

REPUBLIC OF THE MARSHALL ISLANDS

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

YEAR ENDED SEPTEMBER 30, 2013

REPUBLIC OF THE MARSHALL ISLANDS

FINANCIAL STATEMENTS YEAR ENDED SEPTEMBER 30, 2013

TABLE OF CONTENTS

	<u>Page No.</u>
I. Independent Auditors' Report	1
II. Management's Discussion and Analysis (Unaudited)	4
III. Basic Financial Statements	
Government-Wide Financial Statements:	
Statement of Net Position	16
Statement of Activities	17
Governmental Fund Financial Statements:	
Balance Sheet	18
Statement of Revenues, Expenditures, and Changes in Fund Balances	19
Reconciliation of Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	20
Fiduciary Fund Financial Statements:	
Statement of Fiduciary Net Position	21
Statement of Changes in Fiduciary Net Position	22
Discretely Presented Component Unit Financial Statements:	
Combining Statement of Net Position	23
Combining Statement of Revenues, Expenses and Changes in Net Position	24
Notes to the Basic Financial Statements	25
IV. Required Supplementary Information - Other than Management's Discussion and Analysis	66
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - General Fund	67
Notes to Required Supplementary Information - Budgetary Reporting	68
V. Other Supplementary Information	69
Combining Schedule of Expenditures by Account - Governmental Funds	70
General Fund:	71
Schedule of Revenues, Expenditures by Function, and Changes in Fund Balance (Fund 100100)	72
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual (Fund 100100)	74

REPUBLIC OF THE MARSHALL ISLANDS

**FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2013**

TABLE OF CONTENTS, CONTINUED

	<u>Page No.</u>
V. Other Supplementary Information, Continued	
Nonmajor Governmental Funds - Special Revenue Funds:	76
Combining Balance Sheet	79
Combining Schedule of Revenues, Expenditures by Function, and Changes in Fund Balances	81
Combining Schedule of Revenues, Expenditures by Account, and Changes in Fund Balances	83
Fiduciary Funds - Private Purpose Trusts:	85
Combining Schedule of Fiduciary Net Position	86
Combining Schedule of Changes in Fiduciary Net Position	87
Fiduciary Funds - Agency:	88
Statement of Changes in Assets and Liabilities	89
Nonmajor Component Units:	90
Combining Schedule of Net Position	92
Combining Schedule of Revenues, Expenses, and Changes in Net Position	93
Grants Assistance Fund:	94
Combining Balance Sheet	96
Combining Schedule of Revenues, Expenditures by Functions, and Changes in Fund Balances (Deficits)	97
Combining Schedule of Revenues, Expenditures by Account, and Changes in Fund Balances (Deficits)	98
Compact of Free Association Sector Grants:	99
Combining Balance Sheet	101
Combining Schedule of Revenues, Expenditures by Function, and Changes in Fund Balances (Deficits)	102
Combining Schedule of Revenues, Expenditures by Account, and Changes in Fund Balances (Deficits)	103
General Fund:	104
Combining Balance Sheet	106
Combining Schedule of Revenues, Expenditures by Function, and Changes in Fund Balances (Deficits)	107
Combining Schedule of Expenditures by Account	108

INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Republic of the Marshall Islands (RepMar) as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise RepMar's basic financial statements as set forth in Section III of the foregoing table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Marshall Islands National Telecommunications Authority, which represent 17 percent, 4 percent, and 7 percent, respectively, of the total assets, net position, and program revenues of the aggregate discretely presented component units. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Marshall Islands National Telecommunications Authority, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective net position or financial position of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Republic of the Marshall Islands as of September 30, 2013, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis-of-Matters

Debt Guarantee

As discussed in Note 13 to the financial statements, the Marshall Islands National Telecommunications Authority is in default of certain debt to the Rural Utilities Service for which RepMar is the guarantor.

Restatement

As discussed in Note 15 to the financial statements, beginning net position of the aggregate discretely presented component units has been restated to correct an error.

Our opinion is not modified with respect to these matters.

Other Matters

Required Supplementary Information:

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, as set forth in Section II of the foregoing table of contents, as well as the Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - General Fund, as set forth in Section IV of the foregoing table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

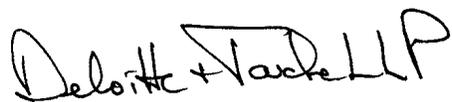
Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise RepMar's basic financial statements. The Other Supplementary Information, as set forth in Section V of the foregoing table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The Other Supplementary Information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Other Supplementary Information set forth in Section V of the foregoing table of contents is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 30, 2014, on our consideration of RepMar's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

October 30, 2014

REPUBLIC OF THE MARSHALL ISLANDS

Management's Discussion and Analysis Year Ended September 30, 2013

As management of the Government of the Republic of the Marshall Islands (RepMar), we offer readers of RepMar's financial statements this narrative overview and analysis of the financial activities of RepMar for the fiscal year ended September 30, 2013. We encourage readers to consider the information presented here in conjunction with RepMar's basic financial statements, which follow this section. Fiscal year 2012 comparative information has been included, where appropriate.

FINANCIAL HIGHLIGHTS

- The assets of RepMar exceeded its liabilities at the close of the most recent fiscal year by \$102.3 million (net position), increasing by \$6.8 million (or 7.1%) from \$95.5 million in the prior year. Of this amount, \$71.7 million represents RepMar's investment in capital assets; \$63.6 million represents amounts restricted for various purposes, with the remaining deficiency of \$33 million to be funded from future governmental activities.
- During the current fiscal year, RepMar's expenses for governmental activities were \$112.3 million, including special appropriations made to the autonomous agencies, and were funded in part by \$62.3 million in program revenues, \$50.7 million in taxes and other general revenues, and \$6.1 million in contributions to permanent funds. Program revenues increased by \$5.2 million (or 9%) from \$57.1 million in the prior year to \$62.3 million, which was attributable primarily to the increase in operating grants and contributions. Taxes and other general revenues increased by \$5 million (or 11%) from \$45.7 million in the prior year to \$50.7 million, which was attributable primarily to the increase in unrestricted grants and contributions. Expenses increased \$9.6 million (or 9.4%) from \$102.7 million in the prior year to \$112.3 million, which was attributable primarily to an increase in education, health, and general government expenses.
- The Compact Trust Fund had total revenues of \$6.1 million in the current fiscal year, increasing RepMar's trust fund balance to \$52.4 million from \$46.3 million in the prior year (up 13.1%).
- For the current fiscal year, General Fund expenditures (and transfers out) of \$46.4 million marginally exceeded General Fund revenues (and transfers in) of \$44.5 million. General fund revenues (and transfers in) were up \$4 million (9.8%) from prior year primarily due to an increase in fishing revenue contributions from the Marshall Islands Marine Resources Authority (MIMRA). Concurrently, General Fund expenditures (and transfers out) marginally increased by \$2.1 million (or 4.8%) from prior year.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to RepMar's basic financial statements, which comprise of the following three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains additional required supplementary information in the form of a budgetary schedule, which is prepared on the budgetary basis of accounting, and other supplementary information, in addition to the basic financial statements themselves, which includes combining statements for governmental funds, fiduciary funds and component units.

Government-wide Financial Statements

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

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

- Over time, increases or decreases in RepMar's net position is an indicator of whether its financial health is improving or deteriorating, respectively.

REPUBLIC OF THE MARSHALL ISLANDS

Management's Discussion and Analysis Year Ended September 30, 2013

- To assess the overall health of RepMar, additional non-financial factors such as changes in RepMar's tax base, the condition of RepMar's roads and infrastructure, and the quality of services needs to be considered.

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

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

The government-wide financial statements can be found on pages 16 and 17 of this report.

Fund Financial Statements

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

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

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

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

The basic governmental fund financial statements can be found on pages 18 and 19 of this report.

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

The basic fiduciary fund financial statements can be found on pages 21 and 22 of this report.

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

The discretely presented component unit financial statements can be found on pages 23 and 24 of this report.

REPUBLIC OF THE MARSHALL ISLANDS

Management's Discussion and Analysis Year Ended September 30, 2013

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 25 through 65 of this report.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning budgetary comparisons. Required supplementary information can be found on pages 66 through 68 of this report.

The other supplementary information referred to earlier is presented immediately following the required supplementary information on budgetary comparisons, and can be found on pages 69 through 108 of this report.

A FINANCIAL ANALYSIS OF REPMAR AS A WHOLE

Net Position

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of RepMar, assets exceeded liabilities by \$102.3 million at the close of the most recent fiscal year; however, such is either restricted as to the purpose it can be used for or is invested in capital assets. RepMar uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although RepMar's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate the liabilities. The majority of RepMar's net position is comprised of its capital assets and long-term liabilities. Current assets and liabilities are amounts that are available in the current period and obligations that will be paid within one year, respectively. RepMar's current assets amounted to \$29.2 million while its current liabilities were \$16.5 million. Restricted net position represents resources that are subject to external constraints. The table below summarizes RepMar's net position at the close of the current year compared with prior year.

RepMar's Net Position As of September 30

	Governmental Activities 2013	Governmental Activities 2012	Total Percentage Change 2013-2012
Current and other assets	\$ 92,403,926	\$ 85,876,743	7.6%
Capital assets	91,465,639	88,735,435	3.1%
Total assets	183,869,565	174,612,178	5.3%
Long-term debt outstanding	64,704,881	62,159,874	4.1%
Other liabilities	16,878,677	16,923,671	-0.3%
Total liabilities	81,583,558	79,083,545	3.2%
Net position:			
Net investment in capital assets	71,659,544	69,507,170	3.1%
Restricted	63,596,489	57,980,315	9.7%
Unrestricted	(32,970,026)	(31,958,852)	3.2%
Total net position	\$ 102,286,007	\$ 95,528,633	7.1%

REPUBLIC OF THE MARSHALL ISLANDS

Management's Discussion and Analysis Year Ended September 30, 2013

At the end of the current fiscal year, RepMar's unrestricted net position deficiency was \$33 million, an increase on the prior year amount by \$1 million (or 3.2%). This deficiency is the result of having long-term commitments that are greater than currently available resources. Specifically, RepMar did not include in past annual budgets the full amounts needed to finance future liabilities arising from ADB loans as well as to pay for unused employee annual leave balances. RepMar will include these amounts in future years' budgets as they become due.

Changes in Net Position

As discussed earlier, net position of the primary government increased by \$6.8 million, which represents an increase of 7.1% from the prior year's amount of \$95.5 million. This result indicates that RepMar's financial condition, as a whole, improved from the prior year. The table below summarizes RepMar's change in net position for the current fiscal year as compared with prior year.

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

	Governmental Activities 2013	Governmental Activities 2012	Total Percentage Change 2013-2012
Revenues:			
Program revenues:			
Charges for services	\$ 9,293,900	\$ 8,937,456	4.0%
Operating grants and contributions	45,863,801	42,321,841	8.4%
Capital grants and contributions	7,105,803	5,870,973	21.0%
	<u>62,263,504</u>	<u>57,130,270</u>	9.0%
General revenues:			
Taxes	26,384,532	25,229,449	4.6%
Grants and contributions	19,251,725	15,626,941	23.2%
Ship registry	4,000,000	4,000,000	0.0%
Other general revenues	1,087,839	858,766	26.7%
	<u>50,724,096</u>	<u>45,715,156</u>	11.0%
Total revenues	<u>112,987,600</u>	<u>102,845,426</u>	9.9%
Expenses:			
Education	29,311,237	28,070,523	4.4%
Health and environment	23,168,997	21,968,311	5.5%
Finance	9,734,460	8,568,896	13.6%
Special appropriations	12,493,140	13,047,590	-4.2%
Foreign affairs and trade	5,268,354	2,960,235	78.0%
Public works	3,980,514	3,979,986	0.0%
Justice	3,835,625	3,435,351	11.7%
Internal affairs	3,623,753	3,160,239	14.7%
Capital projects	3,171,933	1,577,546	101.1%
Resources and development	2,407,803	3,513,060	-31.5%
Transportation and Communication	2,169,841	1,473,933	47.2%
President and Cabinet	1,868,738	1,917,268	-2.5%
Nitijela	1,648,254	1,527,911	7.9%
Nuclear claims related	1,396,644	1,103,268	26.6%
Interest	1,135,501	1,407,351	-19.3%
Other	7,080,298	4,960,822	42.7%
Total expenses	<u>112,295,092</u>	<u>102,672,290</u>	9.4%
	692,508	173,136	300.0%
Contributions to permanent funds	<u>6,064,866</u>	<u>6,935,770</u>	-12.6%
Change in net position	6,757,374	7,108,906	-4.9%
Net position, beginning of year	<u>95,528,633</u>	<u>88,419,727</u>	8.0%
Net position, end of year	<u>\$ 102,286,007</u>	<u>\$ 95,528,633</u>	7.1%

REPUBLIC OF THE MARSHALL ISLANDS

Management's Discussion and Analysis Year Ended September 30, 2013

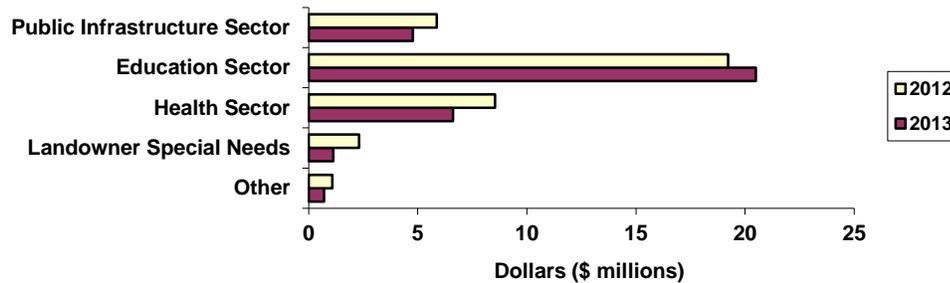
Changes in Net Position, Continued

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

- Total revenues increased in the current year by \$10.2 million (or 9.9%) due primarily to an increase in program revenues of \$5.2 million (or 9%) as compared with the prior year and an increase in taxes and other general revenues of \$5 million (or 11%) as compared with the prior year. The increase in program revenues reflects \$3 million in grant receipts from the World Bank to fund telecommunications sector reform in the Marshall Islands, a \$3 million in-kind donation from the Government of Japan for heavy equipment acquisitions, and \$1.9 million from donor countries to assist with the hosting of the 44th Pacific Islands Forum in Majuro. The increase in taxes and other general revenues reflects a \$3.8 million increase in contributions from MIMRA.
- At the same time, cost of governmental activities increased in the current year by \$9.6 million (or 9.4%) due primarily to expenses associated with the above mentioned program revenue grants.
- Compact trust fund revenues amounted to \$6.1 million in the current fiscal year, increasing RepMar's trust fund balance to \$52.4 million (up 13.1%) from \$46.3 million in the prior year.

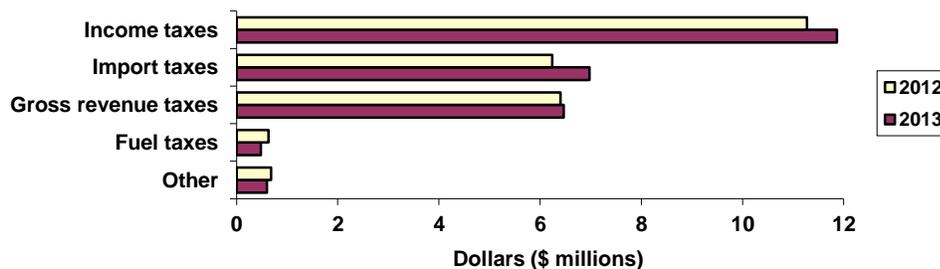
A significant portion of RepMar's program revenues involve contributions from the Government of the United States under the Compact of Free Association. Overall funding from Compact sector grant revenues decreased by \$3.3 million (or 8.9%) from prior year primarily due to decrease in public infrastructure sector funding. A graphic summary of overall Compact sector grant revenues received by RepMar for the current year compared with prior year follows:

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



A significant portion of RepMar's general revenues involves tax revenue collections. At \$26.4 million in the current year, tax revenues were higher by \$1.2 million (or 4.6%) than the \$25.2 million collected in the prior year. A graphic summary of RepMar's tax revenue collections for the current year compared with prior year follows:

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



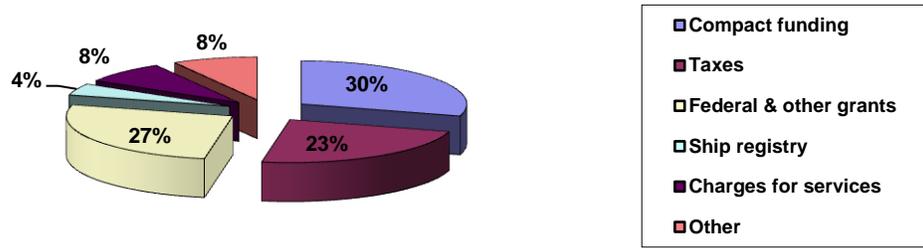
REPUBLIC OF THE MARSHALL ISLANDS

Management’s Discussion and Analysis
Year Ended September 30, 2013

Changes in Net Position, Continued

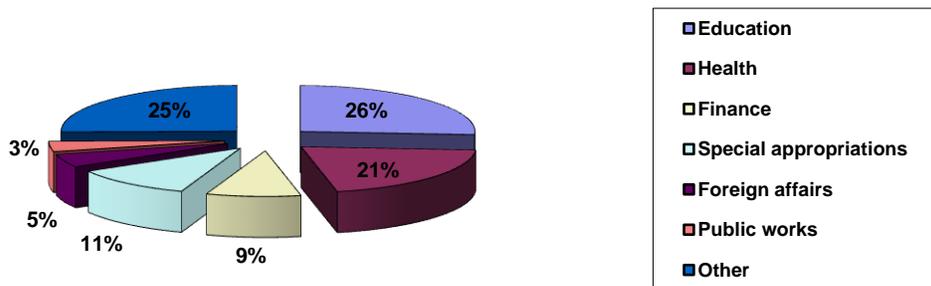
Graphs 3 and 4 below indicate the major components of revenues and cost of governmental activities.

Graph 3
RepMar’s Revenue Sources
For the Year Ended September 30, 2013



Compact funding, local taxes and federal and other grants are the major sources of revenue for RepMar, which comprise 80% of the total revenues for the current year. The remaining 20% is primarily comprised of ship registry fees, fishing revenue contributions from MIMRA, and various fees and service charges.

Graph 4
RepMar’s Cost of Governmental Activities
For the Year Ended September 30, 2013



Other expenses that make up a portion of the costs of governmental activities include ministerial expenses within the Ministry of Justice (\$3.8 million), the Ministry of Internal Affairs (\$3.6 million), the Ministry of Transportation and Communication (\$2.2 million), and the Ministry of Resources and Development (\$2.4 million); legislative expenses within the Nitijela (\$1.6 million); and executive expenses within the President’s Office and Cabinet (\$1.9 million).

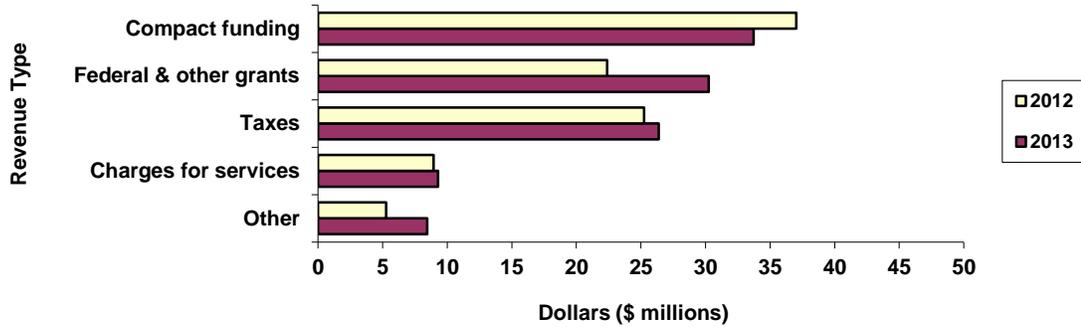
REPUBLIC OF THE MARSHALL ISLANDS

Management’s Discussion and Analysis
Year Ended September 30, 2013

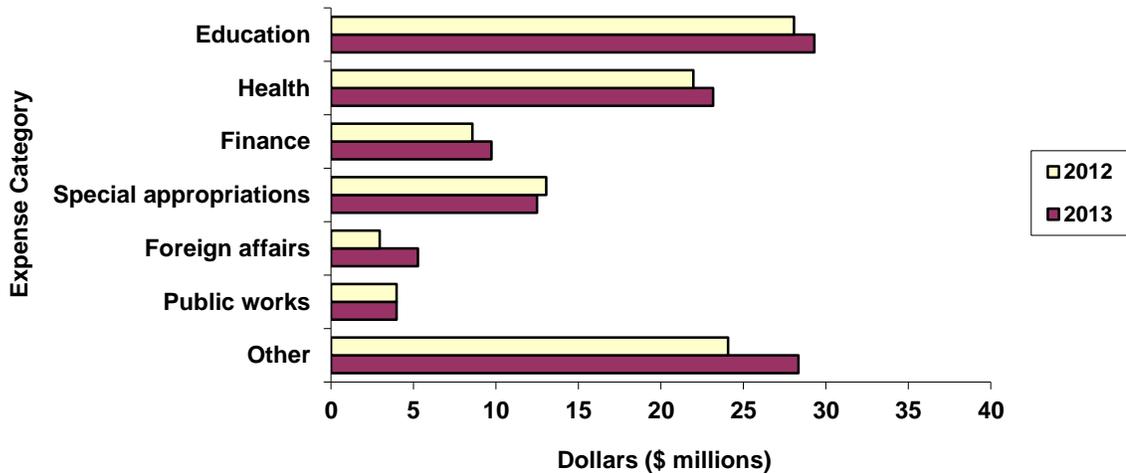
Changes in Net Position, Continued

Graphs 5 and 6 below show a comparison of the major components of revenues and cost of governmental activities for fiscal years 2013 and 2012.

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



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



Other expenses in the current year includes ministerial expenses within the Ministry of Resources & Development of \$2.4 million, down from \$3.5 million in the prior year; the Ministry of Transportation and Communication of \$2.2 million, up from \$1.5 million in the prior year; the Ministry of Justice of \$3.8 million, up from \$3.4 million in the prior year; the Ministry of Internal Affairs of \$3.6 million, up from \$3.2 million in the prior year; legislative expenses within the Nitijela of \$1.6 million, up from \$1.5 million in the prior year; and executive expenses within the President’s Office and Cabinet of \$1.9 million, consistent with the prior year.

REPUBLIC OF THE MARSHALL ISLANDS

Management's Discussion and Analysis Year Ended September 30, 2013

Analysis of Changes in Net Position

During the current fiscal year, RepMar's total net position increased by \$6.8 million compared with an increase in the prior fiscal year of \$7.1 million. This represents a decrease year on year in the change in net position of \$0.3 million (or 4.9%). The key elements of this decrease are increases in contributions from component units of \$8.2 million in the current fiscal year compared with \$4.4 million in the prior fiscal year offset by increases in expenses, net of program revenues, of \$50 million in the current fiscal year compared with \$45.5 million in the prior fiscal year. The elements of these changes are reflected below:

	Governmental Activities 2013	Governmental Activities 2012	Total Percentage Change 2013-2012
General revenues:			
Taxes	\$ 26,384,532	\$ 25,229,449	4.6%
Grants and contributions	11,005,000	11,231,477	-2.0%
Contributions from component units	8,246,725	4,395,464	87.6%
Ship registry	4,000,000	4,000,000	0.0%
Other general revenues	1,087,839	858,766	26.7%
Total general revenues	50,724,096	45,715,156	11.0%
Expenses, net of program revenues:			
Education	6,785,025	5,300,184	28.0%
Health and environment	4,396,178	3,401,215	29.3%
Special appropriations	12,493,140	13,047,590	-4.2%
Finance	3,708,337	3,436,162	7.9%
Public works	3,917,331	3,962,320	-1.1%
Resources and development	2,281,513	2,883,728	-20.9%
Justice	3,204,464	2,858,534	12.1%
Internal affairs	3,259,352	2,674,343	21.9%
Foreign affairs and trade	3,314,289	2,622,984	26.4%
President and Cabinet	1,868,738	1,917,268	-2.5%
Capital projects	(3,933,870)	(4,293,427)	-8.4%
Nitijela	1,618,505	1,527,251	6.0%
Transportation and Communication	2,168,816	1,473,803	47.2%
Nuclear claims related	(133,790)	113,065	-218.3%
Interest	1,135,501	1,407,351	-19.3%
Other	3,948,059	3,209,649	23.0%
Total expenses	50,031,588	45,542,020	9.9%
Contributions to permanent fund	6,064,866	6,935,770	-12.6%
Change in net position	\$ 6,757,374	\$ 7,108,906	-4.9%

General revenues increased by \$5 million (or 11%) from the previous fiscal year. The increase was primarily due to increases in fishing revenue contributions from MIMRA of \$3.8 million (or 92.7%) compared with prior year and increases in tax collections of \$1.2 million (or 4.6%) compared with prior year.

Expenses, net of program revenues, increased by \$4.5 million (or 9.9%) from the previous fiscal year. The increase was primarily due to an operating subsidy provided to the Marshall Islands Resort of \$2.4 million in order to settle delinquent utility billings as well as bad debt expense of \$1 million associated with the recording of an allowance for doubtful debts for a loan receivable due from the Marshall Islands National Telecommunications Authority (MINTA).

REPUBLIC OF THE MARSHALL ISLANDS

Management's Discussion and Analysis Year Ended September 30, 2013

FINANCIAL ANALYSIS OF REPMAR'S FUNDS

As noted earlier, RepMar uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

The focus of RepMar's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing RepMar's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. As of the end of the current fiscal year, RepMar's governmental funds reported combined ending fund balances of \$80.3 million, which represents an increase of \$7.8 million (or 10.7%) in comparison with the prior year. This increase is primarily attributable to an increase in the fair value of RepMar's investments in the Compact Trust Fund of \$6.1 million and the receipt of loan proceeds from an Asian Development Bank (ADB) loan of \$4.9 million. Of this total combined fund balance, \$63.5 million is designated as nonspendable and cannot be spent either because it is not in a spendable form or because of legal or contractual constraints; \$10.8 million is designated as restricted and is constrained for specific purposes which are externally imposed; and \$7 million is designated as committed and is constrained for specific purposes which are internally imposed. The combined unassigned fund balance of RepMar's governmental funds is a negative \$1 million, indicating a deficit in unassigned fund balances.

The General Fund is the chief operating fund of RepMar. At the end of the current fiscal year, the unassigned fund balance of the General Fund was negative \$0.9 million. Total fund balance was \$13.7 million compared with a total fund balance of \$10.7 million at the end of the prior fiscal year, an increase of \$3 million. The increase in the overall fund balance of the General Fund was primarily the result of ADB loan proceeds of \$4.9 million associated with the Fiscal Reform and Debt Management Project loan.

The Grants Assistance Fund has a total fund balance of \$7.7 million, which primarily represents Republic of China (ROC) and Compact Sector grant revenues received not yet expended at year end. The net decrease in fund balance during the current year in the Grants Assistance Fund was minimal at \$0.8 million (or 10.1%).

The Compact Trust Fund has a total fund balance of \$52.4 million, all of which is reserved for the funding of future operations of the primary government commencing in fiscal year 2023. The net increase in fund balance during the current year in the Compact Trust Fund was \$6.1 million (or 13.1%), which reflects a net increase in the value of trust fund investments.

GENERAL FUND BUDGETARY HIGHLIGHTS

During the course of the fiscal year, budget revisions of \$5.2 million were made by management and elected officials of RepMar to the General Fund budget. Revenues collected (including transfers in) of \$44.1 million were higher than budgeted amounts of \$40.9 million due primarily to increased tax collections, which exceeded budgeted amounts, and additional contributions from MIMRA. In addition, charges to appropriations (including transfers out) of \$44.9 million were higher than budgeted amounts of \$41.5 million due primarily to expenditures associated with an operating subsidy provided to the Marshall Islands Resort of \$2.4 million in order to settle delinquent utility billings and the recording of an allowance for doubtful debts associated with the \$1 million loan receivable due from MINTA.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

RepMar's investment in capital assets for its governmental activities as of September 30, 2013 amounted to \$193.8 million (including \$3.5 million of construction in progress), net of accumulated depreciation of \$102.3 million, leaving a net book value of \$91.5 million. This represents an increase of \$2.8 million (or 3.1%) from the \$88.7 million reported in the prior year. RepMar's capital assets include electrical and water infrastructure, roads and bridges, heavy equipment, ships, buildings, and various projects under construction.

