

REPUBLIC OF THE MARSHALL ISLANDS

GENERAL PURPOSE FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

YEAR ENDED SEPTEMBER 30, 2002

REPUBLIC OF THE MARSHALL ISLANDS
GENERAL PURPOSE FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2002

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INDEPENDENT AUDITORS' REPORT

His Excellency Kessai Note
President
Republic of the Marshall Islands:

We have audited the accompanying general purpose financial statements of the Republic of the Marshall Islands (RepMar), as set forth in Section II of the foregoing table of contents, as of September 30, 2002, and for the year then ended. These general purpose financial statements are the responsibility of the management of RepMar. Our responsibility is to express an opinion on these general purpose financial statements based on our audit. We did not audit the financial statements of the Marshall Islands National Telecommunications Authority, which represent 32% and 19%, respectively, of the assets and revenues of the Component Units - Proprietary Funds. 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 Component Units - Proprietary Funds, is based solely on the report of the other auditors.

Except as discussed in the following paragraphs, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The general purpose financial statements referred to above do not include the Ministry of Education Headstart Program, a Governmental Fund Type - Special Revenue Fund, Air Marshall Islands, Inc., a Component Unit - Proprietary Fund, the Marshall Islands Development Bank, a Component Unit - Proprietary Fund, the Marshall Islands Alternative Energy Company, Inc., a Component Unit - Proprietary Fund, and the Marshall Islands Drydock, Inc., a Component Unit - Proprietary Fund, which, in our opinion, should be included to conform with accounting principles generally accepted in the United States of America. The entities comprising these material omitted funds were not able to produce financial statements and the effect on the general purpose financial statements is unknown.

Because of inadequacies in the accounting records, we were unable to determine that fixed assets and fund equity of the General Fixed Assets Account Group were fairly stated as of September 30, 2002.

Because of inadequacies in the accounting records, we were unable to determine the propriety of other expenditures of approximately \$2.2 million recorded in the Governmental Fund Type - General Fund for the year ended September 30, 2002.

Because of inadequacies in the accounting records, we were unable to determine that deferred revenue was fairly stated for the Governmental Fund Type - Special Revenue Fund as of September 30, 2002. Deferred revenue enters into the determination of revenues of the Combined Statement of Revenues, Expenditures and Changes in Fund Balances - All Governmental Fund Types, Expendable Trust Funds and Discretely Presented Component Units for the year ended September 30, 2002.

Because of inadequacies in the accounting records, we were unable to determine that accounts payable was fairly stated for the Kwajalein Atoll Development Authority, a Governmental Fund Type - Capital Projects Fund, as of September 30, 2002. Accounts payable enters into the determination of expenditures of the Combined Statement of Revenues, Expenditures and Changes in Fund Balances - All Governmental Fund Types, Expendable Trust Funds and Discretely Presented Component Units for the year ended September 30, 2002.

Because of inadequacies in the accounting records, we were unable to determine that general receivables and deferred revenue were fairly stated for the University and College Fund Type - Higher Education Fund as of September 30, 2002. General receivables and deferred revenue enter into the determination of the revenues of the Higher Education Fund Statement of Changes in Fund Balances (Deficit) for the year ended September 30, 2002.

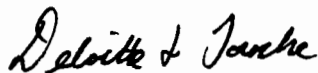
Because of inadequacies in the accounting records and in the internal control over financial reporting, we were unable to form an opinion regarding revenues and expenses of the Marshall Islands Marine Resources Authority (MIMRA). The financial activities of MIMRA are included in the Component Units - Proprietary Funds and represent 2.4% and 5.2% of the assets and operating revenues, respectively, of the Component Units - Proprietary Funds.

In our opinion, based on our audit and the report of the other auditors, except for the effects on the general purpose financial statements of such adjustments, if any, as might have been determined to be necessary had: 1) the propriety of fixed assets and fund equity of the General Fixed Assets Account Group, been determinable; 2) the propriety of other expenditures of approximately \$2.2 million recorded in the Governmental Fund Type - General Fund, been determinable; 3) the propriety of deferred revenue of the Governmental Fund Type - Special Revenue Fund and its effect on the determination of revenues of the Governmental Fund Type - Special Revenue Fund, been determinable; 4) the propriety of accounts payable of the Kwajalein Atoll Development Authority and its effect on the determination of expenditures of the Governmental Fund Type - Capital Projects Fund, been determinable; 5) the propriety of general receivables and deferred revenue of the University and College Fund Type - Higher Education Fund and their effect on the determination of revenues of the University and College Fund Type - Higher Education Fund been determinable; 6) the propriety of revenues and expenses of MIMRA, been determinable, as discussed in the fourth through ninth paragraphs above; and 7) the omission of the Ministry of Education Headstart Program, Air Marshall Islands, Inc., the Marshall Islands Development Bank, the Marshall Islands Alternative Energy Company, Inc., and the Marshall Islands Drydock, Inc., as discussed in the third paragraph above, such general purpose financial statements, as set forth in Section II of the table of contents, with the exception of the General Fixed Assets Account Group upon which we are unable to express an opinion because of the matter set forth in the fourth paragraph above, present fairly, in all material respects, the financial position of RepMar as of September 30, 2002, and the results of its operations and the cash flows of its Fiduciary Fund Types - Nonexpendable Trust Funds and Component Units - Proprietary Funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in note 8 to the general purpose financial statements, the Kwajalein Atoll Development Authority asserts that a former Component Unit - Proprietary Fund has been dissolved and that the loan receivable associated with this former Component Unit - Proprietary Fund, amounting to \$2,588,787 as of September 30, 2002, has been liquidated through transfer of assets. The concurrence of RepMar with this arrangement has not been received.

Our audit was conducted for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The combining and individual fund statements, listed in Section III of the foregoing table of contents, are presented for the purpose of additional analysis and are not a required part of the general purpose financial statements of RepMar. These statements are also the responsibility of the management of RepMar. Such additional information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, except for the effects of the matters described in the fourth through ninth paragraphs above, and the omissions discussed in the third paragraph, in our opinion, is fairly stated in all material respects in relation to the general purpose financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 23, 2003, on our consideration of RepMar's (Primary Government only) internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.



April 23, 2003
(except for note 12 as to which the date is May 2, 2003)

REPUBLIC OF THE MARSHALL ISLANDS

Combined Balance Sheet - All Fund Types, Account Groups
and Discretely Presented Component Units
September 30, 2002
(With comparative totals as of September 30, 2001)

	Governmental Fund Types			Fiduciary Fund Types		
	General	Special Revenue	Debt Service	Capital Projects	Expendable Trust	Nonexpendable Trust
Assets and Other Debits						
Cash and cash equivalents	\$ 2,665,950	\$ 131,671	\$ -	\$ 1,422,287	\$ 4,958,756	\$ 1,054,270
Time certificates of deposit	470,282	-	-	-	2,805,159	2,227,290
Investments (note 2)	100,000	400,220	-	11,408,630	41,586,536	11,088,025
Receivables, net (note 3):						
Taxes	1,654,850	-	-	-	-	-
General	172,977	-	-	-	3,620,659	-
Loans	-	-	-	-	-	-
Other	978,670	3,612,866	-	1,898,847	1,631,904	-
Due from primary government (note 4)	-	-	-	-	-	-
Due from component units (note 4)	443,398	-	-	1,153,052	589,354	-
Due from other funds (note 4)	5,990,517	3,218,929	-	4,175,747	2,150,446	1,721,676
Advances	116,884	103,875	-	1,150	-	-
Inventories	-	-	-	-	-	-
Prepaid items	-	262,927	-	42,436	7,023	-
Restricted assets:						
Time certificates of deposit (note 9)	1,500,000	-	-	-	-	-
Investment in fixed assets, net (note 5)	-	-	-	-	-	-
Amount to be provided for retirement of long-term debt	-	-	-	-	-	-
Amount available in debt service fund	-	-	-	-	-	-
	<u>\$ 14,093,528</u>	<u>\$ 7,730,488</u>	<u>\$ -</u>	<u>\$ 20,102,149</u>	<u>\$ 57,349,837</u>	<u>\$ 16,091,261</u>
Liabilities, Equity (Deficiency) and Other Credits						
Liabilities:						
Bank overdraft	\$ -	\$ 29,142	\$ -	\$ -	\$ 74,904	\$ -
Accounts payable	1,302,269	1,124,833	-	1,002,338	684,071	219,915
Claims and judgments payable (note 13)	-	-	-	-	1,551,427	-
Other liabilities and accruals	1,326,159	405,546	-	542,856	259,391	92,962
Due to primary government (note 4)	-	-	-	-	-	-
Due to component units (note 4)	2,149,799	-	-	1,018,500	-	-
Due to other funds (note 4)	10,884,784	4,863,426	-	629,591	382,014	-
Deferred revenue	-	371,045	-	-	-	-
Loans payable (note 6)	-	-	-	-	200,000	-
Interest payable	-	-	-	-	-	-
Deposits pledged	-	-	-	-	-	-
Total liabilities	<u>15,663,011</u>	<u>6,793,992</u>	<u>-</u>	<u>3,193,285</u>	<u>3,151,807</u>	<u>312,877</u>
Equity (deficiency) and other credits:						
Contributed capital	-	-	-	-	-	-
Investment in general fixed assets (note 5)	-	-	-	-	-	-
Retained earnings:						
Unreserved	-	-	-	-	-	-
Fund balances (deficit):						
Reserved for:						
Related assets	5,027,079	687,709	-	15,564,053	6,779,661	-
Debt service	-	-	-	-	-	-
Encumbrances	502,429	4,443,756	-	2,103,881	-	-
Social security benefits	-	-	-	-	28,723,218	-
Nuclear claims	-	-	-	-	17,825,432	-
Scholarships	-	86,303	-	-	310,405	-
Communications	-	430,122	-	-	-	-
Health and medical	-	449,207	-	-	843,800	-
Health and education	-	22,478	-	-	-	-
Unreserved	(7,098,991)	(5,183,079)	-	(759,070)	(284,486)	15,778,384
Total equity (deficiency) and other credits	<u>(1,569,483)</u>	<u>936,496</u>	<u>-</u>	<u>16,908,864</u>	<u>54,198,030</u>	<u>15,778,384</u>
Contingencies and commitments (notes 8, 9 and 13)	\$ 14,093,528	\$ 7,730,488	\$ -	\$ 20,102,149	\$ 57,349,837	\$ 16,091,261

REPUBLIC OF THE MARSHALL ISLANDS

Combined Balance Sheet - All Fund Types, Account Groups
and Discretely Presented Component Units
September 30, 2002
(With comparative totals as of September 30, 2001)

Accounts Groups		University and College Fund Type	Total Primary	Component Units		Totals	
General Fixed Assets	General Long-Term Debt	Higher Education Fund	Government (Memorandum Only)	Governmental	Proprietary	Reporting Entity (Memorandum Only)	
						2002	2001
\$ -	\$ -	\$ 462,025	\$ 10,694,959	\$ 307,632	\$ 3,788,226	\$ 14,790,817	\$ 14,738,605
-	-	-	5,502,731	-	3,176,017	8,678,748	5,615,530
-	-	118,307	64,701,718	-	2,782,095	67,483,813	81,948,693
-	-	-	1,654,850	-	-	1,654,850	1,741,028
-	-	1,014,722	4,808,358	-	5,615,728	10,424,086	8,713,354
-	-	-	-	-	-	-	11,129,543
-	-	112,102	8,234,389	3,712	934,033	9,172,134	9,443,350
-	-	-	-	-	847,827	847,827	2,716,225
-	-	-	2,185,804	-	171,627	2,357,431	2,890,146
-	-	-	17,257,315	-	-	17,257,315	8,847,901
-	-	-	221,909	3,936	-	225,845	452,932
-	-	-	-	-	3,239,257	3,239,257	3,367,884
-	-	39,943	352,329	1,351	162,193	515,873	644,054
-	-	-	1,500,000	-	-	1,500,000	2,434,135
63,163,199	-	1,121,143	64,284,342	-	63,073,722	127,358,064	130,380,919
-	60,219,252	-	60,219,252	-	-	60,219,252	50,939,322
-	-	-	-	-	-	-	847,955
<u>\$ 63,163,199</u>	<u>\$ 60,219,252</u>	<u>\$ 2,868,242</u>	<u>\$ 241,617,956</u>	<u>\$ 316,631</u>	<u>\$ 83,790,725</u>	<u>\$ 325,725,312</u>	<u>\$ 336,851,576</u>
\$ -	\$ -	\$ 5,902	\$ 109,948	\$ -	\$ 91,418	\$ 201,366	\$ 741,343
-	-	346,481	4,679,907	9,712	4,973,325	9,662,944	12,557,768
-	-	-	1,551,427	-	46,949	1,598,376	1,959,437
-	2,026,881	1,743,165	6,396,960	10,813	1,688,961	8,096,734	6,459,923
-	-	-	-	-	4,466,174	4,466,174	4,326,517
-	-	-	3,168,299	-	171,627	3,339,926	3,648,164
-	-	497,500	17,257,315	-	-	17,257,315	8,847,901
-	-	1,004,231	1,375,276	-	375,024	1,750,300	1,423,019
-	58,192,371	-	58,392,371	-	29,291,324	87,683,695	89,761,592
-	-	-	-	-	61,144	61,144	2,323,640
-	-	-	-	-	-	-	200
-	60,219,252	3,597,279	92,931,503	20,525	41,165,946	134,117,974	132,049,504
-	-	-	-	-	16,386,528	16,386,528	29,218,818
63,163,199	-	1,121,143	64,284,342	-	-	64,284,342	51,154,148
-	-	-	-	-	26,238,251	26,238,251	15,218,087
-	-	-	28,058,502	-	-	28,058,502	40,836,628
-	-	-	-	-	-	-	847,955
-	-	-	7,050,066	-	-	7,050,066	2,225,362
-	-	-	28,723,218	-	-	28,723,218	29,246,442
-	-	-	17,825,432	-	-	17,825,432	44,241,553
-	-	-	396,708	-	-	396,708	71,515
-	-	-	430,122	-	-	430,122	401,200
-	-	-	1,293,007	-	-	1,293,007	20,837
-	-	-	22,478	-	-	22,478	192,660
-	-	(1,850,180)	602,578	296,106	-	898,684	(8,873,133)
63,163,199	-	(729,037)	148,686,453	296,106	42,624,779	191,607,338	204,802,072
<u>\$ 63,163,199</u>	<u>\$ 60,219,252</u>	<u>\$ 2,868,242</u>	<u>\$ 241,617,956</u>	<u>\$ 316,631</u>	<u>\$ 83,790,725</u>	<u>\$ 325,725,312</u>	<u>\$ 336,851,576</u>

See accompanying notes to general purpose financial statements.

REPUBLIC OF THE MARSHALL ISLANDS

Combined Statement of Revenues, Expenditures and Changes in
Fund Balances (Deficit) - All Governmental Fund Types, Expendable Trust Funds
and Discretely Presented Component Units
Year Ended September 30, 2002
(With comparative totals for the year ended September 30, 2001)

	Governmental Fund Types				Fiduciary	Total	Component	Totals	
	General	Special	Debt	Capital	Fund Type	Primary	Units	Reporting Entity	
		Revenue	Service	Projects	Expendable	Government	Governmental	(Memorandum Only)	
				Trust	(Memorandum	Only)		2002	2001
Revenues:									
Compact funding	\$ 6,714,000	\$ 6,695,667	\$ -	\$ 19,300,519	\$ 15,618,000	\$ 48,328,186	\$ -	\$ 48,328,186	\$ 39,984,410
Taxes	20,094,489	-	-	-	-	20,094,489	-	20,094,489	18,351,831
Contributions	-	-	-	-	14,400,263	14,400,263	-	14,400,263	13,354,412
Federal grants	-	8,490,645	-	-	-	8,490,645	-	8,490,645	7,414,327
Fishing rights	3,312,665	-	-	-	-	3,312,665	-	3,312,665	1,848,612
Interest and dividends	397,344	-	-	20,663	1,714,242	2,132,249	-	2,132,249	3,159,317
Fees and charges	454,752	1,111,600	-	-	-	1,566,352	51,843	1,618,195	1,014,011
Sales	-	266,089	-	-	-	266,089	-	266,089	161,650
Other local	20,920	-	-	-	-	20,920	-	20,920	84,156
Net decrease in the fair value of investments	-	-	-	-	(3,615,065)	(3,615,065)	-	(3,615,065)	(11,084,055)
Other	4,367,997	8,377,072	-	34,516	100,187	12,879,772	69,132	12,948,904	21,102,787
Total revenues	35,362,167	24,941,073	-	19,355,698	28,217,627	107,876,565	120,975	107,997,540	95,391,458
Expenditures:									
Ministries and offices	20,048,972	24,346,364	-	1,161,487	-	45,556,823	-	45,556,823	43,821,364
Nuclear claims payments	-	-	-	-	19,433,832	19,433,832	-	19,433,832	3,924,152
Land use distributions	-	-	-	-	13,463,637	13,463,637	-	13,463,637	8,529,293
Loan write downs (note 6)	-	-	-	10,415,050	-	10,415,050	-	10,415,050	-
Social security benefit payments	-	-	-	-	8,564,016	8,564,016	-	8,564,016	8,229,021
Capital projects	-	-	-	6,213,717	-	6,213,717	-	6,213,717	6,215,091
Health care payments	-	-	-	-	5,203,237	5,203,237	-	5,203,237	3,931,702
Special appropriations	4,990,635	-	-	-	-	4,990,635	-	4,990,635	5,841,221
Local government distributions	-	-	-	-	3,208,529	3,208,529	-	3,208,529	12,426,599
Administrative	-	-	-	-	2,100,074	2,100,074	-	2,100,074	2,149,029
President and cabinet	1,441,963	-	-	-	-	1,441,963	-	1,441,963	1,416,056
Nitijela	1,383,071	-	-	-	-	1,383,071	-	1,383,071	1,283,053
Commissions and authorities	783,980	-	-	-	-	783,980	373,339	1,157,319	850,483
Principal retirement (note 6)	1,050,564	-	-	-	-	1,050,564	-	1,050,564	24,049,521
Bad debts	-	-	-	-	864,851	864,851	-	864,851	-
Judiciary	-	747,246	-	-	-	747,246	-	747,246	799,323
Interest	492,159	-	-	74,575	-	566,734	-	566,734	1,372,515
Council of Iroij	375,607	-	-	-	-	375,607	-	375,607	352,781
Other	2,848,324	-	8	-	1,849,873	4,698,205	-	4,698,205	2,605,697
Total expenditures	33,415,275	25,093,610	8	17,864,829	54,688,049	131,061,771	373,339	131,435,110	127,796,901
Excess (deficiency) of revenues over (under) expenditures	1,946,892	(152,537)	(8)	1,490,869	(26,470,422)	(23,185,206)	(252,364)	(23,437,570)	(32,405,443)
Other financing sources (uses):									
Loan proceeds (note 6)	5,400,000	-	-	4,202,612	-	9,602,612	-	9,602,612	9,220,782
Operating transfers in (note 7)	1,187,947	3,214,263	-	1,900,000	26,968,290	33,270,500	298,500	33,569,000	62,934,149
Operating transfers out (note 7)	(11,317,206)	(3,409,886)	(847,947)	(16,214,493)	(27,281,723)	(59,071,255)	-	(59,071,255)	(70,673,329)
Total other financing sources (uses), net	(4,729,259)	(195,623)	(847,947)	(10,111,881)	(313,433)	(16,198,143)	298,500	(15,899,643)	1,481,602
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	(2,782,367)	(348,160)	(847,955)	(8,621,012)	(26,783,855)	(39,383,349)	46,136	(39,337,213)	(30,923,841)
Fund balances at beginning of year (note 10)	1,212,884	1,284,656	847,955	25,529,876	80,981,885	109,857,256	249,970	110,107,226	140,226,061
Fund balances (deficit) at end of year	\$ (1,569,483)	\$ 936,496	\$ -	\$ 16,908,864	\$ 54,198,030	\$ 70,473,907	\$ 296,106	\$ 70,770,013	\$ 109,302,220

See accompanying notes to general purpose financial statements.

REPUBLIC OF THE MARSHALL ISLANDS

Statement of Revenues, Expenditures and Changes in
Deficit - Budget and Actual - General Fund
Year Ended September 30, 2002

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues:			
Taxes	\$ 18,988,400	\$ 20,094,489	\$ 1,106,089
Fishing rights	3,650,000	3,312,665	(337,335)
Compact funding	6,360,000	6,714,000	354,000
Fees and charges	100,700	454,752	354,052
Interest and dividends	270,000	397,344	127,344
Other local	-	20,920	20,920
Other	4,410,900	4,367,997	(42,903)
Total revenues	<u>33,780,000</u>	<u>35,362,167</u>	<u>1,582,167</u>
Expenditures:			
Ministries and offices	22,305,055	20,959,907	1,345,148
Special appropriations	5,649,827	5,950,511	(300,684)
Nitijela	1,434,923	1,400,525	34,398
President and cabinet	1,526,236	1,476,817	49,419
Commissions and authorities	822,524	791,455	31,069
Council of Iroij	383,482	376,992	6,490
Other	-	2,848,324	(2,848,324)
Total expenditures	<u>32,122,047</u>	<u>33,804,531</u>	<u>(1,682,484)</u>
Excess of revenues over expenditures	<u>1,657,953</u>	<u>1,557,636</u>	<u>(100,317)</u>
Other financing sources (uses):			
Loan proceeds (note 6)	5,400,000	5,400,000	-
Operating transfers in (note 7)	-	1,187,947	1,187,947
Operating transfers out (note 7)	(10,632,581)	(11,317,206)	(684,625)
Total other financing sources (uses), net	<u>(5,232,581)</u>	<u>(4,729,259)</u>	<u>503,322</u>
Deficiency of revenues and other financing sources under expenditures and other financing uses	<u>(3,574,628)</u>	<u>(3,171,623)</u>	<u>403,005</u>
Other changes in unreserved deficit:			
Decrease in reserve for related assets	-	1,355,336	1,355,336
Unreserved deficit at beginning of year	(5,282,704)	(5,282,704)	-
Unreserved deficit at end of year	<u>\$ (8,857,332)</u>	<u>\$ (7,098,991)</u>	<u>\$ 1,758,341</u>

See accompanying notes to general purpose financial statements.

REPUBLIC OF THE MARSHALL ISLANDS

Combined Statement of Revenues, Expenses and Changes in
Fund Equity (Deficiency) - All Nonexpendable Trust Funds
and Discretely Presented Component Units
Year Ended September 30, 2002
(With comparative totals for the year ended September 30, 2001)

	Fiduciary	Total	Component	Totals	
	Fund Type	Primary		Reporting Entity	
	Nonexpendable Trust	Government (Memorandum Only)	Units Proprietary	(Memorandum Only)	
				2002	2001
Operating revenues:					
Services	\$ -	\$ -	\$ 24,994,022	\$ 24,994,022	\$ 25,822,293
Sales	-	-	9,830,146	9,830,146	7,333,797
Interest income	434,311	434,311	-	434,311	-
Net decrease in the fair value of investments	(2,025,718)	(2,025,718)	-	(2,025,718)	-
Other	-	-	783,229	783,229	1,323,677
Total operating revenues	(1,591,407)	(1,591,407)	35,607,397	34,015,990	34,479,767
Operating expenses:					
Cost of goods sold	-	-	8,535,480	8,535,480	7,923,316
Fuel and lubricants	-	-	5,988,438	5,988,438	6,936,991
Depreciation and amortization	-	-	5,396,496	5,396,496	7,342,570
Salaries, wages and benefits	-	-	4,483,820	4,483,820	4,145,375
Plant expenses	-	-	2,094,358	2,094,358	2,094,427
Repairs and supplies	-	-	1,857,151	1,857,151	2,135,452
Corporate operations	-	-	976,258	976,258	1,557,768
Bad debts	-	-	818,480	818,480	3,087,176
Customer operations	-	-	690,346	690,346	703,131
Health care payments	-	-	498,717	498,717	714,961
Maintenance	-	-	414,086	414,086	1,422,685
Insurance	-	-	288,870	288,870	319,947
Travel	-	-	248,225	248,225	282,867
Professional fees	39,008	39,008	195,617	234,625	276,844
Office supplies	-	-	169,458	169,458	117,846
Reservation and sales	-	-	135,155	135,155	563,738
Miscellaneous	-	-	2,696,581	2,696,581	3,773,992
Total operating expenses	39,008	39,008	35,487,536	35,526,544	43,399,086
Operating income (loss)	(1,630,415)	(1,630,415)	119,861	(1,510,554)	(8,919,319)
Nonoperating revenues (expense):					
Gain on forgiveness of debt (note 8)	-	-	1,726,249	1,726,249	-
Capital contributions	-	-	1,251,763	1,251,763	2,331,458
Interest income	-	-	91,638	91,638	299,598
Gain on voluntary nonexchange transaction	-	-	-	-	600,000
Net decrease in the fair value of investments	-	-	(340,074)	(340,074)	(187,206)
Interest expense	-	-	(1,758,306)	(1,758,306)	(2,375,049)
Gain (loss) on sale of fixed assets	-	-	(2,677,337)	(2,677,337)	25,261
Other	-	-	(545,207)	(545,207)	100,878
Total nonoperating revenues (expense), net	-	-	(2,251,274)	(2,251,274)	794,940
Loss before other financing sources (uses)	(1,630,415)	(1,630,415)	(2,131,413)	(3,761,828)	(8,124,379)
Other financing sources (uses):					
Operating transfers in (note 7)	17,500,000	17,500,000	5,353,624	22,853,624	4,174,665
Operating transfers out (note 7)	-	-	(320,000)	(320,000)	(400,000)
Total other financing sources (uses), net	17,500,000	17,500,000	5,033,624	22,533,624	3,774,665
Net income (loss)	15,869,585	15,869,585	2,902,211	18,771,796	(4,349,714)
Retained earnings (deficit) at beginning of year (note 10)	(91,201)	(91,201)	23,516,040	23,424,839	19,656,600
Dividends paid	-	-	(180,000)	(180,000)	(180,000)
Retained earnings at end of year	\$ 15,778,384	\$ 15,778,384	\$ 26,238,251	\$ 42,016,635	\$ 15,126,886

See accompanying notes to general purpose financial statements.

REPUBLIC OF THE MARSHALL ISLANDS

Combined Statement of Cash Flows -
All Nonexpendable Trust Funds and Discretely Presented Component Units
Year Ended September 30, 2002
(With comparative totals for the year ended September 30, 2001)

	Fiduciary	Total	Component	Totals	
	Fund Type	Primary	Units	Reporting Entity	
	Nonexpendable Trust	Government (Memorandum Only)	Proprietary	2002	2001
Cash flows from operating activities:					
Operating income (loss)	\$ (1,630,415)	\$ (1,630,415)	\$ 119,861	\$ (1,510,554)	\$ (8,919,319)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:					
Loss on disposal of fixed assets	-	-	-	-	1,099
Depreciation and amortization	-	-	5,396,496	5,396,496	7,342,570
Bad debts	-	-	818,480	818,480	3,087,176
Recovery of bad debts	-	-	-	-	(743,738)
Interest income	(434,311)	(434,311)	-	(434,311)	-
Net decrease in the fair value of investments	2,025,718	2,025,718	-	2,025,718	-
(Increase) decrease in assets:					
General receivables	-	-	(1,518,348)	(1,518,348)	(64,702)
Other receivables	-	-	(144,753)	(144,753)	(529,091)
Due from primary government	-	-	(35,308)	(35,308)	(486,350)
Due from component units	-	-	460,312	460,312	(144,699)
Due from other funds	(1,500,000)	(1,500,000)	-	(1,500,000)	-
Inventories	-	-	(294,954)	(294,954)	(350,515)
Prepaid items	-	-	(84,535)	(84,535)	(32,610)
Increase (decrease) in liabilities:					
Accounts payable	-	-	(529,525)	(529,525)	(378,981)
Claims payable	-	-	(157,717)	(157,717)	448,203
Other liabilities and accruals	-	-	(171,466)	(171,466)	140,843
Due to primary government	-	-	673,984	673,984	421,303
Due to component units	-	-	(460,312)	(460,312)	12,683
Deferred revenue	-	-	354,643	354,643	162,024
Net cash provided by (used for) operating activities	(1,539,008)	(1,539,008)	4,426,858	2,887,850	(34,104)
Cash flows from noncapital financing activities:					
Net borrowings under bank overdraft facility	-	-	(34,813)	(34,813)	122,057
Operating transfers in (out), net (note 7)	17,500,000	17,500,000	3,819,131	21,319,131	2,374,665
Interest paid on short-term borrowings	-	-	(158,006)	(158,006)	(172,340)
Net borrowings (repayment) under bank credit line agreement	-	-	(1,277,522)	(1,277,522)	441,120
Dividends paid	-	-	(180,000)	(180,000)	(180,000)
Other	-	-	150,162	150,162	23,593
Net cash provided by noncapital financing activities	17,500,000	17,500,000	2,318,952	19,818,952	2,609,095
Cash flows from capital and related financing activities:					
Proceeds from sale of fixed assets	-	-	-	-	62,170
Acquisition and construction of capital assets	-	-	(3,637,990)	(3,637,990)	(5,035,839)
Capital contributions	-	-	1,251,763	1,251,763	3,623,707
Principal paid on long-term debt	-	-	(1,011,668)	(1,011,668)	(960,948)
Interest paid on long-term debt	-	-	(1,586,782)	(1,586,782)	(1,638,373)
Net cash used for capital and related financing activities	-	-	(4,984,677)	(4,984,677)	(3,949,283)
Cash flows from investing activities:					
Net change in time certificates of deposit	(2,227,290)	(2,227,290)	(1,231,176)	(3,458,466)	(140,762)
Net purchases of investments	(12,997,153)	(12,997,153)	(2,782,095)	(15,779,248)	-
Net realized losses on investments	(116,590)	(116,590)	(340,074)	(456,664)	-
Interest income	434,311	434,311	90,252	524,563	279,991
Net cash provided by investing activities	(14,906,722)	(14,906,722)	(4,263,093)	(19,169,815)	139,229
Net increase (decrease) in cash and cash equivalents	1,054,270	1,054,270	(2,501,960)	(1,447,690)	(1,235,063)
Cash and cash equivalents at beginning of year	-	-	6,290,186	6,290,186	7,925,646
Cash and cash equivalents at end of year	\$ 1,054,270	\$ 1,054,270	\$ 3,788,226	\$ 4,842,496	\$ 6,690,583
Noncash items:					
Sale/transfer of fixed assets:					
Noncash increase in fixed assets	\$ -	\$ -	\$ -	\$ -	\$ (107,751)
Noncash increase in capital contributions	-	-	-	-	107,751
Transfer of completed project to fixed assets:					
Electric plant in service	\$ -	\$ -	\$ -	\$ -	\$ 439,549
Construction work in progress	-	-	-	-	(439,549)
Transfer of electric plant to materials and supplies:					
Electric plant in service	\$ -	\$ -	\$ -	\$ -	\$ (181,259)
Inventories	-	-	-	-	181,259
Treasury stock acquired in lieu of collection of receivables:					
Gain on voluntary nonexchange transaction	\$ -	\$ -	\$ -	\$ -	\$ 600,000
Acquisition of treasury stock	-	-	-	-	(600,000)
Forgiveness of debt (note 8):					
Noncash increase in operating transfers in	\$ -	\$ -	\$ 1,214,493	\$ 1,214,493	\$ -
Gain on forgiveness of debt	-	-	1,726,249	1,726,249	-
Noncash decrease in water system infrastructure, net	-	-	8,375,638	8,375,638	-
Noncash decrease in due to primary government	-	-	(500,000)	(500,000)	-
Noncash decrease in loans payable	-	-	(8,540,756)	(8,540,756)	-
Noncash decrease in interest payable	-	-	(2,275,624)	(2,275,624)	-

See accompanying notes to general purpose financial statements.

