of Audit Findings, Timeliness and Exception Resolution (A.F.T.E.R.)

of

The Republic of the Marshall Islands (RMI)

as of and for the Year Ended September 30, 2006

Crawford & Associates, P.C
Oklahoma City, Oklahoma

What Is The Performeter®?

- An analysis that takes a government's financial statements and converts them into useful and understandable measures of financial performance
- Financial ratios and a copyrighted analysis methodology are used to arrive at an overall rating of 1-10
- The overall reading is a barometer of the RMI's financial health and performance

How to Use The Performeter®

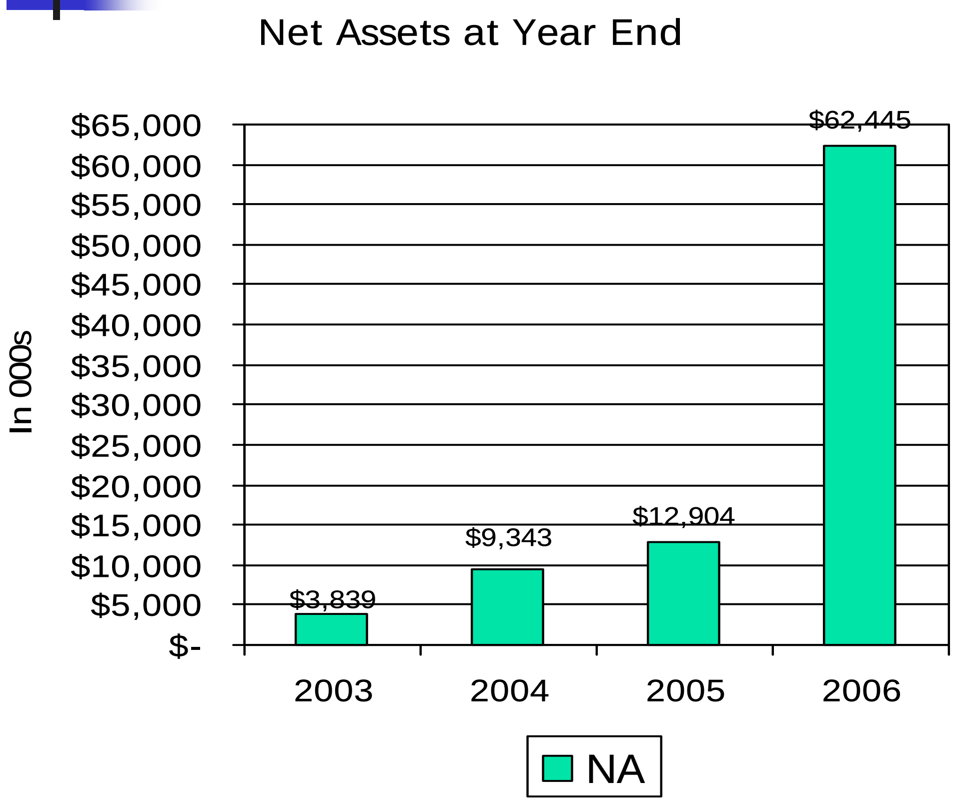
- Use the individual ratios to identify financial warning signals
- Use the overall rating as a collective benchmark of financial health and success of the RMI as a whole
- Use the comparisons to prior years to monitor trends in financial indicators

Limitations of the Performeter®

- The Performeter® should not be used as the only source of financial information to evaluate the RMI’s performance and condition
- The analysis is an overall rating of the RMI as a whole and not of specific activities, funds or units
- The Performeter® is based on Crawford & Associates’ professional judgment and is limited as to its intended use

Change in Net Assets

Did our overall financial condition improve, decline or remain steady over the past year?



