

**REPUBLIC OF THE MARSHALL ISLANDS**

**FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITORS' REPORT**

**YEAR ENDED SEPTEMBER 30, 2005**

REPUBLIC OF THE MARSHALL ISLANDS

FINANCIAL STATEMENTS  
YEAR ENDED SEPTEMBER 30, 2005

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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, 2005, which collectively comprise RepMar's basic financial statements as set forth in Section II of the foregoing table of contents. These financial statements are the responsibility of the management of RepMar. Our responsibility is to express an 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 represents 23% and 10%, 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 the other auditors provides a reasonable basis for our opinion.

The financial statements of the Ministry of Education Head Start Program, Air Marshall Islands, Inc., the Kwajalein Atoll Joint Utilities Resources, Inc. and the Marshall Islands Development Bank have not been audited, and we were not engaged to audit these financial statements as part of our audit of RepMar's basic financial statements. The financial activities of the Ministry of Education Head Start Program are included in RepMar's basic financial statements as a governmental fund and represent 1%, 1% and 3% of the assets, net assets and revenues, respectively, of RepMar's governmental activities. The financial activities of Air Marshall Islands, Inc., the Kwajalein Atoll Joint Utilities Resources, Inc. and the Marshall Islands Development Bank are included in RepMar's basic financial statements as discretely presented component units and represent 36% and 23% of the assets and revenues of RepMar's aggregate discretely presented component units.

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, 2005. We were unable to ensure the physical presence of recorded amounts and related depreciation expense as RepMar has not performed a comprehensive inventory of its fixed assets.

In our opinion, based on our audit and the report of the other auditors, except for the effects on the respective financial statements of such adjustments, if any, as might have been determined to be necessary had the financial statements of the Ministry of Education Head Start Program, Air Marshall Islands, Inc., the Kwajalein Atoll Joint Utilities Resources, Inc. and the Marshall Islands Development Bank been audited, as discussed in the third paragraph above, and 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, such financial statements, as set forth in Section II of the foregoing 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, 2005, 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, as set forth in Section III of the foregoing table of contents, 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 Other Supplementary Information, as set forth in Section IV of the foregoing table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements of RepMar. This supplementary information is the responsibility of the management of RepMar. Such additional information has been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, except for the effect of the matters described in the third paragraph above, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 9, 2006, on our consideration of the Republic of the Marshall Islands' (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 9, 2006

## REPUBLIC OF THE MARSHALL ISLANDS

### Management's Discussion and Analysis Year Ended September 30, 2005

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, 2005. Please read it in conjunction with RepMar's basic financial statements, which follow this section. Fiscal year 2004 comparative information has been included, where appropriate.

#### FINANCIAL HIGHLIGHTS

- For the fiscal year ended September 30, 2005, RepMar's total net assets increased by \$3.6 million (or 38.1%) from \$9.3 million in the prior year to \$12.9 million. This increase is primarily attributable to the recordation of a special item, namely, a determination by the Cabinet of RepMar that repayment of a loan payable in the amount of \$1.9 million to the People's Republic of China (PRC) was no longer required.
- During fiscal year 2005, RepMar's expenses for governmental activities were \$102.2 million, including expenses recorded or payments made or due to the autonomous agencies, and were funded in part by \$72.6 million in program revenues and \$31.3 million in taxes and other general revenues. Both expenses and program revenues were up from fiscal year 2004 by \$19.8 million (or 24.0%) and \$16.1 million (or 28.5%), respectively. The increase in expenses was primarily due to a payment of \$15 million, being the United States' FY 2004 and FY 2005 contributions for the establishment of the Trust Fund. Increases in revenues were primarily due to an increase in Compact funding and grant receipts from the Republic of China.
- For the fiscal year ended September 30, 2005, the General Fund reported charges to general fund appropriations (including transfers out) of \$36.1 million, \$4.1 million in excess of reported revenues of \$32.0 million. General fund appropriations were up \$5.2 million (or 16.8%) from fiscal year 2005 primarily due to an increase in subsidies to component units of \$2.7 million (up from \$1.7 million in 2004 to \$4.4 million in 2005) and an increase in transfer out of \$0.9 million (up from \$1.6 million in 2004 to \$2.5 million in 2005). Charges to appropriations, including transfers out, of \$36.2 million were higher than budgeted amounts of \$34.4 million. Furthermore, revenues collected of \$31.9 million were lower than budgeted amounts of \$34.3 million, resulting in an overall net budgetary deficit for fiscal year 2005 of \$4.2 million.
- At September 30, 2005, the General Fund reported a total fund balance deficit of \$5.1 million, which is an increase of \$4.1 million (or 430%) from the prior year deficit of \$1.0 million. This negative change in the deficit is primarily attributable to an increase in the deficit of the unreserved general fund balance of \$2.6 million (or 99.8%).

#### 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, 2005

### 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, 2005

### 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 2005, RepMar's assets exceeded liabilities by \$12.9 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 2004, discloses this relationship:

		RepMar's Net Assets As of September 30	
		2005	2004
Current and other assets	\$	64,561,017	\$ 64,338,214
Capital assets		<u>33,879,300</u>	<u>28,527,697</u>
<b>Total Assets</b>		<u>98,440,317</u>	<u>92,865,911</u>
Long-term liabilities		63,878,315	64,653,780
Other liabilities		<u>21,657,875</u>	<u>18,868,682</u>
<b>Total Liabilities</b>		<u>85,536,190</u>	<u>83,522,462</u>
Net assets:			
Invested in capital assets, net of related debt		11,095,515	3,688,484
Restricted net assets		49,336,943	51,241,153
Unrestricted net assets		<u>(47,558,331)</u>	<u>(45,586,188)</u>
<b>Total net assets</b>	\$	<u>12,904,127</u>	<u>9,343,449</u>

At the end of fiscal year 2005, RepMar's unrestricted net asset deficiency was \$47.6 million, an increase of \$2.0 million (or 4.3%) 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.

# REPUBLIC OF THE MARSHALL ISLANDS

## Management's Discussion and Analysis Year Ended September 30, 2005

### Changes in Net Assets

For the year ended September 30, 2005, net assets of the primary government increased by \$3.6 million, an increase of 38.1% from the prior year's \$9.3 million. This result indicates that RepMar's financial condition, as a whole, improved from the prior year. For the year ended September 30, 2005, net assets of the primary government changed as follows, with comparable amounts for fiscal year 2004:

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

	<u>2005</u>	<u>2004</u>
<b>Revenues:</b>		
Program revenues:		
Charges for services	\$ 8,482,662	\$ 8,015,030
Operating grants and contributions	36,546,491	33,533,793
Capital grants and contributions	27,502,292	14,895,999
General revenues:		
Taxes	24,255,202	21,973,266
Grants and contributions not restricted	4,000,000	6,280,669
Fishing rights	1,355,984	939,394
Ship registry	1,000,000	1,000,000
Unrestricted investment earnings	70,926	115,725
Other	650,077	1,139,191
Total revenues	<u>103,863,634</u>	<u>87,893,067</u>
<b>Expenses:</b>		
President and Cabinet	1,707,593	1,670,929
Office of the Chief Secretary	741,308	1,050,565
Special appropriations	10,754,933	5,475,135
Council of Iroij	426,275	396,417
Office of the Auditor-General	756,884	604,130
Public Service Commission	430,111	476,361
Office of the Attorney General	670,852	642,374
Education	21,768,992	22,592,027
Health and Environment	17,063,646	17,297,960
Transportation and Communication	4,342,088	3,659,671
Resources and Development	1,981,388	1,062,888
Internal Affairs	3,012,361	3,212,702
Justice	2,886,550	3,071,636
Finance	3,623,610	3,026,431
Foreign Affairs and Trade	3,010,091	2,894,830
Public Works	1,622,178	1,927,151
Nitijela	1,640,871	1,491,693
Judiciary	763,718	763,139
Environmental Protection Authority	441,988	356,007
Nuclear claims related	3,129,236	4,564,199
Interest on long-term debt	1,015,763	856,252
Depreciation	5,174,571	5,101,599
Capital projects	237,262	130,497
Other	15,000,687	64,184
Total expenses	<u>102,202,956</u>	<u>82,388,777</u>
Excess before special items	1,660,678	5,504,290
<b>Special items</b>	<u>1,900,000</u>	<u>-</u>
<b>Change in net assets</b>	<u>\$ 3,560,678</u>	<u>\$ 5,504,290</u>

# REPUBLIC OF THE MARSHALL ISLANDS

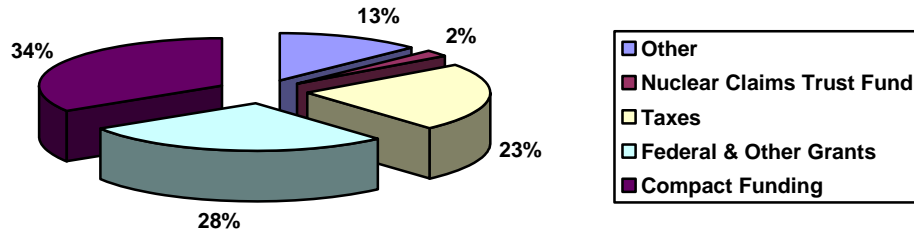
## Management's Discussion and Analysis Year Ended September 30, 2005

Other expenses in fiscal year 2005, excluding the one-off payment of \$15.0 million to establish the Trust Fund, consisted of expenses within the Ministry of Finance of \$3.6 million, up from \$3.0 million (or 19.7%) in fiscal year 2004, the Ministry of Internal Affairs of \$3.0 million, down from \$3.2 million (or 6.2%) in fiscal year 2004, the Ministry of Foreign Affairs and Trade of \$3.0 million, up from \$2.9 million (or 4.0%) in fiscal year 2004, the Ministry of Justice of \$2.9 million, down from \$3.1 million (or 6.0%) in fiscal year 2004, the Ministry of Resources and Development of \$2.0 million, up from \$1.1 million (or 86.4%) in fiscal year 2004, and the Nitijela of \$1.6 million, up from \$1.5 million (or 10.0%) in fiscal year 2004.

RepMar's revenues from governmental activities, including local revenues, Compact and other grant funding, totaled \$103.9 million in fiscal year 2005. The cost of governmental activities totaled \$102.2 million; the excess representing an increase in net assets, before special items, of \$1.7 million.

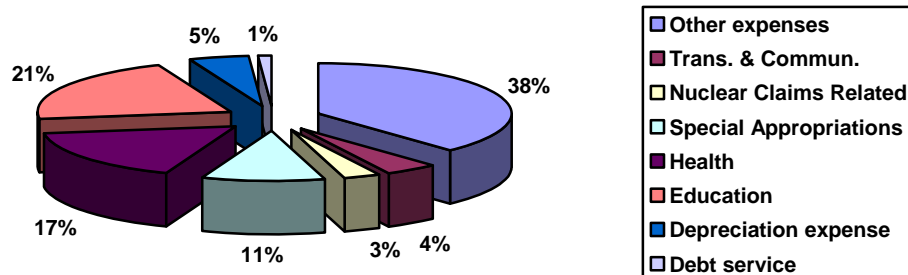
Graphs 1 and 2 below show the major components of revenues and cost of governmental activities.