REPUBLIC OF THE MARSHALL ISLANDS

Statement of Changes in Fund Balances (Deficit)
Higher Education Fund
Year Ended September 30, 2002

	Current Funds		Endowment Fund	Plant Fund
	Unrestricted	Restricted		Investment in Plant
Revenues and other additions:				
Unrestricted current fund revenues	\$ 3,142,875	\$ -	\$ -	\$ -
U.S. Federal grants - restricted	-	3,469,369	-	-
Private gifts, grants and donations - restricted	-	718,096	10,791	-
Investment income - restricted	-	-	5,721	-
Total revenues and other additions	3,142,875	4,187,465	16,512	-
Expenditures and other deductions:				
Educational and general expenditures	3,511,870	3,618,484	-	-
Auxiliary enterprises expenditures	195,619	-	-	-
Bad debts	289,910	-	-	-
Depreciation of plant and equipment	-	-	-	216,339
Investment management fees	-	-	2,055	-
Net decrease in the fair value of investments - restricted	-	-	16,696	-
Total expenditures and other deductions	3,997,399	3,618,484	18,751	216,339
Transfers among funds - additions (deductions):				
Mandatory:				
Renewals and replacements	(159,113)	(269,683)	-	428,796
Total transfers	(159,113)	(269,683)	-	428,796
Net increase (decrease) for the year	(1,013,637)	299,298	(2,239)	212,457
Fund balances (deficit) at beginning of year	(1,503,363)	226,907	142,854	908,686
Fund balances (deficit) at end of year	\$ (2,517,000)	\$ 526,205	\$ 140,615	\$ 1,121,143

See accompanying notes to general purpose financial statements.

REPUBLIC OF THE MARSHALL ISLANDS

Statement of Current Funds Revenues, Expenditures, and Other Changes
Higher Education Fund
Year Ended September 30, 2002

	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total</u>
Revenues:			
U.S. Federal grants	\$ -	\$ 2,860,682	\$ 2,860,682
Tuition and fees	2,056,603	-	2,056,603
Operating transfers in (note 7)	759,389	507,257	1,266,646
Sales and service of auxiliary enterprises	222,238	-	222,238
Private gifts, grants and donations	-	210,839	210,839
Interest	338	-	338
Other	104,307	-	104,307
	<u>3,142,875</u>	<u>3,578,778</u>	<u>6,721,653</u>
Total current revenues			
Expenditures and mandatory transfers:			
Educational and general:			
Student	-	2,687,132	2,687,132
Instructional	1,413,447	74,235	1,487,682
Administration	1,197,039	228,149	1,425,188
Post-secondary	86,191	539,613	625,804
Operations and maintenance	410,033	62,370	472,403
Library	197,585	26,985	224,570
Student services	207,575	-	207,575
	<u>3,511,870</u>	<u>3,618,484</u>	<u>7,130,354</u>
Educational and general expenditures			
Mandatory transfers for:			
Renewals and replacements	159,113	269,683	428,796
	<u>159,113</u>	<u>269,683</u>	<u>428,796</u>
Total educational and general			
	<u>3,670,983</u>	<u>3,888,167</u>	<u>7,559,150</u>
Auxiliary enterprises expenditures			
	<u>195,619</u>	<u>-</u>	<u>195,619</u>
Total expenditures and mandatory transfers, net			
	<u>3,866,602</u>	<u>3,888,167</u>	<u>7,754,769</u>
Other transfers and additions (deductions):			
Bad debts	(289,910)	-	(289,910)
Excess of transfers to revenues over restricted receipts	-	608,687	608,687
	<u>-</u>	<u>608,687</u>	<u>608,687</u>
Total other transfers and additions (deductions)			
	<u>(289,910)</u>	<u>608,687</u>	<u>318,777</u>
Net (decrease) increase in fund balances			
	<u>\$ (1,013,637)</u>	<u>\$ 299,298</u>	<u>\$ (714,339)</u>

See accompanying notes to general purpose financial statements.

REPUBLIC OF THE MARSHALL ISLANDS

Notes to General Purpose Financial Statements September 30, 2002

(1) Summary of Significant Accounting Policies

The accompanying general purpose financial statements of the Republic of the Marshall Islands (RepMar) have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP), as applied to government units. 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, account groups, 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 general purpose financial statements to be misleading or incomplete. As required by GAAP, these general purpose financial statements present the Republic of the Marshall Islands (the primary government) and its component units. 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. 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 general purpose financial statements to be misleading or incomplete. Each blended and discretely presented component unit has a September 30 year end except for Majuro Resort, Inc., which has a December 31 year end.

1. Blended Component Units

The following Component Units are blended within the Primary Government:

Health Care Revenue Fund - (A Special Revenue Fund). This fund was established within the Ministry of Health to control the expenditure of funds for health care related services.

Marshall Islands Development Authority - (A Debt Service Fund and a Capital Projects Fund). This corporation was established to develop and implement programs and projects to aid the betterment of the inhabitants of the Republic.

Kwajalein Atoll Development Authority - (A Capital Projects Fund). This corporation was established to develop and implement programs and projects to aid the betterment of inhabitants of Kwajalein Atoll.

REPUBLIC OF THE MARSHALL ISLANDS

Notes to General Purpose Financial Statements
September 30, 2002

(1) Summary of Significant Accounting Policies, Continued

A. Reporting Entity, Continued

1. Blended Component Units, Continued

Marshall Islands Scholarship Grant and Loan Board - (An Expendable Trust Fund). This fund was established to account for all disbursements of scholarship funds.

Nuclear Claims Trust Fund - (An Expendable Trust Fund). This fund was established to account for United States Congress appropriations under United States Public Law 99-239, Compact of Free Association, Section 177(c).

Four Atoll Medical Fund - (An Expendable Trust Fund). This fund accounts for transactions from the distribution of annual proceeds from the Nuclear Claims Trust Fund.

Nuclear Claims Tribunal - (An Expendable Trust Fund). The Tribunal was established to render final determination upon claims arising as a result of the Nuclear Testing Program, and disputes arising from distributions made under the (Compact of Free Association) Section 177 Agreement.

Marshall Islands Social Security Administration (MISSA) - (An Expendable Trust Fund). This fund was established to provide a financially sound security system with pension benefits and early retirement and to provide a financially sound health fund to provide an orderly means to finance and deliver comprehensive medical care.

Intergenerational Trust Fund - (A Nonexpendable Trust Fund). This fund was established 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.

College of the Marshall Islands - (Higher Education Fund). This fund was established as an independent institution governed by a Board of Regents appointed by the Republic of the Marshall Islands Minister of Education.

2. Discretely Presented Component Units

The Component Units columns of the combined financial statements include the financial data of the following entities:

Marshall Islands Visitors Authority - (A Governmental Fund). This entity engages in the development and promotion of the natural, scenic, cultural, historical and recreation attractions of the Republic.

National Environmental Protection Authority - (A Governmental Fund). This corporation was established for the preservation and improvement of the environment.

REPUBLIC OF THE MARSHALL ISLANDS

Notes to General Purpose Financial Statements
September 30, 2002

(1) Summary of Significant Accounting Policies, Continued

A. Reporting Entity, Continued

2. Discretely Presented Component Units, Continued

Marshall Islands Airports Authority - (A Proprietary Fund). This entity engages in the operations, maintenance and improvement of airport facilities in the Marshall Islands.

Tobolar Copra Processing Plant, Inc. - (A Proprietary Fund). This corporation engages in the production, processing and marketing of copra and copra by-products.

Majuro Water and Sewer Company, Inc. - (A Proprietary Fund). This corporation engages in the operation of the Majuro Atoll water and sewer system.

Marshalls Energy Company, Inc. - (A Proprietary Fund). This corporation engages in the business of generating and transmitting electricity, and the import and marketing of petroleum products.

Marshall Islands National Telecommunications Authority - (A Proprietary Fund). This entity engages in the business of providing local and international telecommunication services.

Kwajalein Atoll Joint Utilities Resources, Inc. - (A Proprietary Fund). This corporation was established to engage in the business of generating and distributing utility services on the island of Ebeye.

KADA Housing Division - (A Proprietary Fund). This fund accounts for all assets and financial transactions related to KADA's activities with respect to providing rental properties on the island of Ebeye.

Majuro Resort, Inc. - (A Proprietary Fund). This corporation was established to operate a 150 room hotel on Majuro Atoll.

Marshall Islands Ports Authority - (A Proprietary Fund). This entity engages in the operations, maintenance, and improvement of all ports within the Republic.

Marshall Islands Marine Resources Authority - (A Proprietary Fund). This corporation was established to protect the natural resources within the waters of the Marshall Islands.

MISSA Supplemental Health Benefits Plan - (A Proprietary Fund). This fund accounts for the operations of the MISSA Health Fund.

Complete financial statements of the individual component units can be obtained directly from the Office of the Auditor-General:

P.O. Box 245
Majuro, Marshall Islands 96960

REPUBLIC OF THE MARSHALL ISLANDS

Notes to General Purpose Financial Statements
September 30, 2002

(1) Summary of Significant Accounting Policies, Continued

A. Reporting Entity, Continued

3. Omitted Component Units

Ministry of Education Headstart Program - (A Governmental Fund). This fund was established to account for the United States Department of Health and Human Services Head Start program.

Air Marshall Islands, Inc. - (A Proprietary Fund). This corporation was established to provide transportation services for domestic and international passengers and cargo.

Marshall Islands Development Bank - (A Proprietary Fund). This corporation was established to promote the development and expansion of the economy.

Marshall Islands Alternative Energy Company, Inc. - (A Proprietary Fund). This fund was established to provide alternative energy services to residents of the Republic (see note 12).

Marshall Islands Drydock, Inc. - (A Proprietary Fund). This fund was established to engage in the operation of a drydock on Majuro Atoll.

Meram, Inc. - (A Proprietary Fund). This corporation engages in the business of marketing petroleum products to the outer islands of the Republic. The financial activities of this omitted component unit are not considered material to the general purpose financial statements.

B. Measurement Focus and Basis of Accounting

RepMar uses funds and account groups to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain RepMar functions or activities.

A fund is a separate accounting entity with a self-balancing set of accounts. An account group, on the other hand, is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources. They are concerned only with the measurement of financial position and are not involved with measurement of results of operations.

In the accompanying general purpose financial statements, RepMar's funds are classified into four categories: governmental, fiduciary, university and college, and proprietary. Each category, in turn, is divided into separate "fund types."

REPUBLIC OF THE MARSHALL ISLANDS

Notes to General Purpose Financial Statements
September 30, 2002

(1) Summary of Significant Accounting Policies, Continued

B. Measurement Focus and Basis of Accounting, Continued

Governmental funds are used to account for all or most of a government's general activities, including the collection and disbursement of earmarked monies (special revenue funds), the acquisition or construction of general fixed assets (capital projects funds) and the servicing of general long-term debt (debt service funds). The general fund is used to account for all activities of the primary government not accounted for in some other fund.

Fiduciary funds are used to account for assets held on behalf of outside parties, including other governments, or on behalf of other funds within RepMar. When these assets are held under the terms of a formal trust agreement, either a nonexpendable trust fund or an expendable trust fund is used. The terms "nonexpendable" and "expendable" refer to whether or not RepMar is under an obligation to maintain the trust principal.

University and College Funds are used to account for the activities specific to the operation of the Republic's public institution of higher education. Current funds are comprised of unrestricted funds which may be used at the discretion of the individual institution's governing body and restricted funds which must be utilized for specific purposes established by others. Endowment funds are comparable to trust funds, and they must be administered according to the terms of specific agreements. Plant funds account for resources that have been or will be invested to acquire or repair fixed assets or for the related debt service.

Proprietary funds are used to account for activities similar to those found in the private sector, where the determination of net income is necessary or useful for sound financial administration. Goods or services from such activities can be provided either to outside parties (enterprise funds) or to other departments or agencies primarily within the government (internal service funds). Hospital functions, which could be accounted for as a separate component unit, are commingled with the General Fund. No other functions, which could be accounted for as a separate component unit have come to management's attention.

C. Basis of Presentation

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds and expendable trust funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

REPUBLIC OF THE MARSHALL ISLANDS

Notes to General Purpose Financial Statements
September 30, 2002

(1) Summary of Significant Accounting Policies, Continued

C. Basis of Presentation, Continued

All higher education funds, proprietary funds and nonexpendable trust funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Proprietary fund operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets. GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, requires that proprietary activities apply all applicable GASB pronouncements as well as Statements and Interpretations issued by the Financial Accounting Standards Board (FASB), Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedures issued on or before November 30, 1989. For all proprietary funds and component units that use proprietary fund accounting, RepMar applies GASB Statement No. 20, unless FASB pronouncements conflict with or contradict GASB pronouncements, and has elected not to apply FASB Statements and Interpretations issued after November 30, 1989.

The modified accrual basis of accounting is used by all governmental fund types and expendable trust funds. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. RepMar considers all revenues available if they are collected within 60 days after year end. Significant revenues susceptible to accrual include income taxes, gross revenue taxes, federal grants, and ship registry revenues. Expenditures are recorded when the related fund liability is incurred, except for certain compensated absences and claims and judgments which are recognized when the obligations are expected to be liquidated with expendable available financial resources.

The accrual basis of accounting is utilized by higher education funds, proprietary funds and nonexpendable trust funds. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

D. Budgetary Information

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

REPUBLIC OF THE MARSHALL ISLANDS

Notes to General Purpose Financial Statements
September 30, 2002

(1) Summary of Significant Accounting Policies, Continued

D. Budgetary Information, Continued

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

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

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.

For the year ended September 30, 2002, expenditures of the General Fund exceeded budget at the program area level (i.e., the legal level of budgetary control) as follows:

<u>Program Area</u>	<u>Excess</u>
President and Cabinet:	
Cabinet Operations	\$ 5,234
Office of the President	\$ 291
Special appropriations:	
Marshall Islands Visitors Authority	\$ 73,875
Asian Development Bank (ADB) counterpart funding	\$ 516,538
Majuro Water and Sewer Company, Inc.	\$ 600,750
Copra price stabilization subsidy	\$ 500,000
Council of Iroij:	
Administration	\$ 1,377
Office of the Auditor-General	\$ 6,412
Ministry of Transportation and Communication:	
All Ships Operations	\$ 26,664
Ministry of Justice:	
Public safety - Majuro	\$ 5,659

REPUBLIC OF THE MARSHALL ISLANDS

Notes to General Purpose Financial Statements
September 30, 2002

(1) Summary of Significant Accounting Policies, Continued

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 held in demand accounts as well as short-term investments 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 ninety days are separately classified on the combined balance sheet.

As of September 30, 2002, the carrying amount of the primary government's total cash and cash equivalents and time certificates of deposit were \$17,697,690 and the corresponding bank balances were \$20,420,284. Of the bank balance amounts, \$7,334,960 are maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2002, bank deposits in the amount of \$971,183 were FDIC insured. RepMar does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized.

As of September 30, 2002, the carrying amount of the discretely presented component unit's total cash and cash equivalents and time certificates of deposit were \$7,271,875 and the corresponding bank balances were \$8,358,732. Of the bank balance amounts, \$5,617,550 are maintained in financial institutions subject to FDIC insurance. As of September 30, 2002, bank deposits in the amount of \$850,368 were FDIC insured. The component units do not require collateralization of their cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized.

F. Investments

Investments are carried at fair value. Fair value is the amount at which an investment could be exchanged in a current transaction between willing parties.

RepMar applies the equity method of accounting to investments in common stock where RepMar's investment in the voting stock gives it the ability to exercise significant influence over operating and financial policies of the respective investees.

G. Receivables

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". The receivables of the discretely presented component units are amounts that have arisen in the normal course of operations.

REPUBLIC OF THE MARSHALL ISLANDS

Notes to General Purpose Financial Statements
September 30, 2002

(1) Summary of Significant Accounting Policies, Continued

H. Inventories

Component Units - Proprietary Funds

Inventories of Component Units - Proprietary Funds 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 combined 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".

J. Prepaid Items

Payments made to vendors or persons for services that will benefit periods beyond September 30, 2002, are recorded as prepaid items.

K. Restricted Assets

Certain assets of the primary government are classified as restricted assets because their use is completely restricted through loan agreements. Specifically, RepMar has collateralized a loan payable for a third party with a time certificate of deposit of \$1,500,000.

L. Fixed Assets

Fixed assets used in governmental fund type operations (general fixed assets) are accounted for in the General Fixed Assets Account Group rather than in governmental funds.

RepMar has not updated records of its property, plant and equipment used in governmental fund type operations (general fixed assets), including roads, bridges, curbs, gutters, streets, sidewalks, drainage systems and lighting systems for fiscal year 2002. Depreciation on the General Fixed Assets Account Group has not been recorded for the year ended September 30, 2002.

Depreciation, when assessed, is usually charged as a reduction in the investment in general fixed assets and an increase in accumulated depreciation. Depreciation is provided over the estimated useful lives of the assets through use of the straight-line method. However, because of RepMar's efforts in establishing the General Fixed Assets Account Group, depreciation has not been charged during the year ended September 30, 2002. The estimated useful lives of these assets are as follows:

REPUBLIC OF THE MARSHALL ISLANDS

Notes to General Purpose Financial Statements
September 30, 2002

(1) Summary of Significant Accounting Policies, Continued

L. Fixed Assets, Continued

Buildings	25 - 50 years
Improvements	10 - 20 years
Furniture and fixtures	3 - 10 years
Ships	25 years
Over-the-road vehicles	3 years

Property and equipment acquired and maintained by the University and College Fund Type - Higher Education Fund are recorded at cost in instances where cost is determinable or estimated cost where cost is not determinable. Depreciation on plant assets is provided using the straight-line basis over the estimated useful lives of the respective assets. To the extent that current funds are used to finance plant assets, the amounts so provided are accounted for as (1) expenditures, in the case of normal replacement of movable equipment, or (2) transfers to the Plant Fund.

Property, plant and equipment acquired and maintained by the Component Units - Proprietary Funds are valued at historical cost. Property, plant and equipment donated to these Component Units - Proprietary Funds are recorded at their estimated fair value at the date of donation. Property, plant and equipment are depreciated in the Component Unit - Proprietary Funds using the straight-line method over their estimated useful lives of 2 to 20 years.

M. Deferred Revenue

Tuition and fees for the higher education fund is recorded as deferred revenue as of the applicable enrollment date and are recognized totally within the fiscal year in which the semester is predominantly conducted. Other grants and revenues are recorded as income at the point the revenues are earned and measurable.

N. Long-Term Obligations

RepMar reports long-term debt of governmental funds at face value in the general long-term debt account group. Certain other governmental fund obligations not expected to be financed with current available financial resources are also reported in the general long-term debt account group. Long-term debt and other obligations financed by proprietary funds are reported as liabilities in the appropriate funds.

Because of its spending measurement focus, expenditure recognition for governmental fund types excludes amounts represented by non-current liabilities. Since they do not affect net current assets, such long-term amounts are not recognized as governmental fund type expenditures or fund liabilities. They are instead reported as liabilities in the General Long-Term Debt Account Group.

REPUBLIC OF THE MARSHALL ISLANDS

Notes to General Purpose Financial Statements
September 30, 2002

(1) Summary of Significant Accounting Policies, Continued

O. Compensated Absences

For governmental and expendable trust funds, vested or accumulated vacation leave that is expected to be liquidated with expendable available financial resources is reported as an expenditure and a fund liability. Amounts of vested or accumulated vacation leave that are not expected to be liquidated with expendable available financial resources are reported in the General Long-Term Debt Account Group. The liability as of September 30, 2002, is \$2,026,881. No expenditure is reported for these amounts. No liability is recorded for nonvesting accumulating rights to receive sick pay benefits. The estimated accumulated amount of unused sick leave as of September 30, 2002, is \$6,033,943.

Vested or accumulated vacation leave of the higher education fund and proprietary funds is recorded as an expense and a fund liability as the benefits accrue to employees.

Annual leave accumulates at the rate of one working day per bi-weekly pay period.

P. Fund Equity

Contributed capital is recorded in proprietary funds that have issued common stock. Reserves represent those portions of fund equity not appropriable for expenditure or which are legally segregated for a specific future use. Designated fund balances represent tentative plans for future use of financial resources.

The unreserved fund balances for governmental funds represent the amount available for budgeting future operations. The reserve for related assets as of September 30, 2002, is represented by the following assets:

	<u>Governmental Fund Types</u>			<u>Fiduciary</u>	<u>Totals</u>
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Fund Type Expendable Trust</u>	
Cash and cash equivalents	\$ 16,939	\$ -	\$ 1,061,088	\$ -	\$ 1,078,027
Investments	100,000	400,220	11,408,630	3,758,525	15,667,375
Receivables:					
General	172,977	-	-	602,814	775,791
Other	249,022	24,562	1,898,847	870,389	3,042,820
Due from component units	73,957	-	1,153,052	589,354	1,816,363
Due from other funds	2,797,300	-	-	958,579	3,755,879
Advances	116,884	-	-	-	116,884
Prepaid items	-	262,927	42,436	-	305,363
Restricted assets	<u>1,500,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,500,000</u>
	<u>\$ 5,027,079</u>	<u>\$ 687,709</u>	<u>\$ 15,564,053</u>	<u>\$ 6,779,661</u>	<u>\$ 28,058,502</u>

REPUBLIC OF THE MARSHALL ISLANDS

Notes to General Purpose Financial Statements
September 30, 2002

(1) Summary of Significant Accounting Policies, Continued

Q. Interfund Transactions

The majority of RepMar's financial operations are centrally administered, and this administration is facilitated by the use of a "pooled" cash account; for practical purposes, all cash is maintained in a single bank account, which is considered to be an asset of RepMar's General Fund. As a result of this cash pooling practice, cash transactions normally include entries which adjust the relative balances of affected funds' interfund asset/liability accounts; each fund's interfund balance, therefore, represents a net interest in RepMar's actual cash. The General Fund receives the full benefit of all interest income earned from the investment of pooled cash resources. Operating appropriations/subsidies are accounted for as operating transfers or resources between funds. For all funds, the combining balance sheets separately classify interfund activity with the General Fund.

R. Future Liabilities and Contributions

No recognition is given in the accompanying general purpose financial statements to the present value of liabilities of prospective social security benefit payments or the present value of future contributions required from employees or employers.

S. Contributions and Premiums

Contributions to the Expendable Trust Funds for the Marshall Islands Social Security Administration (MISSA) Retirement Fund are governed by the Social Security Act of 1990, as amended, which imposes a tax on the quarterly income of every employee not currently subject to the United States Social Security System or any other recognized Social Security System equal to seven percent of wages received.

Maximum quarterly taxable wages are \$5,000. Every employer is required to contribute an amount equal to that contributed by employees.

Contributions to the Expendable Trust Funds for the MISSA Health Fund are governed by the Social Security Health Fund Act of 1991, as amended, which imposes a tax on the quarterly income of every employee equal to two and one-half percent of wages received. The maximum quarterly taxable wages is \$5,000. Every employer is required to contribute an amount equal to that contributed by employees. Effective January 1, 2002, the MISSA Health Fund tax rate on the quarterly income of every employee increased from two and one-half percent to three and one-half percent.

Premiums to the Expendable Trust Funds for the MISSA Health Fund and to the Component Units - Propriety Funds for the MISSA Supplemental Health Benefits Plan are governed by the Social Security Health Fund Act of 1991, as amended, which allows citizens and legal residents, who are not otherwise eligible for benefits under this Act, to voluntarily pay a periodic premium to the Basic and Supplemental Health Benefit Plans and, thereby, become a covered person eligible for designated benefits of the Basic and Supplemental Health Benefits Plans. The amount of periodic premiums that must be paid to the Basic and Supplemental Health Benefits Plans are determined by the Board of Directors of MISSA.

REPUBLIC OF THE MARSHALL ISLANDS

Notes to General Purpose Financial Statements
September 30, 2002

(1) Summary of Significant Accounting Policies, Continued

T. Benefit Payments

Retirement benefits of the MISSA Retirement Fund are paid to every person who is a service insured or a fully insured individual as defined by the Social Security Act of 1990, as amended, has attained an age of sixty years and has filed an application for old age insurance benefits. Benefits are also paid to surviving spouses of deceased workers, subject to eligibility requirements, as long as they do not remarry or work. Eligible children who are not married and are not working may also receive benefits until age eighteen (18) or up until age twenty-two (22), if in school. Eligible children who become disabled before age twenty-two will continue to receive benefits for the duration of the disability. Disability benefits are paid to qualified workers for the duration of the disability or until retirement or death, at which time retirement or survivor benefits become available.

Effective October 1, 1990, benefits are paid monthly and are computed as follows:

- a) Pension element - two percent of index covered earnings, plus;
- b) Social element - 14.5% of the first \$11,000 of cumulative covered earnings plus 0.7% of cumulative covered earnings in excess of \$11,000 but not in excess of \$44,000. The \$11,000 and \$44,000 bendpoints may be increased from time to time by wage index adjustments granted by the Board of MISSA.

The minimum benefit is \$129 per month, effective October 1, 1995.

The Reduction-in-Force (RIF) benefits are paid to those laid-off civil service employees during the downsizing process of RepMar through the Public Sector Reform Program. The monthly benefit payments are paid out on the basis of the current benefit rules of MISSA, as if the employee were aged fifty-five and "service insured", for a maximum period of three years, or for as long as the funds are available.

Health care benefits of the MISSA Health Fund are paid to approved health care facilities according to the schedule of benefits. Benefit payments are paid according to the following:

Basic Health Benefits Plan:

- a) Health care obtained within the Republic of the Marshall Islands at an approved health care facility. The plan pays according to the schedule of benefits without a deductible or maximum limit.
- b) Health care obtained outside of the Republic of the Marshall Islands as approved off-island medical referral at an approved health care facility. The plan pays according to the schedule of benefits up to an annual maximum of \$100,000 per covered person.
- c) Health care obtained outside of the Republic of the Marshall Islands as emergency off-island medical care when traveling for 30 days or less. The plan pays accordingly to the schedule of benefits up to a maximum of \$1,000 after a \$100 deductible per incident.

REPUBLIC OF THE MARSHALL ISLANDS

Notes to General Purpose Financial Statements
September 30, 2002

(1) Summary of Significant Accounting Policies, Continued

T. Benefit Payments, Continued

Supplemental Health Benefits Plan:

- a) Health care obtained outside of the Republic of the Marshall Islands as self-referral to an approved health care facility. The plan pays according to the schedule of benefits up to an annual maximum of \$100,000 per covered person after a \$200 deductible for visits within a one year period. The co-insurance rate is 80%.

U. Memorandum Only-Total Columns

Total columns on the general purpose financial statements are captioned as "memorandum only" because they do not represent consolidated financial information and are presented only to facilitate financial analysis. The columns do not present information that reflects financial position, results of operations or cash flows in accordance with GAAP. Interfund eliminations have not been made in the aggregation of this data.

V. Estimates

The preparation of general purpose 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 general purpose financial statements and the reported amounts of revenues, expenditures and expenses during the reporting period. Actual results could differ from those estimates.

W. New Accounting Standards

For fiscal year 2003, RepMar will be implementing the following:

GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - For State and Local Governments.*

GASB Statement No. 35, *Basic Financial Statements - and Management's Discussion and Analysis - For Public Colleges and Universities.*

GASB Statement No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - Omnibus.*

GASB Statement No. 38, *Certain Financial Statement Note Disclosures.*

As of the date of opinion, RepMar had not determined the financial impact of the implementation of GASB Statement Nos. 34, 35 and 37, which are all interrelated. The implementation of GASB Statement No. 38 will have no financial impact on the governmental funds of RepMar.

REPUBLIC OF THE MARSHALL ISLANDS

Notes to General Purpose Financial Statements
September 30, 2002

(2) Investments

GASB Statement No. 3 requires government entities to categorize investments to give an indication of the level of credit risk assumed by the entity at year end. The three categories are described below:

- Category 1 Insured or registered, or securities held by RepMar or its agent in RepMar's name;
- Category 2 Uninsured and unregistered, with securities held by the broker's or dealer's trust department or agent in RepMar's name; or
- Category 3 Uninsured and unregistered, with securities held by the broker or dealer, or by its trust department or agent but not in RepMar's name.

A. General Fund

Investments of the General Fund as of September 30, 2002, are as follows:

	Categories			Carrying Value
	1	2	3	
Marshalls Energy Company, Inc. (MEC)	\$ 75,000	\$ -	\$ -	\$ 75,000
Majuro Resort, Inc. (MRI)	25,000	-	-	25,000
Air Marshall Islands, Inc. (AMI)	-	-	-	-
	<u>\$ 100,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 100,000</u>

The General Fund of RepMar holds a 100% interest in MEC (a Component Unit - Proprietary Fund), a 0.2% interest in MRI (a Component Unit - Proprietary Fund), and a 22% interest in AMI (a Component Unit - Proprietary Fund). Fair value of investments is not readily ascertainable and, as such, the above investments are carried at cost due to the unavailability of market information. During the year ended September 30, 1996, the \$2,544,000 carrying value of the investment in AMI was written down to a zero value.

B. Special Revenue Funds

Investments of the Special Revenue Funds as of September 30, 2002, are as follows:

	Categories			Carrying Value
	1	2	3	
RMI Investment Development Fund:				
Majuro Resort, Inc. (MRI)	\$ 300,220	\$ -	\$ -	\$ 300,220
Air Marshall Islands, Inc. (AMI)	-	-	-	-
	<u>300,220</u>	<u>-</u>	<u>-</u>	<u>300,220</u>
Section 215(a)(1) Communications Fund:				
Marshall Islands National Telecommunications Authority	100,000	-	-	100,000
	<u>\$ 400,220</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 400,220</u>

REPUBLIC OF THE MARSHALL ISLANDS

Notes to General Purpose Financial Statements
September 30, 2002

(2) Investments, Continued

B. Special Revenue Funds, Continued

The RMI Investment Development Fund holds a 2.8% interest in MRI (a Component Unit - Proprietary Fund), and a 9% interest in AMI (a Component Unit - Proprietary Fund). Fair value is not readily ascertainable and, as such, the above investments are carried at cost and estimated value due to the unavailability of market information and due to the absence of significant control over the investees. During the year ended September 30, 1996, the \$1,010,000 carrying value of the investment in AMI was written down to a zero value.

