

REPUBLIC OF THE MARSHALL ISLANDS

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

YEAR ENDED SEPTEMBER 30, 2003

REPUBLIC OF THE MARSHALL ISLANDS

FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2003

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INDEPENDENT AUDITORS' REPORT

His Excellency Kessai Note
President
Republic of the Marshall Islands:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Republic of the Marshall Islands (RepMar), as of and for the year ended September 30, 2003, which collectively comprise RepMar's basic financial statements as set forth in Section II of the foregoing table of contents. These financial statements are the responsibility of the management of RepMar. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Marshall Islands National Telecommunications Authority, which represent 36% and 17%, respectively, of the assets and revenues of RepMar's Component Units (as presented in the Combining Statements of Net Assets and Activities, respectively, of the Government-Wide Financial Statements). Those financial statements were audited by other auditors whose report thereon has been furnished to us and our opinion, insofar as it relates to the amounts included for the aggregate discretely presented component units, 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of the other auditors provides a reasonable basis for our opinion.

The financial statements referred to above do not include the Health Care Revenue Fund, a Governmental Fund Type - Special Revenue Fund; the Ministry of Education Headstart Program, a Governmental Fund Type - Special Revenue Fund; the Marshall Islands Scholarship, Grant and Loan Board, a Governmental Fund Type - Special Revenue Fund; the Kwajalein Atoll Development Authority, a Governmental Fund Type - Capital Projects Fund; and Air Marshall Islands, Inc., the Kwajalein Atoll Joint Utilities Resources, Inc., the Marshall Islands Development Bank, and the Marshall Islands Drydock, Inc., all Component Units, 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 financial statements is unknown.

Because of inadequacies in the accounting records, we were unable to determine that receivables from federal agencies were fairly stated as of September 30, 2003.

Capital assets acquired between fiscal years 1988 and 1998 and disposals since fiscal year 1988 have not been recorded within the accompanying statement of net assets. Furthermore, depreciation expense relating to these capital assets has not been recorded within the accompanying statement of activities for the year ended September 30, 2003. We were unable to ensure the physical presence of recorded amounts and related depreciation expense as RepMar has not performed a comprehensive inventory of its fixed assets.

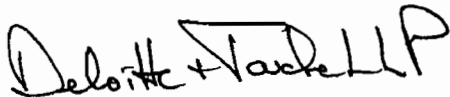
In our opinion, based on our audit and the report of the other auditors, except for the effects on the financial statements of such adjustments, if any, as might have been determined to be necessary had the propriety of receivables from federal agencies, been determinable and had we been able to assure ourselves as to the propriety of net assets invested in capital assets, net of related debt, as discussed in the fourth and fifth paragraphs above, and the omission of the Health Care Revenue Fund, the Ministry of Education Headstart Program, the Marshall Islands Scholarship, Grant and Loan Board, the Kwajalein Atoll Development Authority, Air Marshall Islands, Inc., the Kwajalein Atoll Joint Utilities Resources, Inc., the Marshall Islands Development Bank, and the Marshall Islands Drydock, Inc., as discussed in the third paragraph above, such financial statements, as set forth in Section II of the table of contents, with the exception of the capital assets and related depreciation expense upon which we are unable to express an opinion because of the matter set forth in the fifth paragraph above, present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of RepMar as of September 30, 2003, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1, during the year ended September 30, 2003, RepMar adopted the provisions of GASB Statements No. 34, *Basic Financial Statements - and Management 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 Discussion and Analysis for State and Local Governments; Omnibus*, and GASB Statement No. 38, *Certain Financial Statement Note Disclosures*. The implementation of these standards changed the basic financial statement reporting model to include government-wide, full accrual statements and created a modified reporting of the fund perspective financial statements. Implementing these standards also required reporting of infrastructure assets, changed the method of reporting cash flows from the indirect method to the direct method and included the requirement for reporting a Management's Discussion and Analysis as required supplementary information. Beginning net asset and fund balances have been restated to account for the implementation of these accounting standards.

The Management's Discussion and Analysis, on pages 4 through 10, as well as the Schedule of Revenues, Expenditures, and Changes in Deficit - Budget and Actual - General Fund and notes thereto, on pages 54 and 55, are not a required part of the basic financial statements but are supplementary information required by GASB. Such information is the responsibility of the management of RepMar. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise RepMar's basic financial statements. The combining and individual fund statements, listed in Section IV of the foregoing table of contents, are presented for the purpose of additional analysis and are not a required part of the basic 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 basic financial statements and, except for the effects of the matters described in the fourth and fifth paragraphs above, and the omissions discussed in the third paragraph, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 2, 2004, 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.

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

April 2, 2004

REPUBLIC OF THE MARSHALL ISLANDS MANAGEMENT'S DISCUSSION AND ANALYSIS

This analysis, prepared by the Ministry of Finance, offers readers of the Republic of the Marshall Islands' (RepMar) financial statements a narrative overview of the activities of the government for the fiscal year ended September 30, 2003. We encourage readers to consider this information in conjunction with RepMar's financial statements, which follow. This analysis is required by the Governmental Accounting Standards Board, (GASB) which provides guidelines on what must be included and excluded from this analysis.

Because RepMar is implementing new reporting standards for fiscal year 2003, resulting in significant changes in content and structure, much of the information is not comparable to prior years. However in future years, comparisons will be more meaningful and will go farther towards explaining RepMar's financial position and results of operations.

FINANCIAL HIGHLIGHTS

- For the fiscal year ended September 30, 2003, RepMar's total net assets increased by \$16.34 million (up 111%) from \$(14.77) million in prior year to \$1.57 million. This increase is primarily attributable to increases in the Intergenerational Trust Fund of \$17.08 million.
- During fiscal year 2003, RepMar's expenses were \$82.80 million, which were funded by \$59.71 million in program revenues and \$39.43 million in taxes and other general revenues.
- The resources available for appropriation for fiscal year 2003 of \$40.08 million were \$0.66 million more than budgeted for the General Fund, with revenue collections increasing to \$36.94 million (up 4%) compared with prior year collections of \$35.68 million. However, charges to appropriations for fiscal year 2003 of \$39.76 million marginally exceeded budgeted amounts by \$0.34 million but decreased by \$5.36 million (down 12%) compared with prior year charges of \$45.12 million. This resulted in a budgetary surplus for the fiscal year 2003 of \$0.32 million. RepMar was able to maintain its budgetary stability by holding its budget to an amount approximating prior year revenue collections. No new budget initiatives were taken during fiscal year 2003.
- The unreserved deficit of the General Fund decreased by \$3.61 million (down 51%) from \$7.10 million in the prior year to \$3.49 million. This decrease was primarily attributable to a decrease in reserves for related assets.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Government-wide Financial Statements

The government-wide statements report information about RepMar as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

Government-wide Financial Statements, Continued

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

- Over time, increases or decreases in RepMar's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of RepMar you need to consider additional non-financial factors such as changes in RepMar's tax base and the condition of RepMar's roads.

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

- **Governmental activities** - Most of RepMar's basic services are included here, such as education, health, special appropriations, finance, judiciary, and general administration. Federal grants finance most of these activities.
- **Business-type activities** - RepMar reports the operations of its lone public institution of higher education, which charges tuition fees to students to help it cover the costs of the educational services it provides.
- **Component units** - RepMar includes numerous other entities in its report. Although legally separate, these "component units" are important because RepMar is financially accountable for them.

Fund Financial Statements

The fund financial statements provide more detailed information about RepMar's most significant funds - not RepMar as a whole. Funds are accounting devices that RepMar uses to keep track of specific sources of funding and spending for particular purposes.

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

RepMar has three kinds of funds:

- **Governmental funds** - Most of RepMar's basic services are included in governmental funds, which focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance RepMar's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statement, or on the subsequent page, that explains the relationship (or differences) between them.
- **Proprietary funds** - Services for which RepMar charges customers a fee is generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both long- and short-term financial information.

Fund Financial Statements, Continued

- Fiduciary funds - RepMar is the trustee, or fiduciary, for other assets that - because of a trust arrangement - can be used only for the trust beneficiaries. RepMar is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of RepMar's fiduciary activities are reported in a separate statement of fiduciary net assets and a statement of changes in fiduciary net assets. We exclude these activities from RepMar's government-wide financial statements because RepMar cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF REPMAR AS A WHOLE

Net assets may serve over time as a useful indicator of a government's financial position. At the end of fiscal year 2003, RepMar's assets exceeded liabilities by \$1.57 million. Of this amount, \$0.79 million pertains to its business-type activities; the remaining \$0.78 million pertains to its governmental activities. However, all these net assets are either restricted as to the purposes they can be used for or are invested in capital assets (buildings, roads, etc.). RepMar uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although RepMar's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

	RepMar's Net Assets September 30, 2003		
	Governmental Activities	Business-Type Activities	Total Primary Government
Current and other non-capital assets	\$ 51,292,506	\$ 1,086,337	\$ 52,378,843
Capital assets	<u>27,778,805</u>	<u>1,426,182</u>	<u>29,204,987</u>
Total Assets	<u>79,071,311</u>	<u>2,512,519</u>	<u>81,583,830</u>
Long-term liabilities	62,790,368	448,341	63,238,709
Other liabilities	<u>15,503,466</u>	<u>1,269,492</u>	<u>16,772,958</u>
Total Liabilities	<u>78,293,834</u>	<u>1,717,833</u>	<u>80,011,667</u>
Net Assets			
Invested in capital assets, net of related debt	3,056,308	1,426,182	4,482,490
Restricted	37,220,771	136,246	37,357,017
Unrestricted	<u>(39,499,602)</u>	<u>(767,742)</u>	<u>(40,267,344)</u>
Total Net Assets	<u>\$ 777,477</u>	<u>\$ 794,686</u>	<u>\$ 1,572,163</u>

At the end of fiscal year 2003, RepMar unrestricted net assets show a \$40.27 million deficit. This deficit is the result of having long-term commitments that are greater than currently available resources. Specifically, RepMar did not include in past annual budgets the full amounts needed to finance future liabilities arising from Asian Development Bank and other loans as well as to pay for unused employee leave balances. RepMar will include these amounts in future years' budgets as they become due. The bulk of RepMar's net assets lie in its Intergenerational Trust Fund investments (non-capital assets), capital assets and long-term liabilities.

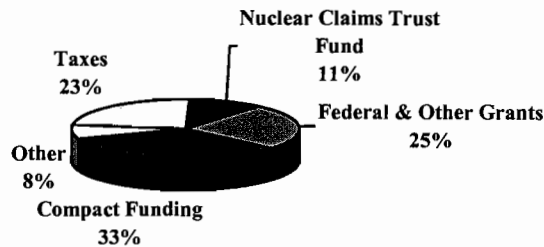
Governmental activities increased RepMar's net assets by \$15.20 million, which accounts for 93% of the total growth in the net assets of RepMar, with the remaining increase of \$1.13 million contributed by RepMar's business-type activities. Key elements of this increase are as follows:

**RepMar's Change in Net Assets
For the Year Ended September 30, 2003**

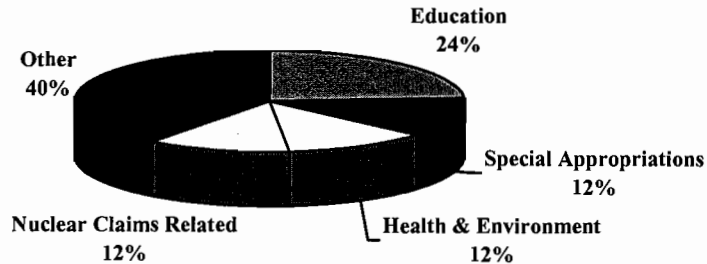
	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total Primary Government</u>
Revenues:			
Program revenues:			
Charges for services	\$ 1,092,868	\$ 164,608	\$ 1,257,476
Operating grants and contributions	51,001,514	3,214,114	54,215,628
Capital grants and contributions	4,239,333	-	4,239,333
General revenues:			
Taxes	23,060,153	-	23,060,153
Compact funding	6,360,000	-	6,360,000
Grants and contributions not restricted	3,000,000	-	3,000,000
Fishing rights	1,735,669	-	1,735,669
Ship registry	1,000,000	-	1,000,000
Contributions from component units	934,763	-	934,763
Unrestricted investment earnings	189,314	17,539	206,853
Other	2,402,635	725,809	3,128,444
Total revenues	<u>95,016,249</u>	<u>4,122,070</u>	<u>99,138,319</u>
Expenses:			
President and Cabinet	1,499,215	-	1,499,215
Office of the Chief Secretary	1,420,255	-	1,420,255
Special appropriations	10,254,041	-	10,254,041
Council of Iroij	364,969	-	364,969
Office of the Auditor-General	921,320	-	921,320
Public Service Commission	397,267	-	397,267
Office of the Attorney General	700,770	-	700,770
Judiciary	710,764	-	710,764
Health and Environment	9,831,810	-	9,831,810
Education	14,936,523	4,931,992	19,868,515
Transportation and Communication	2,097,311	-	2,097,311
Resources and Development	1,071,339	-	1,071,339
Internal Affairs	2,723,603	-	2,723,603
Justice	2,645,429	-	2,645,429
Finance	3,249,378	-	3,249,378
Foreign Affairs and Trade	3,283,887	-	3,283,887
Public Works	2,428,470	-	2,428,470
Nitijela	1,507,958	-	1,507,958
Nuclear claims related	9,869,612	-	9,869,612
Scholarship assistance	1,058,781	-	1,058,781
Interest on long-term debt	865,383	-	865,383
Depreciation	4,534,924	-	4,534,924
Other	1,497,684	-	1,497,684
Total expenses	<u>77,870,693</u>	<u>4,931,992</u>	<u>82,802,685</u>
Excess (deficiency) before transfers	<u>17,145,556</u>	<u>(809,922)</u>	<u>16,335,634</u>
Transfers in (out)	<u>(1,941,995)</u>	<u>1,941,995</u>	<u>-</u>
Change in net assets	15,203,561	1,132,073	16,335,634
Net assets at the beginning of the year	<u>(14,426,084)</u>	<u>(337,387)</u>	<u>(14,763,471)</u>
Net assets at the end of the year	<u>\$ 777,477</u>	<u>\$ 794,686</u>	<u>\$ 1,572,163</u>

RepMar's revenues from governmental activities and business-type activities, including local revenues, Compact and other grant funding totaled \$99.14 million in fiscal year 2003. The cost of governmental activities and business-type activities, totaled \$82.80 million; the surplus representing an increase in net assets of \$16.34 million. The graphs below show the major components of revenues and cost of governmental and business-type activities.

**RepMar's Revenue Sources
For the Year Ended September 30, 2003**



**RepMar's Cost of Governmental and Business-type Activities
For the Year Ended September 30, 2003**



Special appropriation expenses consisted mainly of subsidies to component units (\$5.61 million), government utility billings (\$1.61 million), land leases (\$0.80 million), and leased housing (\$0.73 million).

FINANCIAL ANALYSIS OF REPMAR'S FUNDS

As noted earlier, RepMar uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. As of the end of fiscal year 2003, RepMar's governmental funds reported a combined fund balance of \$37.92 million, an increase of \$19.06 million (up 101%) in comparison with the prior year. This increase is primarily attributable to the increase in fund balance of the Intergenerational Trust Fund of \$17.08 million. Of this total combined fund balance, \$41.90 million is reserved to indicate that it is not available for new spending because it has already been committed: 1) to generate income for future operations (\$32.95 million); 2) to liquidate contracts and purchase orders of the prior period (\$3.15 million); 3) to fund specific Compact-related activities (\$2.97 million); or 4) for a variety of other restricted purposes (\$2.83 million). The combined deficit of RepMar's governmental funds is \$3.98 million, which will be funded through future budgetary surpluses.

General Fund Budgetary Highlights

Over the course of the fiscal year, management and elected officials of RepMar revised the General Fund budget. The revised budget included an increase in overall revenue projections of \$1.12 million (up 3%) with a corresponding increase in appropriations. The primary reason for the upward revision of revenue projections was due to anticipated additional tax collections.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

RepMar's investment in capital assets for its governmental and business-type activities as of September 30, 2003 amounted to \$83.10 million net of accumulated depreciation of \$53.90 million, leaving a net book value of \$29.20 million. With the implementation of new GASB standards in fiscal year 2003, infrastructure assets are required to be reported on RepMar's statement of net assets. Infrastructure includes assets that are normally immovable and of value only to RepMar, such as roads, bridges, electric and water distribution lines. The net increase in RepMar's investment in capital assets from fiscal year 2002 to 2003 (including additions and retirements) was approximately \$5.02 million (up 6%).

RepMar's Capital Assets September 30, 2003 (net of depreciation)

	Governmental Activities	Business-Type Activities	Total Primary Government
Electrical distribution	\$ 19,200,410	\$ -	\$ 19,200,410
Office equipment	10,600,851	-	10,600,851
Buildings	8,848,186	504,510	9,352,696
Water infrastructure system	8,011,219	-	8,011,219
Roads and bridges	4,738,889	-	4,738,889
Ships	3,959,857	-	3,959,857
Other equipment	4,942,406	369,922	5,312,328
Heavy equipment	2,528,641	-	2,528,641
Motor vehicles	3,157,547	-	3,157,547
Construction in progress	2,198,615	551,750	2,750,365
	<u>\$ 68,186,621</u>	<u>\$ 1,426,182</u>	<u>\$ 69,612,803</u>

Major capital asset additions for the fiscal year 2003 were as follows:

- Construction began on the new airport hangar at the Amata Kabua International Airport in the amount of \$1.76 million.
- Acquisition of motor vehicles and equipment by various RepMar ministries and departments, including the Ministries of Health and Environment (\$0.84 million), Education (\$0.30 million), Internal Affairs (\$0.41 million), and Public Works (\$0.29 million).
- Additions to the College of the Marshall Islands' Gugeegue campus are ongoing with construction in progress totaling \$0.45 million.

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

Long-term Debt

The Government Borrowing Act of 1985 authorizes RepMar to borrow money for such purposes as approved by the Nitijela. Since 1991, RepMar has entered into eleven separate loans with the Asian Development Bank (ADB). Long-term debt obligations increased by \$4.33 million in fiscal year 2003, net of loan repayments of \$0.08 million. This increase is primarily attributable to additional drawdowns on loans funded by the Asian Development Bank for the Fiscal and Financial Management Program (\$2.69 million) and the Skills Training and Vocational Education Project (\$1.61 million).

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

ECONOMIC FACTORS AND NEXT YEAR BUDGETS AND RATES

Like its Pacific island neighbors, economic conditions have been lackluster in the Marshall Islands during fiscal year 2003. Moreover, no substantial fiscal stimulus is expected in fiscal year 2004 that will significantly increase RepMar's revenues. For that reason, RepMar has opted for holding budgetary expenditures at relatively (within 2.5%) the same levels as fiscal year 2003, and balanced with existing sources of local revenue and specific grant funding.

The new financial agreement under the Compact of Free Association (Compact) between RepMar and the United States of America will become effective in fiscal year 2004. Because the sectoral basis of the Compact operating grants changes the prior Compact distribution of funding between government programs, and otherwise changes the fiscal procedures for implementing these grants, it is uncertain if, and to what extent, the new Compact grants will actually represent an increase in revenue. Although the new public infrastructure grant will increase capital project funding in the Marshall Islands, and therefore have a positive ripple effect on the economy, it is uncertain as to when the construction will begin pursuant to the first year's funding. There is also uncertainty about RepMar's eligibility for other U.S. Federal Grant programs once the new Compact provisions are effective. For these reasons, RepMar has adopted a conservative approach in its fiscal year 2004 budget; generally assuming revenue neutrality until it can assess the first year's operating history.

CONTACTING REPMAR'S FINANCIAL MANAGEMENT

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

REPUBLIC OF THE MARSHALL ISLANDS

Statement of Net Assets
September 30, 2003

	Primary Government			Component Units
	Governmental Activities	Business- type Activities	Total	
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 2,414,449	\$ 67,257	\$ 2,481,706	\$ 3,856,982
Time certificates of deposit	542,661	-	542,661	3,420,176
Investments	318,630	-	318,630	2,230,110
Receivables, net of allowance for uncollectibles	12,048,367	1,020,061	13,068,428	5,652,683
Internal balances	150,000	(150,000)	-	-
Advances	151,097	-	151,097	-
Inventories	-	-	-	2,697,914
Other current assets	54,492	13,173	67,665	215,489
Total current assets	15,679,696	950,491	16,630,187	18,073,354
Noncurrent assets:				
Restricted assets:				
Time certificates of deposit	13,388,989	-	13,388,989	-
Investments	20,864,779	-	20,864,779	-
Investments	-	135,846	135,846	-
Capital assets, net of accumulated depreciation	27,778,805	1,426,182	29,204,987	52,236,517
Other noncurrent assets	1,359,042	-	1,359,042	400,155
Total noncurrent assets	63,391,615	1,562,028	64,953,643	52,636,672
Total assets	\$ 79,071,311	\$ 2,512,519	\$ 81,583,830	\$ 70,710,026
LIABILITIES				
Current liabilities:				
Current portion of long-term obligations	\$ 1,014,788	\$ -	\$ 1,014,788	\$ 1,958,215
Accounts payable	9,303,801	94,548	9,398,349	2,997,650
Customer deposits	-	-	-	373,689
Accrued interest payable	240,813	-	240,813	-
Compensated absences payable	919,029	-	919,029	-
Other liabilities and accruals	3,010,590	452,008	3,462,598	2,412,416
Due to U.S. grantor agencies	-	189,166	189,166	-
Due to external parties	1,014,445	-	1,014,445	-
Deferred revenue	-	533,770	533,770	189,586
Total current liabilities	15,503,466	1,269,492	16,772,958	7,931,556
Noncurrent liabilities:				
Noncurrent portion of long-term obligations	61,428,696	-	61,428,696	26,141,807
Compensated absences payable	1,361,672	-	1,361,672	-
Other noncurrent liabilities	-	448,341	448,341	495,266
Total noncurrent liabilities	62,790,368	448,341	63,238,709	26,637,073
Total liabilities	78,293,834	1,717,833	80,011,667	34,568,629
NET ASSETS				
Investment in capital assets, net of related debt	3,056,308	1,426,182	4,482,490	24,936,495
Restricted for:				
Stockholders' equity	-	-	-	3,291,472
Future operations	32,947,838	-	32,947,838	-
Compact related	2,967,003	-	2,967,003	-
Other purposes	1,305,930	136,246	1,442,176	-
Unrestricted (deficits)	(39,499,602)	(767,742)	(40,267,344)	7,913,430
Total net assets	777,477	794,686	1,572,163	36,141,397
Total liabilities and net assets	\$ 79,071,311	\$ 2,512,519	\$ 81,583,830	\$ 70,710,026

See accompanying notes to basic financial statements.