Graph 1  
RepMar's Revenue Sources  
For the Year Ended September 30, 2005



As in prior years, Compact funding and federal and other grants are the major sources of revenue for RepMar, which comprise 62% of the total revenues for fiscal year 2005. The remaining 38% 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, 2005



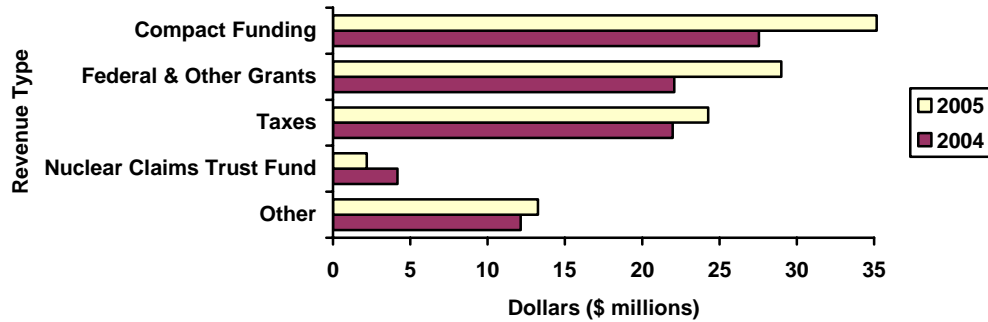
**REPUBLIC OF THE MARSHALL ISLANDS**

Management's Discussion and Analysis  
Year Ended September 30, 2005

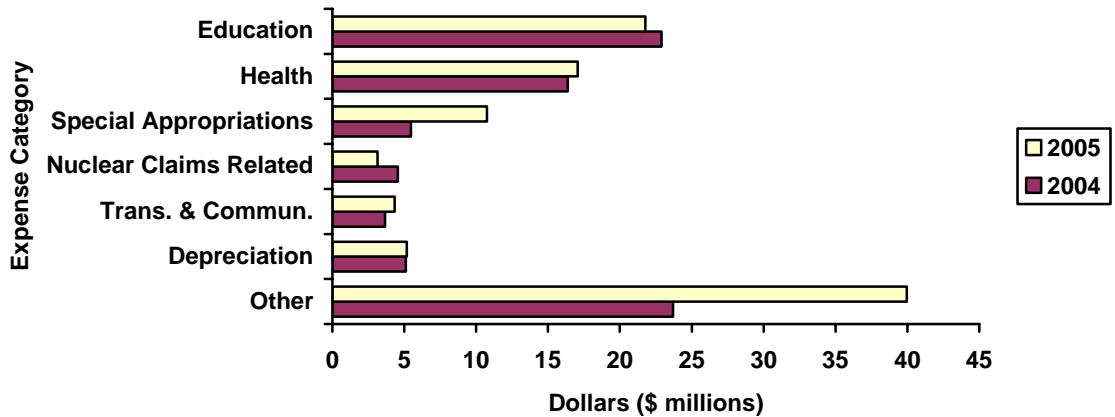
Other expenses that make up a portion of the costs of governmental activities include ministerial expenses within the Ministry of Finance (\$3.6 million), the Ministry of Internal Affairs (\$3.0 million), the Ministry of Foreign Affairs and Trade (\$3.0 million), the Ministry of Justice (\$2.9 million), the Ministry of Resources and Development (\$2.0 million), and the Ministry of Public Works (\$1.6 million).

Graphs 3 and 4 below show a comparison of the major components of revenues and cost of governmental activities for fiscal years 2004 and 2005.

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 2005 consisted mainly of subsidies to component units of \$7.0 million, up from \$2.2 million (or 222%) in fiscal year 2004, government utility billings of \$1.2 million, up from \$0.9 million (or 31.1%) in fiscal year 2004, and land leases/leased housing of \$1.1 million, up from \$1.0 million (or 5.3%) in fiscal year 2004.

# REPUBLIC OF THE MARSHALL ISLANDS

## Management's Discussion and Analysis Year Ended September 30, 2005

### 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 2005, RepMar's governmental funds reported a combined fund balance of \$44.4 million, which represents a decrease of \$3.8 million (or 7.9%) in comparison with fiscal year 2004. This decrease is primarily attributable to a decrease in fund balance of the General Fund of \$4.1 million. Of this total combined fund balance, \$47.1 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 (\$41.3 million); 2) to liquidate contracts and purchase orders of the prior period (\$4.9 million); or 3) for a variety of other restricted purposes (\$0.9 million). The combined unreserved deficit of RepMar's governmental funds is \$2.7 million, a decrease of \$0.4 million (or 8.5%) from fiscal year 2004. 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 an increase in overall budgetary appropriations of \$0.1 million. The primary reason for the up revision was due to an increase in transfers out to the Intergenerational Trust Fund of \$0.3 million offset by a decrease in budgetary ministerial expenditures of \$0.2 million.

### CAPITAL ASSET AND DEBT ADMINISTRATION

#### Capital Assets

RepMar's investment in capital assets for its governmental activities as of September 30, 2005 amounted to \$96.6 million, net of accumulated depreciation of \$62.7 million, leaving a net book value of \$33.9 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 \$5.4 million (or 18.8%) from fiscal year 2004.

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

	<u>2005</u>	<u>2004</u>
Electrical distribution	\$ 2,721,667	\$ 4,082,500
Office equipment	1,034,894	1,435,636
Buildings	6,372,613	6,302,188
Water infrastructure system	911,048	1,366,572
Roads and bridges	1,372,722	1,646,099
Ships	6,631,889	4,295,951
Other equipment	4,135,020	3,001,520
Heavy equipment	1,102,574	1,333,864
Motor vehicles	637,331	1,110,575
Construction in progress	<u>8,959,542</u>	<u>3,952,792</u>
	<u>\$ 33,879,300</u>	<u>\$ 28,527,697</u>

# REPUBLIC OF THE MARSHALL ISLANDS

## Management's Discussion and Analysis Year Ended September 30, 2005

### Capital Assets, Continued

Major capital asset additions for fiscal year 2005 were as follows:

- Acquisition of ships by the Ministry of Transportation and Communications in the amount of \$2.6 million.
- Acquisition of motor vehicles and equipment by various RepMar ministries and departments in the amount of \$2.4 million.
- Ongoing construction in progress of educational facilities in the amount of \$3.5 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,

	<u>2005</u>	<u>2004</u>
Fisheries Development Project	\$ 3,237,783	\$ 3,305,645
Typhoon Rehabilitation	482,693	492,914
Basic Education Project	7,569,729	7,724,070
Majuro Water Supply Project No. 1	692,865	707,976
Health and Population Project	5,122,633	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	8,953,626
Skills Training and Vocational Education Project	4,923,345	4,230,647
Fiscal and Financial Management Program No. 1	3,815,700	4,000,000
Fiscal and Financial Management Program No. 2	8,388,966	8,388,966
Outer Island Transport Infrastructure Project	350,966	2,624
	<u>\$ 63,132,445</u>	<u>\$ 62,628,879</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, 2005

### **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. Economic activity picked up in 2005 with GDP rising by 3.5%, largely reflecting an expansionary fiscal stance with growth supported from a new financial agreement with the United States Government under the Compact of Free Association. Inflation is estimated to have risen to an annual rate of 3.5%. The fiscal position deteriorated in fiscal year 2005 to an estimated deficit of 2.4% of GDP, due mainly to actual revenues being lower than expected. Current expenditures did not change significantly but capital spending increased dramatically due to a step up in expenditures funded by the Compact under the public infrastructure sector. Economic growth of 3.5% to 4% is projected in fiscal years 2006 and 2007, reflecting a continued increase in public spending on capital projects. This growth will be dampened by historically high fuel costs and will continue to have negative repercussions for both businesses and consumers. For fiscal year 2006, the Nitijela appropriated a General Fund expenditure budget, including transfers to autonomous agencies, of \$34.9 that was slightly higher than the \$34.3 million for fiscal year 2005. Construction activity under the Compact public infrastructure grants continues to gather momentum and revenues flowing from this source should partially increase revenues over fiscal year 2006.

### **CONTACTING REPMAR'S FINANCIAL MANAGEMENT**

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

REPUBLIC OF THE MARSHALL ISLANDS

Statement of Net Assets  
September 30, 2005

	<u>Primary Government</u>	<u>Component Units</u>
<u>ASSETS</u>		
Current assets:		
Cash and cash equivalents	\$ 4,489,288	\$ 6,115,171
Time certificates of deposit	979,421	4,338,448
Investments	-	2,196,392
Receivables, net of allowance for uncollectibles	7,225,033	31,902,908
Advances	390,116	-
Inventories	-	3,160,943
Due from primary government	-	1,161,074
Other current assets	-	322,724
Total current assets	<u>13,083,858</u>	<u>49,197,660</u>
Noncurrent assets:		
Restricted assets:		
Cash and cash equivalents	10,241,600	-
Time certificates of deposit	7,055,000	-
Investments	33,861,929	-
Investments	318,630	577,145
Capital assets, net of accumulated depreciation	33,879,300	53,830,304
Other noncurrent assets	-	1,899,550
Total noncurrent assets	<u>85,356,459</u>	<u>56,306,999</u>
Total assets	<u>\$ 98,440,317</u>	<u>\$ 105,504,659</u>
<u>LIABILITIES</u>		
Current liabilities:		
Bank overdraft	\$ -	\$ 882,915
Current portion of long-term obligations	728,005	3,256,023
Accounts payable	5,024,195	9,866,138
Customer deposits	-	216,102
Accrued interest payable	243,066	-
Compensated absences payable	1,091,841	-
Other liabilities and accruals	3,731,850	3,348,407
Due to primary government	-	324,164
Due to component units	1,974,507	698,219
Due to external parties	8,864,411	-
Deferred revenue	-	1,051,928
Total current liabilities	<u>21,657,875</u>	<u>19,643,896</u>
Noncurrent liabilities:		
Noncurrent portion of long-term obligations	62,404,440	27,182,992
Compensated absences payable, net of current portion	1,473,875	-
Due to primary government	-	2,000,000
Other noncurrent liabilities	-	7,116,854
Total noncurrent liabilities	<u>63,878,315</u>	<u>36,299,846</u>
Total liabilities	<u>85,536,190</u>	<u>55,943,742</u>
<u>NET ASSETS</u>		
Invested in capital assets, net of related debt	11,095,515	28,798,704
Restricted for:		
Future operations	41,403,482	-
Compact related	2,668,763	-
Other purposes	5,294,698	3,471,969
Unrestricted (deficits)	<u>(47,558,331)</u>	<u>17,290,244</u>
Total net assets	<u>12,904,127</u>	<u>49,560,917</u>
Total liabilities and net assets	<u>\$ 98,440,317</u>	<u>\$ 105,504,659</u>

See accompanying notes to basic financial statements.