C. Capital Projects Funds

Investments of the Capital Projects Funds as of September 30, 2002, are as follows:

	Categories			Carrying Value
	1	2	3	
Marshall Islands Development Authority (MIDA):				
Majuro Resort, Inc. (MRI)	\$ 10,990,000	\$ -	\$ -	\$ 10,990,000
Pacific Forum Lines (PFL)	318,630	-	-	318,630
Air Marshall Islands, Inc. (AMI)	-	-	-	-
	<u>11,308,630</u>	<u>-</u>	<u>-</u>	<u>11,308,630</u>
Kwajalein Atoll Development Authority (KADA):				
Kwajalein Atoll Joint Utilities Resources, Inc. (KAJUR)	100,000	-	-	100,000
	<u>\$ 11,408,630</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 11,408,630</u>

MIDA holds a 97% interest in MRI (a Component Unit - Proprietary Fund), a 39% interest in AMI (a Component Unit - Proprietary Fund), and an 8% interest in PFL. KADA holds a 100% interest in KAJUR (a Component Unit - Proprietary Fund). Fair value is not readily ascertainable and, as such, the above investments are carried at cost and estimated value due to the unavailability of market information and due to the absence of significant control over the investees. During the year ended September 30, 1996, the \$4,605,280 carrying value of the investment in AMI was written down to a zero value.

D. Expendable Trust Funds

Investments of the Expendable Trust Funds as of September 30, 2002, are as follows:

	Categories			Carrying Value
	1	2	3	
Nuclear Claims Trust Fund:				
Common stock	\$ -	\$ 8,774,963	\$ -	\$ 8,774,963
Corporate notes and bonds	-	4,050,926	-	4,050,926
U.S. Government notes and bonds	-	3,744,669	-	3,744,669
Preferred stock	-	91,400	-	91,400
	<u>-</u>	<u>16,661,958</u>	<u>-</u>	<u>16,661,958</u>

REPUBLIC OF THE MARSHALL ISLANDS

Notes to General Purpose Financial Statements
September 30, 2002

(2) Investments, Continued

D. Expendable Trust Funds, Continued

	Categories			Carrying Value
	1	2	3	
Marshall Islands Social Security Administration (MISSA):				
Common stock	\$ 3,758,525	\$ 12,898,064	\$ -	\$ 16,656,589
U.S. Government notes and bonds	-	3,140,690	-	3,140,690
Corporate notes and bonds	-	3,042,829	-	3,042,829
U.S. Government agencies	-	2,084,470	-	2,084,470
	<u>3,758,525</u>	<u>21,166,053</u>	<u>-</u>	<u>24,924,578</u>
	<u>\$ 3,758,525</u>	<u>\$ 37,828,011</u>	<u>\$ -</u>	<u>\$ 41,586,536</u>

On February 18, 1999, RepMar fully repaid a loan and related interest, totaling \$1,944,096, through transferring its ownership of 94,485 shares of Bank of Marshall Islands (BOMI) stock to MISSA. BOMI engages in commercial banking services in the Republic of the Marshall Islands, and MISSA holds a 32% interest in BOMI. As of September 30, 2002, MISSA maintained deposit accounts and a time certificate of deposit with BOMI of \$5,238,930.

A summary of financial information as of and for the year ended September 30, 2002, for investees accounted for using the equity method is as follows:

Assets	\$ <u>47,434,260</u>
Liabilities	\$ <u>35,589,394</u>
Net earnings	\$ <u>2,632,000</u>

E. Nonexpendable Trust Funds

Investments of the Nonexpendable Trust Funds as of September 30, 2002, are as follows:

	Categories			Carrying Value
	1	2	3	
Intergenerational Trust Fund:				
Common stock	\$ -	\$ 6,308,603	\$ -	\$ 6,308,603
Corporate notes and bonds	-	2,635,890	-	2,635,890
U.S. Government notes and bonds	-	2,143,532	-	2,143,532
	<u>\$ -</u>	<u>\$ 11,088,025</u>	<u>\$ -</u>	<u>\$ 11,088,025</u>

F. Higher Education Fund

Investments of the Higher Education Fund as of September 30, 2002, are as follows:

	Categories			Carrying Value
	1	2	3	
Mutual funds	\$ -	\$ 118,307	\$ -	\$ 118,307

REPUBLIC OF THE MARSHALL ISLANDS

Notes to General Purpose Financial Statements
September 30, 2002

(2) Investments, Continued

G. Component Units - Proprietary Funds

Investments of the Component Units - Proprietary Funds as of September 30, 2002, are as follows:

	Categories			Carrying Value
	1	2	3	
Marshall Islands National Telecommunications Authority:				
U.S. Government notes and bonds	\$ -	\$ 1,185,334	\$ -	\$ 1,185,334
Common stock	-	1,067,428	-	1,067,334
Mutual funds	-	529,333	-	529,333
	<u>\$ -</u>	<u>\$ 2,782,095</u>	<u>\$ -</u>	<u>\$ 2,782,095</u>

(3) Receivables

Receivables as of September 30, 2002, including applicable allowances for uncollectible accounts, are as follows:

	Governmental Fund Types			Fiduciary Fund Type	University and College Fund Type	Component Units		Totals
	General	Special Revenue	Capital Projects	Expendable Trust	Higher Education Fund	Governmental	Proprietary	
Receivables:								
Taxes	\$ 1,654,850	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,654,850
General	172,977	-	-	3,620,659	1,783,265	-	12,905,641	18,482,542
Loans	-	-	4,368,787	9,695,969	-	-	100,000	14,164,756
Other	<u>1,652,274</u>	<u>5,736,491</u>	<u>2,287,197</u>	<u>3,331,725</u>	<u>112,102</u>	<u>3,712</u>	<u>1,797,901</u>	<u>14,921,402</u>
Gross receivables	3,480,101	5,736,491	6,655,984	16,648,353	1,895,367	3,712	14,803,542	49,223,550
Less: allowance for uncollectibles	<u>(673,604)</u>	<u>(2,123,625)</u>	<u>(4,757,137)</u>	<u>(11,395,790)</u>	<u>(768,543)</u>	<u>-</u>	<u>(8,253,781)</u>	<u>(27,972,480)</u>
Net receivables	<u>\$ 2,806,497</u>	<u>\$ 3,612,866</u>	<u>\$ 1,898,847</u>	<u>\$ 5,252,563</u>	<u>\$ 1,126,824</u>	<u>\$ 3,712</u>	<u>\$ 6,549,761</u>	<u>\$ 21,251,070</u>

Receivables of the Governmental Fund Types, Fiduciary Fund Type - Expendable Trust Funds, the University and College Fund Type and Component Units - Proprietary Funds are primarily due from businesses and individuals residing in the Republic. The allowance for uncollectibles primarily represents those accounts that are more than ninety days delinquent as of September 30, 2002.

Loans receivable of the Capital Projects Funds are recorded by the Marshall Islands Development Authority (MIDA) and the ADB Development Projects Fund. The details of these loans are as follows:

MIDA

Loans to four fishing companies incorporated and operating in the Republic of the Marshall Islands have the following terms and conditions:

REPUBLIC OF THE MARSHALL ISLANDS

Notes to General Purpose Financial Statements
September 30, 2002

(3) Receivables, Continued

MIDA, Continued

Notes, due August 1992, interest at 6% per annum, interest and principal payable on demand. These notes have been fully provided for in the allowance for uncollectibles. \$ 1,780,000

ADB Development Projects Fund

Loan to Ebje Ruktok/Rukjenlein Fishing Company, Inc., interest at 8.5% per annum, with repayments commencing March 1995. The loan is a subsidiary loan of a loan agreement (Loan Number 1102 MAR (SF)) between RepMar and the Asian Development Bank (see notes 6 and 8). This loan has been fully provided for in the allowance for uncollectibles. 2,588,787

\$ 4,368,787

Loans receivable of the Expendable Trust Funds are recorded by the Marshall Islands Scholarship Grant and Loan Board for loans issued under a student financial assistance program to qualified Marshallese students. These loans are interest free, uncollateralized and have no set repayment terms, and may be converted to grants at a later date if the recipients meet certain criteria. These loans have been fully provided for in the allowance for uncollectibles.

Loans receivable of the Component Units - Proprietary Funds are recorded by the Marshall Islands Ports Authority. The details of these loans are as follows:

Note receivable from Tobolar Copra Processing Plant, Inc., advanced on January 23, 1998, due September 30, 1998, interest at 10% per annum, unsecured (see notes 6 and 8). \$ 50,000

Note receivable from Tobolar Copra Processing Plant, Inc., advanced on February 27, 1998, due September 30, 1998, interest at 10% per annum, unsecured (see notes 6 and 8). 50,000

\$ 100,000

Repayment of the above notes receivable, including interest, is in arrears and, accordingly, the total notes receivable and related interest receivable balances have been included in the allowance for doubtful accounts. As of September 30, 2002, interest receivable relating to the above notes receivable is \$46,397.

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Notes to General Purpose Financial Statements
September 30, 2002

(4) Interfund Receivables and Payables

Receivables and payables between funds reflected as due to/from primary government in the combined balance sheet at September 30, 2002, are summarized as follows:

<u>Component Units - Proprietary Funds</u>	<u>Due From</u>	<u>Due To</u>
Marshall Islands Airports Authority:		
General Fund	\$ -	\$ 73,957
Tobolar Copra Processing Plant, Inc.:		
General Fund	395,229	-
Majuro Water and Sewer Company, Inc.:		
General Fund	149,000	234,632
Expendable Trust Fund:		
Marshall Islands Social Security Administration	-	492,950
Marshall's Energy Company, Inc.:		
General Fund	186,651	-
Kwajalein Atoll Joint Utilities Resources, Inc.:		
General Fund	96,250	-
KADA Housing Division:		
Capital Projects Fund:		
Kwajalein Atoll Development Authority	-	1,153,052
Majuro Resort, Inc.:		
General Fund	20,697	487,116
Expendable Trust Fund:		
Marshall Islands Social Security Administration	-	99,218
Marshall Islands Marine Resources Authority:		
General Fund	-	369,441
MISSA Supplemental Health Benefits Plan:		
Expendable Trust Fund:		
Marshall Islands Social Security Administration	<u>-</u>	<u>1,555,808</u>
	<u>\$ 847,827</u>	<u>\$ 4,466,174</u>

The amount recorded as due from primary government of the component units of \$847,827 does not equal the corresponding due to component units of the primary government of \$3,168,299 due to an allowance for doubtful accounts of \$300,000 recorded by the Marshall Islands Marine Resources Authority, the exclusion of the financial statements of Air Marshall Islands, Inc., and the presentation of the financial statements of Majuro Resort, Inc., which has a December 31 year end.

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Notes to General Purpose Financial Statements
September 30, 2002

(4) Interfund Receivables and Payables, Continued

Receivables and payables between funds reflected as due to/from component units in the combined balance sheet at September 30, 2002, are summarized as follows:

	<u>Due From</u>	<u>Due To</u>
<u>Primary Government</u>		
General Fund:		
Air Marshall Islands, Inc.	\$ -	\$ 855,725
Marshall Islands Airports Authority	73,957	-
Tobolar Copra Processing Plant, Inc.	-	395,229
Majuro Water and Sewer Company, Inc.	-	149,000
Marshalls Energy Company, Inc.	-	186,651
Majuro Resort, Inc.	-	166,944
Marshall Islands Marine Resources Authority	369,441	300,000
Kwajalein Atoll Joint Utilities Resources, Inc.	-	96,250
Capital Projects Fund:		
Section 211 Capital Account:		
Air Marshall Islands, Inc.	-	1,018,500
Kwajalein Atoll Development Authority:		
KADA Housing Division	1,153,052	-
Expendable Trust Fund:		
Marshall Islands Social Security Administration:		
MISSA Supplemental Health Benefits Plan	<u>589,354</u>	<u>-</u>
	<u>\$ 2,185,804</u>	<u>\$ 3,168,299</u>

Of the above amounts recorded as due from component units, amounts due from the Marshall Islands Airports Authority, the KADA Housing Division and the MISSA Supplemental Health Benefits Plan are included within the reserve for related assets.

	<u>Due From</u>	<u>Due To</u>
<u>Component Units - Proprietary Funds</u>		
Majuro Water and Sewer Company, Inc.:		
Marshalls Energy Company, Inc.	\$ -	\$ 171,627
Marshalls Energy Company, Inc.:		
Majuro Water and Sewer Company, Inc.	<u>171,627</u>	<u>-</u>
	<u>\$ 171,627</u>	<u>\$ 171,627</u>

The amount recorded as due from component units of the primary government of \$2,185,804 does not equal the corresponding due to primary government of the Component Units - Proprietary Funds of \$4,466,174 due to delinquent taxes payable to the General Fund recorded by the Component Units - Proprietary Funds of \$721,748, delinquent contributions payable to the Marshall Islands Social Security Administration recorded by the Component Units - Proprietary Funds of \$592,168, and an allowance for doubtful accounts of \$966,454 recorded by the Marshall Islands Social Security Administration.

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Notes to General Purpose Financial Statements
September 30, 2002

(4) Interfund Receivables and Payables, Continued

Receivables and payables between funds reflected as due to/from other funds in the combined balance sheet at September 30, 2002, are summarized as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Other Direct Assistance	\$ 23,179
General	Republic of China Projects	4,780,299
General	Section 216(a)(2) Health and Medical	735
General	Ministry of Transportation and Communications	59,213
General	Section 216(a)(1) Surveillance and Enforcement	70,646
General	MIDA	558,945
General	Higher Education Fund	497,500
TTPI Federal and Other Assistance	General	1,050,670
RMI Investment Development	General	56,769
Judiciary	General	131,295
Postal Service	General	89,902
Health Care Revenue	Marshall Islands Social Security Administration	382,014
Section 216(b) Maritime	General	19,997
Resident Workers Training Account	General	47,208
Section 215(a)(1) Communications	General	688,730
Section 216(a)(3) Scholarship	General	89,388
Section 221(b) Education and Health Care	General	268,780
Section 214(a) Energy	General	416
National Environmental Protection Authority	General	75,716
Ministry of Justice	General	94,498
Public Works	General	41,577
Ministry of Resources and Development	General	4,364
Sea Patrol	General	65,211
Miscellaneous	General	112,394
Section 211 Capital Account	General	3,624,870
MIDA Development	General	78,624
Section 111 Investment Development	General	472,253
Kwajalein Atoll Trust	General	706,608
Local Government Trust	General	263,963
Health Indemnity	General	13,412
Four-Atoll Medical	General	97,635
Marshall Islands Social Security Administration	General	1,000,000
Section 177 Administration	General	68,828
Intergenerational Trust	General	1,500,000
Off-Shore Banking Trust	General	60,088
Eminent Domain Trust	General	94,992
Non-Resident Workers Trust	General	66,596

\$ 17,257,315

REPUBLIC OF THE MARSHALL ISLANDS

Notes to General Purpose Financial Statements
September 30, 2002

(5) Fixed Assets

Activity in the General Fixed Assets Account Group for the year ended September 30, 2002, was as follows:

	Balance October 1, 2001	Additions	Retirements	Balance September 30, 2002
Electrical distribution	\$ 27,216,665	\$ -	\$ -	\$ 27,216,665
Office equipment	8,361,202	2,585,769	-	10,946,971
Buildings	9,409,823	-	-	9,409,823
Water infrastructure system	-	9,110,478	-	9,110,478
Roads, bridges and airport	5,467,525	-	-	5,467,525
Ships	3,959,858	-	-	3,959,858
Other equipment	3,546,641	34,850	-	3,581,491
Heavy equipment	2,203,109	580,730	-	2,783,839
Motor vehicles	<u>1,916,455</u>	<u>796,983</u>	<u>-</u>	<u>2,713,438</u>
	62,081,278	13,108,810	-	75,190,088
Less accumulated depreciation	<u>(10,927,130)</u>	<u>(1,099,259)</u>	<u>-</u>	<u>(12,026,389)</u>
	<u>\$ 51,154,148</u>	<u>\$ 12,009,551</u>	<u>\$ -</u>	<u>\$ 63,163,699</u>

In addition, the Kwajalein Atoll Development Authority (KADA) maintains a General Fixed Assets Account Group. A summary of KADA's general fixed assets accounted for in its General Fixed Assets Account Group as of September 30, 2002, follows. These assets are not included within the accompanying general purpose financial statement presentation. KADA generally capitalizes infrastructure fixed assets.

These assets are immovable and are of value only to KADA:

Buildings and site costs	\$ 3,808,060
Other equipment	1,930,919
Major equipment	<u>1,123,422</u>
	6,862,401
Less accumulated depreciation	<u>(5,674,048)</u>
	<u>\$ 1,188,353</u>

KADA's policy is to omit construction work in progress within the General Fixed Assets Account Group. Costs incurred in the construction of major capital facilities are recorded within the General Fixed Assets Account Group upon completion of the project.

REPUBLIC OF THE MARSHALL ISLANDS

Notes to General Purpose Financial Statements
September 30, 2002

(5) Fixed Assets, Continued

Fiduciary Fund Type - Expendable Trust Fund fixed assets as of September 30, 2002, are comprised of buildings and improvements, office equipment, motor vehicles, computer equipment and furniture and fixtures, totaling \$965,425, and have estimated useful lives ranging from three to twenty years. No depreciation has been provided on these general fixed assets. These fixed assets are recorded in the General Fixed Assets Account Group of the Nuclear Claims Tribunal, the Marshall Islands Scholarship Grant and Loan Board, and the Marshall Islands Social Security Administration. These assets are not, however, included in the accompanying general purpose financial statements.

Higher Education Fund investment in plant and equipment and changes for the year ended September 30, 2002 is summarized below:

	Estimated Useful Lives	Balance at October 1, 2001	Additions	Deletions	Balance at September 30, 2002
Furniture, vehicles and equipment	3 - 5 years	\$ 1,331,300	\$ 214,200	\$ -	\$ 1,545,500
Buildings and improvements	20 years	836,004	390,015	-	1,226,019
		2,167,304	604,215	-	2,771,519
Less accumulated depreciation		(1,560,254)	(216,339)	-	(1,776,593)
		607,050	387,876	-	994,926
Construction work in progress		301,636	126,217	301,636	126,217
Net investment in plant		\$ 908,686	\$ 514,093	\$ 301,636	\$ 1,121,143

Component Unit - Governmental Fund fixed assets as of September 30, 2002, are comprised of motor vehicles and office equipment, totaling \$16,121, and are being depreciated over estimated useful lives ranging from three to five years. These fixed assets are recorded in the General Fixed Assets Account Group of the Marshall Islands Visitors Authority and the Environmental Protection Authority. These assets are not, however, included in the accompanying general purpose financial statements.

A summary of fixed assets accounted for in the Component Units - Proprietary Funds as of September 30, 2002, follows:

	Marshall Islands Airports Authority	Tabolar Copra Processing Plant, Inc.	Majuro Water and Sewer Companv. Inc.	Marshall's Energy Companv. Inc.	Marshall Islands National Telecomm. Authority	Kwajalein Atoll Joint Utilities Resources. Inc.	KADA Housing Division	Majuro Resort. Inc. (December 31, 2002)	Marshall Islands Ports Authority	Marshall Islands Marine Resources Authority	Totals
Plant and equipment	\$ 4,933,333	\$ 1,669,330	\$ 66,772	\$ 1,416,381	\$ 29,034,408	\$ 10,476,166	\$ -	\$ -	\$ 13,553,421	\$ -	\$ 61,149,811
Building and structures	466,522	1,888,115	54,317	548,284	7,210,490	-	1,772,834	11,064,076	447,488	335,801	23,787,927
Power plant engine	-	-	-	14,720,739	-	-	-	-	-	-	14,720,739
Distribution system	-	-	-	-	-	2,387,708	-	-	-	-	2,387,708
Office furniture and equipment	42,341	-	82,950	150,833	1,032,896	-	-	575,730	80,235	14,963	1,979,948
Other equipment	63,309	69,746	-	78,627	204,460	907,171	125,175	75,679	145,045	106,473	1,773,685
Motor vehicles	51,530	-	123,733	781,058	377,989	-	-	54,725	78,008	48,995	1,516,038
Leasehold improvements	31,075	-	-	356,059	-	-	-	-	-	-	387,134
Fences and seawalls	-	-	-	371,702	-	-	-	-	-	-	371,702
Leasehold land	-	-	-	330,000	-	-	-	-	-	-	330,000
	5,588,110	3,627,191	327,772	18,753,683	37,860,243	13,771,045	1,898,009	11,770,210	14,304,197	506,232	108,406,692
Less accumulated depreciation and amortization	(1,025,458)	(2,541,253)	(280,034)	(5,053,348)	(19,064,944)	(5,704,752)	(788,247)	(3,506,098)	(8,132,579)	(53,608)	(46,150,321)
	4,562,652	1,085,938	47,738	13,700,335	18,795,299	8,066,293	1,109,762	8,264,112	6,171,618	452,624	62,256,371
Construction work in progress	-	-	-	20,000	13,170	703,436	-	-	78,594	2,151	817,351
Total assets	\$ 4,562,652	\$ 1,085,938	\$ 47,738	\$ 13,720,335	\$ 18,808,469	\$ 8,769,729	\$ 1,109,762	\$ 8,264,112	\$ 6,250,212	\$ 454,775	\$ 63,073,722

REPUBLIC OF THE MARSHALL ISLANDS

Notes to General Purpose Financial Statements
September 30, 2002

(6) Loans Payable

General Long-Term Debt Account Group

A. Asian Development Bank (ADB) Loans

On November 28, 1991, RepMar entered into a loan agreement (Loan Number 1102 MAR (SF)) with the ADB in the amount of SDR 5,198,000 for the purpose of assisting RepMar in initiating a domestic commercial fish production and marketing capability, and to strengthen RepMar's institutional capabilities to support economic self-reliance through the development of its major natural resource, fisheries. On April 28, 1998, the ADB closed the Loan Account and reduced the loan amount to SDR 2,432,599 (approximates \$3,521,894 at September 30, 2002). 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. The loan is payable semiannually commencing January 1, 2002 in an amount of SDR 51,900, increasing to SDR 104,000 on January 1, 2012. Loan proceeds in the amount of \$2,588,787 were made available to Ebje Ruktok/Rukjenlein Fishing Company, Inc. (ERRFC) under a Subsidiary Loan Agreement, the terms of which included interest of 8.5% per annum and a repayment period of fifteen years, with a grace period of three years (see notes 3 and 8). During the year ended September 30, 2002, the loan receivable from ERRFC was fully provided for in the allowance for uncollectibles. At September 30, 2002, RepMar had drawn down \$3,451,867, net of loan repayment amounts, against this loan.

On January 29, 1993, RepMar entered into a loan agreement (Loan Number 1218 MAR (SF)) with the ADB in the amount of SDR 364,000 (approximates \$508,245 at September 30, 2002) for the purpose of providing funding for the emergency rehabilitation and restoration of facilities that were damaged or destroyed by Typhoon Gay in November 1992. On March 11, 1994, the ADB closed the Loan Account. 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. The loan is payable semiannually commencing May 15, 2003 in an amount of SDR 3,600, increasing to SDR 7,300 on May 15, 2013. At September 30, 2002, RepMar had drawn down \$508,245 against this loan.

On November 17, 1993, RepMar entered into a loan agreement (Loan Number 1249 MAR (SF)) with the ADB in the amount of SDR 5,752,000 for the purpose of providing funding for the improvement of basic education within the Marshall Islands. On June 11, 2001, the ADB closed the Loan Account and reduced the loan amount to SDR 5,717,446 (approximates \$7,801,270 at September 30, 2002). 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. The loan is payable semiannually commencing April 15, 2004 in an amount of SDR 57,200, increasing to SDR 114,300 on April 15, 2014. At September 30, 2002, RepMar had drawn down \$7,801,270 against this loan.

REPUBLIC OF THE MARSHALL ISLANDS

Notes to General Purpose Financial Statements
September 30, 2002

(6) Loans Payable, Continued

General Long-Term Debt Account Group, Continued

A. Asian Development Bank (ADB) Loans, Continued

On November 17, 1993, RepMar entered into a loan agreement (Loan Number 1250 MAR (SF)) with the ADB in the amount of SDR 503,000 for the Majuro Water Supply Project. On January 10, 1997, the ADB closed the Loan Account and reduced the loan amount to SDR 478,496 (approximates \$723,087 at September 30, 2002). 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. The loan is payable semiannually commencing November 15, 2003 in an amount of SDR 5,000, increasing to SDR 10,100 on November 15, 2013. Loan proceeds in the amount of \$714,493 were made available to Majuro Water and Sewer Company, Inc. (MWSC) (a Component Unit - Proprietary Fund) under a Subsidiary Loan Agreement. During the year ended September 30, 2002, the loan receivable from MWSC was written off (see notes 8 and 12). At September 30, 2002, RepMar had drawn down \$723,087 against this loan.

On February 24, 1995, RepMar entered into a loan agreement (Loan Number 1316 RMI (SF)) with the ADB in the amount of SDR 3,911,000 (approximates \$5,299,388 at September 30, 2002) for the purpose of improving the quality of health and family planning services, and strengthening RepMar's primary health care model of services. 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. The loan is payable semiannually commencing January 1, 2005 in an amount of SDR 39,100, increasing to SDR 78,200 on January 1, 2015. At September 30, 2002, RepMar had drawn down \$5,228,272 against this loan.

On February 1, 1996, RepMar entered into a loan agreement (Loan Number 1389 RMI (SF)) with the ADB in the amount of SDR 6,062,000 (approximates \$8,303,958 at September 30, 2002) for the Majuro Water Supply Project. On April 26, 2002, the ADB closed the Loan Account. 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. The loan is payable semiannually commencing March 1, 2006 in an amount of SDR 60,700, increasing to SDR 121,200 on March 1, 2016. Loan proceeds in the amount of \$7,826,263 were made available to Majuro Water and Sewer Company, Inc. (MWSC) (a Component Unit - Proprietary Fund) under a Subsidiary Loan Agreement. During the year ended September 30, 2002, the loan receivable from MWSC was written off (see notes 8 and 12). At September 30, 2002, RepMar had drawn down \$8,303,958 against this loan.

On January 30, 1997, RepMar entered into a loan agreement (Loan Number 1513 RMI (SF)) with the ADB in the amount of SDR 8,241,000 (approximates \$11,290,181 at September 30, 2002) for the Public Sector Reform Program. The proceeds were used to: (i) stabilize RepMar's finances in the short run; (ii) ensure the long-term structural stability of RepMar's finances; and (iii) create an improved enabling environment for the private sector. On June 28, 2000, the ADB closed the Loan Account. 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. The loan is payable semiannually commencing June 1, 2007 in an amount of SDR 82,400, increasing to SDR 164,800 on June 1, 2017. At September 30, 2002, RepMar had drawn down \$11,290,181 against this loan.

REPUBLIC OF THE MARSHALL ISLANDS

Notes to General Purpose Financial Statements
September 30, 2002

(6) Loans Payable, Continued

General Long-Term Debt Account Group, Continued

A. Asian Development Bank (ADB) Loans, Continued

On October 8, 1999, RepMar entered into a loan agreement (Loan Number 1694 RMI (SF)) with the ADB in the amount of SDR 6,924,000 (approximates \$8,931,296 at September 30, 2002) for the Ebeye Health and Infrastructure Project. The proceeds are to be used to: (i) improve the delivery of quality medical care for Ebeye and proximate islands; (ii) strengthen primary health care and preventive services to the general population; (iii) rehabilitate and expand the existing water supply and sewerage systems on Ebeye; and (iv) upgrade the islets power generation and distribution system. 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. The loan is payable semiannually commencing February 1, 2008 in an amount of SDR 144,250. At September 30, 2002, RepMar had drawn down \$8,629,937 against this loan.

On January 11, 2001, RepMar entered into a loan agreement (Loan Number 1791 RMI (SF)) with the ADB in the amount of SDR 5,276,000 (approximates \$6,780,457 at September 30, 2002) for the Skills Training and Vocational Education Project. The proceeds are to be used to: 1) provide funding for career awareness, skills training, special training programs for women and youth; and 2) institutional capacity building within the Marshall Islands. 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. The loan is payable semiannually commencing May 15, 2009 in an amount of SDR 109,916, at which time the service charge increases to 1.5% per annum. At September 30, 2002, RepMar had drawn down \$652,254 against this loan.

On June 22, 2001, RepMar entered into a loan agreement (Loan Number 1828 RMI) with the ADB in the amount of \$4,000,000 for the Fiscal and Financial Management Program. The proceeds are to be used to retire high-cost debt and to provide fiscal budgetary support. The loan bears interest determined in accordance with the ADB's pool-based variable lending rate system for U.S. dollar loans (6.34% at September 30, 2002), 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. The loan is payable semiannually commencing November 15, 2004 in an initial amount of \$89,900 with graduated increases of 5% to \$276,100 through May 15, 2016. At September 30, 2002, RepMar had drawn down \$3,540,000 against this loan.

On June 22, 2001, RepMar entered into a loan agreement (Loan Number 1829 RMI (SF)) with the ADB in the amount of SDR 6,320,000 (approximates \$8,177,033 at September 30, 2002) for the Fiscal and Financial Management Program. The proceeds are to be used to: 1) establish a trust fund; 2) finance the payment of medical referral costs in arrears; and 3) improve the overall financial management of RepMar. 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. The loan is payable semiannually commencing November 15, 2009 in an amount of SDR 197,500, at which time the service charge increases to 1.5% per annum. At September 30, 2002, RepMar had drawn down \$6,163,300 against this loan.

REPUBLIC OF THE MARSHALL ISLANDS

Notes to General Purpose Financial Statements
September 30, 2002

(6) Loans Payable, Continued

General Long-Term Debt Account Group, Continued

B. People's Republic of China (PRC) Loan

On August 1, 1992, RepMar entered into a non-interest bearing loan agreement with the Government of the PRC in the amount of \$2,000,000, relating to the economic and technical cooperation agreement signed on March 16, 1991. The purpose of the loan was to fund RepMar's construction of a garment factory. The loan is payable annually commencing June 1, 2001 in an amount equal to one-tenth (1/10) of the drawn down amount. No repayments have occurred during the year ended September 30, 2002. Loan repayments shall represent either export commodities of RepMar as agreed upon by the two governments or in United States dollars. At September 30, 2002, RepMar had drawn down \$1,900,000 against this loan.