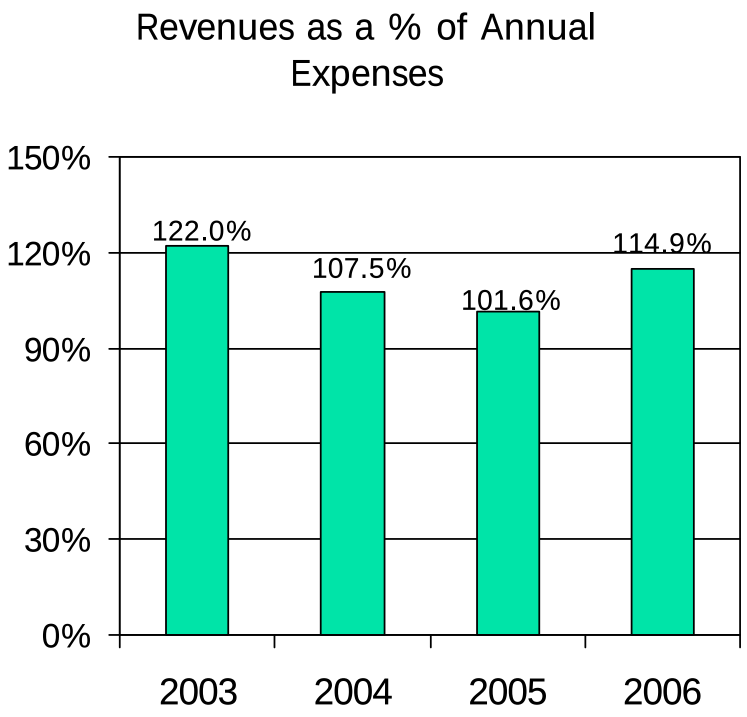
Net assets include all assets of the RMI, except for fiduciary funds held for the benefit of others. It is measured as the difference between total assets, including capital assets, and total liabilities, including long-term debt.

For the year ended September 30, 2006, total net assets increased by $14.2 million or 29.4% from the prior year, as restated. This overall increase of net assets is indicative of RMI earning more revenue than incurring expenses during the year. The restatement of net assets from the prior year was related to adjustments to the book value of capital assets, which resulted in the prior year net assets increasing by approximately $35.4 million, for a restated ending net asset amount of $48.2 million in 2005.

2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
126.6%	143.3%	38.1%	29.4%						

Intergenerational Equity

Who is paying for today's costs of services?



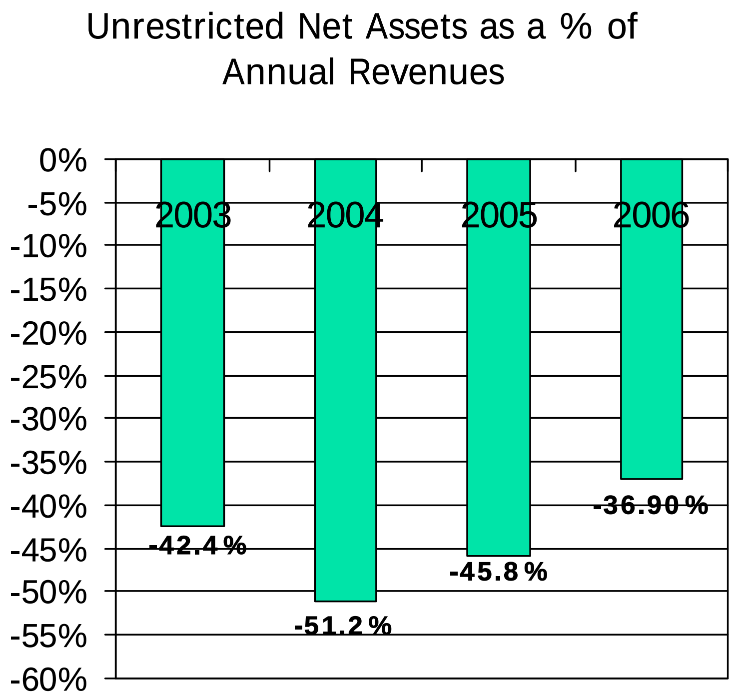
A measure of whether the government lived within its means in the measurement year, or was required to use prior year resources to fund a portion of current year costs, or shifted the funding of some of the current year costs to future periods.

For the year ended September 30, 2006, RMI funded 114.9% of their expenses with current year revenues, which is a very favorable percentage, and an increase in the ratio when compared with the immediate past period.

2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
122%	107.5%	101.6%	114.9%						

Level of Unrestricted Net Assets

How do our total rainy day funds look?



The level of total unrestricted net assets is an indication of the amount of unexpended and available resources the RMI has at a point in time to fund emergencies, shortfalls or other unexpected needs.