REPUBLIC OF THE MARSHALL ISLANDS

Management's Discussion and Analysis Year Ended September 30, 2013

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

	Governmental Activities 2013	Governmental Activities 2012	Total Percentage Change 2013-2012
Electrical distribution	\$ 1,549,359	\$ 1,770,708	-12.5%
Buildings	68,997,266	65,830,136	4.8%
Water infrastructure system	3,043,471	3,422,125	-11.1%
Docks, roads and bridges	5,155,590	5,723,626	-9.9%
Ships	5,183,512	5,735,242	-9.6%
Software	636,001	742,001	-14.3%
Heavy equipment	3,366,104	783,886	329.4%
Construction in progress	3,534,336	4,727,711	-25.2%
Total	\$ 91,465,639	\$ 88,735,435	3.1%

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

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

<u>Infrastructure Project</u>	<u>Current Year Additions (\$ millions)</u>	<u>Completed Cost (\$ millions)</u>
Buoj Elementary School	\$ 0.1	\$ 0.8
Rairok Elementary School Ph. 3	\$ 0.6	\$ 1.1
Jaluit High School Renovation	\$ 0.6	\$ 0.8
Kaben Elementary School	\$ 0.2	\$ 0.5
Ejit Elementary School	\$ 0.2	\$ 0.3
Jabwan Elementary School	\$ 0.4	\$ 0.4

- Completion of Compact funded health facilities infrastructure projects, including the Ebeye hospital storage facility of \$0.4 million and the replacement of air conditioners at the Majuro Hospital of \$0.4 million.
- Acquisition of heavy equipment in the amount of \$3 million funded by Government of Japan grassroots grants and the Ann's Palace in the amount of \$1.5 million.
- Ongoing construction in progress of the following infrastructure projects:

<u>Infrastructure Project</u>	<u>Current Year Additions (\$ millions)</u>	<u>Estimated Completed Cost (\$ millions)</u>
Wotho Elementary School	\$ 0.3	\$ 0.4
Ujae and Lae Elementary Schools	\$ 0.7	\$ 1.1
Jaluit Elementary School	\$ 0.2	\$ 0.5
Northern Islands High School Renovation	\$ 0.4	\$ 0.7
Majuro Hospital Redevelopment	\$ 0.3	\$ 4.0

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

REPUBLIC OF THE MARSHALL ISLANDS

Management's Discussion and Analysis Year Ended September 30, 2013

Long-term Debt

The Government Borrowing Act of 1985 authorizes RepMar to borrow for such purposes as approved by the Nitijela. Since 1991, RepMar has entered into fourteen separate loans with the ADB (See table below). Long-term debt obligations increased by \$2.5 million (or 4.1%) in the current fiscal year.

RepMar's Outstanding Debt Asian Development Bank September 30,

	Governmental Activities 2013	Governmental Activities 2012	Total Percentage Change 2013-2012
Fisheries Development Project	\$ 2,536,688	\$ 2,677,406	-5.3%
Typhoon Rehabilitation	397,211	412,418	-3.7%
Basic Education Project	6,318,491	6,474,589	-2.4%
Majuro Water Supply Project No. 1	577,270	591,759	-2.4%
Health and Population Project	4,282,556	4,387,058	-2.4%
Majuro Water Supply Project No. 2	6,973,677	7,139,978	-2.3%
Public Sector Reform Program	9,822,636	10,048,412	-2.2%
Ebeye Health and Infrastructure Project	6,715,227	7,088,293	-5.3%
Skills Training and Vocational Education Project	4,000,219	4,205,358	-4.9%
Fiscal and Financial Management Program No. 1	1,471,300	1,873,500	-21.5%
Fiscal and Financial Management Program No. 2	6,291,725	6,816,035	-7.7%
Outer Island Transport Infrastructure Project	444,074	465,222	-4.5%
Public Sector Program Loan	9,979,846	9,979,846	0.0%
Fiscal Reform and Debt Management Project	4,893,961	-	
Total	\$ 64,704,881	\$ 62,159,874	4.1%

As mention above, total long-term debt increased by \$2.5 million (or 4.1%) during the current year. This increase resulted from a new Asian Development Bank (ADB) loan offset by declining principal balances. On December 13, 2012, RepMar entered into loan agreement with the ADB in the amount of \$5,000,000 (SDR 3,242,000) for the Fiscal Reform and Debt Management Project. The loan is non-interest bearing and requires a service charge of 1% per annum on the amount of the loan withdrawn from the Loan Account. During the year ended September 30, 2013, RepMar drew down loan proceeds of \$4,893,961 against this loan facility.

Additional information on RepMar's long-term debt can be found in notes 7 and 8 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

In fiscal year 2013, the positive revenue and fund balance trends noted in this report as compared to fiscal year 2012 reflect as much an increase in unrestricted grants, subsidies and loan proceeds from internal and external sources as they do any significant increase in tax growth from a fundamentally improving economy. The economically robust fishing sector has allowed contributions from MIMRA to RepMar to significantly increase and this trend is expected to continue in fiscal years 2014 and 2015 as favorable market conditions allow MIMRA to increase its daily fishing fees. Of comparable benefit to RepMar's budgetary resources have been donor contributions from the World Bank, European Union, and concessionary loans from the ADB that have complemented general budget support. This donor support is also expected to continue provided RepMar undertakes the reforms conditioned on this support.

REPUBLIC OF THE MARSHALL ISLANDS

Management's Discussion and Analysis Year Ended September 30, 2013

Nevertheless, Ministry of Finance management has approached both fiscal year 2014 and 2015 budgets conservatively with 1.5% expansion in general tax revenues. This caution is warranted by several factors: no significant pick-up in private sector employment or new business activity and resulting tax revenues; a continued freeze on new public infrastructure grants until the Office of Insular Affairs is satisfied by changes to the Project Management Unit with the resulting negative effects on construction company revenues and taxes; unknown but recurring adverse impacts and budgetary pressures over the last several years from emergency expenditures caused by droughts, tidal waves and other climate change; and the sluggish pace of reforms in several public sectors, the progress on which many donors have conditioned future budget support. Initiatives undertaken the last couple of years for pension, tax, and telecommunications reform have all stalled with cautionary warnings sounded by outside donors about restricting future funding.

Moreover, the ADB has notified RepMar in fiscal year 2014 that it will no longer give new long term loans until the long-term debt ratio to GDP is lowered. Although RepMar is expecting increased technical assistance through grants from the ADB it is unlikely these will meet the level of former loan proceeds.

Finally, management recognizes the necessity for continued reforms at State Owned Enterprises (SOE's), several of which continue to pose drains on limited RepMar resources. Air Marshall Islands, Marshall Islands Resort, MINTA and Tobolar all have negative cash flows and persist in needing RepMar subsidies each year. Among its component units, only MIMRA has been a net revenue provider to the primary government but the long-term future of continued support from the fishing sector cannot be taken for granted.

For the medium-term, RepMar will continue to execute fiscally conservative budgets and implement the necessary financial and structural reforms to boost revenues, promote economic growth, reduce subsidies to SOE's, and pay down its long-term debt.

CONTACTING REPMAR'S FINANCIAL MANAGEMENT

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

REPUBLIC OF THE MARSHALL ISLANDS

Statement of Net Position September 30, 2013

	Primary Government	Component Units
<u>ASSETS</u>		
Current assets:		
Cash and cash equivalents	\$ 4,812,750	\$ 5,163,941
Time certificates of deposit	438,777	9,495,267
Receivables, net of allowance for uncollectibles	18,520,690	38,279,481
Advances	408,657	-
Inventories	-	4,507,821
Due from component units	343,873	332,341
Due from external parties	896,072	-
Other current assets	-	776,472
Restricted assets:		
Cash and cash equivalents	3,810,632	-
Total current assets	29,231,451	58,555,323
Noncurrent assets:		
Restricted assets:		
Cash and cash equivalents	-	526,468
Time certificates of deposit	-	2,384,188
Investments	52,416,388	-
Investments	748,250	5,667,696
Due from component units	10,007,837	-
Capital assets:		
Nondepreciable capital assets	3,534,336	20,508,631
Other capital assets, net of accumulated depreciation	87,931,303	110,836,580
Other noncurrent assets	-	1,380,478
Total noncurrent assets	154,638,114	141,304,041
Total assets	\$ 183,869,565	\$ 199,859,364
<u>LIABILITIES</u>		
Current liabilities:		
Bank overdraft	\$ -	\$ 69,764
Short-term debt	-	175,749
Current portion of long-term obligations	2,489,869	30,353,903
Accounts payable	6,178,604	15,250,233
Customer deposits	-	1,626,662
Other liabilities and accruals	3,279,993	7,023,257
Payable to federal agencies	1,002,360	-
Retention payable	499,024	-
Contracts payable	-	881,118
Accrued interest payable	239,917	-
Compensated absences payable	1,292,591	-
Due to primary government	-	5,246,477
Due to component units	551,741	332,341
Unearned revenues	1,000,000	3,550,264
Total current liabilities	16,534,099	64,509,768
Noncurrent liabilities:		
Noncurrent portion of long-term obligations	62,215,012	12,546,398
Compensated absences payable, net of current portion	2,034,447	-
Other noncurrent liabilities	800,000	-
Due to primary government	-	10,007,837
Total noncurrent liabilities	65,049,459	22,554,235
Total liabilities	81,583,558	87,064,003
Commitments and contingencies		
<u>NET POSITION</u>		
Net investment in capital assets	71,659,544	95,670,913
Restricted for:		
Future operations - nonexpendable	52,416,388	-
Compact related	4,295,344	-
Other purposes	6,884,757	1,058,332
Unrestricted (deficits)	(32,970,026)	16,066,116
Total net position	102,286,007	112,795,361
Total liabilities and net position	\$ 183,869,565	\$ 199,859,364

See accompanying notes to basic financial statements.

REPUBLIC OF THE MARSHALL ISLANDS

Statement of Activities Year Ended September 30, 2013

Functions/Programs	Program Revenues			Net (Expenses) Revenues and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government	Component Units
Primary government:						
Governmental activities:						
President and Cabinet	\$ 1,868,738	\$ -	\$ -	\$ -	\$ (1,868,738)	\$ -
Office of the Chief Secretary	2,215,070	-	2,034,076	-	(180,994)	-
Special appropriations	12,493,140	-	-	-	(12,493,140)	-
Council of Iroj	453,994	-	-	-	(453,994)	-
Nitijela	1,648,254	390	29,359	-	(1,618,505)	-
Office of the Auditor-General	1,136,664	-	384,050	-	(752,614)	-
Public Service Commission	516,762	-	-	-	(516,762)	-
Judiciary	1,231,875	79,472	-	-	(1,152,403)	-
Office of the Attorney General	805,621	81,925	49,136	-	(674,560)	-
Education	29,311,237	-	22,526,212	-	(6,785,025)	-
Health and Environment	23,168,997	7,885,253	10,887,566	-	(4,396,178)	-
Transportation and Communication	2,169,841	1,025	-	-	(2,168,816)	-
Resources and Development	2,407,803	21,903	104,387	-	(2,281,513)	-
Internal Affairs	3,623,753	34,935	329,466	-	(3,259,352)	-
Justice	3,835,625	631,161	-	-	(3,204,464)	-
Finance	9,734,460	438,798	5,587,325	-	(3,708,337)	-
Foreign Affairs and Trade	5,268,354	55,855	1,898,210	-	(3,314,289)	-
Public Works	3,980,514	63,183	-	-	(3,917,331)	-
Environmental Protection Authority	720,312	-	503,580	-	(216,732)	-
Nuclear claims related	1,396,644	-	1,530,434	-	133,790	-
Capital projects	3,171,933	-	-	7,105,803	3,933,870	-
Unallocated interest - long-term debt	1,135,501	-	-	-	(1,135,501)	-
Total primary government	\$ 112,295,092	\$ 9,293,900	\$ 45,863,801	\$ 7,105,803	(50,031,588)	-
Component units:						
Air Marshall Islands, Inc.	3,473,274	2,361,115	-	76,767	-	(1,035,392)
College of the Marshall Islands	11,229,952	1,540,052	5,464,724	589,671	-	(3,635,505)
Marshalls Energy Company, Inc.	49,808,095	53,168,061	284,062	3,023,296	-	6,667,324
Marshall Islands Development Bank	2,625,471	2,285,122	114,724	-	-	(225,625)
Marshall Islands Marine Resources Authority	9,121,612	11,641,057	216,102	-	-	2,735,547
Marshall Islands National Telecom. Authority	9,684,036	7,768,237	-	-	-	(1,915,799)
RMI Ports Authority	5,886,555	3,519,628	-	8,665,233	-	6,298,306
Other nonmajor component units	23,937,815	14,421,790	160,989	884,771	-	(8,470,265)
Total component units	\$ 115,766,810	\$ 96,705,062	\$ 6,240,601	\$ 13,239,738	-	418,591
General revenues:						
Taxes:						
Income taxes					11,865,145	-
Import taxes					6,974,435	-
Gross revenue taxes					6,465,541	-
Immovable property					393,452	-
Fuel taxes					481,032	-
Penalties and interest					78,943	-
Other					125,984	-
Grants and contributions not restricted to specific programs					11,005,000	-
Contributions from component units					8,246,725	-
Ship registry					4,000,000	-
Unrestricted investment earnings					183,906	3,191,941
Contributions from primary government					-	13,458,735
Other					903,933	-
Total general revenues					50,724,096	16,650,676
Contributions to permanent funds					6,064,866	-
Total general revenues and contributions					56,788,962	16,650,676
Change in net position					6,757,374	17,069,267
Net position at the beginning of the year, as previously reported					95,528,633	97,203,936
Prior-period adjustment (note 15)					-	(1,477,842)
Net position at the beginning of the year, as restated					95,528,633	95,726,094
Net position at the end of the year					\$ 102,286,007	\$ 112,795,361

See accompanying notes to basic financial statements.

REPUBLIC OF THE MARSHALL ISLANDS

Balance Sheet
Governmental Funds
September 30, 2013

	General	Special Revenue Grants Assistance	Permanent Compact Trust	Other Governmental Funds	Total
ASSETS					
Cash and cash equivalents	\$ 1,531,489	\$ -	\$ -	\$ 3,281,261	\$ 4,812,750
Time certificates of deposit	-	-	-	438,777	438,777
Investments	748,250	-	-	-	748,250
Receivables, net:					
Taxes	2,491,169	-	-	77,800	2,568,969
Federal agencies	345,072	8,883,606	-	-	9,228,678
General	948,008	3,641,414	-	1,699,195	6,288,617
Other	-	-	-	434,426	434,426
Due from other funds	8,147,687	7,098,988	-	2,381,123	17,627,798
Due from component units	10,351,710	-	-	-	10,351,710
Advances	209,707	139,654	-	59,296	408,657
Restricted assets:					
Cash and cash equivalents	3,810,632	-	-	-	3,810,632
Investments	-	-	52,416,388	-	52,416,388
Total assets	<u>\$ 28,583,724</u>	<u>\$ 19,763,662</u>	<u>\$ 52,416,388</u>	<u>\$ 8,371,878</u>	<u>\$ 109,135,652</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 2,568,036	\$ 2,042,371	\$ -	\$ 1,568,197	\$ 6,178,604
Other liabilities and accruals	2,199,509	415,778	-	264,706	2,879,993
Payable to federal agencies	-	1,002,360	-	-	1,002,360
Retention payable	-	499,024	-	-	499,024
Due to component units	551,741	-	-	-	551,741
Due to other funds	8,584,039	8,147,687	-	-	16,731,726
Unearned revenues	1,000,000	-	-	-	1,000,000
Total liabilities	<u>14,903,325</u>	<u>12,107,220</u>	<u>-</u>	<u>1,832,903</u>	<u>28,843,448</u>
Fund balances:					
Nonspendable	11,099,960	-	52,416,388	-	63,516,348
Restricted	3,385,311	6,123,568	-	1,254,609	10,763,488
Committed	44,906	1,682,820	-	5,284,366	7,012,092
Unassigned	(849,778)	(149,946)	-	-	(999,724)
Total fund balances	<u>13,680,399</u>	<u>7,656,442</u>	<u>52,416,388</u>	<u>6,538,975</u>	<u>80,292,204</u>
Total liabilities and fund balances	<u>\$ 28,583,724</u>	<u>\$ 19,763,662</u>	<u>\$ 52,416,388</u>	<u>\$ 8,371,878</u>	

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds 91,465,639

Long-term liabilities, including loans payable, are not due and payable in the current period and therefore are not reported in the funds. The liabilities include:

Accrued interest payable	(239,917)
Loans payable	(64,704,881)
Compensated absences payable	(3,327,038)
Other long-term liabilities payable	<u>(1,200,000)</u>

(69,471,836)

Net position of governmental activities \$ 102,286,007

See accompanying notes to basic financial statements.

REPUBLIC OF THE MARSHALL ISLANDS

Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
Year Ended September 30, 2013

	Special Revenue		Permanent		Other Governmental Funds	Total
	General	Grants Assistance	Compact Trust	-		
Revenues:						
Taxes	\$ 26,384,532	\$ -	\$ -	\$ -	\$ -	\$ 26,384,532
Federal and other grants	4,043,731	56,911,495	-	-	692,968	61,648,194
Sales	-	-	-	-	56,088	56,088
Ship registry	4,000,000	-	-	-	-	4,000,000
Net change in the fair value of investments	-	-	6,064,866	-	-	6,064,866
Interest and dividends	148,518	-	-	-	35,388	183,906
Fees and charges	197,560	-	-	-	9,040,252	9,237,812
Contributions from component units	8,246,725	-	-	-	-	8,246,725
Other	903,933	-	-	-	-	903,933
Total revenues	<u>43,924,999</u>	<u>56,911,495</u>	<u>6,064,866</u>	<u>-</u>	<u>9,824,696</u>	<u>116,726,056</u>
Expenditures:						
Current:						
President and Cabinet	1,781,889	83,663	-	-	-	1,865,552
Office of the Chief Secretary	411,950	1,803,120	-	-	-	2,215,070
Special appropriations	11,502,560	1,290,580	-	-	-	12,793,140
Council of Iroij	453,994	-	-	-	-	453,994
Nitijela	1,617,592	29,359	-	-	-	1,646,951
Office of the Auditor-General	752,614	384,050	-	-	-	1,136,664
Public Service Commission	501,762	-	-	-	-	501,762
Judiciary	578,940	-	-	-	652,935	1,231,875
Office of the Attorney General	756,485	49,136	-	-	-	805,621
Ministries:						
Education	4,715,595	21,510,092	-	-	1,928,239	28,153,926
Health and Environment	3,660,876	10,192,032	-	-	9,008,882	22,861,790
Transportation and Communication	566,598	1,275,404	-	-	-	1,842,002
Resources and Development	784,791	1,542,787	-	-	-	2,327,578
Internal Affairs	2,253,799	1,307,291	-	-	25,100	3,586,190
Justice	3,299,117	-	-	-	279,256	3,578,373
Finance	4,782,184	4,949,951	-	-	-	9,732,135
Foreign Affairs and Trade	2,968,326	2,103,203	-	-	32,169	5,103,698
Public Works	1,274,258	258,060	-	-	81,786	1,614,104
Environmental Protection Authority	198,847	521,465	-	-	-	720,312
Nuclear claims related	-	-	-	-	1,396,644	1,396,644
Debt service:						
Principal repayment	2,011,338	337,616	-	-	-	2,348,954
Interest	951,139	212,793	-	-	-	1,163,932
Capital outlay	-	6,796,004	-	-	-	6,796,004
Total expenditures	<u>45,824,654</u>	<u>54,646,606</u>	<u>-</u>	<u>-</u>	<u>13,405,011</u>	<u>113,876,271</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(1,899,655)</u>	<u>2,264,889</u>	<u>6,064,866</u>	<u>(3,580,315)</u>	<u>-</u>	<u>2,849,785</u>
Other financing sources (uses):						
Loan proceeds	4,893,961	-	-	-	-	4,893,961
Operating transfers in	577,333	-	-	-	3,513,014	4,090,347
Operating transfers out	(610,655)	(3,122,359)	-	-	(357,333)	(4,090,347)
Total other financing sources (uses), net	<u>4,860,639</u>	<u>(3,122,359)</u>	<u>-</u>	<u>-</u>	<u>3,155,681</u>	<u>4,893,961</u>
Net change in fund balances	2,960,984	(857,470)	6,064,866	(424,634)	-	7,743,746
Fund balances at the beginning of the year	10,719,415	8,513,912	46,351,522	6,963,609	-	72,548,458
Fund balances at the end of the year	<u>\$ 13,680,399</u>	<u>\$ 7,656,442</u>	<u>\$ 52,416,388</u>	<u>\$ 6,538,975</u>	<u>\$ -</u>	<u>\$ 80,292,204</u>

See accompanying notes to basic financial statements.

REPUBLIC OF THE MARSHALL ISLANDS

Reconciliation of the Statement of Revenues, Expenditures,
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
Year ended September 30, 2013

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

Net change in fund balances - total governmental funds \$ 7,743,746

Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. For the current year, these amounts consist of:

Capital outlays, net of disposals	7,313,410	
Depreciation expense, net	<u>(4,583,206)</u>	
		2,730,204

Some of the capital assets acquired this year were financed by a purchase agreement. The amount financed by the purchase agreement has no impact on governmental funds whereas the liability associated with the purchase agreement constitutes a long-term liability in the statement of net position. (1,200,000)

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

ADB loan proceeds	(4,893,961)	
Repayment of ADB loans	<u>2,348,954</u>	
		(2,545,007)

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

Change in accrued interest payable		<u>28,431</u>
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Change in net position of governmental activities		<u>\$ 6,757,374</u>
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See accompanying notes to basic financial statements.

REPUBLIC OF THE MARSHALL ISLANDS

Statement of Fiduciary Net Position Fiduciary Funds September 30, 2013

	<u>Private Purpose Trust</u>	<u>Agency</u>
<u>ASSETS</u>		
Cash and cash equivalents	\$ 1,767,762	\$ -
Receivables, net:		
Contributions	2,019,730	-
Other	485,992	-
Investments	70,706,924	-
Due from other funds	701,396	164,484
Capital assets, net of accumulated depreciation	55,493	-
Total assets	<u>75,737,297</u>	<u>\$ 164,484</u>
<u>LIABILITIES</u>		
Accounts payable	157,426	\$ -
Other liabilities and accruals	126,052	164,484
Due to other funds	1,761,952	-
Total liabilities	<u>2,045,430</u>	<u>\$ 164,484</u>
<u>NET POSITION</u>		
Held in trust for:		
Social security benefits	72,988,182	
Nuclear claims	57,862	
Land use distributions	645,823	
Total net position	<u>\$ 73,691,867</u>	

See accompanying notes to basic financial statements.

REPUBLIC OF THE MARSHALL ISLANDS

Statement of Changes in Fiduciary Net Position
Fiduciary Funds
Year Ended September 30, 2013

	<u>Private Purpose Trust</u>
Additions:	
Contributions:	
Private employees	\$ 8,915,779
Government employees	3,983,184
Penalties and interest	414,913
Total contributions	<u>13,313,876</u>
Investment income:	
Net change in the fair value of investments	7,017,252
Interest and dividends	1,175,319
Total investment income	8,192,571
Less investment expense	148,506
Net investment income	<u>8,044,065</u>
Other:	
Compact funding	17,356,500
Other	624,258
Total additions	<u>17,980,758</u>
Total additions	<u>39,338,699</u>
Deductions:	
Land use distributions	17,547,578
Benefits	17,107,670
Administrative expenses	855,893
Total deductions	<u>35,511,141</u>
Change in net position held in trust for:	
Social security benefits	4,018,636
Nuclear claims	-
Land use distributions	(191,078)
Net position at the beginning of the year	<u>69,864,309</u>
Net position at the end of the year	<u>\$ 73,691,867</u>

See accompanying notes to basic financial statements.

REPUBLIC OF THE MARSHALL ISLANDS

**Combining Statement of Net Position
Component Units
September 30, 2013**

	Air Marshall Islands, Inc.	College of the Marshall Islands	Marshalls Energy Company, Inc.	Marshall Islands Development Bank	Marshall Islands Marine Resources Authority	Marshall Islands National Telecom. Authority	RMI Ports Authority	Nonmajor Component Units	Total
ASSETS									
Current assets:									
Cash and cash equivalents	\$ 113,882	\$ 862,114	\$ 928,818	\$ 108,740	\$ 670,433	\$ 1,001,895	\$ 502,154	\$ 975,905	\$ 5,163,941
Time certificates of deposit	-	-	500,000	-	8,282,241	383,027	329,999	-	9,495,267
Receivables, net	89,904	1,647,097	7,491,296	21,110,075	3,675,207	915,020	1,187,707	2,163,175	38,279,481
Inventories	485,702	332,403	1,827,991	-	-	268,995	-	1,592,730	4,507,821
Due from component units	-	-	-	95,000	-	-	237,341	-	332,341
Other current assets	50,373	319,869	45,030	-	-	-	16,890	344,310	776,472
Total current assets	739,861	3,161,483	10,793,135	21,313,815	12,627,881	2,568,937	2,274,091	5,076,120	58,555,323
Noncurrent assets:									
Restricted:									
Cash and cash equivalents	-	-	-	526,468	-	-	-	-	526,468
Time certificates of deposit	-	-	-	684,188	-	-	1,700,000	-	2,384,188
Investments	-	60,947	-	366,748	5,240,001	-	-	-	5,667,696
Capital assets:									
Nondepreciable capital assets	-	372,306	2,856,785	88,745	19,794	808,695	16,330,942	31,364	20,508,631
Capital assets, net of accumulated depreciation	6,936,827	18,427,988	6,049,891	1,207,850	224,570	30,367,805	40,675,722	6,945,927	110,836,580
Other noncurrent assets	-	-	1,358,470	22,008	-	-	-	-	1,380,478
Total noncurrent assets	6,936,827	18,861,241	10,265,146	2,896,007	5,484,365	31,176,500	58,706,664	6,977,291	141,304,041
Total assets	\$ 7,676,688	\$ 22,022,724	\$ 21,058,281	\$ 24,209,822	\$ 18,112,246	\$ 33,745,437	\$ 60,980,755	\$ 12,053,411	\$ 199,859,364
LIABILITIES									
Current liabilities:									
Bank overdraft	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 69,764	\$ 69,764
Short-term debt	-	-	161,588	14,161	-	-	-	-	175,749
Current portion of long-term debt	518,247	-	719,313	1,444,161	-	27,348,003	287,456	36,723	30,353,903
Accounts payable	2,356,852	895,381	8,161,917	259,733	238,397	482,410	337,065	2,518,478	15,250,233
Customer deposits	-	-	-	1,183,281	-	443,381	-	-	1,626,662
Other liabilities and accruals	200,350	1,830,614	973,592	32,732	123,741	261,770	163,090	3,437,368	7,023,257
Contracts payable	-	-	-	-	-	-	881,118	-	881,118
Due to primary government	3,116,890	-	343,873	-	-	1,000,000	785,714	-	5,246,477
Due to component units	237,341	-	-	-	-	-	-	95,000	332,341
Unearned revenues	106,055	1,675,074	1,429,972	269,330	-	-	-	69,833	3,550,264
Total current liabilities	6,535,735	4,401,069	11,790,255	3,203,398	362,138	29,535,564	2,454,443	6,227,166	64,509,768
Noncurrent liabilities:									
Noncurrent portion of long-term debt	1,981,753	-	5,364,666	3,623,151	-	-	1,193,551	383,277	12,546,398
Due to primary government	-	-	8,130,783	1,877,054	-	-	-	-	10,007,837
Total noncurrent liabilities	1,981,753	-	13,495,449	5,500,205	-	-	1,193,551	383,277	22,554,235
Total liabilities	8,517,488	4,401,069	25,285,704	8,703,603	362,138	29,535,564	3,647,994	6,610,443	87,064,003
NET POSITION									
Net investment in capital assets	6,936,827	18,800,294	3,361,388	1,296,595	244,364	2,828,497	55,525,657	6,677,291	95,670,913
Restricted	-	60,947	404,006	279,581	-	-	-	313,798	1,058,332
Unrestricted	(7,777,627)	(1,239,586)	(7,992,817)	13,930,043	17,505,744	1,381,376	1,807,104	(1,548,121)	16,066,116
Total net position	(840,800)	17,621,655	(4,227,423)	15,506,219	17,750,108	4,209,873	57,332,761	5,442,968	112,795,361
	\$ 7,676,688	\$ 22,022,724	\$ 21,058,281	\$ 24,209,822	\$ 18,112,246	\$ 33,745,437	\$ 60,980,755	\$ 12,053,411	\$ 199,859,364

See accompanying notes to basic financial statements.