C. Marshall Islands Development Bank (MIDB) Loan

On August 7, 2000, RepMar entered into a loan agreement with MIDB in the amount of \$1,800,000 for the purpose of paying off debts owed by the Marshall Islands Social Security Administration (MISSA) for medical bills. This loan bears interest at 8.5% per annum and is payable in one installment, including interest, by August 7, 2001 from loan proceeds to be made available from the ADB. During the year ended September 30, 2002, this loan was repaid in full.

Changes in the General Long-Term Debt Account Group loans payable for the year ended September 30, 2002, are as follows:

	<u>Balance October 1, 2001</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance September 30, 2002</u>
ADB Loans	\$ 46,759,786	\$ 9,602,612	\$ (70,027)	\$ 56,292,371
PRC Loan	1,900,000	-	-	1,900,000
MIDB Loan	980,537	-	(980,537)	-
	<u>\$ 49,640,323</u>	<u>\$ 9,602,612</u>	<u>\$ (1,050,564)</u>	<u>\$ 58,192,371</u>

Future repayment commitments for General Long-Term Debt loans payable are as follows:

<u>Year ending September 30,</u>	<u>Principal</u>	<u>Interest and Service Charge</u>	<u>Total</u>
2003	\$ 805,562	\$ 520,559	\$ 1,326,121
2004	443,494	751,952	1,195,446
2005	813,163	743,887	1,557,050
2006	998,351	727,117	1,725,468
2007	1,132,066	707,878	1,839,944
Thereafter	<u>53,999,735</u>	<u>7,879,688</u>	<u>61,879,423</u>
	<u>\$ 58,192,371</u>	<u>\$ 11,331,081</u>	<u>\$ 69,523,452</u>

REPUBLIC OF THE MARSHALL ISLANDS

Notes to General Purpose Financial Statements
September 30, 2002

(6) Loans Payable, Continued

Expendable Trust Funds

On June 17, 2002, the Marshall Islands Scholarship Grant and Loan Board entered into a loan agreement with a bank in the amount of \$200,000 for the purpose of funding scholarship assistance. The loan is due on October 30, 2002, including interest at 13.5% per annum.

Component Units - Proprietary Funds

Tobolar Copra Processing Plant, Inc. (TCPPI)

Bank credit line of \$1,000,000 with various terms, due on various dates, interest at bank's preferred rate plus 2.5% (10% at September 30, 2002), collateralized by a general security agreement over all assets of TCPPI and a guarantee from RepMar. \$ 922,478

Note payable to the Marshall Islands Ports Authority of \$50,000, advanced on January 23, 1998, due September 30, 1998, interest at 10% per annum, unsecured (see notes 3 and 8). 50,000

Note payable to the Marshall Islands Ports Authority of \$50,000, advanced on February 27, 1998, due September 30, 1998, interest at 10% per annum, unsecured (see notes 3 and 8). 50,000

Marshalls Energy Company, Inc. (MEC)

On November 18, 1997, MEC entered into a loan agreement with the Federal Financing Bank (FFB) in the amount of \$12.5 million loan for the construction of a new power plant, with loan repayments guaranteed by the Rural Utilities Service (RUS). MEC is required to submit drawdown requests to RUS for approval of loan advances. Interest rates are calculated based on the FFB rates at the date of the loan advances and range from 5.49% to 7.25% per annum. Principal and interest are payable in quarterly installments of \$273,770 through January 2, 2018. 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, 2002. 10,665,534

Marshall Islands National Telecommunications Authority (MINTA)

On August 17, 1989, the Rural Utilities Service (RUS), formerly the Rural Electrification Administration, approved an \$18,800,000 loan from the Rural Electrification and Telephone Revolving Fund at 5% per annum, advance of funds contingent upon MINTA satisfying in form and substance certain prerequisites. On April 23, 1993, an agreement to amend the loan was made between RUS and MINTA. The amendment increased the amount of the loan by \$3,999,000, with the same prerequisites, and for the same expenditure purposes as the original loan.

REPUBLIC OF THE MARSHALL ISLANDS

Notes to General Purpose Financial Statements
September 30, 2002

(6) Loans Payable, Continued

Marshall Islands National Telecommunications Authority (MINTA),
Continued

The \$18,800,000 loan has been unconditionally guaranteed by RepMar, under which RepMar will make debt service payments to RUS in the event of default by MINTA. Mortgages over specific MINTA ground leases and essentially all assets of MINTA have collateralized both loans.

17,603,312

\$ 29,291,324

Future repayment commitments for Component Units - Proprietary Funds loans payable are as follows:

<u>Year ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2003	\$ 2,089,643	\$ 1,590,598	\$ 3,680,241
2004	1,126,691	1,469,601	2,596,292
2005	1,191,270	1,405,018	2,596,288
2006	1,126,346	1,196,168	2,322,514
2007	1,326,380	1,285,190	2,611,570
Thereafter	<u>22,430,994</u>	<u>9,834,716</u>	<u>32,265,710</u>
	<u>\$ 29,291,324</u>	<u>\$ 16,781,291</u>	<u>\$ 46,072,615</u>

(7) Transfers In/Out

Operating Fund Transfers

Operating transfers in/out for all fund types, for the year ended September 30, 2002, are as follows:

<u>Source/Recipient</u>	<u>Transfer Out</u>	<u>Transfer In</u>
<u>General Fund</u>		
To General Fund from:		
Ministry of Transportation and Communications Fund	\$ -	\$ 20,000
Debt Service Fund	-	847,947
Marshall Islands Marine Resources Authority	-	320,000
From General Fund to:		
Judiciary Fund	822,199	-
Resident Workers Training Account	80,595	-
National Environmental Protection Authority Fund	214,952	-
Local Government Fund	398,000	-
Marshall Islands Scholarship Grant and Loan Board	274,122	-
Marshall Islands Social Security Administration	2,170,000	-
Intergenerational Trust Fund	3,500,000	-

REPUBLIC OF THE MARSHALL ISLANDS

Notes to General Purpose Financial Statements
September 30, 2002

(7) Transfers In/Out, Continued

Operating Fund Transfers, Continued

<u>Source/Recipient</u>	<u>Transfer Out</u>	<u>Transfer In</u>
Marshall Islands Visitors Authority	298,500	-
Tobolar Copra Processing Plant, Inc.	1,449,464	-
Majuro Water and Sewer Company, Inc.	750,000	-
Kwajalein Atoll Joint Utilities Resources, Inc.	398,000	-
College of the Marshall Islands	759,389	-
Marshall Islands Development Bank	<u>201,985</u>	<u>-</u>
	<u>\$ 11,317,206</u>	<u>\$ 1,187,947</u>

Special Revenue Funds

From TTPI Federal and Other Assistance Fund to Marshall Islands Scholarship Grant and Loan Board	\$ 90,000	\$ -
From Republic of China Projects Fund to:		
College of the Marshall Islands	507,257	-
Kwajalein Atoll Joint Utilities Resources, Inc.	175,000	-
From General Fund to:		
Judiciary Fund	-	822,199
Resident Workers Training Account	-	80,595
National Environmental Protection Authority Fund	-	214,952
To Health Care Revenue Fund from:		
Four-Atoll Medical Fund	-	250,200
Marshall Islands Social Security Administration	-	1,846,317
From Section 216(a)(3) Scholarship Fund to Marshall Islands Scholarship Grant and Loan Board	720,962	-
From Section 221(b) Education and Health Care Fund to Marshall Islands Social Security Administration	30,000	-
From Section 214(a) Energy Fund to Marshalls Energy Company, Inc.	1,866,667	-
From Ministry of Transportation and Communications Fund to General Fund	<u>20,000</u>	<u>-</u>
	<u>\$ 3,409,886</u>	<u>\$ 3,214,263</u>

Debt Service Funds

From Debt Service Fund to General Fund	\$ 847,947	\$ -
	<u>\$ 847,947</u>	<u>\$ -</u>

Capital Projects Funds

From Section 211 Capital Account to:		
Intergenerational Trust Fund	\$ 14,000,000	\$ -
Air Marshall Islands, Inc.	1,500,000	-
To Kwajalein Atoll Development Authority from Kwajalein Atoll Trust Fund	-	1,900,000

REPUBLIC OF THE MARSHALL ISLANDS

Notes to General Purpose Financial Statements
September 30, 2002

(7) Transfers In/Out, Continued

Operating Fund Transfers, Continued

<u>Source/Recipient</u>	<u>Transfer Out</u>	<u>Transfer In</u>
<u>Capital Projects Funds, Continued</u>		
From ADB Development Projects Fund to Majuro Water and Sewer Company, Inc.	714,493 <u>\$ 16,214,493</u>	- <u>\$ 1,900,000</u>
<u>Expendable Trust Funds</u>		
From Kwajalein Atoll Trust Fund to Kwajalein Atoll Development Authority	\$ 1,900,000	\$ -
From General Fund to:		
Local Government Fund	-	398,000
Marshall Islands Social Security Administration	-	2,170,000
From Nuclear Claims Trust Fund to:		
Four-Atoll Medical Fund	2,000,000	2,000,000
Nuclear Claims Tribunal	21,285,206	21,285,206
From Section 221(b) Education and Health Care Fund to Marshall Islands Social Security Administration	-	30,000
To Health Care Revenue Fund from:		
Four-Atoll Medical Fund	250,200	-
Marshall Islands Social Security Administration	1,846,317	-
To Marshall Islands Scholarship Grant and Loan Board from:		
General Fund	-	274,122
TTPI Federal and Other Assistance Fund	-	90,000
Section 216(a)(3) Scholarship Fund	-	720,962
	<u>\$ 27,281,723</u>	<u>\$ 26,968,290</u>
<u>Nonexpendable Trust Funds</u>		
To Intergenerational Trust Fund from:		
General Fund	\$ -	\$ 3,500,000
Section 211 Capital Account	<u>-</u>	<u>14,000,000</u>
	<u>\$ -</u>	<u>\$ 17,500,000</u>
<u>Higher Education Fund</u>		
To College of the Marshall Islands from:		
General Fund	\$ -	\$ 759,389
Republic of China Projects Fund	<u>-</u>	<u>507,257</u>
	<u>\$ -</u>	<u>\$ 1,266,646</u>

REPUBLIC OF THE MARSHALL ISLANDS

Notes to General Purpose Financial Statements
September 30, 2002

(7) Transfers In/Out, Continued

Operating Fund Transfers, Continued

<u>Source/Recipient</u>	<u>Transfer Out</u>	<u>Transfer In</u>
<u>Component Units - Governmental Funds</u>		
To Marshall Islands Visitors Authority from General Fund	\$ -	\$ 298,500
	<u>\$ -</u>	<u>\$ 298,500</u>
<u>Component Units - Proprietary Funds</u>		
From Marshall Islands Marine Resources Authority to General Fund	\$ 320,000	\$ -
From General Fund to Tobolar Copra Processing Plant, Inc.	-	1,449,464
To Kwajalein Atoll Joint Utilities Resources, Inc. from:		
General Fund	-	398,000
Republic of China Projects Fund	-	175,000
To Majuro Water and Sewer Company, Inc. from:		
General Fund	-	750,000
ADB Development Projects Fund	-	714,493
To Marshalls Energy Company, Inc. from Section 214(a) Energy Fund	<u>-</u>	<u>1,866,667</u>
	<u>\$ 320,000</u>	<u>\$ 5,353,624</u>
Reconciliation of operating fund transfers is as follows:		
Operating fund transfers, as reported	\$ 59,391,255	\$ 57,689,270
Operating fund transfers not reported due to component unit financial statements not included within the accompanying general purpose financial statements:		
Air Marshall Islands, Inc.	\$ -	1,500,000
Marshall Islands Development Bank	<u>-</u>	<u>201,985</u>
	<u>\$ 59,391,255</u>	<u>\$ 59,391,255</u>

REPUBLIC OF THE MARSHALL ISLANDS

Notes to General Purpose Financial Statements
September 30, 2002

(8) Contingencies

Federal Grants

RepMar participates in a number of federally assisted grant programs and other various U.S. Department of the Interior grants. These programs are subject to financial and compliance audits to ascertain if Federal laws and guidelines have been followed. Cumulative questioned costs of \$7,196,339 relating to fiscal years 2000 through 2002 have been set forth in RepMar's Single Audit Report for the year ended September 30, 2002, including \$5,462,610 in questioned costs pertaining to subgrantees for which questioned costs remain unresolved for more than six months after issuance of their respective Single Audit reports. 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 general purpose financial statements.

Going Concern

Tobolar Copra Processing Plant, Inc. (TCPPI) has incurred a net loss of \$995,574 during the year ended September 30, 2002 and has a working capital deficiency and cumulative deficit of \$259,608 and \$726,173, respectively, at September 30, 2002. For the year ended September 30, 2002, TCPPI received an operating subsidy from RepMar of \$1,449,464, which included the forgiveness of a cash advance in the amount of \$500,000 (see note 12). Although RepMar has provided funding in the past, TCPPI does not have a formal agreement with RepMar to provide funds in the future. Management of TCPPI believes that the continuation of TCPPI's operations is dependent upon the future financial support of RepMar and/or a reduction in the purchase price of raw copra.

TCPPI is currently in default of repayment terms of two notes payable to the Marshall Islands Ports Authority (MIPA) (see notes 3 and 6). In accordance with the associated promissory notes, in the event of default, the total sum of principal and interest shall become immediately due and payable at the option of MIPA, without notice. In the event of commencement of suit to enforce payment of these notes payable, TCPPI will be liable for an additional sum equal to 5% of the total amount due. As of September 30, 2002, TCPPI has not received written notice of commencement of suit from MIPA with respect to TCPPI's default.

Majuro Water and Sewer Company, Inc. (MWSC) has a working capital deficiency and cumulative deficit of \$381,769 and \$434,031, respectively, at September 30, 2002. For the year ended September 30, 2002, MWSC received an operating subsidy of \$1,464,493 from RepMar, which included the forgiveness of loan principal under a Subsidiary Loan Agreement payable to RepMar in the amount of \$714,493 (see note 6). Interest payable associated with this loan in the amount of \$251,263 was forgiven and has been recorded by MWSC as a gain on forgiveness of debt for the year ended September 30, 2002. In addition, RepMar and MWSC entered into a Water and Sewer System Franchise Agreement that forgave another Subsidiary Loan Agreement payable to RepMar in the amount of \$7,826,263, which included associated interest payable in the amount of \$2,024,361 (see note 6). In return, the Franchise Agreement required the water system infrastructure in the amount of \$8,375,638 to be transferred from MWSC to RepMar. MWSC has recorded the forgiveness of debt, net of the transfer of the water system infrastructure, as a gain on forgiveness of debt for the year ended September 30, 2002. Management of MWSC believes that the continuation of MWSC's operations is dependent upon the future financial support of RepMar, compensation by RepMar for the cost of actual utility service provided, the collection of long outstanding utility receivables, and/or significant improvements in operations.

REPUBLIC OF THE MARSHALL ISLANDS

Notes to General Purpose Financial Statements
September 30, 2002

(8) Contingencies, Continued

Going Concern, Continued

Management of the Marshalls Energy Company, Inc. (MEC) acknowledges that it is currently dependent on RepMar and its affiliates to pay for actual services rendered in order to maintain MEC as a going concern. Should RepMar and its affiliates choose to discontinue payment for services rendered, MEC management may have to consider alternative measures including, among other possibilities, an increase in electricity and fuel rates to maintain MEC as a going concern.

Kwajalein Atoll Joint Utilities Resources, Inc. (KAJUR) has incurred net losses since inception. For the year ended September 30, 2002, KAJUR received an operating subsidy and capital contributions from RepMar of \$573,000 and \$1,251,763, respectively. KAJUR depends on the Kwajalein Atoll Development Authority (KADA) and RepMar for cash and noncash funding to continue its operations. On October 28, 1999, RepMar and KADA entered into a management agreement with a company for the operations of KAJUR (see note 9). The continuation of KAJUR's operations is dependent upon future financial support from KADA and RepMar and/or significant improvements in operations.

Majuro Resort, Inc. (MRI) has incurred net losses since inception and has a working capital deficiency and cumulative deficit of \$264,956 and \$3,344,714, respectively, at December 31, 2002. Although RepMar has provided funding in the past, MRI does not have a formal agreement with RepMar to provide funds in the future. Management of MRI believes that the continuation of MRI's operations and its ability to provide working capital is dependent upon the future financial support of RepMar and/or significant improvements in operations.

MISSA Supplemental Health Benefits Plan has a working capital deficiency and cumulative deficit of \$1,595,675 at September 30, 2002. On April 11, 2002, the Nitijela of RepMar passed Public Law No. 2002-57, which repealed the Social Security Health Fund Act of 1991, and transferred the administration of the Health Fund, including the MISSA Supplemental Health Benefits Plan, back to RepMar's Ministry of Health. Management of MISSA believes that all assets and liabilities will be transferred to the Ministry of Health during the year ended September 30, 2003.

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.

Marshall Islands Airports Authority (MIAA) does not maintain insurance coverage on its facilities (except for vehicles and buildings) or operations. Marshall Islands Ports Authority (MIPA) does not maintain insurance coverage on its dock facilities or operations. Majuro Water and Sewer Company, Inc. (MWSC), the Kwajalein Atoll Joint Utilities Resources, Inc. (KAJUR), and the Marshall Islands Marine Resources Authority (MIMRA) do not maintain insurance coverage on their property and equipment or operations. In the event of a loss, MIAA, KAJUR, MWSC, MIPA and MIMRA may be self-insured to a material extent.

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 2002, RepMar appropriated \$800,427 to fund such leases.

REPUBLIC OF THE MARSHALL ISLANDS

Notes to General Purpose Financial Statements
September 30, 2002

(8) Contingencies, Continued

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, 2002 is \$6,033,943.

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 such for the face value. On October 28, 1998, the Cabinet of RepMar directed the Minister of Finance to terminate the contract.

Ebje Ruktok/Rukjenlein Fishing Company, Inc.

Ebje Ruktok/Rukjenlein Fishing Company, Inc. (ERRFC), a former Component Unit - Proprietary Fund of the Kwajalein Atoll Development Authority (KADA), was incorporated under the laws of the Republic of the Marshall Islands on August 21, 1991. ERRFC was not incorporated into the 1998 through 2002 financial statements of KADA or the general purpose financial statements of RepMar. On March 12, 1992, ERRFC obtained a loan from RepMar (see notes 3 and 6). The loan is a subsidiary loan of a loan agreement (Loan Number 1102 MAR (SF)) between RepMar and the Asian Development Bank. As of September 30, 1997, ERRFC had drawn \$2,588,787 against this loan and incurred \$552,713 in accrued interest payable. Management of KADA believes that ERRFC has been dissolved and that the loan payable to RepMar has been liquidated through the transfer of assets to RepMar. RepMar has not concurred with this arrangement and is currently researching the matter. The ultimate collectibility of this loan receivable is uncertain. Accordingly, this loan has been fully provided for within the accompanying general purpose financial statements in the allowance for uncollectibles.

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) is to receive \$45,750,000 from the NCTF to be made available for whole or partial payment of monetary awards. During the year ended September 30, 2002, NCT received \$21,285,206 from the NCTF, which included \$20,785,206 to fund partial payment of monetary awards. As of September 30, 2002, NCT has committed to the distribution of monetary awards for personal injury claims of \$17,325,085 and of property damage claims of \$946,639,000, which will be paid out against the reserved fund balance and future sums that NCT expects to receive from the NCTF (see note 12). The reserved fund balance of the NCTF is \$17,662,290 as of September 30, 2002. 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.

REPUBLIC OF THE MARSHALL ISLANDS

Notes to General Purpose Financial Statements
September 30, 2002

(8) Contingencies, Continued

Marshall Islands Social Security Administration (MISSA)

Liabilities to health care providers and drug vendors as of September 30, 2002 are in dispute. Disputed amounts in excess of liabilities recorded by MISSA as of September 30, 2002 amount to \$2,213,503. Of the disputed amounts, five medical referrals' charges exceeded MISSA's contractual limit of \$100,000 per patient by \$931,612. In addition, \$337,852 of the disputed amounts related to Section 177 Health program patients. The ultimate outcome of these disputed liabilities can not be presently determined and, accordingly, no adjustment that may result from the resolution of this matter has been made in the accompanying general purpose financial statements.

In October 2001, MISSA obtained an actuarial valuation of its Retirement Fund as of September 30, 2001. The valuation reported actuarial liabilities for its Retirement Fund of \$217,959,000. As of September 30, 2002, MISSA recorded total fund equity of \$33,995,422 in its Retirement Fund as funds available to fund future benefit obligations. This condition indicates that MISSA may be unable to meet its future benefit obligations. MISSA has not developed a formal plan as of September 30, 2002, to correct this potential funding deficiency.

In January 1998, MISSA obtained an actuarial valuation of its Basic Health Benefits Plan as of September 30, 1997. The valuation reported actuarial accrued liabilities for its Basic Health Benefits Plan of \$103,500,000. As of September 30, 2002, MISSA recorded total fund equity of \$562,055 in its Basic Health Benefits Plan. This condition indicates that the Basic Health Benefits Plan may be unable to meet its future benefit obligations. MISSA has not developed a formal plan as of September 30, 2002. On April 11, 2002, the Nitijela of RepMar passed Public Law No. 2002-57, which repealed the Social Security Health Fund Act of 1991, and transferred the administration of the Health Fund, including the Basic Health Benefits Plan, back to RepMar's Ministry of Health. Management of the Plan believes that all assets and liabilities will be transferred to the Ministry of Health during the year ended September 30, 2003.

MISSA is currently utilizing an apartment complex in Hawaii belonging to RepMar for off-island medical referral patients. No rental charges have been recorded by MISSA for fiscal years 1998 through 2002, as a rental agreement has not been executed with RepMar.

Majuro Water and Sewer Company, Inc. (MWSC)

An exclusive franchise to construct, maintain and operate the fresh water, waste water and sewer system within Majuro Atoll was granted to MWSC by RepMar on March 9, 1989. Simultaneously, RepMar leased to MWSC, at no cost, the Majuro Atoll fresh water, waste water, and sewer system. The term of both the lease and the franchise is for a ten year period commencing on March 9, 1989, and continuing thereafter unless terminated by either party six months after written notice to the other. No notice to terminate has been executed as of September 30, 2002 (see note 12).

REPUBLIC OF THE MARSHALL ISLANDS

Notes to General Purpose Financial Statements
September 30, 2002

(8) Contingencies, Continued

Tobolar Copra Processing Plant, Inc. (TCPPI)

Public Law No. 1992-2 was enacted on February 17, 1992. This law established the Tobolar Copra Processing Authority (the Authority). The objectives of the Authority include assuming responsibility for the management, operation and maintenance of all aspects of copra processing for RepMar. The Authority is specifically authorized and directed by Public Law No. 1992-2 to enter into appropriate arrangements with TCPPI for the assumption of all rights and title to any and all assets, equipment, contracts, liabilities, rights, obligations, functions, powers, etc., that TCPPI may have or control, including all rights to the use of the name "Tobolar". This assumption will occur once TCPPI has been liquidated. Although no steps have been taken at this date to liquidate TCPPI, it is anticipated that such action will be taken.

The real property on which the copra processing plant and related facilities are located is leased by MIDA from RepMar. No provision has yet been made for the sublease to TCPPI of the real property on which the processing plant is located. No rental payments for the use of the real property or warehouses are anticipated.

(9) Commitments

Marshall Islands Nuclear Claims Tribunal (NCT)

NCT has entered into office lease agreements with third parties, which expire on September 30, 2003. Rental payments under these lease agreements for the year ended September 30, 2002, amounted to \$55,830. Future minimum lease payments under these noncancellable operating leases as of September 30, 2002 amount to \$55,830.

Marshall Islands Airports Authority (MIAA)

MIAA is the lessor of office, restaurant, bar and warehouse space at the Amata Kabua International Airport. Seven leases have greater than one year terms expiring on October 24, 2002 through December 31, 2024. The remaining leases have one year terms.

Total future minimum rentals under these leases for subsequent years ending September 30, are as follows:

Year ending September 30,	
2003	\$ 32,430
2004	13,462
2005	7,862
2006	7,862
2007	7,862
Subsequent years	<u>127,764</u>
Total future minimum rentals	\$ <u>197,242</u>

REPUBLIC OF THE MARSHALL ISLANDS

Notes to General Purpose Financial Statements
September 30, 2002

(9) Commitments, Continued

Marshalls Energy Company, Inc. (MEC)

MEC purchases petroleum products from Mobil Oil Micronesia, Inc. on a consignment basis whereby Mobil Oil Micronesia, Inc. continues to hold ownership and title to the product while it is held in storage at the MEC terminal storage tanks. Title and risk on the product remains with Mobil until the product passes the boundary of the MEC terminal. The value of consignment petroleum products as of September 30, 2002, is approximately \$2,283,316. MEC assumes responsibility for the proper and safe storage/handling of the product while under MEC storage. However, MEC carries insurance coverage on such consignment inventories.

RepMar leases to MEC a 12 megawatt power plant, a six million gallon capacity fuel storage facility, electrical transmission systems and related facilities on Majuro Atoll. However, no cost is assigned to this lease. The lease term is for a period of fifty years commencing on December 1, 1996. In addition, RepMar leases to MEC the right to operate and manage the power generating and distribution system on Jaluit Atoll. No cost has been assigned to this lease. The lease term is for a period of fifty years commencing on December 1, 1996.

Marshall Islands National Telecommunications Authority (MINTA)

Pursuant to Public Law No. 1990-105, \$10 of the proceeds of each share of common stock sold to private investors will be disbursed to RepMar. The intent of this legislation is for the \$10 per share payment to constitute a return of capital originally contributed by RepMar. Therefore, MINTA is committed to pay \$10 for each share sold to private investors to RepMar with the exception of treasury shares owned. As of September 30, 2002, the outstanding amount owed to RepMar for stock sold was \$1,110.

As of September 30, 2002, the following long-term commitments with third parties exist with respect to ground leases and satellite circuit leases:

<u>Year ending</u> <u>September 30,</u>	
2003	\$ 582,780
2004	506,980
2005	366,495
2006	231,114
2007	231,114
Thereafter	<u>1,798,301</u>
	\$ <u>3,716,784</u>

Lease expense amounted to \$600,276 for the year ended September 30, 2002.

REPUBLIC OF THE MARSHALL ISLANDS

Notes to General Purpose Financial Statements
September 30, 2002

(9) Commitments, Continued

Tobolar Copra Processing Plant, Inc. (TCPPI)

A five-year management agreement was renewed effective January 1, 1995 with a management company, wherein the company is to manage the operations of TCPPI for an annual fee of \$50,000, adjusted each year by the change in the United States consumer price index as of December 31. This agreement expired on December 31, 1999 and has not been renewed. The Company continues to manage TCPPI at the discretion of the Board of TCPPI on a monthly basis, while a new agreement is considered by the Board of TCPPI.

Kwajalein Atoll Joint Utilities Resources, Inc. (KAJUR)

On October 28, 1999, RepMar and the Kwajalein Atoll Development Authority (KADA) entered into an interim arrangement with a management company for the operations of KAJUR, effective November 2, 1999 (the original commencement date). On June 1, 2000, RepMar and KADA formalized an agreement with the management company for a term of two years from the original commencement date. Under the terms of the agreement, the company is to manage the operations of KAJUR for a monthly fee of \$41,250. In turn, RepMar agreed to provide cash, totaling \$400,000, as working capital infusion in fiscal year 2002. On November 9, 2001, the Cabinet of RepMar approved the extension of the agreement with the management company to manage the operations of KAJUR for an additional two years.

Majuro Resort, Inc. (MRI)

MRI leases the land on which the hotel is situated at the rate of \$10,212 per year plus 2.5% of gross revenue earned. These payments are suspended until such time as 75% of the ownership of the lessee, or its successor in the interest in the hotel, is held by any person or entity other than RepMar or any agency thereof. The lease agreement also requires that 5% of the initial outstanding shares of the lessee or its successor be issued to the lessor. No shares have been issued to the lessor by either of MRI or RepMar at September 30, 2002.

MRI has entered into a management agreement with a company for an initial term of five years, commencing June 1, 1996. On April 11, 2001, the Board of Directors of MRI passed a resolution to extend the management agreement from January 1, 2001 through December 31, 2006. Pursuant to this agreement, RepMar is to provide the operator of the hotel with cash reasonably required to finance and support the uninterrupted and efficient operation of the hotel and the performance of the company under this agreement. The agreement states that at no time shall the amount of working capital available to the company be less than \$100,000. MRI depends on RepMar for the provision of working capital.

Marshall Islands Ports Authority (MIPA)

On January 23, 2001, MIPA entered into a ten-year lease agreement with a stevedoring company for the container yard located at the Port of Majuro, with an option to extend for an additional ten years subject to renegotiation of the payment provisions. The terms of the lease requires a minimum lease payment of \$19,860 per annum plus a gross receipts fee equal to 1.5% of total operating revenues. Lease rental income under this lease agreement for the year ended September 30, 2002, amounted to \$19,860.

REPUBLIC OF THE MARSHALL ISLANDS

Notes to General Purpose Financial Statements
September 30, 2002

(9) Commitments, Continued

Marshall Islands Ports Authority (MIPA), Continued

On January 1, 2002, MIPA entered into a five-year lease agreement with an exporting company for a warehouse located at the Uliga Dock in Majuro, with an option to extend for an additional five years. The terms of the lease requires a lease payment of \$9,000 per annum. Lease rental income under this lease agreement for the year ended September 30, 2002, amounted to \$6,750.

Total future minimum rentals under these lease agreements for subsequent years ending September 30, are as follows:

<u>Year ending</u> <u>September 30,</u>	
2003	\$ 28,860
2004	28,860
2005	28,860
2006	28,860
2007	22,110
Subsequent years	<u>102,795</u>
Total future minimum rentals	\$ <u>240,345</u>

On August 6, 2002, MIPA entered into an agreement with a contractor in the amount of \$236,966 for the construction of a new office building in Delap, Majuro Atoll. The Notice to Proceed for this construction contract was issued on November 26, 2002.

Marshall Islands Marine Resources Authority (MIMRA)

As of September 30, 2002, the following long-term commitment existed with respect to certain ground leases. These ground leases have original terms ranging from five to fifteen years, expiring in 2003 through 2008.

Total future minimum lease payments for subsequent years ending September 30, are as follows:

<u>Year ending</u> <u>September 30,</u>	
2003	\$ 20,478
2004	18,922
2005	18,637
2006	16,921
2007	13,922
Thereafter	<u>17,263</u>
	\$ <u>106,143</u>

Lease expense amounted to \$18,580 for the year ended September 30, 2002.