REPUBLIC OF THE MARSHALL ISLANDS

Statement of Activities
Year Ended September 30, 2003

Functions/Programs	Program Revenues				Net (Expenses) Revenues and Changes in Net Assets			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			Component Units
					Governmental Activities	Business-type Activities	Total	
Primary government:								
Governmental activities:								
President and Cabinet	\$ 1,508,222	\$ 3,105	\$ -	\$ -	\$ (1,505,117)	\$ -	\$ (1,505,117)	\$ -
Office of the Chief Secretary	1,424,409	-	249,728	-	(1,174,681)	-	(1,174,681)	-
Special appropriations	10,254,413	-	3,276,875	-	(6,977,538)	-	(6,977,538)	-
Council of Iroij	366,016	-	-	-	(366,016)	-	(366,016)	-
Office of the Auditor-General	923,041	-	710,556	-	(212,485)	-	(212,485)	-
Public Service Commission	402,192	-	-	-	(402,192)	-	(402,192)	-
Office of the Attorney General	707,738	124,199	106,159	-	(477,380)	-	(477,380)	-
Judiciary	710,764	250	-	-	(710,514)	-	(710,514)	-
Health and Environment	9,861,723	-	4,621,119	-	(5,240,604)	-	(5,240,604)	-
Education	14,959,391	101,875	7,813,574	-	(7,043,942)	-	(7,043,942)	-
Transportation and Communication	2,101,658	82,491	817,042	-	(1,202,125)	-	(1,202,125)	-
Resources and Development	1,080,182	18,194	471,293	-	(590,695)	-	(590,695)	-
Internal Affairs	2,732,115	71,776	1,174,613	-	(1,485,726)	-	(1,485,726)	-
Justice	2,664,242	100,327	641,818	-	(1,922,097)	-	(1,922,097)	-
Finance	3,266,580	322,584	1,433,797	-	(1,510,199)	-	(1,510,199)	-
Foreign Affairs and Trade	3,298,947	236,813	794,203	-	(2,267,931)	-	(2,267,931)	-
Public Works	2,437,239	25,712	1,396,011	-	(1,015,516)	-	(1,015,516)	-
Nitijela	1,521,079	-	-	-	(1,521,079)	-	(1,521,079)	-
Nuclear claims related	9,869,612	5,542	10,569,423	-	705,353	-	705,353	-
Scholarship assistance	1,058,781	-	797,400	-	(261,381)	-	(261,381)	-
Future operations	49,650	-	16,127,903	-	16,078,253	-	16,078,253	-
Capital projects	18,080	-	-	4,239,333	4,221,253	-	4,221,253	-
Unallocated interest - long-term debt	865,383	-	-	-	(865,383)	-	(865,383)	-
Unallocated depreciation	4,534,924	-	-	-	(4,534,924)	-	(4,534,924)	-
Other	1,254,312	-	-	-	(1,254,312)	-	(1,254,312)	-
Total governmental activities	77,870,693	1,092,868	51,001,514	4,239,333	(21,536,978)	-	(21,536,978)	-
Business-type activities:								
Higher Education:								
College of the Marshall Islands	4,931,992	164,608	3,214,114	-	-	(1,553,270)	(1,553,270)	-
Total business-type activities	4,931,992	164,608	3,214,114	-	-	(1,553,270)	(1,553,270)	-
Total primary government	\$ 82,802,685	\$ 1,257,476	\$ 54,215,628	\$ 4,239,333	\$ (21,536,978)	\$ (1,553,270)	\$ (23,090,248)	\$ -
Component units:								
Marshalls Energy Company, Inc.	\$ 21,624,508	\$ 20,354,429	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (1,270,079)
Marshall Islands National	-	-	-	-	-	-	-	-
Telecommunications Authority	6,349,529	6,268,626	-	-	-	-	-	(80,903)
Other nonmajor component units	11,088,786	9,307,232	-	-	-	-	-	(1,781,554)
Total component units	\$ 39,062,823	\$ 35,930,287	\$ -	\$ -	\$ -	\$ -	\$ -	(3,132,536)
General revenues:								
Taxes:								
Income taxes	-	-	-	-	12,019,280	-	12,019,280	-
Import taxes	-	-	-	-	6,589,490	-	6,589,490	-
Gross revenue taxes	-	-	-	-	3,407,105	-	3,407,105	-
Fuel taxes	-	-	-	-	450,062	-	450,062	-
Penalties and interest	-	-	-	-	120,987	-	120,987	-
Other	-	-	-	-	473,229	-	473,229	-
Compact funding	-	-	-	-	6,360,000	-	6,360,000	-
Grants and contributions not restricted to specific programs	-	-	-	-	3,000,000	-	3,000,000	-
Fishing rights	-	-	-	-	1,735,669	-	1,735,669	-
Ship registry	-	-	-	-	1,000,000	-	1,000,000	-
Contributions from component units	-	-	-	-	934,763	-	934,763	-
Unrestricted investment earnings	-	-	-	-	189,314	17,539	206,853	515,372
Contributions from primary government	-	-	-	-	-	-	-	3,062,417
Other	-	-	-	-	2,402,635	725,809	3,128,444	(32)
Transfers	-	-	-	-	(1,941,995)	1,941,995	-	-
Total general revenues and transfers	36,740,539	2,685,343	39,425,882	3,577,757	36,740,539	2,685,343	39,425,882	3,577,757
Change in net assets	15,203,561	1,132,073	16,335,634	445,221	15,203,561	1,132,073	16,335,634	445,221
Net assets at the beginning of the year	(14,426,084)	(337,387)	(14,763,471)	35,876,176	(14,426,084)	(337,387)	(14,763,471)	35,876,176
Dividends paid	-	-	-	(180,000)	-	-	-	(180,000)
Net assets at the end of the year	\$ 777,477	\$ 794,686	\$ 1,572,163	\$ 36,141,397	\$ 777,477	\$ 794,686	\$ 1,572,163	\$ 36,141,397

See accompanying notes to basic financial statements.

REPUBLIC OF THE MARSHALL ISLANDS

Balance Sheet
Governmental Funds
September 30, 2003

	General	Special Revenue			Capital Projects	Permanent	Other Governmental Funds	Total
		U.S Federal Grants	Republic of China Projects	Nuclear Claims Tribunal	Section 211 Capital Account	Inter-generational Trust		
ASSETS								
Cash and cash equivalents	\$ 818,769	\$ -	\$ -	\$ 683,810	\$ -	\$ -	\$ 911,870	\$ 2,414,449
Time certificates of deposit	530,896	-	-	11,765	-	-	-	542,661
Investments	-	-	-	-	-	-	318,630	318,630
Receivables, net:								
Taxes	2,314,773	-	-	-	-	-	-	2,314,773
Federal agencies	316,140	778,230	-	-	-	-	-	1,094,370
General	3,120,497	-	-	-	-	-	-	3,120,497
Other	849,958	-	5,448,511	38,984	-	-	540,316	6,877,769
Due from other funds	4,876,153	289,591	-	-	2,216,807	-	3,189,864	10,572,415
Advances	79,603	28,889	2,697	-	-	-	39,908	151,097
Prepaid items	-	54,492	-	-	-	-	-	54,492
Restricted assets:								
Time certificates of deposit	1,305,930	-	-	-	-	12,083,059	-	13,388,989
Investments	-	-	-	-	-	20,864,779	-	20,864,779
Total assets	\$ 14,212,719	\$ 1,151,202	\$ 5,451,208	\$ 734,559	\$ 2,216,807	\$ 32,947,838	\$ 5,000,588	\$ 61,714,921

LIABILITIES AND FUND BALANCES

Liabilities:								
Accounts payable	\$ 6,702,438	\$ 1,009,316	\$ 738,087	\$ 70,347	\$ 612,348	\$ -	\$ 171,265	\$ 9,303,801
Other liabilities and accruals	2,426,684	144,158	36,007	14,066	-	-	389,675	3,010,590
Due to other funds	6,710,707	-	4,677,114	-	-	-	49,039	11,436,860
Deferred revenue	44,942	-	-	-	-	-	-	44,942
Total liabilities	15,884,771	1,153,474	5,451,208	84,413	612,348	-	609,979	23,796,193
Fund balances (deficits):								
Reserved for:								
Related assets	1,641,245	-	1,040,622	-	-	32,947,838	1,029,718	36,659,423
Encumbrances	176,716	782,670	538,045	-	1,584,433	-	64,070	3,145,934
Nuclear claims	-	-	-	630,029	-	-	68,828	698,857
Scholarships	-	-	-	-	-	-	1,593	1,593
Communications	-	-	-	-	-	-	813,957	813,957
Health and medical	-	-	-	-	-	-	547,814	547,814
Maritime	-	-	-	-	-	-	30,694	30,694
Unreserved:								
General fund	(3,490,013)	-	-	-	-	-	-	(3,490,013)
Special revenue funds	-	(784,942)	(1,578,667)	20,117	-	-	1,397,842	(945,650)
Capital projects funds	-	-	-	-	20,026	-	436,093	456,119
Total fund balances (deficits)	(1,672,052)	(2,272)	-	650,146	1,604,459	32,947,838	4,390,609	37,918,728
Total liabilities and fund balances	\$ 14,212,719	\$ 1,151,202	\$ 5,451,208	\$ 734,559	\$ 2,216,807	\$ 32,947,838	\$ 5,000,588	

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds	27,778,805
Other long-term assets are not available to pay for current-period expenditures and, therefore, are not reported in the funds	44,942
Long-term liabilities, including loans payable, are not due and payable in the current period and therefore are not reported in the funds. The liabilities include:	
Accrued interest payable	(240,813)
Loans payable	(62,443,484)
Compensated absences payable	(2,280,701)
	(64,964,998)

Net assets of governmental activities

\$ 777,477

See accompanying notes to basic financial statements.

REPUBLIC OF THE MARSHALL ISLANDS

Statement of Revenues, Expenditures, and Changes in Fund Balances (Deficits)
 Governmental Funds
 Year Ended September 30, 2003

	General	Special Revenue			Capital Projects	Permanent	Other Governmental Funds	Total
		U.S Federal Grants	Republic of China Projects	Nuclear Claims Tribunal	Section 211 Capital Account	Inter- generational Trust		
Revenues:								
Compact funding	\$ 6,360,000	\$ -	\$ -	\$ -	\$ 19,239,333	\$ -	\$ 7,110,667	\$ 32,710,000
Taxes	23,060,153	-	-	-	-	-	-	23,060,153
Federal and other grants	3,000,000	10,319,492	8,582,671	-	-	-	-	21,902,163
Fishing rights	1,735,669	-	-	-	-	-	-	1,735,669
Interest and dividends	189,314	-	-	-	-	894,074	-	1,083,388
Ship registry	1,000,000	-	-	-	-	-	-	1,000,000
Contributions from component units	934,763	-	-	-	-	-	-	934,763
Fees and charges	398,286	-	-	-	-	-	434,013	832,299
Net increase in the fair value of investments	-	-	-	-	-	233,829	-	233,829
Sales	-	-	-	-	-	-	182,595	182,595
Other	261,739	-	-	5,542	-	-	459,744	727,025
Total revenues	36,939,924	10,319,492	8,582,671	5,542	19,239,333	1,127,903	8,187,019	84,401,884
Expenditures:								
Current:								
President and Cabinet	1,520,144	-	-	-	-	-	-	1,520,144
Office of the Chief Secretary	357,522	231,071	18,657	-	957,597	-	3,372	1,568,219
Special appropriations	5,644,973	-	1,310,208	-	1,200,000	-	2,116,667	10,271,848
Council of Iroij	365,484	-	-	-	-	-	-	365,484
Office of the Auditor-General	257,958	665,614	-	-	-	-	-	923,572
Public Service Commission	426,201	-	-	-	-	-	-	426,201
Office of the Attorney General	728,396	30,794	75,365	-	-	-	-	834,555
Judiciary	-	-	-	-	-	-	720,214	720,214
Ministries	21,328,909	9,317,013	5,337,586	-	2,916,541	-	7,729,529	46,629,578
Nitijela	1,578,305	-	-	-	-	-	-	1,578,305
Nuclear claims related	-	-	-	7,925,080	-	-	1,944,532	9,869,612
Debt service	1,060,899	-	-	-	-	-	-	1,060,899
Future operations	-	-	-	-	-	49,650	-	49,650
Capital outlay	-	-	-	-	-	-	18,080	18,080
Other	1,026,134	-	-	-	150,000	-	-	1,176,134
Total expenditures	34,294,925	10,244,492	6,741,816	7,925,080	5,224,138	49,650	12,532,394	77,012,495
Excess (deficiency) of revenues over (under) expenditures	2,644,999	75,000	1,840,855	(7,919,538)	14,015,195	1,078,253	(4,345,375)	7,389,389
Other financing sources (uses):								
Loan proceeds	2,685,666	-	-	-	-	-	1,643,950	4,329,616
Operating transfers in	454,361	-	-	8,569,423	-	16,000,000	4,925,065	29,948,849
Operating transfers out	(5,787,595)	(75,000)	(100,000)	-	(15,000,000)	-	(1,646,718)	(22,609,313)
Total other financing sources (uses), net	(2,647,568)	(75,000)	(100,000)	8,569,423	(15,000,000)	16,000,000	4,922,297	11,669,152
Net change in fund balances	(2,569)	-	1,740,855	649,885	(984,805)	17,078,253	576,922	19,058,541
Fund balances (deficits) at the beginning of the year	(1,669,483)	(2,272)	(1,740,855)	261	2,589,264	15,869,585	3,813,687	18,860,187
Fund balances (deficits) at the end of the year	\$ (1,672,052)	\$ (2,272)	\$ -	\$ 650,146	\$ 1,604,459	\$ 32,947,838	\$ 4,390,609	\$ 37,918,728

See accompanying notes to basic financial statements.

REPUBLIC OF THE MARSHALL ISLANDS

Reconciliation of the Statement of Revenues, Expenditures,
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
Year Ended September 30, 2003

Amounts reported for governmental activities in the statement of activities on page 12 are different because:

Net change in fund balances - total governmental funds from page 14	\$ 19,058,541
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period, including increases to construction in progress	487,998
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds	44,942
The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction has any effect on net assets. This amount is the net effect of these differences in the treatment of long - term debt and related items	(4,251,113)
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore, are not reported as expenditures in governmental funds. These expenses include accrued annual leave and interest payable that are reported in the statement of activities, but not in funds	<u>(136,807)</u>
Change in net assets of governmental activities as presented on page 12.	\$ <u>15,203,561</u>

See accompanying notes to basic financial statements.

REPUBLIC OF THE MARSHALL ISLANDS

Statement of Net Assets
 Proprietary Funds
 September 30, 2003

	<u>Higher Education</u>
<u>ASSETS</u>	
Current assets:	
Cash and cash equivalents	\$ 67,257
Receivables, net of allowance for uncollectibles	1,020,061
Other current assets	13,173
Total current assets	<u>1,100,491</u>
Noncurrent assets:	
Investments	135,846
Capital assets, net of accumulated depreciation	1,426,182
Total noncurrent assets	<u>1,562,028</u>
Total assets	<u>2,662,519</u>
<u>LIABILITIES</u>	
Current liabilities:	
Accounts payable	94,548
Other liabilities and accruals	452,008
Due to other funds	150,000
Due to U.S. grantor agencies	189,166
Deferred revenue	533,770
Total current liabilities	<u>1,419,492</u>
Noncurrent liabilities:	
Other noncurrent liabilities	448,341
Total liabilities	<u>1,867,833</u>
<u>NET ASSETS</u>	
Investment in capital assets, net of related debt	1,426,182
Restricted for:	
Nonexpendable	135,846
Expendable	400
Unrestricted	<u>(767,742)</u>
Total net assets	<u>\$ 794,686</u>

See accompanying notes to basic financial statements.

REPUBLIC OF THE MARSHALL ISLANDS

Statement of Revenues, Expenses, and Changes in Net Assets
 Proprietary Funds
 Year Ended September 30, 2003

	<u>Higher Education</u>
Operating revenues:	
Federal grants	\$ 2,707,511
Private gifts, grants and donations - restricted	210,066
Student tuition and fees	164,608
Other	296,537
Total operating revenues	<u>3,378,722</u>
Operating expenses:	
Instructional	1,709,571
Administration	1,665,562
Operation and maintenance	503,144
Post secondary	443,761
Student services	430,951
Library	179,003
Total operating expenses	<u>4,931,992</u>
Operating loss	<u>(1,553,270)</u>
Nonoperating revenues:	
Forgiveness of debt from primary government	725,809
Investment income	17,539
Total nonoperating revenues	<u>743,348</u>
Loss before operating transfers	(809,922)
Operating transfers in	<u>1,941,995</u>
Change in net assets	1,132,073
Net assets at the beginning of the year	<u>(337,387)</u>
Net assets at the end of the year	<u>\$ 794,686</u>

See accompanying notes to basic financial statements.

REPUBLIC OF THE MARSHALL ISLANDS

Statement of Cash Flows
 Proprietary Funds
 Year Ended September 30, 2003

	<u>Higher Education</u>
Cash flows from operating activities:	
Student tuition and fees	\$ 1,493,348
U.S. federal grants	2,901,609
Other receipts	364,453
Payments to employees	(2,405,905)
Payments to suppliers	(3,341,414)
Net cash used by operating activities	<u>(987,909)</u>
Cash flows from noncapital financing activities:	
Advance from RepMar	150,000
Contributions from RepMar	990,050
Net cash provided by noncapital financing activities	<u>1,140,050</u>
Cash flows from capital and related financing activities:	
Purchases of capital assets	<u>(546,909)</u>
Net cash used by capital and related financing activities	<u>(546,909)</u>
Net decrease in cash and cash equivalents	(394,768)
Cash and cash equivalents at the beginning of the year	462,025
Cash and cash equivalents at the end of the year	<u>\$ 67,257</u>
Reconciliation of operating loss to net cash used by operating activities:	
Operating loss	\$ (1,553,270)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Depreciation expense	241,870
Bad debts expense	597,875
Changes in assets and liabilities:	
Receivables, net	(491,112)
Other assets	26,770
Bank overdraft	(5,902)
Accounts payable	(23,624)
Other liabilities and accruals	321,146
Deferred revenue	(78,811)
Due to U.S. grantor agencies	(22,851)
Net cash used by operating activities	<u>\$ (987,909)</u>
Supplemental schedule of noncash activities:	
Decrease in amount due to RepMar	\$ 725,809
Decrease in withholding taxes payable	951,945
Transfers in	(951,945)
Forgiveness of debt	(725,809)
	<u>\$ -</u>

See accompanying notes to basic financial statements.

REPUBLIC OF THE MARSHALL ISLANDS

Statement of Fiduciary Net Assets
Fiduciary Funds
September 30, 2003

	<u>Private Purpose Trust</u>	<u>Agency</u>
<u>ASSETS</u>		
Cash and cash equivalents	\$ 1,796,098	\$ -
Time certificates of deposit	3,537,759	-
Receivables, net:		
Contributions	1,764,186	-
Other	835,303	-
Investments	41,416,996	
Due from other funds	1,721,874	93,737
Capital assets, net of accumulated depreciation	355,390	-
Total assets	<u>51,427,606</u>	<u>\$ 93,737</u>
<u>LIABILITIES</u>		
Accounts payable	238,500	\$ 93,737
Other liabilities and accruals	154,913	-
Total liabilities	<u>393,413</u>	<u>\$ 93,737</u>
<u>NET ASSETS</u>		
Held in trust for:		
Social security benefits	41,548,753	
Nuclear claims	8,564,732	
Land use distributions	920,708	
Total net assets	<u>\$ 51,034,193</u>	

See accompanying notes to basic financial statements.

REPUBLIC OF THE MARSHALL ISLANDS

Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
Year Ended September 30, 2003

	<u>Private Purpose Trust</u>
Additions:	
Contributions:	
Private employees	\$ 9,278,043
Government employees	2,628,409
Penalties and interest	882,101
Total contributions	<u>12,788,553</u>
Investment earnings:	
Net increase in the fair value of investments	6,523,125
Interest and dividends	1,788,275
Total investment earnings	8,311,400
Less investment expense	177,005
Net investment earnings	<u>8,134,395</u>
Other:	
Compact funding	13,118,000
Total additions	<u>34,040,948</u>
Deductions:	
Land use distributions	11,003,900
Benefits	9,276,506
Bad debts	2,631,257
Administrative expenses	783,436
Transfers out	12,469,423
Total deductions	<u>36,164,522</u>
Change in net assets	(2,123,574)
Net assets at the beginning of the year	<u>53,157,767</u>
Net assets at the end of the year	<u>\$ 51,034,193</u>

See accompanying notes to basic financial statements.