REPUBLIC OF THE MARSHALL ISLANDS

Combining Statement of Revenues, Expenses, and Changes in Net Position
Component Units
Year Ended September 30, 2013

	Air Marshall Islands, Inc.	College of the Marshall Islands	Marshalls Energy Company, Inc.	Marshall Islands Development Bank	Marshall Islands Marine Resources Authority	Marshall Islands National Telecom. Authority	RMI Ports Authority	Nonmajor Component Units	Total
Operating revenues:									
Charges for services	\$ 2,104,941	\$ 636,023	\$ 22,109,307	\$ 2,221,743	\$ 11,602,244	\$ 7,768,237	\$ 3,312,527	\$ 8,378,118	\$ 58,133,140
Sales	-	660,061	31,058,754	-	-	-	-	5,587,583	37,306,398
Other	256,174	243,968	-	63,379	38,813	-	207,101	456,089	1,265,524
Total operating revenues	2,361,115	1,540,052	53,168,061	2,285,122	11,641,057	7,768,237	3,519,628	14,421,790	96,705,062
Operating expenses:									
Cost of services	1,938,776	8,125,089	47,892,319	297,764	2,296,093	5,023,675	2,439,175	19,359,609	87,372,500
Administration costs	756,368	3,099,543	1,381,917	2,057,825	-	597,887	-	2,731,283	10,624,823
Depreciation and amortization	699,092	-	1,696,132	270,682	82,958	2,657,171	3,345,134	1,492,852	10,244,021
Total operating expenses	3,394,236	11,224,632	50,970,368	2,626,271	2,379,051	8,278,733	5,784,309	23,583,744	108,241,344
Operating income (loss)	(1,033,121)	(9,684,580)	2,197,693	(341,149)	9,262,006	(510,496)	(2,264,681)	(9,161,954)	(11,536,282)
Nonoperating revenues (expenses):									
Contributions from the primary government	1,177,040	2,900,667	800,000	148,800	-	1,248,907	-	7,183,321	13,458,735
Equity in net earnings of joint venture	-	-	-	-	2,717,942	-	-	-	2,717,942
Net change in the fair value of investments	-	4,767	-	145,968	-	11,689	-	-	162,424
Interest income	-	-	-	7,330	184,255	-	119,990	-	311,575
Interest expense	(79,038)	-	(468,121)	-	-	(1,331,139)	(103,125)	(158,286)	(2,139,709)
Grants and other contributions	-	5,464,724	284,062	114,724	216,102	-	-	160,989	6,240,601
Contributions to the primary government	-	-	-	-	(6,348,374)	-	-	-	(6,348,374)
Other	-	(5,320)	1,630,394	800	(394,187)	(74,164)	879	(195,785)	962,617
Total nonoperating revenues (expenses), net	1,098,002	8,364,838	2,246,335	417,622	(3,624,262)	(144,707)	17,744	6,990,239	15,365,811
Capital contributions	76,767	589,671	3,023,296	-	-	-	8,665,233	884,771	13,239,738
Change in net position	141,648	(730,071)	7,467,324	76,473	5,637,744	(655,203)	6,418,296	(1,286,944)	17,069,267
Net position at the beginning of the year, as previously reported	(1,306,798)	19,323,147	(11,694,747)	15,429,746	12,112,364	5,695,847	50,914,465	6,729,912	97,203,936
Prior-period adjustment (note 15)	324,350	(971,421)	-	-	-	(830,771)	-	-	(1,477,842)
Net position at the beginning of the year, as restated	(982,448)	18,351,726	(11,694,747)	15,429,746	12,112,364	4,865,076	50,914,465	6,729,912	95,726,094
Net position at the end of the year	\$ (840,800)	\$ 17,621,655	\$ (4,227,423)	\$ 15,506,219	\$ 17,750,108	\$ 4,209,873	\$ 57,332,761	\$ 5,442,968	\$ 112,795,361

See accompanying notes to basic financial statements.

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements
September 30, 2013

(1) Summary of Significant Accounting Policies

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

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

A. Reporting Entity

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

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

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

The financial statements of the component units have been included in the financial reporting entity in accordance with GASB Statement No. 14, *The Financial Reporting Entity*, as amended by GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*. Component units are entities that are legally separate organizations for which RepMar's elected officials are financially accountable or other organizations for which the nature and significance of their relationship with RepMar are such that exclusion would cause RepMar's basic financial statements to be misleading or incomplete. RepMar is financially accountable because it appoints the members of the governing authorities of each of the component units and because it is able to impose its will on these organizations or because the organizations provide specific financial benefits or impose specific financial burdens on RepMar.

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements
September 30, 2013

(1) Summary of Significant Accounting Policies, Continued

A. Reporting Entity, Continued

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

- Marshall Islands Scholarship Grant and Loan Board, a Governmental Fund Type - Special Revenue Fund. This fund was established under Public Law No. 1979-19 to account for all disbursements of scholarship funds and is governed by a seven-member Board appointed by the Cabinet of RepMar.
- Marshall Islands Judiciary Fund, a Governmental Fund Type - Special Revenue Fund. This fund was established to account for all activities of the Marshall Islands Judiciary not accounted for within the General Fund.
- Health Care Revenue Fund, a Governmental Fund Type - Special Revenue Fund. This fund was established under Public Law No. 1989-59 within the Ministry of Health and Environment to control the expenditure of funds for health care related services.
- Marshall Islands Health Fund, a Governmental Fund Type - Special Revenue Fund. This fund was established under Public Law No. 1990-75, as amended by Public Law Nos. 2001-31 and 2001-35, to account for the operations of the Basic and Supplemental Health Funds delivering comprehensive medical care.

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

- Air Marshall Islands, Inc. (AMI): AMI was granted a corporate charter by the Cabinet of RepMar on October 12, 1989 to provide domestic and international carrier service within and from the Marshall Islands. AMI is governed by a seven-member Board of Directors appointed by the President upon approval of the Cabinet of RepMar. RepMar provides financial support to AMI through legislative appropriations.
- College of the Marshall Islands (CMI): CMI was established as an independent institution pursuant to the College of the Marshall Islands Act of 1992 (Public Law No. 1992-13) to provide post-secondary education services to meet the needs of the Marshall Islands. CMI is governed by a nine-member Board of Regents appointed by the President upon approval of the Cabinet of RepMar. RepMar provides financial support to CMI through legislative appropriations.
- Marshalls Energy Company, Inc. (MEC): MEC was granted a corporate charter by the Cabinet of RepMar on February 2, 1984 to engage in the business of generating and transmitting electricity, and the import and marketing of petroleum products. MEC is governed by a seven-member Board of Directors appointed by the Cabinet of RepMar. RepMar guarantees principal and interest payments to the Rural Utilities Service in the event of default by MEC on a Federal Financing Bank loan. RepMar provides financial support to MEC through legislative appropriations.

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements
September 30, 2013

(1) Summary of Significant Accounting Policies, Continued

A. Reporting Entity, Continued

- Marshall Islands Development Bank (MIDB): MIDB was established under Public Law No. 1988-1 to promote development and expansion of the Marshall Islands economy and is governed by a seven-member Board of Directors appointed by the Cabinet. MIDB has received funds under Sections 111 and 211 of the Compact of Free Association and funds from the U.S. Department of Agriculture under the Rural Housing and Community Development Service Housing Preservation Grant. RepMar guarantees principal and interest payments to the International Commercial Bank of China in the event of default by MIDB and has the ability to impose its will on MIDB.
- Marshall Islands Marine Resources Authority (MIMRA): MIMRA was established as a body corporate pursuant to the Marshall Islands Marine Resources Authority Act of 1997 (Public Law No. 1997-60) to facilitate the sustainable and responsible use of the marine resources in the Marshall Islands. MIMRA is governed by a seven-member Board of Directors, including the Minister of Resources and Development, the Minister of Foreign Affairs, the Minister of Internal Affairs, and four members appointed by the President. RepMar has the ability to impose its will on MIMRA.
- Marshall Islands National Telecommunications Authority (MINTA): MINTA was incorporated under Public Law No. 1990-105 to engage in the business of providing local and international telecommunication services. MINTA is governed by an eight-member Board of Directors elected by a majority vote of its shareholders. RepMar owns a voting majority of MINTA stock. RepMar guarantees principal and interest payments to the Rural Utilities Service in the event of default by MINTA on Rural Electrification and Telephone Revolving Fund loans.
- RMI Ports Authority (RMIPA): RMIPA was incorporated under Public Law No. 2003-81 to engage in the operation and maintenance of commercial port facilities in the Marshall Islands. RMIPA is governed by a seven-member Board of Directors appointed by the President upon the approval of the Cabinet of RepMar. RepMar has the ability to impose its will on RMIPA.

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

In addition, the fiduciary component units are subject to legislative and executive controls. These component units, while meeting the definition of a component unit and while legally separate, are presented in the fund financial statements of RepMar. They have been omitted from the government-wide financial statements as their resources are not available to fund operations of RepMar. The fiduciary component units are as follows:

- Marshall Islands Social Security Administration (MISSA), a Fiduciary Fund Type - Private Purpose Trust Fund. MISSA was established to provide a financially sound social security system with pension benefits and early retirement and operates under the authority of a seven-member Board of Directors appointed by the Cabinet of RepMar.

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements
September 30, 2013

(1) Summary of Significant Accounting Policies, Continued

A. Reporting Entity, Continued

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

P.O. Box 245
Majuro, Marshall Islands 96960

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

B. Government-Wide Financial Statements

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

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

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

- Net investment in capital assets consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt that are attributed to the acquisition, construction or improvement of those assets.
- Restricted net position results when constraints placed on net position use are either externally imposed by creditors, grantors, contributors, and the like, or imposed by law.
- Unrestricted net position consists of net position, which does not meet the definition of the two preceding categories. Unrestricted net position often is designated, (for example, internally restricted), to indicate that management does not consider such to be available for general operations.

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements September 30, 2013

(1) Summary of Significant Accounting Policies, Continued

B. Government-Wide Financial Statements, Continued

The government-wide Statement of Net Position reports \$63,596,489 of restricted net position, of which \$6,868,444 is restricted by enabling legislation.

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

C. Fund Financial Statements

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

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

D. Measurement Focus and Basis of Accounting

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

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

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

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements
September 30, 2013

(1) Summary of Significant Accounting Policies, Continued

D. Measurement Focus and Basis of Accounting, Continued

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

Fiduciary funds and discretely presented component units financial statements - the fiduciary funds and discretely presented component units financial statements are reported using the economic measurement focus and the accrual basis of accounting, similar to government-wide financial statements, as described above.

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

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

RepMar reports the following major funds:

- General Fund - This fund is the primary operating fund of RepMar. It is used to account for all governmental transactions, except those required to be accounted for in another fund.
- Grants Assistance Fund - a Special Revenue Fund that accounts for all financial transactions that are subgranted to RepMar, including United States Congress appropriations under United States Public Law 99-239, as amended, Title II, Article I, Section 211(a) and approved by Nitijela resolution 123 to promote economic advancement and budgetary self-reliance as well as other direct grants that RepMar received from the United States government and other donor countries.

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements
September 30, 2013

(1) Summary of Significant Accounting Policies, Continued

D. Measurement Focus and Basis of Accounting, Continued

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

The nonmajor governmental funds are comprised of special revenue funds, which account for financial resources obtained from specific revenue sources and used for restricted purposes.

In addition, RepMar reports the following fund types:

- Private Purpose Trust Funds - these funds are used to account for resources held in trust under which principal and income benefit certain individuals. These include funds held in trust by the Marshall Islands Social Security Administration (MISSA) for the beneficiaries of the MISSA Retirement Fund; funds received under the Interim Use Agreement for the benefit of Kwajalein landowners; and funds received under Section 177 of the Compact of Free Association for the benefit of victims related to the United States Nuclear Testing Program.
- Agency Funds - this fund is used to report resources held by the primary government relating to unclaimed property in a purely custodial capacity.

E. Cash and Cash Equivalents and Time Certificates of Deposit

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

F. Investments

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

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

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements
September 30, 2013

(1) Summary of Significant Accounting Policies, Continued

G. Receivables

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

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

H. Inventories

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

I. Interfund Receivables/Payables

During the course of its operations, RepMar records transactions between individual funds for goods provided or services rendered. Receivables and payables resulting from transactions between funds are classified as "due from other funds" or "due to other funds" on the governmental fund balance sheet. Receivables and payables resulting from transactions between component units and the primary government are classified as "due to/from primary government" or "due to/from component units" on the governmental fund balance sheet and the statement of net position. Interfund receivables and payables have been eliminated from the statement of net position.

J. Restricted Assets

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

K. Capital Assets

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

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements
September 30, 2013

(1) Summary of Significant Accounting Policies, Continued

K. Capital Assets, Continued

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

L. Deferred Outflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (deduction of net position) until then. RepMar has no items that qualify for reporting in this category.

M. Unearned Revenue

In the government-wide financial statements, unearned revenue is recognized when cash, receivables or other assets are recorded prior to being earned. In the governmental fund financial statements, unearned revenue represents monies received or revenues accrued which have not been earned or do not meet the "available" criterion for revenue recognition under the modified accrual basis of accounting. Unearned revenue of the primary government represents ship registry revenue received in fiscal year 2013 relating to the subsequent accounting period. Unearned revenue of the discretely presented component units primarily represents amounts received for tuition and fees, certain auxiliary activities, and fuel sales prior to the end of the fiscal year but related to the subsequent accounting period.

N. Long-term Debt

The liabilities reported in the government-wide financial statements include long-term obligations incurred under various Asian Development Bank loans and compensated absences payable. Long-term obligations financed by component units are recorded as liabilities in the discretely presented component unit's column.

O. Compensated Absences

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

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements
September 30, 2013

(1) Summary of Significant Accounting Policies, Continued

P. Deferred Inflows of Resources

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (additions to net position) until then. RepMar has no items that qualify for reporting in this category.

Q. Fund Equity

Fund balance classifications are based on the extent to which RepMar is bound to honor constraints on the specific purposes for which amounts in those funds can be spent and are reported under the following fund balance classifications:

- Nonspendable - includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.
- Restricted - includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.
- Committed - includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority and does not lapse at year-end.
- Unassigned includes negative fund balances in other governmental funds.

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

A formal minimum fund balance policy has not been adopted.

R. Risk Financing

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

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements
September 30, 2013

(1) Summary of Significant Accounting Policies, Continued

S. New Accounting Standards

During fiscal year 2013, RepMar implemented the following pronouncements:

- GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, which addressed how to account for and report service concession arrangements (SCAs), a type of public-private or public-public partnership that state and local governments are increasingly entering into. The implementation of this statement did not have a material effect on the accompanying financial statements.
- GASB Statement No. 61, *The Financial Reporting Entity: Omnibus*, which improved financial reporting for governmental entities by amending the requirements of Statements No. 14, *The Financial Reporting Entity*, and No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, to better meet user needs and address reporting entity issues that have come to light since those Statements were issued in 1991 and 1999, respectively. The implementation of this statement did not have a material effect on the accompanying financial statements.
- GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which enhanced the usefulness of its Codification by incorporating guidance that previously could only be found in certain Financial Accounting Standards Board (FASB) and American Institute of Certified Public Accountants (AICPA) pronouncements issued on or before November 30, 1989, which does not conflict or contradict GASB pronouncements. GASB Statement No. 62 superseded GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*. The implementation of this statement did not have a material effect on the accompanying financial statements.
- GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which established guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position, and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which clarifies the appropriate reporting of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. These Statements amend the net asset reporting requirements in Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. With the implementation of GASB Statement No. 63 and Statement No. 65, the Statement of Net Assets was renamed the Statement of Net Position.

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements
September 30, 2013

(1) Summary of Significant Accounting Policies, Continued

S. New Accounting Standards, Continued

In April 2012, GASB issued Statement No. 66, *Technical Corrections - 2012*, which enhances the usefulness of financial reports by resolving conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting. The provisions of this statement are effective for periods beginning after December 15, 2012. Management has not yet determined the effect of implementation of this statement on the financial statements of RepMar.

In June 2012, GASB issued Statement No. 67, *Financial Reporting for Pension Plans*, which revises existing guidance for the financial reports of most pension plans, and Statement No. 68, *Accounting and Financial Reporting for Pensions*, which revises and establishes new financial reporting requirements for most governments that provide their employees with pension benefits. The provisions in Statement 67 are effective for financial statements for periods beginning after June 15, 2013. The provisions in Statement 68 are effective for fiscal years beginning after June 15, 2014. Management has not yet determined the effect of implementation of these statements on the financial statements of RepMar.

In January 2013, GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations*, which improves accounting and financial reporting for state and local governments' combinations and disposals of government operations. Government combinations include mergers, acquisitions, and transfers of operations. A disposal of government operations can occur through a transfer to another government or a sale. The provisions in Statement 69 are effective for fiscal years beginning after December 15, 2013. Management has not yet determined the effect of implementation of this statement on the financial statements of RepMar.

In April 2013, GASB issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, which requires a state or local government guarantor that offers a nonexchange financial guarantee to another organization or government to recognize a liability on its financial statements when it is more likely than not that the guarantor will be required to make a payment to the obligation holders under the agreement. The provisions in Statement 70 are effective for fiscal years beginning after June 15, 2013. Management has not yet determined the effect of implementation of this statement on the financial statements of RepMar.

T. Encumbrances

RepMar utilizes encumbrance accounting to identify fund obligations. Encumbrances represent commitments related to unperformed contracts for goods. At September 30, 2013, RepMar has significant encumbrances summarized as follows:

<u>General</u>	<u>Grants Assistance</u>	<u>Compact Trust</u>	<u>Other Governmental</u>	<u>Total</u>
\$ 3,779,955	\$ 11,457,327	\$ -	\$ 112,501	\$ 15,349,783

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements September 30, 2013

(1) Summary of Significant Accounting Policies, Continued

U. Estimates

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

V. Total Columns

Total columns are presented primarily to facilitate financial analysis. The Management's Discussion and Analysis includes certain prior year summarized comparative information in total. Such information does not include sufficient detail to constitute a full comparative presentation. Accordingly, such information should be read in conjunction with RepMar's financial statements for the year ended September 30, 2012 from which summarized information was derived.

(2) Deposits and Investments

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

- (a) Public monies shall not be deposited with any financial institution that is not a member of the Federal Deposit Insurance Corporation (FDIC) of the United States or the Federal Savings and Loan Insurance Corporation (FSLIC) of the United States, unless the Secretary of Finance is satisfied, on the advice of the Banking Commissioner, that a financial institution (although not a member of the FDIC or FSLIC), owns sufficient assets to cover the total amount of the deposit;
- (b) The demand deposit account shall be continuously maintained to cover not less than seventy-five percent of the cash expenditures projected to be expended over the next succeeding ninety day period;
- (c) All deposits, accounts and funds maintained pursuant to this Act shall be subordinate deposits, accounts and funds of the General Fund; and
- (d) No withdrawal of monies shall be made out of or charged against time or savings deposits, accounts or funds maintained pursuant to this Act except to transfer funds into the demand deposit account of the General Fund. All expenditures shall be made out of or charged against the demand deposit account of the General Fund only.

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements September 30, 2013

(2) Deposits and Investments, Continued

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

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

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

A. Deposits

Custodial credit risk is the risk that in the event of a bank failure, RepMar's deposits may not be returned to it. Such deposits are not covered by depository insurance and are either uncollateralized, or collateralized with securities held by the pledging financial institution or held by the pledging financial institution but not in the depositor-government's name. RepMar does not have a deposit policy for custodial credit risk.

As of September 30, 2013, the carrying amount of the primary government's total cash and cash equivalents and time certificates of deposit was \$9,062,159 and the corresponding bank balances were \$9,713,320. Of the bank balances, \$8,588,381 is maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2013, bank deposits in the amount of \$1,162,804 were FDIC insured. Bank deposits of \$1,124,939 are maintained in financial institutions not subject to depository insurance. RepMar does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized. Accordingly, these deposits are exposed to custodial credit risk.

As of September 30, 2013, the carrying amount of the fiduciary fund's total cash and cash equivalents was \$1,767,762 and the corresponding bank balances were \$2,104,177. Of the bank balances, \$327,604 is maintained in financial institutions subject to FDIC insurance. As of September 30, 2013, bank deposits in the amount of \$250,000 were FDIC insured. Bank deposits of \$1,776,573 are maintained in financial institutions not subject to depository insurance. RepMar does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized. Accordingly, these deposits are exposed to custodial credit risk.

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements September 30, 2013

(2) Deposits and Investments, Continued

A. Deposits, Continued

As of September 30, 2013, the carrying amount in the aggregate of the discretely presented component units' total cash and cash equivalents and time certificates of deposit was \$17,569,864 and the corresponding bank balances were \$18,655,442. Of the bank balances, \$5,270,460 is maintained in financial institutions subject to FDIC insurance. As of September 30, 2013, bank deposits in the amount of \$2,914,556 were FDIC insured. Bank deposits of \$13,384,982 are maintained in financial institutions not subject to depository insurance. The component units do not require collateralization of their cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized. Accordingly, these deposits are exposed to custodial credit risk.

B. Investments

Primary Government

Investments of the primary government as of September 30, 2013, are as follows:

Compact Trust Fund:	
Equity mutual funds	\$ 32,560,897
Fixed income mutual funds	9,489,546
Hedge funds	5,997,635
Real estate funds	1,928,553
Private markets	917,652
Other	<u>1,522,105</u>
	<u>\$ 52,416,388</u>

Additionally, as of September 30, 2013, the primary government holds approximately 13% of the outstanding shares of Pacific Islands Development Bank with a carrying amount of \$748,250. As the fair market value of these investments is not readily available, such has been recorded at cost.

Custodial credit risk for investments is the risk that in the event of the failure of the counterparty to the transaction, RepMar will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. RepMar's investments are held and administered by trustees in accordance with various trustee agreements. Based on negotiated trust and custody contracts, all of these investments were held in RepMar's name by RepMar's custodial financial institutions at September 30, 2013.

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

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

Concentration of credit risk for investments is the risk of loss attributed to the magnitude of an entity's investment in a single issuer. As of September 30, 2013, there were no investments in any one issuer that exceeded 5% of total investments.

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements September 30, 2013

(2) Deposits and Investments, Continued

B. Investments, Continued

Fiduciary Funds

Investments in marketable securities of the fiduciary funds as of September 30, 2013, are as follows:

Marshall Islands Social Security Administration (MISSA):	
Money market funds	\$ 49,943
Common equity securities	6,383,956
Mutual funds	<u>53,280,890</u>
	\$ <u>59,714,789</u>
Nuclear Claims Trust Fund (NCTF):	
Money market funds	\$ <u>2,289</u>

Additionally, as of September 30, 2013, MISSA holds approximately 10% of the outstanding shares of Marshall Islands Service Corporation, totaling \$30,000, which is accounted for at cost, and approximately 35% of the outstanding shares of Bank of Marshall Islands (BOMI), totaling \$10,959,846, which is accounted for under the equity method. During the year ended September 30, 2013, MISSA received dividend payments from BOMI of \$359,068.

A summary of unaudited financial information as of and for the nine months ended September 30, 2013, for investees accounted for using the equity method of accounting for investments, is as follows:

Assets	\$ <u>74,017,248</u>
Liabilities	\$ <u>44,301,568</u>
Net earnings	\$ <u>1,829,765</u>

For the year ended September 30, 2013, net increase in fair value of investments included equity in net earnings of BOMI amounting to \$1,255,556.

The deposit and investment policies of MISSA are governed by its enabling legislation. The Board is required to engage one or more fund custodians to assume responsibility for the physical possession of MISSA's investments. Legally authorized investments are as follows:

- (i) Government obligations - Obligations issued or guaranteed as to principal and interest by RepMar or by the Government of the United States, provided that the total market value of the investments in obligations guaranteed by RepMar shall at the time of purchase not exceed twenty-five percent (25%) of the total market value of all investments of MISSA, and further provided that the principal and interest on each obligation are payable in the currency of the United States.

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements
September 30, 2013

(2) Deposits and Investments, Continued

B. Investments, Continued

Fiduciary Funds, Continued

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

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

MISSA and NCTF investments are held and administered by trustees in accordance with various trustee agreements. Based on negotiated trust and custody contracts, all of these investments were held respectively in the name of MISSA and NCTF by their custodial financial institutions at September 30, 2013.

MISSA and NCTF do not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. Furthermore, as of September 30, 2013, there were no investments in any one issuer that exceeded 5% of total investments.

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements September 30, 2013

(2) Deposits and Investments, Continued

B. Investments, Continued

Discretely Presented Component Units

Investments of the discretely presented component units as of September 30, 2013, are as follows:

College of the Marshall Islands (CMI):

Money market funds	\$ 95
Common equity securities	23,547
Mutual funds	<u>37,305</u>
	\$ <u>60,947</u>

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

Marshall Islands Development Bank:

Common equity securities	\$ <u>366,748</u>
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The deposit and investment policies of MIDB are governed by MIDB's Board of Directors. Generally, MIDB can provide financial assistance to enterprises operating in the Republic, including making equity investments in such enterprises.

Marshall Islands Marine Resources Authority (MIMRA):

Investment in joint venture	\$ <u>5,240,001</u>
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On May 1, 2005, MIMRA entered into a joint venture agreement with a third party to form the Marshall Islands Fishing Corporation (MIFCO), an ongoing association for the purpose of engaging in the purse seine fishing business. The association was formally organized during fiscal year 2006 with the purchase of the vessel, RMI201. MIMRA's contributed capital was \$2,940,000, which represented a 49% interest of the vessel's value of \$6,000,000.

A summary of audited financial information as of and for the year ended December 31, 2013, for investees accounted for using the equity method of accounting for investments, is as follows:

Assets	\$ <u>18,000,783</u>
Liabilities	\$ <u>5,743,748</u>
Net earnings	\$ <u>6,257,035</u>

For the year ended September 30, 2013, MIMRA recognized equity in net earnings of MIFCO of \$2,717,942.

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements
September 30, 2013

(3) Receivables

Primary Government

Receivables as of September 30, 2013, for the primary government's individual major governmental funds, nonmajor governmental funds in the aggregate, and fiduciary funds, including applicable allowance for uncollectible accounts, are as follows:

	<u>General</u>	<u>Grants Assistance</u>	<u>Compact Trust</u>	<u>Nonmajor Governmental Funds</u>	<u>Fiduciary Funds</u>	<u>Totals</u>
Receivables:						
Taxes	\$ 2,491,169	\$ -	\$ -	\$ 77,800	\$ -	\$ 2,568,969
Federal agencies	345,072	8,883,606	-	-	-	9,228,678
General	1,791,524	3,833,350	-	1,699,195	-	7,324,069
Contributions	-	-	-	-	11,347,084	11,347,084
Loans	4,368,787	-	-	18,633,110	-	23,001,897
Other	<u>-</u>	<u>-</u>	<u>-</u>	<u>493,851</u>	<u>55,364</u>	<u>549,215</u>
	8,996,552	12,716,956	-	20,903,956	11,402,448	54,019,912
Less: allowance for uncollectible accounts	<u>(5,212,303)</u>	<u>(191,936)</u>	<u>-</u>	<u>(18,692,535)</u>	<u>(8,896,726)</u>	<u>(32,993,500)</u>
Net receivables	<u>\$ 3,784,249</u>	<u>\$ 12,525,020</u>	<u>\$ -</u>	<u>\$ 2,211,421</u>	<u>\$ 2,505,722</u>	<u>\$ 21,026,412</u>

Loans receivable of the primary government are summarized as follows:

General Fund:

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

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

\$ 4,368,787

Nonmajor Governmental Funds:

Loans to qualified Marshallese students under a student financial assistance program, interest free, uncollateralized with no set repayment terms, and may be converted to grants at a later date if the recipients meet certain criteria. These loans have been fully provided for in the allowance for uncollectible accounts. During the year ended September 30, 2013, loans in the amount of \$422,514 were converted to grants as the recipients met the criteria for conversion. \$ 18,633,110

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements
September 30, 2013

(3) Receivables, Continued

Discretely Presented Component Units

Receivables as of September 30, 2013, for the discretely presented component units, including applicable allowance for uncollectible accounts, are as follows:

	Air Marshall Islands, Inc.	College of the Marshall Islands	Marshalls Energy Company, Inc.	Marshall Islands Development Bank	Marshall Islands Marine Resources Authority	Marshall Islands National Telecom. Authority	RMI Ports Authority	Non-major Component Units	Totals
Receivables:									
Federal agencies	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 672,247	\$ -	\$ 672,247
General	690,729	2,880,482	10,414,485	-	3,099,839	931,119	1,242,971	6,173,264	25,413,850
Loans	-	-	-	33,931,604	-	-	-	-	33,931,604
Other	-	196,047	2,224,317	511,025	2,043,824	349,713	129,183	473,999	5,911,147
	690,729	3,076,529	12,638,802	34,442,629	5,143,663	1,280,832	2,044,401	6,611,263	65,928,848
Less: allowance for uncollectible accounts	(600,825)	(1,429,432)	(5,147,506)	(13,332,554)	(1,468,456)	(365,812)	(856,694)	(4,448,088)	(27,649,367)
Net receivables	<u>\$ 89,904</u>	<u>\$ 1,647,097</u>	<u>\$ 7,491,296</u>	<u>\$ 21,110,075</u>	<u>\$ 3,675,207</u>	<u>\$ 915,020</u>	<u>\$ 1,187,707</u>	<u>\$ 2,163,175</u>	<u>\$ 38,279,481</u>

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

Marshall Islands Development Bank (MIDB):

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

Investment Development Fund	\$ 1,159,422
Compact Section 211	299,431
Republic of the Marshall Islands	32,462,829
Housing Preservation Grant	<u>9,922</u>
	<u>\$ 33,931,604</u>

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

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements
September 30, 2013

(4) Interfund Receivables and Payables

Primary Government

Receivables and payables between funds reflected as due to/from other funds in the governmental funds balance sheet at September 30, 2013, are summarized as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Due From Other Funds</u>	<u>Due To Other Funds</u>
General	Grants Assistance	\$ 8,147,687	\$ 8,147,687
Grants Assistance	General	7,098,988	7,098,988
Nonmajor governmental funds	General	619,171	619,171
Nonmajor governmental funds	Fiduciary Funds - Private Purpose Trust	1,761,952	-
Fiduciary Funds - Private Purpose Trust	General	-	701,396
Fiduciary Funds - Agency	General	-	<u>164,484</u>
		17,627,798	16,731,726
Fiduciary Funds - Private Purpose Trust	General	701,396	1,761,952
Fiduciary Funds - Agency	General	<u>164,484</u>	<u>-</u>
		<u>\$ 18,493,678</u>	<u>\$ 18,493,678</u>

Receivables and payables between funds reflected as due to/from component units at September 30, 2013, are summarized as follows:

	<u>Due From</u>	<u>Due To</u>
General Fund:		
Marshalls Energy Company, Inc.	\$ 8,474,656	\$ -
Marshall Islands Development Bank	1,877,054	-
Marshall Islands Marine Resources Authority	-	330,000
RMI Ports Authority	-	152,678
Nonmajor component units	-	69,063
	<u>\$ 10,351,710</u>	<u>\$ 551,741</u>

The amount recorded by the General Fund due from the Marshalls Energy Company, Inc. of \$8,474,656 represents a subsidiary loan agreement under an Asian Development Bank (ADB) loan (Loan Number 2659 RMI (SF)) received by RepMar from the ADB. Interest accrues at the rate of 1% per annum through September 30, 2018 and at 1.5% per annum thereafter with principal and interest payments due of \$37,960 and matures on May 31, 2034.