REPUBLIC OF THE MARSHALL ISLANDS

Notes to General Purpose Financial Statements
September 30, 2002

(9) Commitments, Continued

College of the Marshall Islands

On July 31, 2000, the College of the Marshall Islands executed two lease agreements for parcels of land and attached buildings and improvements located on Arrak Island. The leases commenced on July 1, 2000 for periods of thirty years each, ending on June 30, 2030, with options to renew for additional terms of thirty years. The terms of the leases call for rent to be paid in equal quarterly installments, with increases totaling \$800 in the quarterly installments, every five years.

Future minimum lease payments under these leases are as follows

<u>Year ending</u> <u>September 30,</u>	
2003	\$ 64,000
2004	64,000
2005	64,000
2006	67,200
2007	67,200
Subsequent years	<u>1,689,600</u>
	<u>\$ 2,016,000</u>

Other Commitments

RepMar has made the following commitments as of September 30, 2002:

- a) Guaranteed a bank debt of Tobolar Copra Processing Plant, Inc. (TCPPI) with a letter of guarantee. At September 30, 2002, TCPPI recorded guaranteed bank debt totaling \$922,478.
- b) Guaranteed a debt of Marshall Islands National Telecommunications Authority (MINTA) in respect to a loan from the United States Rural Utilities Service (RUS, formerly Rural Electrification Administration) with a letter of guarantee. At September 30, 2002, MINTA recorded guaranteed debt totaling \$17,603,312.
- c) Guaranteed a debt of Marshalls Energy Company, Inc. (MEC) in respect to a loan from the United States Rural Utilities Service (RUS) with a letter of guarantee. At September 30, 2002, MEC recorded guaranteed debt totaling \$10,665,534.
- d) Guaranteed debt of a third party for the construction of the Majuro Tuna Processing Facility with a time certificate of deposit totaling \$1,500,000.
- e) On November 22, 1991, RepMar entered into a lease agreement 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 will be \$305,613 per year.

REPUBLIC OF THE MARSHALL ISLANDS

Notes to General Purpose Financial Statements
September 30, 2002

(9) Commitments, Continued

Other Commitments, Continued

- f) On February 24, 1992, RepMar issued a letter of guarantee in the amount of \$178,000 plus interest for the benefit of the Delap Assembly of God Church for a loan issued by Marshall Islands Development Bank.
- g) On February 24, 1995, RepMar entered into a loan agreement (Loan Number 1316 RMI (SF)) with the Asian Development Bank (ADB) for SDR 3,911,000 (approximates \$5,299,388 at September 30, 2002) for the purpose of improving the quality of health and family planning services, and strengthening RepMar's primary health care model of services. At September 30, 2002, RepMar had drawn down \$5,228,272 against this loan.
- h) On October 8, 1999, RepMar entered into a loan agreement (Loan Number 1694 RMI (SF)) with the ADB for SDR 6,924,000 (approximates \$8,931,296 at September 30, 2002) for the Ebeye Health and Infrastructure Project. At September 30, 2002, RepMar had drawn down \$8,629,937 against this loan.
- i) On January 11, 2001, RepMar entered into a loan agreement (Loan Number 1791 RMI (SF)) with the ADB for SDR 5,276,000 (approximates \$6,780,457 at September 30, 2002) for the Skills Training and Vocational Education Project. At September 30, 2002, RepMar had drawn down \$652,254 against this loan.
- j) On June 22, 2001, RepMar entered into a loan agreement (Loan Number 1828 RMI) with the ADB for \$4,000,000 for the Fiscal and Financial Management Program. At September 30, 2002, RepMar had drawn down \$3,540,000 against this loan.
- k) On June 22, 2001, RepMar entered into a loan agreement (Loan Number 1829 RMI (SF)) with the ADB for SDR 6,320,000 (approximates \$8,177,033 at September 30, 2002) for the Fiscal and Financial Management Program. At September 30, 2002, RepMar had drawn down \$6,163,300 against this loan.

(10) Restatement/Reclassification of Fund Equity

Expendable Trust Funds

Fund balance - October 1, 2001, as previously reported	\$ 80,264,505
Inclusion of the financial statements of the Marshall Islands Scholarship Grant and Loan Board for the year ended September 30, 2002	(276,007)
Inclusion of the financial statements of the Four-Atoll Medical Fund for the year ended September 30, 2002	<u>993,387</u>
Fund balance - October 1, 2001, as restated	\$ <u>80,981,885</u>

REPUBLIC OF THE MARSHALL ISLANDS

Notes to General Purpose Financial Statements
September 30, 2002

(10) Restatement/Reclassification of Fund Equity, Continued

Component Units - Governmental Funds

Fund balance - October 1, 2001, as previously reported	\$ 162,344
Inclusion of the financial statements of the Environmental Protection Authority for the year ended September 30, 2002	<u>87,626</u>
Fund balance - October 1, 2001, as restated	\$ <u>249,970</u>

Component Units - Proprietary Funds

Retained earnings - October 1, 2001, as previously reported	\$ 15,218,087
Exclusion of the financial statements of Air Marshall Islands, Inc. for the year ended September 30, 2002	<u>8,297,953</u>
Retained earnings - October 1, 2001, as restated	\$ <u>23,516,040</u>

(11) Individual Deficit Fund Balances or Deficit Retained Earnings

Specific individual funds which had individual deficit fund balances or retained earnings as at September 30, 2002, are as follows:

General Fund	\$ <u>1,569,483</u>
<u>Special Revenue Funds</u>	
TTPI Federal and Other Assistance Fund	\$ <u>2,272</u>
Other Direct Assistance Fund	\$ <u>1,015</u>
Republic of China Projects Fund	\$ <u>1,740,855</u>
Section 216(a)(2) Health and Medical	\$ <u>35,593</u>
<u>Capital Projects Fund</u>	
Section 216(a)(1) Surveillance and Enforcement	\$ <u>71,485</u>
<u>Expendable Trust Funds</u>	
Marshall Islands Scholarship Grant and Loan Board	\$ <u>138,009</u>

REPUBLIC OF THE MARSHALL ISLANDS

Notes to General Purpose Financial Statements
September 30, 2002

(11) Individual Deficit Fund Balances or Deficit Retained Earnings, Continued

Nonexpendable Trust Funds

Off-Shore Banking Trust Fund \$ 32,874

Eminent Domain Trust Fund \$ 124,923

Higher Education Fund

College of the Marshall Islands \$ 729,037

Component Units - Proprietary Funds (Deficit Retained Earnings)

Tobolar Copra Processing Plant, Inc. \$ 726,173

Majuro Water and Sewer Company, Inc. \$ 434,031

Majuro Resort, Inc. \$ 3,344,714

MISSA Supplemental Health Benefits Plan \$ 1,595,675

Deficits of the Component Units - Proprietary Funds are offset within fund equity by contributed capital with the exception of Majuro Water & Sewer Company, Inc. and the MISSA Supplemental Health Benefits Plan.

(12) Subsequent Events

On October 17, 2002, the Nuclear Claims Tribunal (NCT) received funds in the amount of \$4,943,445 from the Nuclear Claims Trust Fund for payments against unpaid monetary awards for personal injury claims. Furthermore, on October 22, 2002, NCT received additional funds in the amount of \$4,318,570 for payments against unpaid monetary awards for property damage claims.

On October 25, 2002, the Cabinet of RepMar approved the dissolution of the Marshall Islands Alternative Energy Company, Inc. and authorized the Minister of Resources and Development to enter into a Memorandum of Understanding with the Marshalls Energy Company, Inc. to provide alternative energy services to residents of the Republic.

On October 31, 2002, the Cabinet of RepMar authorized and approved the disbursement of \$2,000,000, on a reimbursable basis, to Air Marshall Islands, Inc. to finance an aircraft lease agreement and the purchase of spare parts.

On January 20, 2003, the Cabinet of RepMar forgave a loan payable by Tobolar Copra Processing Plant, Inc. (TCPPI) to RepMar in the amount of \$500,000. RepMar and TCPPI have elected to record the forgiveness of this loan during the year ended September 30, 2002.

REPUBLIC OF THE MARSHALL ISLANDS

Notes to General Purpose Financial Statements
September 30, 2002

(12) Subsequent Events, Continued

On February 14, 2003, RepMar entered into a loan agreement (Loan Number 1948 (SF)) with the Asian Development Bank in the amount of SDR 5,304,000 for the Outer Island Transport Infrastructure Project. The proceeds are to be used to provide or improve outer island port infrastructure, navigation aids, storage warehouses, and airstrip extensions and maintenance. 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.

On February 19, 2003, RepMar and Majuro Water and Sewer Company, Inc. (MWSC) entered into a Water and Sewer Franchise Agreement (the Agreement) to provide water and sewer service to Majuro Atoll. The Agreement incorporates a lease agreement for MWSC to lease from RepMar the water and sewer system for a period of ten years at the rate of \$100,000 per annum, commencing February 19, 2006, being three years after the effective date of the lease. In addition, the Agreement forgave loans payable to RepMar relating to two Subsidiary Loan Agreements for the construction of the water and sewer system and transferred the water system infrastructure to RepMar. RepMar and MWSC have elected to record the forgiveness of these loans and the related transfer of the water and sewer system from MWSC to RepMar during the year ended September 30, 2002.

On March 2, 2003, the Cabinet of RepMar approved a loan guarantee for a loan by a third party in the amount of \$500,000 from the Marshall Islands Development Bank.

On April 29, 2003, the Cabinet of RepMar approved amendments to the Compact of Free Association and related subsidiary agreements between the Government of RepMar and the Government of the United States of America.

On May 2, 2003, the Cabinet of RepMar approved a loan guarantee for a loan by the College of the Marshall Islands in the amount of \$3,000,000 from a commercial lending institution.

(13) Risk Management

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. The liability for claims and judgments is reported in the General Long-Term Debt Account Group because it is not expected to be liquidated with expendable available financial resources. Changes in the balance of claims liabilities during the past year are as follows:

	<u>Year Ended</u> <u>September 30</u>
Unpaid claims at beginning of year	\$ 529,000
Incurred claims	-
Claim payments	<u>(529,000)</u>
Unpaid claims at end of year	\$ <u> -</u>

REPUBLIC OF THE MARSHALL ISLANDS

Notes to General Purpose Financial Statements
September 30, 2002

(13) Risk Management, Continued

Component Units - Proprietary Funds are exposed to the same risks of loss as RepMar. Certain component units have elected to purchase commercial insurance from independent third parties for the risks of loss to which they are exposed. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years. Certain other component units believe it is more economical to manage their risks internally. No material losses have resulted from this risk management activity.

REPUBLIC OF THE MARSHALL ISLANDS

Combining Schedule of Expenditures by Account
 All Governmental Fund Types, Expendable Trust Funds
 and Discretely Presented Component Units
 Year Ended September 30, 2002
 (With comparative totals for the year ended September 30, 2001)

	Governmental Fund Types				Fiduciary	Total	Components	Totals	
	General	Special Revenue	Debt Service	Capital Projects	Fund Type			Primary Government	Governmental
					Expendable Trust				
Salaries and wages	\$ 15,397,423	\$ 6,064,361	\$ -	\$ 280,783	\$ -	\$ 21,742,567	\$ 143,489	\$ 21,886,056	\$ 19,220,198
Nuclear claims payments	-	-	-	-	19,433,832	19,433,832	-	19,433,832	3,924,152
Land use distributions	-	-	-	-	13,463,637	13,463,637	-	13,463,637	8,529,293
Loan write-downs	-	-	-	10,415,050	-	10,415,050	-	10,415,050	-
Social security benefit payments	-	-	-	-	8,564,016	8,564,016	-	8,564,016	8,229,021
Contractual services	1,756,873	2,985,485	-	468,726	-	5,211,084	6,500	5,217,584	8,402,443
Health care payments	-	-	-	-	5,203,237	5,203,237	-	5,203,237	3,931,702
Grants and subsidies	2,436,968	2,270,349	-	-	-	4,707,317	-	4,707,317	5,416,208
Local government distributions	-	-	-	-	3,208,529	3,208,529	-	3,208,529	12,426,599
Capital outlay	765,576	1,739,742	-	669,248	-	3,174,566	1,404	3,175,970	4,985,774
Professional services	417,707	121,127	-	-	1,849,873	2,388,707	-	2,388,707	3,314,524
Travel	1,134,136	987,691	-	-	-	2,121,827	58,769	2,180,596	1,821,052
Supplies and materials	635,771	1,444,646	-	14,960	-	2,095,377	49,896	2,145,273	1,358,356
Administrative	-	-	-	-	2,100,074	2,100,074	-	2,100,074	2,149,029
Medical supplies	65,978	1,646,336	-	-	-	1,712,314	-	1,712,314	1,624,487
Utilities	1,691,589	16,507	-	-	-	1,708,096	-	1,708,096	1,563,269
Bad debts	635,617	-	-	-	864,851	1,500,468	-	1,500,468	-
Rentals	994,460	160,612	-	-	-	1,155,072	20,290	1,175,362	1,167,092
Principal retirement	1,050,564	-	-	-	-	1,050,564	-	1,050,564	24,049,521
Leased housing	812,816	71,700	-	-	-	884,516	-	884,516	783,652
POL	295,052	457,100	-	2,387	-	754,539	-	754,539	488,698
Allowances	752,477	-	-	-	-	752,477	-	752,477	775,451
Communications	449,595	168,410	-	2,742	-	620,747	18,878	639,625	570,983
Food stuffs	414,323	200,122	-	13,369	-	627,814	-	627,814	369,287
Interest	492,159	-	-	74,575	-	566,734	-	566,734	1,505,372
Freight	39,874	206,038	-	1,857	-	247,769	-	247,769	86,113
Printing and reproduction	71,673	99,006	-	-	-	170,679	9,732	180,411	169,328
Insurance	83,872	4,090	-	-	-	87,962	-	87,962	152,085
Construction	-	50,854	-	-	-	50,854	-	50,854	2,100,509
Other	3,020,772	6,399,434	8	5,921,132	-	15,341,346	64,381	15,405,727	8,682,703
	<u>\$ 33,415,275</u>	<u>\$ 25,093,610</u>	<u>\$ 8</u>	<u>\$ 17,864,829</u>	<u>\$ 54,688,049</u>	<u>\$ 131,061,771</u>	<u>\$ 373,339</u>	<u>\$ 131,435,110</u>	<u>\$ 127,796,901</u>

See Accompanyng Independent Auditors' Report.

REPUBLIC OF THE MARSHALL ISLANDS
GENERAL FUND

September 30, 2002

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
GENERAL FUND

Statement of Revenues, Expenditures by Function
and Changes in Fund Balance (Deficit)
Year Ended September 30, 2002
(With comparative totals for the year ended September 30, 2001)

	2002	2001
Revenues:		
Compact funding	\$ 6,714,000	\$ 1,430,100
Taxes:		
Income	9,584,810	9,642,269
Import	6,004,032	3,971,554
Gross revenue	3,539,518	3,813,172
Fuel	318,526	479,153
Penalties and interest	105,209	78,922
Other	542,394	366,761
	20,094,489	18,351,831
Other local	20,920	84,156
Fees and charges	454,752	482,590
Fishing rights	3,312,665	1,848,612
Interest and dividends	397,344	414,796
Other:		
Taiwan grant	3,000,000	5,000,000
Ship registry	1,094,474	976,606
Other	273,523	688,439
	4,367,997	6,665,045
Total revenues	35,362,167	29,277,130
Expenditures - by function:		
President and cabinet:		
President and ministers	571,433	572,572
Cabinet operations	610,177	347,322
Print shop	9,572	32,679
National Gazette	26,300	-
Office of the President	132,509	107,128
Customary Law Commission	91,972	-
	1,441,963	1,059,701
Council of Iroij:		
Administration	66,903	59,676
Members	308,704	293,105
	375,607	352,781
Special appropriations:		
RepMar utility billings - Majuro	1,494,726	1,094,831
National Economic Summit	59,174	228,838
May Day celebration	4,975	-
Micronesia Legal Services Commission	49,750	30,000
Asian Development Bank counterpart funding	1,579,659	984,108
Land leases	800,427	847,494
RepMar water billings - Majuro	-	146,812
United States Army Kwajalein Atoll	-	283,838
Contingencies fund	94,151	108,911
International subsidies	395,173	271,693
Disaster assistance	37,268	126,221
Marshall Islands Development Bank debt service payments	994,786	970,000
Prior year liabilities	79,236	109,662

See Accompanying Independent Auditors' Report.

REPUBLIC OF THE MARSHALL ISLANDS
GENERAL FUND

Statement of Revenues, Expenditures by Function
and Changes in Fund Balance (Deficit), Continued
Year Ended September 30, 2002
(With comparative totals for the year ended September 30, 2000)

	2002	2001
Expenditures - by function, continued:		
Special appropriations, continued:		
Kwajalein Atoll Local Government	300,490	300,000
RepMar utility billings - Ebeye	95,606	251,928
Banking commissioner	-	28,609
Claims and judgments	-	1,028,276
	5,985,421	6,811,221
Ministries and offices:		
Chief Secretary's office	321,702	290,376
Office of the Auditor-General	290,247	218,186
Office of the Attorney General	535,510	356,355
Ministry of Health	3,741,447	3,075,355
Ministry of Education	5,151,886	4,819,661
Ministry of Transportation and Communication	1,171,215	909,675
Ministry of Resources and Development	556,334	738,573
Ministry of Interior and Social Welfare	1,514,775	1,281,661
Ministry of Justice	1,753,667	1,719,003
Ministry of Finance	1,780,528	1,171,598
Ministry of Foreign Affairs and Trade	2,487,788	2,002,354
Ministry of Public Works	1,291,810	1,015,856
	20,596,909	17,598,653
Nitijela:		
Operations	327,322	273,010
General membership	945,567	936,316
Speaker's contingency	56,693	64,670
Committee expenditures	21,921	9,057
Legislative counsel	31,568	-
	1,383,071	1,283,053
Commissions and authorities:		
Public service commission	783,961	795,636
Marshall Islands Development Authority	19	54,847
	783,980	850,483
Other:		
Asian Development Bank loan service charges	-	138,878
Judiciary	-	87,121
Other	2,848,324	191,207
	2,848,324	417,206
Total expenditures	33,415,275	28,373,098
Excess of revenues over expenditures	1,946,892	904,032
Other financing sources (uses):		
Loan proceeds	5,400,000	4,303,300
Operating transfers in	1,187,947	1,081,089
Operating transfers out	(11,317,206)	(8,549,089)
Total other financing sources (uses), net	(4,729,259)	(3,164,700)
Deficiency of revenues and other financing sources under expenditures and other financing uses	(2,782,367)	(2,260,668)
Fund balance at beginning of year	1,212,884	3,473,552
Fund balance (deficit) at end of year	\$ (1,569,483)	\$ 1,212,884

See Accompanying Independent Auditors' Report.

REPUBLIC OF THE MARSHALL ISLANDS
GENERAL FUND

Statement of Revenues, Expenditures and Changes
in Deficit - Budget and Actual
Year Ended September 30, 2002
(With comparative totals for the year ended September 30, 2001)

	2002			2001		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
Revenues:						
Compact funding	\$ 6,360,000	\$ 6,714,000	\$ 354,000	\$ 1,144,100	\$ 1,430,100	\$ 286,000
Taxes:						
Income	8,815,000	9,584,810	769,810	8,536,612	9,642,269	1,105,657
Import	5,000,000	6,004,032	1,004,032	4,072,114	3,971,554	(100,560)
Gross revenue	4,255,000	3,539,518	(715,482)	3,249,700	3,813,172	563,472
Fuel	550,000	318,526	(231,474)	253,450	479,153	225,703
Penalties and interest	50,000	105,209	55,209	50,000	78,922	28,922
Other	318,400	542,394	223,994	430,298	366,761	(63,537)
	18,988,400	20,094,489	1,106,089	16,592,174	18,351,831	1,759,657
Other local	-	20,920	20,920	50,000	84,156	34,156
Fees and charges	100,700	454,752	354,052	343,000	482,590	139,590
Fishing rights	3,650,000	3,312,665	(337,335)	4,250,000	1,848,612	(2,401,388)
Interest and dividends	270,000	397,344	127,344	280,000	414,796	134,796
Other:						
Taiwan grant	3,000,000	3,000,000	-	5,000,000	5,000,000	-
Ship registry	1,400,000	1,094,474	(305,526)	1,250,000	976,606	(273,394)
Other	10,900	273,523	262,623	107,147	688,439	581,292
	4,410,900	4,367,997	(42,903)	6,357,147	6,665,045	307,898
Total revenues	33,780,000	35,362,167	1,582,167	29,016,421	29,277,130	260,709
Expenditures - budgetary basis by function:						
President and cabinet:						
President and ministers	574,766	571,433	3,333	574,150	572,291	1,859
Cabinet operations	630,842	636,076	(5,234)	380,058	303,759	76,299
Print shop	13,105	9,572	3,533	-	32,679	(32,679)
National Gazette	36,645	26,300	10,345	-	-	-
Office of the President	141,173	141,464	(291)	113,646	93,030	20,616
Customary Law Commission	129,705	91,972	37,733	-	-	-
	1,526,236	1,476,817	49,419	1,067,854	1,001,759	66,095
Council of Iroij:						
Administration	65,866	67,243	(1,377)	60,464	58,602	1,862
Members	317,616	309,749	7,867	296,127	289,702	6,425
	383,482	376,992	6,490	356,591	348,304	8,287
Special appropriations:						
RepMar utility billings-Majuro	1,495,144	1,429,521	65,623	1,200,000	1,150,659	49,341
National Economic Summit	88,369	58,754	29,615	298,500	229,635	68,865
May Day celebration	4,975	4,975	-	-	-	-
Micronesian Legal Services Commission	49,750	49,750	-	29,850	30,000	(150)
Asian Development Bank counterpart funding	1,063,121	1,579,659	(516,538)	620,000	984,108	(364,108)
Land leases	800,427	800,427	-	881,619	847,494	34,125
RepMar water billings-Majuro	-	-	-	-	146,812	(146,812)
United States Army Kwajalein Atoll	-	-	-	100,000	283,838	(183,838)
Contingencies fund	100,051	94,151	5,900	108,385	108,017	368
International subsidies	425,888	425,888	-	330,000	271,693	58,307
Disaster assistance	146,770	37,268	109,502	200,000	125,254	74,746
Marshall Islands Development Bank debt service payments	1,000,000	994,786	5,214	-	970,000	(970,000)
Prior year liabilities	79,236	79,236	-	-	95,777	(95,777)
Kwajalein Atoll Local Government	300,490	300,490	-	300,000	63,938	236,062
RepMar utility billings-Ebeye	95,606	95,606	-	150,000	107,113	42,887
Banking Commissioner	-	-	-	30,262	28,040	2,222
Claims and judgments	-	-	-	-	1,028,276	(1,028,276)
	5,649,827	5,950,511	(300,684)	4,248,616	6,470,654	(2,222,038)
Ministries and offices:						
Chief Secretary's office	366,413	323,988	42,425	302,422	282,793	19,629
Office of the Auditor-General	285,755	292,167	(6,412)	309,356	212,199	97,157
Office of the Attorney General	691,846	568,048	123,798	383,444	214,698	168,746
Ministry of Health	4,288,873	3,957,207	331,666	3,106,482	2,705,768	400,714
Ministry of Education	5,186,700	5,158,145	28,555	4,707,940	4,769,192	(61,252)
Ministry of Transportation and Communication	1,152,515	1,179,179	(26,664)	873,886	800,436	73,450
Ministry of Resources and Development	596,134	576,182	19,952	758,451	668,661	89,790
Ministry of Interior and Social Welfare	1,668,306	1,532,443	135,863	1,354,801	1,164,867	189,934
Ministry of Justice	1,766,582	1,767,536	(954)	1,719,003	1,716,296	2,707
Ministry of Finance	2,257,116	1,787,081	470,035	1,124,347	1,128,780	(4,433)
Ministry of Foreign Affairs and Trade	2,705,452	2,515,159	190,293	1,977,448	1,808,698	168,750
Ministry of Public Works	1,339,363	1,302,772	36,591	907,663	947,612	(40,549)
	22,305,055	20,959,907	1,345,148	17,524,643	16,420,000	1,104,643

See Accompanying Independent Auditors' Report.

REPUBLIC OF THE MARSHALL ISLANDS
GENERAL FUND

Statement of Revenues, Expenditures and Changes
in Deficit - Budget and Actual, Continued
Year Ended September 30, 2002
(With comparative totals for the year ended September 30, 2001)

	2002			2001		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
Expenditures - budgetary basis by function, continued						
Nitijela:						
Operations	347,486	329,311	18,175	280,282	261,691	18,591
General membership	953,904	946,911	6,993	906,519	931,573	(25,054)
Speaker's contingency	70,799	66,318	4,481	86,200	57,028	29,172
Committee expenditures	30,629	26,417	4,212	10,053	-	10,053
Legislative counsel	32,105	31,568	537	-	-	-
	<u>1,434,923</u>	<u>1,400,525</u>	<u>34,398</u>	<u>1,283,054</u>	<u>1,250,292</u>	<u>32,762</u>
Commissions and authorities:						
Public service commission	822,524	791,455	31,069	819,040	697,292	121,748
Marshall Islands Development Authority	-	-	-	64,759	52,483	12,276
	<u>822,524</u>	<u>791,455</u>	<u>31,069</u>	<u>883,799</u>	<u>749,775</u>	<u>134,024</u>
Other:						
Asian Development Bank loan service charges	-	-	-	-	138,878	(138,878)
Judiciary	-	-	-	-	87,121	(87,121)
Other	-	2,848,324	(2,848,324)	-	47,644	(47,644)
	<u>-</u>	<u>2,848,324</u>	<u>(2,848,324)</u>	<u>-</u>	<u>273,643</u>	<u>(273,643)</u>
Total expenditures	<u>32,122,047</u>	<u>33,804,531</u>	<u>(1,682,484)</u>	<u>25,364,557</u>	<u>26,514,427</u>	<u>(1,149,870)</u>
Excess of revenues over expenditures	<u>1,657,953</u>	<u>1,557,636</u>	<u>(100,317)</u>	<u>3,651,864</u>	<u>2,762,703</u>	<u>(889,161)</u>
Other financing sources:						
Loan proceeds	5,400,000	5,400,000	-	-	4,303,300	4,303,300
Operating transfers in:						
Ministry of Transportation and Communications Fund	-	20,000	20,000	-	-	-
Debt Service Fund	-	847,947	847,947	-	-	-
Marshall Islands Marine Resources Authority	-	320,000	320,000	250,000	1,081,089	831,089
	<u>-</u>	<u>1,187,947</u>	<u>1,187,947</u>	<u>250,000</u>	<u>1,081,089</u>	<u>831,089</u>
Other financing uses:						
Operating transfers out:						
Other Direct Assistance Fund	-	-	-	-	750,373	(750,373)
Judiciary Fund	822,199	822,199	-	668,947	689,145	(20,198)
Postal Service Fund	-	-	-	-	87,399	(87,399)
Health Care Revenue Fund	-	-	-	119,631	119,631	-
Resident Workers Training Account	80,595	80,595	-	80,141	66,756	13,385
National Environmental Protection Authority	214,952	214,952	-	191,574	191,569	5
Section 216(a)(1) Surveillance and Enforcement	-	-	-	-	63,133	(63,133)
Local Government Fund	398,000	398,000	-	-	176,599	(176,599)
Marshall Islands Scholarship, Grant and Loan Board	274,122	274,122	-	100,000	100,000	-
Marshall Islands Social Security Administration	2,170,000	2,170,000	-	400,000	2,658,146	(2,258,146)
Intergenerational Trust Fund	3,990,000	3,500,000	490,000	-	-	-
Marshall Islands Visitors Authority	224,625	298,500	(73,875)	300,000	299,993	7
Tobolar Copra Processing Plant, Inc.	949,464	1,449,464	(500,000)	849,964	1,649,964	(800,000)
Majuro Water and Sewer Company, Inc.	149,250	750,000	(600,750)	99,500	99,500	-
Kwajalein Atoll Joint Utilities Resources, Inc.	398,000	398,000	-	550,000	550,000	-
Majuro Resort, Inc.	-	-	-	185,981	185,981	-
College of the Marshall Islands	759,389	759,389	-	460,900	860,900	(400,000)
Marshall Islands Development Bank	201,985	201,985	-	-	-	-
	<u>10,632,581</u>	<u>11,317,206</u>	<u>(684,625)</u>	<u>4,006,638</u>	<u>8,549,089</u>	<u>(4,542,451)</u>
Total other financing sources (uses), net	<u>(5,232,581)</u>	<u>(4,729,259)</u>	<u>503,322</u>	<u>(3,756,638)</u>	<u>(3,164,700)</u>	<u>591,938</u>
Deficiency of revenues and other financing sources under expenditures and other financing uses	<u>(3,574,628)</u>	<u>(3,171,623)</u>	<u>403,005</u>	<u>(104,774)</u>	<u>(401,997)</u>	<u>(297,223)</u>
Other changes in unreserved deficit:						
Decrease (increase) in reserve for related assets	-	1,355,336	1,355,336	-	(997,139)	(997,139)
Restatement	-	-	-	-	2,074,486	2,074,486
Unreserved deficit at beginning of year	<u>(5,282,704)</u>	<u>(5,282,704)</u>	<u>-</u>	<u>(5,958,054)</u>	<u>(5,958,054)</u>	<u>-</u>
Unreserved deficit at end of year	<u>\$ (8,857,332)</u>	<u>\$ (7,098,991)</u>	<u>\$ 1,758,341</u>	<u>\$ (6,062,828)</u>	<u>\$ (5,282,704)</u>	<u>\$ 780,124</u>

See Accompanying Independent Auditors' Report.

REPUBLIC OF THE MARSHALL ISLANDS
SPECIAL REVENUE FUNDS

September 30, 2002

Special revenue funds are used to account for specific revenues that are legally restricted for particular purposes. A brief discussion of RepMar's Special Revenue Funds as of September 30, 2002, follows:

TTPI Federal and Other Assistance Fund

This fund accounts for all financial transactions formally related to the Trust Territory of the Pacific Islands (TTPI) United States federally assisted funds which are subgranted to RepMar, as well as other direct federal grants which RepMar received from the United States government once RepMar's subgrantee status with the TTPI ceased.

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.

RMI Investment Development Fund

This fund accounts for all financial transactions related to the sale of Marshallese passports for investment related activities.

Judiciary Fund

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

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.

Health Care Revenue Fund

This fund was established under Public Law No. 1989-59, as amended, and accounts for the purchase of drugs, medical supplies and equipment and the provision and administration of other health services by the Ministry of Health.

Section 216(b) Maritime

This fund accounts for United States Congress appropriations under United States Public Law 99-239, Title 2, Article 1, Section 216(b) and approved by Nitijela resolution 62.

See Accompanying Independent Auditors' Report.

REPUBLIC OF THE MARSHALL ISLANDS
SPECIAL REVENUE FUNDS

September 30, 2002

Resident Workers Training Account

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

Section 215(a)(1) Communications

This fund accounts for United States Congress appropriations under United States Public Law 99-239, Title 2, Article 1, Section 215(a)(1) and approved by Nitijela resolution 62.