REPUBLIC OF THE MARSHALL ISLANDS

Combining Statement of Net Assets
Component Units
September 30, 2003

	Marshall Islands National Telecommunications Authority	Marshall Islands Energy Company, Inc.	Nonmajor Component Units	Total
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 1,529,158	\$ 713,310	\$ 1,614,514	\$ 3,856,982
Time certificates of deposit	1,262,853	-	2,157,323	3,420,176
Investments	2,230,110	-	-	2,230,110
Receivables, net:				
General	719,852	2,363,953	1,377,649	4,461,454
Other	564,270	358,161	268,798	1,191,229
Inventories	237,067	1,834,668	626,179	2,697,914
Other current assets	32,731	30,381	152,377	215,489
Total current assets	6,576,041	5,300,473	6,196,840	18,073,354
Noncurrent assets:				
Capital assets, net of accumulated depreciation	18,945,843	13,116,575	20,174,099	52,236,517
Other noncurrent assets	400,155	-	-	400,155
Total noncurrent assets	19,345,998	13,116,575	20,174,099	52,636,672
Total assets	25,922,039	18,417,048	26,370,939	70,710,026
LIABILITIES				
Current liabilities:				
Current portion of long-term debt	668,110	458,581	831,524	1,958,215
Accounts payable	490,728	2,020,733	486,189	2,997,650
Customer deposits	373,689	-	-	373,689
Other liabilities and accruals	243,632	356,626	1,812,158	2,412,416
Deferred revenue	-	-	189,586	189,586
Total current liabilities	1,776,159	2,835,940	3,319,457	7,931,556
Noncurrent liabilities:				
Noncurrent portion of long-term debt	16,297,145	9,781,020	63,642	26,141,807
Other noncurrent liabilities	-	-	495,266	495,266
Total noncurrent liabilities	16,297,145	9,781,020	558,908	26,637,073
Total liabilities	18,073,304	12,616,960	3,878,365	34,568,629
NET ASSETS				
Investment in capital assets, net of related debt	1,980,588	2,876,974	20,078,933	24,936,495
Restricted for:				
Stockholders' equity	3,291,472	-	-	3,291,472
Unrestricted	2,576,675	2,923,114	2,413,641	7,913,430
Total net assets	7,848,735	5,800,088	22,492,574	36,141,397

See accompanying notes to basic financial statements.

REPUBLIC OF THE MARSHALL ISLANDS

Combining Statement of Revenues, Expenses, and Changes in Net Assets
Component Units
Year Ended September 30, 2003

	Marshall Islands National Telecommunications Authority	Marshall Islands National Telecommunications Authority	Nonmajor Component Units	Total
Operating revenues:				
Charges for services	\$ 8,863,643	\$ 5,994,618	\$ 6,567,368	\$ 21,425,629
Sales	9,341,838	252,552	2,496,273	12,090,663
Other	2,148,948	21,456	243,591	2,413,995
Total operating revenues	20,354,429	6,268,626	9,307,232	35,930,287
Operating expenses:				
Cost of services	18,363,361	3,186,146	6,500,056	28,049,563
Depreciation and amortization	1,069,713	1,705,798	1,445,965	4,221,476
Administration costs	1,231,636	592,288	2,093,853	3,917,777
Total operating expenses	20,664,710	5,484,232	10,039,874	36,188,816
Operating income (loss)	(310,281)	784,394	(732,642)	(258,529)
Nonoperating revenues (expenses):				
Contributions from the primary government	1,866,667	-	1,195,750	3,062,417
Net increase in the fair value of investments	-	396,113	-	396,113
Interest income	-	-	119,259	119,259
Interest expense	(669,343)	(865,297)	(114,149)	(1,648,789)
Contributions to the primary government	-	-	(934,763)	(934,763)
Gain (loss) on sale of fixed assets	-	(3,832)	3,800	(32)
Other	(290,455)	-	-	(290,455)
Total nonoperating revenues (expenses), net	906,869	(473,016)	269,897	703,750
Net income (loss)	596,588	311,378	(462,745)	445,221
Net assets at the beginning of the year	5,203,500	7,717,357	22,955,319	35,876,176
Dividends paid	-	(180,000)	-	(180,000)
Net assets at the end of the year	\$ 5,800,088	\$ 7,848,735	\$ 22,492,574	\$ 36,141,397

See accompanying notes to basic financial statements.

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements
September 30, 2003

(1) Summary of Significant Accounting Policies

The accompanying 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). The Governmental Accounting Standards Board (GASB) is the recognized standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of RepMar's accounting policies are described below.

A. Reporting Entity

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

For financial reporting purposes, RepMar has included all funds, organizations, agencies, boards, commissions and institutions. RepMar has also considered all potential component units for which it is financially accountable as well as other entities for which the nature and significance of their relationship with RepMar are such that exclusion would cause RepMar's financial statements to be misleading or incomplete.

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

i. Blended Component Units

The following Component Units are blended within the Primary Government:

Four Atoll Medical Fund, a Governmental Fund Type - Special Revenue Fund. This fund accounts for transactions from the distribution of annual proceeds from the Nuclear Claims Trust Fund.

Marshall Islands Visitors Authority, a Governmental Fund Type - Special Revenue Fund. This entity engages in the development and promotion of the natural, scenic, cultural, historical and recreation attractions of the Republic.

Nuclear Claims Tribunal, a Governmental Fund Type - Special Revenue 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 Development Authority, a Governmental Fund Type - Capital Projects Fund. This corporation was established to develop and implement programs and projects to aid the betterment of the inhabitants of the Republic.

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements
September 30, 2003

(1) Summary of Significant Accounting Policies, Continued

A. Reporting Entity, Continued

i. Blended Component Units, Continued

Intergenerational Trust Fund, a Governmental Fund Type - Permanent 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, a Proprietary Fund Type - Higher Education Fund. This fund was established as an independent institution governed by a Board of Regents appointed by RepMar's Minister of Education.

Marshall Islands Social Security Administration, a Fiduciary Fund Type - Private Purpose Trust Fund. This fund was established to provide a financially sound social security system with pension benefits and early retirement.

Nuclear Claims Trust Fund, a Fiduciary Fund Type - Private Purpose 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).

ii. Discretely Presented Component Units

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 financial statements to be misleading or incomplete. The component units' column of the basic financial statements includes the financial data of the following entities:

Major Component Units:

Marshalls Energy Company, Inc. (MEC): MEC was granted a corporate charter by the Cabinet of RepMar on February 2, 1984 to engage in the business of generating and transmitting electricity, and the import and marketing of petroleum products. MEC is governed by a seven-member Board of Directors appointed by the Cabinet of RepMar.

Marshall Islands National Telecommunications Authority (MINTA): MINTA was incorporated under Public Law No. 1990-105 to engage in the business of providing local and international telecommunication services. MINTA is governed by a seven-member Board of Directors elected by a majority vote of its shareholders.

Nonmajor Component Units:

Nonmajor component units are Majuro Resort, Inc., Majuro Water and Sewer Company, Inc., the Marshall Islands Airports Authority, the Marshall Islands Marine Resources Authority, the Marshall Islands Ports Authority, and Tobolar Copra Processing Plant, Inc.

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements
September 30, 2003

(1) Summary of Significant Accounting Policies, Continued

A. Reporting Entity, Continued

ii. Discretely Presented Component Units, Continued

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

P.O. Box 245
Majuro, Marshall Islands 96960

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.

iii. Omitted Component Units

The following component units have been omitted from the basic financial statements due to the lack of available financial information:

Health Care Revenue Fund, a Governmental Fund Type - Special Revenue Fund. This fund was established within the Ministry of Health and Environment to control the expenditure of funds for health care related services, and to account for the operations of the Basic and Supplemental Health Funds delivering comprehensive medical care.

Ministry of Education Headstart Program, a Governmental Fund Type - Special Revenue Fund. This fund was established to account for the United States Department of Health and Human Services Head Start program.

Marshall Islands Scholarship Grant and Loan Board, a Governmental Fund Type - Special Revenue Fund. This fund was established to account for all disbursements of scholarship funds.

RMI Environmental Protection Authority, a Governmental Fund Type - Special Revenue Fund. This corporation was established for the preservation and improvement of the environment. The financial activities of this omitted component unit are not considered material to the basic financial statements.

Kwajalein Atoll Development Authority, a Governmental Fund Type - Capital Projects Fund. This corporation was established to develop and implement programs and projects to aid the betterment of inhabitants of Kwajalein Atoll.

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

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

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements
September 30, 2003

(1) Summary of Significant Accounting Policies, Continued

A. Reporting Entity, Continued

iii. Omitted Component Units, Continued

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

Kwajalein Atoll Joint Utilities Resources, Inc. - (A Component Unit). This corporation was established to generate and distribute utilities on the island of Ebeye.

Meram, Inc. - (A Component Unit). 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 basic financial statements.

B. Government-Wide Financial Statements

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

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

The Statement of Net Assets presents all of the reporting entity's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

- Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt that are attributed to the acquisition, construction or improvement of those assets.
- Restricted net assets result when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through enabling legislation.

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements
September 30, 2003

(1) Summary of Significant Accounting Policies, Continued

B. Government-Wide Financial Statements, Continued

- Unrestricted net assets consist of net assets, which do not meet the definition of the two preceding categories. Unrestricted net assets often are designated, (for example, internally restricted), to indicate that management does not consider them to be available for general operations.

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

C. Fund Financial Statements

The fund financial statements present a balance sheet and a statement of revenues, expenditures, and changes in fund balances for its major and aggregated non-major funds.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds. Major individual governmental funds and major individual proprietary funds are reported as separate columns in the fund financial statements pursuant to GASB reporting standards, with nonmajor governmental funds being combined into a single column.

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

D. Measurement Focus and Basis of Accounting

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

Governmental fund financial statements account for the general governmental activities of RepMar and are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as they become susceptible to accrual; generally when they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, RepMar considers revenues to be available if they are collected within 60 days of the end of the current fiscal period.

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements
September 30, 2003

(1) Summary of Significant Accounting Policies, Continued

D. Measurement Focus and Basis of Accounting, Continued

Significant revenues susceptible to accrual include income and gross revenue taxes, federal grants, federal reimbursements and other reimbursements for use of materials and services. Revenues from other financing sources are recognized when received. Expenditures generally are recorded in the period in which the related fund liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

RepMar reports the following fund types:

1. Governmental Fund Types

i. General Fund

This fund is the primary operating fund of RepMar. It is used to account for all governmental transactions, except those required to be accounted for in another fund.

ii. Special Revenue Funds

These funds account for specific revenue sources that have been aggregated according to enabling legislation to support specific governmental activities.

iii. Capital Projects Funds

These funds account for the acquisition or construction of major RepMar capital facilities financed primarily from loans and federal reimbursements.

iv. Permanent Funds

This fund accounts for resources that are legally restricted to the extent that only earnings, and not principal, may be used to support programs for the benefit of the government.

2. Proprietary Fund Types

i. Higher Education Funds

This fund accounts for the activities specific to the operation of RepMar's public institution of higher education.

3. Fiduciary Fund Types

i. Private Purpose Funds

These funds are used to account for resources held in trust under which principal and income benefit certain individuals.

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements
September 30, 2003

(1) Summary of Significant Accounting Policies, Continued

D. Measurement Focus and Basis of Accounting, Continued

3. Fiduciary Fund Types, Continued

i. Private Purpose Funds, Continued

These include funds held in trust by The Marshall Islands Social Security Administration (MISSA) for the beneficiaries of the MISSA Retirement Fund; funds received under the Interim Use Agreement for the benefit of Kwajalein landowners; and funds received under Section 177 of the Compact of Free Association for the benefit of victims related to the United States Nuclear Testing Program.

ii. Agency Funds

This fund is used to report resources held by the primary government relating to unclaimed property in a purely custodial capacity.

Within those fund types, RepMar has established the following major funds:

U.S. Federal Grants Fund, a Governmental Fund Type - Special Revenue 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 that RepMar received from the United States government once RepMar's subgrantee status with the TTPI ceased.

Republic of China Projects Fund, a Governmental Fund Type - Special Revenue Fund. This fund accounts for all financial transactions related to direct grants received from the Republic of China relating to designated projects.

Nuclear Claims Tribunal, a Governmental Fund Type - Special Revenue Fund. This fund accounts for all financial transactions arising from distributions made under the (Compact of Free Association) Section 177 Agreement as a result of the Nuclear Testing Program.

Section 211 Capital Account Fund, a Governmental Fund Type - Capital Projects Fund. 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.

Intergenerational Trust Fund, a Governmental Fund Type - Permanent 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.

College of the Marshall Islands, a Proprietary Fund Type - Higher Education Fund. This fund was established as RepMar's independent institution of higher education.

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements
September 30, 2003

(1) Summary of Significant Accounting Policies, Continued

E. Reporting Standards

As allowed by GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, RepMar's proprietary funds follow all GASB pronouncements and those Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins that were issued on or before November 30, 1989, except those that conflict with a GASB pronouncement.

F. Program and Other Revenue Recognition

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

Proprietary funds distinguish operating revenues from nonoperating items. Operating revenues generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All other revenues are reported as nonoperating.

G. 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 statement of net assets/balance sheet.

As of September 30, 2003, the carrying amount of the primary government's total cash and cash equivalents and time certificates of deposit were \$16,413,356 and the corresponding bank balances were \$16,944,587. Of the bank balance amounts, \$1,158,968 are maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2003, bank deposits in the amount of \$565,689 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, 2003, the carrying amount of the discretely presented component units' total cash and cash equivalents and time certificates of deposit were \$7,277,158 and the corresponding bank balances were \$8,485,303. Of the bank balance amounts, \$3,447,735 is maintained in financial institutions subject to FDIC insurance. As of September 30, 2003, bank deposits in the amount of \$664,162 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.

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements
September 30, 2003

(1) Summary of Significant Accounting Policies, Continued

H. 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.

I. Receivables

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

J. Inventories and Prepaid Items

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

Certain payments made to vendors or persons for services reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

K. Interfund Receivables/Payables

During the course of its operations, RepMar records transactions between individual funds for goods provided or services rendered. Receivables and payables resulting from transactions between funds are classified as "due from other funds" or "due to other funds" on the governmental fund balance sheet.

These balances result from the time lag between the dates that 1) interfund goods and services are provided or reimbursable expenditures occur, 2) transactions are recorded in the accounting system, and 3) payments between funds are made, and are scheduled to be collected in the subsequent year.

Interfund receivables and payables have been eliminated from the Statement of Net Assets except for the residual amounts due between governmental and business-type activities.

L. Restricted Assets

Certain assets of the primary government are classified as restricted assets because their use is completely restricted through loan agreements or enabling legislation. Specifically, RepMar has collateralized a loan payable for a third party with a time certificate of deposit of \$1,305,930. Furthermore, time certificates of deposit and investments of \$12,083,059 and \$20,864,779, respectively, recorded in the Intergenerational Trust Fund are restricted in that they are not available to be used in current operations.

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements
September 30, 2003

(1) Summary of Significant Accounting Policies, Continued

M. Capital Assets

Capital assets, which include property, plant, equipment and infrastructure (e.g. roads, bridges, ramps and other similar items), are reported in the applicable governmental or business-type activities columns of the government-wide financial statements. Singular pieces of equipment, vehicles, computer equipment and software that equal or exceed \$300 are capitalized. Buildings and infrastructure projects with a cost that equals or exceeds \$100,000 are capitalized. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at fair market value at the date of donation.

RepMar has not updated records of its capital assets acquired between fiscal years 1988 and 1998 and disposals since fiscal year 1988. Property, plant and equipment of the primary government, as well as the discretely presented component units, is depreciated, when assessed, using the straight-line method over the following estimated useful lives:

Buildings	25 - 50 years
Improvements	10 - 20 years
Facilities	3 - 40 years
Machinery and equipment	3 - 20 years
Furniture and fixtures	3 - 10 years
Ships	25 years
Motor vehicles	3 years
Over-the-road vehicles	3 years

N. Interfund/Intrafund Transactions

As a general rule, the effect of interfund activity has been eliminated in the government-wide statements. Exceptions to this rule are: 1) activities between funds reported as governmental activities and funds reported as business-type activities and 2) activities between funds that are reported in different functional categories in either the governmental or business-type activities column. Elimination of these activities would distort the direct costs and program revenues for the functions concerned.

O. Compensated Absences

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

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements
September 30, 2003

(1) Summary of Significant Accounting Policies, Continued

P. Long-Term Obligations

In the government-wide financial statements, and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets.

Q. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

The unreserved fund balances for the governmental funds represent the amount available for budgeting future operations. The reserve for related assets as of September 30, 2003, is represented by the following assets:

	<u>General</u>	<u>Republic of China Projects</u>	<u>Inter- generational Trust</u>	<u>Other Governmental Funds</u>	<u>Totals</u>
Cash and cash equivalents	\$ 16,895	\$ -	\$ -	\$ 711,088	\$ 727,983
Time certificates of deposit	-	-	12,083,059	-	12,083,059
Investments	-	-	20,864,779	318,630	21,183,409
Receivables:					
Other	318,420	1,040,622	-	-	1,359,042
Restricted assets	<u>1,305,930</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,305,930</u>
	<u>\$ 1,641,245</u>	<u>\$ 1,040,622</u>	<u>\$ 32,947,838</u>	<u>\$ 1,029,718</u>	<u>\$ 36,659,423</u>

R. Risk Financing

RepMar is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. It is the policy of the primary government not to purchase commercial insurance for the risks of loss to which it is exposed. Instead, RepMar management believes it is more economical to manage its risks internally. In the event of claim settlements and judgments, RepMar reports all of its risk management activities in its General Fund. Claims expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported.

S. New Accounting Standards

For fiscal year 2004, RepMar will be implementing GASB Statement No. 39, Determining Whether Certain Organizations Are Component Units and GASB Statement No. 40, Deposit and Investment Risk Disclosures (an amendment of GASB Statement No. 3). For fiscal year 2005, RepMar will be implementing GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. As of the date of the opinion, RepMar has not evaluated the financial statement impact of GASB Statement Nos. 39, 40 and 42.

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements
September 30, 2003

(1) Summary of Significant Accounting Policies, Continued

T. Reclassifications and Restatements

During fiscal 2003, RepMar implemented the following new accounting standards issued by the GASB:

GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - For State and Local Governments*, as amended by GASB Statement No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - Omnibus*, establishes new financial reporting standards for state and local governments. The requirements of this statement result in a significant change in the financial reporting model used by governments, including statement formats and changes in fund types. In addition to the traditional fund financial statements, governments are required to report government-wide financial statements, prepared using the accrual basis of accounting and the economic resources measurement focus. As a result, fund reclassifications and adjustments to the fund equities reported in the prior financial statements were required.

GASB Statement No. 35, *Basic Financial Statements - and Management's Discussion and Analysis - For Public Colleges and Universities*, establishes financial reporting standards for public colleges and universities within the guidelines of GASB Statement Nos. 34 and 37. RepMar's institution of higher education, reported as a business-type activity, adopted the requirements of GASB Statement No. 35. As a result, fund reclassifications and adjustments to the fund equities reported in the prior financial statements were required.

GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, amends certain note disclosures and adds additional note disclosure requirements related to GASB Statement Nos. 34, 35 and 37.

GASB Statement No. 41, *Budgetary Comparison Schedules - Perspective Differences*, amends required supplemental information disclosure of adopted budget and actual amounts per GASB Statement No. 34. Should there be a perspective difference between these amounts and fund perspective revenues and expenditures, reconciliation is required.