REPUBLIC OF THE MARSHALL ISLANDS

Statement of Activities  
Year Ended September 30, 2005

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	\$ 1,707,593	\$ -	\$ -	\$ 50,000	\$ (1,657,593)	\$ -
Office of the Chief Secretary	741,308	-	309,235	31,205	(400,868)	-
Special appropriations	10,754,933	-	2,105,084	472,419	(8,177,430)	-
Council of Iroij	426,275	-	-	2,487	(423,788)	-
Office of the Auditor-General	756,884	-	339,151	-	(417,733)	-
Public Service Commission	430,111	-	-	10,523	(419,588)	-
Office of the Attorney General	670,852	506,176	-	-	(164,676)	-
Education	21,768,992	130,592	17,587,090	527,581	(3,523,729)	-
Health and Environment	17,063,646	6,399,656	9,571,926	63,699	(1,028,365)	-
Transportation and Communication	4,342,088	303,843	-	2,706,439	(1,331,806)	-
Resources and Development	1,981,388	-	306,344	422,279	(1,252,765)	-
Internal Affairs	3,012,361	44,835	199,841	634,561	(2,133,124)	-
Justice	2,886,550	202,483	71,870	395,300	(2,216,897)	-
Finance	3,623,610	890,840	1,378,199	112,684	(1,241,887)	-
Foreign Affairs and Trade	3,010,091	-	491,846	66,112	(2,452,133)	-
Public Works	1,622,178	979	-	659,633	(961,566)	-
Nitijela	1,640,871	-	-	16,000	(1,624,871)	-
Judiciary	763,718	2,175	-	-	(761,543)	-
Environmental Protection Authority	441,988	1,083	447,129	-	6,224	-
Nuclear claims related	3,129,236	-	2,187,728	-	(941,508)	-
Future operations	-	-	1,551,048	-	1,551,048	-
Capital projects	237,262	-	-	7,242,870	7,005,608	-
Unallocated interest - long-term debt	1,015,763	-	-	-	(1,015,763)	-
Unallocated depreciation	5,174,571	-	-	-	(5,174,571)	-
Other	15,000,687	-	-	14,088,500	(912,187)	-
<b>Total primary government</b>	<b>\$ 102,202,956</b>	<b>\$ 8,482,662</b>	<b>\$ 36,546,491</b>	<b>\$ 27,502,292</b>	<b>\$ (29,671,511)</b>	<b>\$ -</b>
<b>Component units:</b>						
Kwajalein Atoll Joint Utilities Resources, Inc.	\$ 4,997,519	\$ 3,505,582	\$ -	\$ -	\$ -	\$ (1,491,937)
Marshalls Energy Company, Inc.	27,340,329	23,774,391	-	400,000	-	(3,165,938)
Marshall Islands Development Bank	4,787,260	6,290,380	-	339,354	-	1,842,474
Marshall Islands National Telecom. Authority	6,181,953	5,785,596	-	654,852	-	258,495
RMI Ports Authority	2,423,724	2,552,808	-	111,000	-	240,084
Other nonmajor component units	18,878,907	15,176,759	-	107,846	-	(3,594,302)
<b>Total component units</b>	<b>\$ 64,609,692</b>	<b>\$ 57,085,516</b>	<b>\$ -</b>	<b>\$ 1,613,052</b>	<b>\$ -</b>	<b>\$ (5,911,124)</b>
<b>General revenues:</b>						
<b>Taxes:</b>						
Income taxes					10,894,299	-
Import taxes					7,767,872	-
Gross revenue taxes					3,882,324	-
Fuel taxes					1,061,877	-
Penalties and interest					98,736	-
Other					550,094	-
Grants and contributions not restricted to specific programs					4,000,000	-
Fishing rights					1,355,984	-
Ship registry					1,000,000	-
Unrestricted investment earnings					70,926	417,997
Contributions from primary government					-	6,193,854
Other					650,077	-
Special item - PRC loan write-off					1,900,000	-
<b>Total general revenues and transfers</b>					<b>33,232,189</b>	<b>6,611,851</b>
Change in net assets					3,560,678	700,727
Net assets at the beginning of the year					9,343,449	48,860,190
Net assets at the end of the year					<b>\$ 12,904,127</b>	<b>\$ 49,560,917</b>

See accompanying notes to basic financial statements.

REPUBLIC OF THE MARSHALL ISLANDS

Balance Sheet  
Governmental Funds  
September 30, 2005

	Special Revenue			Permanent		Other Governmental Funds	Total
	General	U.S Federal Grants	Compact Sector	Compact Trust	Inter-generational Trust		
<b>ASSETS</b>							
Cash and cash equivalents	\$ 1,083,635	\$ -	\$ -	\$ -	\$ 145,810	\$ 3,259,843	\$ 4,489,288
Time certificates of deposit	560,602	-	-	-	-	418,819	979,421
Investments	-	-	-	-	-	318,630	318,630
Receivables, net:							
Taxes	2,040,376	-	-	-	-	35,105	2,075,481
Federal agencies	20,660	1,541,999	641,415	-	-	709,539	2,913,613
General	16,242	-	-	-	-	1,191,765	1,208,007
Other	253,573	-	-	-	395,639	378,720	1,027,932
Due from other funds	821,096	-	2,201,230	-	104	3,882,740	6,905,170
Advances	66,675	123,358	161,746	-	-	38,337	390,116
Restricted assets:							
Cash and cash equivalents	10,170,576	-	-	-	-	71,024	10,241,600
Time certificates of deposit	55,000	-	-	-	7,000,000	-	7,055,000
Investments	-	-	-	33,861,929	-	-	33,861,929
Total assets	<u>\$ 15,088,435</u>	<u>\$ 1,665,357</u>	<u>\$ 3,004,391</u>	<u>\$ 33,861,929</u>	<u>\$ 7,541,553</u>	<u>\$ 10,304,522</u>	<u>\$ 71,466,187</u>
<b>LIABILITIES AND FUND BALANCES</b>							
<b>Liabilities:</b>							
Accounts payable	\$ 2,408,171	\$ 503,959	\$ 994,954	\$ -	\$ -	\$ 1,117,111	\$ 5,024,195
Other liabilities and accruals	1,739,541	-	-	-	-	727,120	2,466,661
Payable to federal agencies	-	821,889	295,145	-	-	-	1,117,034
Retention payable	-	-	148,155	-	-	-	148,155
Deferred revenue	186,443	-	-	-	-	426,004	612,447
Due to component units	1,913,969	-	60,538	-	-	-	1,974,507
Due to other funds	13,919,758	341,781	176,491	-	-	1,331,551	15,769,581
Total liabilities	<u>20,167,882</u>	<u>1,667,629</u>	<u>1,675,283</u>	<u>-</u>	<u>-</u>	<u>3,601,786</u>	<u>27,112,580</u>
<b>Fund balances (deficits):</b>							
Reserved for:							
Related assets	72,395	-	-	33,861,929	7,395,639	389,654	41,719,617
Encumbrances	110,050	1,347,859	2,454,404	-	-	1,041,385	4,953,698
Unreserved:							
General fund	(5,261,892)	-	-	-	-	-	(5,261,892)
Special revenue funds	-	(1,350,131)	(1,125,296)	-	-	4,802,136	2,326,709
Capital projects funds	-	-	-	-	-	469,561	469,561
Permanent funds	-	-	-	-	145,914	-	145,914
Total fund balances (deficits)	<u>(5,079,447)</u>	<u>(2,272)</u>	<u>1,329,108</u>	<u>33,861,929</u>	<u>7,541,553</u>	<u>6,702,736</u>	<u>44,353,607</u>
Total liabilities and fund balances	<u>\$ 15,088,435</u>	<u>\$ 1,665,357</u>	<u>\$ 3,004,391</u>	<u>\$ 33,861,929</u>	<u>\$ 7,541,553</u>	<u>\$ 10,304,522</u>	

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	33,879,300
Other long-term assets are not available to pay for current-period expenditures and, therefore, are not reported in the funds	612,447
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	(243,066)
Loans payable	(63,132,445)
Compensated absences payable	(2,565,716)
	<u>(65,941,227)</u>
Net assets of governmental activities	<u>\$ 12,904,127</u>

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, 2005

	General	Special Revenue		Permanent		Other Governmental Funds	Total
		U.S Federal Grants	Compact Sector	Compact Trust	Inter-generational Trust		
<b>Revenues:</b>							
Compact funding	\$ -	\$ -	\$ 27,467,288	\$ -	\$ -	\$ 7,697,427	\$ 35,164,715
Taxes	24,255,202	-	-	-	-	-	24,255,202
Federal and other grants	4,000,000	8,182,111	-	-	6,500,000	10,319,165	29,001,276
Sales	641,263	-	-	-	-	187,440	828,703
Ship registry	1,000,000	-	-	-	-	-	1,000,000
Fishing rights	1,355,984	-	-	-	-	-	1,355,984
Interest and dividends	70,926	-	-	-	1,551,048	-	1,621,974
Fees and charges	506,176	-	-	-	-	7,147,783	7,653,959
Contributions from component units	144,016	-	-	-	-	-	144,016
Other	-	-	-	-	-	177,408	177,408
<b>Total revenues</b>	<b>31,973,567</b>	<b>8,182,111</b>	<b>27,467,288</b>	<b>-</b>	<b>8,051,048</b>	<b>25,529,223</b>	<b>101,203,237</b>
<b>Expenditures:</b>							
<b>Current:</b>							
President and Cabinet	1,670,261	-	-	-	-	50,000	1,720,261
Office of the Chief Secretary	592,710	17,159	-	-	-	168,476	778,345
Special appropriations	9,825,683	-	2,105,084	-	-	472,419	12,403,186
Council of Iroij	425,104	-	-	-	-	2,487	427,591
Nitijela	1,676,986	-	-	-	-	16,000	1,692,986
Office of the Auditor-General	207,514	277,387	61,764	-	-	217,854	764,519
Public Service Commission	440,305	-	-	-	-	10,523	450,828
Judiciary	-	-	-	-	-	768,711	768,711
Office of the Attorney General	662,325	-	-	-	-	12,989	675,314
<b>Ministries:</b>							
Education	1,182,959	3,606,724	10,631,448	-	-	5,942,762	21,363,893
Health and Environment	2,250,284	1,974,122	6,958,890	-	-	6,102,459	17,285,755
Transportation and Communication	2,512,326	-	-	-	-	4,610,637	7,122,963
Resources and Development	1,823,243	47,591	114,737	-	-	425,006	2,410,577
Internal Affairs	1,902,583	199,841	-	-	-	1,006,103	3,108,527
Justice	2,668,335	-	71,870	-	-	561,114	3,301,319
Finance	2,009,213	1,002,664	14,200	-	-	821,741	3,847,818
Foreign Affairs and Trade	2,543,809	491,846	-	-	-	66,112	3,101,767
Public Works	1,167,809	-	-	-	-	704,197	1,872,006
Environmental Protection Authority	-	71,777	375,352	-	-	1,295	448,424
Nuclear claims related	-	-	-	-	-	3,131,331	3,131,331
Capital outlays	-	-	5,720,900	-	-	-	5,720,900
Other	4,393	-	-	-	14,996,294	-	15,000,687
<b>Total expenditures</b>	<b>33,565,842</b>	<b>7,689,111</b>	<b>26,054,245</b>	<b>-</b>	<b>14,996,294</b>	<b>25,092,216</b>	<b>107,397,708</b>
Excess (deficiency) of revenues over (under) expenditures	(1,592,275)	493,000	1,413,043	-	(6,945,246)	437,007	(6,194,471)
<b>Other financing sources (uses):</b>							
Loan proceeds	-	-	-	-	-	1,041,041	1,041,041
Operating transfers in	-	-	674,287	33,861,929	7,905,135	7,626,563	50,067,914
Operating transfers out	(2,528,003)	(493,000)	(1,882,945)	-	(33,861,929)	(9,971,883)	(48,737,760)
<b>Total other financing sources (uses), net</b>	<b>(2,528,003)</b>	<b>(493,000)</b>	<b>(1,208,658)</b>	<b>33,861,929</b>	<b>(25,956,794)</b>	<b>(1,304,279)</b>	<b>2,371,195</b>
<b>Net change in fund balances (deficits)</b>	<b>(4,120,278)</b>	<b>-</b>	<b>204,385</b>	<b>33,861,929</b>	<b>(32,902,040)</b>	<b>(867,272)</b>	<b>(3,823,276)</b>
Fund balances (deficits) at the beginning of the year	(959,169)	(2,272)	1,124,723	-	40,443,593	7,570,008	48,176,883
Fund balances (deficits) at the end of the year	\$ (5,079,447)	\$ (2,272)	\$ 1,329,108	\$ 33,861,929	\$ 7,541,553	\$ 6,702,736	\$ 44,353,607

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, 2005

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	\$ (3,823,276)
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	5,351,603
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds	472,669
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	1,396,434
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>163,248</u>
Change in net assets of governmental activities as presented on page 13.	\$ <u>3,560,678</u>

See accompanying notes to basic financial statements.