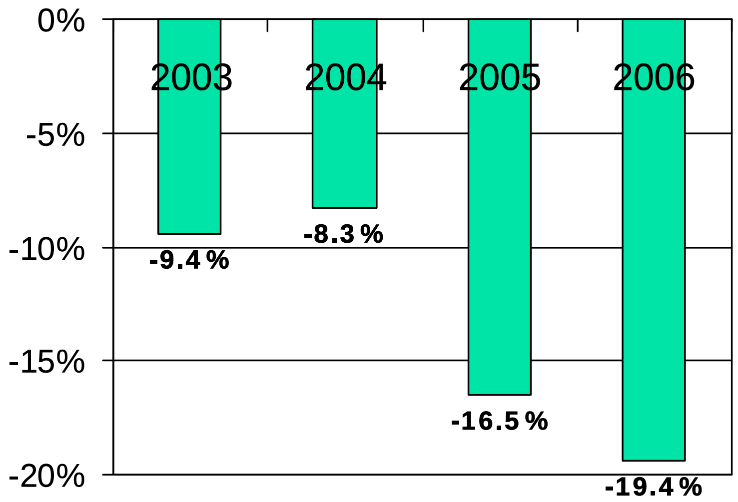
For the year ended September 30, 2006, the RMI's total unrestricted net assets deficit approximated \$40.3 million or 36.9% of annual total revenues, continuing an improvement in the size of the deficit reported in the past two years.

2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
-42.4%	-51.2%	-45.8%	-36.9%						

Level of Budgetary Fund Balance

How does our budgetary carryover look?

Budgetary Unreserved Fund Balance as a Percentage of Annual Revenues



The level of budgetary unreserved fund balance is an indication of the amount of unexpended, unencumbered and available resources the RMI has at a point in time to carryover into the next fiscal year to fund budgetary emergencies, shortfalls or other unexpected needs. In this analysis, only the General Fund is considered.

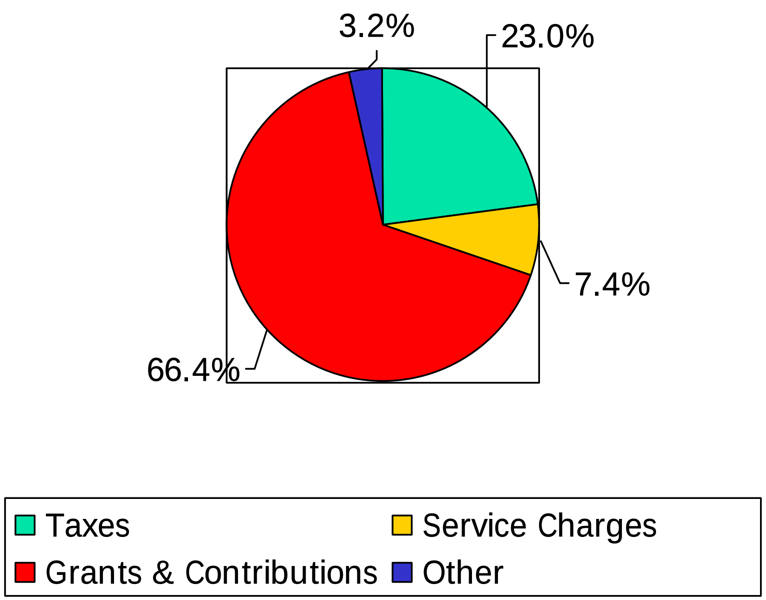
For the year ended September 30, 2006, the RMI's unreserved fund balance deficit of the General Fund was 19.4% of annual General Fund revenues. This is a relatively unhealthy position for the General Fund to be in, and an increase in the General Fund deficit reported in the prior two years.

2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
-9.4%	-8.3%	-16.5%	-19.4%						

Revenue Dispersion

How heavily are we relying on revenue sources we can't directly control?