Due to the implementation of GASB Statement Nos. 34, 35 and 37, the beginning net assets of the governmental activities in the statement of net assets have been restated. Fund balances of the governmental funds at September 30, 2002 were decreased by \$33,286,271 for the cumulative effect of these changes on years prior to fiscal year 2003. The effect on those items are as follows:

Fund balances reported as of September 30, 2002	\$ 18,860,187
Adjustments:	
Long-term debt payable	(58,192,371)
Accrued interest payable	(357,826)
Compensated absences payable	(2,026,881)
Capital assets	75,190,088
Accumulated depreciation	(47,899,281)
	<u>(33,286,271)</u>
Beginning net assets as of September 30, 2002	\$ <u>(14,426,084)</u>

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements
September 30, 2003

(1) Summary of Significant Accounting Policies, Continued

T. Reclassifications and Restatements, Continued

Due to the implementation of GASB Statement No. 34, certain governmental funds have been reclassified to conform with the GASB Statement No. 34 reporting model. The effects of such are as follows:

	September 30, 2002 As Previously Reported	Fund Reclassifications	Adjustments	September 30, 2002 As Restated
<u>Governmental Funds and Activities</u>				
Major governmental funds:				
General Fund	\$ (1,569,483)	\$ -	\$ (100,000)	\$ (1,669,483)
Previously reported as Special Revenue Funds:				
U.S. Federal Grants Fund	-	(2,272)	-	(2,272)
Republic of China Projects Fund	-	(1,740,855)	-	(1,740,855)
Previously reported as Capital Projects Funds:				
Section 211 Capital Account Fund	-	2,589,264	-	2,589,264
Previously reported as Expendable Trust Funds:				
Nuclear Claims Tribunal	-	261	-	261
Previously reported as Nonexpendable Trust Funds:				
Intergenerational Trust Fund	-	15,869,585	-	15,869,585
	<u>\$ (1,569,483)</u>	<u>\$ 16,715,983</u>	<u>\$ (100,000)</u>	<u>\$ 15,046,500</u>
Restatement of unreserved deficit:				
Unreserved deficit - October 1, 2002, as previously reported				\$ (1,569,483)
Overstatement of investment balances related to investment in Marshalls Energy Company, Inc. (\$75,000) and Majuro Resort, Inc. (\$25,000)				<u>(100,000)</u>
Unreserved deficit - October 1, 2002, as restated				<u>\$ (1,669,483)</u>
Nonmajor governmental funds:				
Special Revenue Funds	\$ 936,496	\$ -	\$ (400,220)	\$ 536,276
Previously reported as Special Revenue Funds:				
U.S. Federal Grants Fund	-	2,272	-	2,272
Republic of China Projects Fund	-	1,740,855	-	1,740,855
Previously reported as Capital Projects Funds:				
Section 216(a)(1) Surveillance and Enforcement Fund	-	(71,485)	-	(71,485)
Previously reported as Expendable Trust Funds:				
Local Government Fund	-	251,971	-	251,971
Four-Atoll Medical Fund	-	843,800	(351,454)	492,346
Section 177 Administration Fund	-	68,828	-	68,828
Health Indemnity Fund	-	13,412	-	13,412
Marshall Islands Scholarship, Grant and Loan Board	-	(138,009)	-	(138,009)
Previously reported as Non-Expendable Trust Funds:				
Off-Shore Banking Trust Fund	-	(32,874)	-	(32,874)
Eminent Domain Trust Fund	-	(124,923)	-	(124,923)
Non-Resident Workers Trust Fund	-	66,596	-	66,596

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements
September 30, 2003

(1) Summary of Significant Accounting Policies, Continued

T. Reclassifications and Restatements, Continued

<u>Governmental Funds and Activities, Continued</u>	September 30, 2002 As Previously Reported	Fund Reclassifications	Adjustments	September 30, 2002 As Restated
Previously reported as Component Units - Governmental Funds:				
Marshall Islands Visitors Authority	-	235,459	-	235,459
Environmental Protection Authority	-	60,647	-	60,647
	<u>936,496</u>	<u>2,916,549</u>	<u>(751,674)</u>	<u>3,101,371</u>
Previously reported as Capital Projects Funds:				
Capital Projects Funds	16,908,864	-	-	16,908,864
Section 211 Capital Account Fund	-	(2,589,264)	-	(2,589,264)
Section 216(a)(1) Surveillance and Enforcement Fund	-	71,485	-	71,485
Marshall Islands Development Authority	-	-	(10,990,000)	(10,990,000)
	<u>16,908,864</u>	<u>(2,517,779)</u>	<u>(10,990,000)</u>	<u>3,401,085</u>
Previously reported as Expendable Trust Funds:				
Expendable Trust Funds	54,198,030	-	-	54,198,030
Kwajalein Atoll Trust Fund	-	(706,608)	-	(706,608)
Local Government Fund	-	(251,971)	-	(251,971)
Health Indemnity Fund	-	(13,412)	-	(13,412)
Nuclear Claims Trust Fund	-	(17,662,290)	-	(17,662,290)
Four-Atoll Medical Fund	-	(843,800)	-	(843,800)
Nuclear Claims Tribunal	-	(261)	-	(261)
Marshall Islands Scholarship, Grant and Loan Board	-	138,009	-	138,009
Marshall Islands Social Security Administration	-	(34,788,869)	-	(34,788,869)
Section 177 Administration Fund	-	(68,828)	-	(68,828)
	<u>54,198,030</u>	<u>(54,198,030)</u>	<u>-</u>	<u>-</u>
Previously reported as Non- Expendable Trust Funds:				
Nonexpendable Trust Funds	15,778,384	-	-	15,778,384
Intergenerational Trust Fund	-	(15,869,585)	-	(15,869,585)
Off-Shore Banking Trust Fund	-	32,874	-	32,874
Eminent Domain Trust Fund	-	124,923	-	124,923
Non-Resident Workers Trust Fund	-	(66,596)	-	(66,596)
	<u>15,778,384</u>	<u>(15,778,384)</u>	<u>-</u>	<u>-</u>
Previously reported as Component Units - Governmental Funds:				
Component Units - Governmental Funds	296,106	-	-	296,106
Marshall Islands Visitors Authority	-	(235,459)	-	(235,459)
RMI Environmental Protection Authority	-	(60,647)	-	(60,647)
	<u>296,106</u>	<u>(296,106)</u>	<u>-</u>	<u>-</u>
	<u>\$ 88,117,880</u>	<u>\$ (69,873,750)</u>	<u>\$ (11,741,674)</u>	6,502,456
Omission of the 2003 financial statements for the following funds:				
Health Care Revenue Fund				(736,696)
Marshall Islands Scholarship, Grant and Loan Board				138,009
RMI Environmental Protection Authority				(60,647)
Kwajalein Atoll Development Authority				<u>(2,029,435)</u>
				<u>\$ 3,813,687</u>

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements
September 30, 2003

(1) Summary of Significant Accounting Policies, Continued

T. Reclassifications and Restatements, Continued

	September 30, 2002 As Previously Reported	Fund Reclassifications	Adjustments	September 30, 2002 As Restated
<u>Governmental Funds and Activities,</u>				
<u>Continued</u>				
Restatement of unreserved fund balance - Special Revenue Funds:				
Unreserved fund balance - October 1, 2002, as previously reported				\$ 936,496
Overstatement of investment balances related to investment in Majuro Resort, Inc. (\$300,220) and Marshall Islands National Telecommunications Authority (\$100,000)				<u>(400,220)</u>
Unreserved deficit - October 1, 2002, as restated				<u>\$ 536,276</u>
Restatement of unreserved fund balance - Capital Projects Funds:				
Unreserved fund balance - October 1, 2002, as previously reported				\$ 16,908,864
Overstatement of investment balances related to investment in Majuro Resort, Inc.				<u>(10,990,000)</u>
Unreserved deficit - October 1, 2002, as restated				<u>\$ 5,918,864</u>
Restatement of unreserved fund balance - Expendable Trust Funds:				
Unreserved fund balance - October 1, 2002, as previously reported				\$ 54,198,030
Overstatement of other receivables record by the Four-Atoll Medical Fund				<u>(351,454)</u>
Unreserved deficit - October 1, 2002, as restated				<u>\$ 53,846,576</u>
<u>Proprietary Funds and Business-Type</u>				
<u>Activities</u>				
Major funds:				
Previously reported as University and College Fund Type:				
Higher Education Fund	\$ -	\$ (729,037)	\$ 391,650	\$ (337,387)
The above adjustment for the University and College Fund Type - Higher Education Fund is the result of a change in accounting principle through the adoption of GASB Statement No. 35.				
<u>Other Adjustments</u>				
Fiduciary funds:				
Pension Trust Funds:				
Marshall Islands Social Security Administration	\$ -	\$ 34,788,869	-	\$ 34,788,869
Private Purpose Trust Funds:				
Kwajalein Atoll Trust Fund	-	706,608	-	706,608
Nuclear Claims Trust Fund	<u>-</u>	<u>17,662,290</u>	<u>-</u>	<u>17,662,290</u>
	<u>-</u>	<u>53,157,767</u>	<u>-</u>	<u>53,157,767</u>
University and College Fund Type:				
Higher Education Fund	<u>(729,037)</u>	<u>729,037</u>	<u>-</u>	<u>-</u>
	<u>\$ (729,037)</u>	<u>\$ 53,886,804</u>	<u>\$ -</u>	<u>\$ 53,157,767</u>

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements
September 30, 2003

(1) Summary of Significant Accounting Policies, Continued

U. Estimates

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

(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.

Investments of the primary government and the discretely presented component units as of September 30, 2003, are as follows:

	<u>Categories</u>			<u>Carrying</u>
	<u>1</u>	<u>2</u>	<u>3</u>	<u>Value</u>
<u>Major Governmental Funds</u>				
Intergenerational Trust Fund:				
Corporate notes and bonds	\$ -	\$ 2,145,614	\$ -	\$ 2,145,614
U.S. Government agencies	-	1,369,099	-	1,369,099
U.S. Government notes and bonds	<u>-</u>	<u>964,604</u>	<u>-</u>	<u>964,604</u>
Money market funds	<u>\$ -</u>	<u>\$ 4,479,317</u>	<u>\$ -</u>	<u>4,479,317</u>
				<u>16,385,462</u>
				<u>\$ 20,864,779</u>
<u>Nonmajor Governmental Funds</u>				
Marshall Islands Development Authority:				
Common stock	\$ <u>318,630</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>318,630</u>
<u>Proprietary Funds</u>				
College of the Marshall Islands:				
Mutual funds	\$ <u>-</u>	\$ <u>135,846</u>	\$ <u>-</u>	\$ <u>135,846</u>

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements
September 30, 2003

(2) Investments, Continued

	Categories			Carrying Value
	1	2	3	
<u>Fiduciary Funds</u>				
Marshall Islands Social Security Administration:				
Mutual funds	\$ -	\$ 25,300,386	\$ -	\$ 25,300,386
Common stock	<u>4,406,152</u>	<u>3,145,726</u>	<u>-</u>	<u>7,551,878</u>
	<u>\$ 4,406,152</u>	<u>\$ 28,446,112</u>	<u>\$ -</u>	<u>\$ 32,852,264</u>
Nuclear Claims Trust Fund:				
Common stock	\$ -	\$ 4,755,228	\$ -	\$ 4,755,228
Corporate notes and bonds	-	1,540,761	-	1,540,761
U.S. Government agencies	-	970,251	-	970,251
U.S. Government notes and bonds	-	709,632	-	709,632
Preferred stock	<u>-</u>	<u>42,040</u>	<u>-</u>	<u>42,040</u>
	<u>\$ -</u>	<u>\$ 8,017,912</u>	<u>\$ -</u>	<u>8,017,912</u>
Money market funds				<u>546,820</u>
				<u>\$ 8,564,732</u>
<u>Discretely Presented Component Units</u>				
Marshall Islands National Telecommunications Authority:				
Common stock	\$ 1,375,578	\$ -	\$ -	\$ 1,375,578
U.S. Government notes and bonds	<u>762,647</u>	<u>-</u>	<u>-</u>	<u>762,647</u>
	<u>\$ 2,138,225</u>	<u>\$ -</u>	<u>\$ -</u>	<u>2,138,225</u>
Money market funds				<u>83,365</u>
Other				<u>8,520</u>
				<u>\$ 2,230,110</u>

(3) Receivables

Receivables as of September 30, 2003, for the primary government's individual major governmental funds, and nonmajor and fiduciary funds in the aggregate, including applicable allowances for uncollectible accounts, are as follows:

	General	U.S. Federal Grants	Republic Of China Projects	Nuclear Claims Tribunal	Section 211 Capital Account	College of the Marshall Islands	Nonmajor And Other Funds	Totals
Receivables:								
Taxes	\$ 2,314,773	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,314,773
Federal agencies	316,140	778,230	-	-	-	-	-	1,094,370
General	3,296,869	-	-	-	-	1,841,205	2,768,495	7,906,569
Loans	-	-	-	-	150,000	-	4,368,787	4,518,787
Other	<u>1,976,979</u>	<u>-</u>	<u>5,448,511</u>	<u>38,984</u>	<u>-</u>	<u>81,896</u>	<u>4,859,081</u>	<u>12,405,451</u>
	7,904,761	778,230	5,448,511	38,984	150,000	1,923,101	11,996,363	28,239,950
Less: allowance for uncollectibles	<u>(1,303,393)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(150,000)</u>	<u>(903,040)</u>	<u>(8,856,558)</u>	<u>(11,212,991)</u>
Net receivables	<u>\$ 6,601,368</u>	<u>\$ 778,230</u>	<u>\$ 5,448,511</u>	<u>\$ 38,984</u>	<u>\$ -</u>	<u>\$ 1,020,061</u>	<u>\$ 3,139,805</u>	<u>\$17,026,959</u>

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements
September 30, 2003

(3) Receivables, Continued

Loans receivable of the primary government are recorded by the Section 211 Capital Account Fund, the Marshall Islands Development Authority, the Marshall Islands Scholarship, Grant and Loan Board, and the ADB Development Projects Fund. The details of these loans are as follows:

Section 211 Compact Capital Account Fund

Loan to Air Marshall Islands, Inc., interest free, with quarterly repayments to commence upon the direction of the Secretary of Finance for a period not to exceed five years. This loan has been fully provided for in the allowance for uncollectibles. \$ 150,000

Marshall Islands Development Authority

Notes receivable from four fishing companies incorporated and operating in the Republic of the Marshall Islands, due August 1992, interest at 6% per annum, interest and principal payable on demand. These notes have been fully provided for in the allowance for 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. This loan has been fully provided for in the allowance for uncollectibles. 2,588,787

\$ 4,518,787

Receivables as of September 30, 2003, for the individual major discretely presently component units, and nonmajor component units in the aggregate, including applicable allowances for uncollectible accounts, are as follows:

	<u>Marshalls Energy Company, Inc</u>	<u>Marshall Islands National Telecom. Authority</u>	<u>Nonmajor Component Units</u>	<u>Totals</u>
Receivables:				
General	\$ 4,500,428	\$ 2,037,881	\$ 4,002,919	\$ 10,541,228
Loans	-	-	100,000	100,000
Other	<u>358,161</u>	<u>564,270</u>	<u>370,744</u>	<u>1,293,175</u>
Gross receivables	4,858,589	2,602,151	4,473,663	11,934,403
Less: allowance for uncollectibles	<u>(2,136,475)</u>	<u>(1,318,029)</u>	<u>(2,827,216)</u>	<u>(6,281,720)</u>
Net receivables	<u>\$ 2,722,114</u>	<u>\$ 1,284,122</u>	<u>\$ 1,646,447</u>	<u>\$ 5,652,683</u>

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements
September 30, 2003

(3) Receivables, Continued

Loans receivable of the discretely presented component units are recorded by the Marshall Islands Ports Authority. The details of these loans are as follows:

Notes receivable from Tobolar Copra Processing Plant, Inc., advanced on January 23, 1998 and February 27, 1998, due September 30, 1998, interest at 10% per annum, unsecured. These loans have been fully provided for in the allowance for uncollectibles. \$ 100,000

Receivables of the primary government and the discretely presented component units 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, 2003.

(4) Interfund Receivables and Payables

Receivables and payables between funds reflected as due to/from other funds in the combined balance sheet at September 30, 2003, are summarized as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Republic of China Projects	\$ 4,677,114
General	Nonmajor governmental funds	49,039
General	Proprietary Funds - College of the Marshall Islands	150,000
U.S. Federal Grants	General	289,591
Section 211 Capital Account	General	2,216,807
Nonmajor governmental funds	General	3,189,864
Fiduciary Funds - Marshall Islands Social Security Administration	Nonmajor governmental funds	801,166
Fiduciary Funds - Kwajalein Atoll Trust	General	920,708
Fiduciary Funds - Unclaimed Property	General	<u>93,737</u>
		<u>\$ 12,388,026</u>

The amount recorded as due from other funds of the primary government of \$12,388,026 does not equal the corresponding due to other funds of \$11,586,860 due to the exclusion of the financial statements of the Health Care Revenue Fund.

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements
September 30, 2003

(5) Fixed Assets

Capital asset activities for the year ended September 30, 2003, are as follows:

Primary Government

	Balance October 1, 2002	Additions	Retirements	Balance September 30, 2003
Governmental activities:				
Electrical distribution	\$ 27,216,665	\$ -	\$ -	\$ 27,216,665
Office equipment	10,946,971	54,879	-	11,001,850
Buildings	9,409,823	-	-	9,409,823
Water infrastructure system	9,110,478	-	-	9,110,478
Roads and bridges	5,467,525	-	-	5,467,525
Ships	3,959,858	-	-	3,959,858
Other equipment	3,581,491	1,944,823	-	5,526,314
Heavy equipment	2,783,839	-	-	2,783,839
Motor vehicles	2,713,438	824,605	-	3,538,043
	75,190,088	2,824,307	-	78,014,395
Less accumulated depreciation	(47,899,281)	(4,534,924)	-	(52,434,205)
	27,290,807	(1,710,617)	-	25,580,190
Construction in progress	-	2,198,615	-	2,198,615
	<u>\$ 27,290,807</u>	<u>\$ 487,998</u>	<u>\$ -</u>	<u>\$ 27,778,805</u>
Business-type activities:				
Buildings and improvements	\$ 1,226,019	\$ 28,545	\$ -	\$ 1,254,564
Furniture, vehicles and Equipment	1,545,500	92,831	(554,485)	1,083,846
	2,771,519	121,376	(554,485)	2,338,410
Less accumulated depreciation	(1,776,593)	(241,870)	554,485	(1,463,978)
	994,926	(120,494)	-	874,432
Construction in progress	126,217	454,078	(28,545)	551,750
	<u>\$ 1,121,143</u>	<u>\$ 333,584</u>	<u>\$ (28,545)</u>	<u>\$ 1,426,182</u>

Discretely Presented Component Units

	Balance October 1, 2002	Additions	Retirements	Balance September 30, 2003
Telcom plant facilities	\$ 29,034,408	\$ 465,711	\$ -	\$ 29,500,119
Building and leasehold Improvements	23,103,929	297,164	-	23,401,093
Power plant facilities	14,720,739	-	-	14,720,739
Seaport facilities	13,553,421	-	-	13,553,421
Machinery and equipment	7,148,746	732,323	(161,771)	7,719,298
Airport facilities	4,933,333	-	-	4,933,333
	92,494,576	1,495,198	(161,771)	93,828,003
Less accumulated depreciation	(39,752,901)	(4,221,476)	151,023	(43,823,354)
	52,741,675	(2,726,278)	(10,748)	50,004,649
Construction in progress	452,556	1,825,178	(45,866)	2,231,868
	<u>\$ 53,194,231</u>	<u>\$ (901,100)</u>	<u>\$ (56,614)</u>	<u>\$ 52,236,517</u>

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements
September 30, 2003

(6) Long-term Obligations

Primary Government

Under the Government Borrowing Act of 1985, RepMar may borrow money for such purposes as approved by the Nitijela of RepMar. As of September 30, 2003, the primary government had the following long-term debt outstanding:

A. Asian Development Bank (ADB) Loans

Loan Number 1102 MAR (SF) - Fisheries Development Project Loan (SDR 2,432,599), non-interest bearing with a service charge of 1% per annum on the amount of the loan withdrawn from the Loan Account. The loan is payable semiannually commencing January 1, 2003 in an amount of SDR 51,900, increasing to SDR 104,000 on January 1, 2012.	\$ 3,378,474
Loan Number 1218 MAR (SF) - Typhoon Rehabilitation Loan (SDR 364,000), non-interest bearing with a service charge of 1% per annum on the amount of the loan withdrawn from the Loan Account. 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.	503,135
Loan Number 1249 MAR (SF) - Basic Education Project Loan (SDR 5,717,446), non-interest bearing with a service charge of 1% per annum on the amount of the loan withdrawn from the Loan Account. 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.	7,801,270
Loan Number 1250 MAR (SF) - Majuro Water Supply Project Loan No. 1 (SDR 478,496), non-interest bearing with a service charge of 1% per annum on the amount of the loan withdrawn from the Loan Account. 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.	723,087
Loan Number 1316 RMI (SF) - Health and Population Project Loan (SDR 3,858,516), non-interest bearing with a service charge of 1% per annum on the amount of the loan withdrawn from the Loan Account. 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.	5,228,272
Loan Number 1389 RMI (SF) - Majuro Water Supply Project Loan No. 2 (SDR 6,062,000), non-interest bearing with a service charge of 1% per annum on the amount of the loan withdrawn from the Loan Account. 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.	8,303,958

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements
September 30, 2003

(6) Long-term Obligations, Continued

Primary Government, Continued

A. Asian Development Bank (ADB) Loans, Continued

Loan Number 1513 RMI (SF) - Public Sector Reform Program Loan (SDR 8,241,000), non-interest bearing with a service charge of 1% per annum on the amount of the loan withdrawn from the Loan Account. 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.	11,290,181
Loan Number 1694 RMI (SF) - Ebeye Health and Infrastructure Project Loan (SDR 6,924,000), non-interest bearing with a service charge of 1% per annum on the amount of the loan withdrawn from the Loan Account. On December 9, 2003, the ADB closed the Loan Account and reduced the loan amount to SDR 5,270,405. The loan is payable semiannually commencing February 1, 2008 in an amount of SDR 144,250.	8,659,893
Loan Number 1791 RMI (SF) - Skills Training and Vocational Education Project Loan (SDR 5,276,000), non-interest bearing with 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.	2,266,248
Loan Number 1828 RMI - Fiscal and Financial Management Program Loan No. 1 (\$4,000,000), interest at the ADB's pool-based variable lending rate system for U.S. dollar loans (6.34% at September 30, 2003), 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. On October 3, 2003, the ADB closed 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.	4,000,000
Loan Number 1829 RMI (SF) - Fiscal and Financial Management Program Loan No. 2 (SDR 6,320,000), non-interest bearing with a service charge of 1% per annum on the amount of the loan withdrawn from the Loan Account. 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.	<u>8,388,966</u>
	<u>\$ 60,543,484</u>

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements
September 30, 2003

(6) Long-term Obligations, Continued

Primary Government, Continued

A. Asian Development Bank (ADB) Loans, Continued

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

<u>Year ending September 30,</u>	<u>Principal</u>	<u>Interest and Service Charge</u>	<u>Total</u>
2004	\$ 254,788	\$ 805,231	\$ 1,060,019
2005	632,677	812,547	1,445,224
2006	825,143	795,651	1,620,794
2007	963,785	776,230	1,740,015
2008	1,517,055	754,713	2,271,768
2009 - 2013	11,997,788	3,355,241	15,353,029
2014 - 2018	14,422,194	2,151,245	16,573,439
2019 - 2023	12,086,046	1,273,899	13,359,945
2024 - 2028	9,632,533	668,065	10,300,598
2029 - 2033	6,721,162	251,579	6,972,741
2034 - 2038	<u>1,490,313</u>	<u>19,617</u>	<u>1,509,930</u>
	<u>\$ 60,543,484</u>	<u>\$ 11,664,018</u>	<u>\$ 72,207,502</u>

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

Loan with the Government of the PRC, dated August 1, 1992, non-interest bearing, 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, 2003. Loan repayments shall represent either export commodities of RepMar as agreed upon by the two governments or in United States dollars.

