

REPUBLIC OF THE MARSHALL ISLANDS

FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITORS' REPORT

YEAR ENDED SEPTEMBER 30, 2004

REPUBLIC OF THE MARSHALL ISLANDS

FINANCIAL STATEMENTS  
YEAR ENDED SEPTEMBER 30, 2004

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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 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, 2004, 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 an express opinion on the respective financial statements based on our audit. We did not audit the financial statements of the Marshall Islands National Telecommunications Authority, which represent 23% and 12%, respectively, of the assets and revenues of RepMar's discretely presented component units. 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 Marshall Islands National Telecommunications Authority, 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 respective financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of RepMar's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the respective financial statements, 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 other auditors provide a reasonable basis for our opinion.

In accordance with RepMar's request, our audit of the respective financial statements did not include the financial activities of the Marshall Islands Scholarship, Grant and Loan Board, the Health Care Revenue Fund, the Ministry of Health Health Fund, and the Ministry of Education Head Start Program, whose financial activities are included in RepMar's governmental activities and represent 5% and 12%, respectively, of that activity's assets and revenues, and the Kwajalein Atoll Joint Utilities Resources, Inc., the Marshall Islands Development Bank, the Marshall Islands Visitors Authority, and the RMI Environmental Protection Authority, whose financial activities are included in the aggregate discretely presented component units and represent 33% and 8%, respectively, of the assets and revenues of RepMar's discretely presented component units. The entities comprising these financial activities were not able to produce audited financial statements and the effect on the respective financial statements is unknown.

Capital assets of the governmental activities 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, 2004. 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 other auditors, except for the effects on the respective financial statements of such adjustments, if any, as might have been determined to be necessary had we been able to assure ourselves as to the propriety of RepMar's governmental activities capital assets, net assets invested in capital assets, net of related debt and depreciation expense, as discussed in the fourth paragraph above, and had we obtained audited financial statements of the Marshall Islands Scholarship, Grant and Loan Board, the Health Care Revenue Fund, the Ministry of Health Health Fund, the Ministry of Education Head Start Program, the Kwajalein Atoll Joint Utilities Resources, Inc., the Marshall Islands Development Bank, the Marshall Islands Visitors Authority, and the RMI Environmental Protection Authority, as discussed in the third paragraph above, such financial statements, as set forth in Section II of the table of contents, present fairly, in all material respects, the respective financial position of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Republic of the Marshall Islands as of September 30, 2004, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis, on pages 3 through 11, as well as the Schedule of Revenues, Expenditures, and Changes in Deficit - Budget and Actual - General Fund and notes thereto, on pages 51 and 52, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. This supplementary 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 supplementary information. However, we did not audit such information and we do not express an opinion on it.

Our audit was conducted for the purpose of forming an opinion on RepMar's respective financial statements that collectively comprise RepMar's basic financial statements. The combining and individual fund financial statements, listed in Section IV of the foregoing table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements of RepMar. This supplementary information is the responsibility of the management of RepMar. The combining and individual fund financial statements have been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, except for the effects of the matter described in the third paragraph above, in our opinion, are 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 June 10, 2005, 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 grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.



June 10, 2005

## REPUBLIC OF THE MARSHALL ISLANDS

### Management's Discussion and Analysis Year Ended September 30, 2004

Our discussion and analysis of the Republic of the Marshall Islands ("RepMar") financial performance provides and overview RepMar's financial activities for the fiscal year ended September 30, 2004. Please read it in conjunction with RepMar's basic financial statements, which follow this section. Fiscal year 2003 comparative information has been included, where appropriate.

#### FINANCIAL HIGHLIGHTS

- For the fiscal year ended September 30, 2004, RepMar's total net assets increased by \$6.1 million (or 159%) from \$3.8 million in the prior year to \$9.9 million. This increase is primarily attributable to increases in the Intergenerational Trust Fund of \$7.5 million.
- During fiscal year 2004, RepMar's expenses for governmental activities were \$81.8 million, including expenses recorded or payments made or due to the autonomous agencies, and were funded in part by \$56.0 million in program revenues and \$31.9 million in taxes and other general revenues. Both expenses and program revenues were down from fiscal year 2003 by \$7.4 million (or 8.3%) and \$12.4 million (or 18%), respectively. This decrease was primarily due to the decline in Compact funding (\$5.2 million) and related expenditures. Compact revenues decreased from \$32.7 million in fiscal year 2003 to \$27.5 million in fiscal year 2004 (down 15.8%). In fiscal year 2004, there was also a notable 60.5% decline (\$6.4 million) in Nuclear claims related program revenue to \$4.2 million from the fiscal year 2003 total of \$10.6 million. Correspondingly, Nuclear claims related expenditures of \$4.6 million in fiscal year 2004 were down 53.8% (\$5.3 million) from the fiscal year 2003 total of \$9.9 million.
- For the fiscal year ended September 30, 2004, the General Fund reported revenues of \$31.6 million, \$0.7 million in excess of charges to general fund appropriations (including transfers out) of \$30.9 million, but were down \$5.3 million (or 14.4%) from fiscal year 2003 primarily because of the elimination of non-discretionary Compact Section 211 funds that were considered general fund revenues in the prior year. Charges to appropriations, including transfers out, of \$30.4 million were marginally higher than budgeted amounts of \$30.4 million. However, revenues collected of \$31.6 million were higher than budgeted amounts of \$30.8 million, resulting in a net budgetary surplus for fiscal year 2004 of \$0.7 million. RepMar was able to maintain its budgetary stability by maintaining expenditures within the limits of available resources. No new budget initiatives were taken during fiscal year 2004.
- At September 30, 2004, the General Fund reported a total fund balance deficit of \$1.0 million, which is a decrease of \$0.7 million (or 42.6%) from the prior year deficit of \$1.7 million. This positive change in the deficit is primarily attributable to a reduction in the deficit of the unreserved general fund balance of \$0.9 million (or 24.6%).

#### 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.

# REPUBLIC OF THE MARSHALL ISLANDS

## Management's Discussion and Analysis Year Ended September 30, 2004

### 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.

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, the condition of RepMar's roads and infrastructure, and the quality of services.

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

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

### 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 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 two kinds of funds:

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

# REPUBLIC OF THE MARSHALL ISLANDS

## Management's Discussion and Analysis Year Ended September 30, 2004

### Fund Financial Statements, Continued

- Fiduciary funds - RepMar is the trustee, or fiduciary, for other assets that because of 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 change 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.

### A 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 2004, RepMar's assets exceeded liabilities by \$9.9 million. However, all these net assets are either restricted as to the purpose they can be used for or are invested in capital assets. RepMar uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although RepMar's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate the liabilities. The summary of Net Assets (condensed) presented below, with comparable balances for fiscal year 2003, discloses this relationship:

		RepMar's Net Assets As of September 30	
		2004	2003
Current and other assets	\$	63,940,161	\$ 55,576,536
Capital assets		<u>28,527,697</u>	<u>27,778,805</u>
<b>Total Assets</b>		<u>92,467,858</u>	<u>83,355,341</u>
Long-term liabilities		64,653,780	62,790,368
Other liabilities		<u>17,863,552</u>	<u>16,725,814</u>
<b>Total Liabilities</b>		<u>82,517,332</u>	<u>79,516,182</u>
Net assets:			
Invested in capital assets, net of related debt		3,688,484	3,056,308
Restricted net assets		51,241,153	40,548,242
Unrestricted net assets		<u>(44,979,111)</u>	<u>(39,765,391)</u>
<b>Total net assets</b>	\$	<u>9,950,526</u>	<u>3,839,159</u>

At the end of fiscal year 2004, RepMar's unrestricted net assets showed a deficit of \$45.0 million, an increase of \$5.2 million (or 13.1%) from the prior year. 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 (ADB) 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 assets lie in its Intergenerational Trust Fund, investments (non-capital assets) and long-term liabilities.

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## Management's Discussion and Analysis Year Ended September 30, 2004

### Changes in Net Assets

For the year ended September 30, 2004, net assets of the primary government increased by \$6.1 million, an increase of 159% from the prior year's \$3.8 million. This result indicates that RepMar's financial condition, as a whole, improved from the prior year. For the year ended September 30, 2004, net assets of the primary government changed as follows, with comparable amounts for fiscal year 2003:

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

	<u>2004</u>	<u>2003</u>
<b>Revenues:</b>		
Program revenues:		
Charges for services	\$ 7,955,270	\$ 8,691,172
Operating grants and contributions	45,331,615	55,564,130
Capital grants and contributions	2,754,645	4,239,333
General revenues:		
Taxes	21,973,266	23,060,153
Compact funding	-	6,360,000
Grants and contributions not restricted	6,301,474	3,000,000
Fishing rights	939,394	1,735,669
Ship registry	1,000,000	1,000,000
Contributions from component units	360,606	934,763
Unrestricted investment earnings	115,725	189,314
Other	<u>1,161,072</u>	<u>2,489,610</u>
Total revenues	<u>87,893,067</u>	<u>107,264,144</u>
<b>Expenses:</b>		
President and Cabinet	1,670,929	1,499,215
Office of the Chief Secretary	1,050,565	1,420,255
Special appropriations	5,475,135	10,553,041
Council of Iroij	396,417	364,969
Office of the Auditor-General	604,130	921,320
Public Service Commission	476,361	397,267
Office of the Attorney General	642,374	700,770
Health and Environment	16,375,707	15,842,044
Education	22,907,203	20,993,409
Transportation and Communication	3,659,671	2,097,311
Resources and Development	1,062,888	1,071,339
Internal Affairs	3,212,702	2,723,603
Justice	3,071,636	2,645,429
Finance	3,026,431	3,249,378
Foreign Affairs and Trade	2,894,830	3,283,887
Public Works	1,927,151	2,428,470
Nitijela	1,491,693	1,507,958
Judiciary	763,139	710,764
Nuclear claims related	4,564,199	9,869,612
Interest on long-term debt	856,252	865,383
Depreciation	5,101,599	4,534,924
Other	<u>550,688</u>	<u>1,497,684</u>
Total expenses	<u>81,781,700</u>	<u>89,178,032</u>
Changes in net assets	6,111,367	18,086,112
Net assets at the beginning of the year	<u>3,839,159</u>	<u>(14,246,953)</u>
Net assets at the end of the year	<u>\$ 9,950,526</u>	<u>\$ 3,839,159</u>

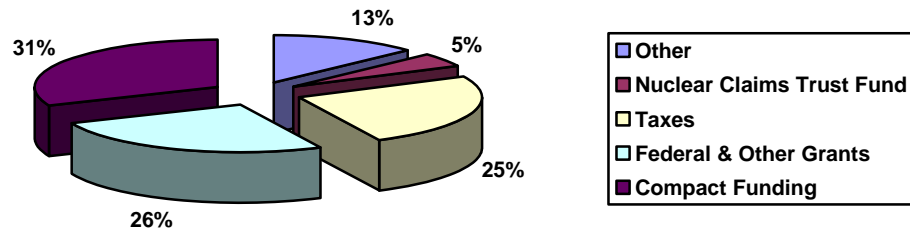
# REPUBLIC OF THE MARSHALL ISLANDS

## Management's Discussion and Analysis Year Ended September 30, 2004

RepMar's revenues from governmental activities, including local revenues, Compact and other grant funding, totaled \$87.9 million in fiscal year 2004. The cost of governmental activities totaled \$81.8 million; the surplus representing an increase in net assets of \$6.1 million.

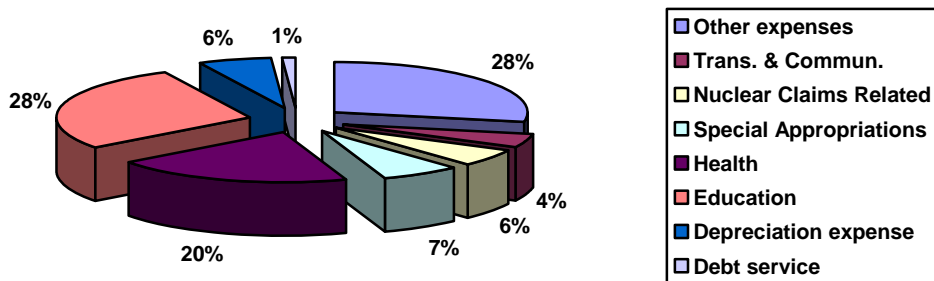
Graphs 1 and 2 below show the major components of revenues and cost of governmental activities.

Graph 1  
RepMar's Revenue Sources  
For the Year Ended September 30, 2004



As in prior years, Compact funding and federal and other grants are the major sources of revenue for RepMar, which comprise 57% of the total revenues for fiscal year 2004. The remaining 43% is predominantly comprised of local sourced tax revenues, including income taxes and gross revenue taxes.

Graph 2  
RepMar's Cost of Governmental Activities  
For the Year Ended September 30, 2004



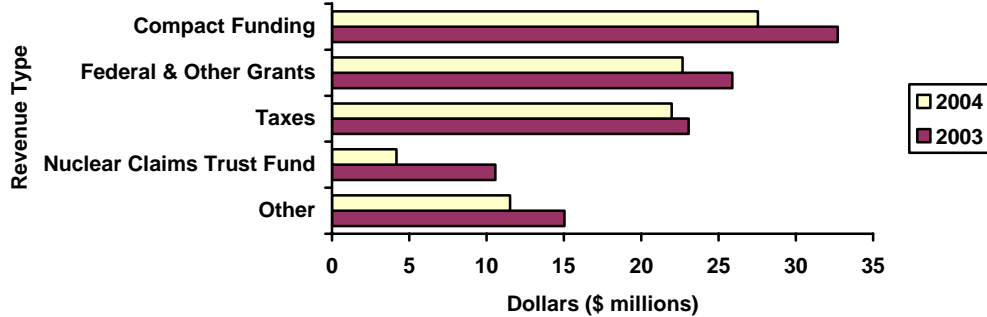
Other expenses that make up a portion of the costs of governmental activities are comprised of ministerial expenses within the Ministry of Internal Affairs (\$3.2 million), the Ministry of Justice (\$3.1 million), the Ministry of Finance (\$3.0 million), the Ministry of Foreign Affairs and Trade (\$2.9 million), and the Ministry of Public Works (\$1.9 million).

**REPUBLIC OF THE MARSHALL ISLANDS**

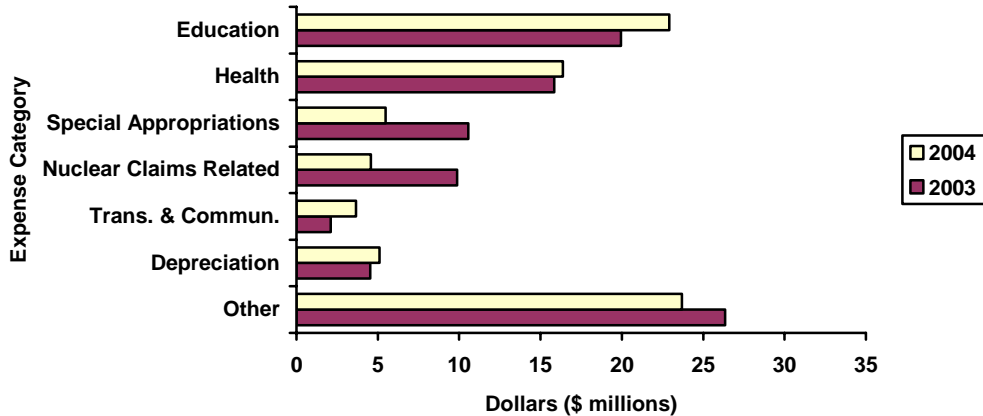
Management's Discussion and Analysis  
Year Ended September 30, 2004

Graphs 3 and 4 below show a comparison of the major components of revenues and cost of governmental activities for fiscal years 2003 and 2004.

Graph 3  
RepMar's Revenue Sources  
For the Years Ended September 30



Graph 4  
RepMar's Cost of Governmental Activities  
For the Years Ended September 30



Special appropriation expenses in fiscal year 2004 consisted mainly of subsidies to component units of \$2.2 million, down from \$6.0 million (or 63.5%) in fiscal year 2003, government utility billings of \$0.9 million, down from \$1.6 million (or 44.1%) in fiscal year 2003, and land leases/leased housing of \$1.0 million, down from \$1.4 million (or 24.8%) in fiscal year 2003.

Other expenses in fiscal year 2004 consisted of expenses within the Ministry of Internal Affairs of \$3.2 million, up from \$2.7 million (or 18%) in fiscal year 2003, the Ministry of Justice of \$3.1 million, up from \$2.6 million (or 16.1%) in fiscal year 2003, the Ministry of Finance of \$3.0 million, down from \$3.2 million (or 6.9%) in fiscal year 2003, and the Ministry of Foreign Affairs of \$2.9 million, down from \$3.3 million (or 11.8%) in fiscal year 2003.

# REPUBLIC OF THE MARSHALL ISLANDS

## Management's Discussion and Analysis Year Ended September 30, 2004

### 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 2004, RepMar's governmental funds reported a combined fund balance of \$48.8 million, which represents an increase of \$7.8 million (or 19.0%) in comparison with fiscal year 2003. This increase is primarily attributable to the increase in fund balance of the Intergenerational Trust Fund of \$7.5 million. Of this total combined fund balance, \$52.2 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 (\$40.4 million); 2) to liquidate contracts and purchase orders of the prior period (\$2.4 million); 3) to fund specific Compact-related activities (\$4.9 million); or 4) for a variety of other restricted purposes. The combined deficit of RepMar's governmental funds is \$3.4 million, a decrease of \$0.6 million (or 14.7%) from fiscal year 2003. This deficit will be funded through future budgetary surpluses.

### General Fund Budgetary Highlights

During the course of the fiscal year, management and elected officials of RepMar revised the General Fund budget. The revised budget included a decrease in overall revenue projections of \$0.4 million with a corresponding decrease in budgetary appropriations. The primary reason for the downward revision in revenue projections was due to revised cash collections.

### CAPITAL ASSET AND DEBT ADMINISTRATION

#### Capital Assets

RepMar's investment in capital assets for its governmental activities as of September 30, 2004 amounted to \$86.1 million, net of accumulated depreciation of \$57.6 million, leaving a net book value of \$28.5 million. RepMar's capital assets include electrical and water infrastructure, roads and bridges, vehicles and other machinery and equipment, ships, buildings, and various projects under construction. (See table below). This represents a net increase of \$0.7 million (or 2.7%) from fiscal year 2003.

#### RepMar's Capital Assets September 30, 2004 (net of depreciation)

	<u>2004</u>	<u>2003</u>
Electrical distribution	\$ 4,082,500	\$ 5,443,333
Office equipment	1,435,636	2,063,075
Buildings	6,302,188	6,678,581
Water infrastructure system	1,366,572	1,822,096
Roads and bridges	1,646,099	1,919,475
Ships	4,295,951	3,449,225
Other equipment	3,001,520	1,823,853
Heavy equipment	1,333,864	1,565,154
Motor vehicles	1,110,575	815,398
Construction in progress	<u>3,952,792</u>	<u>2,198,615</u>
	<u>\$ 28,527,697</u>	<u>\$ 27,778,805</u>

## REPUBLIC OF THE MARSHALL ISLANDS

### Management's Discussion and Analysis Year Ended September 30, 2004

#### Capital Assets, Continued

Major capital asset additions for fiscal year 2004 were as follows:

- Acquisition of ships by the Ministry of Transportation and Communications in the amount of \$1.0 million.
- Acquisition of motor vehicles and equipment by various RepMar ministries and departments in the amount of \$3.0 million.
- Ongoing construction in progress of educational facilities in the amount of \$1.8 million.

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

#### Long-term Debt

The Government Borrowing Act of 1985 authorizes RepMar to borrow for such purposes as approved by the Nitijela. Since 1991 RepMar has entered into twelve separate loans with the Asian Development Bank (See table below). Long-term debt obligations increased by \$2.1 million (or 3.3%) in fiscal year 2004, net of loan repayments of \$0.2 million.

#### RepMar's Outstanding Debt Asian Development Bank September 30, 2004

	<u>2004</u>	<u>2003</u>
Fisheries Development Project	\$ 3,305,645	\$ 3,378,474
Typhoon Rehabilitation	492,914	503,135
Basic Education Project	7,724,070	7,801,270
Majuro Water Supply Project No. 1	707,976	723,087
Health and Population Project	5,228,272	5,228,272
Majuro Water Supply Project No. 2	8,303,958	8,303,958
Public Sector Reform Program	11,290,181	11,290,181
Ebeye Health and Infrastructure Project	8,953,626	8,659,893
Skills Training and Vocational Education Project	4,230,647	2,266,248
Fiscal and Financial Management Program No. 1	4,000,000	4,000,000
Fiscal and Financial Management Program No. 2	8,388,966	8,388,966
Outer Island Transport Infrastructure Project	<u>2,624</u>	<u>-</u>
	<u>\$ 62,628,879</u>	<u>\$ 60,543,484</u>

Additional information on RepMar's long-term debt can be found in note 6 to the financial statements.

## REPUBLIC OF THE MARSHALL ISLANDS

Management's Discussion and Analysis  
Year Ended September 30, 2004

### ECONOMIC FACTORS AND NEXT YEAR BUDGETS AND RATES

The overall state of the Marshall Island's economy continues to play a large role in developing the tax and other revenue budgets for the General Fund of RepMar. A new financial agreement with the United States Government under the Compact of Free Association was effected in fiscal year 2004 with increased allocations to capital-related expenditures. However, economic activity in fiscal year 2004 showed no growth, there was a dearth of new construction activity, and historically high fuel costs had negative repercussions for both businesses and consumers. For fiscal year 2005, the Nitijela appropriated an expenditure budget, including transfers to autonomous agencies, that was \$3.5 million (or 11.3%) higher than the \$30.8 million for fiscal year 2004. The budget was increased primarily to meet the supplemental funding needs of the College of the Marshall Islands (CMI) and additional revenues were identified through the passage of new legislation by the Nitijela in Public Law 2004-5 (*Import Duties (CMI Funding Amendment) Act, 2004*), thereby increasing certain "sin taxes" on tobacco and alcohol products. Construction activity under the Compact public infrastructure grants only started at the beginning of fiscal year 2005 and revenues flowing from this source should partially increase revenues over fiscal year 2004. Collection results by mid-term fiscal 2005, however, indicate that revenue targets were not being met by these new funding sources. These revenue shortfalls are being closely monitored by officials within RepMar's Ministry of Finance and may prompt proportionate spending reductions before the end of fiscal year 2005 as well as proposed fiscal year 2006 budget ceilings.