2006 Revenue Percentages by Source



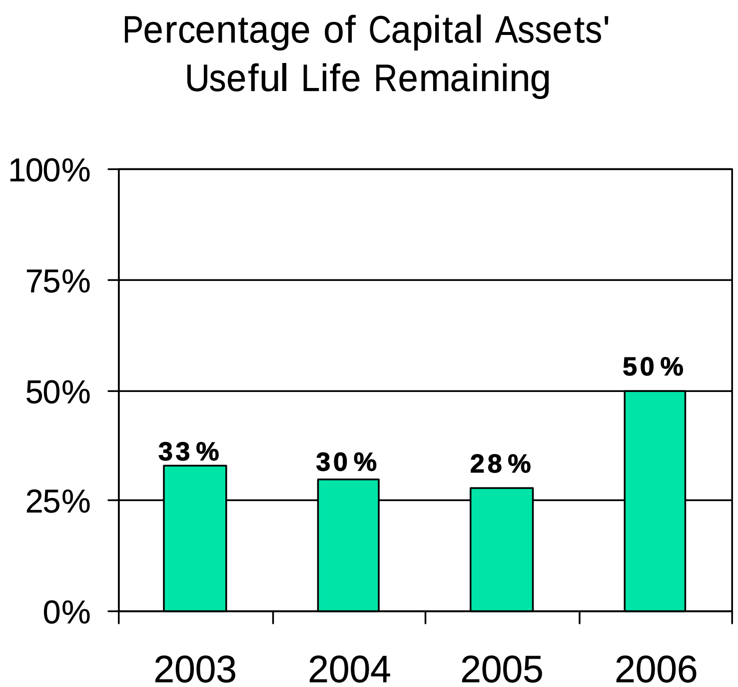
The percentage dispersion of revenue by source indicates how dependent the RMI is on certain types of revenue. The more dependent the RMI is on revenue sources beyond its direct control, such as grants, the less favorable the dispersion.

For the year ended September 30, 2006, the RMI had direct control over 32.3% of its revenues. This ratio indicates the RMI has some exposure, as do most governments, to financial difficulties due to reliance on non-controlled revenue (67.7%).

2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
28%	35.6%	33.8%	32.3%						

Capital Asset Condition

How much useful life do we have left in our capital assets?



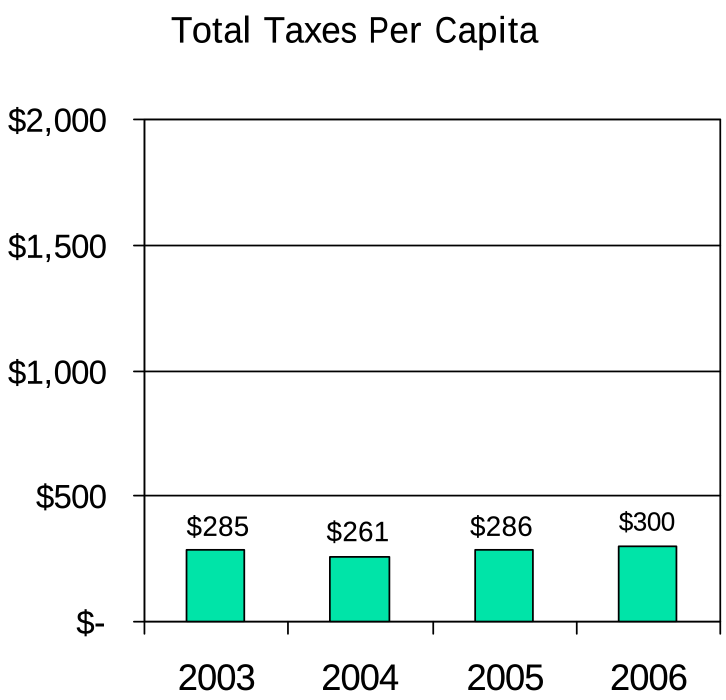
The capital asset condition ratio compares capital assets cost to accumulated depreciation to determine the overall percentage of useful life remaining. A low percentage could indicate an upcoming need to replace a significant amount of capital assets.

At September 30, 2006, the RMI's depreciable capital assets amounted to $137.8 million while accumulated depreciation totaled $69.2 million. This indicates that, on the average, the RMI's capital assets have 50% of their useful lives remaining. This is considered a satisfactory financial indicator, and the large increase from the prior year is related to the complete and accurate presentation of capital asset related amounts for the first time in 2006 (removal of an audit qualification).

2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
33%	30%	28%	50.0%						

Financing Margin - Taxes

Will our citizens be willing to pay increased taxes for operations or capital improvements, if needed?