\$ 1,900,000

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

<u>Year ending September 30,</u>	<u>Principal</u>	<u>Interest and Service Charge</u>	<u>Total</u>
2004	\$ 760,000	\$ -	\$ 760,000
2005	190,000	-	190,000
2006	190,000	-	190,000
2007	190,000	-	190,000
2008	190,000	-	190,000
2009 - 2010	<u>380,000</u>	<u>-</u>	<u>380,000</u>
	<u>\$ 1,900,000</u>	<u>\$ -</u>	<u>\$ 1,900,000</u>

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements
September 30, 2003

(6) Long-term Obligations, Continued

Discretely Presented Component Units

As of September 30, 2003, the discretely presented component units had the following long-term debt outstanding:

Marshall's 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, 2003.

10,239,601

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. 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.

16,965,255

Tobolar Copra Processing Plant, Inc. (TCPPI)

Bank credit line of \$1,000,000, with various terms, due on various dates, interest at the bank's reference rate plus 2.5% (7.25% at September 30, 2003), collateralized by a general security agreement over all assets of TCPPI and a guarantee from RepMar.

700,000

Notes payable to the Marshall Islands Ports Authority, advanced on January 23, 1998 and February 27, 1998, due September 30, 1998, interest at 10% per annum, unsecured.

100,000

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements
September 30, 2003

(6) Long-term Obligations, Continued

Discretely Presented Component Units, Continued

Marshall Islands Airports Authority (MIAA)

Note payable to bank, due June 28, 2006, payable in monthly installments of \$3,134, interest at 7%, collateralized by a time certificate of deposit.	<u>95,166</u>
	28,100,022
Less current installments	<u>1,958,215</u>
	<u>\$ 26,141,807</u>

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

<u>Year ending September 30,</u>	<u>Principal</u>	<u>Interest and Service Charge</u>	<u>Total</u>
2004	\$ 1,958,215	\$ 1,475,685	\$ 3,433,900
2005	1,225,513	1,408,385	2,633,898
2006	1,155,747	1,197,086	2,352,833
2007	1,326,379	1,285,190	2,611,569
2008	1,539,922	1,314,861	2,854,783
2009 - 2013	6,996,439	4,761,746	11,758,185
2014 - 2018	7,615,007	2,642,690	10,257,697
2019 - 2023	4,564,980	1,033,256	5,598,236
2024 - 2028	<u>1,717,820</u>	<u>82,159</u>	<u>1,799,979</u>
	<u>\$ 28,100,022</u>	<u>\$ 15,201,058</u>	<u>\$ 43,301,080</u>

Other long-term liabilities will be liquidated in the future from governmental funds. During the year ended September 30, 2003, the following changes occurred in liabilities reported as part of the primary government's long-term liabilities in the statement of net assets:

	<u>Balance October 1, 2002</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance September 30, 2003</u>	<u>Due Within One Year</u>
Loans payable:					
ADB loans	\$ 56,292,371	\$ 4,329,616	\$ (78,503)	\$ 60,543,484	\$ 254,788
PRC loan	<u>1,900,000</u>	<u>-</u>	<u>-</u>	<u>1,900,000</u>	<u>760,000</u>
	<u>58,192,371</u>	<u>4,329,616</u>	<u>(78,503)</u>	<u>62,443,484</u>	<u>1,014,788</u>
Other:					
Compensated absences	2,026,881	1,172,849	(919,029)	2,280,701	919,029
Other	<u>-</u>	<u>668,828</u>	<u>-</u>	<u>668,828</u>	<u>220,487</u>
	<u>2,026,881</u>	<u>1,841,677</u>	<u>(919,029)</u>	<u>2,949,529</u>	<u>1,139,516</u>
	<u>\$ 60,219,252</u>	<u>\$ 6,171,293</u>	<u>\$ (997,532)</u>	<u>\$ 65,393,013</u>	<u>\$ 2,154,304</u>

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements
September 30, 2003

(6) Long-term Obligations, Continued

Changes in long-term liabilities of discretely presented component units for the year ended September 30, 2003, are as follows:

	Balance October 1, 2002	Additions	Reductions	Balance September 30, 2003	Due Within One Year
Loans payable:					
MEC	\$ 10,665,534	\$ -	\$ (425,933)	\$ 10,239,601	\$ 458,581
MINTA	17,603,312	-	(638,057)	16,965,255	668,110
MIAA	-	100,000	(4,834)	95,166	31,524
TCPPI	<u>1,022,478</u>	<u>-</u>	<u>(222,478)</u>	<u>800,000</u>	<u>800,000</u>
	<u>29,291,324</u>	<u>100,000</u>	<u>(1,291,302)</u>	<u>28,100,022</u>	<u>1,958,215</u>
Other	<u>141,049</u>	<u>500,790</u>	<u>(12,496)</u>	<u>629,343</u>	<u>134,077</u>
	<u>\$ 29,432,373</u>	<u>\$ 600,790</u>	<u>\$ (1,303,798)</u>	<u>\$ 28,729,365</u>	<u>\$ 2,092,292</u>

(7) Operating Transfers In/Out

Operating transfers in/out for each major governmental fund and nonmajor governmental funds in the aggregate, for the year ended September 30, 2003, are as follows:

<u>Source</u>	<u>Recipient</u>	<u>Transfers Out</u>	<u>Transfers In</u>
<u>Major Governmental Funds</u>			
General	Intergenerational Trust	\$ 1,000,000	\$ 1,000,000
General	Nonmajor governmental funds	2,845,600	454,361
General	Proprietary Funds - College of the Marshall Islands	1,941,995	-
U.S. Federal Grants	Nonmajor governmental funds	75,000	-
Republic of China Projects	Nonmajor governmental funds	100,000	-
Fiduciary Funds - Nuclear Claims Trust	Nuclear Claims Tribunal	-	8,569,423
Section 211 Capital Account	Intergenerational Trust	<u>15,000,000</u>	<u>15,000,000</u>
		<u>\$ 20,962,595</u>	<u>\$ 25,023,784</u>
<u>Nonmajor Governmental Funds</u>			
General	Nonmajor governmental funds	\$ 454,361	\$ 2,540,107
Republic of China Projects	Nonmajor governmental funds	-	100,000
Nonmajor governmental funds	Nonmajor governmental funds	1,192,357	284,958
Fiduciary Funds - Nuclear Claims Trust	Nonmajor governmental funds	<u>-</u>	<u>2,000,000</u>
		<u>\$ 1,646,718</u>	<u>\$ 4,925,065</u>

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements
September 30, 2003

(7) Operating Transfers In/Out, Continued

<u>Source</u>	<u>Recipient</u>	<u>Transfers Out</u>	<u>Transfers In</u>
<u>Proprietary Funds</u>			
General	College of the Marshall Islands	\$ <u>-</u>	\$ <u>1,941,995</u>
<u>Fiduciary Funds</u>			
Kwajalein Atoll Trust	Nonmajor governmental funds	\$ 1,900,000	\$ -
Nuclear Claims Trust	Nuclear Claims Tribunal	8,569,423	-
Nuclear Claims Trust	Nonmajor governmental funds	<u>2,000,000</u>	<u>-</u>
		\$ <u>12,469,423</u>	\$ <u>-</u>

Reconciliation of operating fund transfers is as follows:

Operating fund transfers, as reported	\$ 35,078,736	\$ 31,890,844
Operating fund transfers not reported due to the following governmental fund financial statements not included within the accompanying financial statements:		
Kwajalein Atoll Development Authority	-	1,900,000
Marshall Islands Scholarship, Grant and Loan Board	-	1,058,781
Health Care Revenue Fund	<u>-</u>	<u>229,111</u>
	\$ <u>35,078,736</u>	\$ <u>35,078,736</u>

Transfers are used to 1) move revenues from the fund that enabling legislation or budget requires to collect them to the fund that enabling legislation or budget requires to expend them, 2) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations, and 3) record reductions in interfund loans for amounts that are not expected to be repaid. During the year ended September 30, 2003, RepMar made a one-time transfer from the General Fund to certain nonmajor governmental funds of \$769,837 representing reductions in interfund loans that are not expected to be paid.

(8) Contingencies

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, 2003 is \$6,533,816.

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.

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements
September 30, 2003

(8) Contingencies, Continued

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 \$10,962,261 relating to fiscal years 2001 through 2003 have been set forth in RepMar's Single Audit Report for the year ended September 30, 2003, including \$9,145,322 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 financial statements.

Intergenerational Trust Fund

RepMar maintains a time certificate of deposit with the Marshall Islands Development Bank (MIDB) in the amount of \$7,110,466. Under the terms of deposit, the certificate accrues interest at the rate of 4% per annum and matures on May 8, 2018. In the event that RepMar redeems this certificate at an earlier date, receipt of funds may be dependent upon the underlying collectibility of loans issued by MIDB, as the Bank does not appear to have readily available cash reserves to meet early redemption. Furthermore, in the event that RepMar is unable to liquidate this deposit at an earlier date, such may be deemed to constitute a cash transfer out to MIDB. As funding for the Intergenerational Trust Fund was provided by Section 211 Compact Capital Account funds, such may not ultimately be considered to be in accordance with the intent of the Compact and may be contrary to this agreement with the U.S. Department of the Interior.

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, 2003, NCT received \$8,569,423 from the NCTF, which included funds to fund partial payment of monetary awards. As of September 30, 2003, NCT has committed to the distribution of monetary awards for personal injury claims of \$15,005,928 and of property damage claims of \$1,083,472,000, which will be paid out against the reserved fund balance and future sums that NCT expects to receive from the NCTF. The reserved fund balance of the NCTF is \$8,564,732 as of September 30, 2003. 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 Financial Statements
September 30, 2003

(8) Contingencies, Continued

Marshalls Energy Company, Inc. (MEC)

MEC is currently in noncompliance with certain coverage ratio requirements relating to a loan agreement with the RUS. In accordance with the associated loan agreement, in the event of default, 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.

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 2003, RepMar appropriated \$798,201 to fund such leases.

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.

(9) Commitments

RepMar has made the following commitments as of September 30, 2003:

- a) Guaranteed a bank debt of Tobolar Copra Processing Plant, Inc. (TCPPI) with a letter of guarantee. At September 30, 2003, TCPPI recorded guaranteed bank debt totaling \$700,000.
- 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, 2003, MINTA recorded guaranteed debt totaling \$16,965,255.
- 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, 2003, MEC recorded guaranteed debt totaling \$10,239,601.
- d) Guaranteed debt of a third party for the construction of the Majuro Tuna Processing Facility with a time certificate of deposit totaling \$1,305,930.
- e) RepMar has entered into lease agreements with certain landowners for the use of land situated at the Majuro international airport. The terms of the lease agreements are for a 25-year period commencing September 1, 1996. Annual lease rental commitments will be \$305,613 per year.
- f) RepMar has 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.

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements
September 30, 2003

(9) Commitments, Continued

- g) RepMar has entered into a loan agreement (Loan Number 1791 RMI (SF)) with the ADB for SDR 5,276,000 (approximates \$7,543,572 at September 30, 2003) for the Skills Training and Vocational Education Project. At September 30, 2003, RepMar had drawn down \$2,266,248 against this loan.
- h) RepMar has entered into a loan agreement (Loan Number 1948 RMI (SF)) with the ADB for SDR 5,304,000 (approximates \$7,583,606 at September 30, 2003) for the Outer Island Transport Infrastructure Project. At September 30, 2003, RepMar had drawn down no balances against this loan.
- i) In accordance with Cabinet Minute C.M. 150 (2002), the Cabinet of RepMar has approved a loan to Air Marshall Islands, Inc. in the amount of \$2,000,000, which was subsequently reduced to \$1,600,000. At September 30, 2003, RepMar had disbursed \$150,000 against this loan commitment.
- j) In accordance with Cabinet Minute C.M. 050 (2003), the Cabinet of RepMar has issued a government guarantee in the amount of \$500,000 for the benefit of a local business for a loan issued by Marshall Islands Development Bank.
- k) In accordance with Cabinet Minute C.M. 121 (2003), the Cabinet of RepMar has issued a government guarantee in the amount of \$5,000,000 for a loan obtained by the Marshall Islands Development Bank.
- l) In accordance with Cabinet Minute C.M. 141 (2003), the Cabinet of RepMar has issued a government guarantee for a loan in the amount of \$200,000 for the benefit of the Kwajalein Atoll Joint Utilities Resources, Inc.

(10) Individual Deficit Fund Balances or Deficit Retained Earnings

Specific individual funds which had individual deficit fund balances or retained earnings as at September 30, 2003, are as follows:

Major Governmental Funds

General Fund \$ 1,672,052

Nonmajor Component Units

Majuro Water and Sewer Company, Inc. \$ 335,751

(11) Subsequent Events

On February 19, 2004, the Cabinet of RepMar approved a joint venture Memorandum of Agreement with a local private corporation whereby RepMar granted and conveyed controlling ownership interest to the corporation of the hotel facility owned by Majuro Resort, Inc.

REPUBLIC OF THE MARSHALL ISLANDS
REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED SEPTEMBER 30, 2003

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Revenues, Expenditures and Changes in Deficit - Budget and Actual
General Fund
Year Ended September 30, 2003

	Budgeted Amounts		Actual - Budgetary Basis (see Note 1)	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues:				
Taxes	\$ 20,647,350	\$ 21,769,549	\$ 23,060,153	\$ 1,290,604
Compact funding	6,360,000	6,360,000	6,360,000	-
Fishing rights	2,572,500	2,572,500	1,735,669	(836,831)
Fees and charges	698,250	698,250	398,286	(299,964)
Interest and dividends	235,000	235,000	189,314	(45,686)
Other	4,980,900	4,980,900	5,196,502	215,602
Total revenues	<u>35,494,000</u>	<u>36,616,199</u>	<u>36,939,924</u>	<u>323,725</u>
Expenditures:				
Current:				
General government:				
President and Cabinet	1,633,371	1,532,897	1,507,833	25,064
Office of the Chief Secretary	379,149	358,370	360,849	(2,479)
Special appropriations	5,033,793	5,646,577	5,614,258	32,319
Council of Iroij	400,941	363,510	364,574	(1,064)
Office of the Auditor-General	41,000	258,581	255,392	3,189
Public Service Commission	426,281	421,925	418,707	3,218
Office of the Attorney General	810,205	744,380	718,240	26,140
Ministries	22,692,346	21,294,942	21,064,998	229,944
Nitijela	1,583,764	1,557,905	1,568,568	(10,663)
Total general government	<u>33,000,850</u>	<u>32,179,087</u>	<u>31,873,419</u>	<u>305,668</u>
Debt service	<u>400,000</u>	<u>1,069,249</u>	<u>1,060,899</u>	<u>8,350</u>
Other	<u>1,300,000</u>	<u>1,150,000</u>	<u>1,034,894</u>	<u>115,106</u>
Total expenditures	<u>34,700,850</u>	<u>34,398,336</u>	<u>33,969,212</u>	<u>429,124</u>
Excess of revenues over expenditures	<u>793,150</u>	<u>2,217,863</u>	<u>2,970,712</u>	<u>752,849</u>
Other financing sources (uses):				
Loan proceeds	2,800,000	2,800,000	2,685,666	(114,334)
Operating transfers in	-	-	454,361	454,361
Operating transfers out	(3,593,150)	(5,017,863)	(5,787,595)	(769,732)
Total other financing sources (uses), net	<u>(793,150)</u>	<u>(2,217,863)</u>	<u>(2,647,568)</u>	<u>(429,705)</u>
Net change in deficit	-	-	323,144	323,144
Other changes in unreserved deficit:				
Decrease in reserve for related assets	-	-	3,385,834	3,385,834
Restatement	-	-	(100,000)	(100,000)
Unreserved deficit at the beginning of the year	<u>(7,098,991)</u>	<u>(7,098,991)</u>	<u>(7,098,991)</u>	<u>-</u>
Unreserved deficit at the end of the year	<u>\$ (7,098,991)</u>	<u>\$ (7,098,991)</u>	<u>\$ (3,490,013)</u>	<u>\$ 3,608,978</u>

See accompanying notes to required supplementary information - budgetary reporting.

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Required Supplementary Information - Budgetary Reporting
September 30, 2003

(1) Budgetary Information

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

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

Accounting principles used in developing data on a budgetary basis differ from those used in preparing the basic 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 Governmental Fund Balance Sheet within the other changes in unreserved deficit section of that statement.

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, 2003, 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>
Section 216(a)(2) Health and Medical Fund	\$ 93,146
Ministry of Transportation and Communications Fund	\$ 196,370
MIDA Fund	\$ 480,321

REPUBLIC OF THE MARSHALL ISLANDS
OTHER SUPPLEMENTARY INFORMATION
YEAR ENDED SEPTEMBER 30, 2003

REPUBLIC OF THE MARSHALL ISLANDS

Combining Schedule of Expenditures by Account
 Governmental Funds
 Year Ended September 30, 2003

	General	Special Revenue			Capital Projects	Permanent	Other Governmental Funds	Total
		U.S Federal Grants	Republic of China Projects	Nuclear Claims Tribunal	Section 211 Capital Account	Inter- generational Trust		
Expenditures:								
Salaries and wages	\$ 18,313,666	\$ 1,761,056	\$ 51,747	\$ 532,559	\$ -	\$ -	\$ 4,965,277	\$ 25,624,305
Grants and subsidies	2,867,328	2,584,630	1,546,767	6,929,360	1,208,500	-	2,331,157	17,467,742
Contractual services	1,739,688	2,163,995	2,987,925	216,189	924,438	-	1,853,087	9,885,322
Capital outlay	710,797	790,063	1,002,020	8,554	2,318,757	-	168,483	4,998,674
Travel	1,224,796	1,076,218	91,085	88,857	9,253	-	137,571	2,627,780
Utilities	1,811,357	-	495	-	1,024	-	29,605	1,842,481
Supplies and materials	606,943	620,278	185,896	10,312	5,778	-	171,395	1,600,602
Rentals	1,033,319	27,394	153,826	75,170	-	-	137,327	1,427,036
Leased housing	979,889	9,000	-	-	-	-	62,458	1,051,347
Interest	874,308	-	-	-	-	-	-	874,308
Professional services	557,602	-	-	-	-	49,650	100,213	707,465
Allowances	699,170	-	-	-	-	-	-	699,170
Food stuffs	507,359	276	55,146	-	-	-	100,195	662,976
Communications	512,986	26,416	15,148	35,555	2,780	-	69,425	662,310
POL	280,078	30,472	92,179	-	735	-	240,883	644,347
Bad debts	416,371	-	-	-	150,000	-	-	566,371
Medical supplies	117,161	30,388	-	12,410	-	-	66,903	226,862
Freight	59,314	47,711	27,716	-	91	-	17,430	152,262
Printing and reproduction	58,547	8,322	4,596	-	-	-	48,477	119,942
Insurance	92,531	135	-	-	-	-	2,978	95,644
Construction	9,699	-	44,190	-	-	-	-	53,889
Other	822,016	1,068,138	483,080	16,114	602,782	-	2,029,530	5,021,660
	<u>\$ 34,294,925</u>	<u>\$ 10,244,492</u>	<u>\$ 6,741,816</u>	<u>\$ 7,925,080</u>	<u>\$ 5,224,138</u>	<u>\$ 49,650</u>	<u>\$ 12,532,394</u>	<u>\$ 77,012,495</u>

See Accompanying Independent Auditors' Report.

REPUBLIC OF THE MARSHALL ISLANDS
GENERAL FUND

September 30, 2003

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

Statement of Revenues, Expenditures by Function, and Changes in Deficit
General Fund
Year Ended September 30, 2003
(with comparative totals for the year ended September 30, 2002)

	2003	2002
Revenues:		
Taxes:		
Income	\$ 12,019,280	\$ 9,584,810
Import	6,589,490	6,004,032
Gross revenue	3,407,105	3,539,518
Fuel	450,062	318,526
Penalties and interest	120,987	105,209
Other	473,229	542,394
	<u>23,060,153</u>	<u>20,094,489</u>
Compact funding	6,360,000	6,714,000
Fishing rights	1,735,669	3,312,665
Fees and charges	398,286	454,752
Interest and dividends	189,314	397,344
Other:		
Taiwan grant	3,000,000	3,000,000
Ship registry	1,000,000	1,094,474
Contributions from component units	934,763	320,000
Other	261,739	294,443
	<u>5,196,502</u>	<u>4,708,917</u>
Total revenues	<u>36,939,924</u>	<u>35,682,167</u>
Expenditures:		
Current:		
General government:		
President and Cabinet:		
President and Ministers	566,160	571,433
Cabinet Operations	484,299	610,177
Print Shop	-	9,572
National Gazette	-	26,300
Office of the President	129,778	132,509
Customary Law Commission	117,021	91,972
RMI/USP Joint Secondary Education Project	222,886	-
	<u>1,520,144</u>	<u>1,441,963</u>
Office of the Chief Secretary:		
OEPPC	11,775	-
Administration	169,281	139,465
Planning and Statistics	137,641	151,886
Disaster Office	38,825	30,351
	<u>357,522</u>	<u>321,702</u>
Special appropriations		
Government Electricity Bills - Majuro	1,192,899	1,494,726
KAJUR subsidy	199,005	398,000
National Economic Summit	-	59,174
ASPA Management	615,000	-
Legal Services	99,502	49,750
Land Leases	798,125	800,427
MWSC subsidy	100,000	750,000
Leased Housing	590,004	-
May Day Celebration	-	4,975
Contingencies Fund	64,964	94,151
International Subscriptions/Membership Fees	262,312	395,173
Disaster Matching	37,703	37,268
Prior Year Liabilities	273,910	79,236
KALGOV Grant	348,259	300,490
Copra price stabilization subsidy	646,750	1,449,464
Government Electricity Bills - Ebeye	416,540	95,606
Outer Islands Service Extension - MIDB	-	201,985
	<u>5,644,973</u>	<u>6,210,425</u>
Council of Iroij:		
Administration	72,520	66,903
Members	292,964	308,704
	<u>365,484</u>	<u>375,607</u>
Office of the Auditor-General	257,958	290,247
Public Service Commission:		
Members	94,546	91,912
Administration	331,655	692,049
	<u>426,201</u>	<u>783,961</u>

See Accompanying Independent Auditors' Report.