### CONTACTING REPMAR'S FINANCIAL MANAGEMENT

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

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Statement of Net Assets  
September 30, 2004

	<u>Primary Government</u>	<u>Component Units</u>
<u>ASSETS</u>		
Current assets:		
Cash and cash equivalents	\$ 8,657,731	\$ 5,024,113
Time certificates of deposit	539,041	3,326,348
Investments	-	1,944,674
Receivables, net of allowance for uncollectibles	11,949,664	29,268,862
Advances	640,046	-
Inventories	-	4,521,391
Due from primary government	-	1,486,388
Other current assets	18,271	679,061
Total current assets	<u>21,804,753</u>	<u>46,250,837</u>
Noncurrent assets:		
Restricted assets:		
Time certificates of deposit	9,604,352	-
Investments	32,212,426	-
Investments	318,630	548,198
Capital assets, net of accumulated depreciation	<u>28,527,697</u>	<u>58,515,334</u>
Total noncurrent assets	<u>70,663,105</u>	<u>59,063,532</u>
Total assets	<u>\$ 92,467,858</u>	<u>\$ 105,314,369</u>
<u>LIABILITIES</u>		
Current liabilities:		
Current portion of long-term obligations	\$ 1,492,816	\$ 2,285,549
Accounts payable	3,532,321	6,644,008
Customer deposits	-	736,734
Accrued interest payable	262,472	-
Compensated absences payable	1,091,841	-
Other liabilities and accruals	3,423,105	3,784,953
Due to primary government	-	1,401,269
Due to component units	2,400,534	560,235
Due to external parties	4,736,088	-
Deferred revenue	924,375	1,362,255
Total current liabilities	<u>17,863,552</u>	<u>16,775,003</u>
Noncurrent liabilities:		
Noncurrent portion of long-term obligations	63,036,063	28,591,178
Compensated absences payable	1,617,717	-
Other noncurrent liabilities	-	7,613,697
Total noncurrent liabilities	<u>64,653,780</u>	<u>36,204,875</u>
Total liabilities	<u>82,517,332</u>	<u>52,979,878</u>
<u>NET ASSETS</u>		
Invested in capital assets, net of related debt	3,688,484	32,378,607
Restricted for:		
Future operations	40,443,593	-
Compact related	4,121,930	-
Other purposes	6,675,630	15,346,095
Unrestricted (deficits)	<u>(44,979,111)</u>	<u>4,609,789</u>
Total net assets	<u>9,950,526</u>	<u>52,334,491</u>
Total liabilities and net assets	<u>\$ 92,467,858</u>	<u>\$ 105,314,369</u>

See accompanying notes to basic financial statements.

REPUBLIC OF THE MARSHALL ISLANDS

Statement of Activities  
Year Ended September 30, 2004

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
<b>Primary government:</b>						
<b>Governmental activities:</b>						
President and Cabinet	\$ 1,670,929	\$ -	\$ 239,832	\$ -	\$ (1,431,097)	\$ -
Office of the Chief Secretary	1,050,565	-	454,210	-	(596,355)	-
Special appropriations	5,475,135	-	396,702	-	(5,078,433)	-
Council of Iroij	396,417	-	-	-	(396,417)	-
Office of the Auditor-General	604,130	-	381,918	-	(222,212)	-
Public Service Commission	476,361	-	94,476	-	(381,885)	-
Office of the Attorney General	642,374	410,617	54,210	-	(177,547)	-
Education	22,907,203	94,997	17,548,621	-	(5,263,585)	-
Health and Environment	16,375,707	6,685,615	8,556,178	-	(1,133,914)	-
Transportation and Communication	3,659,671	205,487	1,274,274	-	(2,179,910)	-
Resources and Development	1,062,888	18,232	418,414	-	(626,242)	-
Internal Affairs	3,212,702	52,096	908,620	-	(2,251,986)	-
Justice	3,071,636	156,596	757,599	-	(2,157,441)	-
Finance	3,026,431	327,169	1,087,543	-	(1,611,719)	-
Foreign Affairs and Trade	2,894,830	-	31,763	-	(2,863,067)	-
Public Works	1,927,151	2,275	1,017,525	-	(907,351)	-
Nitijela	1,491,693	-	-	-	(1,491,693)	-
Judiciary	763,139	2,186	41,419	-	(719,534)	-
Environmental Protection Authority	356,007	-	336,465	-	(19,542)	-
Nuclear claims related	4,564,199	-	4,171,907	-	(392,292)	-
Future operations	64,184	-	7,559,939	-	7,495,755	-
Capital projects	130,497	-	-	2,754,645	2,624,148	-
Unallocated interest - long-term debt	856,252	-	-	-	(856,252)	-
Unallocated depreciation	5,101,599	-	-	-	(5,101,599)	-
<b>Total primary government</b>	<b>\$ 81,781,700</b>	<b>\$ 7,955,270</b>	<b>\$ 45,331,615</b>	<b>\$ 2,754,645</b>	<b>\$ (25,740,170)</b>	<b>\$ -</b>
<b>Component units:</b>						
Kwajalein Atoll Joint Utilities Resources, Inc.	\$ 4,696,855	\$ 3,201,456	\$ -	\$ 534,614	\$ -	\$ (960,785)
Marshalls Energy Company, Inc.	22,140,931	20,094,041	-	-	-	(2,046,890)
Marshall Islands Development Bank	1,717,641	-	-	-	-	(1,717,641)
Marshall Islands National Telecom. Authority	6,572,249	5,594,266	-	-	-	(977,983)
RMI Ports Authority	2,567,914	2,442,098	-	162,549	-	36,733
Other nonmajor component units	23,326,946	13,711,011	-	324,635	-	(9,291,300)
<b>Total component units</b>	<b>\$ 61,022,536</b>	<b>\$ 45,042,872</b>	<b>\$ -</b>	<b>\$ 1,021,798</b>	<b>\$ -</b>	<b>\$ (14,957,866)</b>
<b>General revenues:</b>						
<b>Taxes:</b>						
Income taxes					10,613,369	-
Import taxes					6,215,588	-
Gross revenue taxes					4,014,555	-
Fuel taxes					464,932	-
Penalties and interest					117,968	-
Other					546,854	-
Grants and contributions not restricted to specific programs					6,301,474	-
Fishing rights					939,394	-
Ship registry					1,000,000	-
Contributions from component units					360,606	-
Unrestricted investment earnings					115,725	358,498
Contributions from primary government					-	4,799,071
Other					1,161,072	-
<b>Total general revenues and transfers</b>					<b>31,851,537</b>	<b>5,157,569</b>
Change in net assets					6,111,367	(9,800,297)
Net assets at the beginning of the year					3,839,159	62,134,788
Net assets at the end of the year					<b>\$ 9,950,526</b>	<b>\$ 52,334,491</b>

See accompanying notes to basic financial statements.

REPUBLIC OF THE MARSHALL ISLANDS

Balance Sheet  
Governmental Funds  
September 30, 2004

	General	Special Revenue			Capital Projects	Permanent	Other Governmental Funds	Total
		U.S Federal Grants	Section 211(a)(1) Education Sector	Section 211(a)(2) Health Sector	Section 211(d) Public Infrastructure	Inter-generational Trust		
<b>ASSETS</b>								
Cash and cash equivalents	\$ 5,287,608	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,370,123	\$ 8,657,731
Time certificates of deposit	539,041	-	-	-	-	-	-	539,041
Investments	-	-	-	-	-	-	318,630	318,630
Receivables, net:								
Taxes	2,031,003	-	-	-	-	-	873,866	2,904,869
Federal agencies	70,877	1,526,973	131,461	430,111	-	-	838,374	2,997,796
General	2,414,821	-	-	-	-	-	-	2,414,821
Other	522,637	-	-	-	-	117,263	2,992,278	3,632,178
Due from other funds	2,081,193	-	504,313	-	747,291	-	3,810,259	7,143,056
Advances	172,865	156,227	8,283	16,464	-	-	286,207	640,046
Prepaid items	18,271	-	-	-	-	-	-	18,271
Restricted assets:								
Time certificates of deposit	1,490,448	-	-	-	-	8,113,904	-	9,604,352
Investments	-	-	-	-	-	32,212,426	-	32,212,426
<b>Total assets</b>	<b>\$ 14,628,764</b>	<b>\$ 1,683,200</b>	<b>\$ 644,057</b>	<b>\$ 446,575</b>	<b>\$ 747,291</b>	<b>\$ 40,443,593</b>	<b>\$ 12,489,737</b>	<b>\$ 71,083,217</b>
<b>LIABILITIES AND FUND BALANCES</b>								
<b>Liabilities:</b>								
Accounts payable	\$ 1,426,439	\$ 436,803	\$ 230,051	\$ 47,277	\$ 726,656	\$ -	\$ 665,095	\$ 3,532,321
Other liabilities and accruals	2,169,873	61,270	243,250	160,255	-	-	788,457	3,423,105
Deferred revenue	139,778	826,501	-	-	20,635	-	77,239	1,064,153
Due to component units	2,193,892	121,667	30,756	11,339	-	-	42,880	2,400,534
Due to other funds	9,657,951	239,231	140,000	227,704	-	-	1,614,258	11,879,144
<b>Total liabilities</b>	<b>15,587,933</b>	<b>1,685,472</b>	<b>644,057</b>	<b>446,575</b>	<b>747,291</b>	<b>-</b>	<b>3,187,929</b>	<b>22,299,257</b>
<b>Fund balances (deficits):</b>								
<b>Reserved for:</b>								
Related assets	1,507,343	-	-	-	-	40,443,593	2,283,654	44,234,590
Encumbrances	166,655	1,252,939	262,641	93,556	14,200	-	651,208	2,441,199
Nuclear claims	-	-	-	-	-	-	594,064	594,064
Scholarships	-	-	-	-	-	-	279,133	279,133
Communications	-	-	-	-	-	-	818,565	818,565
Health and medical	-	-	-	-	-	-	3,865,849	3,865,849
Maritime	-	-	-	-	-	-	690	690
<b>Unreserved:</b>								
General fund	(2,633,167)	-	-	-	-	-	-	(2,633,167)
Special revenue funds	-	-	(262,641)	(93,556)	-	-	829,142	472,945
Capital projects funds	-	(1,255,211)	-	-	(14,200)	-	(20,497)	(1,289,908)
<b>Total fund balances (deficits)</b>	<b>(959,169)</b>	<b>(2,272)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>40,443,593</b>	<b>9,301,808</b>	<b>48,783,960</b>
<b>Total liabilities and fund balances</b>	<b>\$ 14,628,764</b>	<b>\$ 1,683,200</b>	<b>\$ 644,057</b>	<b>\$ 446,575</b>	<b>\$ 747,291</b>	<b>\$ 40,443,593</b>	<b>\$ 12,489,737</b>	

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	28,527,697
Other long-term assets are not available to pay for current-period expenditures and, therefore, are not reported in the funds	139,778
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	(262,472)
Loans payable	(64,528,879)
Compensated absences payable	(2,709,558)
	(67,500,909)
<b>Net assets of governmental activities</b>	<b>\$ 9,950,526</b>

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, 2004

	General	Special Revenue			Capital Projects	Permanent		Total
		U.S Federal Grants	Section 211(a)(1) Education Sector	Section 211(a)(2) Health Sector	Section 211(d) Public Infrastructure	Inter-generational Trust	Other Governmental Funds	
<b>Revenues:</b>								
Compact funding	\$ -	\$ -	\$ 9,984,656	\$ 6,750,018	\$ 2,451,347	\$ -	\$ 8,357,850	\$ 27,543,871
Taxes	21,916,309	-	-	-	-	-	-	21,916,309
Federal and other grants	6,280,669	7,317,503	-	-	-	-	8,475,966	22,074,138
Sales	521,810	-	-	-	-	-	255,809	777,619
Ship registry	1,000,000	-	-	-	-	-	-	1,000,000
Fishing rights	939,394	-	-	-	-	-	-	939,394
Interest and dividends	115,725	-	-	-	-	790,383	-	906,108
Fees and charges	470,377	-	-	-	-	-	7,288,844	7,759,221
Contributions from component units	360,606	-	-	-	-	-	-	360,606
Net decrease in the fair value of investments	-	-	-	-	-	(230,444)	-	(230,444)
Other	-	-	-	-	-	-	579,502	579,502
<b>Total revenues</b>	<b>31,604,890</b>	<b>7,317,503</b>	<b>9,984,656</b>	<b>6,750,018</b>	<b>2,451,347</b>	<b>559,939</b>	<b>24,957,971</b>	<b>83,626,324</b>
<b>Expenditures:</b>								
<b>Current:</b>								
President and Cabinet	1,644,890	-	-	-	-	-	239,832	1,884,722
Office of the Chief Secretary	525,382	132,312	-	-	-	-	476,081	1,133,775
Special appropriations	6,556,321	-	-	-	396,702	-	31,465	6,984,488
Council of Iroij	417,408	-	-	-	-	-	-	417,408
Office of the Auditor-General	273,787	344,039	-	-	-	-	-	617,826
Public Service Commission	406,853	-	-	-	-	-	94,476	501,329
Office of the Attorney General	639,056	-	-	-	-	-	76,848	715,904
Ministries	17,208,184	6,831,024	9,127,718	6,750,018	-	-	20,526,763	60,443,707
Nitijela	1,544,017	-	-	-	-	-	-	1,544,017
Judiciary	-	-	-	-	-	-	792,072	792,072
Environmental Protection Authority	-	10,128	-	-	-	-	358,807	368,935
Nuclear claims related	-	-	-	-	-	-	4,557,953	4,557,953
Future operations	-	-	-	-	-	64,184	-	64,184
Capital outlay	18,091	-	-	-	2,054,645	-	156,381	2,229,117
<b>Total expenditures</b>	<b>29,233,989</b>	<b>7,317,503</b>	<b>9,127,718</b>	<b>6,750,018</b>	<b>2,451,347</b>	<b>64,184</b>	<b>27,310,678</b>	<b>82,255,437</b>
<b>Excess of revenues over expenditures</b>	<b>2,370,901</b>	<b>-</b>	<b>856,938</b>	<b>-</b>	<b>-</b>	<b>495,755</b>	<b>(2,352,707)</b>	<b>1,370,887</b>
<b>Other financing sources (uses):</b>								
Loan proceeds	-	-	-	-	-	-	2,260,756	2,260,756
Operating transfers in	-	-	-	-	-	7,000,000	9,419,762	16,419,762
Operating transfers out	(1,658,018)	-	(856,938)	-	-	-	(9,732,899)	(12,247,855)
<b>Total other financing sources (uses), net</b>	<b>(1,658,018)</b>	<b>-</b>	<b>(856,938)</b>	<b>-</b>	<b>-</b>	<b>7,000,000</b>	<b>1,947,619</b>	<b>6,432,663</b>
<b>Net change in fund balances</b>	<b>712,883</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>7,495,755</b>	<b>(405,088)</b>	<b>7,803,550</b>
<b>Fund balances (deficits) at the beginning of the year</b>	<b>(1,672,052)</b>	<b>(2,272)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>32,947,838</b>	<b>9,706,896</b>	<b>40,980,410</b>
<b>Fund balances (deficits) at the end of the year</b>	<b>\$ (959,169)</b>	<b>\$ (2,272)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 40,443,593</b>	<b>\$ 9,301,808</b>	<b>\$ 48,783,960</b>

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, 2004

Amounts reported for governmental activities in the statement of activities on page 13 are different because:

Net change in fund balances - total governmental funds from page 15	\$ 7,803,550
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	748,892
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds	94,836
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	(2,085,395)
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>(450,516)</u>
Change in net assets of governmental activities as presented on page 13.	\$ <u>6,111,367</u>

See accompanying notes to basic financial statements.

REPUBLIC OF THE MARSHALL ISLANDS

Statement of Fiduciary Net Assets  
 Fiduciary Funds  
 September 30, 2004

	<u>Private Purpose Trust</u>	<u>Agency</u>
<u>ASSETS</u>		
Cash and cash equivalents	\$ 2,023,763	\$ -
Time certificates of deposit	3,680,934	-
Receivables, net:		
Contributions	1,867,027	-
Other	706,429	-
Investments	44,698,476	
Due from other funds	4,642,351	93,737
Capital assets, net of accumulated depreciation	224,983	-
Total assets	<u>57,843,963</u>	<u>\$ 93,737</u>
<u>LIABILITIES</u>		
Accounts payable	294,990	\$ 93,737
Other liabilities and accruals	163,467	-
Total liabilities	<u>458,457</u>	<u>\$ 93,737</u>
<u>NET ASSETS</u>		
Held in trust for:		
Social security benefits	47,580,389	
Nuclear claims	5,072,407	
Land use distributions	4,732,710	
Total net assets	<u>\$ 57,385,506</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, 2004

	<u>Private Purpose Trust</u>
Additions:	
Contributions:	
Private employees	\$ 7,510,551
Government employees	3,311,504
Penalties and interest	<u>671,879</u>
Total contributions	<u>11,493,934</u>
Investment earnings:	
Net increase in the fair value of investments	5,561,001
Interest and dividends	<u>1,133,256</u>
Total investment earnings	6,694,257
Less investment expense	<u>84,668</u>
Net investment earnings	<u>6,609,589</u>
Other:	
Compact funding	<u>15,000,001</u>
Total additions	<u>33,103,524</u>
Deductions:	
Land use distributions	11,193,699
Benefits	9,747,850
Bad debts	729,780
Administrative expenses	908,975
Transfers out	<u>4,171,907</u>
Total deductions	<u>26,752,211</u>
Change in net assets	6,351,313
Net assets at the beginning of the year	<u>51,034,193</u>
Net assets at the end of the year	<u>\$ 57,385,506</u>

See accompanying notes to basic financial statements.

REPUBLIC OF THE MARSHALL ISLANDS

Combining Statement of Net Assets  
Component Units  
September 30, 2004

	Kwajalein Atoll Joint Utilities Resources, Inc.	Marshalls Energy Company, Inc.	Marshall Islands Development Bank	Marshall Islands National Telecom. Authority	RMI Ports Authority	Nonmajor Component Units	Total
<b>ASSETS</b>							
Current assets:							
Cash and cash equivalents	\$ 11,831	\$ 709,863	\$ 786,121	\$ 1,208,795	\$ 1,342,043	\$ 965,460	\$ 5,024,113
Time certificates of deposit	-	-	-	1,323,016	1,512,781	490,551	3,326,348
Investments	-	-	-	1,944,674	-	-	1,944,674
Receivables, net:							
General	309,891	1,403,368	-	757,954	388,055	2,388,494	5,247,762
Loans	-	-	20,513,664	-	-	-	20,513,664
Other	142,248	966,237	1,173,724	386,877	-	838,350	3,507,436
Inventories	134,189	1,707,048	-	218,479	-	2,461,675	4,521,391
Due from primary government	-	570,644	-	-	-	915,744	1,486,388
Other current assets	-	22,512	273,051	5,150	44,961	333,387	679,061
Total current assets	598,159	5,379,672	22,746,560	5,844,945	3,287,840	8,393,661	46,250,837
Noncurrent assets:							
Investments	-	-	397,106	-	-	151,092	548,198
Capital assets, net of accumulated depreciation	10,288,473	12,276,709	471,006	18,344,429	10,787,467	6,347,250	58,515,334
Total noncurrent assets	10,288,473	12,276,709	868,112	18,344,429	10,787,467	6,498,342	59,063,532
Total assets	\$ 10,886,632	\$ 17,656,381	\$ 23,614,672	\$ 24,189,374	\$ 14,075,307	\$ 14,892,003	\$ 105,314,369
<b>LIABILITIES</b>							
Current liabilities:							
Current portion of long-term debt	\$ -	\$ 488,981	\$ 400,000	\$ 712,349	\$ 34,219	\$ 650,000	\$ 2,285,549
Accounts payable	1,308,616	3,412,436	-	521,048	167,655	1,234,253	6,644,008
Customer deposits	-	-	539,041	197,693	-	-	736,734
Other liabilities and accruals	303,941	504,268	365,536	40,639	101,366	2,469,203	3,784,953
Due to primary government	-	-	-	-	73,957	1,327,312	1,401,269
Due to component units	-	-	-	-	-	560,235	560,235
Deferred revenue	147,163	-	-	-	-	1,215,092	1,362,255
Total current liabilities	1,759,720	4,405,685	1,304,577	1,471,729	377,197	7,456,095	16,775,003
Noncurrent liabilities:							
Noncurrent portion of long-term debt	-	9,292,039	3,690,000	15,582,411	26,728	-	28,591,178
Other noncurrent liabilities	-	-	7,000,000	-	-	613,697	7,613,697
Total noncurrent liabilities	-	9,292,039	10,690,000	15,582,411	26,728	613,697	36,204,875
Total liabilities	1,759,720	13,697,724	11,994,577	17,054,140	403,925	8,069,792	52,979,878
<b>NET ASSETS</b>							
Invested in capital assets, net of related debt	10,288,473	2,495,689	471,006	2,049,669	10,726,520	6,347,250	32,378,607
Restricted	-	-	15,194,603	-	-	151,492	15,346,095
Unrestricted	(1,161,561)	1,462,968	(4,045,514)	5,085,565	2,944,862	323,469	4,609,789
Total net assets	9,126,912	3,958,657	11,620,095	7,135,234	13,671,382	6,822,211	52,334,491
	\$ 10,886,632	\$ 17,656,381	\$ 23,614,672	\$ 24,189,374	\$ 14,075,307	\$ 14,892,003	\$ 105,314,369

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, 2004

	Kwajalein Atoll Joint Utilities Resources, Inc.	Marshalls Energy Company, Inc.	Marshall Islands Development Bank	Marshall Islands National Telecom. Authority	RMI Ports Authority	Nonmajor Component Units	Total
Operating revenues:							
Charges for services	\$ 3,061,237	\$ 8,619,539	\$ -	\$ 5,197,492	\$ 2,263,110	\$ 10,279,889	\$ 29,421,267
Sales	-	11,314,817	-	380,795	116,481	1,960,176	13,772,269
Other	140,219	159,685	-	15,979	62,507	1,470,946	1,849,336
Total operating revenues	3,201,456	20,094,041	-	5,594,266	2,442,098	13,711,011	45,042,872
Operating expenses:							
Cost of services	3,474,424	18,934,724	1,468,930	3,118,312	1,840,541	12,544,377	41,381,308
Impairment loss	-	-	-	-	-	5,590,012	5,590,012
Administration costs	385,584	1,444,562	-	654,537	-	3,487,465	5,972,148
Depreciation and amortization	986,097	1,125,029	-	1,769,040	727,373	1,181,542	5,789,081
Total operating expenses	4,846,105	21,504,315	1,468,930	5,541,889	2,567,914	22,803,396	58,732,549
Operating income (loss)	(1,644,649)	(1,410,274)	(1,468,930)	52,377	(125,816)	(9,092,385)	(13,689,677)
Nonoperating revenues (expenses):							
Contributions from the primary government	650,000	205,459	-	-	-	3,943,612	4,799,071
Net increase in the fair value of investments	-	-	-	263,135	-	-	263,135
Interest income	-	-	-	-	61,756	33,607	95,363
Interest expense	(750)	(636,616)	(248,711)	(832,860)	-	(162,944)	(1,881,881)
Contributions to the primary government	-	-	-	-	-	(360,606)	(360,606)
Other	150,000	-	-	(197,500)	-	-	(47,500)
Total nonoperating revenues (expenses), net	799,250	(431,157)	(248,711)	(767,225)	61,756	3,453,669	2,867,582
Capital contributions	534,614	-	-	-	162,549	324,635	1,021,798
Net income (loss)	(310,785)	(1,841,431)	(1,717,641)	(714,848)	98,489	(5,314,081)	(9,800,297)
Net assets at the beginning of the year	9,437,697	5,800,088	13,337,736	7,850,082	13,572,893	12,136,292	62,134,788
Net assets at the end of the year	\$ 9,126,912	\$ 3,958,657	\$ 11,620,095	\$ 7,135,234	\$ 13,671,382	\$ 6,822,211	\$ 52,334,491

See accompanying notes to basic financial statements.