REPUBLIC OF THE MARSHALL ISLANDS

Statement of Fiduciary Net Assets  
Fiduciary Funds  
September 30, 2005

	<u>Private Purpose Trust</u>	<u>Agency</u>
<u>ASSETS</u>		
Cash and cash equivalents	\$ 1,297,934	\$ -
Time certificates of deposit	3,865,788	-
Receivables, net:		
Contributions	2,251,928	-
Other	534,684	-
Investments	51,204,942	
Due from other funds	8,770,674	93,737
Capital assets, net of accumulated depreciation	163,464	-
Total assets	<u>68,089,414</u>	<u>\$ 93,737</u>
<u>LIABILITIES</u>		
Accounts payable	89,463	\$ 93,737
Other liabilities and accruals	147,002	-
Total liabilities	<u>236,465</u>	<u>\$ 93,737</u>
<u>NET ASSETS</u>		
Held in trust for:		
Social security benefits	55,870,444	
Nuclear claims	3,211,831	
Land use distributions	8,770,674	
Total net assets	<u>\$ 67,852,949</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, 2005

	<u>Private Purpose Trust</u>
Additions:	
Contributions:	
Private employees	\$ 7,968,979
Government employees	3,704,239
Penalties and interest	248,004
Total contributions	<u>11,921,222</u>
Investment earnings:	
Net increase in the fair value of investments	6,807,587
Interest and dividends	1,290,283
Total investment earnings	8,097,870
Less investment expense	143,005
Net investment earnings	<u>7,954,865</u>
Other	<u>15,601,854</u>
Total additions	<u>35,477,941</u>
Deductions:	
Land use distributions	11,169,586
Benefits	10,673,660
Bad debts	152,684
Administrative expenses	826,840
Transfers out	2,187,728
Total deductions	<u>25,010,498</u>
Change in net assets	10,467,443
Net assets at the beginning of the year	<u>57,385,506</u>
Net assets at the end of the year	<u>\$ 67,852,949</u>

See accompanying notes to basic financial statements.

REPUBLIC OF THE MARSHALL ISLANDS

Combining Statement of Net Assets  
Component Units  
September 30, 2005

	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>							
<b>Current assets:</b>							
Cash and cash equivalents	\$ 300	\$ 712,274	\$ 20,644	\$ 1,174,925	\$ 1,515,732	\$ 2,691,296	\$ 6,115,171
Time certificates of deposit	-	-	601,172	1,389,978	1,564,777	782,521	4,338,448
Investments	-	-	-	2,196,392	-	-	2,196,392
Receivables, net:							
General	784,637	1,699,570	-	682,481	345,550	3,981,963	7,494,201
Loans	-	-	21,008,263	-	-	-	21,008,263
Other	52,875	444,837	1,764,614	506,959	238,802	392,357	3,400,444
Inventories	27,681	1,585,628	-	351,226	-	1,196,408	3,160,943
Due from primary government	175,000	266,675	-	-	-	719,399	1,161,074
Other current assets	4,126	10,691	39,730	17,026	36,875	214,276	322,724
<b>Total current assets</b>	<b>1,044,619</b>	<b>4,719,675</b>	<b>23,434,423</b>	<b>6,318,987</b>	<b>3,701,736</b>	<b>9,978,220</b>	<b>49,197,660</b>
<b>Noncurrent assets:</b>							
Investments	-	-	397,106	-	-	180,039	577,145
Capital assets, net of accumulated depreciation	6,044,403	11,526,838	521,677	17,774,223	10,605,676	7,357,487	53,830,304
Other noncurrent assets	-	-	1,899,550	-	-	-	1,899,550
<b>Total noncurrent assets</b>	<b>6,044,403</b>	<b>11,526,838</b>	<b>2,818,333</b>	<b>17,774,223</b>	<b>10,605,676</b>	<b>7,537,526</b>	<b>56,306,999</b>
<b>Total assets</b>	<b>\$ 7,089,022</b>	<b>\$ 16,246,513</b>	<b>\$ 26,252,756</b>	<b>\$ 24,093,210</b>	<b>\$ 14,307,412</b>	<b>\$ 17,515,746</b>	<b>\$ 105,504,659</b>
<b>LIABILITIES</b>							
<b>Current liabilities:</b>							
Bank overdraft	\$ 794,963	\$ -	\$ -	\$ -	\$ -	\$ 87,952	\$ 882,915
Current portion of long-term debt	-	511,970	400,000	749,646	26,992	1,567,415	3,256,023
Accounts payable	2,212,835	5,526,789	385,270	521,032	39,042	1,181,170	9,866,138
Customer deposits	-	-	-	216,102	-	-	216,102
Other liabilities and accruals	-	511,118	726,270	63,105	202,733	1,845,181	3,348,407
Due to primary government	-	-	-	-	73,957	250,207	324,164
Due to component units	-	-	-	-	-	698,219	698,219
Deferred revenue	112,800	-	-	-	-	939,128	1,051,928
<b>Total current liabilities</b>	<b>3,120,598</b>	<b>6,549,877</b>	<b>1,511,540</b>	<b>1,549,885</b>	<b>342,724</b>	<b>6,569,272</b>	<b>19,643,896</b>
<b>Noncurrent liabilities:</b>							
Noncurrent portion of long-term debt	-	8,903,917	3,440,000	14,839,075	-	-	27,182,992
Due to primary government	-	-	-	-	-	2,000,000	2,000,000
Other noncurrent liabilities	-	-	7,000,000	-	-	116,854	7,116,854
<b>Total noncurrent liabilities</b>	<b>-</b>	<b>8,903,917</b>	<b>10,440,000</b>	<b>14,839,075</b>	<b>-</b>	<b>2,116,854</b>	<b>36,299,846</b>
<b>Total liabilities</b>	<b>3,120,598</b>	<b>15,453,794</b>	<b>11,951,540</b>	<b>16,388,960</b>	<b>342,724</b>	<b>8,686,126</b>	<b>55,943,742</b>
<b>NET ASSETS</b>							
Invested in capital assets, net of related debt	6,044,403	2,110,951	521,677	2,185,502	10,578,684	7,357,487	28,798,704
Restricted	-	-	-	3,291,430	-	180,539	3,471,969
Unrestricted	(2,075,979)	(1,318,232)	13,779,539	2,227,318	3,386,004	1,291,594	17,290,244
<b>Total net assets</b>	<b>3,968,424</b>	<b>792,719</b>	<b>14,301,216</b>	<b>7,704,250</b>	<b>13,964,688</b>	<b>8,829,620</b>	<b>49,560,917</b>
<b>Total net assets</b>	<b>\$ 7,089,022</b>	<b>\$ 16,246,513</b>	<b>\$ 26,252,756</b>	<b>\$ 24,093,210</b>	<b>\$ 14,307,412</b>	<b>\$ 17,515,746</b>	<b>\$ 105,504,659</b>

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, 2005

	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	\$ 3,505,582	\$ 9,712,058	\$ 5,806,780	\$ 5,785,596	\$ 2,552,808	\$ 12,090,866	\$ 39,453,690
Sales	-	14,062,333	-	-	-	2,909,976	16,972,309
Other	-	-	483,600	-	-	175,917	659,517
Total operating revenues	<u>3,505,582</u>	<u>23,774,391</u>	<u>6,290,380</u>	<u>5,785,596</u>	<u>2,552,808</u>	<u>15,176,759</u>	<u>57,085,516</u>
Operating expenses:							
Cost of services	3,554,846	24,192,738	1,414,793	2,807,045	1,785,071	17,002,898	50,757,391
Administration costs	472,756	1,702,136	3,256,128	747,249	78,469	1,280,804	7,537,542
Depreciation and amortization	986,097	1,089,242	116,339	1,830,434	560,184	1,067,216	5,649,512
Total operating expenses	<u>5,013,699</u>	<u>26,984,116</u>	<u>4,787,260</u>	<u>5,384,728</u>	<u>2,423,724</u>	<u>19,350,918</u>	<u>63,944,445</u>
Operating income (loss)	<u>(1,508,117)</u>	<u>(3,209,725)</u>	<u>1,503,120</u>	<u>400,868</u>	<u>129,084</u>	<u>(4,174,159)</u>	<u>(6,858,929)</u>
Nonoperating revenues (expenses):							
Contributions from the primary government	401,757	-	194,235	-	-	5,597,862	6,193,854
Net increase in the fair value of investments	-	-	-	310,521	-	-	310,521
Interest income	-	-	-	-	53,222	54,254	107,476
Interest expense	(36,570)	(606,213)	-	(797,315)	-	(9,007)	(1,449,105)
Contributions to the primary government	-	-	-	-	-	(144,016)	(144,016)
Other	52,750	250,000	-	90	-	625,034	927,874
Total nonoperating revenues (expenses), net	<u>417,937</u>	<u>(356,213)</u>	<u>194,235</u>	<u>(486,704)</u>	<u>53,222</u>	<u>6,124,127</u>	<u>5,946,604</u>
Capital contributions	-	400,000	339,354	654,852	111,000	107,846	1,613,052
Net income (loss)	<u>(1,090,180)</u>	<u>(3,165,938)</u>	<u>2,036,709</u>	<u>569,016</u>	<u>293,306</u>	<u>2,057,814</u>	<u>700,727</u>
Net assets at the beginning of the year	<u>5,058,604</u>	<u>3,958,657</u>	<u>12,264,507</u>	<u>7,135,234</u>	<u>13,671,382</u>	<u>6,771,806</u>	<u>48,860,190</u>
Net assets at the end of the year	<u>\$ 3,968,424</u>	<u>\$ 792,719</u>	<u>\$ 14,301,216</u>	<u>\$ 7,704,250</u>	<u>\$ 13,964,688</u>	<u>\$ 8,829,620</u>	<u>\$ 49,560,917</u>

See accompanying notes to basic financial statements.

# REPUBLIC OF THE MARSHALL ISLANDS

## Notes to Financial Statements September 30, 2005

### (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, which has a November 30 year-end, and Majuro Resort, Inc., which is presented for the nine months ended September 30.

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, 2005

(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.