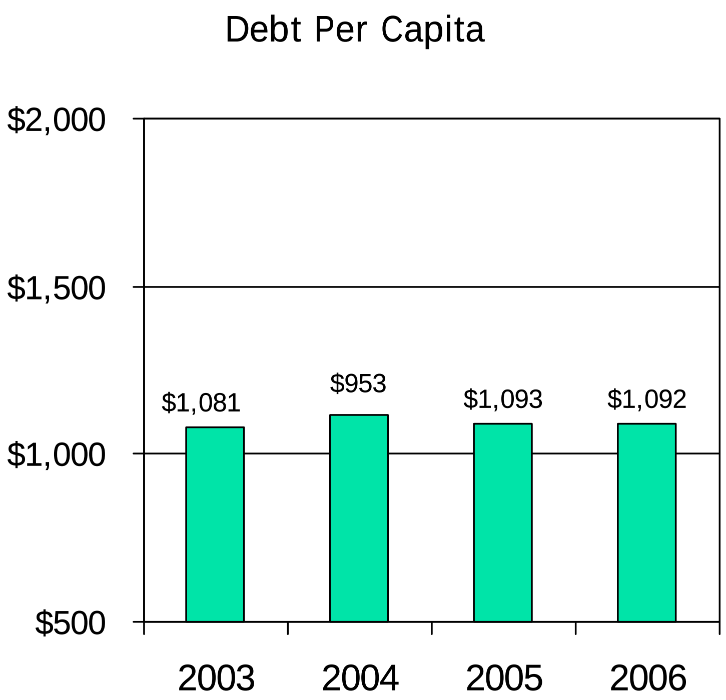
The financial ratio of taxes per capita is an indication of the RMI's tax burden on its citizens and other taxpayers. The ratio includes all taxes, including gross receipts tax, income taxes, and other taxes.

For the year ended September 30, 2006, total taxes amounted to $17.3 million or $300 per capita. This indicates a low tax burden on the citizens and is relatively consistent with that of prior periods.

2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
$285	$261	$286	$300						

Financing Margin - Debt

Will we be able to issue more debt, if needed?



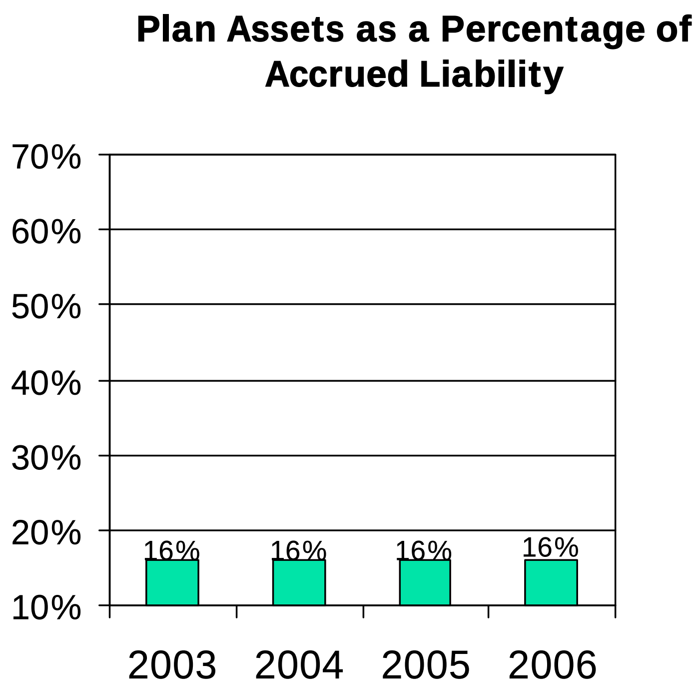
The financial ratio of debt per capita is an indication of the RMI's debt burden on its citizens and other taxpayers.

For the year ended September 30, 2006, the RMI had $63 million of long-term debt or $1,092 per capita which is a low debt burden on its citizens and consistent with that of the prior years.

2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
$1,081	$1,118	$1,093	$1,092						

Pension Plan Funding Ratio

Will we be able to pay our employees when they retire?