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements  
September 30, 2004

(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. The criteria to be considered in determining financial accountability include whether RepMar, as the primary government, has appointed a voting majority of an organization's governing body and either has the ability to impose its will on that organization or there is potential for the organization to provide specific financial benefits to or impose specific financial burdens on RepMar. Financial accountability also exists if an organization is determined to be fiscally dependent on the primary government, although the primary government does not appoint a voting majority of the organization's governing board.

Each blended and discretely presented component unit of RepMar has a September 30 year-end except for the Ministry of Education Head Start Program and Majuro Resort, Inc., which have a November 30 and December 31 year-end, respectively.

Once financial accountability has been determined for a potential component unit, that component unit is either blended into the primary government or discretely presented from the primary government. Potential component units that do not meet the financial accountability criteria, but where a voting majority of the governing board is appointed by RepMar, are deemed to be related organizations. The nature and relationship of RepMar's component units and related organizations are disclosed in the following section.

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:

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements  
September 30, 2004

(1) Summary of Significant Accounting Policies, Continued

A. Reporting Entity, Continued

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 Scholarship Grant and Loan Board, a Governmental Fund Type - Special Revenue Fund. This fund was established under Public Law No. 1979-19 to account for all disbursements of scholarship funds and is governed by a seven-member Board appointed by the Cabinet of RepMar.

Health Care Revenue Fund, a Governmental Fund Type - Special Revenue Fund. This fund was established under Public Law No. 1989-59 within the Ministry of Health and Environment to control the expenditure of funds for health care related services.

Ministry of Health Health Fund, a Governmental Fund Type - Special Revenue Fund. This fund was established under Public Law No. 1990-75, as amended by Public Law Nos. 2001-31 and 2001-35, to account for the operations of the Basic and Supplemental Health Funds delivering comprehensive medical care.

Ministry of Education Head Start Program, a Governmental Fund Type - Special Revenue Fund. This fund was established to account for federal awards received in a direct capacity from the U.S. Department of Health and Human Services Head Start program.

Nuclear Claims Tribunal, a Governmental Fund Type - Special Revenue Fund. This fund was established to render final determination upon claims arising as a result of the Nuclear Testing Program, and disputes arising from distributions made under the (Compact of Free Association) Section 177 Agreement.

Marshall Islands Social Security Administration, 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.

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

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements  
September 30, 2004

(1) Summary of Significant Accounting Policies, Continued

A. Reporting Entity, Continued

ii. Discretely Presented Component Units, Continued

Kwajalein Atoll Joint Utilities Resources, Inc. (KAJUR): KAJUR was incorporated under the laws of the Republic of the Marshall Islands on September 1, 1990, to generate and distribute utilities on the island of Ebeye.

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 Development Bank (MIDB): MIDB was established under Public Law No. 1988-1 to promote the development and expansion of the economy of the Marshall Islands and is governed by a seven-member Board of Directors appointed by the Cabinet. MIDB has received funds under Sections 111 and 211 of the Compact of Free Association and funds from the U.S. Department of Agriculture under the Rural Housing and Community Development Service Housing Preservation Grant.

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.

RMI Ports Authority (RMIPA): RMIPA was incorporated under Public Law No. 2003-81 to engage in the operation and maintenance of commercial port facilities in the Marshall Islands. RMIPA is governed by a seven-member Board of Directors appointed by the President upon the approval of the Cabinet of RepMar.

In addition, the component units' column of the basic financial statements includes the financial data of the following nonmajor component units: Air Marshall Islands, Inc., College of the Marshall Islands, Majuro Resort, Inc., Majuro Water and Sewer Company, Inc., Marshall Islands Marine Resources Authority, Marshall Islands Visitors Authority, Meram, Inc., the RMI Environmental Protection Authority, and Tobolar Copra Processing Plant, Inc.

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

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements  
September 30, 2004

(1) Summary of Significant Accounting Policies, Continued

A. Reporting Entity, Continued

iii. Related Organizations

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

iv. Omitted Governmental Funds

The following funds are considered to be nonmajor governmental funds of RepMar but are not included in the accompanying basic financial statements due to absence of account balances and financial activities. Accordingly, the omission of these funds is not considered material to either the nonmajor governmental funds or the governmental activities reporting units:

**Rehabilitation Revolving Fund:** This fund was established under Public Law No. 1984-8 to account for all monies received for the rehabilitation of patients at the Majuro Hospital Rehabilitation Center.

**Outer Islands Copra Boat Building Fund:** This fund was established under Public Law No. 1992-34 to account for all monies received for the construction and maintenance of outer island copra boats.

**Government Maintenance Fund:** This fund was established under Public Law No. 1988-34 to account for all monies received from renting and maintenance services performed by the Ministry of Public Works Central Government Maintenance Agency.

**Seaport Trust Fund:** This fund was established under Public Law No. 1983-11 to account for all monies received for the development and improvement of seaport facilities and navigational aids.

**Communication Regulation Fund:** This fund was established under Public Law No. 1993-42 to account for all monies received for the specific purpose of regulating radio communication activities in the Marshall Islands.

**Historic Preservation Fund:** This fund was established under Public Law No. 1991-111 to account for all monies received by the Historic Preservation Office.

**Council of Churches Fund:** This fund was established under Public Law No. 1991-124 to account for all monies received for the specific purpose of providing educational, spiritual, health and recreational needs of the children of the Marshall Islands.

**Marshallese Language Trust Fund:** This fund was established under Public Law No. 1983-34 to account for all monies received for the specific purpose of encouraging the preservation, development and use of the Marshallese language.

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements  
September 30, 2004

(1) Summary of Significant Accounting Policies, Continued

B. Government-Wide Financial Statements

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

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

The Statement of Net Assets presents all of the reporting entity's non-fiduciary 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.
- 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 government-wide Statement of Net Assets reports \$51,241,153 of restricted net assets, of which \$4,810,182 is restricted by enabling legislation.

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

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements  
September 30, 2004

(1) Summary of Significant Accounting Policies, Continued

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

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

D. Measurement Focus and Basis of Accounting

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 90 days of the end of the current fiscal period.

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

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements  
September 30, 2004

(1) Summary of Significant Accounting Policies, Continued

D. Measurement Focus and Basis of Accounting, Continued

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 and expenses from nonoperating items. Operating revenues and expenses 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. Operating expenses includes the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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. 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, 2004

(1) Summary of Significant Accounting Policies, Continued

D. Measurement Focus and Basis of Accounting, Continued

2. 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.

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*, sets forth minimum criteria (percentage of the assets, liabilities, revenues or expenditures/expenses for either fund category or the governmental and enterprise combined) for the determination of major funds. RepMar elected to add certain other major funds that had specific public interest. Major individual governmental funds are reported as separate columns in the fund financial statements. The nonmajor funds are combined in a column in the fund financial statements and detailed in the combining statements. RepMar reports the following major funds:

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.

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

Section 211(a)(2) Health Sector Grant Fund, a Governmental Fund Type - Special Revenue Fund. This fund accounts for United States Congress appropriations under United States Public Law 99-239, as amended, Title II, Article I, Section 211(a)(2) and approved by Nitijela resolution 123 to support and improve the delivery of preventive, curative, and environmental care.

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements  
September 30, 2004

(1) Summary of Significant Accounting Policies, Continued

D. Measurement Focus and Basis of Accounting, Continued

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

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.

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. 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, 2004, the carrying amount of the primary government's total cash and cash equivalents and time certificates of deposit were \$24,505,821 and the corresponding bank balances were \$25,121,138. Of the bank balance amounts, \$6,979,608 is maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2004, bank deposits in the amount of \$503,127 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, 2004, the carrying amount of the discretely presented component units' total cash and cash equivalents and time certificates of deposit were \$8,350,461 and the corresponding bank balances were \$10,087,657. Of the bank balance amounts, \$4,699,512 is maintained in financial institutions subject to FDIC insurance. As of September 30, 2004, bank deposits in the amount of \$969,741 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, 2004

(1) Summary of Significant Accounting Policies, Continued

G. 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".

H. 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.

I. Interfund Receivables/Payables

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

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.

J. 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 and a credit card facility with time certificates of deposit of \$1,435,448 and \$55,000, respectively. Furthermore, time certificates of deposit and investments of \$8,113,904 and \$32,212,426, respectively, recorded in the Intergenerational Trust Fund are restricted in that they are not available to be used in current operations. Subsequent to September 30, 2004, the loan payable for the third party was foreclosed by the bank resulting in the collateralized deposit being forfeited.

K. Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets (e.g. roads, bridges, docks, water and sewer lines, water catchments, and other similar items), are reported in the governmental activity column of the government-wide financial statements. Such assets, whether purchased or constructed, are recorded at historical cost or estimated historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation.

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements  
September 30, 2004

(1) Summary of Significant Accounting Policies, Continued

K. Capital Assets, Continued

RepMar currently holds no title to land. Machinery and equipment, other than vehicles and boats, are capitalized when the cost of individual items exceed \$50,000. As an exception, vehicles and boats, along with significant repair and maintenance qualifying as a betterment of such, are capitalized regardless of cost and depreciated. Buildings and infrastructure projects, along with significant improvements or reconstruction qualifying as a betterment of such, are capitalized when the cost of individual items or projects exceed \$100,000. The costs of normal maintenance and repairs that do not add to the value of the capital asset or materially extend capital asset lives are not capitalized.

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

Buildings	40 - 50 years
Infrastructure	25 - 50 years
Facilities	3 - 40 years
Machinery and equipment	3 - 25 years
Furniture and fixtures	3 - 10 years

L. 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.

M. Deferred Revenue

In the government-wide financial statements, deferred revenue is recognized when cash, receivables or other assets are recorded prior to their being earned. In the governmental fund financial statements deferred revenue represents monies received or revenues accrued which have not been earned or do not meet the "available" criterion for revenue recognition under the modified accrual basis of accounting. The deferred revenue in the governmental fund types has primarily resulted as federal funds are received in advance of eligible expenditures.

N. Compensated Absences

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

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements  
September 30, 2004

(1) Summary of Significant Accounting Policies, Continued

O. 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, 2004, is represented by the following assets:

	<u>General</u>	Inter- generational <u>Trust</u>	Other Governmental <u>Funds</u>	<u>Totals</u>
Cash and cash equivalents	\$ 16,895	\$ -	\$ 375,000	\$ 391,895
Investments	-	-	318,630	318,630
Receivables:				
Federal agencies	-	-	700,000	700,000
Other	-	117,263	-	117,263
Due from other funds	-	-	890,024	890,024
Restricted assets:				
Time certificates of deposit	1,490,448	8,113,904	-	9,604,352
Investments	-	32,212,426	-	32,212,426
	<u>\$ 1,507,343</u>	<u>\$ 40,443,593</u>	<u>\$ 2,283,654</u>	<u>\$ 44,234,590</u>

P. 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.

Q. Reclassifications

Due to the provisions of GASB Statement No. 34, major governmental funds presented in a previous year may not be major funds presented in the current year.

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements  
September 30, 2004

(1) Summary of Significant Accounting Policies, Continued

R. Restatement of Governmental Fund Fund Balance/Government-Wide Net Assets

Primary Government

	<u>Governmental Fund Level</u>	<u>Government Wide Level</u>
Fund balance/net assets, as previously reported September 30, 2003	\$ <u>37,918,728</u>	\$ <u>1,572,163</u>
Inclusion of the following component unit financial statements previously excluded:		
Marshall Islands Scholarship, Grant and Loan Board	945,492	945,492
Health Care Revenue Fund	1,081,027	1,081,027
Ministry of Health Health Fund	1,300,952	1,300,952
Reclassification from governmental activity presentation to discretely presented component unit presentation of the Marshall Islands Visitors Authority	(265,789)	(265,789)
Reclassification from business-type activity presentation to discretely presented component unit presentation of the College of the Marshall Islands	<u>-</u>	<u>(794,686)</u>
	<u>3,061,682</u>	<u>2,266,996</u>
Fund balance/net assets, as restated September 30, 2003	\$ <u>40,980,410</u>	\$ <u>3,839,159</u>

S. New Accounting Standards

During fiscal year 2004, RepMar implemented GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units* (an amendment of GASB Statement 14), GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, and GASB Statement No. 46, *Net Assets Restricted by Enabling Legislation*. GASB Statement No. 39 provides additional guidance on GASB Statement No.14, in determining whether an entity should be reported as a component unit based on the nature and significance of its relationship with a primary government. GASB Statement No. 42 establishes standards for impairment of capital assets when its service utility has declined significantly and unexpectedly. GASB Statement No. 46 establishes and modifies requirements of GASB Statement No. 34 related to restrictions of net assets resulting from enabling legislation.

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements  
September 30, 2004

(1) Summary of Significant Accounting Policies, Continued

S. New Accounting Standards, Continued

For fiscal year 2005, RepMar will be implementing GASB Statement No. 40, *Deposit and Investment Risk Disclosures* (an amendment of GASB Statement No. 3), which addresses common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. As an element of interest risk, GASB Statement No. 40 requires certain disclosures of investments that have fair values that are highly sensitive to changes in interest rates. Management does not believe that the implementation of this statement will have a material effect on the financial statements of RepMar.

In May 2004, GASB issued Statement No. 44, *Economic Condition Reporting: The Statistical Section, an amendment to NCGA Statement 1*. GASB Statement No. 44 improves the understandability and usefulness of statistical section information and adds information from the new financial reporting model for state and local governments required by GASB Statement No. 34. The provisions of this Statement are effective for periods beginning after June 15, 2005. Management does not believe that the implementation of this statement will have a material effect on the financial statements of RepMar.

In June 2004, GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Post employment Benefits Other Than Pensions*. GASB Statement No. 45 establishes standards for the measurement, recognition, and display of other post employment benefits expense/expenditures and related liabilities, note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers. The provisions of this Statement are effective for periods beginning after December 15, 2008. Management does not believe that the implementation of this statement will have a material effect on the financial statements of RepMar.

T. 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.

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements  
September 30, 2004

(2) Investments, Continued

Investments of the primary government and the discretely presented component units as of September 30, 2004, 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:				
Money market funds				\$ <u>32,212,426</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>Fiduciary Funds</u>				
Marshall Islands Social Security Administration:				
Mutual funds	\$ -	\$ 30,486,218	\$ -	\$ 30,486,218
Common stock	<u>5,082,526</u>	<u>4,076,395</u>	<u>-</u>	<u>9,158,921</u>
	\$ <u>5,082,526</u>	\$ <u>34,562,613</u>	\$ <u>-</u>	<u>39,645,139</u>
Nuclear Claims Trust Fund:				
Common stock	\$ -	\$ 3,030,130	\$ -	3,030,130
Corporate notes and bonds	-	942,051	-	942,051
U.S. Government agencies	-	379,710	-	379,710
U.S. Government notes and bonds	-	448,686	-	448,686
Preferred stock	<u>-</u>	<u>63,900</u>	<u>-</u>	<u>63,900</u>
	\$ <u>-</u>	\$ <u>4,864,477</u>	\$ <u>-</u>	4,864,477
Money market funds				<u>188,860</u>
				<u>5,053,337</u>
				\$ <u>44,698,476</u>
<u>Discretely Presented Component Units</u>				
Marshall Islands National Telecommunications Authority:				
Common stock	\$ 1,556,381	\$ -	\$ -	\$ 1,556,381
U.S. Government notes and bonds	<u>296,894</u>	<u>-</u>	<u>-</u>	<u>296,894</u>
	\$ <u>1,853,275</u>	\$ <u>-</u>	\$ <u>-</u>	1,853,275
Money market funds				82,570
Other				<u>8,829</u>
				<u>1,944,674</u>
Marshall Islands Development Bank:				
Common stock	\$ <u>397,106</u>	\$ <u>-</u>	\$ <u>-</u>	<u>397,106</u>
College of the Marshall Islands:				
Mutual funds	\$ <u>-</u>	\$ <u>151,092</u>	\$ <u>-</u>	<u>151,092</u>
				\$ <u>2,492,872</u>

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements  
September 30, 2004

(3) Receivables

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, 2004.

Receivables as of September 30, 2004, for the primary government's individual major governmental funds, and nonmajor governmental funds in the aggregate, including applicable allowances for uncollectible accounts, are as follows:

	General	U.S. Federal Grants	Section 211(a) Education Sector	Section 211(b) Health Sector	Inter- Generational Trust	Nonmajor And Other Funds	Totals
Receivables:							
Taxes	\$ 2,031,003	\$ -	\$ -	\$ -	\$ -	\$ 873,866	\$ 2,904,869
Federal agencies	70,877	1,741,997	131,461	430,111	-	838,374	3,212,820
General	2,623,846	-	-	-	-	301,970	2,925,816
Loans	-	-	-	-	-	15,845,656	15,845,656
Other	<u>1,096,673</u>	-	-	-	<u>117,263</u>	<u>3,493,953</u>	<u>4,707,889</u>
	5,822,399	1,741,997	131,461	430,111	117,263	21,353,819	29,597,050
Less: allowance for uncollectibles	<u>(783,061)</u>	<u>(215,024)</u>	-	-	-	<u>(16,649,301)</u>	<u>(17,647,386)</u>
Net receivables	<u>\$ 5,039,338</u>	<u>\$ 1,526,973</u>	<u>\$ 131,461</u>	<u>\$ 430,111</u>	<u>\$ 117,263</u>	<u>\$ 4,704,518</u>	<u>\$ 11,949,664</u>

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

Marshall Islands Scholarship, Grant and Loan Board

Loans to qualified Marshallese students under a student financial assistance program, interest free, uncollateralized with no set repayment terms, and may be converted to grants at a later date if the recipients meet certain criteria. These loans have been fully provided for in the allowance for uncollectibles. \$ 11,476,869

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

\$ 15,845,656

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements  
September 30, 2004

(3) Receivables, Continued

Receivables as of September 30, 2004, for the individual major discretely presently component units, and nonmajor component units in the aggregate, including applicable allowances for uncollectible accounts, are as follows:

	Kwajalein Atoll Joint Utilities Resources, Inc.	Marshalls Energy Company, Inc.	Marshalls Islands Development Bank	Marshall Islands National Telecom. Authority	RMI Ports Authority	Nonmajor Component Units	Totals
Receivables:							
General	\$ 2,719,969	\$ 3,409,218	\$ -	\$ 2,067,507	\$ 913,485	\$ 4,196,176	\$ 13,306,355
Loans	-	-	30,890,696	-	-	-	30,890,696
Other	<u>142,248</u>	<u>966,237</u>	<u>5,603,190</u>	<u>386,877</u>	<u>-</u>	<u>2,324,872</u>	<u>9,423,424</u>
Gross receivables	2,862,217	4,375,455	36,493,886	2,454,384	913,485	6,521,048	53,620,475
Less: allowance for uncollectibles	<u>(2,410,078)</u>	<u>(2,005,850)</u>	<u>(14,806,498)</u>	<u>(1,309,553)</u>	<u>(525,430)</u>	<u>(3,294,204)</u>	<u>(24,351,613)</u>
Net receivables	<u>\$ 452,139</u>	<u>\$ 2,369,605</u>	<u>\$ 21,687,388</u>	<u>\$ 1,144,831</u>	<u>\$ 388,055</u>	<u>\$ 3,226,844</u>	<u>\$ 29,268,862</u>

(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, 2004, are summarized as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	U.S. Federal Grants	\$ 239,231
General	Section 211(a)(2) Health Sector	227,704
General	Nonmajor governmental funds	1,614,258
Section 211(a)(1) Education Sector	General	504,313
Section 211(d) Public Infrastructure	General	747,291
Nonmajor governmental funds	General	3,670,259
Nonmajor governmental funds	Section 211(a)(1) Education Sector	140,000
Fiduciary Funds - Marshall Islands Social Security Administration	Nonmajor governmental funds	133,044
Fiduciary Funds - Kwajalein Atoll Trust	General	875,223
Fiduciary Funds - Section 212 Kwajalein Landowners	General	3,634,084
Fiduciary Funds - Unclaimed Property	General	<u>93,737</u>
		\$ <u>11,879,144</u>

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements  
September 30, 2004

(4) Interfund Receivables and Payables, Continued

Receivables and payables between funds reflected as due to/from primary government in the combined balance sheet at September 30, 2004, are summarized as follows:

<u>Discretely Presented Component Units</u>	<u>Due From</u>	<u>Due To</u>
Marshalls Energy Company, Inc.:		
General Fund	\$ 485,669	\$ -
Section 211(a)(1) Education Sector	30,756	-
Section 211(a)(2) Health Sector	11,339	-
Nonmajor governmental funds	42,880	-
RMI Ports Authority:		
General Fund	-	73,957
Nonmajor component units:		
General Fund	794,077	277,312
U.S. Federal Grants	121,667	-
Nonmajor governmental funds	<u>-</u>	<u>1,050,000</u>
	<u>\$ 1,486,388</u>	<u>\$ 1,401,269</u>

The amount recorded as due from primary government of the discretely presented component units of \$1,486,388 does not equal the corresponding due to component units of the primary government of \$2,400,534 due to an allowance for doubtful accounts of \$914,146 recorded by the nonmajor component units.