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

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, 2005

(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, 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, 2005

(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, 2005

(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 \$49,366,943 of restricted net assets, of which \$4,699,304 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, 2005

### (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, 2005

(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, 2005

(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 that are subgranted to RepMar, as well as other direct federal grants that RepMar received from the United States government.

Compact Sector Grants 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) and approved by Nitijela resolution 123 to promote economic advancement and budgetary self-reliance. These appropriations are to be used for assistance in education, health care, the environment, public sector capacity building, and private sector development, or for other areas as mutually agreed, with priorities in the education and health care sectors.

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

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements  
September 30, 2005

(1) Summary of Significant Accounting Policies, Continued

D. Measurement Focus and Basis of Accounting, Continued

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. During the year ended September 30, 2005, RepMar made a one-time transfer of \$33,861,929 from the Intergenerational Trust Fund to the Compact Trust Fund representing the establishment of the Trust Fund in accordance with Section 216 of the Compact of Free Association.

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 on hand, demand deposits, and short-term investments in U.S. Treasury obligations with a maturity date within three months of the date acquired by RepMar. Deposits maintained in time certificates of deposit with original maturity dates greater than three months are separately classified on the statement of net assets/balance sheet.

G. Investments

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

H. 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".

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

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements  
September 30, 2005

(1) Summary of Significant Accounting Policies, Continued

I. 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.

J. 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.

K. 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 credit card facility with a time certificate of deposit of \$55,000. Furthermore, cash and cash equivalents, time certificates of deposit and investments, totaling \$10,241,600, \$7,000,000 and \$33,861,929, respectively, are restricted in that they are not available to be used in current operations. During the year ended September 30, 2005, a restricted time certificate of deposit, totaling \$1,435,448, collateralizing a loan payable for a third party was forfeited due to foreclosure on the loan by the bank.

L. Capital Assets

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

RepMar currently holds no title to land. 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.

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements  
September 30, 2005

(1) Summary of Significant Accounting Policies, Continued

L. Capital Assets, Continued

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

M. 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.

N. 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.

O. Compensated Absences

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

P. 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.

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements  
September 30, 2005

(1) Summary of Significant Accounting Policies, Continued

P. Fund Equity, Continued

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, 2005, is represented by the following assets:

	<u>General</u>	<u>U.S. Federal Grants</u>	<u>Compact Sector</u>	<u>Compact Trust</u>	<u>Inter- generational Trust</u>	<u>Other Governmental Funds</u>	<u>Totals</u>
Cash and cash equivalents	\$ 17,395	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 17,395
Investments	-	-	-	-	-	318,630	318,630
Receivables - other	-	-	-	-	395,639	-	395,639
Restricted assets:							
Cash and cash equivalents	-	-	-	-	-	71,024	71,024
Time certificates of deposit	55,000	-	-	-	7,000,000	-	7,055,000
Investments	-	-	-	33,861,929	-	-	33,861,929
	<u>\$ 72,395</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 33,861,929</u>	<u>\$ 7,395,639</u>	<u>\$ 389,654</u>	<u>\$ 41,719,617</u>

Q. Risk Financing

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

R. New Accounting Standards

During fiscal year 2005, RepMar implemented GASB Statement No. 40, *Deposit and Investment Risk Disclosures (an amendment of GASB Statement No. 3)*. GASB Statement No. 40 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.

In April 2004, GASB issued Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. GASB Statement No. 43 establishes uniform financial reporting for other postemployment benefit plans by state and local governments. The provisions of this Statement are effective for periods beginning after December 15, 2007. Management does not believe that the implementation of this statement will have a material effect on the financial statements of RepMar.

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements  
September 30, 2005

(1) Summary of Significant Accounting Policies, Continued

R. New Accounting Standards, Continued

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 July 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.

In December 2004, GASB issued Technical Bulletin No. 2004-2, *Recognition of Pension and Other Postemployment Benefit Expenditures/Expense and Liabilities by cost-Sharing Employers*. GASB Technical Bulletin No. 2004-2 clarifies the requirements of GASB Statement Nos. 27 and 45 for recognition of pension and other postemployment benefit expenditures/expense and liabilities by cost-sharing employers. Management does not believe the implementation of this pronouncement will have a material effect on the financial statements of RepMar.

In June 2005, GASB issued Statement No. 47, *Accounting for Termination Benefits*. GASB Statement No. 47 establishes guidance for state and local governmental employers on accounting and financial reporting for termination benefits. These benefits include incentives for voluntary terminations (e.g., early retirement window programs) and severance payments with respect to involuntary terminations. 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.

S. 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.

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.

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements  
September 30, 2005

(1) Summary of Significant Accounting Policies, Continued

U. 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, 2004	\$ <u>48,783,960</u>	\$ <u>9,950,526</u>
Less fund balances/net assets of component unit financial statements previously included as unaudited:		
Marshall Islands Scholarship, Grant and Loan Board	(277,540)	(277,540)
Health Care Revenue Fund	(1,654,099)	(1,654,099)
Marshall Islands Health Fund	(1,925,072)	(1,925,072)
Add fund balances/net assets of unaudited component unit financial statements:		
Ministry of Education Head Start Program	398,053	398,053
Add fund balances/net assets of audited component unit financial statements:		
Marshall Islands Scholarship, Grant and Loan Board	194,663	194,663
Health Care Revenue Fund	1,773,995	1,773,995
Marshall Islands Health Fund	<u>882,923</u>	<u>882,923</u>
	<u>(607,077)</u>	<u>(607,077)</u>
Fund balance/net assets, as restated September 30, 2004	\$ <u>48,176,883</u>	\$ <u>9,343,449</u>

(2) Deposits and Investments

GASB Statement No. 40 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 rate risk, disclosure is required of investments that have fair values that are highly sensitive to changes in interest rates. GASB Statement No. 40 also requires disclosure of formal policies related to deposit and investment risks.

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

- (a) Public monies shall not be deposited with any financial institution that is not a member of the Federal Deposit Insurance Corporation (FDIC) of the United States or the Federal Savings and Loan Insurance Corporation (FSLIC) of the United States, unless the Secretary of Finance is satisfied, on the advice of the Banking Commissioner, that a financial institution (although not a member of the FDIC or FSLIC), owns sufficient assets to cover the total amount of the investment;
- (b) The demand deposit account shall be continuously maintained to cover not less than seventy-five per cent of the cash expenditures projected to be expended over the next succeeding ninety day period;

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements  
September 30, 2005

(2) Deposits and Investments, Continued

- (c) All deposits, accounts and funds maintained pursuant to this Act shall be subordinate deposits, accounts and funds of the General Fund; and
- (d) No withdrawal of monies shall be made out of or charged against time or savings deposits, accounts or funds maintained pursuant to this Act except to transfer funds into the demand deposit account of the General Fund. All expenditures shall be made out of or charged against the demand deposit account of the General Fund only.

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

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

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

A. Deposits

GASB Statement No. 3 previously required government entities to present deposit risks in terms of whether the deposits fell into the following categories:

- Category 1 Deposits that are federally insured or collateralized with securities held by RepMar or its agent in RepMar's name;
- Category 2 Deposits that are uninsured but fully collateralized with securities held by the pledging financial institution's trust department or agent in RepMar's name; or
- Category 3 Deposits that are collateralized with securities held by the pledging financial institution's trust department or agent but not in RepMar's name and non-collateralized deposits.

GASB Statement No. 40 amended GASB Statement No. 3 to in effect eliminate disclosure for deposits falling into categories 1 and 2 but retained disclosures for deposits falling under category 3. Category 3 deposits are those deposits that have exposure to custodial credit risk. Custodial credit risk is the risk that in the event of a bank failure, RepMar's deposits may not be returned to it. Such deposits are not covered by depository insurance and are either uncollateralized, or collateralized with securities held by the pledging financial institution or held by the pledging financial institution but not in the depositor-government's name. RepMar does not have a deposit policy for custodial credit risk.

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements  
September 30, 2005

(2) Deposits and Investments, Continued

A. Deposits, Continued

As of September 30, 2005, the carrying amount of the primary government's total cash and cash equivalents and time certificates of deposit were \$22,765,309 and the corresponding bank balances were \$23,467,539. Of the bank balance amounts, \$13,988,948 is maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2005, bank deposits in the amount of \$862,080 were FDIC insured. RepMar does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized. Accordingly, these deposits are exposed to custodial credit risk.

As of September 30, 2005, the carrying amount of the Marshall Islands Social Security Administration's (MISSA) cash and cash equivalents and time certificates of deposit was \$5,163,722 and the corresponding bank balances were \$5,523,545. Of the bank balance amounts, \$9,597 is maintained in financial institutions subject to FDIC insurance. MISSA does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized. Accordingly, these deposits are exposed to custodial credit risk.

As of September 30, 2005, the carrying amount of the discretely presented component units' total cash and cash equivalents and time certificates of deposit were \$10,453,619 and the corresponding bank balances were \$11,253,993. Of the bank balance amounts, \$5,020,335 is maintained in financial institutions subject to FDIC insurance. As of September 30, 2005, bank deposits in the amount of \$887,818 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. Accordingly, these deposits are exposed to custodial credit risk.

B. Investments

GASB Statement No. 3 previously required government entities to present investment risks in terms of whether the investments fell into the following categories:

- Category 1 Investments that are insured or registered, or securities held by RepMar or its agent in RepMar's name;
- Category 2 Investments that are uninsured and unregistered for which the securities are held by the counterparty's trust department or agent in RepMar's name; or
- Category 3 Investments that are uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in RepMar's name.

GASB Statement No. 40 amended GASB Statement No. 3 to in effect eliminate disclosure for investments falling into categories 1 and 2, and provided for disclosure requirements addressing other common risks of investments such as credit risk, interest rate risk, concentration of credit risk, and foreign currency risk. GASB Statement No. 40 did retain and expand the element of custodial credit risk in GASB Statement No. 3.

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements  
September 30, 2005

(2) Deposits and Investments, Continued

B. Investments, Continued

Investments of the primary government as of September 30, 2005, are as follows:

Compact Trust Fund:

Money market funds	\$ <u>33,861,929</u>
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Additionally, as of September 30, 2005, the MIDA Fund holds approximately 4% of the shares of Pacific Forum Lines in the amount of \$318,630. As the fair market value of this investment is not readily available, such has been recorded at cost.

Custodial credit risk for investments is the risk that in the event of the failure of the counterparty to the transaction, RepMar will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. RepMar's investments are held and administered by trustees in accordance with various trustee agreements. Based on negotiated trust and custody contracts, all of these investments were held in RepMar's name by RepMar's custodial financial institutions at September 30, 2005.

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

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

Concentration of credit risk for investments is the risk of loss attributed to the magnitude of an entity's investment in a single issuer. GASB Statement No. 40 requires disclosure by issuer and amount of investments in any one issuer that represents five percent (5%) or more of total investments for RepMar. As of September 30, 2005, there were no investments in any one issuer that exceeded 5% of total investments.