REPUBLIC OF THE MARSHALL ISLANDS

Statement of Revenues, Expenditures by Function, and Changes in Deficit, Continued
 General Fund
 Year Ended September 30, 2003
 (with comparative totals for the year ended September 30, 2002)

	2003	2002
Expenditures, continued:		
Current, continued:		
General government, continued:		
Office of the Attorney General	728,396	535,510
Ministries:		
Ministry of Health and Environment	4,940,028	3,741,447
Ministry of Education	5,450,836	5,151,886
Ministry of Transportation and Communication	1,320,886	1,171,215
Ministry of Resources and Development	631,950	556,353
Ministry of Internal Affairs	1,640,389	1,514,775
Ministry of Justice	1,964,897	1,753,667
Ministry of Finance	1,457,210	1,377,210
Ministry of Foreign Affairs and Trade	2,709,206	2,487,788
Ministry of Public Works	1,213,507	1,291,810
	<u>21,328,909</u>	<u>19,046,151</u>
Nitijela:		
Operations	334,854	327,322
General Membership	978,373	945,567
Speaker's Contingency	117,468	56,693
Committee	104,587	21,921
Legislative Counsel	43,023	31,568
	<u>1,578,305</u>	<u>1,383,071</u>
Total general government	<u>32,207,892</u>	<u>30,388,637</u>
Debt service:		
Asian Development Bank	1,060,899	1,579,659
Marshall Islands Development Bank	-	994,786
Total debt service	<u>1,060,899</u>	<u>2,574,445</u>
Other:		
ADB Loan Program	609,763	403,318
Other	416,371	2,848,324
Total other	<u>1,026,134</u>	<u>3,251,642</u>
Total expenditures	<u>34,294,925</u>	<u>36,214,724</u>
Excess (deficiency) of revenues over (under) expenditures	<u>2,644,999</u>	<u>(532,557)</u>
Other financing sources (uses):		
Loan proceeds:		
Asian Development Bank	2,685,666	5,400,000
Operating transfers in:		
Special Revenue Fund	29,487	-
RMI Investment Development Fund	58,414	-
Ministry of Transportation and Communications Fund	-	20,000
Off-Shore Banking Trust Fund	60,088	-
Eminent Domain Trust Fund	94,992	-
ADB Development Projects Fund	211,380	-
Debt Service Fund	-	847,947
	<u>454,361</u>	<u>867,947</u>
Operating transfers out:		
Section 216(a)(2) Health and Medical Fund	93,146	-
Judiciary Fund	888,396	822,199
National Environmental Protection Authority	223,550	214,952
Resident Workers Training Account	64,677	80,595
Ministry of Transportation and Communications Fund	196,370	-
Local Government Fund	394,647	398,000
Marshall Islands Scholarship, Grant and Loan Board	150,000	274,122
Marshall Islands Visitors Authority	199,000	298,500
MIDA Fund	480,321	-
Intergenerational Trust Fund	1,000,000	3,500,000
Health Care Revenue Fund	155,493	-
College of the Marshall Islands	1,941,995	759,389
Marshall Islands Social Security Administration	-	2,170,000
	<u>5,787,595</u>	<u>8,517,757</u>
Total other financing sources (uses), net	<u>(2,647,568)</u>	<u>(2,249,810)</u>
Net change in deficit	(2,569)	(2,782,367)
Deficit at the beginning of the year	(1,669,483)	1,112,884
Deficit at the end of the year	<u>\$ (1,672,052)</u>	<u>\$ (1,669,483)</u>

See Accompanying Independent Auditors' Report.

REPUBLIC OF THE MARSHALL ISLANDS

Statement of Revenues, Expenditures and Changes in Deficit
Budget and Actual - General Fund
Year Ended September 30, 2003

	Budgeted Amounts		Actual Amounts	Variance
	Original	Final		
Revenues:				
Taxes:				
Income	\$ 8,678,050	\$ 9,629,995	\$ 12,019,280	\$ 2,389,285
Import	6,363,050	6,363,050	6,589,490	226,440
Gross revenue	5,255,000	5,255,000	3,407,105	(1,847,895)
Fuel	300,000	300,000	450,062	150,062
Penalties and interest	51,250	51,250	120,987	69,737
Other	-	170,254	473,229	302,975
	<u>20,647,350</u>	<u>21,769,549</u>	<u>23,060,153</u>	<u>1,290,604</u>
Compact funding	6,360,000	6,360,000	6,360,000	-
Fishing rights	2,572,500	2,572,500	1,735,669	(836,831)
Fees and charges	698,250	698,250	398,286	(299,964)
Interest and dividends	235,000	235,000	189,314	(45,686)
Taiwan grant	3,000,000	3,000,000	3,000,000	-
Ship registry	1,470,000	1,470,000	1,000,000	(470,000)
Contributions from component units	-	-	934,763	934,763
Other	510,900	510,900	261,739	(249,161)
	<u>4,980,900</u>	<u>4,980,900</u>	<u>5,196,502</u>	<u>215,602</u>
Total revenues	<u>35,494,000</u>	<u>36,616,199</u>	<u>36,939,924</u>	<u>323,725</u>
Expenditures:				
Current:				
General government:				
President and Cabinet:				
President and Ministers	577,925	561,550	566,160	(4,610)
Cabinet Operations	427,330	502,469	479,350	23,119
Office of the President	249,116	129,804	121,831	7,973
Customary Law Commission	155,000	116,188	117,606	(1,418)
RMI/USP Joint Secondary Education Project	224,000	222,886	222,886	-
	<u>1,633,371</u>	<u>1,532,897</u>	<u>1,507,833</u>	<u>25,064</u>
Office of the Chief Secretary:				
OEPPC	-	11,321	11,775	(454)
Administration	178,244	171,691	173,313	(1,622)
Planning and Statistics	158,946	135,982	136,176	(194)
Disaster Office	41,959	39,376	39,585	(209)
	<u>379,149</u>	<u>358,370</u>	<u>360,849</u>	<u>(2,479)</u>
Special appropriations				
Government Electricity Bills - Majuro	900,000	1,192,913	1,192,899	14
KAJUR subsidy	200,000	199,005	199,005	-
ASPA Management	222,924	615,000	615,000	-
Legal Services	100,000	99,502	99,502	-
Land Leases	900,000	798,201	798,125	76
MWSC subsidy	100,000	99,502	100,000	(498)
Leased Housing	608,658	591,904	590,004	1,900
Contingencies Fund	200,000	64,964	64,964	-
International Subscriptions/Membership Fees	300,000	262,312	231,597	30,715
Disaster Matching	200,000	37,799	37,703	96
Prior Year Liabilities	182,211	273,910	273,910	-
KALGOV Grant	350,000	348,259	348,259	-
Copra price stabilization subsidy	650,000	646,766	646,750	16
Government Electricity Bills - Ebeye	120,000	416,540	416,540	-
	<u>5,033,793</u>	<u>5,646,577</u>	<u>5,614,258</u>	<u>32,319</u>
Council of Iroij:				
Administration	77,003	71,611	72,180	(569)
Members	323,938	291,899	292,394	(495)
	<u>400,941</u>	<u>363,510</u>	<u>364,574</u>	<u>(1,064)</u>
Office of the Auditor-General	<u>41,000</u>	<u>258,581</u>	<u>255,392</u>	<u>3,189</u>
Public Service Commission:				
Members	92,862	93,673	94,546	(873)
Administration	333,419	328,252	324,161	4,091
	<u>426,281</u>	<u>421,925</u>	<u>418,707</u>	<u>3,218</u>
Office of the Attorney General	<u>810,205</u>	<u>744,380</u>	<u>718,240</u>	<u>26,140</u>

See Accompanying Independent Auditors' Report.

REPUBLIC OF THE MARSHALL ISLANDS

Statement of Revenues, Expenditures and Changes in Deficit, Continued
Budget and Actual - General Fund
Year Ended September 30, 2003

	Budgeted Amounts		Actual Amounts	Variance
	Original	Final		
Expenditures, continued:				
Current, continued:				
General government, continued:				
Ministries:				
Ministry of Health and Environment	5,332,442	4,960,543	4,766,788	193,755
Ministry of Education	5,846,528	5,435,063	5,445,430	(10,367)
Ministry of Transportation and Communication	1,191,371	1,322,144	1,315,032	7,112
Ministry of Resources and Development	818,225	629,253	616,021	13,232
Ministry of Internal Affairs	2,056,007	1,641,838	1,590,811	51,027
Ministry of Justice	2,034,889	1,954,096	1,959,452	(5,356)
Ministry of Finance	1,500,523	1,432,174	1,466,789	(34,615)
Ministry of Foreign Affairs and Trade	2,487,660	2,712,844	2,699,342	13,502
Ministry of Public Works	1,424,701	1,206,987	1,205,333	1,654
	<u>22,692,346</u>	<u>21,294,942</u>	<u>21,064,998</u>	<u>229,944</u>
Nitijela:				
Operations	284,584	332,107	332,865	(758)
General Membership	943,451	967,827	977,369	(9,542)
Speaker's Contingency	87,134	107,843	107,843	-
Committee	196,285	107,468	107,468	-
Legislative Counsel	72,310	42,660	43,023	(363)
	<u>1,583,764</u>	<u>1,557,905</u>	<u>1,568,568</u>	<u>(10,663)</u>
Total general government	<u>33,000,850</u>	<u>32,179,087</u>	<u>31,873,419</u>	<u>305,668</u>
Debt service:				
ADB Loan Repayment	400,000	1,069,249	1,060,899	8,350
Other:				
ADB Loan Program	1,300,000	1,150,000	618,523	531,477
Bad debts	-	-	416,371	(416,371)
Total other	<u>1,300,000</u>	<u>1,150,000</u>	<u>1,034,894</u>	<u>115,106</u>
Total expenditures	<u>34,700,850</u>	<u>34,398,336</u>	<u>33,969,212</u>	<u>429,124</u>
Excess of revenues over expenditures	<u>793,150</u>	<u>2,217,863</u>	<u>2,970,712</u>	<u>752,849</u>
Other financing sources (uses):				
Loan proceeds:				
Asian Development Bank	2,800,000	2,800,000	2,685,666	(114,334)
Operating transfers in:				
Special Revenue Fund	-	-	29,487	29,487
RMI Investment Development Fund	-	-	58,414	58,414
Off-Shore Banking Trust Fund	-	-	60,088	60,088
Eminent Domain Trust Fund	-	-	94,992	94,992
ADB Development Projects Fund	-	-	211,380	211,380
	<u>-</u>	<u>-</u>	<u>454,361</u>	<u>454,361</u>
Operating transfers out:				
Section 216(a)(2) Health and Medical Fund	-	-	93,146	(93,146)
Judiciary Fund	892,857	888,396	888,396	-
National Environmental Protection Authority	224,673	223,550	223,550	-
Resident Workers Training Account	65,000	64,677	64,677	-
Ministry of Transportation and Communications Fund	-	-	196,370	(196,370)
Postal Services Fund	20,000	100	-	100
Local Government Fund	396,620	394,647	394,647	-
Marshall Islands Scholarship, Grant and Loan Board	-	150,000	150,000	-
Marshall Islands Visitors Authority	200,000	199,005	199,000	5
MIDA Fund	-	-	480,321	(480,321)
Intergenerational Trust Fund	1,000,000	1,000,000	1,000,000	-
Health Care Revenue Fund	-	155,493	155,493	-
College of the Marshall Islands	794,000	1,941,995	1,941,995	-
	<u>3,593,150</u>	<u>5,017,863</u>	<u>5,787,595</u>	<u>(769,732)</u>
Total other financing sources (uses), net	<u>(793,150)</u>	<u>(2,217,863)</u>	<u>(2,647,568)</u>	<u>(429,705)</u>
Net change in deficit	-	-	323,144	323,144
Other changes in unreserved deficit:				
Decrease in reserve for related assets	-	-	3,385,834	3,385,834
Restatement	-	-	(100,000)	(100,000)
Unreserved deficit at the beginning of the year	(7,098,991)	(7,098,991)	(7,098,991)	-
Unreserved deficit at the end of the year	<u>\$ (7,098,991)</u>	<u>\$ (7,098,991)</u>	<u>\$ (3,490,013)</u>	<u>\$ 3,608,978</u>

See Accompanying Independent Auditors' Report.

REPUBLIC OF THE MARSHALL ISLANDS

Combined Balance Sheet
 Nonmajor Governmental Funds
 September 30, 2003

	<u>Other Special Revenue</u>	<u>Other Capital Projects</u>	<u>Total</u>
<u>ASSETS</u>			
Cash and cash equivalents	\$ 200,782	\$ 711,088	\$ 911,870
Investments	-	318,630	318,630
Receivables, net:			
Other	540,316	-	540,316
Due from other funds	2,717,611	472,253	3,189,864
Advances	39,908	-	39,908
Total assets	<u>\$ 3,498,617</u>	<u>\$ 1,501,971</u>	<u>\$ 5,000,588</u>
<u>LIABILITIES AND FUND BALANCES</u>			
Liabilities:			
Accounts payable	\$ 171,265	\$ -	\$ 171,265
Other liabilities and accruals	389,675	-	389,675
Due to other funds	30,959	18,080	49,039
Total liabilities	<u>591,899</u>	<u>18,080</u>	<u>609,979</u>
Fund balances:			
Reserved for:			
Related assets	-	1,029,718	1,029,718
Encumbrances	45,990	18,080	64,070
Nuclear claims	68,828	-	68,828
Scholarships	1,593	-	1,593
Communications	813,957	-	813,957
Health and medical	547,814	-	547,814
Maritime	30,694	-	30,694
Unreserved:			
Special revenue funds	1,397,842	-	1,397,842
Capital projects funds	-	436,093	436,093
Total fund balances	<u>2,906,718</u>	<u>1,483,891</u>	<u>4,390,609</u>
Total liabilities and fund balances	<u>\$ 3,498,617</u>	<u>\$ 1,501,971</u>	<u>\$ 5,000,588</u>

See Accompanying Independent Auditors' Report.

REPUBLIC OF THE MARSHALL ISLANDS

Combined Statement of Revenues, Expenditures by Function,
and Changes in Fund Balances
Nonmajor Governmental Funds
Year Ended September 30, 2003

	Other <u>Special Revenue</u>	Other <u>Capital Projects</u>	<u>Total</u>
Revenues:			
Compact funding	\$ 7,110,667	\$ -	\$ 7,110,667
Fees and charges	434,013	-	434,013
Sales	182,595	-	182,595
Other	459,744	-	459,744
Total revenues	<u>8,187,019</u>	<u>-</u>	<u>8,187,019</u>
Expenditures by function:			
Current:			
General government:			
Office of the Chief Secretary	3,372	-	3,372
Special appropriations	2,116,667	-	2,116,667
Judiciary	720,214	-	720,214
Nuclear claims related	1,944,532	-	1,944,532
Ministry of Health and Environment	2,330,510	138,620	2,469,130
Ministry of Education	1,974,438	1,643,950	3,618,388
Ministry of Transportation and Communication	400,369	-	400,369
Ministry of Resources and Development	20,746	-	20,746
Ministry of Internal Affairs	215,543	-	215,543
Ministry of Justice	570,497	-	570,497
Ministry of Finance	378,081	-	378,081
Ministry of Foreign Affairs and Trade	1,635	-	1,635
Ministry of Public Works	55,140	-	55,140
Capital outlay:			
Capital projects	-	18,080	18,080
Total expenditures	<u>10,731,744</u>	<u>1,800,650</u>	<u>12,532,394</u>
Deficiency of revenues under expenditures	<u>(2,544,725)</u>	<u>(1,800,650)</u>	<u>(4,345,375)</u>
Other financing sources (uses):			
Loan proceeds	-	1,643,950	1,643,950
Operating transfers in	4,366,120	558,945	4,925,065
Operating transfers out	(1,356,714)	(290,004)	(1,646,718)
Total other financing sources (uses), net	<u>3,009,406</u>	<u>1,912,891</u>	<u>4,922,297</u>
Net change in fund balances	464,681	112,241	576,922
Fund balances at the beginning of the year	<u>2,442,037</u>	<u>1,371,650</u>	<u>3,813,687</u>
Fund balances at the end of the year	<u>\$ 2,906,718</u>	<u>\$ 1,483,891</u>	<u>\$ 4,390,609</u>

See Accompanying Independent Auditors' Report.

REPUBLIC OF THE MARSHALL ISLANDS

Combined Statement of Revenues, Expenditures by Account,
and Changes in Fund Balances
Nonmajor Governmental Funds
Year Ended September 30, 2003

	Other Special Revenue	Other Capital Projects	Total
Revenues:			
Compact funding	\$ 7,110,667	\$ -	\$ 7,110,667
Fees and charges	434,013	-	434,013
Sales	182,595	-	182,595
Other	459,744	-	459,744
Total revenues	<u>8,187,019</u>	<u>-</u>	<u>8,187,019</u>
Expenditures by account:			
Salaries and wages	4,965,277	-	4,965,277
Grants and subsidies	2,331,157	-	2,331,157
Contractual services	1,853,087	-	1,853,087
POL	240,883	-	240,883
Supplies and materials	171,395	-	171,395
Capital outlay	168,483	-	168,483
Travel	137,571	-	137,571
Rentals	137,327	-	137,327
Professional services	100,213	-	100,213
Food stuffs	100,195	-	100,195
Communications	69,425	-	69,425
Medical supplies	66,903	-	66,903
Leased housing	62,458	-	62,458
Printing and reproduction	48,477	-	48,477
Utilities	29,605	-	29,605
Freight	17,430	-	17,430
Insurance	2,978	-	2,978
Other	228,880	1,800,650	2,029,530
Total expenditures	<u>10,731,744</u>	<u>1,800,650</u>	<u>12,532,394</u>
Deficiency of revenues under expenditures	<u>(2,544,725)</u>	<u>(1,800,650)</u>	<u>(4,345,375)</u>
Other financing sources (uses):			
Loan proceeds	-	1,643,950	1,643,950
Operating transfers in	4,366,120	558,945	4,925,065
Operating transfers out	(1,356,714)	(290,004)	(1,646,718)
Total other financing sources (uses), net	<u>3,009,406</u>	<u>1,912,891</u>	<u>4,922,297</u>
Net change in fund balances	464,681	112,241	576,922
Fund balances at the beginning of the year	<u>2,442,037</u>	<u>1,371,650</u>	<u>3,813,687</u>
Fund balances at the end of the year	<u>\$ 2,906,718</u>	<u>\$ 1,483,891</u>	<u>\$ 4,390,609</u>

See Accompanying Independent Auditors' Report.

REPUBLIC OF THE MARSHALL ISLANDS
NONMAJOR SPECIAL REVENUE FUNDS

September 30, 2003

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, 2003, follows:

Public Works Fund

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

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 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.

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.

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.

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.

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.

See Accompanying Independent Auditors' Report.

REPUBLIC OF THE MARSHALL ISLANDS
NONMAJOR SPECIAL REVENUE FUNDS

September 30, 2003

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.

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.

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.

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.

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.

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.

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.

See Accompanying Independent Auditors' Report.

REPUBLIC OF THE MARSHALL ISLANDS
NONMAJOR SPECIAL REVENUE FUNDS

September 30, 2003

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.

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.

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.

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.

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.

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.

Local Government Fund

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

See Accompanying Independent Auditors' Report.

REPUBLIC OF THE MARSHALL ISLANDS
NONMAJOR SPECIAL REVENUE FUNDS

September 30, 2003

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.

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.

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.

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.

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.

See Accompanying Independent Auditors' Report.

REPUBLIC OF THE MARSHALL ISLANDS
NONMAJOR SPECIAL REVENUE FUNDS

September 30, 2003

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.

See Accompanying Independent Auditors' Report.

REPUBLIC OF THE MARSHALL ISLANDS
NONMAJOR GOVERNMENTAL FUNDS
SPECIAL REVENUE FUNDS

Combining Balance Sheet
September 30, 2003

	Section 215(a)(1) Commu- nications	Section 214(a) Energy	Land Registration	Section 216(b) Maritime	Section 216(a)(1) Surveillance and Enforcement	Section 216(a)(2) Health and Medical	Section 216(a)(3) Scholarship	Changed Circumstances Fund	Section 221(b) Education and Health Care	Special Revenue
ASSETS										
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Receivables, net:										
Other	-	-	-	-	-	-	-	-	-	-
Due from other funds	13,147	818,565	18,118	-	11,540	39,432	4,972	53,258	286,050	-
Advances	-	615	-	-	-	-	-	1,200	-	-
Total assets	\$ 13,147	\$ 819,180	\$ 18,118	\$ -	\$ 11,540	\$ 39,432	\$ 4,972	\$ 54,458	\$ 286,050	\$ -
LIABILITIES AND FUND BALANCES										
(DEFICITS)										
Liabilities:										
Accounts payable	\$ 1,551	\$ -	\$ -	\$ -	\$ 2,189	\$ 123	\$ 14	\$ -	\$ 45,653	\$ -
Other liabilities and accruals	-	-	-	-	8,661	39,309	3,365	-	247,481	-
Due to other funds	-	-	-	-	-	-	-	-	-	-
Total liabilities	1,551	-	-	-	10,850	39,432	3,379	-	293,134	-
Fund balances (deficits):										
Reserved for:										
Encumbrances	-	5,223	-	-	690	-	-	-	14,607	-
Nuclear claims	-	-	-	-	-	-	-	-	-	-
Scholarships	-	-	-	-	-	-	1,593	-	-	-
Communications	-	813,957	-	-	-	-	-	-	-	-
Health and medical	-	-	-	-	-	-	-	-	-	-
Maritime	-	-	-	-	-	-	-	-	-	-
Unreserved (deficit)	11,596	-	18,118	-	-	-	-	54,458	(21,691)	-
Total fund balances (deficits)	11,596	819,180	18,118	-	690	-	1,593	54,458	(7,084)	-
Total liabilities and fund balances	\$ 13,147	\$ 819,180	\$ 18,118	\$ -	\$ 11,540	\$ 39,432	\$ 4,972	\$ 54,458	\$ 286,050	\$ -

See Accompanying Independent Auditors' Report.