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

<u>Year ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 343,873	\$ 111,647	\$ 455,520
2015	375,932	79,588	455,520
2016	379,709	75,811	455,520
2017	383,523	71,997	455,520
2018	419,833	35,687	455,520
2019 – 2023	1,820,126	418,783	2,238,909
2024 – 2028	1,993,814	313,452	2,307,266
2029 – 2033	2,149,000	160,575	2,309,575
2034	<u>608,846</u>	<u>17,815</u>	<u>626,661</u>
	<u>\$ 8,474,656</u>	<u>\$ 1,285,355</u>	<u>\$ 9,760,011</u>

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements
September 30, 2013

(4) Interfund Receivables and Payables, Continued

Primary Government, Continued

The amount recorded by the General Fund due from the Marshall Islands Development Bank (MIDB) of \$1,877,054 accrues interest at the rate of 4% per annum and matures on May 8, 2018. In the event that RepMar redeems this receivable at an earlier date, receipt of funds may be dependent upon the underlying collectability of loans issued by MIDB, as MIDB does not appear to have readily available cash reserves to meet early redemption. Furthermore, in the event that RepMar is unable to liquidate this amount at an earlier date, such may be deemed to constitute a cash transfer out to MIDB.

The amount recorded as due from component units of the primary government of \$10,351,710 does not equal the corresponding due to primary government of the discretely presented component units of \$15,254,314 due to an allowance for doubtful accounts recorded by the General Fund and the Grants Assistance Fund of \$3,302,604 and \$1,600,000, respectively. The amount recorded as due to component units of the primary government of \$551,741 does not equal the corresponding due from primary government of the discretely presented component units due to allowance for doubtful accounts recorded by the respective component units of \$551,741.

Discretely Presented Component Units

Receivables and payables between funds reflected as due to/from primary government at September 30, 2013, are summarized as follows:

	Due From	Due To
Air Marshall Islands, Inc.:		
General Fund	\$ -	\$ 1,516,890
Grants Assistance Fund	-	1,600,000
Marshalls Energy Company, Inc.:		
General Fund	-	8,474,656
Marshall Islands Development Bank:		
General Fund	-	1,877,054
Marshall Islands National Telecommunications Authority:		
General Fund	-	1,000,000
RMI Ports Authority:		
General Fund	-	785,714
	\$ -	\$ 15,254,314

The amount recorded by the Marshall Islands National Telecommunications Authority (MINTA) due to the General Fund of \$1,000,000 represents Compact of Free Association Infrastructure Maintenance Sector grant funds borrowed by MINTA. This loan is unsecured and interest free with annual payments due of \$100,000 commencing March 2012 to be deposited into a savings account established in accordance with Section 211(d)(2) of the Compact of Free Association, as amended. MINTA is currently in default of loan payments and, as a result, all amounts due have been reclassified as current liabilities.

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements
September 30, 2013

(4) Interfund Receivables and Payables, Continued

Discretely Presented Component Units, Continued

Receivables and payables between funds reflected as due to/from component units at September 30, 2013, are summarized as follows:

	Due From	Due To
Marshall Islands Development Bank:		
Nonmajor component units	\$ 95,000	\$ -
RMI Ports Authority:		
Air Marshall Islands, Inc.	237,341	-
Air Marshall Islands, Inc.:		
RMI Ports Authority	-	237,341
Nonmajor component units:		
Marshall Islands Development Bank	-	95,000
	\$ 332,341	\$ 332,341

The amount recorded by the RMI Ports Authority due from Air Marshall Islands, Inc. of \$237,341 accrues interest at the rate of 8% per annum and matures on March 30, 2013. The amount recorded by the Marshall Islands Development Bank due from Majuro Resort, Inc. of \$95,000 accrues interest at the rate of 7% per annum and matures on October 1, 2013.

(5) Capital Assets

Capital asset activities for the year ended September 30, 2013, are as follows:

Primary Government

	Estimated Useful Lives	Balance October 1, 2012	Additions	Retirements	Balance September 30, 2013
Depreciable capital assets:					
Electrical distribution	30 yrs	\$ 30,540,465	\$ -	\$ -	\$ 30,540,465
Buildings	30 - 40 yrs	108,180,998	5,398,078	-	113,579,076
Water infrastructure system	25 yrs	9,616,908	-	-	9,616,908
Docks, roads and bridges	25 - 30 yrs	14,486,813	-	-	14,486,813
Ships	25 yrs	13,793,254	-	-	13,793,254
Software	10 yrs	2,539,710	-	-	2,539,710
Heavy equipment	3 - 10 yrs	2,617,273	3,108,707	-	5,725,980
		181,775,421	8,506,785	-	190,282,206
Less accumulated depreciation:					
Electrical distribution		(28,769,757)	(221,349)	-	(28,991,106)
Buildings		(42,350,862)	(2,230,950)	-	(44,581,812)
Water infrastructure system		(6,194,783)	(378,654)	-	(6,573,437)
Docks, roads and bridges		(8,763,187)	(568,036)	-	(9,331,223)
Ships		(8,058,012)	(551,730)	-	(8,609,742)
Software		(1,797,709)	(106,000)	-	(1,903,709)
Heavy equipment		(1,833,387)	(526,487)	-	(2,359,874)
		(97,767,697)	(4,583,206)	-	(102,350,903)
Total depreciable capital assets, net		84,007,724	3,923,579	-	87,931,303
Nondepreciable capital assets:					
Construction in progress		4,727,711	3,624,071	(4,817,446)	3,534,336
		\$ 88,735,435	\$ 7,547,650	\$ (4,817,446)	\$ 91,465,639

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements
September 30, 2013

(5) Capital Assets, Continued

Primary Government, Continued

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

President and Cabinet	\$ 3,186
Public Service Commission	15,000
Education	1,296,789
Health and Environment	598,789
Transportation and Communication	327,839
Resources and Development	80,225
Internal Affairs	37,563
Justice	257,252
Finance	2,325
Foreign Affairs and Trade	164,656
Public Works	1,798,279
Nitijela	<u>1,303</u>
	<u>\$ 4,583,206</u>

Discretely Presented Component Units

	Estimated Useful Lives	Balance October 1, 2012	Additions	Retirements	Balance September 30, 2013
Depreciable capital assets:					
Buildings	3 - 34 yrs	\$ 50,269,864	\$ 365,054	\$ (1,689)	\$ 50,633,229
Utility plant	3 - 40 yrs	95,687,047	1,442,689	(353,956)	96,775,780
Machinery and equipment	2 - 25 yrs	38,873,645	7,132,098	(455,057)	45,550,686
Infrastructure	5 - 50 yrs	<u>45,033,342</u>	<u>2,166,606</u>	<u>-</u>	<u>47,199,948</u>
		229,863,898	11,106,447	(810,702)	240,159,643
Less accumulated depreciation		<u>(118,207,048)</u>	<u>(11,690,256)</u>	<u>574,241</u>	<u>(129,323,063)</u>
Total depreciable capital assets, net		111,656,850	(583,809)	(236,461)	110,836,580
Nondepreciable capital assets:					
Land		347,306	25,000	-	372,306
Construction in progress		<u>11,562,746</u>	<u>12,805,270</u>	<u>(4,231,691)</u>	<u>20,136,325</u>
		<u>11,910,052</u>	<u>12,830,270</u>	<u>(4,231,691)</u>	<u>20,508,631</u>
		<u>\$123,566,902</u>	<u>\$12,246,461</u>	<u>\$ (4,468,152)</u>	<u>\$131,345,211</u>

(6) Short-term Debt

Discretely Presented Component Units

Marshalls Energy Company, Inc. (MEC):

On May 9, 2013, MEC obtained a \$1,000,000 short-term loan facility from a bank to finance fuel purchases, interest at 4.5% per annum, payable in monthly installments of principal and interest of \$170,000, due October 31, 2013.

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements
September 30, 2013

(6) Short-term Debt, Continued

Discretely Presented Component Units, Continued

Marshall Islands Development Bank (MIDB):

On December 12, 2013, MIDB obtained a \$95,000 short-term loan facility from a bank to finance equipment purchases, interest at 5% per annum, due November 30, 2013.

Short-term debt activity for the year ended September 30, 2013, was as follows:

	<u>Beginning Balance</u>	<u>Draws</u>	<u>Repayments</u>	<u>Ending Balance</u>
MEC:				
Bank credit line	\$ -	\$ 1,000,000	\$ (838,412)	\$ 161,588
MIDB:				
Bank credit line	<u>-</u>	<u>95,000</u>	<u>(80,839)</u>	<u>14,161</u>
	<u>\$ -</u>	<u>\$ 1,095,000</u>	<u>\$ (919,251)</u>	<u>\$ 175,749</u>

(7) Long-term Obligations

Primary Government

Under the Government Borrowing Act of 1985, RepMar may borrow money for such purposes as approved by the Nitijela of RepMar. As of September 30, 2013, the primary government had the following long-term debt outstanding and payable to the Asian Development Bank (ADB):

Loan Number 1102 MAR (SF) - Fisheries Development Project Loan (SDR 2,432,599), non-interest bearing with a service charge of 1% per annum on the amount of the loan withdrawn from the Loan Account. Semi-annual loan payments commenced January 1, 2002 in an amount of SDR 24,300, increasing to SDR 48,600 on January 1, 2012. \$ 2,536,688

Loan Number 1218 MAR (SF) - Typhoon Rehabilitation Loan (SDR 364,000), non-interest bearing with a service charge of 1% per annum on the amount of the loan withdrawn from the Loan Account. Semi-annual loan payments commenced May 15, 2003 in an amount of SDR 3,600, increasing to SDR 7,300 on May 15, 2013. 397,211

Loan Number 1249 MAR (SF) - Basic Education Project Loan (SDR 5,717,446), non-interest bearing with a service charge of 1% per annum on the amount of the loan withdrawn from the Loan Account. Semi-annual loan payments commenced April 15, 2004 in an amount of SDR 57,200, increasing to SDR 114,300 on April 15, 2014. 6,318,491

Loan Number 1250 MAR (SF) - Majuro Water Supply Project Loan No. 1 (SDR 478,496), non-interest bearing with a service charge of 1% per annum on the amount of the loan withdrawn from the Loan Account. Semi-annual loan payments commenced November 15, 2003 in an amount of SDR 4,800, increasing to SDR 9,600 on November 15, 2013. 577,270

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements September 30, 2013

(7) Long-term Obligations, Continued

Primary Government, Continued

Loan Number 1316 RMI (SF) - Health and Population Project Loan (SDR 3,858,516), non-interest bearing with a service charge of 1% per annum on the amount of the loan withdrawn from the Loan Account. Semi-annual loan payments commenced January 1, 2005 in an amount of SDR 38,600, increasing to SDR 77,200 on January 1, 2015.	4,282,556
Loan Number 1389 RMI (SF) - Majuro Water Supply Project Loan No. 2 (SDR 6,062,000), non-interest bearing with a service charge of 1% per annum on the amount of the loan withdrawn from the Loan Account. Semi-annual loan payments commenced March 1, 2006 in an amount of SDR 60,700, increasing to SDR 121,200 on March 1, 2016.	6,973,677
Loan Number 1513 RMI (SF) - Public Sector Reform Program Loan (SDR 8,241,000), non-interest bearing with a service charge of 1% per annum on the amount of the loan withdrawn from the Loan Account. Semi-annual loan payments commenced June 1, 2007 in an amount of SDR 82,400, increasing to SDR 164,800 on June 1, 2017.	9,822,636
Loan Number 1694 RMI (SF) - Ebeye Health and Infrastructure Project Loan (SDR 6,918,118), non-interest bearing with a service charge of 1% per annum on the amount of the loan withdrawn from the Loan Account. Semi-annual loan payments commenced February 1, 2008 in an amount of SDR 144,127.	6,715,227
Loan Number 1791 RMI (SF) - Skills Training and Vocational Education Project Loan (SDR 3,483,174), non-interest bearing with a service charge of 1.5% per annum on the amount of the loan withdrawn from the Loan Account. Semi-annual loan payments commenced May 15, 2009 in an amount of SDR 72,566.	4,000,219
Loan Number 1828 RMI - Fiscal and Financial Management Program Loan No. 1 (\$4,000,000), interest at the ADB's pool-based variable lending rate system for U.S. dollar loans (5.03% at September 30, 2013), a front-end fee of 1%, and a commitment charge of 0.75% per annum on the amount of the loan unwithdrawn from the Loan Account. Semi-annual loan payments commenced November 15, 2004 in an initial amount of \$89,900 with graduated increases of 5% to \$276,100 through May 15, 2016.	1,471,300
Loan Number 1829 RMI (SF) - Fiscal and Financial Management Program Loan No. 2 (SDR 6,320,000), non-interest bearing with a service charge of 1% per annum on the amount of the loan withdrawn from the Loan Account. Semi-annual loan payments commence November 15, 2009 in an amount of SDR 197,500, at which time the service charge increases to 1.5% per annum.	6,291,725
Loan Number 1948 RMI (SF) - Outer Island Transport Infrastructure Project (SDR 5,304,000), non-interest bearing with a service charge of 1% per annum on the amount of the loan withdrawn from the Loan Account. Semi-annual loan payments commence February 1, 2011 in an amount of SDR 110,500, at which time the service charge increases to 1.5% per annum.	444,074

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements
September 30, 2013

(7) Long-term Obligations, Continued

Primary Government, Continued

Loan Number 2659 RMI (SF) - Public Sector Program Loan (SDR 6,413,000), non-interest bearing with a service charge of 1% per annum on the amount of the loan withdrawn from the Loan Account. Semi-annual loan payments commence February 15, 2019 in an amount of SDR 200,406, at which time the service charge increases to 1.5% per annum. Concurrently, RepMar entered into a subsidiary loan agreement with the Marshalls Energy Company, Inc. whereby RepMar will on lend a portion of the loan proceeds for the purpose of restructuring certain commercial bank debt. 9,979,846

Loan Number 2950 RMI (SF) - Fiscal Reform and Debt Management Project (SDR 3,242,000), non-interest bearing with a service charge of 1% per annum on the amount of the loan withdrawn from the Loan Account. Semi-annual loan payments commence May 15, 2021 in an amount of SDR 101,313, at which time the service charge increases to 1.5% per annum. 4,893,961

\$ 64,704,881

The abovementioned ADB loans payable are uncollateralized and are backed by the full faith and credit of RepMar. The abovementioned loans are designated and measured by the ADB using Special Drawing Rights. (SDRs). The value of a SDR is defined by a weighted currency basket of four major currencies; the U.S. dollar, the euro, the British pound, and the Japanese yen. The International Monetary Fund re-evaluates this currency basket every five years. The effects of foreign currency transaction gains or losses resulting from this re-evaluation are included in the government-wide financial statements in the period when such re-evaluation occurs.

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

<u>Year ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 2,489,869	\$ 779,036	\$ 3,268,905
2015	2,720,209	721,977	3,442,186
2016	2,936,607	661,438	3,598,045
2017	2,510,509	603,690	3,114,199
2018	2,623,411	574,028	3,197,439
2019 – 2023	16,389,128	2,608,543	18,997,671
2024 – 2028	16,216,832	1,669,688	17,886,520
2029 – 2033	14,036,532	747,510	14,784,042
2034 – 2037	<u>4,781,784</u>	<u>93,896</u>	<u>4,875,680</u>
	<u>\$ 64,704,881</u>	<u>\$ 8,459,806</u>	<u>\$ 73,164,687</u>

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements
September 30, 2013

(7) Long-term Obligations, Continued

Discretely Presented Component Units

As of September 30, 2013, the discretely presented component units had the following long-term debt outstanding:

Air Marshall Islands, Inc. (AMI):

Loan with Marshall Islands Development Bank, dated May 30, 2013, interest at 6.5% per annum, with principal and interest payable in monthly installments of \$51,100 through May 30, 2018. The loan has been collateralized by certain aircraft operated by AMI and a guarantee from RepMar. Loan proceeds of \$2,500,000 were used to fund Dash 8 aircraft improvements. \$ 2,500,000

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

<u>Year ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 518,247	\$ 197,099	\$ 715,346
2015	500,645	112,508	613,153
2016	533,701	79,452	613,153
2017	568,940	44,213	613,153
2018	<u>378,467</u>	<u>8,756</u>	<u>387,223</u>
	<u>\$ 2,500,000</u>	<u>\$ 442,028</u>	<u>\$ 2,942,028</u>

Marshalls Energy Company, Inc. (MEC):

Loan with the Federal Financing Bank (FFB), dated November 17, 1997, interest based on the FFB rates at the date of the loan advances and range from 5.49% to 7.25% per annum, with principal and interest payable in quarterly installments of \$273,770 through January 2, 2018, with loan repayments guaranteed by the Rural Utilities Service (RUS). The mortgage notes have been unconditionally guaranteed by RepMar, under which RepMar will make debt service payments to RUS in the event of default by MEC, and have been collateralized by a leasehold mortgage and security agreement over the assets of MEC. These notes are subject to certain coverage ratio requirements. MEC is not in compliance with these ratio requirements as of September 30, 2013. \$ 5,545,287

Short-term loan renegotiated to mature on July 20, 2015 with interest at 7.5% per annum, with principal and interest payable in monthly installments of \$27,444. 538,692

\$ 6,083,979

On June 15, 2012, the Cabinet of RepMar approved the debt deferral agreement between MEC and RUS wherein RUS and MEC agreed to a combined grant and loan deferment package of \$4,300,000. RUS granted a two-year \$2,000,000 loan deferment giving MEC a two-year break from having to make payments to RUS. A separate \$2,300,000 grant was awarded for the purpose of funding the purchase of parts for an engine overhaul. During the year ended September 30, 2013, deferred interest payments of \$187,584 were recognized by MEC and added to the principal balance outstanding and payable.

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements
September 30, 2013

(7) Long-term Obligations, Continued

Discretely Presented Component Units, Continued

Marshalls Energy Company, Inc. (MEC), Continued:

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

<u>Year ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 719,313	\$ 258,251	\$ 977,564
2015	1,121,488	322,109	1,443,597
2016	938,650	257,833	1,196,483
2017	999,682	196,801	1,196,483
2018	1,064,111	132,372	1,196,483
2019 – 2021	<u>1,240,735</u>	<u>68,314</u>	<u>1,309,049</u>
	<u>\$ 6,083,979</u>	<u>\$ 1,235,680</u>	<u>\$ 7,319,659</u>

Marshall Islands Development Bank (MIDB):

Loan payable to the International Commercial Bank of China, due August 6, 2014, payable in semi-annual installments of \$200,000 plus interest at 5% per annum. The loan has been unconditionally guaranteed by RepMar, under which RepMar will make debt service payments to the bank in the event of default by MIDB. \$ 400,000

Loan with a bank, dated June 14, 2012, interest at 5% per annum, with principal and interest payable in monthly installments of \$40,000 through March 14, 2017, collateralized by loans receivable in the amount of \$15,232,330. Loan proceeds of \$2,000,000 were used to fund housing loans. 1,509,005

Loan with a bank, dated August 15, 2012, interest at 5% per annum, with principal and interest payable in monthly installments of \$18,920 through August 31, 2017, collateralized by the MAKO Building and a time certificate of deposit. Loan proceeds of \$1,000,000 were used to fund housing loans. 805,164

Loan with a bank, dated May 30, 2013, interest at 5.5% per annum, with principal and interest payable in monthly installments of \$47,773 through May 31, 2018, collateralized by time certificate of deposit and assignment of loans receivable. Loan proceeds of \$2,500,000 were used to fund a loan to Air Marshall Islands, Inc. 2,353,143

\$ 5,067,312

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements
September 30, 2013

(7) Long-term Obligations, Continued

Discretely Presented Component Units, Continued

Marshall Islands Development Bank (MIDB), Continued:

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

<u>Year ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 1,444,161	\$ 251,405	\$ 1,695,566
2015	1,104,870	175,446	1,280,316
2016	1,168,788	111,528	1,280,316
2017	975,112	45,808	1,020,920
2018	<u>374,381</u>	<u>7,803</u>	<u>382,184</u>
	<u>\$ 5,067,312</u>	<u>\$ 591,990</u>	<u>\$ 5,659,302</u>

Marshall Islands National Telecommunications Authority (MINTA):

Loans with the RUS (formerly the Rural Electrification Administration) from the Rural Electrification and Telephone Revolving Fund, dated August 17, 1989 of \$18,800,000, increased by \$3,999,000 on April 23, 1993, and further increased by \$18,500,000, with interest at 3.64% to 5% per annum. Certain portions of these loans have been unconditionally guaranteed by RepMar, under which RepMar will make debt service payments to RUS in the event of default by MINTA. Mortgages over specific MINTA ground leases and essentially all assets of MINTA have collateralized both loans. \$ 27,348,003

MINTA previously defaulted on its loan payments to RUS and, as the guarantor, RepMar was required to make payments on behalf of MINTA. In April 2013, MINTA began making reduced monthly loan payments covering slightly more than loan interest. At September 30, 2013, MINTA owed \$563,000 in RUS arrearages. Since the loan is currently in default, all amounts due have been reclassified as current liabilities.

RMI Ports Authority (RMIPA):

Loan with a bank, dated October 12, 2012, interest at 7.5% per annum, with principal and interest payable in monthly installments of \$20,125 through October 30, 2017, collateralized by time certificate of deposit. Loan proceeds of \$1,000,000 were used to fund various capital improvement projects. \$ 845,899

Loan with a bank, dated January 11, 2013, interest at 7% per annum, with principal and interest payable in monthly installments of \$12,300 through December 31, 2018, collateralized by time certificate of deposit. Loan proceeds of \$700,000 were used to fund various capital improvement projects. 635,108

\$ 1,481,007

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements
September 30, 2013

(7) Long-term Obligations, Continued

Discretely Presented Component Units, Continued

RMI Ports Authority (RMIPA), Continued:

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

<u>Year ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 287,456	\$ 101,644	\$ 389,100
2015	309,772	79,328	389,100
2016	333,653	55,447	389,100
2017	359,723	29,377	389,100
2018	159,032	8,517	167,549
2019	<u>39,371</u>	<u>445</u>	<u>31,816</u>
	<u>\$ 1,481,007</u>	<u>\$ 274,758</u>	<u>\$ 1,755,765</u>

Majuro Atoll Waste Company (MAWC):

Loan with a bank, dated September 26, 2013, interest at 8% per annum, with principal and interest payable in monthly installments of \$2,935 through September 30, 2017, collateralized by a 2013 Freightliner Garbage Truck. Loan proceeds of \$120,000 were used to fund various operating expenses. \$ 120,000

Annual repayment requirements to maturity for principal and interest are as follow:

<u>Year ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 26,439	\$ 8,781	\$ 35,220
2015	28,775	6,445	35,220
2016	31,151	4,069	35,220
2017	<u>33,635</u>	<u>1,470</u>	<u>35,105</u>
	<u>\$ 120,000</u>	<u>\$ 20,765</u>	<u>\$ 140,765</u>

Tobolar Copra Processing Authority (TCPA):

Loan with a bank, dated August 15, 2013, interest at 7.5% per annum, with principal and interest payable in monthly installments of \$2,781 through October 15, 2028, collateralized by a general security agreement over all assets of TCPA and a guarantee from RepMar. Loan proceeds of \$300,000 were used to fund capital expenditures. \$ 300,000

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements
September 30, 2013

(7) Long-term Obligations, Continued

Discretely Presented Component Units, Continued

Tobolar Copra Processing Authority (TCPA), Continued:

Annual repayment requirements to maturity for principal and interest are as follow:

<u>Year ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 10,284	\$ 23,088	\$ 33,372
2015	12,052	21,320	33,372
2016	12,988	20,384	33,372
2017	13,996	19,376	33,372
2018	15,083	18,289	33,372
2019 – 2023	94,906	71,954	166,860
2024 – 2028	137,927	28,933	166,860
2029	2,764	17	2,781
	<u>\$ 300,000</u>	<u>\$ 203,361</u>	<u>\$ 503,361</u>

(8) Change in Long-term Obligations

Primary Government

Other long-term liabilities will be liquidated in the future primarily from the General Fund and the Grants Assistance Fund. During the year ended September 30, 2013, the following changes occurred in liabilities reported as part of the primary government's long-term liabilities in the statement of net position:

	<u>Balance October 1, 2012</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance September 30, 2013</u>	<u>Due Within One Year</u>
Loans payable:					
ADB loans	\$ 62,159,874	\$ 4,893,961	\$ (2,348,954)	\$ 64,704,881	\$ 2,489,869
Other:					
Compensated absences	3,327,038	2,194,415	(2,194,414)	3,327,038	1,292,591
Other	-	1,500,000	(300,000)	1,200,000	400,000
	<u>\$ 65,486,912</u>	<u>\$ 8,588,376</u>	<u>\$ (4,843,369)</u>	<u>\$ 69,231,919</u>	<u>\$ 4,182,460</u>

On April 23, 2013, RepMar acquired a building at a cost of \$1,500,000 and entered into a purchase agreement with the owner that required a down payment of \$300,000 within seven days of execution of the agreement with the remaining amount owed to be paid in quarterly instalments of \$100,000 commencing October 5, 2013.