Investments of the fiduciary funds as of September 30, 2005, are as follows:

Marshall Islands Social Security Administration (MISSA):

Domestic equities	\$ 10,646,767
Foreign equities	2,240,452
Mutual funds	<u>35,105,892</u>
	\$ <u>47,993,111</u>

Nuclear Claims Trust Fund (NCTF):

U.S. Treasury obligations	\$ 632,113
U.S. Government agencies	67,719
Corporate notes and bonds	<u>126,017</u>
Total fixed income securities	825,849
Domestic equities	2,145,011
Money market funds	<u>229,280</u>
	3,200,140
Due from brokers	<u>11,691</u>
	\$ <u>3,211,831</u>

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements  
September 30, 2005

(2) Deposits and Investments, Continued

B. Investments, Continued

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

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

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

MISSA and NCTF investments are held and administered by trustees in accordance with various trustee agreements. Based on negotiated trust and custody contracts, all of these investments were held respectively in the name of MISSA and NCTF by their custodial financial institutions at September 30, 2005.

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements  
September 30, 2005

(2) Deposits and Investments, Continued

B. Investments, Continued

As of September 30, 2005, the NCTF's investments in debt securities were as follows:

	Moody's Credit Rating	Less Than 1	Investment Maturities (In Years)			Greater Than 10	Fair Value
			1 to 5	6 to 10			
U.S. Treasury obligations	Aaa	\$ 220,465	\$ 122,448	\$ 222,398	\$ 66,802	\$ 632,113	
U.S. Government agencies	Aaa	-	-	67,719	-	67,719	
Corporate notes	Aaa	-	24,721	-	-	24,721	
Corporate notes	Aa2	-	15,686	-	-	15,686	
Corporate notes	Aa3	19,130	34,654	31,826	-	85,610	
		<u>\$ 239,595</u>	<u>\$ 197,509</u>	<u>\$ 321,943</u>	<u>\$ 66,802</u>	<u>\$ 825,849</u>	

MISSA and NCTF do not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. Furthermore, as of September 30, 2005, there were no investments in any one issuer that exceeded 5% of total investments.

Investments of the discretely presented component units as of September 30, 2005, are as follows:

Marshall Islands Development Bank:	
Domestic equities	\$ <u>397,106</u>
Marshall Islands National Telecommunications Authority (MINTA):	
Domestic equities	\$ 1,802,320
U.S. Government securities	292,087
Money market funds	<u>96,383</u>
	2,190,790
Certificates of deposit	2,931
Due from brokers	<u>2,671</u>
	<u>\$ 2,196,392</u>

As of September 30, 2005, MINTA held U.S. Government securities in the amount of \$292,087 that mature from under one year to ten years.

College of the Marshall Islands:	
Mutual funds	\$ <u>180,039</u>

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements  
September 30, 2005

(3) Receivables

Receivables as of September 30, 2005, 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	Compact Sector	Compact Trust	Inter-Generational Trust	Nonmajor And Other Funds	Totals
Receivables:							
Taxes	\$ 2,040,376	\$ -	\$ -	\$ -	\$ -	\$ 35,105	\$ 2,075,481
Federal agencies	20,660	1,757,023	641,415	-	-	709,539	3,128,637
General	98,739	-	-	-	-	2,010,560	2,109,299
Loans	-	-	-	-	-	13,225,598	13,225,598
Other	841,049	-	-	-	395,639	393,720	1,630,408
	3,000,824	1,757,023	641,415	-	395,639	16,374,522	22,169,423
Less: allowance for uncollectibles	(669,973)	(215,024)	-	-	-	(14,059,393)	(14,944,390)
Net receivables	\$ 2,330,851	\$ 1,541,999	\$ 641,415	\$ -	\$ 395,639	\$ 2,315,129	\$ 7,225,033

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. During the year ended September 30, 2005, loans in the amount of \$2,006,089 were converted to grants as the recipients met the criteria for conversion.

\$ 8,856,811

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

Less allowance for uncollectibles

13,225,598  
(13,225,598)

\$ -

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements  
September 30, 2005

(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, 2005, are summarized as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	U.S. Federal Grants	\$ 341,781
General	Compact Sector Grants	176,491
General	Nonmajor governmental funds	302,824
Compact Sector Grants	General	2,201,230
Intergenerational Trust	General	104
Nonmajor governmental funds	General	2,854,013
Nonmajor governmental funds	Nonmajor governmental funds	1,028,727
Fiduciary Funds - Kwajalein Atoll Trust	General	875,223
Fiduciary Funds - Section 212 Kwajalein Landowners	General	7,895,451
Fiduciary Funds - Unclaimed Property	General	<u>93,737</u>
		<u>\$ 15,769,581</u>

Receivables and payables between funds reflected as due to/from component units in the statement of net assets at September 30, 2005, are summarized as follows:

	<u>Due From</u>	<u>Due To</u>
<u>Primary Government</u>		
General Fund:		
Kwajalein Atoll Joint Utilities Resources, Inc.	\$ -	\$ 175,000
Marshalls Energy Company, Inc.	-	231,137
RMI Ports Authority	-	348,811
Nonmajor component units	-	1,159,021
Compact Sector Grants Fund:		
Marshalls Energy Company, Inc.	-	35,538
Nonmajor component units	-	<u>25,000</u>
	<u>\$ -</u>	<u>\$ 1,974,507</u>

Discretely Presented Component Units

Marshalls Energy Company, Inc.:		
Nonmajor component units	\$ -	\$ 598,219
RMI Ports Authority:		
Nonmajor component units	-	<u>100,000</u>
	<u>\$ -</u>	<u>\$ 698,219</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 \$2,324,164 due to an allowance for doubtful accounts recorded by the General Fund and the nonmajor governmental funds of \$724,164 and \$1,600,000, respectively.

The amount recorded as due from component units of the discretely presented component units of \$-0- does not equal the corresponding due to component units of the discretely presented component units of \$698,219 due to an allowance for doubtful accounts recorded by the Marshalls Energy Company, Inc. and the RMI Ports Authority of \$598,219 and \$100,000, respectively.

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements  
September 30, 2005

(4) Interfund Receivables and Payables, Continued

Receivables and payables between funds reflected as due to/from primary government in the statement of net assets at September 30, 2005, are summarized as follows:

<u>Discretely Presented Component Units</u>	<u>Due From</u>	<u>Due To</u>
Kwajalein Atoll Joint Utilities Resources, Inc.:		
General Fund	\$ 175,000	\$ -
Marshall's Energy Company, Inc.:		
General Fund	231,137	-
Compact Sector Grants Fund	35,538	-
RMI Ports Authority:		
General Fund	-	73,957
Nonmajor component units:		
General Fund	694,399	650,207
Compact Sector Grants Fund	25,000	-
Nonmajor governmental funds	<u>-</u>	<u>1,600,000</u>
	<u>\$ 1,161,074</u>	<u>\$ 2,324,164</u>

The amount recorded as due from primary government of the discretely presented component units of \$1,161,074 does not equal the corresponding due to component units of the primary government of \$1,974,507 due to an allowance for doubtful accounts of \$348,811 recorded by the RMI Ports Authority and \$464,622 recorded by the nonmajor component units.

(5) Fixed Assets

Capital asset activities for the year ended September 30, 2005, are as follows:

	Balance October 1, 2004	Additions	Retirements	Balance September 30, 2005
Primary Government Governmental Activities:				
Electrical distribution	\$ 27,216,665	\$ -	\$ -	\$ 27,216,665
Office equipment	11,261,404	425,070	-	11,686,474
Buildings	9,409,823	465,435	-	9,875,258
Water infrastructure system	9,110,478	-	-	9,110,478
Roads and bridges	5,467,525	-	-	5,467,525
Ships	5,006,858	2,641,889	-	7,648,747
Other equipment	7,062,514	1,657,814	-	8,720,328
Heavy equipment	2,783,839	-	-	2,783,839
Motor vehicles	4,791,603	329,216	-	5,120,819
	<u>82,110,709</u>	<u>5,519,424</u>	<u>-</u>	<u>87,630,133</u>
Less accumulated depreciation	<u>(57,535,804)</u>	<u>(5,174,571)</u>	<u>-</u>	<u>(62,710,375)</u>
	24,574,905	344,853	-	24,919,758
Construction in progress	<u>3,952,792</u>	<u>5,006,750</u>	<u>-</u>	<u>8,959,542</u>
	<u>\$ 28,527,697</u>	<u>\$ 5,351,603</u>	<u>\$ -</u>	<u>\$ 33,879,300</u>

Depreciation expense of \$5,174,571 has not been allocated by function due to the unavailability of capital asset information segregated by function.

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements  
September 30, 2005

(5) Fixed Assets, Continued

Discretely Presented Component Units:	Balance October <u>1, 2004</u>	<u>Additions</u>	<u>Retirements</u>	Balance September <u>30, 2005</u>
Telecom plant facilities	\$ 30,104,755	\$ 899,208	\$ (1,570,676)	\$ 29,433,287
Building and leasehold Improvements	20,275,031	371,705	(133,709)	20,513,027
Power plant facilities	25,884,096	-	-	25,884,096
Machinery and equipment	16,512,964	2,101,542	(473,329)	18,141,177
Aircraft	8,581,392	-	-	8,581,392
Airport facilities	18,841,778	-	-	18,841,778
	120,200,016	3,372,455	(2,177,714)	121,394,757
Less accumulated depreciation	<u>(65,587,605)</u>	<u>(8,831,666)</u>	<u>2,103,427</u>	<u>(72,315,844)</u>
	54,612,411	(5,459,211)	(74,287)	49,078,913
Construction in progress	<u>3,902,923</u>	<u>903,548</u>	<u>(55,080)</u>	<u>4,751,391</u>
	<u>\$ 58,515,334</u>	<u>\$ (4,555,663)</u>	<u>\$ (129,367)</u>	<u>\$ 53,830,304</u>

(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, 2005, 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. \$ 3,237,783

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. 482,693

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. 7,569,729

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. 692,865

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements  
September 30, 2005

(6) Long-term Obligations, Continued

Primary Government, Continued

A. Asian Development Bank (ADB) Loans, Continued

Loan Number 1316 RMI (SF) - Health and Population Project Loan (SDR 3,858,516), non-interest bearing with a service charge of 1% per annum on the amount of the loan withdrawn from the Loan Account. Semiannual loan payments commence January 1, 2005 in an amount of SDR 39,100, increasing to SDR 78,200 on January 1, 2015. 5,122,633

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

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. 4,923,345

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, 2005), 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. 3,815,700

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

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements  
September 30, 2005

(6) Long-term Obligations, Continued

Primary Government, Continued

A. Asian Development Bank (ADB) Loans, Continued

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.