Section 216(a)(2) Health and Medical

This fund accounts for United States Congress appropriations under United States Public Law 99-239, Title 2, Article 1, Section 216(a)(2) and approved by Nitijela resolution 62.

Section 216(a)(3) Scholarship

This fund accounts for United States Congress appropriations under United States Public Law 99-239, Title 2, Article 1, Section 216(a)(3) and approved by Nitijela resolution 62.

Section 221(b) Education and Health Care

This fund accounts for United States Congress appropriations under United States Public Law 99-239, Title 2, Article 1, Section 221(b) and approved by Nitijela resolution 62.

Section 214(a) Energy

This fund accounts for United States Congress appropriations under United States Public Law 99-239, Title 2, Article 1, Section 214(a) and approved by Nitijela resolution 62.

National Environmental Protection Authority Fund

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

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.

Public Works Fund

This fund was established under Public Law No. 2002-24 and accounts for all charges, fees and other monies collected or generated by the Ministry of Public Works.

See Accompanying Independent Auditors' Report.

REPUBLIC OF THE MARSHALL ISLANDS
SPECIAL REVENUE FUNDS

September 30, 2002

Ministry of Transportation and Communications Fund

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

Ministry of Resources and Development Fund

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

Sea Patrol Fund

This fund 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.

Miscellaneous Funds

Miscellaneous special revenue funds consist of the following:

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.

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.

Land Registration 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.

Special Revenue Fund - This fund accounts for the operations of the Rehabilitation Center of the Majuro Hospital. This fund was established under Public Law No. 1984-8, as amended by Public Law No. 1986-12, to administer charges and fees, as collected, in conjunction with the use of the Rehabilitation Center, charitable donations, and any appropriations made by the Nitijela for related purposes.

Telecommunications Fund - This fund accounts for all operations with respect to services as the overseas telecommunications carrier for RepMar as required under Public Law No. 1983-33, 1984-1 and 1986-8. The operations of the telecommunications system was transferred to the National Telecommunications Authority pursuant to Public Law No. 1987-15 which was subsequently repealed and replaced with the Marshall Islands National Telecommunications Authority pursuant to Public Law No. 1990-105.

See Accompanying Independent Auditors' Report.

REPUBLIC OF THE MARSHALL ISLANDS
SPECIAL REVENUE FUNDS

Combining Balance Sheet
September 30, 2002
(With comparative totals as of September 30, 2001)

	TTPI Federal and Other Assistance Fund	Other Direct Assistance Fund	Republic of China Projects Fund	RMI Investment Development Fund	Judiciary Fund	Postal Service Fund	Health Care Revenue Fund	Section 216(b) Maritime	Resident Workers Training Account	Section 215(a)(1) Communi- cations
Assets										
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ 1,645	\$ -	\$ -	\$ 130,026	\$ -	\$ -	\$ -
Investments	-	-	-	300,220	-	-	-	-	-	100,000
Receivables, net:										
Other	-	198,742	3,065,310	-	-	-	210,357	-	32,508	-
Due from other funds	1,050,670	-	-	56,769	131,295	89,902	382,014	19,997	47,208	688,730
Advances	96,043	-	-	-	219	-	-	-	1,160	1,430
Prepaid items	-	-	-	-	-	-	262,927	-	-	-
	<u>\$ 1,146,713</u>	<u>\$ 198,742</u>	<u>\$ 3,065,310</u>	<u>\$ 358,634</u>	<u>\$ 131,514</u>	<u>\$ 89,902</u>	<u>\$ 985,324</u>	<u>\$ 19,997</u>	<u>\$ 80,876</u>	<u>\$ 790,160</u>
Liabilities and Fund Balances (Deficit)										
Liabilities:										
Bank overdraft	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 29,142	\$ -	\$ -	\$ -
Accounts payable	671,361	154,508	16,526	-	21,474	2,569	211,988	-	-	-
Other liabilities and accruals	106,579	22,070	9,340	-	29,674	13,982	7,498	-	3,239	-
Due to component units	-	-	-	-	-	-	-	-	-	-
Due to other funds	-	23,179	4,780,299	-	-	-	-	-	-	-
Deferred revenue	371,045	-	-	-	-	-	-	-	-	-
Total liabilities	<u>1,148,985</u>	<u>199,757</u>	<u>4,806,165</u>	<u>-</u>	<u>51,148</u>	<u>16,551</u>	<u>248,628</u>	<u>-</u>	<u>3,239</u>	<u>-</u>
Fund balances (deficit):										
Reserved for:										
Related assets	-	-	-	300,220	-	-	287,489	-	-	100,000
Encumbrances	1,879,207	701,449	1,478,846	-	3,818	7,902	-	-	5,722	260,038
Scholarships	-	-	-	-	-	-	-	-	-	-
Communications	-	-	-	-	-	-	-	-	-	430,122
Health and medical	-	-	-	-	-	-	449,207	-	-	-
Health and education	-	-	-	-	-	-	-	-	-	-
Unreserved	(1,881,479)	(702,464)	(3,219,701)	58,414	76,548	65,449	-	19,997	71,915	-
Total fund balances (deficit)	<u>(2,272)</u>	<u>(1,015)</u>	<u>(1,740,855)</u>	<u>358,634</u>	<u>80,366</u>	<u>73,351</u>	<u>736,696</u>	<u>19,997</u>	<u>77,637</u>	<u>790,160</u>
	<u>\$ 1,146,713</u>	<u>\$ 198,742</u>	<u>\$ 3,065,310</u>	<u>\$ 358,634</u>	<u>\$ 131,514</u>	<u>\$ 89,902</u>	<u>\$ 985,324</u>	<u>\$ 19,997</u>	<u>\$ 80,876</u>	<u>\$ 790,160</u>

REPUBLIC OF THE MARSHALL ISLANDS
SPECIAL REVENUE FUNDS

Combining Balance Sheet
September 30, 2002
(With comparative totals as of September 30, 2001)

Section 216(a)(2) Health and Medical	Section 216(a)(3) Scholarship	Section 221(b) Education and Health Care	Section 214(a) Energy	National Environmental Protection Authority Fund	Ministry of Justice Fund	Public Works Fund	Ministry of Transportation and Commu- nications Fund	Ministry of Resources and Development Fund	Sea Patrol Fund	Miscellaneous Funds	Totals	
											2002	2001
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 131,671	\$ 58,884
-	-	-	-	-	-	-	-	-	-	-	400,220	300,220
-	-	-	-	-	-	-	105,949	-	-	-	3,612,866	3,568,114
-	89,388	268,780	416	75,716	94,498	41,577	-	4,364	65,211	112,394	3,218,929	2,895,870
-	-	41	-	-	4,982	-	-	-	-	-	103,875	164,507
-	-	-	-	-	-	-	-	-	-	-	262,927	341,887
<u>\$ -</u>	<u>\$ 89,388</u>	<u>\$ 268,821</u>	<u>\$ 416</u>	<u>\$ 75,716</u>	<u>\$ 99,480</u>	<u>\$ 41,577</u>	<u>\$ 105,949</u>	<u>\$ 4,364</u>	<u>\$ 65,211</u>	<u>\$ 112,394</u>	<u>\$ 7,730,488</u>	<u>\$ 7,329,482</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 29,142	\$ 29,142
75	-	11,855	-	-	2,712	1,495	29,450	-	-	820	1,124,833	1,469,968
34,783	3,085	150,872	-	9,028	-	-	15,323	-	-	73	405,546	345,452
-	-	-	-	-	-	-	-	-	-	-	-	650,000
735	-	-	-	-	-	-	59,213	-	-	-	4,863,426	2,493,458
-	-	-	-	-	-	-	-	-	-	-	371,045	1,056,806
<u>35,593</u>	<u>3,085</u>	<u>162,727</u>	<u>-</u>	<u>9,028</u>	<u>2,712</u>	<u>1,495</u>	<u>103,986</u>	<u>-</u>	<u>-</u>	<u>893</u>	<u>6,793,992</u>	<u>6,044,826</u>
-	-	-	-	-	-	-	-	-	-	-	687,709	530,932
-	-	83,616	-	463	6,360	7,840	7,710	785	-	-	4,443,756	1,635,577
-	86,303	-	-	-	-	-	-	-	-	-	86,303	71,515
-	-	-	-	-	-	-	-	-	-	-	430,122	401,200
-	-	-	-	-	-	-	-	-	-	-	449,207	20,837
-	-	22,478	-	-	-	-	-	-	-	-	22,478	192,660
(35,593)	-	-	416	66,225	90,408	32,242	(5,747)	3,579	65,211	111,501	(5,183,079)	(1,568,065)
<u>(35,593)</u>	<u>86,303</u>	<u>106,094</u>	<u>416</u>	<u>66,688</u>	<u>96,768</u>	<u>40,082</u>	<u>1,963</u>	<u>4,364</u>	<u>65,211</u>	<u>111,501</u>	<u>936,496</u>	<u>1,284,656</u>
<u>\$ -</u>	<u>\$ 89,388</u>	<u>\$ 268,821</u>	<u>\$ 416</u>	<u>\$ 75,716</u>	<u>\$ 99,480</u>	<u>\$ 41,577</u>	<u>\$ 105,949</u>	<u>\$ 4,364</u>	<u>\$ 65,211</u>	<u>\$ 112,394</u>	<u>\$ 7,730,488</u>	<u>\$ 7,329,482</u>

See Accompanying Independent Auditors' Report.

REPUBLIC OF THE MARSHALL ISLANDS
SPECIAL REVENUE FUNDS

Combining Statement of Revenues, Expenditures by Function
and Changes in Fund Balances (Deficit)
Year Ended September 30, 2002
(With comparative totals for the year ended September 30, 2001)

	TTPI Federal and Other Assistance Fund	Other Direct Assistance Fund	Republic of China Projects Fund	RMI Investment Development Fund	Judiciary Fund	Postal Service Fund	Health Care Revenue Fund	Section 216(b) Maritime	Resident Workers Training Account	Section 215(a)(1) Communi- cations
Revenues:										
Federal grants	\$ 8,490,645	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Compact funding	-	-	-	-	-	-	-	-	-	500,000
Fees and charges	-	-	-	-	5,413	99,388	265,122	-	139,743	-
Sales	-	-	-	-	-	266,089	-	-	-	-
Other	-	172,603	7,793,509	-	-	-	291,960	-	-	-
Total revenues	8,490,645	172,603	7,793,509	-	5,413	365,477	557,082	-	139,743	500,000
Expenditures by function:										
Ministry of education	4,857,343	-	-	-	-	-	-	-	142,701	-
Ministry of health	1,666,212	-	-	-	-	-	1,859,220	-	-	-
Ministry of public works	29,211	-	-	-	-	-	-	-	-	-
Ministry of transportation and communication	-	-	-	-	-	-	-	-	-	110,462
Ministry of internal and social welfare	261,803	-	-	-	-	-	-	-	-	578
Ministry of resources and development	17,525	-	-	-	-	-	-	-	-	-
Chief secretary	320,160	-	-	-	-	-	-	-	-	-
Ministry of justice	-	-	-	-	-	-	-	-	-	-
Judiciary	-	-	-	-	747,246	-	-	-	-	-
Auditor-General	773,009	-	-	-	-	-	-	-	-	-
Ministry of finance	427,036	-	-	-	-	292,126	-	-	-	-
Ministry of foreign affairs and trade	48,346	-	-	-	-	-	-	-	-	-
President and cabinet	-	172,385	8,852,107	-	-	-	-	-	-	-
Total expenditures	8,400,645	172,385	8,852,107	-	747,246	292,126	1,859,220	-	142,701	111,040
Excess (deficiency) of revenues over (under) expenditures	90,000	218	(1,058,598)	-	(741,833)	73,351	(1,302,138)	-	(2,958)	388,960
Other financing sources (uses):										
Operating transfers in	-	-	-	-	822,199	-	2,096,517	-	80,595	-
Operating transfers out	(90,000)	-	(682,257)	-	-	-	-	-	-	-
Total other financing sources (uses), net	(90,000)	-	(682,257)	-	822,199	-	2,096,517	-	80,595	-
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	-	218	(1,740,855)	-	80,366	73,351	794,379	-	77,637	388,960
Fund balances (deficit) at beginning of year	(2,272)	(1,233)	-	358,634	-	-	(57,683)	19,997	-	401,200
Fund balances (deficit) at end of year	\$ (2,272)	\$ (1,015)	\$ (1,740,855)	\$ 358,634	\$ 80,366	\$ 73,351	\$ 736,696	\$ 19,997	\$ 77,637	\$ 790,160

REPUBLIC OF THE MARSHALL ISLANDS
SPECIAL REVENUE FUNDS

Combining Statement of Revenues, Expenditures by Function
and Changes in Fund Balances (Deficit)
Year Ended September 30, 2002
(With comparative totals for the year ended September 30, 2001)

Section 216(a)(2) Health and Medical	Section 216(a)(3) Scholarship	Section 221(b) Education and Health Care	Section 214(a) Energy	National Environmental Protection Authority Fund	Ministry of Justice Fund	Public Works Fund	Ministry of Transportation and Commu- nications Fund	Ministry of Resources and Development Fund	Sea Patrol Fund	Miscellaneous Funds	Totals	
											2002	2001
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 8,490,645	\$ 7,414,327
531,600	797,400	3,000,000	1,866,667	-	-	-	-	-	-	-	6,695,667	6,629,000
-	-	-	-	-	90,580	42,535	402,217	51,590	-	15,012	1,111,600	531,421
-	-	-	-	-	-	-	-	-	-	-	266,089	161,650
-	-	-	-	-	-	-	-	-	119,000	-	8,377,072	14,296,625
<u>531,600</u>	<u>797,400</u>	<u>3,000,000</u>	<u>1,866,667</u>	<u>-</u>	<u>90,580</u>	<u>42,535</u>	<u>402,217</u>	<u>51,590</u>	<u>119,000</u>	<u>15,012</u>	<u>24,941,073</u>	<u>29,033,023</u>
-	61,650	1,829,797	-	-	-	-	-	-	-	-	6,891,491	7,575,242
588,030	-	1,230,376	-	202,661	-	-	-	-	-	-	5,546,499	5,138,565
-	-	-	-	-	-	36,889	-	-	-	-	66,100	4,301,881
-	-	-	-	-	-	-	380,254	-	-	788	491,504	3,363,313
-	-	-	-	-	-	-	-	-	-	-	262,381	1,597,406
-	-	-	-	-	-	-	-	47,226	-	-	64,751	1,273,722
-	-	-	-	-	-	-	-	-	-	-	320,160	1,078,645
-	-	-	-	-	84,680	-	-	-	53,789	-	138,469	1,008,671
-	-	-	-	-	-	-	-	-	-	-	747,246	712,202
-	-	-	-	-	-	-	-	-	-	-	773,009	632,593
-	-	-	-	-	-	-	-	-	-	-	719,162	543,777
-	-	-	-	-	-	-	-	-	-	-	48,346	65,251
-	-	-	-	-	-	-	-	-	-	-	9,024,492	-
<u>588,030</u>	<u>61,650</u>	<u>3,060,173</u>	<u>-</u>	<u>202,661</u>	<u>84,680</u>	<u>36,889</u>	<u>380,254</u>	<u>47,226</u>	<u>53,789</u>	<u>788</u>	<u>25,093,610</u>	<u>27,291,268</u>
<u>(56,430)</u>	<u>735,750</u>	<u>(60,173)</u>	<u>1,866,667</u>	<u>(202,661)</u>	<u>5,900</u>	<u>5,646</u>	<u>21,963</u>	<u>4,364</u>	<u>65,211</u>	<u>14,224</u>	<u>(152,537)</u>	<u>1,741,755</u>
-	-	-	-	214,952	-	-	-	-	-	-	3,214,263	1,904,873
-	(720,962)	(30,000)	(1,866,667)	-	-	-	(20,000)	-	-	-	(3,409,886)	(6,497,864)
-	(720,962)	(30,000)	(1,866,667)	214,952	-	-	(20,000)	-	-	-	(195,623)	(4,592,991)
<u>(56,430)</u>	<u>14,788</u>	<u>(90,173)</u>	<u>-</u>	<u>12,291</u>	<u>5,900</u>	<u>5,646</u>	<u>1,963</u>	<u>4,364</u>	<u>65,211</u>	<u>14,224</u>	<u>(348,160)</u>	<u>(2,851,236)</u>
<u>20,837</u>	<u>71,515</u>	<u>196,267</u>	<u>416</u>	<u>54,397</u>	<u>90,868</u>	<u>34,436</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>97,277</u>	<u>1,284,656</u>	<u>4,135,892</u>
<u>\$ (35,593)</u>	<u>\$ 86,303</u>	<u>\$ 106,094</u>	<u>\$ 416</u>	<u>\$ 66,688</u>	<u>\$ 96,768</u>	<u>\$ 40,082</u>	<u>\$ 1,963</u>	<u>\$ 4,364</u>	<u>\$ 65,211</u>	<u>\$ 111,501</u>	<u>\$ 936,496</u>	<u>\$ 1,284,656</u>

See Accompanying Independent Auditors' Report.

REPUBLIC OF THE MARSHALL ISLANDS
SPECIAL REVENUE FUNDS

Combining Statement of Revenues, Expenditures by Account
and Changes in Fund Balances (Deficit)
Year Ended September 30, 2002
(With comparative totals for the year ended September 30, 2001)

	TTPI Federal and Other Assistance Fund	Other Direct Assistance Fund	Republic of China Projects Fund	RMI Investment Development Fund	Judiciary Fund	Postal Service Fund	Health Care Revenue Fund	Section 216(b) Maritime	Resident Workers Training Account	Section 215(a)(1) Communi- cations
Revenues:										
Federal grants	\$ 8,490,645	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Compact funding	-	-	-	-	-	-	-	-	-	500,000
Fees and charges	-	-	-	-	5,413	99,388	265,122	-	139,743	-
Sales	-	-	-	-	-	266,089	-	-	-	-
Other	-	172,603	7,793,509	-	-	-	291,960	-	-	-
Total revenues	8,490,645	172,603	7,793,509	-	5,413	365,477	557,082	-	139,743	500,000
Expenditures by account:										
Salaries and wages	1,631,337	18,905	11,530	-	513,845	234,306	25,900	-	52,552	25,835
Contractual services	1,410,977	44,148	1,529,660	-	156	-	-	-	-	-
Grants and subsidies	1,959,528	-	298,319	-	-	-	-	-	11,356	-
Capital outlay	323,509	6,535	1,155,338	-	33,537	695	80,322	-	-	75,722
Medical supplies	38,505	-	-	-	-	-	1,467,479	-	-	-
Supplies and materials	1,128,895	4,976	95,673	-	8,248	4,775	-	-	2,785	1,616
Travel	804,134	-	40,440	-	49,365	4,605	-	-	14,181	4,292
POL	50,396	-	169,185	-	5,401	2,788	-	-	3,233	-
Freight	70,365	-	14,524	-	-	867	101,947	-	-	1,949
Food stuffs	5,357	3,879	66,032	-	601	-	-	-	-	-
Communications	51,061	-	200	-	38,145	10,915	29,716	-	3,521	841
Rentals	33,552	-	9,023	-	2,306	33,083	-	-	23,450	-
Professional services	-	-	-	-	12,058	-	109,069	-	-	-
Printing and reproduction	91,001	3,047	-	-	-	-	-	-	203	-
Leased housing	3,600	-	-	-	63,000	-	-	-	-	-
Construction	12,037	7,032	31,785	-	-	-	-	-	-	-
Utilities	455	-	150	-	7,432	-	-	-	-	-
Insurance	1,305	-	-	-	735	-	-	-	779	785
Other	784,631	83,863	5,430,248	-	12,417	92	44,787	-	30,641	-
Total expenditures	8,400,645	172,385	8,852,107	-	747,246	292,126	1,859,220	-	142,701	111,040
Excess (deficiency) of revenues over (under) expenditures	90,000	218	(1,058,598)	-	(741,833)	73,351	(1,302,138)	-	(2,958)	388,960
Other financing sources (uses):										
Operating transfers in	-	-	-	-	822,199	-	2,096,517	-	80,595	-
Operating transfers out	(90,000)	-	(682,257)	-	-	-	-	-	-	-
Total other financing sources (uses), net	(90,000)	-	(682,257)	-	822,199	-	2,096,517	-	80,595	-
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	-	218	(1,740,855)	-	80,366	73,351	794,379	-	77,637	388,960
Fund balances (deficit) at beginning of year	(2,272)	(1,233)	-	358,634	-	-	(57,683)	19,997	-	401,200
Fund balances (deficit) at end of year	\$ (2,272)	\$ (1,015)	\$ (1,740,855)	\$ 358,634	\$ 80,366	\$ 73,351	\$ 736,696	\$ 19,997	\$ 77,637	\$ 790,160

REPUBLIC OF THE MARSHALL ISLANDS
SPECIAL REVENUE FUNDS

Combining Statement of Revenues, Expenditures by Account
and Changes in Fund Balances (Deficit)
Year Ended September 30, 2002
(With comparative totals for the year ended September 30, 2001)

Section 216(a)(2) Health and Medical	Section 216(a)(3) Scholarship	Section 221(b) Education and Health Care	Section 214(a) Energy	National Environmental Protection Authority Fund	Ministry of Justice Fund	Public Works Fund	Ministry of Transportation and Commu- nications Fund	Ministry of Resources and Development Fund	Sea Patrol Fund	Miscellaneous Funds	Totals	
											2002	2001
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 8,490,645	\$ 7,414,327
531,600	797,400	3,000,000	1,866,667	-	-	-	-	-	-	-	6,695,667	6,629,000
-	-	-	-	-	90,580	42,535	402,217	51,590	-	15,012	1,111,600	531,421
-	-	-	-	-	-	-	-	-	119,000	-	266,089	161,650
-	-	-	-	-	-	-	-	-	-	-	8,377,072	14,296,625
<u>531,600</u>	<u>797,400</u>	<u>3,000,000</u>	<u>1,866,667</u>	<u>-</u>	<u>90,580</u>	<u>42,535</u>	<u>402,217</u>	<u>51,590</u>	<u>119,000</u>	<u>15,012</u>	<u>24,941,073</u>	<u>29,033,023</u>
588,030	61,650	2,532,202	-	190,032	-	-	177,449	-	-	788	6,064,361	5,514,507
-	-	544	-	-	-	-	-	-	-	-	2,985,485	6,647,701
-	-	1,146	-	-	-	-	-	-	-	-	2,270,349	2,413,366
-	-	29,639	-	-	5,693	7,215	10,849	10,688	-	-	1,739,742	4,477,801
-	-	140,352	-	-	-	-	-	-	-	-	1,646,336	1,521,734
-	-	138,740	-	1,484	16,611	25,457	15,386	-	-	-	1,444,646	848,145
-	-	42,706	-	-	27,817	151	-	-	-	-	987,691	967,354
-	-	3,016	-	1,728	17,264	2,908	131,104	24,926	45,151	-	457,100	66,851
-	-	15,826	-	-	-	560	-	-	-	-	206,038	74,282
-	-	73,329	-	-	600	-	33,946	7,740	8,638	-	200,122	141,634
-	-	22,507	-	3,500	8,004	-	-	-	-	-	168,410	115,211
-	-	51,983	-	917	2,003	-	4,295	-	-	-	160,612	92,842
-	-	-	-	-	-	-	-	-	-	-	121,127	9,326
-	-	2,000	-	-	1,470	-	1,285	-	-	-	99,006	73,283
-	-	5,100	-	-	-	-	-	-	-	-	71,700	60,100
-	-	-	-	-	-	-	-	-	-	-	50,854	2,100,509
-	-	-	-	5,000	-	-	3,470	-	-	-	16,507	10,822
-	-	486	-	-	-	-	-	-	-	-	4,090	620
-	-	597	-	-	5,218	598	2,470	3,872	-	-	6,399,434	2,155,180
<u>588,030</u>	<u>61,650</u>	<u>3,060,173</u>	<u>-</u>	<u>202,661</u>	<u>84,680</u>	<u>36,889</u>	<u>380,254</u>	<u>47,226</u>	<u>53,789</u>	<u>788</u>	<u>25,093,610</u>	<u>27,291,268</u>
(56,430)	735,750	(60,173)	1,866,667	(202,661)	5,900	5,646	21,963	4,364	65,211	14,224	(152,537)	1,741,755
-	-	-	-	214,952	-	-	-	-	-	-	3,214,263	1,904,873
-	(720,962)	(30,000)	(1,866,667)	-	-	-	(20,000)	-	-	-	(3,409,886)	(6,497,864)
-	(720,962)	(30,000)	(1,866,667)	214,952	-	-	(20,000)	-	-	-	(195,623)	(4,592,991)
(56,430)	14,788	(90,173)	-	12,291	5,900	5,646	1,963	4,364	65,211	14,224	(348,160)	(2,851,236)
<u>20,837</u>	<u>71,515</u>	<u>196,267</u>	<u>416</u>	<u>54,397</u>	<u>90,868</u>	<u>34,436</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>97,277</u>	<u>1,284,656</u>	<u>4,135,892</u>
<u>\$ (35,593)</u>	<u>\$ 86,303</u>	<u>\$ 106,094</u>	<u>\$ 416</u>	<u>\$ 66,688</u>	<u>\$ 96,768</u>	<u>\$ 40,082</u>	<u>\$ 1,963</u>	<u>\$ 4,364</u>	<u>\$ 65,211</u>	<u>\$ 111,501</u>	<u>\$ 936,496</u>	<u>\$ 1,284,656</u>

See Accompanying Independent Auditors' Report.

REPUBLIC OF THE MARSHALL ISLANDS
DEBT SERVICE FUNDS

September 30, 2002

Debt service funds are used to account for the accumulation of resources and payment of general obligation bond principal and interest from governmental resources when the government is obligated in some manner for the payment. Debt service funds have been established to account for the accumulation of resources and payment of general obligation bond principal and interest of the Marshall Islands Development Authority (MIDA) and the Kwajalein Atoll Development Authority (KADA).

See Accompanying Independent Auditors' Report.

REPUBLIC OF THE MARSHALL ISLANDS
DEBT SERVICE FUNDS

Combining Balance Sheet
September 30, 2002
(With comparative totals as of September 30, 2001)

	Marshall Islands Development Authority	<u>Totals</u>	
		<u>2002</u>	<u>2001</u>
<u>Assets</u>			
Cash and cash equivalents	\$ -	\$ -	\$ 50,971
Time certificate of deposit	-	-	2,000,000
Due from other funds	-	-	-
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,050,971</u>
 <u>Liabilities and Fund Balances</u>			
Liabilities:			
Due to other funds	\$ -	\$ -	\$ 1,203,016
Total liabilities	<u>-</u>	<u>-</u>	<u>1,203,016</u>
Fund balances:			
Reserved for debt service	-	-	847,955
Total fund balances	<u>-</u>	<u>-</u>	<u>847,955</u>
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,050,971</u>

See Accompanying Independent Auditors' Report.

REPUBLIC OF THE MARSHALL ISLANDS
DEBT SERVICE FUNDS

Combining Statement of Revenues, Expenditures
and Changes in Fund Balances
Year Ended September 30, 2002
(With comparative totals for the year ended September 30, 2001)

	Marshall Islands Development Authority	<u>Totals</u>	
		<u>2002</u>	<u>2001</u>
Revenues:			
Net decrease in the fair value of investments	\$ -	\$ -	\$ -
Total revenues	<u>-</u>	<u>-</u>	<u>-</u>
Expenditures:			
Principal retirement	-	-	23,230,058
Interest	-	-	944,268
Other	8	8	-
Total expenditures	<u>8</u>	<u>8</u>	<u>24,174,326</u>
Deficiency of revenues under expenditures	<u>(8)</u>	<u>(8)</u>	<u>(24,174,326)</u>
Other financing sources:			
Operating transfers in	-	-	24,173,337
Operating transfers out	<u>(847,947)</u>	<u>(847,947)</u>	<u>-</u>
Total other financing sources (uses), net	<u>(847,947)</u>	<u>(847,947)</u>	<u>24,173,337</u>
Deficiency of revenues and other financing sources under expenditures	<u>(847,955)</u>	<u>(847,955)</u>	<u>(989)</u>
Fund balances at beginning of year	<u>847,955</u>	<u>847,955</u>	<u>848,944</u>
Fund balances at end of year	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 847,955</u></u>

See Accompanying Independent Auditors' Report.

REPUBLIC OF THE MARSHALL ISLANDS
CAPITAL PROJECTS FUNDS

September 30, 2002

Capital projects funds are used to account for the acquisition and construction of major capital facilities other than those financed by proprietary funds and trust funds. A brief discussion of RepMar's Capital Projects Funds as of September 30, 2002, follows:

Section 211 Capital Account

This fund accounts for United States Congress appropriations under United States Public Law 99-239, Title 2, Article 1, Section 211(a)(1) and approved by Nitijela resolution 62. The aforementioned section requires no less than 40% of the total amounts appropriated by the United States Congress to be applied to the capital account.

Marshall Islands Development Authority

Marshall Islands Development Authority (MIDA) was established pursuant to the Marshall Islands Development Authority Act of 1984 (Public Law No. 1984-24). MIDA is operated by a Board of Directors that are appointed by the Cabinet of RepMar. MIDA was established to investigate, study, develop, and implement social and economic development programs and projects, alone or in conjunction with other governmental, private organizations, or agencies, for the betterment of the economic and social conditions of the inhabitants of the Republic. The following Capital Projects Funds were established for the acquisition or construction of major capital facilities, funding for which was appropriated to MIDA by the Nitijela of RepMar:

Section 216(a)(1) Surveillance and Enforcement

This fund accounts for United States Congress appropriations under United States Public Law 99-239, Title 2, Article 1, Section 216(a)(1) and approved by Nitijela resolution 62.

MIDA Development Fund

This fund accounts for capital projects as established under Public Law No. 1986-22 and appropriated to MIDA from local revenue sources.

Section 111 Investment Development Fund

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

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.

See Accompanying Independent Auditors' Report.

REPUBLIC OF THE MARSHALL ISLANDS
CAPITAL PROJECTS FUNDS

September 30, 2002

Kwajalein Atoll Development Authority

Kwajalein Atoll Development Authority (KADA) was established pursuant to the Kwajalein Atoll Development Authority Act of 1989 (Public Law No. 1989-36). KADA is operated by a Board of Directors that are appointed by the President of RepMar. KADA was established to develop and implement programs and projects for the social and economic betterment of the inhabitants of Kwajalein Atoll.

Asian Development Bank (ADB) Development Projects

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

See Accompanying Independent Auditors' Report.