**REPUBLIC OF THE MARSHALL ISLANDS
NONMAJOR GOVERNMENTAL FUNDS
SPECIAL REVENUE FUNDS**

**Combining Balance Sheet, Continued
September 30, 2003**

	Judiciary	Ministry of Justice	Alternative Energy	National Environmental Protection Authority	Resident Workers Training Account	Other Direct Assistance	Telecommunications	Ministry of Transportation and Communications	Ministry of Resources and Development	Ships Operations
ASSETS										
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Receivables, net:										
Other	-	-	-	-	18,693	70,467	-	-	977	-
Due from other funds	284,661	107,906	13,649	105,446	186,129	25,210	-	-	3,580	-
Advances	531	4,982	-	98	637	-	-	31,845	-	-
Total assets	\$ 285,192	\$ 112,888	\$ 13,649	\$ 105,544	\$ 205,459	\$ 95,677	\$ -	\$ 31,845	\$ 4,557	\$ -
LIABILITIES AND FUND BALANCES										
(DEFICITS)										
Liabilities:										
Accounts payable	\$ -	\$ 481	\$ -	\$ -	\$ -	\$ 93,199	\$ -	\$ -	\$ 3,350	\$ 71
Other liabilities and accruals	35,913	11,950	-	12,494	18	3,493	-	-	-	70
Due to other funds	-	-	-	-	-	-	-	28,557	-	2,402
Total liabilities	36,394	18,161	-	12,494	18	96,692	-	28,557	3,350	2,543
Fund balances (deficits):										
Reserved for:										
Encumbrances	3,729	4,602	-	6,211	3,226	-	-	3,288	340	-
Nuclear claims	-	-	-	-	-	-	-	-	-	-
Scholarships	-	-	-	-	-	-	-	-	-	-
Communications	-	-	-	-	-	-	-	-	-	-
Health and medical	-	-	-	-	-	-	-	-	-	-
Maritime	-	-	-	-	-	-	-	-	-	-
Unreserved (deficit)	245,069	90,125	13,649	86,839	202,215	(1,015)	-	-	867	(2,543)
Total fund balances (deficits)	248,798	94,727	13,649	93,050	205,441	(1,015)	-	3,288	1,207	(2,543)
Total liabilities and fund balances	\$ 285,192	\$ 112,888	\$ 13,649	\$ 105,544	\$ 205,459	\$ 95,677	\$ -	\$ 31,845	\$ 4,557	\$ -

See Accompanying Independent Auditors' Report.

REPUBLIC OF THE MARSHALL ISLANDS
NONMAJOR GOVERNMENTAL FUNDS
SPECIAL REVENUE FUNDS

Combining Balance Sheet, Continued
September 30, 2003

	Postal Service	Sea Patrol	Local Government	Non-Resident Trust	Four-Atoll Medical	Section 177 Administration	Health Indemnity	Off-Shore Banking Trust	Eminent Domain Trust	Marshall Islands Visitors Authority	Total
ASSETS											
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 200,782	\$ 200,782
Receivables, net:											
Other	-	-	-	-	450,179	-	-	-	-	-	540,316
Due from other funds	29,920	30,694	444,121	-	97,635	68,828	-	-	-	74,750	2,717,611
Advances	-	-	-	-	-	-	-	-	-	-	39,908
Total assets	\$ 29,920	\$ 30,694	\$ 444,121	\$ -	\$ 547,814	\$ 68,828	\$ -	\$ -	\$ -	\$ 275,532	\$ 3,498,617
LIABILITIES AND FUND BALANCES (DEFICITS)											
Liabilities:											
Accounts payable	\$ 6,430	\$ -	\$ 11,993	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 171,265
Other liabilities and accruals	17,178	-	-	-	-	-	-	-	-	9,743	389,675
Due to other funds	-	-	-	-	-	-	-	-	-	-	30,959
Total liabilities	23,608	-	11,993	-	-	-	-	-	-	9,743	591,899
Fund balances (deficits):											
Reserved for:											
Encumbrances	-	-	4,074	-	-	-	-	-	-	-	45,990
Nuclear claims	-	-	-	-	-	68,828	-	-	-	-	68,828
Scholarships	-	-	-	-	-	-	-	-	-	-	1,593
Communications	-	-	-	-	-	-	-	-	-	-	813,957
Health and medical	-	-	-	-	547,814	-	-	-	-	-	547,814
Maritime	-	30,694	-	-	-	-	-	-	-	-	30,694
Unreserved (deficit)	6,312	-	428,054	-	-	-	-	-	-	265,789	1,397,842
Total fund balances (deficits)	6,312	30,694	432,128	-	547,814	68,828	-	-	-	265,789	2,906,718
Total liabilities and fund balances	\$ 29,920	\$ 30,694	\$ 444,121	\$ -	\$ 547,814	\$ 68,828	\$ -	\$ -	\$ -	\$ 275,532	\$ 3,498,617

See Accompanying Independent Auditors' Report.

**REPUBLIC OF THE MARSHALL ISLANDS
NONMAJOR GOVERNMENTAL FUNDS
SPECIAL REVENUE FUNDS**

**Combining Statement of Revenues, Expenditures By Function,
and Changes in Fund Balances (Deficits)
Year Ended September 30, 2003**

	Section 215(a)(1) Communi- cations	Section 214(a) Energy	Land Registration	Section 216(b) Maritime	Section 216(a)(1) Surveillance and Enforcement	Section 216(a)(2) Health and Medical	Section 216(a)(3) Scholarship	Changed Circumstances Fund	Section 221(b) Education and Health Care	Special Revenue
Revenues:										
Compact funding	\$ 500,000	\$ 1,866,667	\$ -	\$ -	\$ 415,000	\$ 531,600	\$ 797,400	\$ -	\$ 3,000,000	\$ -
Fees and charges	-	-	3,105	-	-	-	-	-	-	-
Sales	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Total revenues	500,000	1,866,667	3,105	-	415,000	531,600	797,400	-	3,000,000	-
Expenditures by function:										
Current:										
General government:										
Office of the Chief Secretary	-	-	-	-	-	-	-	-	-	-
Special appropriations	250,000	1,866,667	-	-	-	-	-	-	-	-
Judiciary	-	-	-	-	-	-	-	-	-	-
Nuclear claims related	-	-	-	-	-	-	-	-	-	-
Ministry of Health and Environment	-	-	-	-	-	602,565	-	-	1,218,814	-
Ministry of Education	-	-	-	-	-	-	48,329	-	1,820,746	-
Ministry of Transportation and Communication	121,078	-	-	-	-	-	-	-	-	-
Ministry of Resources and Development	-	-	-	-	-	-	-	-	-	-
Ministry of Internal Affairs	-	-	-	-	468,637	-	-	-	-	-
Ministry of Justice	-	-	-	-	-	-	-	-	-	-
Ministry of Finance	-	-	-	-	-	-	-	-	-	-
Ministry of Foreign Affairs and Trade	-	-	-	-	-	-	-	-	-	-
Ministry of Public Works	-	-	-	-	-	-	-	-	-	-
Total expenditures	371,078	1,866,667	-	-	468,637	602,565	48,329	-	3,039,560	-
Excess (deficiency) of revenues over (under) expenditures	128,922	-	3,105	-	(53,637)	(70,965)	749,071	-	(39,560)	-
Other financing sources (uses), net	-	-	-	-	125,812	106,558	-	-	-	-
Operating transfers in	-	(416)	-	(19,997)	-	-	(833,781)	-	(73,618)	(29,487)
Operating transfers out	-	(416)	-	(19,997)	125,812	106,558	(833,781)	-	(73,618)	(29,487)
Total other financing sources (uses), net	98	(416)	3,105	(19,997)	72,175	35,593	(84,710)	-	(113,178)	(29,487)
Net change in fund balances (deficit) of the year	129,020	416	15,013	19,997	(71,485)	(35,593)	86,303	54,458	106,094	29,487
Fund balances (deficits) at the beginning of the year	40,082	690,160	-	-	690	-	1,593	-	(7,084)	-
Fund balances (deficits) at the end	\$ 11,596	\$ 819,180	\$ 18,118	\$ -	\$ 690	\$ -	\$ 1,593	\$ 54,458	\$ (7,084)	\$ -

See Accompanying Independent Auditors' Report.

REPUBLIC OF THE MARSHALL ISLANDS
NONMAJOR GOVERNMENTAL FUNDS
SPECIAL REVENUE FUNDS

**Combining Statement of Revenues, Expenditures By Function,
and Changes in Fund Balances (Deficits), Continued**
Year Ended September 30, 2003

	RMI Investment Development	Judiciary	Ministry of Justice	Alternative Energy	National Environmental Protection Authority	Resident Workers Training Account	Other Direct Assistance	Telecom- munications	Ministry of Transportation and Commu- nications	Ministry of Resources and Development	Ships Operations
Revenues:	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Compact funding	-	-	-	-	-	-	-	-	-	-	-
Fees and charges	-	250	100,267	-	-	101,875	-	-	82,491	17,238	-
Sales	-	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	66,468	-	-	-	-
Total revenues	-	250	100,267	-	-	101,875	66,468	-	82,491	17,238	-
Expenditures by function:											
Current:											
General government:											
Office of the Chief Secretary	-	-	-	-	-	-	3,372	-	-	-	-
Special appropriations	-	-	-	-	-	-	-	-	-	-	-
Judiciary	-	720,214	-	-	-	-	-	-	-	-	-
Nuclear claims related	-	-	-	-	-	-	-	-	-	-	-
Ministry of Health and Environment	-	-	-	-	197,188	-	34,172	-	-	-	-
Ministry of Education	-	-	-	-	-	-	19	-	-	-	-
Ministry of Transportation and Communication	-	-	-	-	-	105,344	-	-	-	-	-
Ministry of Resources and Development	-	-	-	-	-	-	-	-	277,536	-	1,755
Ministry of Internal Affairs	-	-	-	-	-	-	351	-	-	20,395	-
Ministry of Justice	-	-	102,308	-	-	-	1,053	-	-	-	-
Ministry of Finance	-	-	-	-	-	-	(448)	-	-	-	-
Ministry of Foreign Affairs and Trade	-	-	-	-	-	-	25,000	-	-	-	-
Ministry of Public Works	-	-	-	-	-	-	1,635	-	-	-	-
Total expenditures	-	720,214	102,308	-	197,188	105,344	66,468	-	277,536	20,395	1,755
Excess (deficiency) of revenues over (under) expenditures	-	(719,964)	(2,041)	-	(197,188)	(3,469)	-	-	(195,045)	(3,157)	(1,755)
Other financing sources (uses), net	-	888,396	-	416	223,550	131,273	-	-	196,370	-	-
Operating transfers in:	(58,414)	-	-	-	-	-	-	(98)	-	-	-
Operating transfers out:	(58,414)	888,396	-	416	223,550	131,273	-	(98)	196,370	-	-
Total other financing sources (uses), net	(58,414)	168,432	(2,041)	416	26,362	127,804	-	(98)	1,325	(3,157)	(1,755)
Net change in fund balances (deficit) of the year	58,414	80,366	96,768	13,233	66,688	77,637	(1,015)	98	1,963	4,364	(788)
Fund balances (deficits) at the beginning of the year	-	248,798	94,727	13,649	93,050	205,441	(1,015)	-	3,288	1,207	(2,543)
Fund balances (deficits) at the end of the year	-	248,798	94,727	13,649	93,050	205,441	(1,015)	-	3,288	1,207	(2,543)

See Accompanying Independent Auditors' Report.

REPUBLIC OF THE MARSHALL ISLANDS
NONMAJOR GOVERNMENTAL FUNDS
SPECIAL REVENUE FUNDS

Combining Statement of Revenues, Expenditures By Function,
and Changes in Fund Balances (Deficits), Continued
Year Ended September 30, 2003

	Postal Service	Sea Patrol	Local Government	Non-Resident Trust	Four-Atoll Medical	Section 177 Administration	Health Indemnity	Off-Shore Banking Trust	Eminent Domain Trust	Marshall Islands Visitors Authority	Total
Revenues:											
Compact funding	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 7,110,667
Fees and charges	103,447	-	-	-	-	-	-	-	-	-	434,013
Sales	182,595	-	-	-	-	-	-	-	-	-	182,595
Other	-	71,298	-	-	-	-	-	92,962	219,915	9,101	459,744
Total revenues	286,042	71,298	-	-	-	-	-	92,962	219,915	9,101	8,187,019
Expenditures by function:											
Current:											
General government:											
Office of the Chief Secretary	-	-	-	-	-	-	-	-	-	-	3,372
Special appropriations	-	-	-	-	-	-	-	-	-	-	2,116,667
Judiciary	-	-	-	-	-	-	-	-	-	-	720,214
Nuclear claims related	-	-	-	-	1,944,532	-	-	-	-	-	1,944,532
Ministry of Health and Environment	-	-	-	-	-	-	-	-	-	277,771	2,330,510
Ministry of Education	-	-	-	-	-	-	-	-	-	-	1,974,438
Ministry of Transportation and Communication	-	-	-	-	-	-	-	-	-	-	400,369
Ministry of Resources and Development	-	-	-	-	-	-	-	-	-	-	20,746
Ministry of Internal Affairs	-	-	214,490	-	-	-	-	-	-	-	215,543
Ministry of Justice	-	-	-	-	-	-	-	-	-	-	570,497
Ministry of Finance	353,081	-	-	-	-	-	-	-	-	-	378,081
Ministry of Foreign Affairs and Trade	-	-	-	-	-	-	-	-	-	-	1,635
Ministry of Public Works	-	-	-	-	-	-	-	-	-	-	55,140
Total expenditures	353,081	-	214,490	-	1,944,532	-	-	-	-	277,771	10,731,744
Excess (deficiency) of revenues over (under) expenditures	(67,039)	71,298	(214,490)	-	(1,944,532)	-	-	92,962	219,915	(268,670)	(2,544,725)
Other financing sources (uses):											
Operating transfers in:	-	-	394,647	-	2,000,000	-	-	-	-	299,000	4,366,120
Operating transfers out:	-	(105,815)	-	(66,596)	-	-	(13,412)	(60,088)	(94,992)	-	(1,356,714)
Total other financing sources (uses), net	-	(105,815)	394,647	(66,596)	2,000,000	-	(13,412)	(60,088)	(94,992)	299,000	3,009,406
Net change in fund balances (deficit)	(67,039)	(34,517)	180,157	(66,596)	55,468	-	(13,412)	32,874	124,923	30,330	464,681
Fund balances (deficits) at the beginning of the year	73,351	65,211	251,971	66,596	492,346	68,828	13,412	(32,874)	(124,923)	235,459	2,442,037
Fund balances (deficits) at the end of the year	\$ 6,312	\$ 30,694	\$ 432,128	\$ -	\$ 547,814	\$ 68,828	\$ -	\$ -	\$ -	\$ 265,789	\$ 2,906,718

See Accompanying Independent Auditors' Report.

**REPUBLIC OF THE MARSHALL ISLANDS
NONMAJOR GOVERNMENTAL FUNDS
SPECIAL REVENUE FUNDS**

**Combining Statement of Revenues, Expenditures By Account,
and Changes in Fund Balances (Deficits)
Year Ended September 30, 2003**

	Section 215(a)(1) Communi- cations	Section 214(a) Energy	Land Registration	Section 216(b) Maritime	Section 216(a)(1) Surveillance and Enforcement	Section 216(a)(2) Health and Medical	Section 216(a)(3) Scholarship	Changed Circumstances Fund	Section 221(b) Education and Health Care	Special Revenue
Revenues:										
Compact funding	\$ 500,000	\$ 1,866,667	\$ -	\$ -	\$ 415,000	\$ 531,600	\$ 797,400	\$ -	\$ 3,000,000	\$ -
Fees and charges	-	-	3,105	-	-	-	-	-	-	-
Sales	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Total revenues	500,000	1,866,667	3,105	-	415,000	531,600	797,400	-	3,000,000	-
Expenditures by account:										
Salaries and wages	65,167	-	-	-	338,127	602,565	48,329	-	2,699,882	-
Grants and subsidies	250,000	1,866,667	-	-	-	-	-	-	-	-
Contractual services	-	-	-	-	-	-	-	-	-	-
POI	3,921	-	-	-	53,996	-	-	-	6,515	-
Supplies and materials	584	-	-	-	20,722	-	-	-	49,323	-
Capital outlay	30,430	-	-	-	25,350	-	-	-	28,474	-
Travel	16,377	-	-	-	3,562	-	-	-	23,083	-
Rentals	231	-	-	-	-	-	-	-	66,616	-
Professional services	-	-	-	-	-	-	-	-	-	-
Food stuffs	-	-	-	-	20,358	-	-	-	34,540	-
Communications	2,593	-	-	-	5,412	-	-	-	9,483	-
Medical supplies	-	-	-	-	-	-	-	-	66,903	-
Leased housing	-	-	-	-	-	-	-	-	-	-
Printing and reproduction	-	-	-	-	-	-	-	-	-	-
Utilities	-	-	-	-	-	-	-	-	4,193	-
Freight	53	-	-	-	-	-	-	-	1,822	-
Insurance	-	-	-	-	-	-	-	-	7,688	-
Other	1,786	-	-	-	-	-	-	-	418	-
	220	-	-	-	1,110	-	-	-	40,620	-
Total expenditures	371,078	1,866,667	-	-	468,637	602,565	48,329	-	3,039,560	-
Excess (deficiency) of revenues over (under) expenditures	128,922	-	3,105	-	(53,637)	(70,965)	749,071	-	(39,560)	-
Other financing sources (uses):										
Operating transfers in	-	(416)	-	(19,997)	-	106,558	-	-	-	-
Operating transfers out	-	(416)	-	(19,997)	125,812	106,558	(833,781)	-	(73,618)	(29,487)
Total other financing sources (uses), net	98	-	-	(19,997)	125,812	106,558	(833,781)	-	(73,618)	(29,487)
Net change in fund balances (deficit)	129,020	(416)	3,105	(19,997)	72,175	35,593	(84,710)	-	(113,178)	(29,487)
Fund balances (deficits) at the beginning of the year	690,160	416	15,013	19,997	(71,485)	(35,593)	86,303	54,458	106,094	29,487
Fund balances (deficits) at the end of the year	\$ 819,180	\$ -	\$ 18,118	\$ -	\$ 690	\$ -	\$ 1,593	\$ 54,458	\$ (7,084)	\$ -

See Accompanying Independent Auditors' Report.

REPUBLIC OF THE MARSHALL ISLANDS
NONMAJOR GOVERNMENTAL FUNDS
SPECIAL REVENUE FUNDS

Combining Statement of Revenues, Expenditures By Account,
and Changes in Fund Balances (Deficits), Continued
Year Ended September 30, 2003

	RMI Investment Development	Judiciary	Ministry of Justice	Alternative Energy	National Environmental Protection Authority	Resident Workers Training Account	Other Direct Assistance	Telecommu- ications	Ministry of Transportation and Commu- nications	Ministry of Resources and Development	Ships Operations
Revenues:											
Compact funding	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Fees and charges	-	250	100,267	-	-	101,875	-	-	82,491	17,238	-
Sales	-	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	66,468	-	-	-	-
Total revenues	-	250	100,267	-	-	101,875	66,468	-	82,491	17,238	-
Expenditures by account:											
Salaries and wages	-	529,411	-	-	189,863	54,616	15,332	-	40,683	-	1,755
Grants and subsidies	-	2,074	-	-	-	-	-	-	-	-	-
Contractual services	-	5,344	14,652	-	1,379	3,395	-	-	123,813	171	-
POL	-	20,410	33,604	-	-	2,712	1,634	-	21,283	8,595	-
Supplies and materials	-	9,450	9,743	-	-	1,921	3,372	-	14,627	1,741	-
Capital outlay	-	36,914	21,941	-	-	21,571	35	-	-	-	-
Travel	-	5,289	400	-	946	9,661	-	-	160	-	-
Rentals	-	6,694	-	-	-	-	-	-	-	-	-
Professional services	-	1,125	508	-	-	501	-	-	40,309	2,854	-
Food stuffs	-	19,620	9,149	-	-	3,369	-	-	-	-	-
Communications	-	-	-	-	-	-	-	-	-	-	-
Medical supplies	-	62,458	-	-	-	-	-	-	-	-	-
Leased housing	-	320	-	-	-	-	-	-	-	-	-
Printing and reproduction	-	7,363	-	-	5,000	1,500	200	-	667	-	-
Utilities	-	-	-	-	-	325	-	-	9,813	1,050	-
Freight	-	-	-	-	-	-	-	-	7,784	-	-
Insurance	-	774	-	-	-	-	-	-	-	-	-
Other	-	12,968	12,311	-	-	5,773	45,895	-	18,397	5,984	-
Total expenditures	-	720,214	102,308	-	197,188	105,344	66,468	-	277,536	20,395	1,755
Excess (deficiency) of revenues over (under) expenditures	-	(719,964)	(2,041)	-	(197,188)	(3,469)	-	-	(195,045)	(3,157)	(1,755)
Other financing sources (uses):											
Operating transfers in:	(58,414)	888,396	-	416	223,550	131,273	-	-	196,370	-	-
Operating transfers out:	(58,414)	-	-	-	-	-	-	(98)	-	-	-
Total other financing sources (uses), net	(58,414)	888,396	-	416	223,550	131,273	-	(98)	196,370	-	-
Net change in fund balances (uses), net	(58,414)	168,432	(2,041)	416	26,362	127,804	-	(98)	1,325	(3,157)	(1,755)
Fund balances (deficits) at the beginning of the year	58,414	80,366	96,768	13,233	66,688	77,637	(1,015)	98	1,963	4,364	(788)
Fund balances (deficits) at the end of the year	\$ -	\$ 248,798	\$ 94,727	\$ 13,649	\$ 93,050	\$ 205,441	\$ (1,015)	\$ -	\$ 3,288	\$ 1,207	\$ (2,543)

See Accompanying Independent Auditors' Report.