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements
September 30, 2013

(8) Change in Long-term Obligations, Continued

Discretely Presented Component Units

Changes in long-term liabilities of discretely presented component units for the year ended September 30, 2013, are as follows:

	Balance October 1, <u>2012</u>	<u>Additions</u>	<u>Reductions</u>	Balance September 30, 2013	Due Within <u>One Year</u>
Loans payable:					
AMI	\$ 230,287	\$ 2,500,000	\$ (230,287)	\$ 2,500,000	\$ 518,247
MEC	6,174,313	187,584	(277,918)	6,083,979	719,313
MIDB	3,690,095	2,500,000	(1,122,783)	5,067,312	1,444,161
MINTA	28,102,158	-	(754,155)	27,348,003	27,348,003
RMIPA	53,434	1,700,000	(272,427)	1,481,007	287,456
MAWC	-	120,000	-	120,000	26,439
TCPA	-	300,000	-	300,000	10,284
	38,250,287	7,307,584	(2,657,570)	42,900,301	30,353,903
Due to primary government	15,589,041	-	(334,727)	15,254,314	5,246,477
Due to component units	<u>2,237,702</u>	<u>95,000</u>	<u>(2,000,361)</u>	<u>332,341</u>	<u>332,341</u>
	<u>\$ 56,077,030</u>	<u>\$ 7,402,584</u>	<u>\$ (4,992,658)</u>	<u>\$ 58,486,956</u>	<u>\$ 35,932,721</u>

(9) Restricted Assets

Primary Government

Restricted cash and cash equivalents of the primary government are as follows:

Escrow account established for the benefit of landowners of Kwajalein Atoll.	\$ 291,270
Savings account established in accordance with Section 211(d)(2) of the Compact of Free Association, as amended, for the purpose of funding RepMar's infrastructure maintenance plan.	510,662
Savings account established in accordance with Section 211(e) of the Compact of Free Association, as amended, for the purpose of funding RepMar's disaster assistance emergency fund.	1,750,518
Deposit account established for the purpose of receiving payments pursuant to the Compact of Free Association, as amended.	2,167
Savings accounts collateralizing a credit card facility.	62,528
Deposit account established in accordance with ADB Loan 2659-RMI (SF).	1,115,433
Savings account established for the purpose of accounting for funds held by RepMar in a custodial capacity relating to unclaimed property.	<u>78,054</u>
	<u>\$ 3,810,632</u>

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements
September 30, 2013

(9) Restricted Assets, Continued

Primary Government, Continued

Restricted investments of the primary government are as follows:

Investments held in a trust fund for the purpose of accumulating resources to fund RepMar government operations after fiscal year 2023. \$ 52,416,388

Discretely Presented Component Units

Restricted assets of the discretely presented component units are as follows:

Marshall Islands Development Bank:

Savings account collateralizing loans funded by Rural Housing Service (RHS). \$ 526,468

Time certificate of deposit collateralizing loan payable to a bank. 684,188

1,210,656

RMI Ports Authority:

Time certificate of deposit collateralizing loans payable to a bank. 1,700,000

\$ 2,910,656

(10) Operating Transfers In/Out

Operating transfers in/out for each major governmental fund and nonmajor governmental funds in the aggregate, for the year ended September 30, 2013, are as follows:

	<u>Transfers Out</u>	<u>Transfers In</u>
General Fund:		
Grants Assistance Fund	\$ -	\$ 220,000
Nonmajor governmental funds	<u>610,655</u>	<u>357,333</u>
	<u>610,655</u>	<u>577,333</u>
Grants Assistance Fund:		
General Fund	220,000	-
Nonmajor governmental funds	<u>2,902,359</u>	<u>-</u>
	<u>3,122,359</u>	<u>-</u>
Nonmajor governmental funds:		
General Fund	357,333	610,655
Grants Assistance Fund	<u>-</u>	<u>2,902,359</u>
	<u>357,333</u>	<u>3,513,014</u>
	\$ <u>4,090,347</u>	\$ <u>4,090,347</u>

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements
September 30, 2013

(10) Operating Transfers In/Out, Continued

Transfers are used to 1) move revenues from the fund that enabling legislation or budget requires to collect them to the fund that enabling legislation or budget requires to expend them, 2) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations, and 3) record reductions in interfund loans for amounts that are not expected to be repaid. Specifically, RepMar transferred \$2,902,359 from the Grants Assistance Fund to the Nonmajor Governmental Funds to finance scholarships and Four-atoll medical costs; \$610,655 from the General Fund to the Nonmajor Governmental Funds to primarily finance Judicial branch operations and scholarships; \$220,000 from the Grants Assistance Fund to the General Fund to finance certain debt service payments; and \$357,333 from the Nonmajor Governmental Funds to the General Fund to finance general operations.

(11) Fund Balances

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

	<u>General</u>	<u>Grants Assistance</u>	<u>Compact Trust</u>	<u>Nonmajor Governmental Funds</u>	<u>Totals</u>
Fund balances:					
Nonspendable:					
Pacific Islands Development Bank investment	\$ 748,250	\$ -	\$ -	\$ -	\$ 748,250
Loan receivable – MEC	8,474,656	-	-	-	8,474,656
Loan receivable – MIDB	1,877,054	-	-	-	1,877,054
Permanent fund principal	-	-	52,416,388	-	52,416,388
Restricted:					
Education	-	176,938	-	-	176,938
Health	-	73,916	-	-	73,916
Capacity building	-	163,373	-	-	163,373
Environmental	-	10,487	-	-	10,487
Ebeye special needs	-	327,561	-	-	327,561
Infrastructure maintenance	-	2,746,708	-	-	2,746,708
Disaster assistance	-	2,189,742	-	-	2,189,742
Compact – other	-	41,070	-	-	41,070
Education – scholarships	-	1,593	-	786,978	788,571
ADB loan projects	3,323,227	-	-	-	3,323,227
Credit card collateralization	62,084	-	-	-	62,084
Nuclear claims related	-	-	-	467,631	467,631
Other	-	392,180	-	-	392,180
Committed:					
Nitijela	-	-	-	5,650	5,650
Judiciary	30,655	-	-	163,599	194,254
Health and environment	-	-	-	4,952,057	4,952,057
Transportation and communication	-	-	-	19,612	19,612
Internal affairs	14,251	-	-	10,226	24,477
Justice	-	-	-	6,228	6,228
Public works	-	-	-	36,291	36,291
Land registration authority	-	-	-	18,118	18,118
National Training Council	-	-	-	48,899	48,899
Capital projects	-	1,682,820	-	-	1,682,820
Unassigned	(849,778)	(149,946)	-	-	(999,724)
	<u>\$ 13,680,399</u>	<u>\$ 7,656,442</u>	<u>\$ 52,416,388</u>	<u>\$ 6,538,975</u>	<u>\$ 80,292,204</u>

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements September 30, 2013

(12) Compact Trust Fund

Section 216(a) of the Compact, as amended, provides for annual contributions from the United States into a trust fund established in accordance with the Agreement Between the Government of the United States of America and the Government of the Republic of the Marshall Islands Implementing Section 216 and Section 217 of the Compact, as Amended, Regarding a Trust Fund (Trust Fund Agreement). The contributions by the United States were conditioned upon RepMar contributing to the trust fund at least \$25,000,000 on October 1, 2003, \$2,500,000 prior to October 1, 2004, and a final \$2,500,000 prior to October 1, 2005. As of September 30, 2013, RepMar has contributed the required amounts to the "A Account" as required under Article 16 of the Trust Fund Agreement; however, Article 21 of the Trust Fund Agreement states that the United States may withdraw the Present Market Value of its contributions to the "A Account" if certain events occur.

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

In addition to the "A Account", the Trust Fund Agreement requires a "C Account" be created into which annual income earnings over 6% from the "A Account" shall be deposited. The "C Account" is maintained as a memorandum account within the Trust Fund and is not separately invested.

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

RepMar - "A Account" and "C Account"	\$ 41,046,919
RepMar - "D Account"	<u>11,369,469</u>
	\$ <u>52,416,388</u>

At September 30, 2013, the fair market value of contributions to the Compact Trust Fund "A Account" by the United States and the Republic of China, including associated undistributed income, and the related "C Account" is as follows:

United States: - "A Account" and "C Account"	\$ 143,702,308
Republic of China - "A Account" and "C Account"	<u>21,407,227</u>
	\$ <u>165,109,535</u>

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements
September 30, 2013

(13) Contingencies and Commitments

Nuclear Claims Trust Fund (NCTF)

Section 177(c) of the Compact of Free Association (the Compact) provides, on a one-time grant basis, the amount of \$150,000,000 to RepMar to be used to establish a trust fund from which annual distributions are to be made in accordance with Article II of the Agreement between the Government of the United States and RepMar for Implementation of Section 177 of the Compact (the Agreement). Pursuant to the Agreement, RepMar established the NCTF from which these distributions are made. Over a period of fifteen years, the Nuclear Claims Tribunal (NCT) received \$45,750,000 from the NCTF that was made available for whole or partial payment of monetary awards. As of September 30, 2013, NCT has committed to the distribution of monetary awards for personal injury claims of \$23,159,963 and of property damage claims of \$2,284,108,436, which will be paid out against the reserved fund balance and future sums that NCT expects to receive from the NCTF. The reserved fund balance of the NCTF is \$57,862 as of September 30, 2013. Accordingly, additional funds will have to be made available through future earnings of the funds invested in the NCTF after the end of the Compact or from a renegotiated financial settlement of damages with the United States.

Marshall Islands National Telecommunications Authority (MINTA)

MINTA has previously defaulted on its loan payments to RUS and, as the guarantor, RepMar was required to make payments on behalf of MINTA. In April 2013, MINTA began making reduced monthly loan payments covering slightly more than loan interest. At September 30, 2013, MINTA owed \$563,000 in RUS arrearages. RepMar has demonstrated the ability and willingness in the past to provide financing for MINTA's debt payments; however, no such support was provided in 2013 when MINTA defaulted on its loan payments to RUS. It is uncertain whether RepMar is willing to continue to support MINTA. MINTA has been verbally notified by RUS that it is in default, but has not yet been notified in writing. The ability of MINTA to continue as a going concern is dependent upon MINTA management's plan and the resolution of the aforementioned issues. No provision for any liability that may result upon resolution of this matter has been made in the accompanying financial statements.

Federal Grants

RepMar participates in a number of federally assisted grant programs and other various U.S. Department of the Interior grants. These programs are subject to financial and compliance audits to ascertain if Federal laws and guidelines have been followed. Questioned costs relating to fiscal years 2005 through 2013 have been set forth in RepMar's Single Audit Report for the year ended September 30, 2013. In addition, RepMar is considered to have responsibility for any questioned costs that may result from Single Audits of subgrantees who have not satisfied the audit requirements of OMB Circular A-133. The ultimate disposition of these questioned costs can be determined only by final action of the respective grantor agencies. Therefore, no provision for any liability that may result upon resolution of this matter has been made in the accompanying financial statements.

Sick Leave

It is the policy of RepMar to record expenditures for sick leave when leave is actually taken. Sick leave is compensated time for absence during working hours arising from employee illness or injury. The estimated accumulated amount of unused sick leave as of September 30, 2013 is \$10,123,441.

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements September 30, 2013

(13) Contingencies and Commitments, Continued

Marshalls Energy Company, Inc. (MEC)

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

Marshall Islands Social Security Administration (MISSA)

In March 2012, MISSA obtained an actuarial valuation of the Retirement Fund as of October 1, 2011. The valuation reported actuarial accrued liabilities for the Retirement Fund of \$287,327,000. As of September 30, 2013, MISSA recorded total fund equity of \$72,896,651 in the Retirement Fund, as funds available to fund future benefit obligations. These conditions indicate that MISSA may be unable to meet its future benefit obligations.

Coin Issue

RepMar authorized the issuance of certain commemorative coins that are represented to be the legal tender of the Republic of the Marshall Islands. Under the terms of the contract, if an owner of the coins presents them in the Republic of the Marshall Islands, the Government must redeem them for the face value. On October 28, 1998, the Cabinet of RepMar directed the Minister of Finance to terminate the contract.

Leases

RepMar enters into numerous leases with various landowners. The lease terms generally range from one to fifteen years. However, appropriations to fund these leases are made only on an annual basis. For fiscal year 2013, RepMar appropriated \$916,058 to fund such leases.

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

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

<u>Year ending September 30</u>	<u>Total</u>
2014	\$ 670,369
2015	677,647
2016	139,517
2017	123,682
2018	126,475
2019 - 2023	677,281
2024 - 2028	740,427
2029 - 2033	<u>825,795</u>
	\$ <u>3,981,193</u>

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements September 30, 2013

(13) Contingencies and Commitments, Continued

Trust Company of the Marshall Islands

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

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

Air Marshall Islands, Inc. (AMI)

At September 30, 2013, AMI is liable to the Marshall Islands Social Security Administration (MISSA) for certain delinquent employee and employer contributions, totaling \$1,358,051, which includes related penalties and interest. On December 28, 2010, AMI entered into a promissory note with MISSA in the amount of \$1,059,068 associated with these delinquent contributions. The note bears interest at 12% per annum with monthly payments of \$15,000 commencing January 10, 2011. In addition, a \$50,000 payment is due on or before January 31, 2011 and another on or before April 30, 2011. On September 23, 2011, MISSA filed suit against AMI for defaulting on the above promissory note. On November 30, 2012, the High Court entered judgment against AMI in favor of MISSA for \$1,411,985, inclusive of penalties relating to delinquent contributions.

Budgetary Compliance

For the year ended September 30, 2013, significant over-expenditures exceeding appropriations within the General Fund were as follows:

Marshall Islands National Telecommunications Authority	\$ 1,000,000
Marshall Islands Resort	\$ 2,365,635
Land Leases	\$ 125,939
Majuro Landowners Electricity Bills	\$ 165,231
ADB Loan Repayment	\$ 624,514
Ministry of Health and Environment	\$ 244,656
Ministry of Finance	\$ 645,952
Ministry of Foreign Affairs and Trade	\$ 302,521

These over-expenditures of the General Fund have not been funded by legislative authorization.

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements September 30, 2013

(13) Contingencies and Commitments, Continued

Insurance Coverage

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

Other Commitments

Significant commitments of the primary government as of September 30, 2013, are as follows:

- a) Guaranteed bank debt of Tobolar Copra Processing Authority (TCPA) with a letter of guarantee. At September 30, 2013, TCPA had guaranteed debt totaling \$300,000.
- b) Guaranteed debt of Marshall Islands National Telecommunications Authority (MINTA) in respect of a loan from the United States Rural Utilities Service (RUS, formerly Rural Electrification Administration) with a letter of guarantee. At September 30, 2013, MINTA had guaranteed debt totaling \$27,348,003.
- c) Guaranteed debt of Marshalls Energy Company, Inc. (MEC) in respect to a loan from the United States Rural Utilities Service (RUS) with a letter of guarantee. At September 30, 2013, MEC had guaranteed debt totaling \$5,545,287.
- d) Guaranteed a bank debt of MEC with a letter of guarantee. At September 30, 2013, MEC had guaranteed bank debt totaling \$538,692.
- e) RepMar has entered into lease agreements with certain landowners for the use of land situated at the Majuro international airport. The terms of the lease agreements are for a 25-year period commencing September 1, 1996. Annual lease rental commitments are \$305,613 per year.
- f) RepMar has issued a letter of guarantee of \$178,000 plus interest for the benefit of the Delap Assembly of God Church for a loan issued by Marshall Islands Development Bank.
- g) In accordance with Cabinet Minute C.M. 121 (2003), the Cabinet of RepMar has issued a government guarantee in the amount of \$5,000,000 for a loan obtained by the Marshall Islands Development Bank. At September 30, 2013, MIDB had guaranteed debt totaling \$400,000.
- h) In accordance with Cabinet Minute C.M. 158 (2012), the Cabinet of RepMar has issued a government guarantee for and on behalf of MEC to a fuel supplier for amounts owing by MEC relating to the purchase of fuel products not to exceed \$10,000,000. At September 30, 2013, MEC had guaranteed debt to a fuel supplier totaling \$6,152,640.
- i) In accordance with Cabinet Minute C.M. 029 (2012), the Cabinet of RepMar approved the extension of financial support for the College of the Marshall Islands in the annual amount of \$3,000,000 through fiscal year 2017.
- j) In accordance with Cabinet Minute C.M. 077 (2013), the Cabinet of RepMar has issued a government guarantee in the amount of \$2,500,000 for a loan obtained by Air Marshall Islands, Inc. (AMI). At September 30, 2013, AMI had guaranteed debt totaling \$2,500,000.

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements September 30, 2013

(14) Subsequent Events

On November 12, 2013, Majuro Resort, Inc. (MRI) entered into an agreement with RepMar to resolve the settlement of certain delinquent withholding taxes whereby RepMar will deduct 20% from all payments due to MRI until such time that the delinquent withholding taxes liability has been fully satisfied. In addition, RepMar agreed to waive the payment of penalties and interest so long as MRI remains current on withholding taxes payable commencing October 2013.

On December 5, 2013, Marshalls Energy Company, Inc. (MEC) entered into a Memorandum of Agreement with RepMar to reconcile reciprocal accounts receivable and liability balances, offsetting such balances in lieu of cash payment for settlement. The agreement resulted in the forgiveness of MRI's debt to MEC in the amount of \$2,365,635. MRI has elected to record the forgiveness of debt in the accompanying financial statements during the year ended September 30, 2013.

On April 30, 2014, the Cabinet of RepMar approved the \$3,800,000 purchase of the Long Island Hotel facilities for the purpose of establishing a University of South Pacific campus in Majuro.

On June 27, 2014, the Cabinet of RepMar approved a loan guarantee for MEC in the amount of \$1,900,000 for the purpose of funding fuel purchases.

(15) Restatement

Subsequent to the issuance of RepMar's 2012 financial statements, it was determined that other liabilities and accruals of Air Marshall Islands, Inc. (AMI) were overstated by \$324,350. In addition, management determined that the 501(c)(3) tax-exempt status of certain non-profit, public benefit corporations previously presented as discretely presented component units of the College of the Marshall Islands (CMI) in accordance with GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*, were revoked by the United States Internal Revenue Service. Accordingly, management of the College considered that the financial statements of the College no longer were required to include the accounts of these component units. Finally, management determined that capital assets, net of accumulated depreciation, of the Marshall Islands National Telecommunications Authority (MINTA) were overstated by \$830,771. A summary of the effects of such restatements on the net position at the beginning of the year and on the changes in net position of the aggregate discretely presented component units for the year ended September 30, 2012 are as follows:

	<u>As Previously Reported</u>	<u>As Restated</u>
Expenses:		
AMI	\$ <u>3,678,468</u>	\$ <u>3,354,118</u>
CMI	\$ <u>11,611,103</u>	\$ <u>12,480,975</u>
MINTA	\$ <u>9,427,930</u>	\$ <u>9,775,104</u>
General revenues:		
CMI	\$ <u>106,477</u>	\$ <u>4,928</u>
Change in net position	\$ <u>4,369,654</u>	\$ <u>3,375,409</u>
Net position, beginning of the year	\$ <u>92,834,282</u>	\$ <u>92,350,685</u>
Net position, end of the year	\$ <u>97,203,936</u>	\$ <u>95,726,094</u>

REPUBLIC OF THE MARSHALL ISLANDS

REQUIRED SUPPLEMENTARY INFORMATION

YEAR ENDED SEPTEMBER 30, 2013

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual
General Fund (Fund 100100)
Year Ended September 30, 2013

	Budgeted Amounts		Actual - Budgetary Basis (see Note 1)	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues:				
Taxes	\$ 23,863,910	\$ 24,163,910	\$ 26,384,532	\$ 2,220,622
Fees and charges	212,582	212,582	16,592	(195,990)
Interest and dividends	-	-	148,518	148,518
Other	11,302,120	16,212,304	16,750,658	538,354
Total revenues	<u>35,378,612</u>	<u>40,588,796</u>	<u>43,300,300</u>	<u>2,711,504</u>
Expenditures:				
President and Cabinet	1,971,118	2,144,717	1,922,096	222,621
Office of the Chief Secretary	640,847	626,429	423,647	202,782
Special appropriations	7,630,278	11,382,171	14,819,547	(3,437,376)
Council of Iroij	440,754	455,634	458,944	(3,310)
Office of the Auditor-General	1,135,528	1,326,024	1,210,016	116,008
Public Service Commission	468,240	493,040	512,441	(19,401)
Office of the Attorney General	920,312	920,312	684,348	235,964
Ministries	19,984,194	20,922,066	21,791,607	(869,541)
Environmental Protection Authority	189,813	189,813	198,847	(9,034)
Nitijela	1,764,568	1,774,488	1,660,257	114,231
Total expenditures	<u>35,145,652</u>	<u>40,234,694</u>	<u>43,681,750</u>	<u>(3,447,056)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>232,960</u>	<u>354,102</u>	<u>(381,450)</u>	<u>(735,552)</u>
Other financing sources (uses):				
Operating transfers in	350,000	350,000	827,333	477,333
Operating transfers out	(1,104,599)	(1,225,741)	(1,208,345)	17,396
Other financing sources (uses), net	<u>(754,599)</u>	<u>(875,741)</u>	<u>(381,012)</u>	<u>494,729</u>
	(521,639)	(521,639)	(762,462)	(240,823)
Encumbrances for supplies and equipment ordered but not received are reported in the year the order is placed for budgetary purposes but in the year the supplies are received for financial reporting purposes				
	<u>521,639</u>	<u>521,639</u>	<u>1,871,084</u>	<u>1,349,445</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,108,622</u>	<u>\$ 1,108,622</u>

See accompanying notes to required supplementary information - budgetary reporting.

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Required Supplementary Information - Budgetary Reporting September 30, 2013

(1) Budgetary Information

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

The Budget Act for fiscal year 2013, Public Law No. 2012-3, was passed by the Nitijela on September 21, 2012. On March 11, 2013, Public Law 2013-6 was passed by the Nitijela as a Supplemental Budget Act for fiscal year 2013. Formal budget integration is employed as a management control device during the year for all funds. The Cabinet has the authority to reprogram budgeted estimates in accordance with the Constitution. All annual appropriations lapse at fiscal year-end unless otherwise specified by law. Supplemental appropriations may occur throughout the year. Unexpended encumbrances at each fiscal year end are carried forward until they are expended or canceled without further legislative action. RepMar does not establish budgets for the operations of its other governmental funds.

Encumbrance accounting is employed in governmental funds. For budgetary purposes, the encumbrances (i.e., purchase orders, contracts) are considered expenditures when incurred. For GAAP reporting purposes, encumbrances outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent fiscal year.

(2) Reconciliation of Budgetary Schedule

Net change in fund balance - budgetary basis	\$ <u>1,108,622</u>
GASB 54 Funds included within the General Fund;	
Reimbursable Fund	(17,445)
Judiciary Fund	3,355
MIDA Fund	(318,630)
ADB Development Fund	<u>2,185,082</u>
	<u>1,852,362</u>
Net change in fund balance - General Fund	\$ <u>2,960,984</u>

See Accompanying Independent Auditors' Report.

REPUBLIC OF THE MARSHALL ISLANDS

OTHER SUPPLEMENTARY INFORMATION

YEAR ENDED SEPTEMBER 30, 2013

REPUBLIC OF THE MARSHALL ISLANDS

Combining Schedule of Expenditures by Account Governmental Funds Year Ended September 30, 2013

	General	Special Revenue Grants Assistance	Permanent Compact Trust	Other Governmental Funds	Total
Expenditures:					
Salaries and wages	\$ 17,974,295	\$ 19,267,809	\$ -	\$ 715,456	\$ 37,957,560
Grants and subsidies	9,144,827	10,725,248	-	1,501,825	21,371,900
Utilities	4,265,513	2,624,118	-	129,385	7,019,016
Contractual services	1,502,175	4,422,358	-	4,555,885	10,480,418
Capital outlay	673,378	6,080,937	-	719,353	7,473,668
Travel	1,223,598	1,216,809	-	843,374	3,283,781
Medical supplies	-	6,543	-	3,557,055	3,563,598
Principal repayment	2,011,338	337,616	-	-	2,348,954
Supplies and materials	532,793	1,711,712	-	140,318	2,384,823
Leased housing	778,933	1,291,249	-	69,600	2,139,782
Rentals	1,223,669	506,072	-	18,100	1,747,841
Food stuffs	391,864	1,709,332	-	10,233	2,111,429
Interest	959,943	212,793	-	-	1,172,736
Communications	580,492	281,066	-	104,644	966,202
POL	488,386	571,822	-	94,762	1,154,970
Allowances	845,876	37,554	-	4,450	887,880
Professional services	75,580	670,413	-	327,864	1,073,857
Printing and reproduction	40,586	50,946	-	371	91,903
Insurance	53,319	27,371	-	18,000	98,690
Freight	5,878	119,345	-	10,592	135,815
Other	3,052,211	2,775,493	-	583,744	6,411,448
	<u>\$ 45,824,654</u>	<u>\$ 54,646,606</u>	<u>\$ -</u>	<u>\$ 13,405,011</u>	<u>\$ 113,876,271</u>

See Accompanying Independent Auditors' Report.

REPUBLIC OF THE MARSHALL ISLANDS

GENERAL FUND

September 30, 2013

The general fund is used to account for resources traditionally associated with government, which are not required legally or by sound financial management to be accounted for in another fund.

See Accompanying Independent Auditors' Report.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Revenues, Expenditures by Function, and Changes in Fund Balance - General Fund (Fund 100100) Year Ended September 30, 2013 (with comparative totals for the year ended September 30, 2012)

	2013	2012
Revenues:		
Taxes:		
Income	\$ 11,865,145	\$ 11,273,994
Import	6,051,621	5,263,051
Import - CMI	922,814	976,622
Gross revenue	6,465,541	6,402,608
Immovable property	393,452	485,334
Fuel	481,032	631,542
Penalties and interest	78,943	95,483
Other	125,984	100,815
	<u>26,384,532</u>	<u>25,229,449</u>
Fees and charges	16,592	31,957
Interest and dividends	148,518	219,176
Other:		
Taiwan grant	3,600,000	3,600,000
Ship registry	4,000,000	4,000,000
Contribution from MI Marine Resources Authority	7,900,000	4,100,000
Contribution from RMI Ports Authority	346,725	295,464
Japan grant	-	206,477
Other	903,933	639,590
	<u>16,750,658</u>	<u>12,841,531</u>
Total revenues	<u>43,300,300</u>	<u>38,322,113</u>
Expenditures:		
President and Cabinet:		
Office of the President	517,113	504,205
President and Ministers	582,893	567,681
Cabinet Operations	487,447	425,457
Customary Law Commission	175,963	159,880
RMI/USP Joint Secondary Education Project	18,473	256,859
	<u>1,781,889</u>	<u>1,914,082</u>
Office of the Chief Secretary:		
Administration	172,932	180,199
Deputy Chief Secretary - Ebeye	8,051	17,823
Economic Policy, Planning and Statistics Office	147,926	138,197
Office of Environmental Planning and Policy Coordination	61,393	58,515
Disaster Office	21,648	31,628
	<u>411,950</u>	<u>426,362</u>
Special appropriations:		
Presidential Summit	28,610	-
Majuro AKIA Improvement	80,000	-
Air Marshall Islands	364,898	1,495,598
Alele Corporation	221,893	64,298
Constitution Day - Ebeye	4,960	-
Marshall Islands Development Bank	191,092	-
Marshall Islands National Telecommunications Authority	1,000,000	619,000
Marshall Islands Resort	2,365,635	300,000
Marshall Islands Shipping Corporation	-	801,135
Property Acquisition	300,000	-
Centralized Utility Billings	973,739	2,743,250
Ebeye KALGOV	29,760	-
Land leases	1,041,997	957,255
Majuro Landowners electricity bills	2,151,806	2,252,530
Leased housing	168,575	205,101
Marshall Islands Visitors Authority	105,017	245,816
Contingencies	31,160	-
International subscriptions/membership fees	433,550	345,608
Prior Year Liabilities	596,904	635,796
Copra price stabilization subsidy	1,190,400	1,190,400
Constitution Day - Majuro	39,880	19,840
Micronesia Legal Service Corporation	36,200	-
Constitutional Convention	37,364	-
General Election	-	382,350
College of the Marshall Islands	109,120	-
Other	-	157,845
	<u>11,502,560</u>	<u>12,415,822</u>

See Accompanying Independent Auditors' Report.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Revenues, Expenditures by Function, and Changes in Fund Balance - General Fund (Fund 100100), Continued Year Ended September 30, 2013 (with comparative totals for the year ended September 30, 2012)

	2013	2012
Expenditures, continued:		
Council of Iroij:		
Administration	97,492	113,656
Members	<u>356,502</u>	<u>380,556</u>
	<u>453,994</u>	<u>494,212</u>
Nitijela:		
Operations	433,070	443,796
General membership	1,007,056	852,423
Speaker's contingency	58,123	66,662
Committee	10,408	41,744
Legislative counsel	<u>108,935</u>	<u>121,983</u>
	<u>1,617,592</u>	<u>1,526,608</u>
Office of the Auditor-General:		
Operations	382,249	347,826
Single audit - local match	<u>370,365</u>	<u>151,702</u>
	<u>752,614</u>	<u>499,528</u>
Public Service Commission:		
Members	92,179	92,200
Administration	<u>409,583</u>	<u>353,374</u>
	<u>501,762</u>	<u>445,574</u>
Office of the Attorney General	<u>677,328</u>	<u>577,102</u>
Ministries:		
Ministry of Education	4,051,391	3,880,328
Ministry of Health and Environment	3,660,876	2,781,498
Ministry of Transportation and Communication	566,598	550,894
Ministry of Resources and Development	597,011	658,004
Ministry of Internal Affairs	2,073,719	1,813,196
Ministry of Justice	3,299,117	2,629,295
Ministry of Finance	2,898,063	3,739,949
Ministry of Foreign Affairs and Trade	2,649,696	2,515,200
Ministry of Public Works	<u>1,171,932</u>	<u>992,457</u>
	<u>20,968,403</u>	<u>19,560,821</u>
Environmental Protection Authority	<u>198,847</u>	<u>182,123</u>
Debt service:		
ADB loan repayment:		
Principal repayment	2,011,338	1,724,201
Interest charges	<u>951,139</u>	<u>1,168,540</u>
	<u>2,962,477</u>	<u>2,892,741</u>
Total expenditures	<u>41,829,416</u>	<u>40,934,975</u>
Excess (deficiency) of revenues over (under) expenditures	<u>1,470,884</u>	<u>(2,612,862)</u>
Other financing sources:		
Operating transfers in:		
ADB Development Projects Fund	250,000	-
Other Direct Assistance Fund	120,000	-
Republic of China Fund	100,000	250,000
Labor (General) Fund	-	166,713
Resident Workers Training Account Fund	-	811,552
Ministry of Internal Affairs Fund	-	112,983
Health Care Revenue Fund	5,428	48,852
Ministry of Justice Fund	<u>351,905</u>	<u>168,464</u>
Total other financing sources	<u>827,333</u>	<u>1,558,564</u>
Other financing uses:		
Operating transfers out:		
Section 211(a)(1) Compact Health Sector Fund	-	505,385
Other Direct Assistance Fund	-	827,455
Judiciary Fund	578,940	576,744
Marshall Islands Scholarship, Grant and Loan Board Fund	121,960	117,359
Marshall Islands Judiciary Fund	414,295	342,751
Nuclear Claims Tribunal	74,400	56,250
Local Government Fund	<u>-</u>	<u>332,240</u>
Total other financing uses	<u>1,189,595</u>	<u>2,758,184</u>
Net change in fund balance	1,108,622	(3,812,482)
Fund balance at the beginning of the year	<u>10,299,124</u>	<u>14,111,606</u>
Fund balance at the end of the year	<u>\$ 11,407,746</u>	<u>\$ 10,299,124</u>