REPUBLIC OF THE MARSHALL ISLANDS
CAPITAL PROJECTS FUNDS

Combining Balance Sheet
September 30, 2002
(With comparative totals as of September 30, 2001)

Marshall Islands Development Authority									
Section 211 Capital Account	Section 216(a)(1) Surveillance and Enforcement	MIDA Development Fund	Section 111 Investment Development Fund	MIDA Fund	Kwajalein Atoll Development Authority	ADB Development Projects	Totals		
							2002	2001	
Assets									
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 361,199	\$ 1,061,088	\$ 1,422,287	\$ 1,743,763
Investments	-	-	-	-	11,308,630	100,000	-	11,408,630	11,408,630
Receivables, net:									
Loans	-	-	-	-	-	-	-	-	11,129,543
Other	-	-	-	-	-	1,898,847	-	1,898,847	1,737,146
Due from component units	-	-	-	-	-	1,153,052	-	1,153,052	1,107,967
Due from other funds	3,624,870	-	78,624	472,253	-	-	-	4,175,747	919,788
Advances	-	1,150	-	-	-	-	-	1,150	-
Prepaid items	-	-	-	-	-	42,436	-	42,436	42,436
	<u>\$ 3,624,870</u>	<u>\$ 1,150</u>	<u>\$ 78,624</u>	<u>\$ 472,253</u>	<u>\$ 11,308,630</u>	<u>\$ 3,555,534</u>	<u>\$ 1,061,088</u>	<u>\$ 20,102,149</u>	<u>\$ 28,089,273</u>
Liabilities and Fund Balances (Deficit)									
Liabilities:									
Accounts payable	\$ 17,106	\$ -	\$ -	\$ -	\$ -	\$ 985,232	\$ -	\$ 1,002,338	\$ 1,144,738
Other liabilities and accruals	-	1,989	-	-	-	540,867	-	542,856	835,051
Due to component units	1,018,500	-	-	-	-	-	-	1,018,500	-
Due to other funds	-	70,646	-	-	558,945	-	-	629,591	579,608
Total liabilities	<u>1,035,606</u>	<u>72,635</u>	<u>-</u>	<u>-</u>	<u>558,945</u>	<u>1,526,099</u>	<u>-</u>	<u>3,193,285</u>	<u>2,559,397</u>
Fund balances (deficit):									
Reserved for:									
Related assets	-	-	-	-	11,308,630	3,194,335	1,061,088	15,564,053	27,150,722
Encumbrances	1,622,849	4,520	-	-	-	476,512	-	2,103,881	476,612
Unreserved	966,415	(76,005)	78,624	472,253	(558,945)	(1,641,412)	-	(759,070)	(2,097,458)
Total fund balances (deficit)	<u>2,589,264</u>	<u>(71,485)</u>	<u>78,624</u>	<u>472,253</u>	<u>10,749,685</u>	<u>2,029,435</u>	<u>1,061,088</u>	<u>16,908,864</u>	<u>25,529,876</u>
	<u>\$ 3,624,870</u>	<u>\$ 1,150</u>	<u>\$ 78,624</u>	<u>\$ 472,253</u>	<u>\$ 11,308,630</u>	<u>\$ 3,555,534</u>	<u>\$ 1,061,088</u>	<u>\$ 20,102,149</u>	<u>\$ 28,089,273</u>

See Accompanying Independent Auditors' Report.

REPUBLIC OF THE MARSHALL ISLANDS
CAPITAL PROJECTS FUNDS

Combining Statement of Revenues, Expenditures by Function
and Changes in Fund Balances (Deficit)
Year Ended September 30, 2002
(With comparative totals for the year ended September 30, 2001)

	Marshall Islands Development Authority							Totals	
	Section 211 Capital Account	Section 216(a)(1) Surveillance and Enforcement	MIDA Development Fund	Section 111 Investment Development Fund	MIDA Fund	Kwajalein Atoll Development Authority	ADB Development Projects	2002	2001
Revenues:									
Compact funding	\$ 18,885,333	\$ 415,186	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 19,300,519	\$ 23,379,710
Dividends	-	-	-	-	20,663	-	-	20,663	-
Other	-	-	-	-	-	34,516	-	34,516	57,422
Total revenues	18,885,333	415,186	-	-	20,663	34,516	-	19,355,698	23,437,132
Expenditures by function:									
Majuro water supply project	-	-	-	-	-	-	8,179,443	8,179,443	-
Ebeyle health and infrastructure project	-	-	-	-	-	-	3,452,029	3,452,029	3,147,524
Fisheries development project	-	-	-	-	-	-	2,588,787	2,588,787	-
Health improvement	-	-	-	-	-	-	709,061	709,061	637,671
Maritime	-	486,671	-	-	-	-	-	486,671	444,280
Ministry of health	424,398	-	-	-	-	-	-	424,398	-
Skills training and vocational education project	-	-	-	-	-	-	352,254	352,254	-
Administrative and finance	-	-	-	-	-	338,535	-	338,535	249,133
Ministry of public works	260,145	-	-	-	-	-	-	260,145	-
Ministry of transportation and communication	204,023	-	-	-	-	-	-	204,023	-
Ministry of foreign affairs	162,862	-	-	-	-	-	-	162,862	-
Ministry of finance	61,958	-	-	-	-	-	-	61,958	-
Ministry of justice	22,670	-	-	-	-	-	-	22,670	-
Ministry of internal and social welfare	20,484	-	-	-	-	-	-	20,484	-
Ministry of education	3,168	-	-	-	-	-	-	3,168	-
Ministry of resources and development	1,779	-	-	-	-	-	-	1,779	-
Basic education project	-	-	-	-	-	-	-	-	1,272,287
Other capital projects	-	-	-	-	-	596,562	-	596,562	603,028
Total expenditures	1,161,487	486,671	-	-	-	935,097	15,281,574	17,864,829	6,353,923
Excess (deficiency) of revenues over (under) expenditures	17,723,846	(71,485)	-	-	20,663	(900,581)	(15,281,574)	1,490,869	17,083,209
Other financing sources (uses):									
Loan proceeds	-	-	-	-	-	-	4,202,612	4,202,612	4,917,482
Operating transfers in	-	-	-	-	-	1,900,000	-	1,900,000	25,071,433
Operating transfers out	(15,500,000)	-	-	-	-	-	(714,493)	(16,214,493)	(47,181,637)
Total other financing sources (uses), net	(15,500,000)	-	-	-	-	1,900,000	3,488,119	(10,111,881)	(17,192,722)
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	2,223,846	(71,485)	-	-	20,663	999,419	(11,793,455)	(8,621,012)	(109,513)
Fund balances at beginning of year	365,418	-	78,624	472,253	10,729,022	1,030,016	12,854,543	25,529,876	25,639,389
Fund balances (deficit) at end of year	\$ 2,589,264	\$ (71,485)	\$ 78,624	\$ 472,253	\$ 10,749,685	\$ 2,029,435	\$ 1,061,088	\$ 16,908,864	\$ 25,529,876

See Accompanying Independent Auditors' Report.

REPUBLIC OF THE MARSHALL ISLANDS
CAPITAL PROJECTS FUNDS

Combining Statement of Revenues, Expenditures by Account
and Changes in Fund Balances (Deficit)
Year Ended September 30, 2002
(With comparative totals for the year ended September 30, 2001)

	Marshall Islands Development Authority							Totals	
	Section 211 Capital Account	Section 216(a)(1) Surveillance and Enforcement	MIDA Development Fund	Section 111 Investment Development Fund	MIDA Fund	Kwajalein Atoll Development Authority	ADB Development Projects	2002	2001
Revenues:									
Compact funding	\$ 18,885,333	\$ 415,186	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 19,300,519	\$ 23,379,710
Dividends	-	-	-	-	20,663	-	-	20,663	-
Other	-	-	-	-	-	34,516	-	34,516	57,422
Total revenues	18,885,333	415,186	-	-	20,663	34,516	-	19,355,698	23,437,132
Expenditures by account:									
Loan write-downs	-	-	-	-	-	-	10,415,050	10,415,050	-
Capital outlay	650,974	18,274	-	-	-	-	-	669,248	8,918
Contractual services	316,964	151,762	-	-	-	-	-	468,726	-
Salaries and wages	-	280,783	-	-	-	-	-	280,783	304,087
Interest	-	-	-	-	-	-	74,575	74,575	138,832
Supplies and materials	-	14,960	-	-	-	-	-	14,960	27,847
Food stuffs	-	13,369	-	-	-	-	-	13,369	17,818
Communications	-	2,742	-	-	-	-	-	2,742	5,648
POL	-	2,387	-	-	-	-	-	2,387	78,192
Freight	-	1,857	-	-	-	-	-	1,857	-
Travel	-	-	-	-	-	-	-	-	1,300
Other	193,549	537	-	-	-	935,097	4,791,949	5,921,132	5,771,281
Total expenditures	1,161,487	486,671	-	-	-	935,097	15,281,574	17,864,829	6,353,923
Excess (deficiency) of revenues over (under) expenditures	17,723,846	(71,485)	-	-	20,663	(900,581)	(15,281,574)	1,490,869	17,083,209
Other financing sources (uses):									
Loan proceeds	-	-	-	-	-	-	4,202,612	4,202,612	4,917,482
Operating transfers in	-	-	-	-	-	1,900,000	-	1,900,000	25,071,433
Operating transfers out	(15,500,000)	-	-	-	-	-	(714,493)	(16,214,493)	(47,181,637)
Total other financing sources (uses), net	(15,500,000)	-	-	-	-	1,900,000	3,488,119	(10,111,881)	(17,192,722)
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	2,223,846	(71,485)	-	-	20,663	999,419	(11,793,455)	(8,621,012)	(109,513)
Fund balances at beginning of year	365,418	-	78,624	472,253	10,729,022	1,030,016	12,854,543	25,529,876	25,639,389
Fund balances (deficit) at end of year	\$ 2,589,264	\$ (71,485)	\$ 78,624	\$ 472,253	\$ 10,749,685	\$ 2,029,435	\$ 1,061,088	\$ 16,908,864	\$ 25,529,876

See Accompanying Independent Auditors' Report.

REPUBLIC OF THE MARSHALL ISLANDS
EXPENDABLE TRUST FUNDS

September 30, 2002

Expendable trust funds are used to account for assets held by RepMar in a trustee capacity and where the objectives of the fund can be achieved by spending both the principal and the earnings of the fund. A brief discussion of RepMar's Expendable Trust Funds as of September 30, 2002, follows:

Kwajalein Atoll Trust Fund

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

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.

Health Indemnity Fund

This fund accounts for any premiums (both employer and employee share) contributed into RepMar's Group Health Insurance Plan for employees of the Government and its component jurisdictions, as established by a transfer agreement between the High Commissioner of the Trust Territory of the Pacific Islands and the President of RepMar.

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.

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.

Nuclear Claims Tribunal

This fund accounts for the operations of the Marshall Islands Nuclear Claims Tribunal. This fund was established under Public Law No. 1987-24 to satisfy the requirement in Article IV, Section 1(a) of the Section 177 Agreement to render final determination upon claims and disputes for loss or damage to person or property which are based on, or arise out of, or are in any way related to the United States Nuclear Testing Program conducted in the Northern Marshall Islands between September 30, 1946 and August 18, 1958.

See Accompanying Independent Auditors' Report.

REPUBLIC OF THE MARSHALL ISLANDS
EXPENDABLE TRUST FUNDS

September 30, 2002

Marshall Islands Scholarship Grant and Loan Board (MISGLB)

MISGLB was established by the Scholarship Assistance Act of 1979 (Public Law No. 1979-19), as amended, to develop and administer a financial assistance program for those qualified applicants who cannot pursue educational and training opportunities because of financial inability. This fund accounts for funds received under Title Two, Article I, Section 216(a)(3) of the Compact between RepMar and the United States of America, and for any funds appropriated by the Nitijela for scholarship assistance.

Marshall Islands Social Security Administration (MISSA)

This fund has established under Public Law No. 1990-75 to administer the Marshall Islands Social Security Retirement Fund. In addition, Public Law No. 1991-118 established the Marshall Islands Social Security Health Fund to be administered by MISSA.

Section 177 Administration Fund

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

See Accompanying Independent Auditors' Report.

REPUBLIC OF THE MARSHALL ISLANDS
EXPENDABLE TRUST FUNDS

Combining Balance Sheet
September 30, 2002
(With comparative totals as of September 30, 2001)

	Kwajalein Atoll Trust Fund	Local Government Fund	Health Indemnity Fund	Nuclear Claims Trust Fund	Four-Atoll Medical Fund	Nuclear Claims Tribunal	Marshall Islands Scholarship Grant and Loan Board	Marshall Islands Social Security Administration	Section 177 Administration Fund	Totals	
										2002	2001
Assets											
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ 1,000,332	\$ -	\$ 356,015	\$ 60,141	\$ 3,542,268	\$ -	\$ 4,958,756	\$ 4,550,739
Time certificates of deposit	-	-	-	-	-	10,161	-	2,794,998	-	2,805,159	1,670,689
Investments	-	-	-	16,661,958	-	-	-	24,924,578	-	41,586,536	69,945,521
Receivables, net:											
General	-	-	-	-	-	50,702	-	3,569,957	-	3,620,659	3,799,579
Other	-	-	-	-	746,165	-	15,350	870,389	-	1,631,904	1,428,980
Due from component units	-	-	-	-	-	-	-	589,354	-	589,354	576,283
Due from other funds	706,608	263,963	13,412	-	97,635	-	-	1,000,000	68,828	2,150,446	534,485
Prepaid items	-	-	-	-	-	-	-	7,023	-	7,023	5,008
	<u>\$ 706,608</u>	<u>\$ 263,963</u>	<u>\$ 13,412</u>	<u>\$ 17,662,290</u>	<u>\$ 843,800</u>	<u>\$ 416,878</u>	<u>\$ 75,491</u>	<u>\$ 37,298,567</u>	<u>\$ 68,828</u>	<u>\$ 57,349,837</u>	<u>\$ 82,511,284</u>
Liabilities and Fund Balances (Deficit)											
Liabilities:											
Bank overdraft	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 74,904	\$ -	\$ 74,904	\$ 48,385
Accounts payable	-	11,992	-	-	-	304,724	-	367,355	-	684,071	790,358
Claims payable	-	-	-	-	-	-	-	1,551,427	-	1,551,427	1,225,771
Other liabilities and accruals	-	-	-	-	-	111,893	13,500	133,998	-	259,391	182,265
Due to other funds	-	-	-	-	-	-	-	382,014	-	382,014	-
Loan payable	-	-	-	-	-	-	200,000	-	-	200,000	-
Total liabilities	-	11,992	-	-	-	416,617	213,500	2,509,698	-	3,151,807	2,246,779
Fund balances (deficit):											
Reserved for:											
Related assets	706,608	251,971	-	-	-	-	-	5,821,082	-	6,779,661	6,772,559
Social security benefits	-	-	-	-	-	-	-	28,723,218	-	28,723,218	29,246,442
Nuclear claims	-	-	-	17,662,290	-	163,142	-	-	-	17,825,432	44,241,553
Scholarships	-	-	-	-	-	-	310,405	-	-	310,405	-
Health and medical	-	-	-	-	843,800	-	-	-	-	843,800	-
Unreserved	-	-	13,412	-	-	(162,881)	(448,414)	244,569	68,828	(284,486)	3,951
Total fund balances (deficit)	<u>706,608</u>	<u>251,971</u>	<u>13,412</u>	<u>17,662,290</u>	<u>843,800</u>	<u>261</u>	<u>(138,009)</u>	<u>34,788,869</u>	<u>68,828</u>	<u>54,198,030</u>	<u>80,264,505</u>
	<u>\$ 706,608</u>	<u>\$ 263,963</u>	<u>\$ 13,412</u>	<u>\$ 17,662,290</u>	<u>\$ 843,800</u>	<u>\$ 416,878</u>	<u>\$ 75,491</u>	<u>\$ 37,298,567</u>	<u>\$ 68,828</u>	<u>\$ 57,349,837</u>	<u>\$ 82,511,284</u>

See Accompanying Independent Auditors' Report.

REPUBLIC OF THE MARSHALL ISLANDS
EXPENDABLE TRUST FUNDS

Combining Statement of Revenues, Expenditures
and Changes in Fund Balances
Year Ended September 30, 2002
(With comparative totals for the year ended September 30, 2001)

	Kwajalein Atoll Trust Fund	Local Government Fund	Health Indemnity Fund	Nuclear Claims Trust Fund	Four-Atoll Medical Fund	Nuclear Claims Tribunal	Marshall Islands Scholarship Grant and Loan Board	Marshall Islands Social Security Administration	Section 177 Administration Fund	Totals	
										2002	2001
Revenues:											
Compact funding	\$ 15,618,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 15,618,000	\$ 8,545,600
Contributions	-	-	-	-	-	-	-	14,400,263	-	14,400,263	13,354,412
Interest and dividends	-	-	-	801,543	-	11,766	-	900,933	-	1,714,242	2,744,521
Net decrease in the fair value of investments	-	-	-	(1,525,291)	-	-	-	(2,089,774)	-	(3,615,065)	(11,084,055)
Other	-	-	-	-	-	-	10,342	89,845	-	100,187	83,695
Total revenues	15,618,000	-	-	(723,748)	-	11,766	10,342	13,301,267	-	28,217,627	13,644,173
Expenditures:											
Nuclear claims payments	-	-	-	-	-	19,433,832	-	-	-	19,433,832	3,924,152
Land use distributions	13,463,637	-	-	-	-	-	-	-	-	13,463,637	8,529,293
Social security benefit payments	-	-	-	-	-	-	-	8,564,016	-	8,564,016	8,229,021
Health care payments	-	-	-	-	1,899,387	-	-	3,303,850	-	5,203,237	3,931,702
Local government distributions	-	146,029	-	3,062,500	-	-	-	-	-	3,208,529	12,426,599
Administrative	-	-	-	-	-	1,066,187	92,577	941,310	-	2,100,074	2,149,029
Professional services	-	-	-	249,962	-	994,147	-	605,764	-	1,849,873	2,155,167
Bad debts	-	-	-	-	-	-	864,851	-	-	864,851	-
Total expenditures	13,463,637	146,029	-	3,312,462	1,899,387	21,494,166	957,428	13,414,940	-	54,688,049	41,344,963
Excess (deficiency) of revenues over (under) expenditures	2,154,363	(146,029)	-	(4,036,210)	(1,899,387)	(21,482,400)	(947,086)	(113,673)	-	(26,470,422)	(27,700,790)
Other financing sources (uses):											
Operating transfers in	-	398,000	-	-	2,000,000	21,285,206	1,085,084	2,200,000	-	26,968,290	10,403,424
Operating transfers out	(1,900,000)	-	-	(23,285,206)	(250,200)	-	-	(1,846,317)	-	(27,281,723)	(8,444,739)
Total other financing sources (uses), net	(1,900,000)	398,000	-	(23,285,206)	1,749,800	21,285,206	1,085,084	353,683	-	(313,433)	1,958,685
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	254,363	251,971	-	(27,321,416)	(149,587)	(197,194)	137,998	240,010	-	(26,783,855)	(25,742,105)
Fund balances (deficit) at beginning of year	452,245	-	13,412	44,983,706	993,387	197,455	(276,007)	34,548,859	68,828	80,981,885	106,006,610
Fund balances (deficit) at end of year	\$ 706,608	\$ 251,971	\$ 13,412	\$ 17,662,290	\$ 843,800	\$ 261	\$ (138,009)	\$ 34,788,869	\$ 68,828	\$ 54,198,030	\$ 80,264,505

See Accompanying Independent Auditors' Report.

REPUBLIC OF THE MARSHALL ISLANDS
NONEXPENDABLE TRUST FUNDS

September 30, 2002

Nonexpendable trust funds are used to account for assets held by RepMar in a trustee capacity and where the objectives of the fund can be achieved by spending the earnings of the fund while the principal must be preserved intact. A brief discussion of RepMar's Nonexpendable Trust Funds as of September 30, 2002, follows:

Intergenerational Trust Fund

This fund was established under Public Law No. 1999-90 to provide for an additional source of revenue for the government budget that will be needed to substitute for the absence of Compact of Free Association funding. Earnings from funds invested would not be available for distribution until October 2023.

Off-Shore Banking Trust Fund

This fund accounts for all bank capital reserve deposits from international banking corporations as required under Section 6(a) of the Rules and Regulations for the issuance of Corporate Charters to conduct international banking business, as approved by the Cabinet.

Eminent Domain Trust Fund

This fund accounts for funds received from the United States Department of Defense, the intention of which is to make payment for eminent domain proceedings in Kwajalein. These funds are accounted for separately until confirmation of the grantor and terms and conditions may be ascertained.

Non-Resident Workers Trust Fund

This fund accounts for funds received by the Chief Immigration Officer from employers who employ non-resident workers in accordance with Public Law No. 1987-6, amended by Public Law No. 1988-32.

See Accompanying Independent Auditors' Report.

REPUBLIC OF THE MARSHALL ISLANDS
NONEXPENDABLE TRUST FUNDS

Combining Balance Sheet
September 30, 2002
(With comparative totals as of September 30, 2001)

	Intergener- ational Trust Fund	Off-Shore Banking Trust Fund	Eminent Domain Trust Fund	Non-Resident Workers Trust Fund	<u>Totals</u>	
					2002	2001
<u>Assets</u>						
Cash and cash equivalents	\$ 1,054,270	\$ -	\$ -	\$ -	\$ 1,054,270	\$ -
Time certificate of deposit	2,227,290	-	-	-	2,227,290	-
Investments	11,088,025	-	-	-	11,088,025	-
Due from other funds	<u>1,500,000</u>	<u>60,088</u>	<u>94,992</u>	<u>66,596</u>	<u>1,721,676</u>	<u>221,676</u>
	<u>\$ 15,869,585</u>	<u>\$ 60,088</u>	<u>\$ 94,992</u>	<u>\$ 66,596</u>	<u>\$ 16,091,261</u>	<u>\$ 221,676</u>
<u>Liabilities and Fund Equity (Deficiency)</u>						
<u>Liabilities:</u>						
Accounts payable	\$ -	\$ -	\$ 219,915	\$ -	\$ 219,915	\$ 219,915
Other liabilities and accruals	<u>-</u>	<u>92,962</u>	<u>-</u>	<u>-</u>	<u>92,962</u>	<u>92,962</u>
Total liabilities	<u>-</u>	<u>92,962</u>	<u>219,915</u>	<u>-</u>	<u>312,877</u>	<u>312,877</u>
<u>Fund equity (deficiency):</u>						
Fund balances (deficit):						
Unreserved	<u>15,869,585</u>	<u>(32,874)</u>	<u>(124,923)</u>	<u>66,596</u>	<u>15,778,384</u>	<u>(91,201)</u>
Total fund equity (deficiency)	<u>15,869,585</u>	<u>(32,874)</u>	<u>(124,923)</u>	<u>66,596</u>	<u>15,778,384</u>	<u>(91,201)</u>
	<u>\$ 15,869,585</u>	<u>\$ 60,088</u>	<u>\$ 94,992</u>	<u>\$ 66,596</u>	<u>\$ 16,091,261</u>	<u>\$ 221,676</u>

See Accompanying Independent Auditors' Report.

REPUBLIC OF THE MARSHALL ISLANDS
NONEXPENDABLE TRUST FUNDS

Combining Statement of Revenues, Expenses
and Changes in Fund Equity (Deficiency)
Year Ended September 30, 2002
(With comparative totals for the year ended September 30, 2001)

	Intergenerational Trust Fund	Off-Shore Banking Trust Fund	Eminent Domain Trust Fund	Non-Resident Workers Trust Fund	Totals	
					2002	2001
Operating revenues:						
Interest income	\$ 434,311	\$ -	\$ -	\$ -	\$ 434,311	\$ -
Net decrease in the fair value of investments	(2,025,718)	-	-	-	(2,025,718)	-
Total operating revenues	(1,591,407)	-	-	-	(1,591,407)	-
Operating expenses:						
Professional fees	39,008	-	-	-	39,008	-
Total operating expenses	39,008	-	-	-	39,008	-
Operating loss	(1,630,415)	-	-	-	(1,630,415)	-
Other financing sources:						
Operating transfers in	17,500,000	-	-	-	17,500,000	-
	17,500,000	-	-	-	17,500,000	-
Net income	15,869,585	-	-	-	15,869,585	-
Fund equity (deficiency) at beginning of year	-	(32,874)	(124,923)	66,596	(91,201)	(91,201)
Fund equity (deficiency) at end of year	\$ 15,869,585	\$ (32,874)	\$ (124,923)	\$ 66,596	\$ 15,778,384	\$ (91,201)

See Accompanying Independent Auditors' Report.

REPUBLIC OF THE MARSHALL ISLANDS
NONEXPENDABLE TRUST FUNDS

Combining Statement of Cash Flows
Year Ended September 30, 2002
(With comparative totals for the year ended September 30, 2001)

	Intergenerational	Off-Shore	Eminent	Non-Resident	Totals	
	Trust Fund	Banking Trust Fund	Domain Trust Fund	Workers Trust Fund	2002	2001
Cash flows from operating activities:						
Operating loss	\$ (1,630,415)	\$ -	\$ -	\$ -	\$ (1,630,415)	\$ -
Adjustments to reconcile operating loss to net cash used for operating activities:						
Interest income	(434,311)	-	-	-	(434,311)	-
Net decrease in the fair value of investments	2,025,718	-	-	-	2,025,718	-
Increase in assets:						
Due from other funds	(1,500,000)	-	-	-	(1,500,000)	-
Net cash used for operating activities	<u>(1,539,008)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,539,008)</u>	<u>-</u>
Cash flows from noncapital financing activities:						
Operating transfers in	<u>17,500,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>17,500,000</u>	<u>-</u>
Net cash provided by noncapital financing activities	<u>17,500,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>17,500,000</u>	<u>-</u>
Cash flows from investing activities:						
Net change in time certificate of deposit	(2,227,290)	-	-	-	(2,227,290)	-
Net purchases of investments	(12,997,153)	-	-	-	(12,997,153)	-
Net realized losses on investments	(116,590)	-	-	-	(116,590)	-
Interest income	<u>434,311</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>434,311</u>	<u>-</u>
Net cash used for investing activities	<u>(14,906,722)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(14,906,722)</u>	<u>-</u>
Net increase in cash and cash equivalents	1,054,270	-	-	-	1,054,270	-
Cash and cash equivalents at beginning of year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Cash and cash equivalents at end of year	<u>\$ 1,054,270</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,054,270</u>	<u>\$ -</u>

See Accompanying Independent Auditors' Report.

REPUBLIC OF THE MARSHALL ISLANDS
GENERAL FIXED ASSETS ACCOUNT GROUP

September 30, 2002

The General Fixed Assets Account Group is a self-balancing group of accounts established to account for fixed assets of a government not accounted for through specific proprietary funds or trust funds. RepMar does not maintain continuing records of its property, plant and equipment used in governmental fund type operations (general fixed assets), including roads, bridges, curbs, gutters, streets, sidewalks, drainage systems and lighting systems.

See Accompanying Independent Auditors' Report.

REPUBLIC OF THE MARSHALL ISLANDS
GENERAL LONG-TERM DEBT ACCOUNT GROUP

September 30, 2002

The General Long-Term Debt Account Group is a self-balancing group of accounts established to account for the unmatured general long-term debt of a government. It is also used to report that portion of the liabilities for claims, judgments, compensated absences and unfunded pension contributions of governmental funds and expendable trust funds not expected to be liquidated through the use of expendable available financial resources. The general purpose financial statements reflect the balance of RepMar's liability for loans payable, accrued annual leave and claims and judgments payable at September 30, 2002.

See Accompanying Independent Auditors' Report.

REPUBLIC OF THE MARSHALL ISLANDS
UNIVERSITY AND COLLEGE FUND TYPE - HIGHER EDUCATION FUND

September 30, 2002

The University and College Fund Type - Higher Education Fund is used to account for the operations of the College of the Marshall Islands. In College and University accounting, three types of funds are utilized. Current Funds are used to account for unrestricted funds over which the governing boards retain full control in achieving the institutions' purposes and restricted funds which may be utilized only in accordance with externally-restricted purposes. Fiduciary Funds are used to account for assets held by endowment, in which the College acts in a fiduciary capacity, and Plant Funds are used to account for institutional property acquisition, renewal, replacement, debt service and investment. The general purpose financial statements reflect the balances and activity of the only University and College Fund Type - Higher Education Fund of the Government, which is described below:

College of the Marshall Islands

The College of the Marshall Islands (the College), a component unit of the Republic of the Marshall Islands, was established as an independent institution pursuant to the College of the Marshall Islands Act of 1992 (Public Law 1992-13) on April 1, 1993. The Act established the College as an independent institution governed by a Board of Regents appointed by the Republic of the Marshall Islands (RepMar) Minister of Education. Previous to the Act, the College was a component of the College of Micronesia (COM).

See Accompanying Independent Auditors' Report.

REPUBLIC OF THE MARSHALL ISLANDS
COMPONENT UNITS - GOVERNMENTAL FUNDS

September 30, 2002

Component units - governmental funds are legally separate organizations for which the elected officials of RepMar are financially accountable. Governmental funds are used to account for a government's general activities, including the collection and disbursement of specific revenue sources that are legally restricted to expenditure for specified purposes. Revenues and expenditures are recognized on a modified accrual basis, and the measurement focus is on the flow of current financial resources rather than the measurement of net profit.

Marshall Islands Visitors Authority (MIVA)

MIVA was established by the Tourism Act of 1991 (Public Law No. 1991-109). MIVA began operations as a statutory corporation on October 1, 1997, in accordance with the Act, upon receiving its first operational budget. The objectives of MIVA are 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, including three members appointed by RepMar's Minister of Resources and Development with the approval of the Cabinet.

Environmental Protection Authority (EPA)

EPA was established by the National Environmental Protection Authority Act of 1984 (Public Law No. 1984-31, the Act). EPA began operations as a statutory corporation on December 19, 1984, in accordance with the Act. The objectives of EPA are to preserve and improve the quality of the environment of the Republic of the Marshall Islands. In April 1997, EPA established a separate bank account outside of RepMar's Treasury for the purpose of receiving and disbursing funds in accordance with Public Law No. 1984-31. This fund accounts for the transactions related to this separate bank account.

See Accompanying Independent Auditors' Report.