Receivables and payables between funds reflected as due to/from component units in the combined balance sheet at September 30, 2004, are summarized as follows:

<u>Primary Government</u>	<u>Due From</u>	<u>Due To</u>
General Fund:		
Marshalls Energy Company, Inc.	\$ -	\$ 485,669
Nonmajor component units	-	1,708,223
U.S. Federal Grants:		
Nonmajor component units	-	121,667
Section 211(a)(1) Education Sector:		
Marshalls Energy Company, Inc.	-	30,756
Section 211(a)(2) Health Sector:		
Marshalls Energy Company, Inc.	-	11,339
Nonmajor governmental funds:		
Marshalls Energy Company, Inc.	<u>-</u>	<u>42,880</u>
	<u>\$ -</u>	<u>\$ 2,400,534</u>

The amount recorded as due from component units of the primary government of \$-0- does not equal the corresponding due to primary government of the discretely presented component units of \$1,401,269 due to an allowance for doubtful accounts recorded by the General Fund and the nonmajor governmental funds of \$351,269 and \$1,050,000, respectively.

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements  
September 30, 2004

(4) Interfund Receivables and Payables, Continued

<u>Discretely Presented Component Units</u>	<u>Due From</u>	<u>Due To</u>
Marshalls Energy Company, Inc.:		
Nonmajor component units	\$ -	\$ 286,680
Nonmajor component units:		
Nonmajor component units	<u>-</u>	<u>273,555</u>
	<u>\$ -</u>	<u>\$ 560,235</u>

The amount recorded as due from component units of the discretely presented component units of \$- does not equal the corresponding due to component units of the discretely presented component units of \$560,235 due to an allowance for doubtful accounts recorded by the Marshalls Energy Company, Inc. and the nonmajor component units of \$286,680 and \$273,555, respectively.

(5) Fixed Assets

Capital asset activities for the year ended September 30, 2004, are as follows:

	Balance October 1, 2003	<u>Additions</u>	<u>Retirements</u>	Balance September 30, 2004
Primary Government Governmental Activities:				
Electrical distribution	\$ 27,216,665	\$ -	\$ -	\$ 27,216,665
Office equipment	11,001,850	259,554	-	11,261,404
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	1,047,000	-	5,006,858
Other equipment	5,526,314	1,536,200	-	7,062,514
Heavy equipment	2,783,839	-	-	2,783,839
Motor vehicles	<u>3,538,043</u>	<u>1,253,560</u>	<u>-</u>	<u>4,791,603</u>
	78,014,395	4,096,314	-	82,110,709
Less accumulated depreciation	<u>(52,434,205)</u>	<u>(5,101,599)</u>	<u>-</u>	<u>(57,535,804)</u>
	25,580,190	(1,005,285)	-	24,574,905
Construction in progress	<u>2,198,615</u>	<u>1,754,177</u>	<u>-</u>	<u>3,952,792</u>
	<u>\$ 27,778,805</u>	<u>\$ 748,892</u>	<u>\$ -</u>	<u>\$ 28,527,697</u>
Discretely Presented Component Units:				
Telecom plant facilities	\$ 29,500,119	\$ 604,636	\$ -	\$ 30,104,755
Building and leasehold Improvements	28,361,161	936,698	(9,620,849)	19,677,010
Power plant facilities	25,884,096	-	-	25,884,096
Machinery and equipment	14,777,763	1,845,246	(110,038)	16,512,971
Aircraft	8,581,392	-	-	8,581,392
Airport facilities	<u>18,486,754</u>	<u>355,024</u>	<u>-</u>	<u>18,841,778</u>
	125,591,285	3,741,604	(9,730,887)	119,602,002
Less accumulated depreciation	<u>(63,334,501)</u>	<u>(5,789,081)</u>	<u>4,133,991</u>	<u>(64,989,591)</u>
	62,256,784	(2,047,477)	(5,596,896)	54,612,411
Construction in progress	<u>4,281,176</u>	<u>326,895</u>	<u>(705,148)</u>	<u>3,902,923</u>
	<u>\$ 66,537,960</u>	<u>\$ (1,720,582)</u>	<u>\$ (6,302,044)</u>	<u>\$ 58,515,334</u>

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements  
September 30, 2004

(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, 2004, 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. Semiannual loan payments commenced January 1, 2003 in an amount of SDR 51,900, increasing to SDR 104,000 on January 1, 2012. \$ 3,305,645

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. Semiannual loan payments commenced May 15, 2003 in an amount of SDR 3,600, increasing to SDR 7,300 on May 15, 2013. 492,914

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. Semiannual loan payments commenced April 15, 2004 in an amount of SDR 57,200, increasing to SDR 114,300 on April 15, 2014. 7,724,070

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. Semiannual loan payments commenced November 15, 2003 in an amount of SDR 5,000, increasing to SDR 10,100 on November 15, 2013. 707,976

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. Semiannual loan payments commence 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. Semiannual loan payments commence March 1, 2006 in an amount of SDR 60,700, increasing to SDR 121,200 on March 1, 2016. 8,303,958

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. Semiannual loan payments commence June 1, 2007 in an amount of SDR 82,400, increasing to SDR 164,800 on June 1, 2017. 11,290,181

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements  
September 30, 2004

(6) Long-term Obligations, Continued

Primary Government, Continued

A. Asian Development Bank (ADB) Loans, Continued

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. Semiannual loan payments commence February 1, 2008 in an amount of SDR 144,250. 8,953,626

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. Semiannual loan payments commence May 15, 2009 in an amount of SDR 109,916, at which time the service charge increases to 1.5% per annum. 4,230,647

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, 2004), 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. Semiannual loan payments commence 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. Semiannual loan payments commence November 15, 2009 in an amount of SDR 197,500, at which time the service charge increases to 1.5% per annum. 8,388,966

Loan Number 1948 RMI (SF) - Outer Island Transport Infrastructure Project (SDR 5,304,000), non-interest bearing with a service charge of 1% per annum on the amount of the loan withdrawn from the Loan Account. Semiannual loan payments commence February 1, 2011 in an amount of SDR 110,500, at which time the service charge increases to 1.5% per annum. 2,624

62,628,879

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements  
September 30, 2004

(6) Long-term Obligations, Continued

Primary Government, Continued

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, 2004. Loan repayments shall represent either export commodities of RepMar as agreed upon by the two governments or in United States dollars.

1,900,000

\$ 64,528,879

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>
2005	\$ 1,492,816	\$ 833,770	\$ 2,326,586
2006	918,005	817,906	1,735,911
2007	1,051,719	799,578	1,851,297
2008	1,677,687	776,992	2,454,679
2009	1,835,792	748,687	2,584,479
2010 - 2014	12,684,673	3,399,619	16,084,292
2015 - 2019	14,414,958	2,146,156	16,561,114
2020 - 2024	13,597,341	1,268,153	14,865,494
2025 - 2029	8,694,078	627,002	9,321,080
2030 - 2034	6,699,510	249,511	6,949,021
2035 - 2037	1,462,300	19,465	1,481,765
	<u>\$ 64,528,879</u>	<u>\$ 11,686,839</u>	<u>\$ 76,215,718</u>

Discretely Presented Component Units

As of September 30, 2004, the discretely presented component units had the following long-term debt outstanding:

Marshalls Energy Company, Inc. (MEC)

Loan with the Federal Financing Bank (FFB), dated November 17, 1997, with interest 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, with loan repayments guaranteed by the Rural Utilities Service (RUS). The mortgage notes have been unconditionally guaranteed by RepMar, under which RepMar will make debt service payments to RUS in the event of default by MEC, and have been collateralized by a leasehold mortgage and security agreement over the assets of MEC. These notes are subject to certain coverage ratio requirements. MEC is not in compliance with these ratio requirements as of September 30, 2004.

\$ 9,781,020

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements  
September 30, 2004

(6) Long-term Obligations, Continued

Discretely Presented Component Units, Continued

Marshall Islands Development Bank (MIDB)

Loan payable to the International Commercial Bank of China, due August 6, 2014, payable semi-annually in installments of \$200,000 plus interest at 5% per annum, uncollateralized. 4,090,000

Marshall Islands National Telecommunications Authority (MINTA)

Loan with the RUS (formerly the Rural Electrification Administration) from the Rural Electrification and Telephone Revolving Fund, dated August 17, 1989 of \$18.8 million, and increased by \$3.999 million on April 23, 1993, with interest at 5% per annum. The \$18.8 million 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. 16,294,760

RMI Ports Authority (RMIPA)

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. 60,947

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% (7.5% at September 30, 2004), collateralized by a general security agreement over all assets of TCPPI and a guarantee from RepMar. 650,000

\$ 30,876,727

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

Year ending September 30,	Principal	Interest and Service Charge	Total
2005	\$ 2,285,549	\$ 1,607,214	\$ 3,892,763
2006	1,563,646	1,375,446	2,939,092
2007	1,737,492	1,443,205	3,180,697
2008	1,951,603	1,452,676	3,404,279
2009	1,897,750	1,227,664	3,125,414
2010 - 2014	9,082,496	4,653,573	13,736,069
2015 - 2019	6,967,816	2,210,647	9,178,463
2020 - 2024	4,836,532	777,564	5,614,096
2025 - 2027	<u>553,843</u>	<u>17,027</u>	<u>570,870</u>
	<u>\$ 30,876,727</u>	<u>\$ 14,765,016</u>	<u>\$ 45,641,743</u>

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements  
September 30, 2004

(6) Long-term Obligations, Continued

Other long-term liabilities will be liquidated in the future from governmental funds. During the year ended September 30, 2004, the following changes occurred in liabilities reported as part of the primary government's long-term liabilities in the statement of net assets:

	Balance October 1, <u>2003</u>	<u>Additions</u>	<u>Reductions</u>	Balance September 30, 2004	Due Within <u>One Year</u>
Loans payable:					
ADB loans	\$ 60,543,484	\$ 2,260,756	\$ (175,361)	\$ 62,628,879	\$ 542,816
PRC loan	<u>1,900,000</u>	<u>-</u>	<u>-</u>	<u>1,900,000</u>	<u>950,000</u>
	<u>62,443,484</u>	<u>2,260,756</u>	<u>(175,361)</u>	<u>64,528,879</u>	<u>1,492,816</u>
Other:					
Compensated absences	<u>2,280,701</u>	<u>1,347,886</u>	<u>(919,029)</u>	<u>2,709,558</u>	<u>1,091,841</u>
	<u>\$ 64,724,185</u>	<u>\$ 3,608,642</u>	<u>\$ (1,094,390)</u>	<u>\$ 67,238,437</u>	<u>\$ 2,584,657</u>

Changes in long-term liabilities of discretely presented component units for the year ended September 30, 2004, are as follows:

	Balance October 1, <u>2003</u>	<u>Additions</u>	<u>Reductions</u>	Balance September 30, 2004	Due Within <u>One Year</u>
Loans payable:					
MEC	\$ 10,239,601	\$ -	\$ (458,581)	\$ 9,781,020	\$ 488,981
MIDB	4,490,000	-	(400,000)	4,090,000	400,000
MINTA	16,965,255	-	(670,495)	16,294,760	712,349
RMIPA	95,166	-	(34,219)	60,947	34,219
TCPPI	<u>700,000</u>	<u>650,000</u>	<u>(700,000)</u>	<u>650,000</u>	<u>650,000</u>
	<u>32,490,022</u>	<u>650,000</u>	<u>(2,263,295)</u>	<u>30,876,727</u>	<u>2,285,549</u>
Other	<u>8,165,065</u>	<u>90,775</u>	<u>(215,161)</u>	<u>8,040,679</u>	<u>426,982</u>
	<u>\$ 40,655,087</u>	<u>\$ 740,775</u>	<u>\$ (2,478,456)</u>	<u>\$ 38,917,406</u>	<u>\$ 2,712,531</u>

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements  
September 30, 2004

(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, 2004, are as follows:

<u>Source</u>	<u>Recipient</u>	<u>Transfers Out</u>	<u>Transfers In</u>
<u>Major Governmental Funds</u>			
General	Nonmajor governmental funds	\$ 1,658,018	\$ -
S211(a)(1) Education Sector	Nonmajor governmental funds	856,938	-
Nonmajor governmental funds	Intergenerational Trust	-	<u>7,000,000</u>
		<u>\$ 2,514,956</u>	<u>\$ 7,000,000</u>
<u>Nonmajor Governmental Funds</u>			
General	Nonmajor governmental funds	\$ -	\$ 1,658,018
S211(a)(1) Education Sector	Nonmajor governmental funds	-	856,938
Nonmajor governmental funds	Intergenerational Trust	7,000,000	-
Fiduciary Funds - Nuclear Claims Trust	Nonmajor governmental funds	-	4,171,907
Nonmajor governmental funds	Nonmajor governmental funds	<u>2,732,899</u>	<u>2,732,899</u>
		<u>\$ 9,732,899</u>	<u>\$ 9,419,762</u>
<u>Fiduciary Funds</u>			
Nuclear Claims Trust	Nuclear Claims Tribunal	\$ 3,671,907	\$ -
Nuclear Claims Trust	Nonmajor governmental funds	<u>500,000</u>	-
		<u>\$ 4,171,907</u>	<u>\$ -</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.

(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, 2004 is \$7,328,889.

# REPUBLIC OF THE MARSHALL ISLANDS

## Notes to Financial Statements September 30, 2004

### (8) Contingencies, Continued

#### Insurance Coverage

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

#### 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 \$15,421,303 relating to fiscal years 2001 through 2004 have been set forth in RepMar's Single Audit Report for the year ended September 30, 2004, including \$12,482,378 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. In addition, RepMar is considered to have responsibility for any questioned costs that may result from Single Audits of subgrantees who have not satisfied the audit requirements of OMB Circular A-133. The ultimate disposition of these questioned costs can be determined only by final action of the respective grantor agencies. Therefore, no provision for any liability that may result upon resolution of this matter has been made in the accompanying financial statements.

#### Intergenerational Trust Fund

RepMar maintains a time certificate of deposit with the Marshall Islands Development Bank (MIDB) in the amount of \$7,000,000. 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, in part, 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) received \$45,750,000 from the NCTF that was made available for whole or partial payment of monetary awards. During the year ended September 30, 2004, NCT received \$3,671,907 from the NCTF, which included funds to fund partial payment of monetary awards. As of September 30, 2004, NCT has committed to the distribution of monetary awards for personal injury claims of \$14,873,373 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 \$5,072,407 as of September 30, 2004. 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, 2004

(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. The mortgage notes have been unconditionally guaranteed by RepMar. RepMar may be liable for the debt service payments to RUS in the event of default by MEC.

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 2004, RepMar appropriated \$829,875 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 them 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, 2004:

- a) Guaranteed a bank debt of Tobolar Copra Processing Plant, Inc. (TCPPI) with a letter of guarantee. At September 30, 2004, TCPPI had guaranteed bank debt totaling \$650,000.
- b) Guaranteed a debt of Marshall Islands National Telecommunications Authority (MINTA) in respect of a loan from the United States Rural Utilities Service (RUS, formerly Rural Electrification Administration) with a letter of guarantee. At September 30, 2004, MINTA had guaranteed debt totaling \$16,294,760.
- 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, 2004, MEC had guaranteed debt totaling \$9,781,020.
- d) Guaranteed debt of a third party for the construction of the Majuro Tuna Processing Facility with a time certificate of deposit totaling \$1,435,448.
- e) RepMar has entered into lease agreements with certain landowners for the use of land situated at the Majuro international airport. The terms of the lease agreements are for a 25-year period commencing September 1, 1996. Annual lease rental commitments are \$305,613 per year.

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements  
September 30, 2004

(9) Commitments, Continued

- 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.
- g) RepMar has entered into a loan agreement (Loan Number 1791 RMI (SF)) with the ADB for SDR 5,276,000 (approximates \$7,389,313 at September 30, 2004) for the Skills Training and Vocational Education Project. At September 30, 2004, RepMar had drawn down \$4,230,647 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 \$7,776,815 at September 30, 2004) for the Outer Island Transport Infrastructure Project. At September 30, 2004, RepMar had drawn down \$2,624 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, 2004, RepMar had disbursed \$1,050,000 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 the 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.
- m) 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. On September 9, 2004, the Cabinet of RepMar approved the appointment of a Committee to re-visit the privatization of the hotel facility including obtaining an independent valuation of the property. As of September 30, 2004, no transfer in ownership has occurred.
- n) In accordance with Cabinet Minute C.M. 057(2004), the Cabinet of RepMar has guaranteed a credit card facility with a time certificate of deposit totaling \$55,000.
- o) In accordance with Cabinet Minute C.M. 139 (2004), the Cabinet of RepMar has issued a government guarantee in the amount of \$518,000 for a loan obtained by Air Marshall Islands, Inc.

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements  
September 30, 2004

(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, 2004, are as follows:

Major Governmental Funds

General Fund \$ 959,169

U.S. Federal Grants Fund \$ 2,272

Nonmajor Governmental Funds

Transportation Services Fund \$ 4,297

Section 221(b) Education and Health Care Fund \$ 4,280

Other Direct Assistance Fund \$ 71,481

Other Capital Projects Fund \$ 18,080

Nonmajor Component Units

Majuro Water and Sewer Company, Inc. \$ 481,398

Meram, Inc. \$ 204,892

REPUBLIC OF THE MARSHALL ISLANDS

REQUIRED SUPPLEMENTARY INFORMATION

YEAR ENDED SEPTEMBER 30, 2004

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Revenues, Expenditures and Changes in Deficit - Budget and Actual  
General Fund  
Year Ended September 30, 2004

	Budgeted Amounts		Actual - Budgetary Basis (see Note 1)	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues:				
Taxes	\$ 21,261,410	\$ 20,903,908	\$ 21,916,309	\$ 1,012,401
Fishing rights	2,701,125	2,701,125	939,394	(1,761,731)
Fees and charges	733,131	733,131	470,377	(262,754)
Interest and dividends	590,875	590,875	115,725	(475,150)
Other	5,509,320	5,509,320	8,163,085	2,653,765
Total revenues	<u>30,795,861</u>	<u>30,438,359</u>	<u>31,604,890</u>	<u>1,166,531</u>
Expenditures:				
Current:				
General government:				
President and Cabinet	1,649,092	1,633,401	1,633,394	7
Office of the Chief Secretary	501,491	530,716	530,713	3
Special appropriations	4,659,822	6,118,636	6,556,321	(437,685)
Council of Iroij	404,801	418,231	418,228	3
Office of the Auditor-General	41,000	273,805	273,787	18
Public Service Commission	469,137	408,559	408,553	6
Office of the Attorney General	818,003	616,676	616,675	1
Ministries	18,393,069	17,200,156	17,211,193	(11,037)
Nitijela	1,599,008	1,543,178	1,543,177	1
Total general government	<u>28,535,423</u>	<u>28,743,358</u>	<u>29,192,041</u>	<u>(448,683)</u>
Other	-	31,979	31,887	92
Total expenditures	<u>28,535,423</u>	<u>28,775,337</u>	<u>29,223,928</u>	<u>(448,591)</u>
Excess of revenues over expenditures	<u>2,260,438</u>	<u>1,663,022</u>	<u>2,380,962</u>	<u>717,940</u>
Other financing uses:				
Operating transfers out	(2,260,438)	(1,663,022)	(1,658,018)	5,004
Net change in deficit	-	-	722,944	722,944
Other changes in unreserved deficit:				
Decrease in reserve for related assets	-	-	133,902	133,902
Unreserved deficit at the beginning of the year	(3,490,013)	(3,490,013)	(3,490,013)	-
Unreserved deficit at the end of the year	<u>\$ (3,490,013)</u>	<u>\$ (3,490,013)</u>	<u>\$ (2,633,167)</u>	<u>\$ 856,846</u>

See accompanying notes to required supplementary information - budgetary reporting.