350,966

\$ 63,132,445

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>
2006	\$ 728,005	\$ 817,906	\$ 1,545,911
2007	861,720	799,578	1,661,298
2008	1,487,687	776,992	2,264,679
2009	1,645,792	748,687	2,394,479
2010	2,331,163	756,080	3,087,243
2011 – 2015	13,432,870	3,173,695	16,606,565
2016 – 2020	14,317,490	1,933,467	16,250,957
2021 – 2025	13,982,153	1,115,131	15,097,284
2026 – 2030	7,679,649	540,421	8,220,070
2031 – 2035	5,987,218	184,310	6,171,528
2036 – 2037	678,698	6,801	685,499
	<u>\$ 63,132,445</u>	<u>\$ 10,853,068</u>	<u>\$ 73,985,513</u>

Other long-term liabilities will be liquidated in the future from governmental funds. During the year ended September 30, 2005, the following changes occurred in liabilities reported as part of the primary government's long-term liabilities in the statement of net assets:

	<u>Balance October 1, 2004</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance September 30, 2005</u>	<u>Due Within One Year</u>
Loans payable:					
ADB loans	\$ 62,628,879	\$ 1,041,041	\$ (537,475)	\$ 63,132,445	\$ 728,005
PRC loan	1,900,000	-	(1,900,000)	-	-
	<u>64,528,879</u>	<u>1,041,041</u>	<u>(2,437,475)</u>	<u>63,132,445</u>	<u>728,005</u>
Other:					
Compensated absences	2,709,558	1,347,886	(1,491,728)	2,565,716	1,091,841
	<u>\$ 67,238,437</u>	<u>\$ 2,388,927</u>	<u>\$ (3,929,203)</u>	<u>\$ 65,698,161</u>	<u>\$ 1,819,846</u>

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements  
September 30, 2005

(6) Long-term Obligations, Continued

Primary Government, Continued

During the year ended September 30, 2005, the Cabinet of RepMar determined that repayment of the loan payable in the amount of \$1,900,000 to the People's Republic of China (PRC) was no longer required due to the severing of diplomatic relationships with the PRC in favor of the Republic of China. Accordingly, RepMar recorded the reduction in loans payable as a special item within the accompanying statement of activities.

Discretely Presented Component Units

As of September 30, 2005, 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, 2005. \$ 9,415,887

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. 3,840,000

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. 15,588,721

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. 26,992

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements  
September 30, 2005

(6) Long-term Obligations, Continued

Discretely Presented Component Units, Continued

Air Marshall Islands, Inc (AMI).

Bank credit line of \$1,000,000, due September 30, 2006, payable in monthly installments, interest at 7.5%, collateralized by a time certificate of deposit of the Marshall Islands Development Bank. 767,415

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% (10% at September 30, 2005), collateralized by a general security agreement over all assets of TCPPI and a guarantee from RepMar. 800,000

\$ 30,439,015

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

<u>Year ending September 30,</u>	<u>Principal</u>	<u>Interest and Service Charge</u>	<u>Total</u>
2006	\$ 3,256,023	\$ 1,525,671	\$ 4,781,694
2007	1,738,386	1,443,457	3,181,843
2008	1,952,544	1,452,883	3,405,427
2009	1,898,739	1,227,823	3,126,562
2010	1,853,099	1,322,141	3,175,240
2011 - 2015	8,975,483	3,955,021	12,930,504
2016 - 2020	6,246,882	1,837,420	8,084,302
2021 - 2025	4,388,153	540,300	4,928,453
2026 - 2027	<u>129,706</u>	<u>4,821</u>	<u>134,527</u>
	<u>\$ 30,439,015</u>	<u>\$ 13,309,537</u>	<u>\$ 43,748,552</u>

Changes in long-term liabilities of discretely presented component units for the year ended September 30, 2005, are as follows:

	<u>Balance October 1, 2004</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance September 30, 2005</u>	<u>Due Within One Year</u>
Loans payable:					
MEC	\$ 9,781,020	\$ -	\$ (365,133)	\$ 9,415,887	\$ 511,970
MIDB	4,090,000	150,000	(400,000)	3,840,000	400,000
MINTA	16,294,760	-	(706,039)	15,588,721	749,646
RMIPA	60,947	-	(33,955)	26,992	26,992
AMI	-	767,415	-	767,415	767,415
TCPPI	<u>650,000</u>	<u>800,000</u>	<u>(650,000)</u>	<u>800,000</u>	<u>800,000</u>
	<u>30,876,727</u>	<u>1,717,415</u>	<u>(2,155,127)</u>	<u>30,439,015</u>	<u>3,256,023</u>
Other	<u>8,040,679</u>	<u>2,000,000</u>	<u>(329,982)</u>	<u>9,710,697</u>	<u>593,843</u>
	<u>\$ 38,917,406</u>	<u>\$ 3,717,415</u>	<u>\$ (2,485,109)</u>	<u>\$ 40,149,712</u>	<u>\$ 3,849,866</u>

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements  
September 30, 2005

(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, 2005, are as follows:

<u>Source</u>	<u>Recipient</u>	<u>Transfers Out</u>	<u>Transfers In</u>
<u>Major Governmental Funds</u>			
General	Compact Sector Grants	\$ 674,287	\$ 674,287
General	Intergenerational Trust	316,635	316,635
Nonmajor governmental funds	Intergenerational Trust	-	7,588,500
Intergenerational Trust	Compact Trust	33,861,929	33,861,929
General	Nonmajor governmental funds	1,537,081	-
U.S. Federal Grants	Nonmajor governmental funds	493,000	-
Compact Sector Grants	Nonmajor governmental funds	<u>1,882,945</u>	<u>-</u>
		<u>38,765,877</u>	<u>42,441,351</u>
<u>Nonmajor Governmental Funds</u>			
General	Nonmajor governmental funds	-	1,537,081
U.S. Federal Grants	Nonmajor governmental funds	-	493,000
Compact Sector Grants	Nonmajor governmental funds	-	1,025,371
Nonmajor governmental funds	Intergenerational Trust	7,588,500	-
Fiduciary Funds - Nuclear Claims Trust	Nonmajor governmental funds	-	2,187,728
Nonmajor governmental funds	Nonmajor governmental funds	<u>2,383,383</u>	<u>2,383,383</u>
		<u>9,971,883</u>	<u>7,626,563</u>
<u>Fiduciary Funds</u>			
Nuclear Claims Trust	Nuclear Claims Tribunal	<u>2,187,728</u>	<u>-</u>
		\$ <u>50,925,488</u>	\$ <u>50,067,914</u>

The difference between transfers out and the corresponding transfers in relates to timing differences with the inclusion of the financial statements of the Ministry of Education Head Start Program, a nonmajor governmental fund, with a year end of November 30, 2004. During the year ended September 30, 2005, the Compact Sector Grants Fund recorded a transfer out to the Ministry of Education Head Start Program in the amount of \$857,574.

Transfers are used to 1) move revenues from the fund that enabling legislation or budget requires to collect them to the fund that enabling legislation or budget requires to expend them, 2) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations, and 3) record reductions in interfund loans for amounts that are not expected to be repaid.

During the year ended September 30, 2005, RepMar made a one-time transfer of \$33,861,929 from the Intergenerational Trust Fund to the Compact Trust Fund representing the establishment of the Trust Fund in accordance with Section 216 of the Compact of Free Association.

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements  
September 30, 2005

(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, 2005 is \$7,328,889.

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 \$12,006,340 relating to fiscal years 2001 through 2005 have been set forth in RepMar's Single Audit Report for the year ended September 30, 2005, including \$9,113,222 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.

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, 2005, NCT received \$2,187,728 from the NCTF, which included funds to fund partial payment of monetary awards. As of September 30, 2005, NCT has committed to the distribution of monetary awards for personal injury claims of \$15,993,683 and of property damage claims of \$1,083,472,335, 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 \$3,211,831 as of September 30, 2005. 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, 2005

(8) Contingencies, Continued

Compact Trust Fund

Section 216(a) of the Compact, as amended, provides for contributions from the United States into a trust fund established in accordance with the Agreement Between the Government of the United States of America and the Government of the Republic of the Marshall Islands Implementing Section 216 and Section 217 of the Compact, as Amended, Regarding a Trust Fund (Trust Fund Agreement). The contributions by the United States are conditioned upon RepMar contributing to the trust fund at least \$25 million on October 1, 2003, \$2.5 million prior to October 1, 2004, and a final \$2.5 million prior to October 1, 2005. As of September 30, 2005, RepMar has contributed the required amounts. The Trust Fund Agreement required the establishment of the "Trust Fund for the People of the Republic of the Marshall Islands" by the United States in consultation with RepMar; however, the trust fund was not established until September 2005. Prior to the establishment of the trust fund, the contributions provided by the United States and RepMar were deposited into a cash management account within the Intergenerational Trust Fund.

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.

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 2005, RepMar appropriated \$866,677 to fund such leases.

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements  
September 30, 2005

(8) Contingencies, Continued

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, 2005:

- a) Guaranteed a bank debt of Tobolar Copra Processing Plant, Inc. (TCPPI) with a letter of guarantee. At September 30, 2005, TCPPI had guaranteed bank debt totaling \$800,000.
- 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, 2005, MINTA had guaranteed debt totaling \$15,588,721.
- 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, 2005, MEC had guaranteed debt totaling \$9,415,887.
- d) RepMar has entered into lease agreements with certain landowners for the use of land situated at the Majuro international airport. The terms of the lease agreements are for a 25-year period commencing September 1, 1996. Annual lease rental commitments are \$305,613 per year.
- f) RepMar has issued a letter of guarantee 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 1948 RMI (SF)) with the ADB for SDR 5,304,000 (approximates \$7,776,815 at September 30, 2005) for the Outer Island Transport Infrastructure Project. At September 30, 2005, RepMar had drawn down \$350,966 against this loan.
- h) In accordance with Cabinet Minute C.M. 121 (2003), the Cabinet of RepMar has issued a government guarantee in the amount of \$5,000,000 for a loan obtained by the Marshall Islands Development Bank. At September 30, 2005, MIDB had guaranteed debt totaling \$3,480,000.
- i) 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, 2005, no transfer in ownership has occurred.

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements  
September 30, 2005

(9) Commitments, Continued

- j) 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.
- k) 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.

(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, 2005, are as follows:

Major Governmental Funds

General Fund	\$ <u>5,079,447</u>
U.S. Federal Grants Fund	\$ <u>2,272</u>

Nonmajor Governmental Funds

Section 221(b) Education and Health Care Fund	\$ <u>4,280</u>
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Nonmajor Component Units

Majuro Water and Sewer Company, Inc.	\$ <u>625,296</u>
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REPUBLIC OF THE MARSHALL ISLANDS  
REQUIRED SUPPLEMENTARY INFORMATION  
YEAR ENDED SEPTEMBER 30, 2005

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Revenues, Expenditures and Changes in Deficit - Budget and Actual  
General Fund  
Year Ended September 30, 2005

	Budgeted Amounts		Actual - Budgetary Basis (see Note 1)	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues:				
Taxes	\$ 25,279,982	\$ 25,279,982	\$ 24,255,202	\$ (1,024,780)
Fishing rights	1,500,001	1,500,001	1,355,984	(144,017)
Fees and charges	467,583	467,583	506,176	38,593
Interest and dividends	1,182,350	1,182,350	70,926	(1,111,424)
Other	5,898,649	5,898,649	5,785,279	(113,370)
Total revenues	<u>34,328,565</u>	<u>34,328,565</u>	<u>31,973,567</u>	<u>(2,354,998)</u>
Expenditures:				
Current:				
General government:				
President and Cabinet	1,791,074	1,745,536	1,728,206	17,330
Office of the Chief Secretary	664,930	593,690	592,710	980
Special appropriations	9,020,268	8,795,618	9,838,277	(1,042,659)
Council of Iroij	409,147	424,779	425,104	(325)
Office of the Auditor-General	41,000	234,045	208,064	25,981
Public Service Commission	468,520	442,480	440,305	2,175
Office of the Attorney General	846,024	683,458	662,325	21,133
Ministries	16,997,228	17,145,476	18,097,483	(952,007)
Nitijela	1,686,890	1,694,931	1,679,025	15,906
Other	-	6,813	4,393	2,420
Total expenditures	<u>31,925,081</u>	<u>31,766,826</u>	<u>33,675,892</u>	<u>(1,909,066)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>2,403,484</u>	<u>2,561,739</u>	<u>(1,702,325)</u>	<u>(4,264,064)</u>
Other financing uses:				
Operating transfers out	<u>(2,403,484)</u>	<u>(2,706,462)</u>	<u>(2,528,003)</u>	<u>178,459</u>
Net change in deficit	-	(144,723)	(4,230,328)	(4,085,605)
Other changes in unreserved deficit:				
Decrease in reserve for related assets	-	-	1,601,603	1,601,603
Unreserved deficit at the beginning of the year	<u>(2,633,167)</u>	<u>(2,633,167)</u>	<u>(2,633,167)</u>	<u>-</u>
Unreserved deficit at the end of the year	<u>\$ (2,633,167)</u>	<u>\$ (2,777,890)</u>	<u>\$ (5,261,892)</u>	<u>\$ (2,484,002)</u>

See accompanying notes to required supplementary information - budgetary reporting.