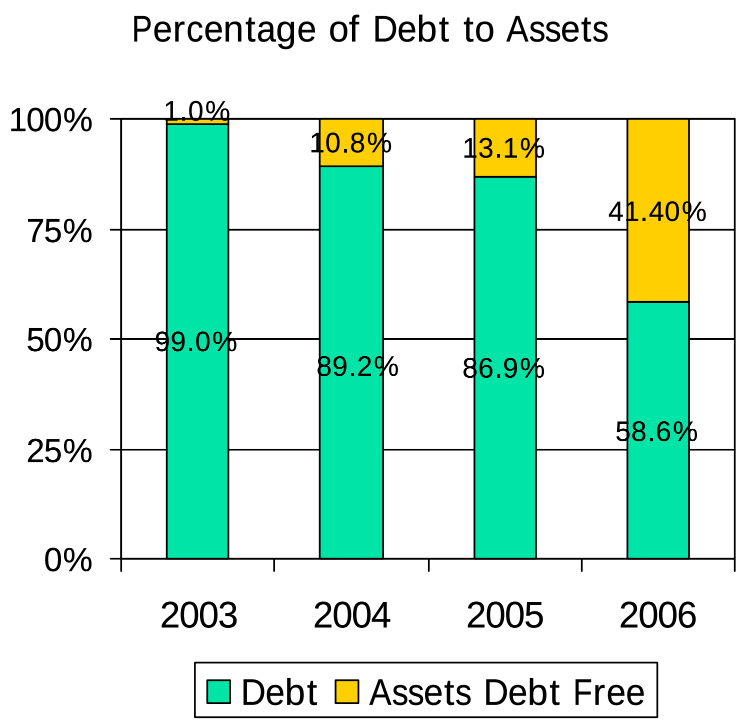
The pension funding ratio compares the actuarial fair value of the pension plan's assets to the actuarial accrued liability for pension benefits. A percentage less than 100% indicates the plan is under-funded at the valuation date.

At September 30, 2006, based upon the latest available actuarial information, the RMI's pension plan assets were 16% of the accrued pension benefit liability, indicating the plan was less than 20% funded at the last valuation date, and an indicator of potential long-term cash demands to fund the future needs of the plan.

2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
16%	16%	16%	16%						

Debt to Assets

Who really owns the RMI?



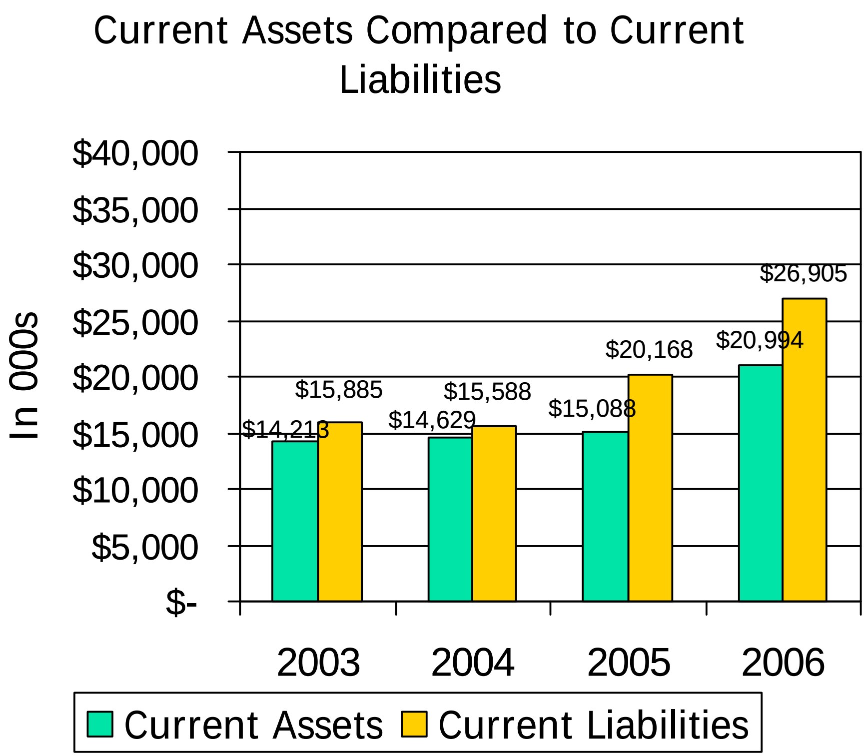
The debt to assets ratio measures the extent to which the RMI had funded its assets with debt. The lower the debt percentage, the more equity the RMI has in its assets.

At September 30, 2006, 58.6% of the RMI's $150.7 million of total assets were funded with debt or other obligations. This is a near satisfactory financial indicator and indicates that for each dollar of assets the RMI owns, it owes 58.6 cents of that dollar to others. This ratio is a large improvement of the prior year due to the restatement of capital asset book values in 2006.