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Required Supplementary Information - Budgetary Reporting  
September 30, 2004

(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, 2004, 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>
Government Electricity Billings - Majuro	\$ 19,824
Government Electricity Billings - Ebeye	\$ 10,929
Land Leases	\$ 124,845
ADB Loan Repayment	\$ 282,091
Ministry of Transportation and Communication	\$ 10,246
Ministry of Foreign Affairs and Trade	\$ 8,717

REPUBLIC OF THE MARSHALL ISLANDS  
OTHER SUPPLEMENTARY INFORMATION  
YEAR ENDED SEPTEMBER 30, 2004

REPUBLIC OF THE MARSHALL ISLANDS

Combining Schedule of Expenditures by Account  
 Governmental Funds  
 Year Ended September 30, 2004

	General	Special Revenue		Capital Projects	Permanent		Total	
		U.S Federal Grants	Section 211(a) Education Sector	Section 211(b) Health Sector	Section 211(d) Public Infrastructure	Inter-generational Trust		Other Governmental Funds
Expenditures:								
Salaries and wages	\$ 13,256,256	\$ 1,735,514	\$ 6,113,420	\$ 4,820,108	\$ -	\$ -	\$ 4,735,892	\$ 30,661,190
Grants and subsidies	4,458,911	1,715,135	1,420,000	-	396,702	-	6,922,615	14,913,363
Contractual services	622,022	1,414,765	35,400	59,009	-	-	5,452,619	7,583,815
Capital outlay	1,253,665	289,629	37,659	106,041	1,887,416	-	2,408,149	5,982,559
Medical supplies	118,061	40,750	-	69,488	-	-	4,277,155	4,505,454
Travel	1,417,384	1,067,321	64,296	255,449	-	-	769,523	3,573,973
Utilities	1,070,146	3,527	535,392	471,677	-	-	96,433	2,177,175
Rentals	1,355,435	11,864	485	46,400	-	-	213,858	1,628,042
Supplies and materials	523,254	299,291	145,887	147,472	-	-	339,447	1,455,351
Leased housing	358,032	8,250	194,481	497,856	-	-	73,839	1,132,458
Food stuffs	479,696	7,113	93,987	111,343	-	-	390,438	1,082,577
Interest	834,593	-	-	-	-	-	-	834,593
POL	441,313	33,120	20,856	18,438	-	-	248,574	762,301
Professional services	480,768	14,072	-	-	-	61,544	171,056	727,440
Allowances	678,921	-	-	-	-	-	-	678,921
Communications	392,909	8,944	9,282	34,828	-	-	103,073	549,036
Insurance	173,055	-	-	160	-	-	97,630	270,845
Principal repayment	175,361	-	-	-	-	-	-	175,361
Freight	64,644	16,831	5,349	22,528	-	-	52,112	161,464
Construction	62,742	-	-	-	-	-	-	62,742
Printing and reproduction	44,574	2,047	-	236	-	-	14,433	61,290
Other	972,247	649,330	451,224	88,985	167,229	2,640	943,832	3,275,487
	<u>\$ 29,233,989</u>	<u>\$ 7,317,503</u>	<u>\$ 9,127,718</u>	<u>\$ 6,750,018</u>	<u>\$ 2,451,347</u>	<u>\$ 64,184</u>	<u>\$ 27,310,678</u>	<u>\$ 82,255,437</u>

See Accompanying Independent Auditors' Report.

REPUBLIC OF THE MARSHALL ISLANDS  
GENERAL FUND

September 30, 2004

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, 2004  
(with comparative totals for the year ended September 30, 2003)

	2004	2003
Revenues:		
Taxes:		
Income	\$ 10,556,412	\$ 12,019,280
Import	6,215,588	6,589,490
Gross revenue	4,014,555	3,407,105
Fuel	464,932	450,062
Penalties and interest	117,968	120,987
Other	546,854	473,229
	<u>21,916,309</u>	<u>23,060,153</u>
Compact funding	-	6,360,000
Fishing rights	939,394	1,735,669
Fees and charges	470,377	398,286
Interest and dividends	115,725	189,314
Other:		
Taiwan grant	6,280,669	3,000,000
Ship registry	1,000,000	1,000,000
Contributions from component units	360,606	934,763
Other	521,810	261,739
	<u>8,163,085</u>	<u>5,196,502</u>
Total revenues	<u>31,604,890</u>	<u>36,939,924</u>
Expenditures:		
Current:		
General government:		
President and Cabinet:		
Office of the President	328,189	129,778
President and Ministers	578,776	566,160
Cabinet Operations	396,390	484,299
Customary Law Commission	118,649	117,021
RMI/USP Joint Secondary Education Project	222,886	222,886
	<u>1,644,890</u>	<u>1,520,144</u>
Office of the Chief Secretary:		
Administration	188,437	169,281
Deputy Chief Secretary - Ebeye	86,547	-
EPPSO	141,672	137,641
OEPPC	54,817	11,775
Disaster Office	53,909	38,825
	<u>525,382</u>	<u>357,522</u>
Special appropriations:		
Government electricity bills - Majuro	883,750	1,192,899
Government electricity bills - Ebeye	15,279	416,540
KAJUR subsidy - Ebeye	300,000	199,005
ASPA management	-	615,000
Land leases	954,720	798,125
Leased housing	89,282	590,004
Marshall Islands Visitors Authority	199,000	199,000
MWSC subsidy/water bills	98,676	100,000
International subscriptions/membership fees	411,424	262,312
Disaster matching	-	37,703
Prior year liabilities	507,219	273,910
Public works - Ebeye	350,000	348,259
Copra price stabilization subsidy	900,000	646,750
Local government representation	28,000	-
ADB loan repayment	1,568,974	1,670,662
Silver Anniversary Constitution Day	149,997	-
Legal services	100,000	99,502
Contingencies fund	-	64,964
	<u>6,556,321</u>	<u>7,514,635</u>
Council of Iroij:		
Administration	90,680	72,520
Members	326,728	292,964
	<u>417,408</u>	<u>365,484</u>
Office of the Auditor-General	273,787	257,958
Public Service Commission:		
Members	95,124	94,546
Administration	311,729	331,655
	<u>406,853</u>	<u>426,201</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, 2004  
 (with comparative totals for the year ended September 30, 2003)

	2004	2003
Expenditures, continued:		
Current, continued:		
General government, continued:		
Office of the Attorney General	639,056	728,396
Ministries:		
Ministry of Education	2,337,268	5,450,836
Ministry of Health and Environment	1,610,049	4,940,028
Ministry of Transportation and Communication	2,342,998	1,320,886
Ministry of Resources and Development	681,675	631,950
Ministry of Internal Affairs	2,210,422	1,640,389
Ministry of Justice	2,406,106	1,964,897
Ministry of Finance	1,567,781	1,457,210
Ministry of Foreign Affairs and Trade	2,874,579	2,709,206
Ministry of Public Works	1,177,306	1,213,507
	<u>17,208,184</u>	<u>21,328,909</u>
Nitijela:		
Operations	391,682	334,854
General membership	972,996	978,373
Speaker's contingency	71,393	117,468
Committee	58,894	104,587
Legislative counsel	49,052	43,023
	<u>1,544,017</u>	<u>1,578,305</u>
Total general government	<u>29,215,898</u>	<u>34,077,554</u>
Other:		
College of the Marshall Islands	-	1,941,995
Other	18,091	416,371
Total other	<u>18,091</u>	<u>2,358,366</u>
Total expenditures	<u>29,233,989</u>	<u>36,435,920</u>
Excess of revenues over expenditures	<u>2,370,901</u>	<u>504,004</u>
Other financing sources (uses):		
Loan proceeds:		
Asian Development Bank	-	2,685,666
Operating transfers in:		
Special Revenue Fund	-	29,487
RMI Investment Development Fund	-	58,414
Off-Shore Banking Trust Fund	-	60,088
Eminent Domain Trust Fund	-	94,992
ADB Development Projects Fund	-	211,380
	<u>-</u>	<u>454,361</u>
Operating transfers out:		
Infrastructure Maintenance (Compact Matching)	700,000	-
Section 216(a)(2) Health and Medical Fund	-	93,146
Judiciary Fund	901,450	888,396
National Environmental Protection Authority	32,368	223,550
Resident Workers Training Account	-	64,677
Ministry of Transportation and Communications Fund	-	196,370
Postal Services Fund	24,200	-
Local Government Fund	-	394,647
Marshall Islands Scholarship, Grant and Loan Board	-	150,000
MIDA Fund	-	480,321
Intergenerational Trust Fund	-	1,000,000
Health Care Revenue Fund	-	155,493
	<u>1,658,018</u>	<u>3,646,600</u>
Total other financing sources (uses), net	<u>(1,658,018)</u>	<u>(506,573)</u>
Net change in deficit	712,883	(2,569)
Deficit at the beginning of the year	(1,672,052)	(1,669,483)
Deficit at the end of the year	<u>\$ (959,169)</u>	<u>\$ (1,672,052)</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, 2004

	Budgeted Amounts		Actual Amounts	Variance
	Original	Final		
<b>Revenues:</b>				
<b>Taxes:</b>				
Income	\$ 11,542,855	\$ 11,542,855	\$ 10,556,412	\$ (986,443)
Import	6,363,050	6,363,050	6,215,588	(147,462)
Gross revenue	2,500,000	2,500,000	4,014,555	1,514,555
Fuel	300,000	300,000	464,932	164,932
Penalties and interest	52,531	52,531	117,968	65,437
Other	502,974	145,472	546,854	401,382
	<u>21,261,410</u>	<u>20,903,908</u>	<u>21,916,309</u>	<u>1,012,401</u>
Fishing rights	2,701,125	2,701,125	939,394	(1,761,731)
Fees and charges	733,131	733,131	470,377	(262,754)
Interest and dividends	590,875	590,875	115,725	(475,150)
Taiwan grant	4,000,000	4,000,000	6,280,669	2,280,669
Ship registry	1,000,000	1,000,000	1,000,000	-
Contributions from component units	-	-	360,606	360,606
Other	509,320	509,320	521,810	12,490
	<u>5,509,320</u>	<u>5,509,320</u>	<u>8,163,085</u>	<u>2,653,765</u>
<b>Total revenues</b>	<u>30,795,861</u>	<u>30,438,359</u>	<u>31,604,890</u>	<u>1,166,531</u>
<b>Expenditures:</b>				
<b>Current:</b>				
<b>General government:</b>				
<b>President and Cabinet:</b>				
Office of the President	249,116	329,596	329,594	2
President and Ministers	577,925	578,776	578,776	-
Cabinet Operations	443,051	384,072	384,074	(2)
Customary Law Commission	155,000	118,064	118,064	-
RMI/USP Joint Secondary Education Project	224,000	222,893	222,886	7
	<u>1,649,092</u>	<u>1,633,401</u>	<u>1,633,394</u>	<u>7</u>
<b>Office of the Chief Secretary:</b>				
Administration	197,430	184,408	184,405	3
Deputy Chief Secretary - Ebeye	-	90,815	90,815	-
EPPSO	154,063	141,228	141,228	-
OEPPC	80,000	57,892	57,892	-
Disaster Office	69,998	56,373	56,373	-
	<u>501,491</u>	<u>530,716</u>	<u>530,713</u>	<u>3</u>
<b>Special appropriations:</b>				
Government electricity bills - Majuro	244,620	863,926	883,750	(19,824)
Government electricity bills - Ebeye	40,000	4,350	15,279	(10,929)
KAJUR subsidy - Ebeye	300,000	300,000	300,000	-
Land leases	900,000	829,875	954,720	(124,845)
Leased housing	75,202	89,282	89,282	-
Marshall Islands Visitors Authority	200,000	199,000	199,000	-
MWSC subsidy/water bills	100,000	98,676	98,676	-
International subscriptions/membership fees	350,000	411,424	411,424	-
Prior year liabilities	450,000	507,220	507,219	1
Public works - Ebeye	350,000	350,000	350,000	-
Copra price stabilization subsidy	900,000	900,000	900,000	-
Local government representation	-	28,000	28,000	-
ADB loan repayment	500,000	1,286,883	1,568,974	(282,091)
Silver Anniversary Constitution Day	150,000	150,000	149,997	3
Legal services	100,000	100,000	100,000	-
	<u>4,659,822</u>	<u>6,118,636</u>	<u>6,556,321</u>	<u>(437,685)</u>
<b>Council of Iroij:</b>				
Administration	105,368	91,728	91,725	3
Members	299,433	326,503	326,503	-
	<u>404,801</u>	<u>418,231</u>	<u>418,228</u>	<u>3</u>
<b>Office of the Auditor-General</b>	<u>41,000</u>	<u>273,805</u>	<u>273,787</u>	<u>18</u>
<b>Public Service Commission:</b>				
Members	92,862	95,129	95,124	5
Administration	376,275	313,430	313,429	1
	<u>469,137</u>	<u>408,559</u>	<u>408,553</u>	<u>6</u>
<b>Office of the Attorney General</b>	<u>818,003</u>	<u>616,676</u>	<u>616,675</u>	<u>1</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, 2004

	Budgeted Amounts		Actual Amounts	Variance
	Original	Final		
Expenditures, continued:				
Current, continued:				
General government, continued:				
Ministries:				
Ministry of Education	2,748,141	2,337,527	2,337,483	44
Ministry of Health and Environment	2,325,480	1,573,478	1,566,523	6,955
Ministry of Transportation and Communication	2,527,141	2,343,997	2,354,243	(10,246)
Ministry of Resources and Development	833,178	681,857	681,856	1
Ministry of Internal Affairs	2,201,988	2,212,587	2,212,523	64
Ministry of Justice	2,465,469	2,397,960	2,397,960	-
Ministry of Finance	1,596,621	1,552,359	1,551,851	508
Ministry of Foreign Affairs and Trade	2,479,852	2,860,395	2,869,112	(8,717)
Ministry of Public Works	1,215,199	1,239,996	1,239,642	354
	<u>18,393,069</u>	<u>17,200,156</u>	<u>17,211,193</u>	<u>(11,037)</u>
Nittijela:				
Operations	299,828	391,682	391,682	-
General Membership	943,451	974,479	974,478	1
Speaker's Contingency	87,134	73,488	73,488	-
Committee	196,285	54,477	54,477	-
Legislative Counsel	72,310	49,052	49,052	-
	<u>1,599,008</u>	<u>1,543,178</u>	<u>1,543,177</u>	<u>1</u>
Total general government	<u>28,535,423</u>	<u>28,743,358</u>	<u>29,192,041</u>	<u>(448,683)</u>
Other:				
Majuro Landfill Maintenance	-	31,979	31,887	92
Total other	-	31,979	31,887	92
Total expenditures	<u>28,535,423</u>	<u>28,775,337</u>	<u>29,223,928</u>	<u>(448,591)</u>
Excess of revenues over expenditures	<u>2,260,438</u>	<u>1,663,022</u>	<u>2,380,962</u>	<u>717,940</u>
Other financing uses:				
Operating transfers out:				
Disaster (Compact Matching)	200,000	-	-	-
Infrastructure Maintenance (Compact Matching)	700,000	700,000	700,000	-
Judiciary Fund	901,450	901,450	901,450	-
National Environmental Protection Authority	32,368	32,368	32,368	-
Postal Services Fund	30,000	24,200	24,200	-
Local Government Fund	396,620	5,004	-	5,004
Total other financing uses	<u>2,260,438</u>	<u>1,663,022</u>	<u>1,658,018</u>	<u>5,004</u>
Net change in deficit	-	-	722,944	722,944
Other changes in unreserved deficit:				
Decrease in reserve for related assets	-	-	133,902	133,902
Unreserved deficit at the beginning of the year	(3,490,013)	(3,490,013)	(3,490,013)	-
Unreserved deficit at the end of the year	<u>\$ (3,490,013)</u>	<u>\$ (3,490,013)</u>	<u>\$ (2,633,167)</u>	<u>\$ 856,846</u>

See Accompanying Independent Auditors' Report.

REPUBLIC OF THE MARSHALL ISLANDS

Combined Balance Sheet  
 Nonmajor Governmental Funds  
 September 30, 2004  
 (with comparative totals as of September 30, 2003)

	Other	Other	Totals	
	Special Revenue	Capital Projects	2004	2003
<b>ASSETS</b>				
Cash and cash equivalents	\$ 2,995,123	\$ 375,000	\$ 3,370,123	\$ 911,870
Investments	-	318,630	318,630	318,630
Receivables, net:				
Taxes	873,866	-	873,866	-
Federal agencies	138,374	700,000	838,374	-
Other	2,992,278	-	2,992,278	540,316
Due from other funds	2,456,287	1,353,972	3,810,259	3,189,864
Advances	286,207	-	286,207	39,908
Total assets	<u>\$ 9,742,135</u>	<u>\$ 2,747,602</u>	<u>\$ 12,489,737</u>	<u>\$ 5,000,588</u>
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities:				
Accounts payable	\$ 658,375	\$ 6,720	\$ 665,095	\$ 171,265
Other liabilities and accruals	788,457	-	788,457	389,675
Deferred revenue	77,239	-	77,239	-
Due to component units	42,880	-	42,880	-
Due to other funds	1,596,178	18,080	1,614,258	49,039
Total liabilities	<u>3,163,129</u>	<u>24,800</u>	<u>3,187,929</u>	<u>609,979</u>
Fund balances:				
Reserved for:				
Related assets	-	2,283,654	2,283,654	1,029,718
Encumbrances	191,563	459,645	651,208	64,070
Nuclear claims	594,064	-	594,064	68,828
Scholarships	279,133	-	279,133	1,593
Communications	818,565	-	818,565	813,957
Health and medical	3,865,849	-	3,865,849	547,814
Maritime	690	-	690	30,694
Unreserved:				
Special revenue funds	829,142	-	829,142	1,397,842
Capital projects funds	-	(20,497)	(20,497)	436,093
Total fund balances	<u>6,579,006</u>	<u>2,722,802</u>	<u>9,301,808</u>	<u>4,390,609</u>
Total liabilities and fund balances	<u>\$ 9,742,135</u>	<u>\$ 2,747,602</u>	<u>\$ 12,489,737</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, 2004  
(with comparative totals for the year ended September 30, 2003)

	Other	Other	Totals	
	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>2004</u>	<u>2003</u>
Revenues:				
Compact funding	\$ 7,657,850	\$ 700,000	\$ 8,357,850	\$ 7,110,667
Federal and other grants	8,475,966	-	8,475,966	-
Fees and charges	7,288,844	-	7,288,844	434,013
Sales	255,809	-	255,809	182,595
Other	579,502	-	579,502	459,744
Total revenues	<u>24,257,971</u>	<u>700,000</u>	<u>24,957,971</u>	<u>8,187,019</u>
Expenditures by function:				
Current:				
General government:				
President and Cabinet	239,832	-	239,832	-
Office of the Chief Secretary	321,898	154,183	476,081	3,372
Special appropriations	31,465	-	31,465	2,116,667
Public Service Commission	94,476	-	94,476	-
Judiciary	792,072	-	792,072	720,214
Office of the Attorney-General	76,848	-	76,848	-
Ministry of Education	5,107,016	2,019,797	7,126,813	3,618,388
Ministry of Health and Environment	5,914,404	693,319	6,607,723	2,469,130
Ministry of Transportation and Communication	1,450,625	1,002,624	2,453,249	400,369
Ministry of Resources and Development	415,811	-	415,811	20,746
Ministry of Internal Affairs	1,140,747	-	1,140,747	215,543
Ministry of Justice	892,136	-	892,136	570,497
Ministry of Finance	853,577	-	853,577	378,081
Ministry of Foreign Affairs and Trade	19,182	-	19,182	1,635
Ministry of Public Works	1,017,525	-	1,017,525	55,140
Environmental Protection Authority	358,807	-	358,807	-
Nuclear claims related	4,557,953	-	4,557,953	1,944,532
Capital outlay:				
Capital projects	-	156,381	156,381	18,080
Total expenditures	<u>23,284,374</u>	<u>4,026,304</u>	<u>27,310,678</u>	<u>12,532,394</u>
Excess (deficiency) of revenues over (under) expenditures	<u>973,597</u>	<u>(3,326,304)</u>	<u>(2,352,707)</u>	<u>(4,345,375)</u>
Other financing sources (uses):				
Loan proceeds	-	2,260,756	2,260,756	1,643,950
Operating transfers in	8,719,762	700,000	9,419,762	4,925,065
Operating transfers out	(9,732,899)	-	(9,732,899)	(1,646,718)
Total other financing sources (uses), net	<u>(1,013,137)</u>	<u>2,960,756</u>	<u>1,947,619</u>	<u>4,922,297</u>
Net change in fund balances	(39,540)	(365,548)	(405,088)	576,922
Fund balances at the beginning of the year	<u>6,618,546</u>	<u>3,088,350</u>	<u>9,706,896</u>	<u>3,813,687</u>
Fund balances at the end of the year	<u>\$ 6,579,006</u>	<u>\$ 2,722,802</u>	<u>\$ 9,301,808</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, 2004  
(with comparative totals for the year ended September 30, 2003)

	Other	Other	Totals	
	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>2004</u>	<u>2003</u>
Revenues:				
Compact funding	\$ 7,657,850	\$ 700,000	\$ 8,357,850	\$ 7,110,667
Federal and other grants	8,475,966	-	8,475,966	-
Fees and charges	7,288,844	-	7,288,844	434,013
Sales	255,809	-	255,809	182,595
Other	579,502	-	579,502	459,744
Total revenues	<u>24,257,971</u>	<u>700,000</u>	<u>24,957,971</u>	<u>8,187,019</u>
Expenditures by account:				
Grants and subsidies	5,812,855	1,109,760	6,922,615	2,331,157
Contractual services	2,701,592	2,751,027	5,452,619	1,853,087
Salaries and wages	4,735,892	-	4,735,892	4,965,277
Medical supplies	4,277,155	-	4,277,155	66,903
Capital outlay	2,364,174	43,975	2,408,149	168,483
Travel	768,973	550	769,523	137,571
Food stuffs	390,438	-	390,438	100,195
Supplies and materials	339,447	-	339,447	171,395
POL	248,574	-	248,574	240,883
Rentals	213,858	-	213,858	137,327
Professional services	50,064	120,992	171,056	100,213
Communications	103,073	-	103,073	69,425
Insurance	97,630	-	97,630	2,978
Utilities	96,433	-	96,433	29,605
Leased housing	73,839	-	73,839	62,458
Freight	52,112	-	52,112	17,430
Printing and reproduction	14,433	-	14,433	48,477
Other	943,832	-	943,832	2,029,530
Total expenditures	<u>23,284,374</u>	<u>4,026,304</u>	<u>27,310,678</u>	<u>12,532,394</u>
Excess (deficiency) of revenues over (under) expenditures	<u>973,597</u>	<u>(3,326,304)</u>	<u>(2,352,707)</u>	<u>(4,345,375)</u>
Other financing sources (uses):				
Loan proceeds	-	2,260,756	2,260,756	1,643,950
Operating transfers in	8,719,762	700,000	9,419,762	4,925,065
Operating transfers out	(9,732,899)	-	(9,732,899)	(1,646,718)
Total other financing sources (uses), net	<u>(1,013,137)</u>	<u>2,960,756</u>	<u>1,947,619</u>	<u>4,922,297</u>
Net change in fund balances	(39,540)	(365,548)	(405,088)	576,922
Fund balances at the beginning of the year	<u>6,618,546</u>	<u>3,088,350</u>	<u>9,706,896</u>	<u>3,813,687</u>
Fund balances at the end of the year	<u>\$ 6,579,006</u>	<u>\$ 2,722,802</u>	<u>\$ 9,301,808</u>	<u>\$ 4,390,609</u>

See Accompanying Independent Auditors' Report.