REPUBLIC OF THE MARSHALL ISLANDS
COMPONENT UNITS - GOVERNMENTAL FUNDS

Combining Balance Sheet
September 30, 2002
(With comparative totals as of September 30, 2001)

	<u>Marshall Islands Visitors Authority</u>	<u>Environmental Protection Authority</u>	<u>Totals</u>	
			<u>2002</u>	<u>2001</u>
<u>Assets</u>				
Cash and cash equivalents	\$ 246,297	\$ 61,335	\$ 307,632	\$ 95,492
Receivables, net:				
Other	-	3,712	3,712	6,500
Due from primary government	-	-	-	73,868
Advances	-	3,936	3,936	-
Prepaid items	1,351	-	1,351	1,351
	<u>\$ 247,648</u>	<u>\$ 68,983</u>	<u>\$ 316,631</u>	<u>\$ 177,211</u>
<u>Liabilities and Fund Balances</u>				
Liabilities:				
Accounts payable	\$ 8,630	\$ 1,082	\$ 9,712	\$ 11,308
Other liabilities and accruals	3,559	7,254	10,813	3,559
Total liabilities	<u>12,189</u>	<u>8,336</u>	<u>20,525</u>	<u>14,867</u>
Fund balances:				
Unreserved	<u>235,459</u>	<u>60,647</u>	<u>296,106</u>	<u>162,344</u>
Total fund balances	<u>235,459</u>	<u>60,647</u>	<u>296,106</u>	<u>162,344</u>
	<u>\$ 247,648</u>	<u>\$ 68,983</u>	<u>\$ 316,631</u>	<u>\$ 177,211</u>

See Accompanying Independent Auditors' Report.

REPUBLIC OF THE MARSHALL ISLANDS
COMPONENT UNITS - GOVERNMENTAL FUNDS

Combining Statement of Revenues, Expenditures
and Changes in Fund Balances
Year Ended September 30, 2002
(With comparative totals for the year ended September 30, 2001)

	Marshall Islands Visitors Authority	Environmental Protection Authority	Totals	
			2002	2001
Revenues:				
Fees and charges	\$ -	\$ 51,843	\$ 51,843	\$ -
Other	465	68,667	69,132	259,323
Total revenues	465	120,510	120,975	259,323
Expenditures:				
Salaries and wages	109,646	33,843	143,489	104,672
Travel	20,941	37,828	58,769	48,853
Supplies and materials	32,482	17,414	49,896	5,336
Rentals	18,917	1,373	20,290	16,215
Communications	11,328	7,550	18,878	10,851
Printing and reproduction	6,750	2,982	9,732	25,218
Contractual services	-	6,500	6,500	-
Capital outlay	-	1,404	1,404	5,171
Other	25,786	38,595	64,381	43,007
Total expenditures	225,850	147,489	373,339	259,323
Deficiency of revenues under expenditures	(225,385)	(26,979)	(252,364)	-
Other financing sources:				
Operating transfers in	298,500	-	298,500	299,993
Total other financing sources	298,500	-	298,500	299,993
Excess (deficiency) of revenues and other financing sources over (under) expenditures	73,115	(26,979)	46,136	299,993
Fund balances at beginning of year	162,344	87,626	249,970	121,674
Fund balances at end of year	\$ 235,459	\$ 60,647	\$ 296,106	\$ 421,667

See Accompanying Independent Auditors' Report.

REPUBLIC OF THE MARSHALL ISLANDS
COMPONENT UNITS - PROPRIETARY FUNDS

September 30, 2002

Component units - proprietary funds are legally separate organizations for which the elected officials of RepMar are financially accountable. Proprietary funds are used to account for a government's ongoing organizations and activities that are similar to those often found in the private sector. All assets, liabilities, equities, revenues, expenses, and transfers relating to the government's business and quasi - business activities - where net income and capital maintenance are measured - are accounted for through proprietary funds. GAAP here are generally those applicable to similar businesses in the private sector; the measurement focus is on determination of net income, financial position and cash flows.

Marshall Islands Airports Authority (MIAA)

MIAA was created under Public Law No. 1999-86 to operate and maintain airport facilities in the Marshall Islands. MIAA is governed by a seven-member Board of Directors, including three members appointed by RepMar's Minister of Transportation and Communications.

Tobolar Copra Processing Plant, Inc. (TCPPI)

TCPPI was incorporated on August 13, 1977 for the primary purpose of engaging in the production, processing, and marketing of copra products. TCPPI has been paid for 1,552,503 shares of \$1 par value common stock by the Marshall Islands Development Authority (MIDA), although share certificates have not been issued. TCPPI retains 379,093 shares in treasury.

Majuro Water and Sewer Company, Inc. (MWSC)

MWSC was incorporated on January 26, 1989 to engage in the business of collecting and distributing fresh water, waste water and maintaining the sewer system. MWSC has been paid for 100,000 shares of \$1 par value common stock by MIDA, although share certificates have not been issued.

Marshalls Energy Company, Inc. (MEC)

MEC was incorporated on February 2, 1984 to engage in the business of generating and transmitting electricity and the buying and selling of petroleum products. MEC has issued 100,000 shares of \$1 par value common stock, of which RepMar owns 75,000 of these shares. MEC retains 25,000 shares in treasury.

Marshall Islands National Telecommunications Authority (MINTA)

MINTA was incorporated under Public Law No. 1990-105 to operate and maintain the domestic and international telecommunications system. On December 2, 1991, MINTA issued 90,000 shares of common stock with a par value of \$10 per share to RepMar with the remaining 270,000 shares considered to be unissued capital stock owned by RepMar that have full voting rights and dividend rights. These shares were offered for sale to citizens of the Republic of the Marshall Islands under a prospectus dated November 25, 1991. As of September 30, 2002, 35,575 of these originally unissued shares have been issued. MINTA retains 60,000 shares in treasury.

See Accompanying Independent Auditors' Report.

REPUBLIC OF THE MARSHALL ISLANDS
COMPONENT UNITS - PROPRIETARY FUNDS

September 30, 2002

Kwajalein Atoll Joint Utilities Resources, Inc. (KAJUR)

KAJUR was created by KADA's Board of Directors on October 13, 1989 and was incorporated under the laws of RepMar on September 1, 1990, to generate and distribute utilities on the island of Ebeye. On October 19, 1990, the Board of Directors of KADA authorized the transfer of \$14,265,518 in utility plant and equipment to KAJUR. KAJUR has sold 100,000 shares of \$1 par value common stock to KADA, which is the sole owner of common stock of KAJUR.

KADA Housing Division

The Housing Division accounts for all assets and financial transactions related to KADA's activities designated to be self-sufficient and render services to the public on a user charge basis. The Housing Division's main activity is the leasing of real property on the island of Ebeye and the loaning of funds to citizens residing on Ebeye for housing improvement projects.

Majuro Resort, Inc. (MRI)

MRI was incorporated on November 8, 1995 to engage in the operation of a 150 room hotel on the atoll of Majuro. MRI's articles of incorporation authorized the issuance of 2,000,000 shares of \$10 par value common stock, of which 1,101,500 and 30,022 shares had been issued to RepMar and the Marshall Islands Investment Development Fund, respectively.

Marshall Islands Ports Authority (MIPA)

MIPA was created under Public Law No. 1999-88 to operate and maintain commercial port facilities in the Marshall Islands. MIPA is governed by a five-member Board of Directors, including three members appointed by RepMar's Minister of Transportation and Communications.

Marshall Islands Marine Resources Authority (MIMRA)

MIMRA was created under 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 four members appointed by the President.

Marshall Islands Social Security Administration (MISSA) Supplemental Health Benefits Plan

MISSA Supplemental Health Benefits Plan was created under Public Law No. 1991-118 to provide members, for the payment of a premium and without the need for a referral by a medical referral committee, a determined portion of the cost of supplemental health care at off-island health care facilities.

See Accompanying Independent Auditors' Report.

REPUBLIC OF THE MARSHALL ISLANDS
COMPONENT UNITS - PROPRIETARY FUNDS

Combining Balance Sheet
September 30, 2002
(With comparative totals as of September 30, 2001)

	Marshall Islands Airports Authority	Tobolar Copra Processing Plant, Inc.	Majuro Water and Sewer Company, Inc.	Marshalls Energy Company, Inc.	Marshall Islands National Telecomm. Authority	Kwajalein Atoll Joint Utilities Resources, Inc.
<u>Assets</u>						
Cash and cash equivalents	\$ 236,827	\$ 2,194	\$ 81,221	\$ 617,345	\$ 1,570,771	\$ 9,377
Time certificates of deposit	200,000	-	-	-	716,008	-
Investments	-	-	-	-	2,782,095	-
Receivables, net:						
General	65,596	96,378	311,112	1,632,602	2,353,668	661,569
Other	9,202	-	-	160,968	-	208,486
Due from primary government	-	395,229	149,000	186,651	-	96,250
Due from component units	-	-	-	171,627	-	-
Inventories	-	898,549	92,451	1,784,400	174,231	188,259
Prepaid items	21,809	-	4,737	39,660	40,010	-
Investment in fixed assets, net	4,562,652	1,085,938	47,738	13,720,335	18,808,469	8,769,729
	<u>\$ 5,096,086</u>	<u>\$ 2,478,288</u>	<u>\$ 686,259</u>	<u>\$ 18,313,588</u>	<u>\$ 26,445,252</u>	<u>\$ 9,933,670</u>
<u>Liabilities and Fund Equity (Deficiency)</u>						
Liabilities:						
Bank overdraft	\$ -	\$ 49,333	\$ -	\$ -	\$ -	\$ 42,085
Accounts payable	124,077	467,937	73,514	2,120,750	767,696	1,175,450
Claims payable	-	-	-	-	-	-
Other liabilities and accruals	32,533	51,066	47,567	323,804	610,062	340,334
Due to primary government	73,957	-	727,582	-	-	-
Due to component units	-	-	171,627	-	-	-
Deferred revenue	12,198	-	-	-	-	-
Loans payable	-	1,022,478	-	10,665,534	17,603,312	-
Interest payable	-	61,144	-	-	-	-
	<u>242,765</u>	<u>1,651,958</u>	<u>1,020,290</u>	<u>13,110,088</u>	<u>18,981,070</u>	<u>1,557,869</u>
Fund equity (deficiency):						
Contributed capital	-	1,552,503	100,000	75,000	3,243,805	100,000
Retained earnings (deficit):						
Unreserved	4,853,321	(726,173)	(434,031)	5,128,500	4,220,377	8,275,801
	<u>4,853,321</u>	<u>826,330</u>	<u>(334,031)</u>	<u>5,203,500</u>	<u>7,464,182</u>	<u>8,375,801</u>
Total fund equity (deficiency)	<u>\$ 5,096,086</u>	<u>\$ 2,478,288</u>	<u>\$ 686,259</u>	<u>\$ 18,313,588</u>	<u>\$ 26,445,252</u>	<u>\$ 9,933,670</u>

REPUBLIC OF THE MARSHALL ISLANDS
COMPONENT UNITS - PROPRIETARY FUNDS

Combining Balance Sheet
September 30, 2002
(With comparative totals as of September 30, 2001)

KADA Housing Division	Majuro Resort, Inc. (December 31, 2002)	Marshall Islands Ports Authority	Marshall Islands Marine Resources Authority	MISSA Supplemental Health Benefits Plan	Totals	
					2002	2001
\$ 198,379	\$ 174,563	\$ 624,835	\$ 272,714	\$ -	\$ 3,788,226	\$ 6,690,583
-	-	1,202,261	1,057,748	-	3,176,017	1,944,841
-	-	-	-	-	2,782,095	194,322
-	143,366	262,539	88,898	-	5,615,728	4,516,501
78,989	1,828	364,352	103,126	7,082	934,033	1,129,527
-	20,697	-	-	-	847,827	2,642,357
-	-	-	-	-	171,627	631,939
-	101,367	-	-	-	3,239,257	3,367,884
-	55,977	-	-	-	162,193	253,372
<u>1,109,762</u>	<u>8,264,112</u>	<u>6,250,212</u>	<u>454,775</u>	<u>-</u>	<u>63,073,722</u>	<u>79,226,771</u>
<u>\$ 1,387,130</u>	<u>\$ 8,761,910</u>	<u>\$ 8,704,199</u>	<u>\$ 1,977,261</u>	<u>\$ 7,082</u>	<u>\$ 83,790,725</u>	<u>\$ 100,598,097</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 91,418	\$ 126,231
-	69,879	49,324	124,698	-	4,973,325	5,762,146
-	-	-	-	46,949	46,949	204,666
16,834	135,191	32,729	98,841	-	1,688,961	2,396,206
1,153,052	586,334	-	369,441	1,555,808	4,466,174	4,326,517
-	-	-	-	-	171,627	631,939
-	-	-	362,826	-	375,024	268,578
-	-	-	-	-	29,291,324	40,121,269
-	-	-	-	-	61,144	2,323,640
<u>1,169,886</u>	<u>791,404</u>	<u>82,053</u>	<u>955,806</u>	<u>1,602,757</u>	<u>41,165,946</u>	<u>56,161,192</u>
-	11,315,220	-	-	-	16,386,528	29,218,818
<u>217,244</u>	<u>(3,344,714)</u>	<u>8,622,146</u>	<u>1,021,455</u>	<u>(1,595,675)</u>	<u>26,238,251</u>	<u>15,218,087</u>
<u>217,244</u>	<u>7,970,506</u>	<u>8,622,146</u>	<u>1,021,455</u>	<u>(1,595,675)</u>	<u>42,624,779</u>	<u>44,436,905</u>
<u>\$ 1,387,130</u>	<u>\$ 8,761,910</u>	<u>\$ 8,704,199</u>	<u>\$ 1,977,261</u>	<u>\$ 7,082</u>	<u>\$ 83,790,725</u>	<u>\$ 100,598,097</u>

See Accompanying Independent Auditors' Report.

REPUBLIC OF THE MARSHALL ISLANDS
COMPONENT UNITS - PROPRIETARY FUNDS

Combining Statement of Revenues, Expenses
and Changes in Retained Earnings (Deficit)
Year Ended September 30, 2002
(With comparative totals for the year ended September 30, 2001)

	Marshall Islands Airports Authority	Tobolar Copra Processing Plant, Inc.	Majuro Water and Sewer Company, Inc.	Marshalls Energy Company, Inc.	Marshall Islands National Telecomm. Authority	Kwajalein Atoll Joint Utilities Resources, Inc.
Operating revenues:						
Services	\$ 733,503	\$ -	\$ 1,129,650	\$ 8,289,970	\$ 6,791,616	\$ 2,435,931
Sales	-	940,133	-	7,660,469	-	-
Other	38,348	-	17,935	300,925	-	-
Total operating revenues	<u>771,851</u>	<u>940,133</u>	<u>1,147,585</u>	<u>16,251,364</u>	<u>6,791,616</u>	<u>2,435,931</u>
Operating expenses:						
Cost of goods sold	-	1,515,192	-	5,530,080	-	-
Fuel and lubricants	11,064	-	28,566	4,215,743	-	1,649,436
Depreciation and amortization	354,158	54,882	38,029	1,044,644	1,803,013	983,061
Salaries, wages and benefits	346,868	116,245	643,609	1,815,976	-	709,934
Plant expenses	-	-	-	-	2,094,358	-
Repairs and supplies	26,967	-	99,592	1,462,609	-	213,048
Corporate operations	-	-	-	-	460,783	-
Bad debts	22,979	-	105,317	329,532	168,661	-
Customer operations	-	-	-	-	690,346	-
Health care payments	-	-	-	-	-	-
Maintenance	-	-	-	-	-	189,540
Insurance	-	44,302	18,762	155,960	-	-
Travel	-	19,408	4,207	27,880	-	138,761
Professional fees	21,965	60,109	8,167	13,801	-	18,780
Office supplies	8,607	5,295	16,241	120,792	-	-
Reservation and sales	-	-	-	-	-	-
Miscellaneous	126,729	29,094	273,454	560,270	-	174,887
Total operating expenses	<u>919,337</u>	<u>1,844,527</u>	<u>1,235,944</u>	<u>15,277,287</u>	<u>5,217,161</u>	<u>4,077,447</u>
Operating income (loss)	<u>(147,486)</u>	<u>(904,394)</u>	<u>(88,359)</u>	<u>974,077</u>	<u>1,574,455</u>	<u>(1,641,516)</u>
Nonoperating revenues (expenses):						
Gain on forgiveness of debt	-	-	1,726,249	-	-	-
Capital contributions	-	-	-	-	-	1,251,763
Interest income	9,011	-	-	-	-	-
Gain on voluntary nonexchange transaction	-	-	-	-	-	-
Net decrease in the fair value of investments	-	-	-	-	(340,074)	-
Interest expense	-	(91,180)	(390)	(764,650)	(898,587)	(3,499)
Gain (loss) on sale of fixed assets	-	-	-	-	-	(2,678,025)
Other	7,211	-	(201,185)	-	-	(524,521)
Total nonoperating revenues (expenses), net	<u>16,222</u>	<u>(91,180)</u>	<u>1,524,674</u>	<u>(764,650)</u>	<u>(1,238,661)</u>	<u>(1,954,282)</u>
Income (loss) before other financing sources	<u>(131,264)</u>	<u>(995,574)</u>	<u>1,436,315</u>	<u>209,427</u>	<u>335,794</u>	<u>(3,595,798)</u>
Other financing sources (uses):						
Operating transfers in	-	1,449,464	1,464,493	1,866,667	-	573,000
Operating transfers out	-	-	-	-	-	-
Total other financing sources (uses), net	<u>-</u>	<u>1,449,464</u>	<u>1,464,493</u>	<u>1,866,667</u>	<u>-</u>	<u>573,000</u>
Net income (loss)	<u>(131,264)</u>	<u>453,890</u>	<u>2,900,808</u>	<u>2,076,094</u>	<u>335,794</u>	<u>(3,022,798)</u>
Retained earnings (deficit) at beginning of year	4,984,585	(1,180,063)	(3,334,839)	3,052,406	4,064,583	11,298,599
Dividends paid	-	-	-	-	(180,000)	-
Retained earnings (deficit) at end of year	<u>\$ 4,853,321</u>	<u>\$ (726,173)</u>	<u>\$ (434,031)</u>	<u>\$ 5,128,500</u>	<u>\$ 4,220,377</u>	<u>\$ 8,275,801</u>

REPUBLIC OF THE MARSHALL ISLANDS
COMPONENT UNITS - PROPRIETARY FUNDS

Combining Statement of Revenues, Expenses
and Changes in Retained Earnings (Deficit)
Year Ended September 30, 2002
(With comparative totals for the year ended September 30, 2001)

KADA Housing Division	Majuro Resort, Inc. (Year ended December 31, 2002)	Marshall Islands Ports Authority	Marshall Islands Marine Resources Authority	MISSA Supplemental Health Benefits Plan	Totals	
					2002	2001
\$ -	\$ 1,491,744	\$ 1,903,812	\$ 1,587,732	\$ 630,064	\$ 24,994,022	\$ 25,822,293
-	1,229,544	-	-	-	9,830,146	7,333,797
152,444	-	-	273,577	-	783,229	1,323,677
152,444	2,721,288	1,903,812	1,861,309	630,064	35,607,397	34,479,767
-	1,490,208	-	-	-	8,535,480	7,923,316
236	-	57,055	26,338	-	5,988,438	6,936,991
59,526	500,500	515,188	43,495	-	5,396,496	7,342,570
86,528	-	208,961	555,699	-	4,483,820	4,145,375
-	-	-	-	-	2,094,358	2,094,427
9,822	-	31,212	13,901	-	1,857,151	2,135,452
-	515,475	-	-	-	976,258	1,557,768
-	-	19,974	172,017	-	818,480	3,087,176
-	-	-	-	-	690,346	703,131
-	-	-	-	498,717	498,717	714,961
-	224,546	-	-	-	414,086	1,422,685
-	58,840	11,006	-	-	288,870	319,947
-	-	10,578	47,391	-	248,225	282,867
-	-	-	72,795	-	195,617	276,844
-	-	-	18,523	-	169,458	117,846
-	135,155	-	-	-	135,155	563,738
16,495	555,636	491,162	468,854	-	2,696,581	3,773,992
172,607	3,480,360	1,345,136	1,419,013	498,717	35,487,536	43,399,086
(20,163)	(759,072)	558,676	442,296	131,347	119,861	(8,919,319)
-	-	-	-	-	1,726,249	-
-	-	-	-	-	1,251,763	2,331,458
-	-	41,073	41,554	-	91,638	299,598
-	-	-	-	-	-	600,000
-	-	-	-	-	(340,074)	(187,206)
-	-	-	-	-	(1,758,306)	(2,375,049)
-	-	688	-	-	(2,677,337)	25,261
-	-	-	173,288	-	(545,207)	100,878
-	-	41,761	214,842	-	(2,251,274)	794,940
(20,163)	(759,072)	600,437	657,138	131,347	(2,131,413)	(8,124,379)
-	-	-	-	-	5,353,624	4,174,665
-	-	-	(320,000)	-	(320,000)	(400,000)
-	-	-	(320,000)	-	5,033,624	3,774,665
(20,163)	(759,072)	600,437	337,138	131,347	2,902,211	(4,349,714)
237,407	(2,585,642)	8,021,709	684,317	(1,727,022)	23,516,040	19,747,801
-	-	-	-	-	(180,000)	(180,000)
\$ 217,244	\$ (3,344,714)	\$ 8,622,146	\$ 1,021,455	\$ (1,595,675)	\$ 26,238,251	\$ 15,218,087

See Accompanying Independent Auditors' Report.

REPUBLIC OF THE MARSHALL ISLANDS
COMPONENT UNITS - PROPRIETARY FUNDS

Combining Statement of Cash Flows
Year Ended September 30, 2002
(With comparative totals for the year ended September 30, 2001)

	Marshall Islands Airports Authority	Tobolar Copra Processing Plant, Inc.	Majuro Water and Sewer Company, Inc.	Marshall's Energy Company, Inc.	Marshall Islands National Telecomm. Authority
Cash flows from operating activities:					
Operating income (loss)	\$ (147,486)	\$ (904,394)	\$ (88,359)	\$ 974,077	\$ 1,574,455
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities					
Loss on sale of fixed assets	-	-	-	-	-
Depreciation and amortization	354,158	54,882	38,029	1,044,644	1,803,013
Bad debts	22,979	-	105,317	329,532	168,661
Recovery of bad debts	-	-	-	-	-
(Increase) decrease in assets:					
General receivables	(51,602)	(13,406)	(182,987)	(456,453)	(757,030)
Other receivables	(1,983)	-	(82,082)	253,077	-
Due from primary government	-	254,771	(178,135)	(305,072)	45,069
Due from component units	-	-	-	460,312	-
Inventories	-	164,563	29,748	(439,614)	(75,151)
Prepaid items	(21,549)	-	(3,281)	(11,860)	(32,575)
Increase (decrease) in liabilities:					
Accounts payable	17,167	(252,723)	(16,062)	(965,440)	40,158
Claims payable	-	-	-	-	-
Other liabilities and accruals	(74,162)	(57,128)	3,622	(111,633)	112,563
Due to primary government	61,984	-	137,762	-	-
Due to component units	-	-	(460,312)	-	-
Deferred revenue	(7,338)	-	-	-	-
Net cash provided by (used for) operating activities	<u>152,168</u>	<u>(753,435)</u>	<u>(696,740)</u>	<u>771,570</u>	<u>2,879,163</u>
Cash flows from noncapital financing activities:					
Net borrowings (repayment) under bank overdraft facility	-	6,447	-	-	-
Operating transfers in (out)	-	949,464	750,000	1,866,667	-
Interest paid on short-term borrowings	-	(78,052)	-	(76,455)	-
Net borrowings (repayment) under bank credit line agreement	-	(77,522)	-	(1,200,000)	-
Dividends paid	-	-	-	-	(180,000)
Other	-	-	-	-	100,162
Net cash provided by (used for) noncapital financing activities	<u>-</u>	<u>800,337</u>	<u>750,000</u>	<u>590,212</u>	<u>(79,838)</u>
Cash flows from capital and related financing activities:					
Proceeds from sale of fixed assets	-	-	-	-	-
Acquisition and construction of capital assets	(100,499)	(44,758)	(15,016)	(312,597)	(951,796)
Capital contributions	-	-	-	-	-
Principal paid on long-term debt	-	-	-	(406,901)	(604,767)
Interest paid on long-term debt	-	-	-	(688,195)	(898,587)
Net cash used for capital and related financing activities	<u>(100,499)</u>	<u>(44,758)</u>	<u>(15,016)</u>	<u>(1,407,693)</u>	<u>(2,455,150)</u>
Cash flows from investing activities:					
Net change in time certificates of deposit	(200,000)	-	-	-	(52,330)
Net purchases of investments	-	-	-	-	(2,782,095)
Loss on investments	-	-	-	-	(340,074)
Interest on time certificates of deposit	9,011	-	-	-	-
Net cash provided by (used for) investing activities	<u>(190,989)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(3,174,499)</u>
Net increase (decrease) in cash and cash equivalents	(139,320)	2,144	38,244	(45,911)	(2,830,324)
Cash and cash equivalents at beginning of year	376,147	50	42,977	663,256	4,401,095
Cash and cash equivalents at end of year	<u>\$ 236,827</u>	<u>\$ 2,194</u>	<u>\$ 81,221</u>	<u>\$ 617,345</u>	<u>\$ 1,570,771</u>
Noncash items:					
Sale/transfer of fixed assets:					
Noncash increase in fixed assets	\$ -	\$ -	\$ -	\$ -	\$ -
Noncash increase in contributed capital	-	-	-	-	-
Transfer of completed project to fixed assets:					
Electric plant in service	\$ -	\$ -	\$ -	\$ -	\$ -
Construction work in progress	-	-	-	-	-
Transfer of electric plant to materials and supplies:					
Electric plant in service	\$ -	\$ -	\$ -	\$ -	\$ -
Inventories	-	-	-	-	-
Treasury stock acquired in lieu of collection of receivables:					
Gain on voluntary nonexchange transaction	\$ -	\$ -	\$ -	\$ -	\$ -
Acquisition of treasury stock	-	-	-	-	-
Forgiveness of debt:					
Noncash increase in operating transfers in	\$ -	\$ 500,000	\$ 714,493	\$ -	\$ -
Gain on forgiveness of debt	-	-	1,726,249	-	-
Noncash decrease in water system infrastructure, net	-	-	8,375,638	-	-
Noncash decrease in due to primary government	-	(500,000)	-	-	-
Noncash decrease in loans payable	-	-	(8,540,756)	-	-
Noncash decrease in interest payable	-	-	(2,275,624)	-	-
Reimbursement for costs of improvement:					
Noncash increase in fixed assets	\$ -	\$ -	\$ -	\$ -	\$ -
Noncash increase in deferred revenue	-	-	-	-	-

REPUBLIC OF THE MARSHALL ISLANDS
COMPONENT UNITS - PROPRIETARY FUNDS

Combining Statement of Cash Flows
Year Ended September 30, 2002
(With comparative totals for the year ended September 30, 2001)

Kwajalein Atoll Joint Utilities Resources, Inc.	KADA Housing Division	Majuro Resort, Inc. (Year ended December 31, 2002)	Marshall Islands Ports Authority	Marshall Islands Marine Resources Authority	MISSA Supplemental Health Benefits Plan	Totals	
						2002	2001
\$ (1,641,516)	\$ (20,163)	\$ (759,072)	\$ 558,676	\$ 442,296	\$ 131,347	\$ 119,861	\$ (8,919,319)
-	-	-	-	-	-	-	1,099
983,061	59,526	500,500	515,188	43,495	-	5,396,496	7,342,570
-	-	-	19,974	172,017	-	818,480	3,087,176
-	-	-	-	-	-	-	(743,738)
12,718	-	5,079	(12,954)	(61,713)	-	(1,518,348)	(64,702)
(180,002)	136,761	11,178	(82,333)	(213,513)	14,144	(144,753)	(529,091)
57,592	-	90,467	-	-	-	(35,308)	(486,350)
-	-	-	-	-	-	460,312	(144,699)
17,423	-	8,077	-	-	-	(294,954)	(350,515)
-	-	(15,270)	-	-	-	(84,535)	(32,610)
583,654	-	(10,285)	13,069	60,937	-	(529,525)	(378,981)
-	-	-	-	-	(157,717)	(157,717)	448,203
(100,939)	-	5,557	10,800	39,854	-	(171,466)	140,843
-	45,085	139,097	-	276,985	13,071	673,984	421,303
-	-	-	-	-	-	(460,312)	12,683
-	-	-	-	362,826	(845)	354,643	162,024
<u>(268,009)</u>	<u>221,209</u>	<u>(24,672)</u>	<u>1,022,420</u>	<u>1,123,184</u>	<u>-</u>	<u>4,426,858</u>	<u>(34,104)</u>
(26,094)	-	-	-	(15,166)	-	(34,813)	122,057
573,000	-	-	-	(320,000)	-	3,819,131	2,374,665
(3,499)	-	-	-	-	-	(158,006)	(172,340)
-	-	-	-	-	-	(1,277,522)	441,120
-	-	-	-	-	-	(180,000)	(180,000)
-	-	-	-	50,000	-	150,162	23,593
<u>543,407</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(285,166)</u>	<u>-</u>	<u>2,318,952</u>	<u>2,609,095</u>
-	-	-	-	-	-	-	62,170
(1,532,636)	(44,089)	(75,172)	(351,654)	(209,773)	-	(3,637,990)	(5,035,839)
1,251,763	-	-	-	-	-	1,251,763	3,623,707
-	-	-	-	-	-	(1,011,668)	(960,948)
-	-	-	-	-	-	(1,586,782)	(1,638,373)
<u>(280,873)</u>	<u>(44,089)</u>	<u>(75,172)</u>	<u>(351,654)</u>	<u>(209,773)</u>	<u>-</u>	<u>(4,984,677)</u>	<u>(3,949,283)</u>
-	-	-	(502,261)	(476,585)	-	(1,231,176)	(140,762)
-	-	-	-	-	-	(2,782,095)	-
-	-	-	-	-	-	(340,074)	-
-	-	-	34,567	46,674	-	90,252	279,991
-	-	-	(467,694)	(429,911)	-	(4,263,093)	139,229
(5,475)	177,120	(99,844)	203,072	198,334	-	(2,501,960)	(1,235,063)
14,852	21,259	274,407	421,763	74,380	-	6,290,186	7,925,646
<u>\$ 9,377</u>	<u>\$ 198,379</u>	<u>\$ 174,563</u>	<u>\$ 624,835</u>	<u>\$ 272,714</u>	<u>\$ -</u>	<u>\$ 3,788,226</u>	<u>\$ 6,690,583</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (107,751)
-	-	-	-	-	-	-	107,751
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 439,549
-	-	-	-	-	-	-	(439,549)
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (181,259)
-	-	-	-	-	-	-	181,259
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 600,000
-	-	-	-	-	-	-	(600,000)
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,214,493	\$ -
-	-	-	-	-	-	1,726,249	-
-	-	-	-	-	-	8,375,638	-
-	-	-	-	-	-	(500,000)	-
-	-	-	-	-	-	(8,540,756)	-
-	-	-	-	-	-	(2,275,624)	-
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ -	\$ -	\$ -	\$ -	\$ (153,549)	\$ -	\$ (153,549)	\$ -
-	-	-	-	153,549	-	153,549	-
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

See Accompanying Independent Auditors' Report.