2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
99%	89.2%	86.9%	58.6%						

Current Ratio

Will our vendors and employees be pleased with our ability to pay them on time?



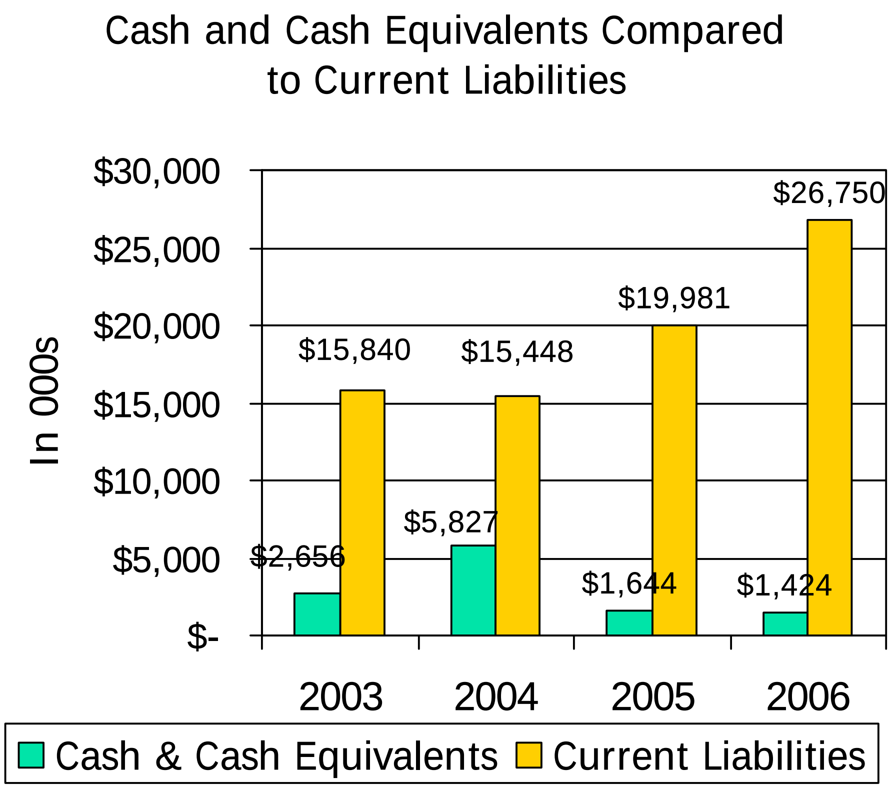
The current ratio is one measure of RMI's ability to pay its short-term obligations. The current ratio compares total current assets and liabilities. A current ratio of 2.00 to 1 indicates good current liquidity and an ability to meet the short-term obligations. This ratio only includes the General Fund, RMI's main operating fund.

At September 30, 2006, the RMI had a General Fund ratio of current assets to current liabilities of .78 to 1. This indicates that for every dollar of current liabilities, the RMI had 78 cents to fund them. This is a slight improvement in the ratio from the prior year, but still considered an unfavorable ratio.

2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
.89	.94	.75	.78						

Quick Ratio

How is our short-term cash position?