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

September 30, 2004

Special revenue funds are used to account for specific revenues that are legally restricted for particular purposes. A brief discussion of RepMar's Nonmajor Governmental Funds - Special Revenue Funds as of September 30, 2004, follows:

Reimbursable Fund

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

Public Works Fund

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

Land Registration 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.

Marine Resources Fund

This fund was established under Public Law No. 1988-12 and accounts for the exploration, exploitation, regulation, corporation and management of marine resources within the Marshall Islands prior to the establishment of the Marshall Islands Marine Resources Authority.

Changed Circumstances Fund

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

Judiciary Fund

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

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.

See Accompanying Independent Auditors' Report.

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

September 30, 2004

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.

Resident Workers Training Account Fund

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

Airport Trust Fund

This fund was established under Public Law No. 1983-26 to account for airport development, improvement and maintenance, and to meet the salaries and expenses of the Director of Civil Aviation and his staff.

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.

Ships Operations Fund

This fund was established to account for all charges, fees and other monies collected or generated by the Ministry of Transportation and Communications through the use of their shipping vessels prior to the establishment of the Transportation Services Fund.

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.

See Accompanying Independent Auditors' Report.

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

September 30, 2004

Sea Patrol Fund

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

Transportation Services Fund

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

Registrar General Fund

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

Ministry of Internal Affairs Fund

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

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.

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.

Section 215(a)(1) Communications Fund

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

See Accompanying Independent Auditors' Report.

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

September 30, 2004

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

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

Section 216(a)(3) Scholarship Fund

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

Section 221(b) Education and Health Care Fund

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

Section 211(a)(3) Private Sector Development Fund

This fund accounts for United States Congress appropriations under United States Public Law 99-239, as amended, Title II, Article I, Section 211(a)(3) and approved by Nitijela resolution 123 to support the efforts in attracting foreign investment and increasing indigenous business activity.

Section 211(a)(5) Environment Sector Fund

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

Section 211(b)(1) Kwajalein Environment Fund

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

Section 216 Trust Fund

This fund accounts for United States Congress appropriations under United States Public Law 99-239, as amended, Title II, Article I, Section 216 and approved by Nitijela resolution 123 representing United States contributions to the Intergenerational Trust Fund.

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.

See Accompanying Independent Auditors' Report.

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

September 30, 2004

Republic of China Projects Fund

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

Marshall Islands Scholarship Grant and Loan Board

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

Health Care Revenue Fund

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

Ministry of Health Health Fund

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

Ministry of Education Head Start Program

This fund was established to account for federal awards received in a direct capacity from the U.S. Department of Health and Human Services Head Start program.

Nuclear Claims Tribunal

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

See Accompanying Independent Auditors' Report.

REPUBLIC OF THE MARSHALL ISLANDS  
NONMAJOR GOVERNMENTAL FUNDS  
SPECIAL REVENUE FUNDS

Combining Balance Sheet  
September 30, 2004  
(with comparative totals as of September 30, 2003)

	Reimbursable	Public Works	Land Registration	Marine Resources	Changed Circumstances Fund	Judiciary	Ministry of Justice	Alternative Energy	National Environmental Protection Authority	Resident Workers Training Account	Airport Revolving	Ministry of Transportation and Communications	Ministry of Resources and Development
<b>ASSETS</b>													
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Receivables, net:													
Taxes	-	-	-	-	-	-	-	-	-	1,504	-	-	-
Federal agencies	96,845	-	-	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-	-	-	-
Due from other funds	-	14,271	18,118	-	53,258	427,603	78,795	416	94,131	237,236	122	-	-
Advances	-	-	-	380	1,200	531	5,774	-	-	-	-	-	-
Total assets	\$ 96,845	\$ 14,271	\$ 18,118	\$ 380	\$ 54,458	\$ 428,134	\$ 84,569	\$ 416	\$ 94,131	\$ 238,740	\$ 122	\$ -	\$ -
<b>LIABILITIES AND FUND BALANCES (DEFICITS)</b>													
<b>Liabilities:</b>													
Accounts payable	\$ -	\$ 400	\$ -	\$ -	\$ -	\$ 5,084	\$ 970	\$ -	\$ -	\$ 16,000	\$ 122	\$ -	\$ -
Other liabilities and accruals	14,291	-	-	-	-	21,269	1,750	-	1,183	-	-	-	-
Deferred revenue	-	-	-	-	-	-	-	-	-	-	-	-	-
Due to component units	-	-	-	-	-	-	-	-	-	-	-	-	-
Due to other funds	80,991	-	-	380	-	-	-	-	-	-	-	-	-
Total liabilities	95,282	400	-	380	-	26,353	2,720	-	1,183	16,000	122	-	-
<b>Fund balances (deficits):</b>													
<b>Reserved for:</b>													
Encumbrances	4,397	-	-	-	-	2,231	8,056	-	-	-	-	-	-
Nuclear claims	-	-	-	-	-	-	-	-	-	-	-	-	-
Scholarships	-	-	-	-	-	-	-	-	-	-	-	-	-
Communications	-	-	-	-	-	-	-	-	-	-	-	-	-
Health and medical	-	-	-	-	-	-	-	-	-	-	-	-	-
Maritime	-	-	-	-	-	-	-	-	-	-	-	-	-
Unreserved (deficit)	(2,834)	13,871	18,118	-	54,458	399,550	73,793	416	92,948	222,740	-	-	-
Total fund balances (deficits)	1,563	13,871	18,118	-	54,458	401,781	81,849	416	92,948	222,740	-	-	-
Total liabilities and fund balances	\$ 96,845	\$ 14,271	\$ 18,118	\$ 380	\$ 54,458	\$ 428,134	\$ 84,569	\$ 416	\$ 94,131	\$ 238,740	\$ 122	\$ -	\$ -

Continued

See Accompanying Independent Auditors' Report.

REPUBLIC OF THE MARSHALL ISLANDS  
NONMAJOR GOVERNMENTAL FUNDS  
SPECIAL REVENUE FUNDS

Combining Balance Sheet, Continued  
September 30, 2004  
(with comparative totals as of September 30, 2003)

	Ships Operations	Postal Service	Sea Patrol	Transportation Services	Registrar General	Ministry of Internal Affairs	Local Government	Four-Atoll Medical	Section 177 Administration	Section 215(a)(1) Commu- nications	Section 216(a)(1) Surveillance and Enforcement	Section 216(a)(3) Scholarship	Section 221(b) Education and Health Care
<b>ASSETS</b>													
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Receivables, net:													
Taxes	-	-	-	-	-	-	-	-	-	-	-	-	-
Federal agencies	-	-	-	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	978	-	-	-	189,043	-	-	-	-	-
Due from other funds	-	23,906	3,894	37,857	391	30,592	80,503	97,635	68,828	818,565	-	991	-
Advances	-	-	-	-	-	-	1,680	-	-	-	12,598	602	-
Total assets	\$ -	\$ 23,906	\$ 3,894	\$ 38,835	\$ 391	\$ 30,592	\$ 82,183	\$ 286,678	\$ 68,828	\$ 818,565	\$ 12,598	\$ 1,593	\$ -
<b>LIABILITIES AND FUND BALANCES (DEFICITS)</b>													
<b>Liabilities:</b>													
Accounts payable	\$ -	\$ 7,028	\$ -	\$ 252	\$ -	\$ 650	\$ 1,050	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 308
Other liabilities and accruals	-	10,490	-	-	-	-	-	-	-	-	-	-	-
Deferred revenue	-	-	-	-	-	-	-	-	-	-	-	-	-
Due to component units	-	-	-	42,880	-	-	-	-	-	-	-	-	-
Due to other funds	-	-	-	-	-	-	-	-	-	-	11,908	-	3,972
Total liabilities	-	17,518	-	43,132	-	650	1,050	-	-	-	11,908	-	4,280
<b>Fund balances (deficits):</b>													
<b>Reserved for:</b>													
Encumbrances	-	862	-	34,107	-	684	1,050	-	-	-	-	-	-
Nuclear claims	-	-	-	-	-	-	-	-	68,828	-	-	-	-
Scholarships	-	-	-	-	-	-	-	-	-	-	-	1,593	-
Communications	-	-	-	-	-	-	-	-	-	818,565	-	-	-
Health and medical	-	-	-	-	-	-	-	286,678	-	-	-	-	-
Maritime	-	-	-	-	-	-	-	-	-	-	690	-	-
Unreserved (deficit)	-	5,526	3,894	(38,404)	391	29,258	80,083	-	-	-	-	-	(4,280)
Total fund balances (deficits)	-	6,388	3,894	(4,297)	391	29,942	81,133	286,678	68,828	818,565	690	1,593	(4,280)
Total liabilities and fund balances	\$ -	\$ 23,906	\$ 3,894	\$ 38,835	\$ 391	\$ 30,592	\$ 82,183	\$ 286,678	\$ 68,828	\$ 818,565	\$ 12,598	\$ 1,593	\$ -

Continued

See Accompanying Independent Auditors' Report.

REPUBLIC OF THE MARSHALL ISLANDS  
NONMAJOR GOVERNMENTAL FUNDS  
SPECIAL REVENUE FUNDS

Combining Balance Sheet, Continued  
September 30, 2004  
(with comparative totals as of September 30, 2003)

	Section 211(a) Private Sector Development	Section 211(a) Environment Sector	Section 211(a) Kwajalein Environment	Section 216 Trust	Other Direct Assistance	Republic of China Projects	Marshall Islands Scholarship, Grant and Loan Board	Health Care Revenue Fund	Ministry of Health Health Fund	Ministry of Education Head Start Program	Nuclear Claims Tribunal	Totals	
												2004	2003
<b>ASSETS</b>													
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 63,967	\$ 1,035,141	\$ 1,306,696	\$ 76,942	\$ 512,377	\$ 2,995,123	\$ 200,782
Receivables, net:													
Taxes	-	-	-	-	-	-	-	-	872,362	-	-	873,866	-
Federal agencies	4,617	-	36,912	-	-	-	-	-	-	-	-	138,374	-
Other	-	-	-	-	74,117	1,509,419	15,000	1,007,209	-	140,466	56,046	2,992,278	540,316
Due from other funds	2,207	79,968	-	-	-	-	140,000	147,000	-	-	-	2,456,287	2,717,611
Advances	302	-	366	-	-	2,697	72,073	178,395	8,484	1,125	-	286,207	39,908
Total assets	\$ 7,126	\$ 79,968	\$ 37,278	\$ -	\$ 74,117	\$ 1,512,116	\$ 291,040	\$ 2,367,745	\$ 2,187,542	\$ 218,533	\$ 568,423	\$ 9,742,135	\$ 3,498,617
<b>LIABILITIES AND FUND BALANCES (DEFICITS)</b>													
<b>Liabilities:</b>													
Accounts payable	\$ 1,888	\$ -	\$ 10,487	\$ -	\$ 32,866	\$ 36,724	\$ 13,500	\$ 407,352	\$ 30,672	\$ 66,576	\$ 26,446	\$ 658,375	\$ 171,265
Other liabilities and accruals	5,238	2,729	6,129	-	708	17,880	-	306,294	231,798	151,957	16,741	788,457	389,675
Deferred revenue	-	77,239	-	-	-	-	-	-	-	-	-	77,239	-
Due to component units	-	-	-	-	-	-	-	-	-	-	-	42,880	-
Due to other funds	-	-	20,662	-	112,024	1,366,241	-	-	-	-	-	1,596,178	30,959
Total liabilities	7,126	79,968	37,278	-	145,598	1,420,845	13,500	713,646	262,470	218,533	43,187	3,163,129	591,899
<b>Fund balances (deficits):</b>													
Reserved for:													
Encumbrances	1,402	-	-	-	22,606	116,168	-	-	-	-	-	191,563	45,990
Nuclear claims	-	-	-	-	-	-	-	-	-	-	525,236	594,064	68,828
Scholarships	-	-	-	-	-	-	277,540	-	-	-	-	279,133	1,593
Communications	-	-	-	-	-	-	-	-	-	-	-	818,565	813,957
Health and medical	-	-	-	-	-	-	-	1,654,099	1,925,072	-	-	3,865,849	547,814
Maritime	-	-	-	-	-	-	-	-	-	-	-	690	30,694
Unreserved (deficit)	(1,402)	-	-	-	(94,087)	(24,897)	-	-	-	-	-	829,142	1,397,842
Total fund balances (deficits)	-	-	-	-	(71,481)	91,271	277,540	1,654,099	1,925,072	-	525,236	6,579,006	2,906,718
Total liabilities and fund balances	\$ 7,126	\$ 79,968	\$ 37,278	\$ -	\$ 74,117	\$ 1,512,116	\$ 291,040	\$ 2,367,745	\$ 2,187,542	\$ 218,533	\$ 568,423	\$ 9,742,135	\$ 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, 2004  
(with comparative totals for the year ended September 30, 2003)

	Reimbursable	Public Works	Land Registration	Marine Resources	Changed Circumstances Fund	Judiciary	Ministry of Justice	Alternative Energy	National Environmental Protection Authority	Resident Workers Training Account	Airport Revolving	Ministry of Transportation and Communications	Ministry of Resources and Development
<b>Revenues:</b>													
Compact funding	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Federal and other grants	377,306	-	-	-	-	-	-	-	-	-	-	-	-
Fees and charges	-	2,275	-	-	-	2,186	121,596	18,232	-	92,193	-	-	-
Sales	-	-	-	-	-	-	-	-	-	-	-	-	-
Other	116,142	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total revenues</b>	<b>493,448</b>	<b>2,275</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,186</b>	<b>121,596</b>	<b>18,232</b>	<b>-</b>	<b>92,193</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Expenditures by function:</b>													
<b>Current:</b>													
<b>General government:</b>													
President and Cabinet	-	-	-	-	-	-	-	-	-	-	-	-	-
Office of the Chief Secretary	-	-	-	-	-	-	-	-	-	-	-	-	-
Special appropriations	-	-	-	-	-	-	-	31,465	-	-	-	-	-
Public Service Commission	-	-	-	-	-	-	-	-	-	-	-	-	-
Judiciary	-	-	-	-	-	750,653	-	-	-	-	-	-	-
Attorney-General	22,638	-	-	-	-	-	-	-	-	-	-	-	-
Ministry of Education	-	-	-	-	-	-	-	-	-	74,894	-	-	-
Ministry of Health and Environment	-	-	-	-	-	-	-	-	-	-	-	-	-
Ministry of Transportation and Communication	-	-	-	-	-	-	-	-	-	-	-	40,354	-
Ministry of Resources and Development	3,408	-	-	-	-	-	-	-	-	-	-	-	-
Ministry of Internal Affairs	-	-	-	-	-	-	-	-	-	-	-	-	-
Ministry of Justice	-	-	-	-	-	-	134,474	-	-	-	-	-	-
Ministry of Finance	465,839	-	-	-	-	-	-	-	-	-	-	-	-
Ministry of Foreign Affairs and Trade	-	-	-	-	-	-	-	-	-	-	-	-	-
Ministry of Public Works	-	-	-	-	-	-	-	-	-	-	-	-	-
Environmental Protection Authority	-	-	-	-	-	-	-	-	32,470	-	-	-	-
Nuclear claims related	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total expenditures</b>	<b>491,885</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>750,653</b>	<b>134,474</b>	<b>31,465</b>	<b>32,470</b>	<b>74,894</b>	<b>-</b>	<b>40,354</b>	<b>-</b>
Excess (deficiency) of revenues over (under) expenditures	1,563	2,275	-	-	-	(748,467)	(12,878)	(13,233)	(32,470)	17,299	-	(40,354)	-
<b>Other financing sources (uses):</b>													
Operating transfers in	-	-	-	-	-	901,450	-	-	32,368	-	-	37,066	-
Operating transfers out	-	-	-	-	-	-	-	-	-	-	-	-	(1,207)
<b>Total other financing sources (uses), net</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>901,450</b>	<b>-</b>	<b>-</b>	<b>32,368</b>	<b>-</b>	<b>-</b>	<b>37,066</b>	<b>(1,207)</b>
<b>Net change in fund balances (deficit)</b>	<b>1,563</b>	<b>2,275</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>152,983</b>	<b>(12,878)</b>	<b>(13,233)</b>	<b>(102)</b>	<b>17,299</b>	<b>-</b>	<b>(3,288)</b>	<b>(1,207)</b>
<b>Fund balances (deficits) at the beginning of the year</b>	<b>-</b>	<b>11,596</b>	<b>18,118</b>	<b>-</b>	<b>54,458</b>	<b>248,798</b>	<b>94,727</b>	<b>13,649</b>	<b>93,050</b>	<b>205,441</b>	<b>-</b>	<b>3,288</b>	<b>1,207</b>
<b>Fund balances (deficits) at the end of the year</b>	<b>\$ 1,563</b>	<b>\$ 13,871</b>	<b>\$ 18,118</b>	<b>\$ -</b>	<b>\$ 54,458</b>	<b>\$ 401,781</b>	<b>\$ 81,849</b>	<b>\$ 416</b>	<b>\$ 92,948</b>	<b>\$ 222,740</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

Continued

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, 2004  
(with comparative totals for the year ended September 30, 2003)

	Ships Operations	Postal Service	Sea Patrol	Transportation Services	Registrar General	Ministry of Internal Affairs	Local Government	Four-Atoll Medical	Section 177 Administration	Section 215(a)(1) Communi- cations	Section 216(a)(1) Surveillance and Enforcement	Section 216(a)(3) Scholarship	Section 221(b) Education and Health Care
Revenues:													
Compact funding	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Federal and other grants	-	-	-	-	-	-	-	-	-	-	-	-	-
Fees and charges	19,759	71,360	35,000	185,728	391	39,713	11,992	-	-	-	-	-	2,804
Sales	-	255,809	-	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-	-	-	-
Total revenues	19,759	327,169	35,000	185,728	391	39,713	11,992	-	-	-	-	-	2,804
Expenditures by function:													
Current:													
General government:													
President and Cabinet	-	-	-	-	-	-	-	-	-	-	-	-	-
Office of the Chief Secretary	-	-	-	-	-	-	-	-	-	-	-	-	-
Special appropriations	-	-	-	-	-	-	-	-	-	-	-	-	-
Public Service Commission	-	-	-	-	-	-	-	-	-	-	-	-	-
Judiciary	-	-	-	-	-	-	-	-	-	-	-	-	-
Attorney-General	-	-	-	-	-	-	-	-	-	-	-	-	-
Ministry of Education	-	-	-	-	-	-	-	-	-	-	-	-	-
Ministry of Health and Environment	-	-	-	-	-	-	-	-	-	-	-	-	-
Ministry of Transportation and Communication	-	-	-	171,382	-	-	-	-	-	615	-	-	-
Ministry of Resources and Development	-	-	-	-	-	-	-	-	-	-	-	-	-
Ministry of Internal Affairs	-	-	-	-	-	9,771	362,987	-	-	-	-	-	-
Ministry of Justice	-	-	61,800	-	-	-	-	-	-	-	-	-	-
Ministry of Finance	-	351,293	-	-	-	-	-	-	-	-	-	-	-
Ministry of Foreign Affairs and Trade	-	-	-	-	-	-	-	-	-	-	-	-	-
Ministry of Public Works	-	-	-	-	-	-	-	-	-	-	-	-	-
Environmental Protection Authority	-	-	-	-	-	-	-	-	-	-	-	-	-
Nuclear claims related	-	-	-	-	-	-	-	761,136	-	-	-	-	-
Total expenditures	-	351,293	61,800	171,382	-	9,771	362,987	761,136	-	615	-	-	-
Excess (deficiency) of revenues over (under) expenditures	19,759	(24,124)	(26,800)	14,346	391	29,942	(350,995)	(761,136)	-	(615)	-	-	2,804
Other financing sources (uses):													
Operating transfers in	-	24,200	-	18,423	-	-	-	500,000	-	-	-	-	-
Operating transfers out	(17,216)	-	-	(37,066)	-	-	-	-	-	-	-	-	-
Total other financing sources (uses), net	(17,216)	24,200	-	(18,643)	-	-	-	500,000	-	-	-	-	-
Net change in fund balances (deficit)	2,543	76	(26,800)	(4,297)	391	29,942	(350,995)	(261,136)	-	(615)	-	-	2,804
Fund balances (deficits) at the beginning of the year	(2,543)	6,312	30,694	-	-	-	432,128	547,814	68,828	819,180	690	1,593	(7,084)
Fund balances (deficits) at the end of the year	\$ -	\$ 6,388	\$ 3,894	\$ (4,297)	\$ 391	\$ 29,942	\$ 81,133	\$ 286,678	\$ 68,828	\$ 818,565	\$ 690	\$ 1,593	\$ (4,280)