See Accompanying Independent Auditors' Report.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Revenues, Expenditures and Changes in Fund Balance Budget and Actual - General Fund (Fund 100100) Year Ended September 30, 2013

	Budgeted Amounts		Actual - Budgetary Basis	Variance
	Original	Final		
Revenues:				
Taxes:				
Income	\$ 9,755,337	\$ 9,955,337	\$ 11,865,145	\$ 1,909,808
Import	6,222,000	6,222,000	6,051,621	(170,379)
Import - CMI	918,000	918,000	922,814	4,814
Gross revenue	5,914,963	6,014,963	6,465,541	450,578
Immovable property	247,521	247,521	393,452	145,931
Fuel	663,000	663,000	481,032	(181,968)
Penalties and interest	55,205	55,205	78,943	23,738
Other	87,884	87,884	125,984	38,100
	<u>23,863,910</u>	<u>24,163,910</u>	<u>26,384,532</u>	<u>2,220,622</u>
Fees and charges	212,582	212,582	16,592	(195,990)
Interest and dividends	-	-	148,518	148,518
Taiwan grant	3,600,000	3,600,000	3,600,000	-
Ship registry	4,000,000	5,000,000	4,000,000	(1,000,000)
MI Marine Resources Authority	3,500,000	7,500,000	7,900,000	400,000
RMI Ports Authority	-	-	346,725	346,725
Other	202,120	112,304	903,933	791,629
	<u>11,302,120</u>	<u>16,212,304</u>	<u>16,750,658</u>	<u>538,354</u>
Total revenues	<u>35,378,612</u>	<u>40,588,796</u>	<u>43,300,300</u>	<u>2,711,504</u>
Expenditures:				
President and Cabinet:				
Office of the President	348,106	524,489	638,024	(113,535)
President and Ministers	587,036	597,441	583,574	13,867
Cabinet Operations	501,270	488,081	495,399	(7,318)
Customary Law Commission	190,106	190,106	186,626	3,480
RMI/USP Joint Secondary Education Project	344,600	344,600	18,473	326,127
	<u>1,971,118</u>	<u>2,144,717</u>	<u>1,922,096</u>	<u>222,621</u>
Office of the Chief Secretary:				
Administration	283,537	269,119	182,509	86,610
Deputy Chief Secretary - Ebeye	67,859	67,859	9,103	58,756
EPPSO	195,719	195,719	148,994	46,725
OEPPC	93,732	93,732	61,393	32,339
Disaster Office	-	-	21,648	(21,648)
	<u>640,847</u>	<u>626,429</u>	<u>423,647</u>	<u>202,782</u>
Special appropriations:				
Presidential summit	-	-	28,610	(28,610)
Majuro AKIA Improvement	-	79,360	80,000	(640)
Air Marshall Islands	-	423,940	423,938	2
Alele Corporation	212,584	262,184	262,190	(6)
Constitution Day - Ebeye	4,960	4,960	4,960	-
Marshall Islands National Telecommunications Authority	-	-	1,000,000	(1,000,000)
Marshall Islands Resort	-	-	2,365,635	(2,365,635)
National Band	99,200	-	-	-
Marshall Islands Development Bank	-	191,100	191,092	8
Property Acquisition	-	297,600	300,000	(2,400)
Centralized Utility Billings	1,295,894	1,483,444	973,739	509,705
Ebeye KALGOV	119,040	119,040	119,040	-
Land leases	730,997	916,058	1,041,997	(125,939)
Majuro Landowners electricity bills	790,223	1,986,575	2,151,806	(165,231)
Leased housing	297,600	168,598	168,598	-
Marshall Islands Visitors Authority	30,617	105,017	105,017	-
Contingencies	-	-	31,160	(31,160)
International subscriptions/membership fees	381,920	381,920	433,550	(51,630)
Prior Year Liabilities	-	1,161,012	758,793	402,219
Copra price stabilization subsidy	1,190,400	1,190,400	1,190,400	-
ADB loan repayment	2,337,963	2,337,963	2,962,477	(624,514)
Constitution Day - Majuro	14,880	39,880	39,880	-
Micronesia Legal Service Corporation	74,400	74,400	36,200	38,200
Constitutional Convention	49,600	49,600	41,345	8,255
College of the Marshall Islands	-	109,120	109,120	-
	<u>7,630,278</u>	<u>11,382,171</u>	<u>14,819,547</u>	<u>(3,437,376)</u>
Council of Iroij:				
Administration	99,578	97,105	99,264	(2,159)
Members	341,176	358,529	359,680	(1,151)
	<u>440,754</u>	<u>455,634</u>	<u>458,944</u>	<u>(3,310)</u>
Office of the Auditor-General:				
Auditor-General salary	57,773	57,773	-	57,773
Operations	285,829	476,325	415,190	61,135
Single audit - local match	791,926	791,926	794,826	(2,900)
	<u>1,135,528</u>	<u>1,326,024</u>	<u>1,210,016</u>	<u>116,008</u>

See Accompanying Independent Auditors' Report.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Revenues, Expenditures and Changes in Fund Balance, Continued
Budget and Actual - General Fund (Fund 100100)
Year Ended September 30, 2013

	Budgeted Amounts		Actual - Budgetary Basis	Variance
	Original	Final		
Expenditures, continued:				
Public Service Commission:				
Members	99,639	91,789	92,179	(390)
Administration	368,601	401,251	420,262	(19,011)
	468,240	493,040	512,441	(19,401)
Office of the Attorney General	920,312	920,312	684,348	235,964
Ministries:				
Ministry of Education	4,220,539	4,295,694	4,054,839	240,855
Ministry of Health and Environment	3,079,829	3,443,523	3,688,179	(244,656)
Ministry of Transportation and Communication	619,940	644,740	573,080	71,660
Ministry of Resources and Development	664,697	664,697	623,672	41,025
Ministry of Internal Affairs	2,150,945	2,250,041	2,199,273	50,768
Ministry of Justice	3,162,505	3,212,105	3,314,253	(102,148)
Ministry of Finance	2,066,886	2,316,430	2,962,382	(645,952)
Ministry of Foreign Affairs and Trade	2,965,443	2,892,530	3,195,051	(302,521)
Ministry of Public Works	1,053,410	1,202,306	1,180,878	21,428
	19,984,194	20,922,066	21,791,607	(869,541)
Environmental Protection Authority	189,813	189,813	198,847	(9,034)
Nitijela:				
Operations	501,333	533,243	470,495	62,748
General Membership	1,031,673	1,031,673	1,010,296	21,377
Speaker's Contingency	54,225	66,625	58,963	7,662
Committee	44,584	21,194	11,268	9,926
Legislative Counsel	132,753	121,753	109,235	12,518
	1,764,568	1,774,488	1,660,257	114,231
Total expenditures	35,145,652	40,234,694	43,681,750	(3,447,056)
Excess (deficiency) of revenues over (under) expenditures	232,960	354,102	(381,450)	(735,552)
Other financing sources:				
Operating transfers in:				
ADB Development Projects Fund	-	-	250,000	250,000
Other Direct Assistance Fund	-	-	120,000	120,000
Republic of China Fund	-	-	100,000	100,000
Health Care Revenue Fund	-	-	5,428	5,428
Ministry of Justice Fund	350,000	350,000	351,905	1,905
	350,000	350,000	827,333	477,333
Other financing uses:				
Operating transfers out:				
Judiciary Fund	1,030,199	615,904	578,940	36,964
Marshall Islands Scholarship, Grant and Loan Board Fund	-	121,142	121,960	(818)
Marshall Islands Judiciary Fund	-	414,295	414,295	-
Nuclear Claims Tribunal	74,400	74,400	93,150	(18,750)
	1,104,599	1,225,741	1,208,345	17,396
	(521,639)	(521,639)	(762,462)	(240,823)
Encumbrances for supplies and equipment ordered but not received are reported in the year the order is placed for budgetary purposes but in the year the supplies are received for financial reporting purposes	521,639	521,639	1,871,084	1,349,445
Net change in fund balance	\$ -	\$ -	\$ 1,108,622	\$ 1,108,622

See Accompanying Independent Auditors' Report.

REPUBLIC OF THE MARSHALL ISLANDS

NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE FUNDS

September 30, 2013

Special revenue funds are used to account for specific revenues that are legally restricted for particular purposes. A brief discussion of RepMar's Nonmajor Governmental Funds - Special Revenue Funds as of September 30, 2013, follows:

Public Works Fund

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

Land Registration Authority Fund

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

Labor (General) Fund

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

Labor (Bond) Fund

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

Ministry of Justice Fund

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

Marshall Islands Revised Code Fund

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

Resident Workers Training Account Fund

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

See Accompanying Independent Auditors' Report.

REPUBLIC OF THE MARSHALL ISLANDS

NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE FUNDS

September 30, 2013

Sea Patrol Fund

This fund was established under Public Law No. 1991-143 and accounts for all charges, fees and fines generated and received by the Sea Patrol Division through the use of the patrol boat M.V. Lomor.

Transportation Services Fund

This fund was established under Public Law No. 2001-38 and accounts for all charges, fees and other monies collected or generated by the Ministry of Transportation and Communications through the use of their shipping vessels.

Registrar General Fund

This fund was established under Public Law No. 1992-4 and accounts for all charges, fees and monies collected or generated by the Ministry of Internal Affairs Registrar-General of Births, Deaths and Marriages.

Ministry of Internal Affairs Fund

This fund was established under Public Law No. 2003-84 and accounts for all charges, fees and monies collected or generated by Ministry of Internal Affairs through Radio V7AB, the Lands and Survey Division, the ID Card Section, the Sports and Recreation Division, and any other funds generated by the Ministry for a specific purpose.

Four-Atoll Medical Fund

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

Marshall Islands Scholarship Grant and Loan Board

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

Marshall Islands Judiciary Fund

This fund was established to account for all activities of the Marshall Islands Judiciary not accounted for within the General Fund.

Health Care Revenue Fund

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

See Accompanying Independent Auditors' Report.

REPUBLIC OF THE MARSHALL ISLANDS

NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE FUNDS

September 30, 2013

Marshall Islands Health Fund

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

Nuclear Claims Tribunal

This fund accounts for all financial transactions arising from distributions made under the (Compact of Free Association) Section 177 Agreement as a result of the Nuclear Testing Program.

See Accompanying Independent Auditors' Report.

REPUBLIC OF THE MARSHALL ISLANDS

**NONMAJOR GOVERNMENTAL FUNDS
SPECIAL REVENUE FUNDS**

**Combining Balance Sheet
September 30, 2013**

	200105	200224	200318	200319	200332	200333	200340	200520	200525
	Public Works	Land Registration Authority	Labor (General)	Labor (Bond)	Ministry of Justice	Marshall Islands Revised Code	Resident Workers Training Account	Sea Patrol	Transportation Services
ASSETS									
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Time certificates of deposit	-	-	-	-	-	-	-	-	-
Receivables, net:									
Taxes	-	-	-	-	-	-	77,800	-	-
General	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	810	-	-
Due from other funds	36,321	18,118	27,614	127,010	147,606	5,650	123,511	5,868	19,612
Advances	-	-	602	-	7,519	-	302	-	-
Total assets	<u>\$ 36,321</u>	<u>\$ 18,118</u>	<u>\$ 28,216</u>	<u>\$ 127,010</u>	<u>\$ 155,125</u>	<u>\$ 5,650</u>	<u>\$ 202,423</u>	<u>\$ 5,868</u>	<u>\$ 19,612</u>
LIABILITIES AND FUND BALANCES									
Liabilities:									
Accounts payable	\$ 30	\$ -	\$ 4,530	\$ (1,500)	\$ 154,765	\$ -	\$ 153,070	\$ -	\$ -
Other liabilities and accruals	-	-	-	128,510	-	-	454	-	-
Due to other funds	-	-	-	-	-	-	-	-	-
Total liabilities	<u>30</u>	<u>-</u>	<u>4,530</u>	<u>127,010</u>	<u>154,765</u>	<u>-</u>	<u>153,524</u>	<u>-</u>	<u>-</u>
Fund balances:									
Restricted	-	-	-	-	-	-	-	-	-
Committed	36,291	18,118	23,686	-	360	5,650	48,899	5,868	19,612
Total fund balances	<u>36,291</u>	<u>18,118</u>	<u>23,686</u>	<u>-</u>	<u>360</u>	<u>5,650</u>	<u>48,899</u>	<u>5,868</u>	<u>19,612</u>
Total liabilities and fund balances	<u>\$ 36,321</u>	<u>\$ 18,118</u>	<u>\$ 28,216</u>	<u>\$ 127,010</u>	<u>\$ 155,125</u>	<u>\$ 5,650</u>	<u>\$ 202,423</u>	<u>\$ 5,868</u>	<u>\$ 19,612</u>

See Accompanying Independent Auditors' Report.

REPUBLIC OF THE MARSHALL ISLANDS

NONMAJOR GOVERNMENTAL FUNDS SPECIAL REVENUE FUNDS

Combining Balance Sheet, Continued September 30, 2013

	200527	200528	300612							
	Registrar General	Ministry of Internal Affairs	Four-Atoll Medical	Marshall Islands Scholarship, Grant and Loan Board	Marshall Islands Judiciary	Health Care Revenue	Marshall Islands Health	Nuclear Claims Tribunal	Elimination	Total
ASSETS										
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ 349,416	\$ 201,248	\$ 2,302,963	\$ 427,634	\$ -	\$ -	\$ 3,281,261
Time certificates of deposit	-	-	-	438,777	-	-	-	-	-	438,777
Receivables, net:										
Taxes	-	-	-	-	-	-	-	-	-	77,800
General	-	-	-	-	-	-	1,699,195	-	-	1,699,195
Other	-	-	369,996	-	-	45,943	17,677	-	-	434,426
Due from other funds	391	9,835	97,635	-	-	1,301,402	1,761,952	-	(1,301,402)	2,381,123
Advances	-	-	-	-	-	4,613	46,260	-	-	59,296
Total assets	<u>\$ 391</u>	<u>\$ 9,835</u>	<u>\$ 467,631</u>	<u>\$ 788,193</u>	<u>\$ 201,248</u>	<u>\$ 3,654,921</u>	<u>\$ 3,952,718</u>	<u>\$ -</u>	<u>\$ (1,301,402)</u>	<u>\$ 8,371,878</u>
LIABILITIES AND FUND BALANCES										
Liabilities:										
Accounts payable	\$ -	\$ -	\$ -	\$ 1,215	\$ 37,649	\$ 86,378	\$ 1,132,060	\$ -	\$ -	\$ 1,568,197
Other liabilities and accruals	-	-	-	-	-	107,542	28,200	-	-	264,706
Due to other funds	-	-	-	-	-	-	1,301,402	-	(1,301,402)	-
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,215</u>	<u>37,649</u>	<u>193,920</u>	<u>2,461,662</u>	<u>-</u>	<u>(1,301,402)</u>	<u>1,832,903</u>
Fund balances:										
Restricted	-	-	467,631	786,978	-	-	-	-	-	1,254,609
Committed	391	9,835	-	-	163,599	3,461,001	1,491,056	-	-	5,284,366
Total fund balances	<u>391</u>	<u>9,835</u>	<u>467,631</u>	<u>786,978</u>	<u>163,599</u>	<u>3,461,001</u>	<u>1,491,056</u>	<u>-</u>	<u>-</u>	<u>6,538,975</u>
Total liabilities and fund balances	<u>\$ 391</u>	<u>\$ 9,835</u>	<u>\$ 467,631</u>	<u>\$ 788,193</u>	<u>\$ 201,248</u>	<u>\$ 3,654,921</u>	<u>\$ 3,952,718</u>	<u>\$ -</u>	<u>\$ (1,301,402)</u>	<u>\$ 8,371,878</u>

See Accompanying Independent Auditors' Report.

REPUBLIC OF THE MARSHALL ISLANDS

**NONMAJOR GOVERNMENTAL FUNDS
SPECIAL REVENUE FUNDS**

**Combining Schedule of Revenues, Expenditures By Function,
and Changes in Fund Balances
Year Ended September 30, 2013**

	200105	200224	200318	200319	200332	200333	200340	200520	200525
	Public Works	Land Registration Authority	Labor (General)	Labor (Bond)	Ministry of Justice	Marshall Islands Revised Code	Resident Workers Training Account	Sea Patrol	Transportation Services
Revenues:									
Federal and other grants	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Fees and charges	53,167	-	55,855	-	597,967	-	348,421	-	45
Interest	-	-	-	-	-	-	-	-	-
Sales	10,016	-	-	-	33,194	390	-	-	980
Total revenues	<u>63,183</u>	<u>-</u>	<u>55,855</u>	<u>-</u>	<u>631,161</u>	<u>390</u>	<u>348,421</u>	<u>-</u>	<u>1,025</u>
Expenditures by Function:									
Current:									
Judiciary	-	-	-	-	-	-	-	-	-
Ministry of Education	-	-	-	-	-	-	299,522	-	-
Ministry of Health and Environment	-	-	-	-	-	-	-	-	-
Ministry of Internal Affairs	-	-	-	-	-	-	-	-	-
Ministry of Justice	-	-	-	-	279,256	-	-	-	-
Ministry of Foreign Affairs and Trade	-	-	32,169	-	-	-	-	-	-
Ministry of Public Works	81,786	-	-	-	-	-	-	-	-
Nuclear claims related	-	-	-	-	-	-	-	-	-
Total expenditures	<u>81,786</u>	<u>-</u>	<u>32,169</u>	<u>-</u>	<u>279,256</u>	<u>-</u>	<u>299,522</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(18,603)</u>	<u>-</u>	<u>23,686</u>	<u>-</u>	<u>351,905</u>	<u>390</u>	<u>48,899</u>	<u>-</u>	<u>1,025</u>
Other financing sources (uses):									
Operating transfers in	-	-	-	-	-	-	-	-	-
Operating transfers out	-	-	-	-	(351,905)	-	-	-	-
Total other financing sources (uses), net	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(351,905)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	<u>(18,603)</u>	<u>-</u>	<u>23,686</u>	<u>-</u>	<u>-</u>	<u>390</u>	<u>48,899</u>	<u>-</u>	<u>1,025</u>
Fund balances at the beginning of the year	54,894	18,118	-	-	360	5,260	-	5,868	18,587
Fund balances at the end of the year	<u>\$ 36,291</u>	<u>\$ 18,118</u>	<u>\$ 23,686</u>	<u>\$ -</u>	<u>\$ 360</u>	<u>\$ 5,650</u>	<u>\$ 48,899</u>	<u>\$ 5,868</u>	<u>\$ 19,612</u>

See Accompanying Independent Auditors' Report.

REPUBLIC OF THE MARSHALL ISLANDS

**NONMAJOR GOVERNMENTAL FUNDS
SPECIAL REVENUE FUNDS**

**Combining Schedule of Revenues, Expenditures By Function,
and Changes in Fund Balances, Continued
Year Ended September 30, 2013**

	200527	200528	300612	Marshall Islands Scholarship, Grant and Loan Board	Marshall Islands Judiciary	Health Care Revenue	Marshall Islands Health	Nuclear Claims Tribunal	Elimination	Total
	Registrar General	Ministry of Internal Affairs	Four-Atoll Medical							
Revenues:										
Federal and other grants	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 692,968	\$ -	\$ -	\$ -	\$ 692,968
Fees and charges	-	23,427	-	-	76,117	388,159	7,497,094	-	-	9,040,252
Interest	-	-	-	35,388	-	-	-	-	-	35,388
Sales	-	11,508	-	-	-	-	-	-	-	56,088
Total revenues	<u>-</u>	<u>34,935</u>	<u>-</u>	<u>35,388</u>	<u>76,117</u>	<u>1,081,127</u>	<u>7,497,094</u>	<u>-</u>	<u>-</u>	<u>9,824,696</u>
Expenditures by Function:										
Current:										
Judiciary	-	-	-	-	652,935	-	-	-	-	652,935
Ministry of Education	-	-	-	1,628,717	-	-	-	-	-	1,928,239
Ministry of Health and Environment	-	-	-	-	-	4,383,700	4,625,182	-	-	9,008,882
Ministry of Internal Affairs	-	25,100	-	-	-	-	-	-	-	25,100
Ministry of Justice	-	-	-	-	-	-	-	-	-	279,256
Ministry of Foreign Affairs and Trade	-	-	-	-	-	-	-	-	-	32,169
Ministry of Public Works	-	-	-	-	-	-	-	-	-	81,786
Nuclear claims related	-	-	1,322,244	-	-	-	-	74,400	-	1,396,644
Total expenditures	<u>-</u>	<u>25,100</u>	<u>1,322,244</u>	<u>1,628,717</u>	<u>652,935</u>	<u>4,383,700</u>	<u>4,625,182</u>	<u>74,400</u>	<u>-</u>	<u>13,405,011</u>
Excess (deficiency) of revenues over (under) expenditures	<u>-</u>	<u>9,835</u>	<u>(1,322,244)</u>	<u>(1,593,329)</u>	<u>(576,818)</u>	<u>(3,302,573)</u>	<u>2,871,912</u>	<u>(74,400)</u>	<u>-</u>	<u>(3,580,315)</u>
Other financing sources (uses):										
Operating transfers in	-	-	1,530,434	1,493,885	414,295	3,187,649	-	74,400	(3,187,649)	3,513,014
Operating transfers out	-	-	-	-	-	(5,428)	(3,187,649)	-	3,187,649	(357,333)
Total other financing sources (uses), net	<u>-</u>	<u>-</u>	<u>1,530,434</u>	<u>1,493,885</u>	<u>414,295</u>	<u>3,182,221</u>	<u>(3,187,649)</u>	<u>74,400</u>	<u>-</u>	<u>3,155,681</u>
Net change in fund balances	<u>-</u>	<u>9,835</u>	<u>208,190</u>	<u>(99,444)</u>	<u>(162,523)</u>	<u>(120,352)</u>	<u>(315,737)</u>	<u>-</u>	<u>-</u>	<u>(424,634)</u>
Fund balances at the beginning of the year	391	-	259,441	886,422	326,122	3,581,353	1,806,793	-	-	6,963,609
Fund balances at the end of the year	<u>\$ 391</u>	<u>\$ 9,835</u>	<u>\$ 467,631</u>	<u>\$ 786,978</u>	<u>\$ 163,599</u>	<u>\$ 3,461,001</u>	<u>\$ 1,491,056</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,538,975</u>

See Accompanying Independent Auditors' Report.

REPUBLIC OF THE MARSHALL ISLANDS

**NONMAJOR GOVERNMENTAL FUNDS
SPECIAL REVENUE FUNDS**

**Combining Schedule of Revenues, Expenditures By Account,
and Changes in Fund Balances
Year Ended September 30, 2013**

	200105	200224	200318	200319	200332	200333	200340	200520	200525
	Public Works	Land Registration Authority	Labor (General)	Labor (Bond)	Ministry of Justice	Marshall Islands Revised Code	Resident Workers Training Account	Sea Patrol	Transportation Services
Revenues:									
Federal and other grants	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Fees and charges	53,167	-	55,855	-	597,967	-	348,421	-	45
Interest	-	-	-	-	-	-	-	-	-
Sales	10,016	-	-	-	33,194	390	-	-	980
Total revenues	<u>63,183</u>	<u>-</u>	<u>55,855</u>	<u>-</u>	<u>631,161</u>	<u>390</u>	<u>348,421</u>	<u>-</u>	<u>1,025</u>
Expenditures by Account:									
Grants and subsidies	-	-	-	-	-	-	50	-	-
Salaries and wages	-	-	-	-	-	-	95,992	-	-
Medical supplies	-	-	-	-	-	-	-	-	-
Contractual services	-	-	-	-	-	-	107,666	-	-
Capital outlay	31,698	-	-	-	61,514	-	29,155	-	-
Travel	-	-	-	-	26,306	-	16,630	-	-
Food stuffs	2,551	-	-	-	5,450	-	2,232	-	-
Supplies and materials	9,370	-	-	-	69,041	-	14,035	-	-
POL	38,167	-	1,979	-	24,450	-	463	-	-
Rentals	-	-	-	-	100	-	6,000	-	-
Allowances	-	-	-	-	200	-	4,250	-	-
Communications	-	-	2,323	-	10,929	-	4,533	-	-
Insurance	-	-	809	-	3,138	-	1,631	-	-
Utilities	-	-	-	-	-	-	290	-	-
Leased housing	-	-	-	-	-	-	-	-	-
Freight	-	-	-	-	2,813	-	-	-	-
Professional services	-	-	-	-	-	-	-	-	-
Printing and reproduction	-	-	-	-	371	-	-	-	-
Other	-	-	27,058	-	74,944	-	16,595	-	-
Total expenditures	<u>81,786</u>	<u>-</u>	<u>32,169</u>	<u>-</u>	<u>279,256</u>	<u>-</u>	<u>299,522</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(18,603)</u>	<u>-</u>	<u>23,686</u>	<u>-</u>	<u>351,905</u>	<u>390</u>	<u>48,899</u>	<u>-</u>	<u>1,025</u>
Other financing sources (uses):									
Operating transfers in	-	-	-	-	-	-	-	-	-
Operating transfers out	-	-	-	-	(351,905)	-	-	-	-
Total other financing sources (uses), net	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(351,905)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	<u>(18,603)</u>	<u>-</u>	<u>23,686</u>	<u>-</u>	<u>-</u>	<u>390</u>	<u>48,899</u>	<u>-</u>	<u>1,025</u>
Fund balances at the beginning of the year	54,894	18,118	-	-	360	5,260	-	5,868	18,587
Fund balances at the end of the year	<u>\$ 36,291</u>	<u>\$ 18,118</u>	<u>\$ 23,686</u>	<u>\$ -</u>	<u>\$ 360</u>	<u>\$ 5,650</u>	<u>\$ 48,899</u>	<u>\$ 5,868</u>	<u>\$ 19,612</u>

See Accompanying Independent Auditors' Report.