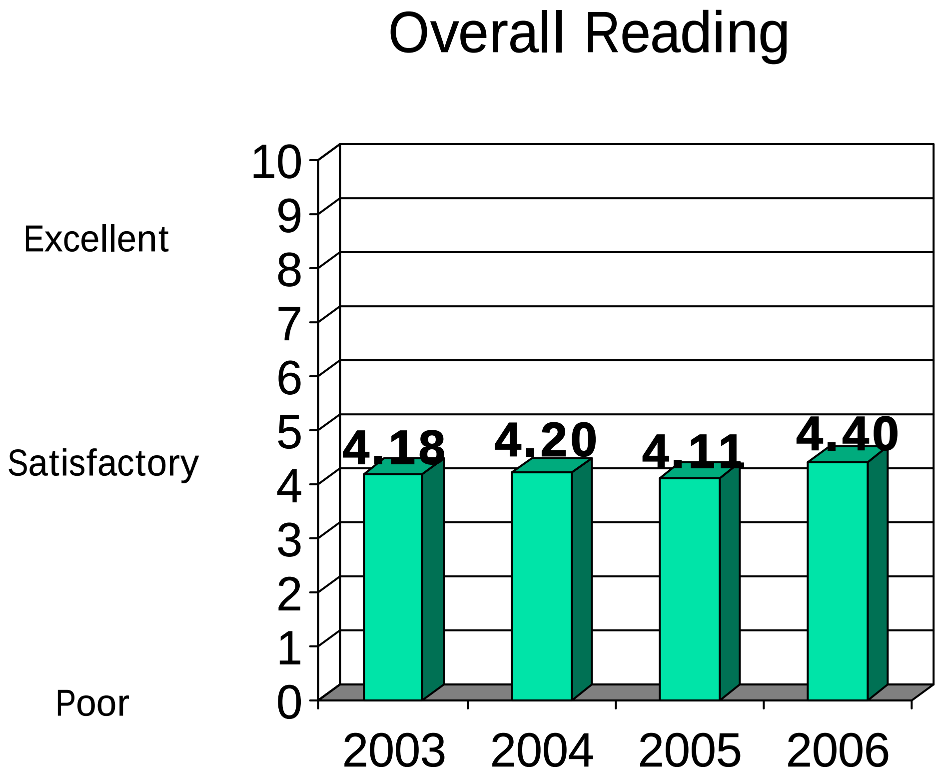


The quick ratio is another, more conservative, measure of the RMI's ability to pay its short-term obligations. The quick ratio compares total cash and short-term investments to current liabilities. A quick ratio of 1.00 to 1 indicates adequate current liquidity and an ability to meet the short-term obligations with cash.

At September 30, 2006, the RMI had a government-wide ratio of cash and cash equivalents to current liabilities of .05 to 1. This indicates that for every dollar of current liabilities, the RMI had 5 cents in cash and cash equivalents to fund them. This is a continued decrease from the two past year ratios, and is considered an unfavorable ratio.

2003	2004	2005	2006	2007	2008	2009	2010	2010	2012
.17	.38	.08	.05						

Performeter® Reading



The 2006 reading of 4.40 indicates the evaluator's opinion that the RMI's overall financial health and performance continued to be slightly below satisfactory as of and for the fiscal year ended September 30, 2006, although an improvement from the prior year.

This reading is due in a large part to the increase in net assets, excellent intergenerational equity, and excellent tax and debt burdens per capita, however the reading is tempered by low reserves, an unfunded pension plan status, and low current and quick ratios.

What is the A.F.T.E.R. Analysis?

- The A.F.T.E.R. Analysis is very simply an analysis of the status of audit findings, the timeliness of the submission of the audit and the resolution of certain audit exceptions; this analysis can be used to track a government's progress towards eliminating its most significant findings and exceptions, along with tracking the timeliness of submission to the Federal Clearinghouse.

A.F.T.E.R.

	2002	2003	2004	2005	2006
Number of F.S. Opinion Qualifications/Exceptions	11	10	10	5	2
Number of Major Federal Program Qualifications/Exceptions	2	7	2	3	3
Number of F.S. Findings A. Internal Control and Compliance B. Internal Control Only C. Compliance Only TOTAL	 - 17 4 21	 1 12 3 16	 - 2 3 5	 2 1 - 3	 0 0 0 0
Percentage of Findings Repeated	48%	63%	100%	100%	0%
Number of A-133 Findings A. Internal Control and Compliance B. Internal Control Only C. Compliance Only TOTAL	 11 - - 11	 16 1 - 17	 9 - - 9	 10 - - 10	 10 0 0 10
Percentage of A-133 Findings Repeated	82%	41%	33.3%	20%	30%
Number of months after Y/E the F.S. were Released	18	7	8	9	9
Number of Qualifications/Exceptions Related to C.U.	7	5	4	3	2
$ of Questioned Costs-Current Year	$1,215,792	$5,371,559	$4,645,493	$2,151,846	$408,451
$ of Questioned Costs- Cumulative	$7,196,339	$10,962,261	$15,421,303	$10,694,193	$5,735,163
$ of Questioned Costs Resolved – Current Year	$2,936,746	$1,605,637	$186,451	$5,760,115	$5,326,712

Thank You

We would like to commend and thank the RMI's management, the U.S. Department of Interior, and the Graduate School - USDA for allowing us to present this financial analysis. We hope it serves as a useful and understandable compliment to Palau's annual financial report.

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