Continued

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, 2004  
(with comparative totals for the year ended September 30, 2003)

	Section 211(a) Private Sector Development	Section 211(a) Environment Sector	Section 211(a) Kwajalein Environment	Section 216 Trust	Other Direct Assistance	Republic of China Projects	Marshall Islands Scholarship, Grant and Loan Board	Health Care Revenue Fund	Ministry of Health Health Fund	Ministry of Education Head Start Program	Nuclear Claims Tribunal	Totals	
												2004	2003
<b>Revenues:</b>													
Compact funding	\$ 331,513	\$ 106,093	\$ 220,244	\$ 7,000,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 7,657,850	\$ 7,110,667
Federal and other grants	-	-	-	-	191,488	4,744,652	-	165,914	-	2,996,606	-	8,475,966	-
Fees and charges	-	-	-	-	-	-	-	346,478	6,339,137	-	-	7,288,844	434,013
Sales	-	-	-	-	-	-	-	-	-	-	-	255,809	182,595
Other	-	-	-	-	-	-	315,514	147,846	-	-	-	579,502	459,744
<b>Total revenues</b>	<u>331,513</u>	<u>106,093</u>	<u>220,244</u>	<u>7,000,000</u>	<u>191,488</u>	<u>4,744,652</u>	<u>315,514</u>	<u>660,238</u>	<u>6,339,137</u>	<u>2,996,606</u>	<u>-</u>	<u>24,257,971</u>	<u>8,187,019</u>
<b>Expenditures by function:</b>													
<b>Current:</b>													
<b>General government:</b>													
President and Cabinet	-	-	-	-	-	239,832	-	-	-	-	-	239,832	-
Office of the Chief Secretary	-	-	-	-	76,018	245,880	-	-	-	-	-	321,898	3,372
Special appropriations	-	-	-	-	-	-	-	-	-	-	-	31,465	2,116,667
Public Service Commission	-	-	-	-	-	94,476	-	-	-	-	-	94,476	-
Judiciary	-	-	-	-	-	41,419	-	-	-	-	-	792,072	720,214
Attorney-General	-	-	-	-	-	54,210	-	-	-	-	-	76,848	-
Ministry of Education	-	-	-	-	-	195,112	1,840,404	-	-	2,996,606	-	5,107,016	1,974,438
Ministry of Health and Environment	-	-	-	-	9,151	103,070	-	2,764,576	3,037,607	-	-	5,914,404	2,330,510
Ministry of Transportation and Communication	-	-	-	-	-	1,238,274	-	-	-	-	-	1,450,625	400,369
Ministry of Resources and Development	224,618	-	-	-	176,785	11,000	-	-	-	-	-	415,811	20,746
Ministry of Internal Affairs	-	-	-	-	-	767,989	-	-	-	-	-	1,140,747	215,543
Ministry of Justice	106,895	-	-	-	-	588,967	-	-	-	-	-	892,136	570,497
Ministry of Finance	-	-	-	-	-	36,445	-	-	-	-	-	853,577	378,081
Ministry of Foreign Affairs and Trade	-	-	-	-	-	19,182	-	-	-	-	-	19,182	1,635
Ministry of Public Works	-	-	-	-	-	1,017,525	-	-	-	-	-	1,017,525	55,140
Environmental Protection Authority	-	106,093	220,244	-	-	-	-	-	-	-	-	358,807	-
Nuclear claims related	-	-	-	-	-	-	-	-	-	-	3,796,817	4,557,953	-
<b>Total expenditures</b>	<u>331,513</u>	<u>106,093</u>	<u>220,244</u>	<u>-</u>	<u>261,954</u>	<u>4,653,381</u>	<u>1,840,404</u>	<u>2,764,576</u>	<u>3,037,607</u>	<u>2,996,606</u>	<u>3,796,817</u>	<u>23,284,374</u>	<u>8,787,212</u>
Excess (deficiency) of revenues over (under) expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,000,000</u>	<u>(70,466)</u>	<u>91,271</u>	<u>(1,524,890)</u>	<u>(2,104,338)</u>	<u>3,301,530</u>	<u>-</u>	<u>(3,796,817)</u>	<u>973,597</u>	<u>(600,193)</u>
<b>Other financing sources (uses):</b>													
Operating transfers in	-	-	-	-	-	-	856,938	2,677,410	-	-	3,671,907	8,719,762	4,366,120
Operating transfers out	-	-	-	(7,000,000)	-	-	-	-	(2,677,410)	-	-	(9,732,899)	(1,356,714)
<b>Total other financing sources (uses), net</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(7,000,000)</u>	<u>-</u>	<u>-</u>	<u>856,938</u>	<u>2,677,410</u>	<u>(2,677,410)</u>	<u>-</u>	<u>3,671,907</u>	<u>(1,013,137)</u>	<u>3,009,406</u>
<b>Net change in fund balances (deficit)</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(70,466)</u>	<u>91,271</u>	<u>(667,952)</u>	<u>573,072</u>	<u>624,120</u>	<u>-</u>	<u>(124,910)</u>	<u>(39,540)</u>	<u>2,409,213</u>
<b>Fund balances (deficits) at the beginning of the year</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,015)</u>	<u>-</u>	<u>945,492</u>	<u>1,081,027</u>	<u>1,300,952</u>	<u>-</u>	<u>650,146</u>	<u>6,618,546</u>	<u>2,442,037</u>
<b>Fund balances (deficits) at the end of the year</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (71,481)</u>	<u>\$ 91,271</u>	<u>\$ 277,540</u>	<u>\$ 1,654,099</u>	<u>\$ 1,925,072</u>	<u>\$ -</u>	<u>\$ 525,236</u>	<u>\$ 6,579,006</u>	<u>\$ 4,851,250</u>

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, 2004  
(with comparative totals for the year ended September 30, 2003)

	Reimbursable	Public Works	Land Registration	Marine Resources	Changed Circumstances Fund	Judiciary	Ministry of Justice	Alternative Energy	National Environmental Protection Authority	Resident Workers Training Account	Airport Revolving	Ministry of Transportation and Communications	Ministry of Resources and Development
<b>Revenues:</b>													
Compact funding	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Federal and other grants	377,306	-	-	-	-	-	-	-	-	-	-	-	-
Fees and charges	-	2,275	-	-	-	2,186	121,596	18,232	-	92,193	-	-	-
Sales	-	-	-	-	-	-	-	-	-	-	-	-	-
Other	116,142	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total revenues</b>	<b>493,448</b>	<b>2,275</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,186</b>	<b>121,596</b>	<b>18,232</b>	<b>-</b>	<b>92,193</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Expenditures by account:</b>													
Grants and subsidies	1,250	-	-	-	-	-	-	31,465	-	-	-	-	-
Salaries and wages	391,523	-	-	-	-	571,743	-	-	32,355	-	-	-	-
Medical supplies	-	-	-	-	-	-	-	-	-	-	-	-	-
Contractual services	720	-	-	-	-	4,467	-	-	-	-	-	-	-
Capital outlay	3,346	-	-	-	-	4,260	7,125	-	-	-	-	-	-
Travel	34,237	-	-	-	-	36,896	13,929	-	-	11,106	-	-	-
Food stuffs	3,984	-	-	-	-	1,245	-	-	-	-	-	-	-
Supplies and materials	19,676	-	-	-	-	16,302	41,546	-	-	485	-	-	-
POL	4,393	-	-	-	-	10,370	55,460	-	-	-	-	-	-
Rentals	1,376	-	-	-	-	-	1,450	-	-	-	-	-	-
Communications	3,585	-	-	-	-	12,797	8,026	-	-	-	-	-	-
Insurance	2,244	-	-	-	-	1,143	-	-	-	-	-	-	-
Utilities	15,904	-	-	-	-	7,548	-	-	-	-	-	7,337	-
Leased housing	-	-	-	-	-	65,239	-	-	-	-	-	-	-
Freight	637	-	-	-	-	-	989	-	-	-	-	-	-
Professional services	3,000	-	-	-	-	4,811	-	-	-	-	-	-	-
Printing and reproduction	651	-	-	-	-	491	2,883	-	-	49	-	-	-
Other	5,359	-	-	-	-	13,341	3,066	-	115	63,254	-	33,017	-
<b>Total expenditures</b>	<b>491,885</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>750,653</b>	<b>134,474</b>	<b>31,465</b>	<b>32,470</b>	<b>74,894</b>	<b>-</b>	<b>40,354</b>	<b>-</b>
Excess (deficiency) of revenues over (under) expenditures	1,563	2,275	-	-	-	(748,467)	(12,878)	(13,233)	(32,470)	17,299	-	(40,354)	-
<b>Other financing sources (uses):</b>													
Operating transfers in	-	-	-	-	-	901,450	-	-	32,368	-	-	37,066	-
Operating transfers out	-	-	-	-	-	-	-	-	-	-	-	-	(1,207)
<b>Total other financing sources (uses), net</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>901,450</b>	<b>-</b>	<b>-</b>	<b>32,368</b>	<b>-</b>	<b>-</b>	<b>37,066</b>	<b>(1,207)</b>
<b>Net change in fund balances (deficit)</b>	<b>1,563</b>	<b>2,275</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>152,983</b>	<b>(12,878)</b>	<b>(13,233)</b>	<b>(102)</b>	<b>17,299</b>	<b>-</b>	<b>(3,288)</b>	<b>(1,207)</b>
<b>Fund balances (deficits) at the beginning of the year</b>	<b>-</b>	<b>11,596</b>	<b>18,118</b>	<b>-</b>	<b>54,458</b>	<b>248,798</b>	<b>94,727</b>	<b>13,649</b>	<b>93,050</b>	<b>205,441</b>	<b>-</b>	<b>3,288</b>	<b>1,207</b>
<b>Fund balances (deficits) at the end of the year</b>	<b>\$ 1,563</b>	<b>\$ 13,871</b>	<b>\$ 18,118</b>	<b>\$ -</b>	<b>\$ 54,458</b>	<b>\$ 401,781</b>	<b>\$ 81,849</b>	<b>\$ 416</b>	<b>\$ 92,948</b>	<b>\$ 222,740</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

Continued

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, 2004  
(with comparative totals for the year ended September 30, 2003)

	Ships Operations	Postal Service	Sea Patrol	Transportation Services	Registrar General	Ministry of Internal Affairs	Local Government	Four-Atoll Medical	Section 177 Administration	Section 215(a)(1) Communi- cations	Section 216(a)(1) Surveillance and Enforcement	Section 216(a)(3) Scholarship	Section 221(b) Education and Health Care
<b>Revenues:</b>													
Compact funding	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Federal and other grants	-	-	-	-	-	-	-	-	-	-	-	-	-
Fees and charges	19,759	71,360	35,000	185,728	391	39,713	11,992	-	-	-	-	-	2,804
Sales	-	255,809	-	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-	-	-	-
Total revenues	19,759	327,169	35,000	185,728	391	39,713	11,992	-	-	-	-	-	2,804
<b>Expenditures by account:</b>													
Grants and subsidies	-	-	-	-	-	-	303,413	-	-	-	-	-	-
Salaries and wages	-	279,656	-	-	-	7,911	-	-	-	-	-	-	-
Medical supplies	-	-	-	-	-	-	-	-	-	-	-	-	-
Contractual services	-	-	-	20,840	-	-	-	761,136	-	-	-	-	-
Capital outlay	-	3,490	-	15,171	-	-	-	-	-	-	-	-	-
Travel	-	19,309	-	-	-	-	2,382	-	-	-	-	-	-
Food stuffs	-	-	-	7,882	-	-	-	-	-	-	-	-	-
Supplies and materials	-	4,591	-	77	-	1,860	57,192	-	-	-	-	-	-
POL	-	4,621	26,800	117,564	-	-	-	-	-	-	-	-	-
Rentals	-	22,433	-	5,760	-	-	-	-	-	-	-	-	-
Communications	-	9,604	-	-	-	-	-	-	-	-	-	-	-
Insurance	-	421	-	-	-	-	-	-	-	-	-	-	-
Utilities	-	2,981	-	-	-	-	-	-	-	-	-	-	-
Leased housing	-	-	-	-	-	-	-	-	-	-	-	-	-
Freight	-	1,964	-	1,765	-	-	-	-	-	-	-	-	-
Professional services	-	-	-	-	-	-	-	-	-	-	-	-	-
Printing and reproduction	-	-	-	-	-	-	-	-	-	-	-	-	-
Other	-	2,223	35,000	2,323	-	-	-	-	-	615	-	-	-
Total expenditures	-	351,293	61,800	171,382	-	9,771	362,987	761,136	-	615	-	-	-
Excess (deficiency) of revenues over (under) expenditures	19,759	(24,124)	(26,800)	14,346	391	29,942	(350,995)	(761,136)	-	(615)	-	-	2,804
<b>Other financing sources (uses):</b>													
Operating transfers in	-	24,200	-	18,423	-	-	-	500,000	-	-	-	-	-
Operating transfers out	(17,216)	-	-	(37,066)	-	-	-	-	-	-	-	-	-
Total other financing sources (uses), net	(17,216)	24,200	-	(18,643)	-	-	-	500,000	-	-	-	-	-
Net change in fund balances (deficit)	2,543	76	(26,800)	(4,297)	391	29,942	(350,995)	(261,136)	-	(615)	-	-	2,804
Fund balances (deficits) at the beginning of the year	(2,543)	6,312	30,694	-	-	-	432,128	547,814	68,828	819,180	690	1,593	(7,084)
Fund balances (deficits) at the end of the year	\$ -	\$ 6,388	\$ 3,894	\$ (4,297)	\$ 391	\$ 29,942	\$ 81,133	\$ 286,678	\$ 68,828	\$ 818,565	\$ 690	\$ 1,593	\$ (4,280)

Continued

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, 2004  
(with comparative totals for the year ended September 30, 2003)

	Section 211(a)	Section 211(a)	Section 211(a)	Section 216	Other Direct	Republic of	Marshall	Health	Ministry of	Ministry of	Nuclear	Totals	
	Private Sector Development	Environment Sector	Kwajalein Environment	Trust	Assistance	China Projects	Scholarship, Grant and Loan Board	Care Revenue Fund	Health Health Fund	Education Head Start Program	Claims Tribunal	2004	2003
<b>Revenues:</b>													
Compact funding	\$ 331,513	\$ 106,093	\$ 220,244	\$ 7,000,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 7,657,850	\$ 7,110,667
Federal and other grants	-	-	-	-	191,488	4,744,652	-	165,914	-	2,996,606	-	8,475,966	-
Fees and charges	-	-	-	-	-	-	-	346,478	6,339,137	-	-	7,288,844	434,013
Sales	-	-	-	-	-	-	-	-	-	-	-	255,809	182,595
Other	-	-	-	-	-	-	315,514	147,846	-	-	-	579,502	459,744
<b>Total revenues</b>	<b>331,513</b>	<b>106,093</b>	<b>220,244</b>	<b>7,000,000</b>	<b>191,488</b>	<b>4,744,652</b>	<b>315,514</b>	<b>660,238</b>	<b>6,339,137</b>	<b>2,996,606</b>	<b>-</b>	<b>24,257,971</b>	<b>8,187,019</b>
<b>Expenditures by account:</b>													
Grants and subsidies	100,250	-	-	-	173,994	281,132	1,780,900	-	-	-	3,140,451	5,812,855	2,331,157
Salaries and wages	161,193	54,110	180,111	-	32,771	520,513	-	16,659	165,800	1,905,392	416,155	4,735,892	4,965,277
Medical supplies	-	-	-	-	-	-	-	2,411,591	1,855,114	-	10,450	4,277,155	66,903
Contractual services	-	-	-	-	2,790	1,110,782	-	79,184	360,485	304,167	57,021	2,701,592	1,853,087
Capital outlay	18,000	12,575	3,000	-	3,538	2,131,786	-	117,917	9,469	31,858	2,639	2,364,174	168,483
Travel	2,651	9,489	19,450	-	-	1,245	-	812	468,060	103,030	46,377	768,973	137,571
Food stuffs	1,868	-	-	-	1,334	-	-	-	-	374,125	-	390,438	100,195
Supplies and materials	4,199	13,094	1,167	-	4,721	50,063	-	-	14,813	104,060	5,601	339,447	171,395
POL	500	217	-	-	-	1,403	-	-	14,778	12,468	-	248,574	240,883
Rentals	-	895	-	-	100	107,540	-	-	-	-	74,304	213,858	137,327
Communications	3,790	4,806	-	-	1,476	-	-	-	24,576	10,290	24,123	103,073	69,425
Insurance	-	101	-	-	145	-	-	-	13,896	79,680	-	97,630	2,978
Utilities	-	6,637	-	-	-	-	-	-	23,434	32,592	-	96,433	29,605
Leased housing	8,600	-	-	-	-	-	-	-	-	-	-	73,839	62,458
Freight	-	1,072	-	-	3,102	21,526	-	21,057	-	-	-	52,112	17,430
Professional services	-	-	-	-	28,639	-	-	13,000	614	-	-	50,064	100,213
Printing and reproduction	2,955	2,000	-	-	-	-	-	5,404	-	-	-	14,433	48,477
Other	27,507	1,097	16,516	-	9,344	427,391	59,504	104,356	81,164	38,944	19,696	943,832	228,880
<b>Total expenditures</b>	<b>331,513</b>	<b>106,093</b>	<b>220,244</b>	<b>-</b>	<b>261,954</b>	<b>4,653,381</b>	<b>1,840,404</b>	<b>2,764,576</b>	<b>3,037,607</b>	<b>2,996,606</b>	<b>3,796,817</b>	<b>23,284,374</b>	<b>10,731,744</b>
Excess (deficiency) of revenues over (under) expenditures	-	-	-	7,000,000	(70,466)	91,271	(1,524,890)	(2,104,338)	3,301,530	-	(3,796,817)	973,597	(2,544,725)
<b>Other financing sources (uses):</b>													
Operating transfers in	-	-	-	-	-	-	856,938	2,677,410	-	-	3,671,907	8,719,762	4,366,120
Operating transfers out	-	-	-	(7,000,000)	-	-	-	-	(2,677,410)	-	-	(9,732,899)	(1,356,714)
<b>Total other financing sources (uses), net</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(7,000,000)</b>	<b>-</b>	<b>-</b>	<b>856,938</b>	<b>2,677,410</b>	<b>(2,677,410)</b>	<b>-</b>	<b>3,671,907</b>	<b>(1,013,137)</b>	<b>3,009,406</b>
<b>Net change in fund balances (deficit)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(70,466)</b>	<b>91,271</b>	<b>(667,952)</b>	<b>573,072</b>	<b>624,120</b>	<b>-</b>	<b>(124,910)</b>	<b>(39,540)</b>	<b>464,681</b>
<b>Fund balances (deficits) at the beginning of the year</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(1,015)</b>	<b>-</b>	<b>945,492</b>	<b>1,081,027</b>	<b>1,300,952</b>	<b>-</b>	<b>650,146</b>	<b>6,618,546</b>	<b>2,442,037</b>
<b>Fund balances (deficits) at the end of the year</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (71,481)</b>	<b>\$ 91,271</b>	<b>\$ 277,540</b>	<b>\$ 1,654,099</b>	<b>\$ 1,925,072</b>	<b>\$ -</b>	<b>\$ 525,236</b>	<b>\$ 6,579,006</b>	<b>\$ 2,906,718</b>

See Accompanying Independent Auditors' Report.

REPUBLIC OF THE MARSHALL ISLANDS  
NONMAJOR GOVERNMENTAL FUNDS - CAPITAL PROJECTS FUNDS

September 30, 2004

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 Governmental Funds - Capital Projects Funds as of September 30, 2004, follows:

Section 211 Compact Capital Account

This fund accounts for United States Congress appropriations under United States Public Law 99-239, Title II, Article I, 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.

Section 211(d)(2) Infrastructure Maintenance Fund

This fund accounts for United States Congress appropriations under United States Public Law 99-239, as amended, Title II, Article I, Section 211(d)(2) and approved by Nitijela resolution 123. The aforementioned section requires 5% of the annual Public Infrastructure Sector Grant be set aside with an equal contribution from RepMar for the purpose of funding infrastructure maintenance programs as approved by the Government of the United States.

Other Capital Projects Fund

This fund accounts for miscellaneous monies received that are specifically designated for capital-related projects.

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.