REPUBLIC OF THE MARSHALL ISLANDS
NONMAJOR GOVERNMENTAL FUNDS
SPECIAL REVENUE FUNDS

Combining Statement of Revenues, Expenditures By Account,
and Changes in Fund Balances (Deficits), Continued
Year Ended September 30, 2003

	Postal Service	Sea Patrol	Local Government	Non-Resident Trust	Four-Atoll Medical	Section 177 Administration	Health Indemnity	Off-Shore Banking Trust	Eminent Domain Trust	Marshall Islands Visitors Authority	Total
Revenues:											
Compact funding	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 7,110,667
Fees and charges	103,447	-	-	-	-	-	-	-	-	-	434,013
Sales	182,595	-	-	-	-	-	-	-	-	-	182,595
Other	-	71,298	-	-	-	-	-	92,962	219,915	9,101	459,744
Total revenues	286,042	71,298	-	-	-	-	-	92,962	219,915	9,101	8,187,019
Expenditures by account:											
Salaries and wages	264,977	-	-	-	-	-	-	-	-	114,570	4,965,277
Grants and subsidies	-	-	214,490	-	-	-	-	-	-	-	2,331,157
Contractual services	-	-	-	-	1,851,013	-	-	-	-	-	1,853,087
POL	2,653	-	-	-	-	-	-	-	-	-	240,883
Supplies and materials	6,767	-	-	-	-	-	-	-	-	-	171,395
Capital outlay	-	-	-	-	-	-	-	-	-	20,638	168,483
Travel	14,088	-	-	-	-	-	-	-	-	17,566	137,571
Rentals	36,458	-	-	-	93,519	-	-	-	-	-	137,527
Professional services	-	-	-	-	-	-	-	-	-	-	100,213
Food stuffs	-	-	-	-	-	-	-	-	-	-	100,195
Communications	19,799	-	-	-	-	-	-	-	-	-	69,425
Medical supplies	-	-	-	-	-	-	-	-	-	-	66,903
Leased housing	-	-	-	-	-	-	-	-	-	-	62,458
Printing and reproduction	-	-	-	-	-	-	-	-	-	41,597	48,477
Utilities	4,232	-	-	-	-	-	-	-	-	-	29,605
Freight	1,905	-	-	-	-	-	-	-	-	-	17,430
Insurance	-	-	-	-	-	-	-	-	-	-	2,978
Other	2,202	-	-	-	-	-	-	-	-	83,400	228,880
Total expenditures	353,081	-	214,490	-	1,944,532	-	-	-	-	277,771	10,731,744
Excess (deficiency) of revenues over (under) expenditures	(67,039)	71,298	(214,490)	-	(1,944,532)	-	-	92,962	219,915	(268,670)	(2,544,725)
Other financing sources (uses):											
Operating transfers in:	-	-	394,647	-	2,000,000	-	-	-	-	299,000	4,366,120
Operating transfers out:	-	(105,815)	-	(66,596)	-	-	(13,412)	(60,088)	(94,992)	-	(1,356,714)
Total other financing sources (uses), net	-	(105,815)	394,647	(66,596)	2,000,000	-	(13,412)	(60,088)	(94,992)	299,000	3,009,406
Net change in fund balances (deficit) of the year	(67,039)	(34,517)	180,157	(66,596)	55,468	-	(13,412)	32,874	124,923	30,330	464,681
Fund balances (deficits) at the beginning of the year	73,351	65,211	251,971	66,596	492,346	68,828	13,412	(32,874)	(124,923)	235,459	2,442,037
Fund balances (deficits) at the end of the year	\$ 6,312	\$ 30,694	\$ 432,128	\$ -	\$ 547,814	\$ 68,828	\$ -	\$ -	\$ -	\$ 265,789	\$ 2,906,718

See Accompanying Independent Auditors' Report.

REPUBLIC OF THE MARSHALL ISLANDS
NONMAJOR CAPITAL PROJECTS FUNDS

September 30, 2003

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 Nonmajor Capital Projects Funds as of September 30, 2003, follows:

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:

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.

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
NONMAJOR CAPITAL PROJECTS FUNDS

Combining Balance Sheet
September 30, 2003

	MIDA Development	Other Capital Projects	Section 111 Investment Development	MIDA	ADB Development Projects	Total
<u>ASSETS</u>						
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ -	\$ 711,088	\$ 711,088
Investments	-	-	-	318,630	-	318,630
Due from other funds	-	-	472,253	-	-	472,253
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 472,253</u>	<u>\$ 318,630</u>	<u>\$ 711,088</u>	<u>\$ 1,501,971</u>
 <u>LIABILITIES AND FUND BALANCES</u> <u>(DEFICITS)</u>						
Liabilities:						
Due to other funds	\$ -	\$ 18,080	\$ -	\$ -	\$ -	\$ 18,080
Total liabilities	<u>-</u>	<u>18,080</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>18,080</u>
Fund balances (deficits):						
Reserved for:						
Related assets	-	-	-	318,630	711,088	1,029,718
Encumbrances	-	18,080	-	-	-	18,080
Unreserved	-	(36,160)	472,253	-	-	436,093
Total fund balances (deficits)	<u>-</u>	<u>(18,080)</u>	<u>472,253</u>	<u>318,630</u>	<u>711,088</u>	<u>1,483,891</u>
Total liabilities and fund balances	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 472,253</u>	<u>\$ 318,630</u>	<u>\$ 711,088</u>	<u>\$ 1,501,971</u>

See Accompanying Independent Auditors' Report.

REPUBLIC OF THE MARSHALL ISLANDS
NONMAJOR CAPITAL PROJECTS FUNDS

Combining Statement of Expenditures by Function,
and Changes in Fund Balances (Deficit)
Year Ended September 30, 2003

	MIDA Development	Other Capital Projects	Section 111 Investment Development	MIDA	ADB Development Projects	Total
Expenditures by function:						
Skills training and vocational education project	\$ -	\$ -	\$ -	\$ -	\$ 1,643,950	\$ 1,643,950
Health improvement	-	-	-	-	138,620	138,620
Other capital projects	-	18,080	-	-	-	18,080
Total expenditures	<u>-</u>	<u>18,080</u>	<u>-</u>	<u>-</u>	<u>1,782,570</u>	<u>1,800,650</u>
Other financing sources (uses):						
Loan proceeds	-	-	-	-	1,643,950	1,643,950
Operating transfers in	-	-	-	558,945	-	558,945
Operating transfers out	<u>(78,624)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(211,380)</u>	<u>(290,004)</u>
Total other financing sources (uses), net	<u>(78,624)</u>	<u>-</u>	<u>-</u>	<u>558,945</u>	<u>1,432,570</u>	<u>1,912,891</u>
Net change in fund balances (deficit)	(78,624)	(18,080)	-	558,945	(350,000)	112,241
Fund balances (deficit) at the beginning of the year	<u>78,624</u>	<u>-</u>	<u>472,253</u>	<u>(240,315)</u>	<u>1,061,088</u>	<u>1,371,650</u>
Fund balances (deficit) at the end of the year	<u>\$ -</u>	<u>\$ (18,080)</u>	<u>\$ 472,253</u>	<u>\$ 318,630</u>	<u>\$ 711,088</u>	<u>\$ 1,483,891</u>

See Accompanying Independent Auditors' Report.

REPUBLIC OF THE MARSHALL ISLANDS
NONMAJOR CAPITAL PROJECTS FUNDS

Combining Statement of Expenditures by Account,
and Changes in Fund Balances (Deficit)
Year Ended September 30, 2003

	<u>MIDA Development</u>	<u>Other Capital Projects</u>	<u>Section 111 Investment Development</u>	<u>MIDA</u>	<u>ADB Development Projects</u>	<u>Total</u>
Expenditures by account:						
Other	\$ -	\$ 18,080	\$ -	\$ -	\$ 1,782,570	\$ 1,800,650
Total expenditures	<u>-</u>	<u>18,080</u>	<u>-</u>	<u>-</u>	<u>1,782,570</u>	<u>1,800,650</u>
Other financing sources (uses):						
Loan proceeds	-	-	-	-	1,643,950	1,643,950
Operating transfers in	-	-	-	558,945	-	558,945
Operating transfers out	<u>(78,624)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(211,380)</u>	<u>(290,004)</u>
Total other financing sources (uses), net	<u>(78,624)</u>	<u>-</u>	<u>-</u>	<u>558,945</u>	<u>1,432,570</u>	<u>1,912,891</u>
Net change in fund balances (deficit)	(78,624)	(18,080)	-	558,945	(350,000)	112,241
Fund balances (deficit) at the beginning of the year	<u>78,624</u>	<u>-</u>	<u>472,253</u>	<u>(240,315)</u>	<u>1,061,088</u>	<u>1,371,650</u>
Fund balances (deficit) at the end of the year	<u>\$ -</u>	<u>\$ (18,080)</u>	<u>\$ 472,253</u>	<u>\$ 318,630</u>	<u>\$ 711,088</u>	<u>\$ 1,483,891</u>

See Accompanying Independent Auditors' Report.

REPUBLIC OF THE MARSHALL ISLANDS
FIDUCIARY FUNDS - PRIVATE PURPOSE TRUSTS

September 30, 2003

Private purpose trusts are used to report any trust arrangement not properly reported in a pension trust fund or an investment trust fund “under which principal and income benefit individuals, private organizations, or other governments.” A brief discussion of RepMar’s Private Purpose Trusts as of September 30, 2003, follows:

Marshall Islands Social Security Administration (MISSA)

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

Kwajalein Atoll Trust Fund

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

Nuclear Claims Trust Fund

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

See Accompanying Independent Auditors’ Report.

REPUBLIC OF THE MARSHALL ISLANDS

Combining Statement of Fiduciary Net Assets
Fiduciary Funds - Private Purpose Trusts
September 30, 2003

	Marshall Islands Social Security Administration	Kwajalein Atoll Trust	Nuclear Claims Trust	Total
<u>ASSETS</u>				
Cash and cash equivalents	\$ 1,796,098	\$ -	\$ -	\$ 1,796,098
Time certificates of deposit	3,537,759	-	-	3,537,759
Receivables, net:				
Contributions	1,764,186	-	-	1,764,186
Other	835,303	-	-	835,303
Investments	32,852,264	-	8,564,732	41,416,996
Due from other funds	801,166	920,708	-	1,721,874
Capital assets, net of accumulated depreciation	355,390	-	-	355,390
Total assets	<u>41,942,166</u>	<u>920,708</u>	<u>8,564,732</u>	<u>51,427,606</u>
<u>LIABILITIES</u>				
Accounts payable	238,500	-	-	238,500
Other liabilities and accruals	154,913	-	-	154,913
Total liabilities	<u>393,413</u>	<u>-</u>	<u>-</u>	<u>393,413</u>
<u>NET ASSETS</u>				
Held in trust for:				
Social security benefits	41,548,753	-	-	41,548,753
Nuclear claims	-	-	8,564,732	8,564,732
Land use distributions	-	920,708	-	920,708
Total net assets	<u>\$ 41,548,753</u>	<u>\$ 920,708</u>	<u>\$ 8,564,732</u>	<u>\$ 51,034,193</u>

See Accompanying Independent Auditors' Report.

REPUBLIC OF THE MARSHALL ISLANDS

Combining Statement of Changes in Fiduciary Net Assets
 Fiduciary Funds - Private Purpose Trusts
 Year Ended September 30, 2003

	Marshall Islands Social Security Administration	Kwajalein Atoll Trust	Nuclear Claims Trust	Total
Additions:				
Contributions:				
Private employees	\$ 9,278,043	\$ -	\$ -	\$ 9,278,043
Government employees	2,628,409	-	-	2,628,409
Penalties and interest	882,101	-	-	882,101
Total contributions	<u>12,788,553</u>	<u>-</u>	<u>-</u>	<u>12,788,553</u>
Investment earnings:				
Net increase in the fair value of investments	5,864,725	-	658,400	6,523,125
Interest and dividends	894,148	-	894,127	1,788,275
Total investment earnings	6,758,873	-	1,552,527	8,311,400
Less investment expense	96,343	-	80,662	177,005
Net investment earnings	<u>6,662,530</u>	<u>-</u>	<u>1,471,865</u>	<u>8,134,395</u>
Other:				
Compact funding	-	13,118,000	-	13,118,000
Total additions	<u>19,451,083</u>	<u>13,118,000</u>	<u>1,471,865</u>	<u>34,040,948</u>
Deductions:				
Land use distributions	-	11,003,900	-	11,003,900
Benefits	9,276,506	-	-	9,276,506
Bad debts	2,631,257	-	-	2,631,257
Administrative expenses	783,436	-	-	783,436
Transfers out	-	1,900,000	10,569,423	12,469,423
Total deductions	<u>12,691,199</u>	<u>12,903,900</u>	<u>10,569,423</u>	<u>36,164,522</u>
Change in net assets	6,759,884	214,100	(9,097,558)	(2,123,574)
Net assets at the beginning of the year	34,788,869	706,608	17,662,290	53,157,767
Net assets at the end of the year	<u>\$ 41,548,753</u>	<u>\$ 920,708</u>	<u>\$ 8,564,732</u>	<u>\$ 51,034,193</u>

See Accompanying Independent Auditors' Report.

REPUBLIC OF THE MARSHALL ISLANDS
NONMAJOR COMPONENT UNITS

September 30, 2003

Component units are legally separate organizations for which the elected officials of RepMar are financially accountable. A brief discussion of RepMar's Nonmajor Component Units as of September 30, 2003, follows:

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 granted a corporate charter by the Cabinet of RepMar on August 13, 1977 for the primary purpose of engaging in the production, processing, and marketing of copra products. TCPPI is governed by a seven-member Board of Directors appointed by the Cabinet of RepMar.

Majuro Water and Sewer Company, Inc. (MWSC)

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

Majuro Resort, Inc. (MRI)

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

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.

See Accompanying Independent Auditors' Report.

REPUBLIC OF THE MARSHALL ISLANDS
NONMAJOR COMPONENT UNITS

Combining Statement of Net Assets
September 30, 2003

	Marshall Islands Airports Authority	Tobolar Copra Processing Plant, Inc.	Majuro Water and Sewer Company, Inc.	Majuro Resort, Inc. (December 31, 2003)	Marshall Islands Ports Authority	Marshall Islands Marine Resources Authority	Total
ASSETS							
Current assets:							
Cash and cash equivalents	\$ 380,763	\$ 199,093	\$ 43,971	\$ 64,844	\$ 849,374	\$ 76,469	\$ 1,614,514
Time certificates of deposit	211,714	-	-	-	1,237,602	708,007	2,157,323
Receivables, net:							
General	73,639	433,661	304,245	42,422	418,886	104,796	1,377,649
Other	1,443	36,328	11,442	1,130	74,265	144,190	268,798
Inventories	-	398,307	138,238	86,054	-	3,580	626,179
Other current assets	18,023	96,905	2,040	35,409	-	-	152,377
Total current assets	<u>685,582</u>	<u>1,164,294</u>	<u>499,936</u>	<u>229,859</u>	<u>2,580,127</u>	<u>1,037,042</u>	<u>6,196,840</u>
Noncurrent assets:							
Capital assets, net of accumulated depreciation	<u>4,330,751</u>	<u>1,068,153</u>	<u>92,949</u>	<u>7,836,276</u>	<u>6,364,661</u>	<u>481,309</u>	<u>20,174,099</u>
Total assets	<u>5,016,333</u>	<u>2,232,447</u>	<u>592,885</u>	<u>8,066,135</u>	<u>8,944,788</u>	<u>1,518,351</u>	<u>26,370,939</u>
LIABILITIES							
Current liabilities:							
Current portion of long-term debt	31,524	800,000	-	-	-	-	831,524
Accounts payable	657	360,041	36,599	65,800	12,000	11,092	486,189
Other liabilities and accruals	214,180	64,480	525,324	701,917	61,889	244,368	1,812,158
Deferred revenue	4,336	-	-	-	-	185,250	189,586
Total current liabilities	<u>250,697</u>	<u>1,224,521</u>	<u>561,923</u>	<u>767,717</u>	<u>73,889</u>	<u>440,710</u>	<u>3,319,457</u>
Noncurrent liabilities:							
Noncurrent portion of long-term debt	63,642	-	-	-	-	-	63,642
Other noncurrent liabilities	-	-	366,713	-	-	128,553	495,266
Total noncurrent liabilities	<u>63,642</u>	<u>-</u>	<u>366,713</u>	<u>-</u>	<u>-</u>	<u>128,553</u>	<u>558,908</u>
Total liabilities	<u>314,339</u>	<u>1,224,521</u>	<u>928,636</u>	<u>767,717</u>	<u>73,889</u>	<u>569,263</u>	<u>3,878,365</u>
NET ASSETS							
Investment in capital assets, net of related debt	4,235,585	1,068,153	92,949	7,836,276	6,364,661	481,309	20,078,933
Unrestricted	466,409	(60,227)	(428,700)	(537,858)	2,506,238	467,779	2,413,641
Total net assets	<u>\$ 4,701,994</u>	<u>\$ 1,007,926</u>	<u>\$ (335,751)</u>	<u>\$ 7,298,418</u>	<u>\$ 8,870,899</u>	<u>\$ 949,088</u>	<u>\$ 22,492,574</u>

See Accompanying Independent Auditors' Report.

REPUBLIC OF THE MARSHALL ISLANDS
NONMAJOR COMPONENT UNITS

Combining Statement of Revenues, Expenses,
and Changes in Net Assets
Year Ended September 30, 2003

	Marshall Islands Airports Authority	Tobolar Copra Processing Plant, Inc.	Majuro Water and Sewer Company, Inc.	Majuro Resort, Inc. (December 31, 2003)	Marshall Islands Ports Authority	Marshall Islands Marine Resources Authority	Total
Operating revenues:							
Charges for services	\$ 819,361	\$ -	\$ 930,562	\$ 1,462,376	\$ 1,844,717	\$ 1,510,352	\$ 6,567,368
Sales	-	1,511,893	184,160	800,220	-	-	2,496,273
Other	38,841	-	45,874	-	21,854	137,022	243,591
Total operating revenues	<u>858,202</u>	<u>1,511,893</u>	<u>1,160,596</u>	<u>2,262,596</u>	<u>1,866,571</u>	<u>1,647,374</u>	<u>9,307,232</u>
Operating expenses:							
Cost of services	637,102	2,045,918	1,184,606	1,272,803	322,306	1,037,321	6,500,056
Administration costs	-	248,558	-	1,172,750	672,545	-	2,093,853
Depreciation and amortization	381,473	56,820	33,904	492,931	387,115	93,722	1,445,965
Total operating expenses	<u>1,018,575</u>	<u>2,351,296</u>	<u>1,218,510</u>	<u>2,938,484</u>	<u>1,381,966</u>	<u>1,131,043</u>	<u>10,039,874</u>
Operating income (loss)	<u>(160,373)</u>	<u>(839,403)</u>	<u>(57,914)</u>	<u>(675,888)</u>	<u>484,605</u>	<u>516,331</u>	<u>(732,642)</u>
Nonoperating revenues (expenses):							
Contributions from the primary government	-	1,095,750	100,000	-	-	-	1,195,750
Interest income	9,046	-	-	-	64,148	46,065	119,259
Contributions to the primary government	-	-	-	-	(300,000)	(634,763)	(934,763)
Interest expense	-	(70,343)	(43,806)	-	-	-	(114,149)
Gain on sale of fixed assets	-	-	-	3,800	-	-	3,800
Total nonoperating revenues (expenses), net	<u>9,046</u>	<u>1,025,407</u>	<u>56,194</u>	<u>3,800</u>	<u>(235,852)</u>	<u>(588,698)</u>	<u>269,897</u>
Net income (loss)	<u>(151,327)</u>	<u>186,004</u>	<u>(1,720)</u>	<u>(672,088)</u>	<u>248,753</u>	<u>(72,367)</u>	<u>(462,745)</u>
Net assets at the beginning of the year	<u>4,853,321</u>	<u>821,922</u>	<u>(334,031)</u>	<u>7,970,506</u>	<u>8,622,146</u>	<u>1,021,455</u>	<u>22,955,319</u>
Net assets at the end of the year	<u>\$ 4,701,994</u>	<u>\$ 1,007,926</u>	<u>\$ (335,751)</u>	<u>\$ 7,298,418</u>	<u>\$ 8,870,899</u>	<u>\$ 949,088</u>	<u>\$ 22,492,574</u>

See Accompanying Independent Auditors' Report.