REPUBLIC OF THE MARSHALL ISLANDS

**NONMAJOR GOVERNMENTAL FUNDS
SPECIAL REVENUE FUNDS**

**Combining Schedule of Revenues, Expenditures By Account,
and Changes in Fund Balances, Continued
Year Ended September 30, 2013**

	200527	200528	300612	Marshall Islands Scholarship, Grant and Loan Board	Marshall Islands Judiciary	Health Care Revenue	Marshall Islands Health	Nuclear Claims Tribunal	Elimination	Total
	Registrar General	Ministry of Internal Affairs	Four-Atoll Medical	Marshall Islands Scholarship, Grant and Loan Board	Marshall Islands Judiciary	Health Care Revenue	Marshall Islands Health	Nuclear Claims Tribunal	Elimination	Total
Revenues:										
Federal and other grants	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 692,968	\$ -	\$ -	\$ -	\$ 692,968
Fees and charges	-	23,427	-	-	76,117	388,159	7,497,094	-	-	9,040,252
Interest	-	-	-	35,388	-	-	-	-	-	35,388
Sales	-	11,508	-	-	-	-	-	-	-	56,088
Total revenues	<u>-</u>	<u>34,935</u>	<u>-</u>	<u>35,388</u>	<u>76,117</u>	<u>1,081,127</u>	<u>7,497,094</u>	<u>-</u>	<u>-</u>	<u>9,824,696</u>
Expenditures by Account:										
Grants and subsidies	-	-	-	1,461,631	-	40,144	-	-	-	1,501,825
Salaries and wages	-	23,810	-	76,309	-	227,438	291,907	-	-	715,456
Medical supplies	-	-	-	-	-	3,494,536	62,519	-	-	3,557,055
Contractual services	-	-	1,322,244	-	-	-	3,125,975	-	-	4,555,885
Capital outlay	-	-	-	-	293,196	303,790	-	-	-	719,353
Travel	-	1,290	-	22,382	42,781	42,199	691,786	-	-	843,374
Food stuffs	-	-	-	-	-	-	-	-	-	10,233
Supplies and materials	-	-	-	-	33,901	13,971	-	-	-	140,318
POL	-	-	-	-	-	-	29,703	-	-	94,762
Rentals	-	-	-	12,000	-	-	-	-	-	18,100
Allowances	-	-	-	-	-	-	-	-	-	4,450
Communications	-	-	-	20,907	48,393	2,578	14,981	-	-	104,644
Insurance	-	-	-	-	-	-	12,422	-	-	18,000
Utilities	-	-	-	-	94,549	-	34,546	-	-	129,385
Leased housing	-	-	-	-	69,600	-	-	-	-	69,600
Freight	-	-	-	-	-	7,779	-	-	-	10,592
Professional services	-	-	-	-	3,100	128,754	196,010	-	-	327,864
Printing and reproduction	-	-	-	-	-	-	-	-	-	371
Other	-	-	-	35,488	67,415	122,511	165,333	74,400	-	583,744
Total expenditures	<u>-</u>	<u>25,100</u>	<u>1,322,244</u>	<u>1,628,717</u>	<u>652,935</u>	<u>4,383,700</u>	<u>4,625,182</u>	<u>74,400</u>	<u>-</u>	<u>13,405,011</u>
Excess (deficiency) of revenues over (under) expenditures	<u>-</u>	<u>9,835</u>	<u>(1,322,244)</u>	<u>(1,593,329)</u>	<u>(576,818)</u>	<u>(3,302,573)</u>	<u>2,871,912</u>	<u>(74,400)</u>	<u>-</u>	<u>(3,580,315)</u>
Other financing sources (uses):										
Operating transfers in	-	-	1,530,434	1,493,885	414,295	3,187,649	-	74,400	(3,187,649)	3,513,014
Operating transfers out	-	-	-	-	-	(5,428)	(3,187,649)	-	3,187,649	(357,333)
Total other financing sources (uses), net	<u>-</u>	<u>-</u>	<u>1,530,434</u>	<u>1,493,885</u>	<u>414,295</u>	<u>3,182,221</u>	<u>(3,187,649)</u>	<u>74,400</u>	<u>-</u>	<u>3,155,681</u>
Net change in fund balances	<u>-</u>	<u>9,835</u>	<u>208,190</u>	<u>(99,444)</u>	<u>(162,523)</u>	<u>(120,352)</u>	<u>(315,737)</u>	<u>-</u>	<u>-</u>	<u>(424,634)</u>
Fund balances at the beginning of the year	391	-	259,441	886,422	326,122	3,581,353	1,806,793	-	-	6,963,609
Fund balances at the end of the year	<u>\$ 391</u>	<u>\$ 9,835</u>	<u>\$ 467,631</u>	<u>\$ 786,978</u>	<u>\$ 163,599</u>	<u>\$ 3,461,001</u>	<u>\$ 1,491,056</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,538,975</u>

See Accompanying Independent Auditors' Report.

REPUBLIC OF THE MARSHALL ISLANDS

FIDUCIARY FUNDS - PRIVATE PURPOSE TRUSTS

September 30, 2013

Private purpose trusts are used to report any trust arrangement not properly reported in a pension trust fund or an investment trust fund “under which principal and income benefit individuals, private organizations, or other governments.” A brief discussion of RepMar’s Private Purpose Trusts as of September 30, 2013, follows:

Marshall Islands Social Security Administration (MISSA)

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

Kwajalein Atoll Trust Fund

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

Section 212 Kwajalein Landowners Fund

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

Nuclear Claims Trust Fund

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

See Accompanying Independent Auditors’ Report.

REPUBLIC OF THE MARSHALL ISLANDS

Combining Schedule of Fiduciary Net Position
Fiduciary Funds - Private Purpose Trusts
September 30, 2013

DILOG Fund Number	350610	510610	300614		
	Marshall Islands Social Security Admin.	Kwajalein Atoll Trust	Section 212 Kwajalein Landowners	Nuclear Claims Trust	
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	
				Total	
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	
<u>ASSETS</u>					
Cash and cash equivalents	\$ 1,767,762	\$ -	\$ -	\$ -	\$ 1,767,762
Receivables, net:					
Contributions	2,019,730	-	-	-	2,019,730
Other	485,992	-	-	-	485,992
Investments	70,704,635	-	-	-	70,706,924
Due from other funds	-	421,658	224,165	55,573	701,396
Capital assets, net of accumulated depreciation	55,493	-	-	-	55,493
Total assets	<u>75,033,612</u>	<u>421,658</u>	<u>224,165</u>	<u>57,862</u>	<u>75,737,297</u>
<u>LIABILITIES</u>					
Accounts payable	157,426	-	-	-	157,426
Other liabilities and accruals	126,052	-	-	-	126,052
Due to other funds	1,761,952	-	-	-	1,761,952
Total liabilities	<u>2,045,430</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,045,430</u>
<u>NET POSITION</u>					
Restricted for:					
Social security benefits	72,988,182	-	-	-	72,988,182
Nuclear claims	-	-	-	57,862	57,862
Land use distributions	-	421,658	224,165	-	645,823
Total net position	<u>\$ 72,988,182</u>	<u>\$ 421,658</u>	<u>\$ 224,165</u>	<u>\$ 57,862</u>	<u>\$ 73,691,867</u>

See Accompanying Independent Auditors' Report.

REPUBLIC OF THE MARSHALL ISLANDS

Combining Schedule of Changes in Fiduciary Net Position
Fiduciary Funds - Private Purpose Trusts
Year Ended September 30, 2013

DILOG Fund Number		350610	510610	300614	
	Marshall Islands Social Security Admin.	Kwajalein Atoll Trust	Kwajalein Landowners	Section 212 Nuclear Claims Trust	Total
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Additions:					
Contributions:					
Private employees	\$ 8,915,779	\$ -	\$ -	\$ -	\$ 8,915,779
Government employees	3,983,184	-	-	-	3,983,184
Penalties and interest	414,913	-	-	-	414,913
	<u>13,313,876</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>13,313,876</u>
Total contributions					
Investment earnings:					
Net increase in the fair value of investments	7,017,252	-	-	-	7,017,252
Interest and dividends	1,175,319	-	-	-	1,175,319
	<u>8,192,571</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>8,192,571</u>
Total investment earnings					
Less investment expense	148,506	-	-	-	148,506
	<u>8,044,065</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>8,044,065</u>
Net investment earnings					
Other:					
Compact funding	-	-	17,356,500	-	17,356,500
Other	624,258	-	-	-	624,258
	<u>624,258</u>	<u>-</u>	<u>17,356,500</u>	<u>-</u>	<u>17,980,758</u>
Total additions	<u>21,982,199</u>	<u>-</u>	<u>17,356,500</u>	<u>-</u>	<u>39,338,699</u>
Deductions:					
Land use distributions	-	-	17,547,578	-	17,547,578
Benefits	17,107,670	-	-	-	17,107,670
Administrative expenses	855,893	-	-	-	855,893
	<u>17,963,563</u>	<u>-</u>	<u>17,547,578</u>	<u>-</u>	<u>35,511,141</u>
Total deductions					
Change in net position held in trust for:					
Social security benefits	4,018,636	-	-	-	4,018,636
Nuclear claims	-	-	-	-	-
Land use distributions	-	-	(191,078)	-	(191,078)
Net position at the beginning of the year	<u>68,969,546</u>	<u>421,658</u>	<u>415,243</u>	<u>57,862</u>	<u>69,864,309</u>
Net position at the end of the year	<u>\$ 72,988,182</u>	<u>\$ 421,658</u>	<u>\$ 224,165</u>	<u>\$ 57,862</u>	<u>\$ 73,691,867</u>

See Accompanying Independent Auditors' Report.

REPUBLIC OF THE MARSHALL ISLANDS

FIDUCIARY FUNDS - AGENCY

September 30, 2013

Agency funds are used to report resources held by the reporting government in a purely custodial capacity (assets equal liabilities). Agency funds typically involve only the receipt, temporary investment, and remittance of fiduciary resources to individuals, private organizations, or other governments. A brief discussion of RepMar's Agency Funds as of September 30, 2013, follows:

Unclaimed Property Fund

This fund accounts for funds received in a fiduciary capacity for distribution to other individuals that primarily consists of Bank of Hawaii deposits and share dividends from United Micronesia Development Association.

See Accompanying Independent Auditors' Report.

REPUBLIC OF THE MARSHALL ISLANDS

Statement of Changes in Assets and Liabilities
Fiduciary Funds - Agency
September 30, 2013

	Balance October 1, 2012	Additions	Deductions	Balance September 30, 2013
<u>ASSETS</u>				
Due from other funds	\$ 164,484	\$ -	\$ -	\$ 164,484
Total assets	<u>\$ 164,484</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 164,484</u>
<u>LIABILITIES</u>				
Other liabilities and accruals	\$ 164,484	\$ -	\$ -	\$ 164,484
Total liabilities	<u>\$ 164,484</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 164,484</u>

See Accompanying Independent Auditors' Report.

REPUBLIC OF THE MARSHALL ISLANDS

NONMAJOR COMPONENT UNITS

September 30, 2013

Component units are legally separate organizations for which the elected officials of RepMar are financially accountable. A brief discussion of RepMar's Nonmajor Component Units as of September 30, 2013, follows:

Kwajalein Atoll Joint Utilities Resources, Inc. (KAJUR)

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

Majuro Atoll Waste Company, Inc. (MAWC)

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

Majuro Resort, Inc. (MRI)

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

Majuro Water and Sewer Company, Inc. (MWSC)

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

Marshall Islands Postal Services Authority (MIPSA)

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

See Accompanying Independent Auditors' Report.

REPUBLIC OF THE MARSHALL ISLANDS

NONMAJOR COMPONENT UNITS

September 30, 2013

Marshall Islands Shipping Corporation (MISC)

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

Marshall Islands Visitors Authority (MIVA)

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

RMI Environmental Protection Authority (EPA)

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

Tobolar Copra Processing Authority (TCPA)

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

See Accompanying Independent Auditors' Report.

REPUBLIC OF THE MARSHALL ISLANDS

NONMAJOR COMPONENT UNITS

**Combining Schedule of Net Position
September 30, 2013**

	Kwajalein Atoll Joint Utilities Resources, Inc.	Majuro Atoll Waste Company, Inc.	Majuro Resort, Inc.	Majuro Water and Sewer Company, Inc.	Marshall Islands Postal Service Authority	Marshall Islands Shipping Corporation	Marshall Islands Visitors Authority	RMI Environmental Protection Authority	Tobolar Copra Processing Authority	Total
ASSETS										
Current assets:										
Cash and cash equivalents	184,473	\$ 5,454	\$ 79,276	\$ 170,233	\$ 187,539	\$ 187,951	\$ 1,392	\$ 52,622	\$ 106,965	\$ 975,905
Receivables, net	290,734	66,777	333,978	398,339	33,124	256,426	16,981	145,155	621,661	2,163,175
Inventories	808,693	-	48,514	214,659	20,316	3,840	-	-	496,708	1,592,730
Other current assets	169,472	2,000	33,662	126,678	3,714	-	1,351	-	7,433	344,310
Total current assets	1,453,372	74,231	495,430	909,909	244,693	448,217	19,724	197,777	1,232,767	5,076,120
Noncurrent assets:										
Nondepreciable capital assets	-	-	-	-	-	-	-	-	31,364	31,364
Other capital assets, net of accumulated depreciation	2,250,377	1,126,121	1,790,828	354,107	33,305	69,295	45,943	71,828	1,204,123	6,945,927
Total noncurrent assets	2,250,377	1,126,121	1,790,828	354,107	33,305	69,295	45,943	71,828	1,235,487	6,977,291
Total assets	\$ 3,703,749	\$ 1,200,352	\$ 2,286,258	\$ 1,264,016	\$ 277,998	\$ 517,512	\$ 65,667	\$ 269,605	\$ 2,468,254	\$ 12,053,411
LIABILITIES										
Current liabilities:										
Bank overdraft	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 69,764	\$ 69,764
Current portion of long-term debt	-	26,439	-	-	-	-	-	-	10,284	36,723
Accounts payable	2,650	45,686	707,684	1,277,433	3,236	64,448	-	34,584	382,757	2,518,478
Other liabilities and accruals	2,246,066	86,127	519,189	53,916	163,906	317,365	20,754	-	30,045	3,437,368
Due to component units	-	-	95,000	-	-	-	-	-	-	95,000
Unearned revenues	47,862	-	-	-	21,971	-	-	-	-	69,833
Total current liabilities	2,296,578	158,252	1,321,873	1,331,349	189,113	381,813	20,754	34,584	492,850	6,227,166
Noncurrent liabilities:										
Noncurrent portion of long-term debt	-	93,561	-	-	-	-	-	-	289,716	383,277
Total liabilities	2,296,578	251,813	1,321,873	1,331,349	189,113	381,813	20,754	34,584	782,566	6,610,443
NET POSITION										
Net investment in capital assets	2,250,377	1,126,121	1,790,828	354,107	33,305	69,295	45,943	71,828	935,487	6,677,291
Restricted	-	-	-	226,840	-	-	-	86,958	-	313,798
Unrestricted	(843,206)	(177,582)	(826,443)	(648,280)	55,580	66,404	(1,030)	76,235	750,201	(1,548,121)
Total net position	1,407,171	948,539	964,385	(67,333)	88,885	135,699	44,913	235,021	1,685,688	5,442,968
	\$ 3,703,749	\$ 1,200,352	\$ 2,286,258	\$ 1,264,016	\$ 277,998	\$ 517,512	\$ 65,667	\$ 269,605	\$ 2,468,254	\$ 12,053,411

See Accompanying Independent Auditors' Report.

REPUBLIC OF THE MARSHALL ISLANDS

NONMAJOR COMPONENT UNITS

Combining Schedule of Revenues, Expenses, and Changes in Net Position Year Ended September 30, 2013

	Kwajalein Atoll Joint Utilities Resources, Inc.	Majuro Atoll Waste Company, Inc.	Majuro Resort, Inc.	Majuro Water and Sewer Company, Inc.	Marshall Islands Postal Service Authority	Marshall Islands Shipping Corporation	Marshall Islands Visitors Authority	RMI Environmental Protection Authority	Tobolar Copra Processing Authority	Total
Operating revenues:										
Charges for services	\$ 4,761,259	\$ 118,700	\$ 1,220,600	\$ 1,345,103	\$ 67,224	\$ 773,720	\$ -	\$ 91,512	\$ -	\$ 8,378,118
Sales	-	-	1,340,778	-	345,928	202,132	-	-	3,698,745	5,587,583
Other	-	-	52,624	3,756	80,189	56,516	48,648	214,356	-	456,089
Total operating revenues	<u>4,761,259</u>	<u>118,700</u>	<u>2,614,002</u>	<u>1,348,859</u>	<u>493,341</u>	<u>1,032,368</u>	<u>48,648</u>	<u>305,868</u>	<u>3,698,745</u>	<u>14,421,790</u>
Operating expenses:										
Cost of services	6,650,358	640,840	1,739,237	1,737,690	2,309	1,970,856	518,019	766,220	5,334,080	19,359,609
Administration costs	-	-	1,404,034	-	454,518	-	-	-	872,731	2,731,283
Depreciation and amortization	489,147	204,982	265,515	122,939	27,338	61,174	15,388	36,512	269,857	1,492,852
Total operating expenses	<u>7,139,505</u>	<u>845,822</u>	<u>3,408,786</u>	<u>1,860,629</u>	<u>484,165</u>	<u>2,032,030</u>	<u>533,407</u>	<u>802,732</u>	<u>6,476,668</u>	<u>23,583,744</u>
Operating income (loss)	<u>(2,378,246)</u>	<u>(727,122)</u>	<u>(794,784)</u>	<u>(511,770)</u>	<u>9,176</u>	<u>(999,662)</u>	<u>(484,759)</u>	<u>(496,864)</u>	<u>(2,777,923)</u>	<u>(9,161,954)</u>
Nonoperating revenues (expenses):										
Contributions from the primary government	1,000,000	352,769	2,687,535	-	-	1,225,405	373,479	353,733	1,190,400	7,183,321
Interest expense	(40,294)	-	(5,383)	-	-	-	-	-	(112,609)	(158,286)
Grants and other contributions	-	-	-	-	-	-	-	160,989	-	160,989
Other	(190,840)	-	(1,896)	(2,426)	(623)	-	-	-	-	(195,785)
Total nonoperating revenues (expenses), net	<u>768,866</u>	<u>352,769</u>	<u>2,680,256</u>	<u>(2,426)</u>	<u>(623)</u>	<u>1,225,405</u>	<u>373,479</u>	<u>514,722</u>	<u>1,077,791</u>	<u>6,990,239</u>
Capital contributions	-	672,627	-	150,000	-	-	-	-	62,144	884,771
Change in net position	(1,609,380)	298,274	1,885,472	(364,196)	8,553	225,743	(111,280)	17,858	(1,637,988)	(1,286,944)
Net position at the beginning of the year	<u>3,016,551</u>	<u>650,265</u>	<u>(921,087)</u>	<u>296,863</u>	<u>80,332</u>	<u>(90,044)</u>	<u>156,193</u>	<u>217,163</u>	<u>3,323,676</u>	<u>6,729,912</u>
Net position at the end of the year	<u>\$ 1,407,171</u>	<u>\$ 948,539</u>	<u>\$ 964,385</u>	<u>\$ (67,333)</u>	<u>\$ 88,885</u>	<u>\$ 135,699</u>	<u>\$ 44,913</u>	<u>\$ 235,021</u>	<u>\$ 1,685,688</u>	<u>\$ 5,442,968</u>

See Accompanying Independent Auditors' Report.

REPUBLIC OF THE MARSHALL ISLANDS

GRANTS ASSISTANCE FUND

September 30, 2013

The Grants Assistance Fund accounts for all financial transactions that are subgranted to RepMar. A brief discussion of the funds that comprise the Grants Assistance Fund as of September 30, 2013, follows:

Section 215(a)(1) Communications Fund

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

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

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

Section 216(a)(3) Scholarship Fund

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

Section 213 Audit Fund

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

U.S. Federal Grants Fund

This fund accounts for all financial transactions that are subgranted to RepMar, as well as other direct federal grants that RepMar received from the United States government.

European Union Grants Fund

This fund accounts for all financial transactions that are subgranted to RepMar, as well as other direct grants that RepMar received from the European Union.

Other Direct Assistance Fund

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

Republic of China Projects Fund

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

See Accompanying Independent Auditors' Report.

REPUBLIC OF THE MARSHALL ISLANDS

GRANTS ASSISTANCE FUND

September 30, 2013

Compact Sector Grants Fund

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

See Accompanying Independent Auditors' Report.

REPUBLIC OF THE MARSHALL ISLANDS

GRANTS ASSISTANCE FUND

Combining Balance Sheet

September 30, 2013

DILOG Fund Number	350200	350305	350315	510130	600350	700100	700360	700370		
	Section 215(a)(1) Communi- cations	Section 216(a)(1) Surveillance and Enforcement	Section 216(a)(3) Scholarship	Section 213 Audit	U.S. Federal Grants	European Union Grants	Other Direct Assistance	Republic of China Projects	Compact Sector	Total
ASSETS										
Receivables:										
Federal agencies	\$ -	\$ -	\$ -	\$ 1,047,582	\$ 2,643,860	\$ -	\$ -	\$ -	\$ 5,192,164	\$ 8,883,606
General	-	-	-	-	-	-	(58,586)	3,700,000	-	3,641,414
Due from other funds	40,380	690	1,593	-	-	-	472,844	-	6,583,481	7,098,988
Advances	-	-	-	-	84,591	-	12,351	1,080	41,632	139,654
Total assets	<u>\$ 40,380</u>	<u>\$ 690</u>	<u>\$ 1,593</u>	<u>\$ 1,047,582</u>	<u>\$ 2,728,451</u>	<u>\$ -</u>	<u>\$ 426,609</u>	<u>\$ 3,701,080</u>	<u>\$ 11,817,277</u>	<u>\$ 19,763,662</u>
LIABILITIES AND FUND BALANCES										
(DEFICITS)										
Liabilities:										
Accounts payable	\$ -	\$ -	\$ -	\$ 62,185	\$ 461,045	\$ 754	\$ 29,146	\$ 304,462	\$ 1,184,779	\$ 2,042,371
Other liabilities and accruals	-	-	-	-	76,110	-	5,283	5,553	328,832	415,778
Payable to federal agencies	-	-	-	-	-	-	-	-	1,002,360	1,002,360
Retention payable	-	-	-	-	-	-	-	-	499,024	499,024
Due to other funds	-	-	-	985,397	2,192,173	72,518	-	1,708,245	3,189,354	8,147,687
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,047,582</u>	<u>2,729,328</u>	<u>73,272</u>	<u>34,429</u>	<u>2,018,260</u>	<u>6,204,349</u>	<u>12,107,220</u>
Fund balances (deficits):										
Restricted	40,380	690	1,593	-	-	-	392,180	-	5,688,725	6,123,568
Committed	-	-	-	-	-	-	-	1,682,820	-	1,682,820
Unassigned	-	-	-	-	(877)	(73,272)	-	-	(75,797)	(149,946)
Total fund balances (deficits)	<u>40,380</u>	<u>690</u>	<u>1,593</u>	<u>-</u>	<u>(877)</u>	<u>(73,272)</u>	<u>392,180</u>	<u>1,682,820</u>	<u>5,612,928</u>	<u>7,656,442</u>
Total liabilities and fund balances	<u>\$ 40,380</u>	<u>\$ 690</u>	<u>\$ 1,593</u>	<u>\$ 1,047,582</u>	<u>\$ 2,728,451</u>	<u>\$ -</u>	<u>\$ 426,609</u>	<u>\$ 3,701,080</u>	<u>\$ 11,817,277</u>	<u>\$ 19,763,662</u>

See Accompanying Independent Auditors' Report.

REPUBLIC OF THE MARSHALL ISLANDS

GRANTS ASSISTANCE FUND
 Combining Schedule of Revenues, Expenditures by Function,
 and Changes in Fund Balances (Deficits)
 Year Ended September 30, 2013

DILOG Fund Number	350200	350305	350315	510130	600350	700100	700360	700370			
	Section 215(a)(1) Commu- nications	Section 216(a)(1) Surveillance and Enforcement	Section 216(a)(3) Scholarship	Section 213 Audit	U.S. Federal Grants	European Union Grants	Other Direct Assistance	Republic of China Projects	Compact Sector	Elimination	Total
Revenues:											
Federal and other grants	\$ -	\$ -	\$ -	\$ 383,015	\$ 9,221,044	\$ 4,975	\$ 6,172,218	\$ 7,405,000	\$ 33,725,243	\$ -	\$ 56,911,495
Expenditures by Function:											
Current:											
President and Cabinet	-	-	-	-	-	-	-	83,663	-	-	83,663
Office of the Chief Secretary	-	-	-	-	119,323	5,439	1,678,358	-	-	-	1,803,120
Special appropriations	-	-	-	-	-	-	-	1,290,580	-	-	1,290,580
Nitijela	-	-	-	-	-	-	29,359	-	-	-	29,359
Office of the Auditor-General	-	-	-	383,015	170	-	865	-	-	-	384,050
Office of the Attorney General	-	-	-	-	49,136	-	-	-	-	-	49,136
Ministry of Education	-	-	-	-	1,805,328	-	10,584	1,058	19,693,122	-	21,510,092
Ministry of Health and Environment	-	-	-	-	3,440,991	-	55,060	74,350	6,621,631	-	10,192,032
Ministry of Transportation and Communications	-	-	-	-	-	-	-	1,275,404	-	-	1,275,404
Ministry of Resources and Development	-	-	-	-	29,987	-	74,400	1,438,400	-	-	1,542,787
Ministry of Internal Affairs	-	-	-	-	133,038	-	196,428	977,825	-	-	1,307,291
Ministry of Finance	-	-	-	-	2,093,529	43,920	1,648,702	-	1,163,800	-	4,949,951
Ministry of Foreign Affairs	-	-	-	-	19,985	-	1,907,262	88,968	86,988	-	2,103,203
Ministry of Public Works	-	-	-	-	-	-	-	258,060	-	-	258,060
Environmental Protection Authority	-	-	-	-	-	-	-	-	521,465	-	521,465
Debt service:											
Principal repayment	-	-	-	-	-	-	-	337,616	-	-	337,616
Interest	-	-	-	-	-	-	-	212,793	-	-	212,793
Capital outlay	-	-	-	-	-	-	-	897,534	5,898,470	-	6,796,004
Total expenditures	-	-	-	383,015	7,691,487	49,359	5,601,018	6,936,251	33,985,476	-	54,646,606
Excess (deficiency) of revenues over (under) expenditures	-	-	-	-	1,529,557	(44,384)	571,200	468,749	(260,233)	-	2,264,889
Other financing sources (uses):											
Operating transfers in	-	-	-	-	-	-	-	-	764,265	(764,265)	-
Operating transfers out	-	-	-	-	(1,530,434)	-	(420,000)	(864,265)	(1,071,925)	764,265	(3,122,359)
Total other financing sources (uses), net	-	-	-	-	(1,530,434)	-	(420,000)	(864,265)	(307,660)	-	(3,122,359)
Net change in fund balances (deficits)	-	-	-	-	(877)	(44,384)	151,200	(395,516)	(567,893)	-	(857,470)
Fund balances (deficits) at the beginning of the year	40,380	690	1,593	-	-	(28,888)	240,980	2,078,336	6,180,821	-	8,513,912
Fund balances (deficits) at the end of the year	\$ 40,380	\$ 690	\$ 1,593	\$ -	\$ (877)	\$ (73,272)	\$ 392,180	\$ 1,682,820	\$ 5,612,928	\$ -	\$ 7,656,442

See Accompanying Independent Auditors' Report.

REPUBLIC OF THE MARSHALL ISLANDS

GRANTS ASSISTANCE FUND
 Combining Schedule of Revenues, Expenditures by Account,
 and Changes in Fund Balances (Deficits)
 Year Ended September 30, 2013

DILOG Fund Number	350200	350305	350315	510130	600350	700100	700360	700370			
	Section 215(a)(1) Communi- cations	Section 216(a)(1) Surveillance and Enforcement	Section 216(a)(3) Scholarship	Section 213 Audit	U.S. Federal Grants	European Union Grants	Other Direct Assistance	Republic of China Projects	Compact Sector	Elimination	Total
Revenues:											
Federal and other grants	\$ -	\$ -	\$ -	\$ 383,015	\$ 9,221,044	\$ 4,975	\$ 6,172,218	\$ 7,405,000	\$ 33,725,243	\$ -	\$ 56,911,495
Expenditures by Account:											
Salaries and wages	-	-	-	-	3,345,615	21,539	401,240	224,143	15,275,272	-	19,267,809
Capital outlay	-	-	-	-	111,704	14,067	691,880	863,955	4,399,331	-	6,080,937
Grants and subsidies	-	-	-	-	89,991	-	1,538,224	4,463,648	4,633,385	-	10,725,248
Utilities	-	-	-	-	47,605	-	28,452	1,700	2,546,361	-	2,624,118
Leased housing	-	-	-	-	-	-	86,020	-	1,205,229	-	1,291,249
Supplies and materials	-	-	-	-	160,031	3,000	76,940	115,941	1,355,800	-	1,711,712
Contractual services	-	-	-	-	1,736,445	3,750	1,141,768	241,376	1,299,019	-	4,422,358
Travel	-	-	-	-	747,211	3,390	120,048	18,345	327,815	-	1,216,809
Food stuffs	-	-	-	-	487,735	-	405,466	29,067	787,064	-	1,709,332
Allowances	-	-	-	-	-	-	-	6,975	30,579	-	37,554
Professional services	-	-	-	383,015	-	-	268,044	19,354	-	-	670,413
Principal repayment	-	-	-	-	-	-	-	337,616	-	-	337,616
Interest	-	-	-	-	-	-	-	212,793	-	-	212,793
Medical supplies	-	-	-	-	-	-	-	-	6,543	-	6,543
Communications	-	-	-	-	62,941	-	18,536	100	199,489	-	281,066
POL	-	-	-	-	101,518	975	110,196	53,216	305,917	-	571,822
Rentals	-	-	-	-	23,574	-	398,874	2,975	80,649	-	506,072
Freight	-	-	-	-	1,615	-	39,528	36,232	41,970	-	119,345
Printing and reproduction	-	-	-	-	10,643	-	17,866	-	22,437	-	50,946
Insurance	-	-	-	-	-	-	13,855	-	13,516	-	27,371
Other	-	-	-	-	764,859	2,638	244,081	308,815	1,455,100	-	2,775,493
Total expenditures	-	-	-	383,015	7,691,487	49,359	5,601,018	6,936,251	33,985,476	-	54,646,606
Excess (deficiency) of revenues over (under) expenditures	-	-	-	-	1,529,557	(44,384)	571,200	468,749	(260,233)	-	2,264,889
Other financing sources (uses):											
Operating transfers in	-	-	-	-	-	-	-	-	764,265	(764,265)	-
Operating transfers out	-	-	-	-	(1,530,434)	-	(420,000)	(864,265)	(1,071,925)	764,265	(3,122,359)
Total other financing sources (uses), net	-	-	-	-	(1,530,434)	-	(420,000)	(864,265)	(307,660)	-	(3,122,359)
Net change in fund balances (deficits)	-	-	-	-	(877)	(44,384)	151,200	(395,516)	(567,893)	-	(857,470)
Fund balances (deficits) at the beginning of the year	40,380	690	1,593	-	-	(28,888)	240,980	2,078,336	6,180,821	-	8,513,912
Fund balances (deficits) at the end of the year	\$ 40,380	\$ 690	\$ 1,593	\$ -	\$ (877)	\$ (73,272)	\$ 392,180	\$ 1,682,820	\$ 5,612,928	\$ -	\$ 7,656,442

See Accompanying Independent Auditors' Report.