Marshall Islands Development Authority (MIDA) Fund

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

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, 2004  
(with comparative totals as of September 30, 2003)

	Section 211 Capital Account	Section 211(d) Infrastructure Maintenance	Other Capital Projects	Section 111 Investment Development	MIDA	ADB Development Projects	Totals	
							2004	2003
<b>ASSETS</b>								
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 375,000	\$ 375,000	\$ 711,088
Investments	-	-	-	-	318,630	-	318,630	318,630
Receivables:								
Federal agencies	-	700,000	-	-	-	-	700,000	-
Due from other funds	456,996	424,723	-	472,253	-	-	1,353,972	472,253
	<u>\$ 456,996</u>	<u>\$ 1,124,723</u>	<u>\$ -</u>	<u>\$ 472,253</u>	<u>\$ 318,630</u>	<u>\$ 375,000</u>	<u>\$ 2,747,602</u>	<u>\$ 1,501,971</u>
<b>LIABILITIES AND FUND BALANCES (DEFICITS)</b>								
Liabilities:								
Accounts payable	\$ 6,720	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 6,720	\$ -
Due to other funds	-	-	18,080	-	-	-	18,080	18,080
Total liabilities	<u>6,720</u>	<u>-</u>	<u>18,080</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>24,800</u>	<u>18,080</u>
Fund balances (deficits):								
Reserved for:								
Related assets	-	1,117,771	-	472,253	318,630	375,000	2,283,654	1,029,718
Encumbrances	452,693	6,952	-	-	-	-	459,645	18,080
Unreserved	(2,417)	-	(18,080)	-	-	-	(20,497)	436,093
Total fund balances (deficits)	<u>450,276</u>	<u>1,124,723</u>	<u>(18,080)</u>	<u>472,253</u>	<u>318,630</u>	<u>375,000</u>	<u>2,722,802</u>	<u>1,483,891</u>
Total liabilities and fund balances	<u>\$ 456,996</u>	<u>\$ 1,124,723</u>	<u>\$ -</u>	<u>\$ 472,253</u>	<u>\$ 318,630</u>	<u>\$ 375,000</u>	<u>\$ 2,747,602</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, 2004  
(with comparative totals for the year ended September 30, 2003)

	Section 211	Section 211(d)	Other Capital Projects	Section 111	MIDA	ADB	Totals	
	Capital Account	Infrastructure Maintenance		Investment Development		Development Projects	2004	2003
<b>Revenues:</b>								
Compact funding	\$ -	\$ 700,000	\$ -	\$ -	\$ -	\$ -	\$ 700,000	\$ -
	-	700,000	-	-	-	-	700,000	-
<b>Expenditures by function:</b>								
Office of the Chief Secretary	154,183	-	-	-	-	-	154,183	-
Ministry of Education	-	55,398	-	-	-	1,964,399	2,019,797	1,643,950
Ministry of Health and Environment	-	63,498	-	-	-	629,821	693,319	138,620
Ministry of Transportation and Communication	1,000,000	-	-	-	-	2,624	1,002,624	-
Other capital projects	-	156,381	-	-	-	-	156,381	18,080
<b>Total expenditures</b>	<b>1,154,183</b>	<b>275,277</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,596,844</b>	<b>4,026,304</b>	<b>1,800,650</b>
Excess (deficiency) of revenues over (under) expenditures	(1,154,183)	424,723	-	-	-	(2,596,844)	(3,326,304)	(1,800,650)
<b>Other financing sources (uses):</b>								
Loan proceeds	-	-	-	-	-	2,260,756	2,260,756	1,643,950
Operating transfers in	-	700,000	-	-	-	-	700,000	558,945
Operating transfers out	-	-	-	-	-	-	-	(290,004)
<b>Total other financing sources (uses), net</b>	<b>-</b>	<b>700,000</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,260,756</b>	<b>2,960,756</b>	<b>1,912,891</b>
<b>Net change in fund balances (deficit)</b>	<b>(1,154,183)</b>	<b>1,124,723</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(336,088)</b>	<b>(365,548)</b>	<b>112,241</b>
<b>Fund balances (deficit) at the beginning of the year</b>	<b>1,604,459</b>	<b>-</b>	<b>(18,080)</b>	<b>472,253</b>	<b>318,630</b>	<b>711,088</b>	<b>3,088,350</b>	<b>1,371,650</b>
<b>Fund balances (deficit) at the end of the year</b>	<b>\$ 450,276</b>	<b>\$ 1,124,723</b>	<b>\$ (18,080)</b>	<b>\$ 472,253</b>	<b>\$ 318,630</b>	<b>\$ 375,000</b>	<b>\$ 2,722,802</b>	<b>\$ 1,483,891</b>

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, 2004  
(with comparative totals for the year ended September 30, 2003)

	Section 211 Capital Account	Section 211(d) Infrastructure Maintenance	Other Capital Projects	Section 111 Investment Development	MIDA	ADB Development Projects	Totals	
							2004	2003
<b>Revenues:</b>								
Compact funding	\$ -	\$ 700,000	\$ -	\$ -	\$ -	\$ -	\$ 700,000	\$ -
	-	700,000	-	-	-	-	700,000	-
<b>Expenditures by account:</b>								
Contractual services	154,183	-	-	-	-	2,596,844	2,751,027	-
Grants and subsidies	1,000,000	109,760	-	-	-	-	1,109,760	-
Professional services	-	120,992	-	-	-	-	120,992	-
Capital outlay	-	43,975	-	-	-	-	43,975	-
Travel	-	550	-	-	-	-	550	-
Other	-	-	-	-	-	-	-	1,800,650
Total expenditures	1,154,183	275,277	-	-	-	2,596,844	4,026,304	1,800,650
Excess (deficiency) of revenues over (under) expenditures	(1,154,183)	424,723	-	-	-	(2,596,844)	(3,326,304)	(1,800,650)
<b>Other financing sources (uses):</b>								
Loan proceeds	-	-	-	-	-	2,260,756	2,260,756	1,643,950
Operating transfers in	-	700,000	-	-	-	-	700,000	558,945
Operating transfers out	-	-	-	-	-	-	-	(290,004)
Total other financing sources (uses), net	-	700,000	-	-	-	2,260,756	2,960,756	1,912,891
Net change in fund balances (deficit)	(1,154,183)	1,124,723	-	-	-	(336,088)	(365,548)	112,241
Fund balances (deficit) at the beginning of the year	1,604,459	-	(18,080)	472,253	318,630	711,088	3,088,350	1,371,650
Fund balances (deficit) at the end of the year	\$ 450,276	\$ 1,124,723	\$ (18,080)	\$ 472,253	\$ 318,630	\$ 375,000	\$ 2,722,802	\$ 1,483,891

See Accompanying Independent Auditors' Report.

REPUBLIC OF THE MARSHALL ISLANDS  
FIDUCIARY FUNDS - PRIVATE PURPOSE TRUSTS

September 30, 2004

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, 2004, follows:

Marshall Islands Social Security Administration (MISSA)

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

Kwajalein Atoll Trust Fund

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

Section 212 Kwajalein Landowners Fund

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

Nuclear Claims Trust Fund

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

See Accompanying Independent Auditors’ Report.

REPUBLIC OF THE MARSHALL ISLANDS

Combining Statement of Fiduciary Net Assets  
 Fiduciary Funds - Private Purpose Trusts  
 September 30, 2004  
 (with comparative totals as of September 30, 2003)

	Marshall Islands Social Security Admin.	Kwajalein Atoll Trust	Section 212 Kwajalein Landowners	Nuclear Claims Trust	Totals	
					2004	2003
<b>ASSETS</b>						
Cash and cash equivalents	\$ 2,023,763	\$ -	\$ -	\$ -	\$ 2,023,763	\$ 1,796,098
Time certificates of deposit	3,680,934	-	-	-	3,680,934	3,537,759
Receivables, net:						
Contributions	1,867,027	-	-	-	1,867,027	1,764,186
Other	462,241	-	225,118	19,070	706,429	835,303
Investments	39,645,139	-	-	5,053,337	44,698,476	41,416,996
Due from other funds	133,044	875,223	3,634,084	-	4,642,351	1,721,874
Capital assets, net of accumulated depreciation	224,983	-	-	-	224,983	355,390
Total assets	<u>48,037,131</u>	<u>875,223</u>	<u>3,859,202</u>	<u>5,072,407</u>	<u>57,843,963</u>	<u>51,427,606</u>
<b>LIABILITIES</b>						
Accounts payable	293,275	-	1,715	-	294,990	238,500
Other liabilities and accruals	163,467	-	-	-	163,467	154,913
Total liabilities	<u>456,742</u>	<u>-</u>	<u>1,715</u>	<u>-</u>	<u>458,457</u>	<u>393,413</u>
<b>NET ASSETS</b>						
Held in trust for:						
Social security benefits	47,580,389	-	-	-	47,580,389	41,548,753
Nuclear claims	-	-	-	5,072,407	5,072,407	8,564,732
Land use distributions	-	875,223	3,857,487	-	4,732,710	920,708
Total net assets	<u>\$ 47,580,389</u>	<u>\$ 875,223</u>	<u>\$ 3,857,487</u>	<u>\$ 5,072,407</u>	<u>\$ 57,385,506</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, 2004  
 (with comparative totals for the year ended September 30, 2003)

	Marshall Islands Social Security Admin.	Kwajalein Atoll Trust	Section 212 Kwajalein Landowners	Nuclear Claims Trust	Totals	
					2004	2003
Additions:						
Contributions:						
Private employees	\$ 7,510,551	\$ -	\$ -	\$ -	\$ 7,510,551	\$ 9,278,043
Government employees	3,311,504	-	-	-	3,311,504	2,628,409
Penalties and interest	671,879	-	-	-	671,879	882,101
Total contributions	11,493,934	-	-	-	11,493,934	12,788,553
Investment earnings:						
Net increase in the fair value of investments	5,006,452	-	-	554,549	5,561,001	6,523,125
Interest and dividends	953,224	-	5,700	174,332	1,133,256	1,788,275
Total investment earnings	5,959,676	-	5,700	728,881	6,694,257	8,311,400
Less investment expense	84,668	-	-	-	84,668	177,005
Net investment earnings	5,875,008	-	5,700	728,881	6,609,589	8,134,395
Other:						
Compact funding	-	-	15,000,001	-	15,000,001	13,118,000
Total additions	17,368,942	-	15,005,701	728,881	33,103,524	34,040,948
Deductions:						
Land use distributions	-	45,485	11,148,214	-	11,193,699	11,003,900
Benefits	9,747,850	-	-	-	9,747,850	9,276,506
Bad debts	729,780	-	-	-	729,780	2,631,257
Administrative expenses	859,676	-	-	49,299	908,975	783,436
Transfers out	-	-	-	4,171,907	4,171,907	12,469,423
Total deductions	11,337,306	45,485	11,148,214	4,221,206	26,752,211	36,164,522
Change in net assets	6,031,636	(45,485)	3,857,487	(3,492,325)	6,351,313	(2,123,574)
Net assets at the beginning of the year	41,548,753	920,708	-	8,564,732	51,034,193	53,157,767
Net assets at the end of the year	\$ 47,580,389	\$ 875,223	\$ 3,857,487	\$ 5,072,407	\$ 57,385,506	\$ 51,034,193

See Accompanying Independent Auditors' Report.

REPUBLIC OF THE MARSHALL ISLANDS  
NONMAJOR COMPONENT UNITS

September 30, 2004

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, 2004, follows:

Air Marshall Islands, Inc. (AMI)

AMI was granted a corporate charter by the Cabinet of RepMar on October 12, 1989 to provide domestic and international carrier service within and from the Marshall Islands. AMI is governed by a seven-member Board of Directors appointed by the President upon approval of the Cabinet of RepMar.

College of the Marshall Islands (CMI)

CMI was established as an independent institution pursuant to the College of the Marshall Islands Act of 1992 (Public Law No. 1992-13) to provide post-secondary education services to meet the needs of the Marshall Islands. CMI is governed by a nine-member Board of Regents appointed by the President upon approval of the Cabinet of RepMar.

Kwajalein Atoll Joint Utilities Resources, Inc. (KAJUR)

KAJUR was granted a corporate charter by the Cabinet of RepMar on September 1, 1990 to engage in the business of generating and distributing utility services on the island of Ebeye. KAJUR is governed by a seven-member Board of Directors appointed by the Kwajalein Atoll Development Authority.

Majuro Resort, Inc. (MRI)

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

Majuro Water and Sewer Company, Inc. (MWSC)

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

Marshall Islands Marine Resources Authority (MIMRA)

MIMRA was established as a body corporate pursuant to the Marshall Islands Marine Resources Authority Act of 1997 (Public Law No. 1997-60) to facilitate the sustainable and responsible use of the marine resources in the Marshall Islands. MIMRA is governed by a seven-member Board of Directors, including the Minister of Resources and Development, the Minister of Foreign Affairs, the Minister of Internal Affairs, and four members appointed by the President.

See Accompanying Independent Auditors' Report.

REPUBLIC OF THE MARSHALL ISLANDS  
NONMAJOR COMPONENT UNITS

September 30, 2004

Marshall Islands Visitors Authority (MIVA)

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

Meram, Inc.

Meram, Inc. was granted a corporate charter by the Cabinet of RepMar on May 7, 2001 for the primary purpose of operating and maintaining the MV Jobake. Meram, Inc. is governed by a five-member Board of Directors appointed by the President upon approval of the Cabinet of RepMar.

RMI Environmental Protection Authority (EPA)

EPA was established for the protection and management of the environment. EPA is governed by a five-member Board of Directors appointed by the President in consultation with the Minister of Resources and Development.

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 six-member Board of Directors (with the President serving ex officio and without vote) appointed by the President upon approval by the Cabinet of RepMar.

See Accompanying Independent Auditors' Report.

REPUBLIC OF THE MARSHALL ISLANDS  
NONMAJOR COMPONENT UNITS

Combining Statement of Net Assets  
September 30, 2004  
(with comparative totals as of September 30, 2003)

	Air Marshall Islands, Inc.	College of the Marshall Islands	Majuro Resort, Inc.	Majuro Water and Sewer Company, Inc.	Marshall Islands Marine Resources Authority	Marshall Islands Visitors Authority	Meram, Inc.	RMI Environmental Protection Authority	Tobolar Copra Processing Plant, Inc.	Totals	
										2004	2003
<b>ASSETS</b>											
Current assets:											
Cash and cash equivalents	\$ 87,342	\$ 137,561	\$ 79,151	\$ 49,141	\$ 88,544	\$ 245,891	\$ -	\$ 197,252	\$ 80,578	\$ 965,460	\$ 1,614,514
Time certificates of deposit	-	-	-	-	490,551	-	-	-	-	490,551	2,157,323
Receivables, net:											
General	724,391	1,185,887	55,791	126,832	95,079	-	17,249	5,637	177,628	2,388,494	1,377,649
Other	377,486	287,696	1,130	9,926	6,213	25,251	-	397	130,251	838,350	268,798
Inventories	495,119	128,410	76,769	130,691	2,905	-	20,347	-	1,607,434	2,461,675	626,179
Due from primary government	614,459	168,369	-	-	-	82,916	-	-	50,000	915,744	-
Other current assets	196,095	27,495	39,084	12,854	-	-	-	57,859	-	333,387	152,377
Total current assets	<u>2,494,892</u>	<u>1,935,418</u>	<u>251,925</u>	<u>329,444</u>	<u>683,292</u>	<u>354,058</u>	<u>37,596</u>	<u>261,145</u>	<u>2,045,891</u>	<u>8,393,661</u>	<u>6,196,840</u>
Noncurrent assets:											
Investments	-	151,092	-	-	-	-	-	-	-	151,092	-
Capital assets, net of accumulated depreciation	1,151,957	1,413,921	2,195,875	95,980	441,545	21,011	3,558	15,686	1,007,717	6,347,250	20,174,099
Total noncurrent assets	<u>1,151,957</u>	<u>1,565,013</u>	<u>2,195,875</u>	<u>95,980</u>	<u>441,545</u>	<u>21,011</u>	<u>3,558</u>	<u>15,686</u>	<u>1,007,717</u>	<u>6,498,342</u>	<u>20,174,099</u>
Total assets	<u>\$ 3,646,849</u>	<u>\$ 3,500,431</u>	<u>\$ 2,447,800</u>	<u>\$ 425,424</u>	<u>\$ 1,124,837</u>	<u>\$ 375,069</u>	<u>\$ 41,154</u>	<u>\$ 276,831</u>	<u>\$ 3,053,608</u>	<u>\$ 14,892,003</u>	<u>\$ 26,370,939</u>
<b>LIABILITIES</b>											
Current liabilities:											
Current portion of long-term debt	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 650,000	\$ 650,000	\$ 831,524
Accounts payable	353,057	37,114	44,638	24,660	40,476	1,318	79,909	1,127	651,954	1,234,253	486,189
Other liabilities and accruals	598,659	991,691	395,364	228,204	137,339	9,465	1,592	11,397	95,492	2,469,203	1,812,158
Due to primary government	1,050,000	-	27,105	146,676	103,531	-	-	-	-	1,327,312	-
Due to component units	-	-	-	286,680	-	-	173,555	-	100,000	560,235	-
Deferred revenue	603,859	611,233	-	-	-	-	-	-	-	1,215,092	189,586
Total current liabilities	<u>2,605,575</u>	<u>1,640,038</u>	<u>467,107</u>	<u>686,220</u>	<u>281,346</u>	<u>10,783</u>	<u>255,056</u>	<u>12,524</u>	<u>1,497,446</u>	<u>7,456,095</u>	<u>3,319,457</u>
Noncurrent liabilities:											
Noncurrent portion of long-term debt	-	-	-	-	-	-	-	-	-	-	63,642
Other noncurrent liabilities	-	289,567	17,951	190,130	116,049	-	-	-	-	613,697	495,266
Total noncurrent liabilities	<u>-</u>	<u>289,567</u>	<u>17,951</u>	<u>190,130</u>	<u>116,049</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>613,697</u>	<u>558,908</u>
Total liabilities	<u>2,605,575</u>	<u>1,929,605</u>	<u>485,058</u>	<u>876,350</u>	<u>397,395</u>	<u>10,783</u>	<u>255,056</u>	<u>12,524</u>	<u>1,497,446</u>	<u>8,069,792</u>	<u>3,878,365</u>
<b>NET ASSETS</b>											
Invested in capital assets, net of related debt	1,151,957	1,413,921	2,195,875	95,980	441,545	21,011	3,558	15,686	1,007,717	6,347,250	20,078,933
Restricted	-	151,492	-	-	-	-	-	-	-	151,492	-
Unrestricted	(110,683)	5,413	(233,133)	(546,906)	285,897	343,275	(217,460)	248,621	548,445	323,469	2,413,641
Total net assets	<u>1,041,274</u>	<u>1,570,826</u>	<u>1,962,742</u>	<u>(450,926)</u>	<u>727,442</u>	<u>364,286</u>	<u>(213,902)</u>	<u>264,307</u>	<u>1,556,162</u>	<u>6,822,211</u>	<u>22,492,574</u>
	<u>\$ 3,646,849</u>	<u>\$ 3,500,431</u>	<u>\$ 2,447,800</u>	<u>\$ 425,424</u>	<u>\$ 1,124,837</u>	<u>\$ 375,069</u>	<u>\$ 41,154</u>	<u>\$ 276,831</u>	<u>\$ 3,053,608</u>	<u>\$ 14,892,003</u>	<u>\$ 26,370,939</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, 2004  
(with comparative totals for the year ended September 30, 2003)

	Air Marshall Islands, Inc.	College of the Marshall Islands	Majuro Resort, Inc.	Majuro Water and Sewer Company, Inc.	Marshall Islands Marine Resources Authority	Marshall Islands Visitors Authority	Meram, Inc.	RMI Environmental Protection Authority	Tobolar Copra Processing Plant, Inc.	Totals	
										2004	2003
Operating revenues:											
Charges for services	\$ 3,744,990	\$ 3,212,204	\$ 1,039,922	\$ 932,414	\$ 1,149,245	\$ -	\$ 67,913	\$ 133,201	\$ -	\$ 10,279,889	\$ 6,567,368
Sales	-	-	763,651	159,749	-	-	-	-	1,036,776	1,960,176	2,496,273
Other	354,313	472,882	91,802	24,050	178,160	103,479	82,589	163,671	-	1,470,946	243,591
Total operating revenues	4,099,303	3,685,086	1,895,375	1,116,213	1,327,405	103,479	150,502	296,872	1,036,776	13,711,011	9,307,232
Operating expenses:											
Cost of services	3,994,832	3,285,422	1,092,020	1,130,483	1,226,691	303,482	63,995	310,613	1,136,839	12,544,377	6,500,056
Impairment loss	-	-	5,590,012	-	-	-	-	-	-	5,590,012	-
Administration costs	514,788	1,824,274	927,629	-	-	-	106,760	-	114,014	3,487,465	2,093,853
Depreciation and amortization	616,942	214,131	141,442	40,272	104,722	-	1,275	2,322	60,436	1,181,542	1,445,965
Total operating expenses	5,126,562	5,323,827	7,751,103	1,170,755	1,331,413	303,482	172,030	312,935	1,311,289	22,803,396	10,039,874
Operating income (loss)	(1,027,259)	(1,638,741)	(5,855,728)	(54,542)	(4,008)	(200,003)	(21,528)	(16,063)	(274,513)	(9,092,385)	(732,642)
Nonoperating revenues (expenses):											
Contributions from the primary government	-	2,200,000	545,112	-	-	298,500	-	-	900,000	3,943,612	1,195,750
Interest income	393	15,246	-	-	17,968	-	-	-	-	33,607	119,259
Contributions to the primary government	-	-	-	-	(360,606)	-	-	-	-	(360,606)	(934,763)
Interest expense	-	-	(25,060)	(60,633)	-	-	-	-	(77,251)	(162,944)	(114,149)
Other	-	-	-	-	-	-	-	-	-	-	3,800
Total nonoperating revenues (expenses), net	393	2,215,246	520,052	(60,633)	(342,638)	298,500	-	-	822,749	3,453,669	269,897
Capital contributions	-	199,635	-	-	125,000	-	-	-	-	324,635	-
Net income (loss)	(1,026,866)	776,140	(5,335,676)	(115,175)	(221,646)	98,497	(21,528)	(16,063)	548,236	(5,314,081)	(462,745)
Net assets at the beginning of the year	2,068,140	794,686	7,298,418	(335,751)	949,088	265,789	(192,374)	280,370	1,007,926	12,136,292	22,955,319
Net assets at the end of the year	\$ 1,041,274	\$ 1,570,826	\$ 1,962,742	\$ (450,926)	\$ 727,442	\$ 364,286	\$ (213,902)	\$ 264,307	\$ 1,556,162	\$ 6,822,211	\$ 22,492,574

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