REPUBLIC OF THE MARSHALL ISLANDS

COMPACT OF FREE ASSOCIATION SECTOR GRANTS FUND

September 30, 2013

Section 211(a)(1) Education Sector Grant Fund

This fund accounts for United States Congress appropriations under United States Public Law 99-239, as amended, Title II, Article I, Section 211(a)(1) and approved by Nitijela resolution 123 to support and improve the educational system of the Republic of the Marshall Islands.

Supplemental Education Fund

This fund accounts for United States Congress appropriations under United States Public Law 99-239, as amended, which takes the place of certain domestic grants once offered through the U.S. Department of Education, the U.S. Department of Health and Human Services and the U.S. Department of Labor.

Section 211(a)(2) Health Sector Grant Fund

This fund accounts for United States Congress appropriations under United States Public Law 99-239, as amended, Title II, Article I, Section 211(a)(2) and approved by Nitijela resolution 123 to support and improve the delivery of preventive, curative, and environmental healthcare services in the Republic of the Marshall Islands.

Section 211(a)(4) Capacity Building Fund

This fund accounts for United States Congress appropriations under United States Public Law 99-239, as amended, Title II, Article I, Section 211(a)(4) and approved by Nitijela resolution 123 to support the efforts in building an effective, accountable and transparent national and local government and other public sector institutions and systems in the Republic of the Marshall Islands.

Section 211(a)(5) Environment Sector Fund

This fund accounts for United States Congress appropriations under United States Public Law 99-239, as amended, Title II, Article I, Section 211(a)(5) and approved by Nitijela resolution 123 to increase environmental protection; establish and manage conservation areas; engage in environmental infrastructure planning, design construction and operation; and to involve the citizens of the Marshall Islands in the process of conserving their country's natural resources.

Section 211(b)(1) Ebeye Special Needs Fund

This fund accounts for United States Congress appropriations under United States Public Law 99-239, as amended, Title II, Article I, Section 211(b)(1) and approved by Nitijela resolution 123 to support the special needs of the community at Ebeye, Kwajalein Atoll and other Marshallese communities within Kwajalein Atoll.

Section 211(b)(2) Landowners Special Needs Fund

This fund accounts for United States Congress appropriations under United States Public Law 99-239, as amended, Title II, Article I, Section 211(b)(1) and approved by Nitijela resolution 123 to support the special needs of the community at Ebeye, Kwajalein Atoll and other Marshallese communities within Kwajalein Atoll with emphasis on the Kwajalein Landowners.

See Accompanying Independent Auditors' Report.

REPUBLIC OF THE MARSHALL ISLANDS

COMPACT OF FREE ASSOCIATION SECTOR GRANTS FUND

September 30, 2013

Section 211(b)(1) Kwajalein Environment Fund

This fund accounts for United States Congress appropriations under United States Public Law 99-239, as amended, Title II, Article I, Section 211(b)(1) and approved by Nitijela resolution 123 to address the special needs of the community at Ebeye, Kwajalein Atoll, with respect to environmental protection issues.

Section 211(d)(1) Public Infrastructure Sector Grant Fund

This fund accounts for United States Congress appropriations under United States Public Law 99-239, as amended, Title II, Article I, Section 211(d)(1) and approved by Nitijela resolution 123. The aforementioned section requires no less than 30% and no more than 50% of the total amounts appropriated by the United States Congress under Section 211 to be made available in accordance with a list of specific projects included in the infrastructure improvement and maintenance plan prepared by RepMar.

Section 211(d)(2) Infrastructure Maintenance Fund

This fund accounts for United States Congress appropriations under United States Public Law 99-239, as amended, Title II, Article I, Section 211(d)(2) and approved by Nitijela resolution 123. The aforementioned section requires 5% of the total amounts appropriated by the United States Congress under Section 211(d)(1) to be set aside and made available, with an equal contribution from RepMar, as a contribution to an Infrastructure Maintenance Fund.

Section 211(e)(1) Disaster Assistance Emergency Fund

This fund accounts for United States Congress appropriations under United States Public Law 99-239, as amended, Title II, Article I, Section 211(e)(1) and approved by Nitijela resolution 123 to support the establishment of a disaster assistance emergency fund.

See Accompanying Independent Auditors' Report.

REPUBLIC OF THE MARSHALL ISLANDS

COMPACT OF FREE ASSOCIATION SECTOR GRANTS

Combining Balance Sheet

September 30, 2013

DILOG Fund Number	410100	410102	410110	410120	410140	410150	410160	410170	510100	510110	510120	Total
	Section 211(a)(1) Education	Supplemental Education	Section 211(a)(2) Health	Section 211(a)(4) Capacity Building	Section 211(a)(5) Environment	Section 211(b)(1) Ebeye Special Needs	Section 211(b)(2) Landowners Special Needs	Section 211(b)(3) Kwajalein Environment	Section 211(d)(1) Public Infrastructure	Section 211(d)(2) Infrastructure Maintenance	Section 211(e)(1) Disaster Assistance	
ASSETS												
Receivables:												
Federal agencies	\$ -	\$ 743,129	\$ -	\$ -	\$ -	\$ -	\$ 49,140	\$ -	\$ 3,635,630	\$ 532,845	\$ 231,420	\$ 5,192,164
Due from other funds	844,120	-	678,337	166,028	11,737	548,522	10,472	31,270	-	2,334,673	1,958,322	6,583,481
Advances	6,191	8,124	14,172	-	-	9,020	-	1,200	5,897	(2,972)	-	41,632
Total assets	<u>\$ 850,311</u>	<u>\$ 751,253</u>	<u>\$ 692,509</u>	<u>\$ 166,028</u>	<u>\$ 11,737</u>	<u>\$ 557,542</u>	<u>\$ 59,612</u>	<u>\$ 32,470</u>	<u>\$ 3,641,527</u>	<u>\$ 2,864,546</u>	<u>\$ 2,189,742</u>	<u>\$ 11,817,277</u>
LIABILITIES AND FUND BALANCES												
(DEFICITS)												
Liabilities:												
Accounts payable	\$ 296,928	\$ 300,425	\$ 74,576	\$ -	\$ -	\$ 29,262	\$ 81,900	\$ 10,800	\$ 273,517	\$ 117,371	\$ -	\$ 1,184,779
Other liabilities and accruals	154,629	48,023	96,416	-	-	22,717	-	3,354	3,226	467	-	328,832
Payable to federal agencies	323,281	-	447,601	2,655	1,250	178,002	-	49,571	-	-	-	1,002,360
Retention payable	-	-	-	-	-	-	-	-	499,024	-	-	499,024
Due to other funds	-	301,340	-	-	-	-	-	-	2,888,014	-	-	3,189,354
Total liabilities	<u>774,838</u>	<u>649,788</u>	<u>618,593</u>	<u>2,655</u>	<u>1,250</u>	<u>229,981</u>	<u>81,900</u>	<u>63,725</u>	<u>3,663,781</u>	<u>117,838</u>	<u>-</u>	<u>6,204,349</u>
Fund balances (deficits):												
Restricted	75,473	101,465	73,916	163,373	10,487	327,561	-	-	-	2,746,708	2,189,742	5,688,725
Unassigned	-	-	-	-	-	-	(22,288)	(31,255)	(22,254)	-	-	(75,797)
Total fund balances (deficits)	<u>75,473</u>	<u>101,465</u>	<u>73,916</u>	<u>163,373</u>	<u>10,487</u>	<u>327,561</u>	<u>(22,288)</u>	<u>(31,255)</u>	<u>(22,254)</u>	<u>2,746,708</u>	<u>2,189,742</u>	<u>5,612,928</u>
Total liabilities and fund balances	<u>\$ 850,311</u>	<u>\$ 751,253</u>	<u>\$ 692,509</u>	<u>\$ 166,028</u>	<u>\$ 11,737</u>	<u>\$ 557,542</u>	<u>\$ 59,612</u>	<u>\$ 32,470</u>	<u>\$ 3,641,527</u>	<u>\$ 2,864,546</u>	<u>\$ 2,189,742</u>	<u>\$ 11,817,277</u>

See Accompanying Independent Auditors' Report.

REPUBLIC OF THE MARSHALL ISLANDS

COMPACT OF FREE ASSOCIATION SECTOR GRANTS
Combining Schedule of Revenues, Expenditures by Function,
and Changes in Fund Balances (Deficits)
Year Ended September 30, 2013

DILOG Fund Number	410100	410102	410110	410120	410140	410150	410160	410170	510100	510110	510120	
	Section 211(a)(1) Education	Supplemental Education	Section 211(a)(2) Health	Section 211(a)(4) Capacity Building	Section 211(a)(5) Environment	Section 211(b)(1) Ebeye Special Needs	Section 211(b)(2) Landowners Special Needs	Section 211(b)(3) Kwajalein Environment	Section 211(d)(1) Public Infrastructure	Section 211(d)(2) Infrastructure Maintenance	Section 211(e)(1) Disaster Assistance	Total
Revenues:												
Compact funding	\$ 11,231,522	\$ 5,867,009	\$ 6,698,547	\$ (29,037)	\$ 323,750	\$ 3,311,769	\$ 1,131,040	\$ 179,830	\$ 4,246,548	\$ 532,845	\$ 231,420	\$ 33,725,243
Expenditures by Function:												
Current:												
Ministry of Education	11,096,774	5,508,430	-	-	-	3,087,918	-	-	-	-	-	19,693,122
Ministry of Health and Environment	-	-	6,624,631	-	-	(3,000)	-	-	-	-	-	6,621,631
Ministry of Finance	-	-	-	-	-	-	1,163,800	-	-	-	-	1,163,800
Ministry of Foreign Affairs	-	-	-	86,988	-	-	-	-	-	-	-	86,988
Environmental Protection Authority	-	-	-	-	323,750	-	-	197,715	-	-	-	521,465
Capital outlay	-	-	-	-	-	-	-	-	4,268,802	1,629,668	-	5,898,470
Total expenditures	11,096,774	5,508,430	6,624,631	86,988	323,750	3,084,918	1,163,800	197,715	4,268,802	1,629,668	-	33,985,476
Excess (deficiency) of revenues over (under) expenditures	134,748	358,579	73,916	(116,025)	-	226,851	(32,760)	(17,885)	(22,254)	(1,096,823)	231,420	(260,233)
Other financing sources (uses):												
Operating transfers in	-	-	-	-	-	-	-	-	-	532,845	231,420	764,265
Operating transfers out	(471,925)	(500,000)	-	-	-	(100,000)	-	-	-	-	-	(1,071,925)
Total other financing sources (uses), net	(471,925)	(500,000)	-	-	-	(100,000)	-	-	-	532,845	231,420	(307,660)
Net change in fund balances (deficits)	(337,177)	(141,421)	73,916	(116,025)	-	126,851	(32,760)	(17,885)	(22,254)	(563,978)	462,840	(567,893)
Fund balances (deficits) at the beginning of the year	412,650	242,886	-	279,398	10,487	200,710	10,472	(13,370)	-	3,310,686	1,726,902	6,180,821
Fund balances (deficits) at the end of the year	\$ 75,473	\$ 101,465	\$ 73,916	\$ 163,373	\$ 10,487	\$ 327,561	\$ (22,288)	\$ (31,255)	\$ (22,254)	\$ 2,746,708	\$ 2,189,742	\$ 5,612,928

See Accompanying Independent Auditors' Report.

REPUBLIC OF THE MARSHALL ISLANDS

COMPACT OF FREE ASSOCIATION SECTOR GRANTS
Combining Schedule of Revenues, Expenditures by Account,
and Changes in Fund Balances (Deficits)
Year Ended September 30, 2013

DILOG Fund Number	410100	410102	410110	410120	410140	410150	410160	410170	510100	510110	510120	
	Section 211(a)(1) Education	Supplemental Education	Section 211(a)(2) Health	Section 211(a)(4) Capacity Building	Section 211(a)(5) Environment	Section 211(b)(1) Ebeye Special Needs	Section 211(b)(2) Landowners Special Needs	Section 211(b)(3) Kwajalein Environment	Section 211(d)(1) Public Infrastructure	Section 211(d)(2) Infrastructure Maintenance	Section 211(e)(1) Disaster Assistance	Total
Revenues:												
Compact funding	\$ 11,231,522	\$ 5,867,009	\$ 6,698,547	\$ (29,037)	\$ 323,750	\$ 3,311,769	\$ 1,131,040	\$ 179,830	\$ 4,246,548	\$ 532,845	\$ 231,420	\$ 33,725,243
Expenditures by Account:												
Salaries and wages	7,318,678	2,233,184	4,459,761	-	-	928,507	-	154,668	140,171	40,303	-	15,275,272
Capital outlay	246,403	158,789	48,715	-	-	29,676	-	3,300	2,870,928	1,041,520	-	4,399,331
Grants and subsidies	1,300,000	283,112	-	-	323,750	150,000	1,000,000	-	1,028,981	547,542	-	4,633,385
Utilities	584,018	62,252	878,081	-	-	854,010	163,800	4,200	-	-	-	2,546,361
Leased housing	425,015	-	764,667	-	-	-	-	-	15,547	-	-	1,205,229
Supplies and materials	290,733	849,268	26,868	-	-	173,537	-	164	15,230	-	-	1,355,800
Contractual services	11,000	759,414	101,070	86,988	-	170,547	-	20,000	150,000	-	-	1,299,019
Travel	128,818	33,201	22,254	-	-	110,859	-	4,541	28,142	-	-	327,815
Food stuffs	258,168	255,843	179,089	-	-	93,025	-	-	939	-	-	787,064
Allowances	28,259	2,320	-	-	-	-	-	-	-	-	-	30,579
Medical supplies	-	-	-	-	-	6,543	-	-	-	-	-	6,543
Communications	102,697	24,965	7,372	-	-	48,455	-	6,000	10,000	-	-	199,489
POL	157,318	9,974	39,732	-	-	87,960	-	2,969	7,964	-	-	305,917
Rentals	29,488	45,341	5,200	-	-	620	-	-	-	-	-	80,649
Freight	27,646	361	5,795	-	-	8,168	-	-	-	-	-	41,970
Printing and reproduction	12,470	1,000	-	-	-	8,967	-	-	-	-	-	22,437
Insurance	10,979	-	1,545	-	-	992	-	-	-	-	-	13,516
Other	165,084	789,406	84,482	-	-	413,052	-	1,873	900	303	-	1,455,100
Total expenditures	11,096,774	5,508,430	6,624,631	86,988	323,750	3,084,918	1,163,800	197,715	4,268,802	1,629,668	-	33,985,476
Excess (deficiency) of revenues over (under) expenditures	134,748	358,579	73,916	(116,025)	-	226,851	(32,760)	(17,885)	(22,254)	(1,096,823)	231,420	(260,233)
Other financing sources (uses):												
Operating transfers in	-	-	-	-	-	-	-	-	-	532,845	231,420	764,265
Operating transfers out	(471,925)	(500,000)	-	-	-	(100,000)	-	-	-	-	-	(1,071,925)
Total other financing sources (uses), net	(471,925)	(500,000)	-	-	-	(100,000)	-	-	-	532,845	231,420	(307,660)
Net change in fund balances (deficits)	(337,177)	(141,421)	73,916	(116,025)	-	126,851	(32,760)	(17,885)	(22,254)	(563,978)	462,840	(567,893)
Fund balances (deficits) at the beginning of the year	412,650	242,886	-	279,398	10,487	200,710	10,472	(13,370)	-	3,310,686	1,726,902	6,180,821
Fund balances (deficits) at the end of the year	\$ 75,473	\$ 101,465	\$ 73,916	\$ 163,373	\$ 10,487	\$ 327,561	\$ (22,288)	\$ (31,255)	\$ (22,254)	\$ 2,746,708	\$ 2,189,742	\$ 5,612,928

See Accompanying Independent Auditors' Report.

REPUBLIC OF THE MARSHALL ISLANDS

GENERAL FUND

September 30, 2013

Reimbursable Fund

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

Changed Circumstances Fund

This fund accounts for the expenditures related to the Changed Circumstances Study using excess annual proceeds from the Section 177 Nuclear Claims Trust Fund.

Judiciary Fund

This fund accounts for all financial transactions related to RepMar's judicial system as required under Public Law No. 1989-69.

Alternative Energy Fund

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

Postal Service Fund

This fund was established under Public Law No. 1985-4 to account for and administer monies collected and paid under the provisions of the Postal Service Act 1983 and any appropriations made by the Nitijela for related purposes.

Marshall Islands Development Authority (MIDA) Fund

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

Local Government Fund

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

See Accompanying Independent Auditors' Report.

REPUBLIC OF THE MARSHALL ISLANDS

GENERAL FUND

September 30, 2013

Asian Development Bank (ADB) Development Projects

This fund accounts for projects funded by Asian Development Bank loans. These projects include the fisheries development (ADB Loan Number 1102 MAR (SF)), typhoon emergency rehabilitation program (ADB Loan Number 1218 MAR (SF)), improvement of basic education (ADB Loan Number 1249 MAR (SF)), Majuro water supply project (ADB Loan Numbers 1250 MAR (SF) and 1389 RMI (SF)), improvement of health care (ADB Loan Number 1316 RMI (SF)), the Ebeye health and infrastructure project (ADB Loan Number 1694 RMI (SF)), the skills training and vocational education project (ADB Loan Number 1791 RMI (SF)), and the fiscal debt management project (ADB Loan Number 2950 RMI (SF)).

See Accompanying Independent Auditors' Report.

REPUBLIC OF THE MARSHALL ISLANDS

GENERAL FUND

**Combining Balance Sheet
September 30, 2013**

	100100	200090	200317	200330	200335	200515	300400	300600	800405	950000	960000		
	General	Reimbursable	Changed Circumstances	Judiciary	Alternative Energy	Postal Service	MIDA	Local Government	ADB Development Projects	Treasury	Payroll Revolving	Elimination	Total
ASSETS													
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 22,268	\$ 1,509,221	\$ -	\$ -	\$ 1,531,489
Investments	748,250	-	-	-	-	-	-	-	-	-	-	-	748,250
Receivables, net:													
Taxes	2,491,169	-	-	-	-	-	-	-	-	-	-	-	2,491,169
Federal agencies	(2,228)	347,300	-	-	-	-	-	-	-	-	-	-	345,072
General	949,574	-	-	-	-	-	-	-	-	(1,566)	-	-	948,008
Due from other funds	806,962	-	54,458	30,655	416	-	-	14,251	2,458,588	7,507,706	1,346,885	(4,072,234)	8,147,687
Due from component units	10,351,710	-	-	-	-	-	-	-	-	-	-	-	10,351,710
Advances	197,136	6,265	-	-	-	-	-	-	6,306	-	-	-	209,707
Restricted assets:													
Cash and cash equivalents	-	-	-	-	-	-	-	-	-	3,810,632	-	-	3,810,632
Total assets	<u>\$ 15,542,573</u>	<u>\$ 353,565</u>	<u>\$ 54,458</u>	<u>\$ 30,655</u>	<u>\$ 416</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 14,251</u>	<u>\$ 2,487,162</u>	<u>\$ 12,825,993</u>	<u>\$ 1,346,885</u>	<u>\$ (4,072,234)</u>	<u>\$ 28,583,724</u>
LIABILITIES AND FUND BALANCE													
(DEFICIT)													
Liabilities:													
Accounts payable	\$ 1,743,482	\$ 15,364	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 279,451	\$ 529,739	\$ -	\$ -	\$ 2,568,036
Other liabilities and accruals	839,604	12,659	-	-	-	-	-	-	361	-	1,346,885	-	2,199,509
Due to component units	551,741	-	-	-	-	-	-	-	-	-	-	-	551,741
Due to other funds	-	359,361	-	-	-	658	-	-	-	12,296,254	-	(4,072,234)	8,584,039
Unearned revenues	1,000,000	-	-	-	-	-	-	-	-	-	-	-	1,000,000
Total liabilities	<u>4,134,827</u>	<u>387,384</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>658</u>	<u>-</u>	<u>-</u>	<u>279,812</u>	<u>12,825,993</u>	<u>1,346,885</u>	<u>(4,072,234)</u>	<u>14,903,325</u>
Fund balance (deficit):													
Nonspendable	11,099,960	-	-	-	-	-	-	-	-	-	-	-	11,099,960
Restricted	-	-	-	-	-	-	-	-	2,207,350	1,177,961	-	-	3,385,311
Committed	-	-	-	30,655	-	-	-	14,251	-	-	-	-	44,906
Unassigned	307,786	(33,819)	54,458	-	416	(658)	-	-	-	(1,177,961)	-	-	(849,778)
Total fund balance (deficit)	<u>11,407,746</u>	<u>(33,819)</u>	<u>54,458</u>	<u>30,655</u>	<u>416</u>	<u>(658)</u>	<u>-</u>	<u>14,251</u>	<u>2,207,350</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>13,680,399</u>
Total liabilities and fund balance	<u>\$ 15,542,573</u>	<u>\$ 353,565</u>	<u>\$ 54,458</u>	<u>\$ 30,655</u>	<u>\$ 416</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 14,251</u>	<u>\$ 2,487,162</u>	<u>\$ 12,825,993</u>	<u>\$ 1,346,885</u>	<u>\$ (4,072,234)</u>	<u>\$ 28,583,724</u>

See Accompanying Independent Auditors' Report.

REPUBLIC OF THE MARSHALL ISLANDS

GENERAL FUND

**Combining Schedule of Revenues, Expenditures By Function,
and Changes in Fund Balances (Deficits)
Year Ended September 30, 2013**

	100100	200090	200317	200330	200335	200515	300400	300600	800405	950000	960000		
	General	Reimbursable	Changed Circumstances	Judiciary	Alternative Energy	Postal Service	MIDA	Local Government	ADB Development Projects	Treasury	Payroll Revolving	Elimination	Total
Revenues:													
Taxes	\$ 26,384,532	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 26,384,532
Federal and other grants	3,600,000	443,731	-	-	-	-	-	-	-	-	-	-	4,043,731
Ship registry	4,000,000	-	-	-	-	-	-	-	-	-	-	-	4,000,000
Interest and dividends	148,518	-	-	-	-	-	-	-	-	-	-	-	148,518
Fees and charges	16,592	177,613	-	3,355	-	-	-	-	-	-	-	-	197,560
Contributions from component units	8,246,725	-	-	-	-	-	-	-	-	-	-	-	8,246,725
Other	903,933	-	-	-	-	-	-	-	-	-	-	-	903,933
Total revenues	43,300,300	621,344	-	3,355	-	-	-	-	-	-	-	-	43,924,999
Expenditures by Function:													
Current:													
President and Cabinet	1,781,889	-	-	-	-	-	-	-	-	-	-	-	1,781,889
Office of the Chief Secretary	411,950	-	-	-	-	-	-	-	-	-	-	-	411,950
Special appropriations	11,502,560	-	-	-	-	-	-	-	-	-	-	-	11,502,560
Council of Iroij	453,994	-	-	-	-	-	-	-	-	-	-	-	453,994
Nitijela	1,617,592	-	-	-	-	-	-	-	-	-	-	-	1,617,592
Office of the Auditor-General	752,614	-	-	-	-	-	-	-	-	-	-	-	752,614
Public Service Commission	501,762	-	-	-	-	-	-	-	-	-	-	-	501,762
Judiciary	-	-	-	578,940	-	-	-	-	-	-	-	-	578,940
Office of the Attorney General	677,328	79,157	-	-	-	-	-	-	-	-	-	-	756,485
Ministry of Education	4,051,391	-	-	-	-	-	-	-	664,204	-	-	-	4,715,595
Ministry of Health and Environment	3,660,876	-	-	-	-	-	-	-	-	-	-	-	3,660,876
Ministry of Transportation and Communication	566,598	-	-	-	-	-	-	-	-	-	-	-	566,598
Ministry of Resources and Development	597,011	21,080	-	-	-	-	-	-	166,700	-	-	-	784,791
Ministry of Internal Affairs	2,073,719	-	-	-	-	-	-	-	180,080	-	-	-	2,253,799
Ministry of Justice	3,299,117	-	-	-	-	-	-	-	-	-	-	-	3,299,117
Ministry of Finance	2,898,063	538,552	-	-	-	-	-	-	1,345,569	-	-	-	4,782,184
Ministry of Foreign Affairs and Trade	2,649,696	-	-	-	-	-	318,630	-	-	-	-	-	2,968,326
Ministry of Public Works	1,171,932	-	-	-	-	-	-	-	102,326	-	-	-	1,274,258
Environmental Protection Authority	198,847	-	-	-	-	-	-	-	-	-	-	-	198,847
Debt service:													
Principal repayment	2,011,338	-	-	-	-	-	-	-	-	-	-	-	2,011,338
Interest	951,139	-	-	-	-	-	-	-	-	-	-	-	951,139
Total expenditures	41,829,416	638,789	-	578,940	-	-	318,630	-	2,458,879	-	-	-	45,824,654
Excess (deficiency) of revenues over (under) expenditures	1,470,884	(17,445)	-	(575,585)	-	-	(318,630)	-	(2,458,879)	-	-	-	(1,899,655)
Other financing sources (uses):													
Loan proceeds	-	-	-	-	-	-	-	-	4,893,961	-	-	-	4,893,961
Operating transfers in	827,333	-	-	578,940	-	-	-	-	-	-	-	(828,940)	577,333
Operating transfers out	(1,189,595)	-	-	-	-	-	-	-	(250,000)	-	-	828,940	(610,655)
Total other financing sources (uses), net	(362,262)	-	-	578,940	-	-	-	-	4,643,961	-	-	-	4,860,639
Net change in fund balances (deficits)	1,108,622	(17,445)	-	3,355	-	-	(318,630)	-	2,185,082	-	-	-	2,960,984
Fund balances (deficits) at the beginning of the year	10,299,124	(16,374)	54,458	27,300	416	(658)	318,630	14,251	22,268	-	-	-	10,719,415
Fund balances (deficits) at the end of the year	\$ 11,407,746	\$ (33,819)	\$ 54,458	\$ 30,655	\$ 416	\$ (658)	\$ -	\$ 14,251	\$ 2,207,350	\$ -	\$ -	\$ -	\$ 13,680,399

See Accompanying Independent Auditors' Report.

REPUBLIC OF THE MARSHALL ISLANDS

GENERAL FUND

**Combining Schedule of Expenditures By Account
Year Ended September 30, 2013**

	100100	200090	200317	200330	200335	200515	300400	300600	800405	
	General	Reimbursable	Changed Circumstances	Judiciary	Alternative Energy	Postal Service	MIDA	Local Government	ADB Development Projects	Total
Expenditures by Account:										
Salaries and wages	\$ 16,879,997	\$ 509,610	\$ -	\$ 578,940	\$ -	\$ -	\$ -	\$ -	\$ 5,748	\$ 17,974,295
Capital outlay	623,497	3,420	-	-	-	-	-	-	46,461	673,378
Grants and subsidies	7,865,485	-	-	-	-	-	-	-	1,279,342	9,144,827
Contractual services	675,228	-	-	-	-	-	-	-	826,947	1,502,175
Travel	1,192,825	29,665	-	-	-	-	-	-	1,108	1,223,598
Utilities	4,212,658	52,243	-	-	-	-	-	-	612	4,265,513
Supplies and materials	516,419	1,908	-	-	-	-	-	-	14,466	532,793
Leased housing	763,683	9,000	-	-	-	-	-	-	6,250	778,933
POL	478,630	5,876	-	-	-	-	-	-	3,880	488,386
Rentals	1,220,014	1,535	-	-	-	-	-	-	2,120	1,223,669
Food stuffs	385,125	-	-	-	-	-	-	-	6,739	391,864
Professional services	67,519	8,061	-	-	-	-	-	-	-	75,580
Principal repayment	2,011,338	-	-	-	-	-	-	-	-	2,011,338
Interest	959,943	-	-	-	-	-	-	-	-	959,943
Allowances	845,876	-	-	-	-	-	-	-	-	845,876
Communications	564,258	16,234	-	-	-	-	-	-	-	580,492
Freight	5,878	-	-	-	-	-	-	-	-	5,878
Printing and reproduction	39,145	-	-	-	-	-	-	-	1,441	40,586
Insurance	52,312	1,007	-	-	-	-	-	-	-	53,319
Other	2,469,586	230	-	-	-	-	318,630	-	263,765	3,052,211
Total expenditures	<u>\$ 41,829,416</u>	<u>\$ 638,789</u>	<u>\$ -</u>	<u>\$ 578,940</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 318,630</u>	<u>\$ -</u>	<u>\$ 2,458,879</u>	<u>\$ 45,824,654</u>

See Accompanying Independent Auditors' Report.