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Required Supplementary Information - Budgetary Reporting  
September 30, 2005

(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 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, 2005, expenditures of the General Fund exceeded the budget at the program area level (i.e., the legal level of budgetary control) as follows:

<u>Program Area</u>	<u>Excess</u>
Government electric bills - Ebeye	\$ 992
Land leases	\$ 8,142
ADB Loan Repayment	\$ 678,314
Sport and Youth Development	\$ 1,966
Air Marshall Islands, Inc. subsidy	\$ 400,000
Council of Iroij	\$ 325
Ministry of Resources and Development	\$ 1,262,657
Ministry of Internal Affairs	\$ 166,326
Ministry of Finance	\$ 23,055
Ministry of Foreign Affairs and Trade	\$ 112,148
Infrastructure Maintenance (Compact matching)	\$ 6,711
Transportation Services Fund	\$ 48,124
Section 213 Audit Fund	\$ 108,927
Section 211 Compact Capital Account Fund	\$ 16,300
Other Capital Projects Fund	\$ 18,080
Postal Services Fund	\$ 11,968

REPUBLIC OF THE MARSHALL ISLANDS  
OTHER SUPPLEMENTARY INFORMATION  
YEAR ENDED SEPTEMBER 30, 2005

REPUBLIC OF THE MARSHALL ISLANDS

Combining Schedule of Expenditures by Account  
Governmental Funds  
Year Ended September 30, 2005

	Special Revenue			Permanent		Other Governmental Funds	Total
	General	U.S Federal Grants	Compact Sector	Compact Trust	Inter- generational Trust		
Expenditures:							
Salaries and wages	\$ 13,985,161	\$ 1,943,933	\$ 13,200,425	\$ -	\$ -	\$ 4,094,104	\$ 33,223,623
Grants and subsidies	5,371,188	994,526	2,452,744	-	-	5,628,192	14,446,650
Capital outlay	696,885	397,381	5,878,869	-	-	4,049,181	11,022,316
Medical supplies	19,658	-	92,642	-	-	5,166,313	5,278,613
Contractual services	596,322	1,953,828	473,679	-	-	2,106,947	5,130,776
Travel	1,448,365	1,273,119	442,292	-	-	575,883	3,739,659
Utilities	1,503,055	-	803,424	-	-	140,311	2,446,790
Supplies and materials	656,094	440,716	603,968	-	-	288,508	1,989,286
Leased housing	678,797	7,478	684,558	-	-	55,786	1,426,619
Rentals	1,088,584	3,208	71,035	-	-	136,480	1,299,307
Interest	931,698	-	-	-	-	-	931,698
POL	445,408	20,670	76,853	-	-	406,932	949,863
Food stuffs	533,957	111	312,912	-	-	471,818	1,318,798
Allowances	735,513	513	-	-	-	-	736,026
Communications	470,138	17,777	83,768	-	-	109,283	680,966
Professional services	418,411	21,936	105,262	-	-	89,447	635,056
Principal repayment	537,475	-	-	-	-	-	537,475
Freight	69,560	34,861	40,573	-	-	91,780	236,774
Insurance	89,580	-	2,878	-	-	23,637	116,095
Construction	139,011	-	-	-	-	-	139,011
Printing and reproduction	91,427	5,149	23,198	-	-	1,546	121,320
Other	3,059,555	573,905	705,165	-	14,996,294	1,656,068	20,990,987
	<u>\$ 33,565,842</u>	<u>\$ 7,689,111</u>	<u>\$ 26,054,245</u>	<u>\$ -</u>	<u>\$ 14,996,294</u>	<u>\$ 25,092,216</u>	<u>\$ 107,397,708</u>

See Accompanying Independent Auditors' Report.

REPUBLIC OF THE MARSHALL ISLANDS  
GENERAL FUND

September 30, 2005

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, 2005  
(with comparative totals for the year ended September 30, 2004)

	2005	2004
Revenues:		
Taxes:		
Income	\$ 10,894,299	\$ 10,556,412
Import	7,767,872	6,215,588
Gross revenue	3,882,324	4,014,555
Fuel	1,061,877	464,932
Penalties and interest	98,736	117,968
Other	550,094	546,854
	<u>24,255,202</u>	<u>21,916,309</u>
Fishing rights	1,355,984	939,394
Fees and charges	506,176	470,377
Interest and dividends	70,926	115,725
Other:		
Taiwan grant	4,000,000	6,280,669
Ship registry	1,000,000	1,000,000
Contributions from component units	144,016	360,606
Other	641,263	521,810
	<u>5,785,279</u>	<u>8,163,085</u>
Total revenues	<u>31,973,567</u>	<u>31,604,890</u>
Expenditures:		
Current:		
General government:		
President and Cabinet:		
Office of the President	264,631	328,189
President and Ministers	566,579	578,776
Cabinet Operations	427,943	396,390
Customary Law Commission	114,169	118,649
RMI/USP Joint Secondary Education Project	167,160	222,886
National Band	129,779	-
	<u>1,670,261</u>	<u>1,644,890</u>
Office of the Chief Secretary:		
Administration	179,123	188,437
Deputy Chief Secretary - Ebeye	103,883	86,547
EPPSO	184,157	141,672
OEPPC	74,238	54,817
Disaster Office	51,309	53,909
	<u>592,710</u>	<u>525,382</u>
Special appropriations:		
Government electricity bills - Majuro	1,131,110	883,750
Government electricity bills - Ebeye	47,761	15,279
KAJUR subsidy - Ebeye	697,600	300,000
Land leases	874,819	954,720
Leased housing	224,039	89,282
Marshall Islands Visitors Authority	122,763	199,000
MWSC subsidy/water bills	99,400	98,676
International subscriptions/membership fees	274,363	411,424
Disaster matching	40,908	-
Prior year liabilities	587,772	507,219
Public works - Ebeye	103,206	350,000
Copra price stabilization subsidy	894,600	900,000
Local government representation	-	28,000
ADB loan repayment	1,572,914	1,568,974
Sport and Youth Development	100,997	-
Silver Anniversary Constitution Day	-	149,997
Legal services	99,400	100,000
Constitutional Convention	244,607	-
Rural Development Program	223,650	-
College of Marshall Islands	2,000,000	-
Air Marshall Islands	400,000	-
Contingencies fund	85,774	-
	<u>9,825,683</u>	<u>6,556,321</u>
Council of Iroj:		
Administration	86,469	90,680
Members	338,635	326,728
	<u>425,104</u>	<u>417,408</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:		
Nitijela:		
Operations	493,018	391,682
General membership	973,338	972,996
Speaker's contingency	123,122	71,393
Committee	43,562	58,894
Legislative counsel	43,946	49,052
	<u>1,676,986</u>	<u>1,544,017</u>
Office of the Auditor-General	207,514	273,787
Public Service Commission:		
Members	95,178	95,124
Administration	345,127	311,729
	<u>440,305</u>	<u>406,853</u>
Office of the Attorney General	662,325	639,056
Ministries:		
Ministry of Education	1,182,959	2,337,268
Ministry of Health and Environment	2,250,284	1,610,049
Ministry of Transportation and Communication	2,512,326	2,342,998
Ministry of Resources and Development	1,823,243	681,675
Ministry of Internal Affairs	1,902,583	2,210,422
Ministry of Justice	2,668,335	2,406,106
Ministry of Finance	2,009,213	1,567,781
Ministry of Foreign Affairs and Trade	2,543,809	2,874,579
Ministry of Public Works	1,167,809	1,177,306
	<u>18,060,561</u>	<u>17,208,184</u>
Total general government	<u>33,561,449</u>	<u>29,215,898</u>
Other:		
Other	4,393	18,091
Total other	<u>4,393</u>	<u>18,091</u>
Total expenditures	<u>33,565,842</u>	<u>29,233,989</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(1,592,275)</u>	<u>2,370,901</u>
Other financing uses:		
Operating transfers out:		
Infrastructure Maintenance (Compact Matching)	674,287	700,000
Transportation Services Fund	48,124	-
Section 213 Audit Fund	108,927	-
Section 211 Compact Capital Account Fund	16,300	-
Other Capital Projects Fund	18,080	-
Judiciary Fund	908,992	901,450
Intergenerational Trust Fund	316,635	-
National Environmental Protection Authority	-	32,368
Postal Services Fund	42,418	24,200
Local Government Fund	394,240	-
Total other financing uses	<u>2,528,003</u>	<u>1,658,018</u>
Net change in deficit	(4,120,278)	712,883
Deficit at the beginning of the year	(959,169)	(1,672,052)
Deficit at the end of the year	<u>\$ (5,079,447)</u>	<u>\$ (959,169)</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, 2005

	Budgeted Amounts		Actual - Budgetary Basis	Variance
	Original	Final		
<b>Revenues:</b>				
<b>Taxes:</b>				
Income	\$ 12,168,318	\$ 12,168,318	\$ 10,894,299	\$ (1,274,019)
Import	8,523,770	8,523,770	7,767,872	(755,898)
Gross revenue	3,611,022	3,611,022	3,882,324	271,302
Fuel	415,000	415,000	1,061,877	646,877
Penalties and interest	134,703	134,703	98,736	(35,967)
Other	427,169	427,169	550,094	122,925
	<u>25,279,982</u>	<u>25,279,982</u>	<u>24,255,202</u>	<u>(1,024,780)</u>
Fishing rights	1,500,001	1,500,001	1,355,984	(144,017)
Fees and charges	467,583	467,583	506,176	38,593
Interest and dividends	1,182,350	1,182,350	70,926	(1,111,424)
Taiwan grant	4,000,000	4,000,000	4,000,000	-
Ship registry	1,000,000	1,000,000	1,000,000	-
Contributions from component units	-	-	144,016	144,016
Other	898,649	898,649	641,263	(257,386)
	<u>5,898,649</u>	<u>5,898,649</u>	<u>5,785,279</u>	<u>(113,370)</u>
<b>Total revenues</b>	<u>34,328,565</u>	<u>34,328,565</u>	<u>31,973,567</u>	<u>(2,354,998)</u>
<b>Expenditures:</b>				
<b>Current:</b>				
<b>General government:</b>				
<b>President and Cabinet:</b>				
Office of the President	249,116	273,566	266,856	6,710
President and Ministers	577,925	568,584	566,579	2,005
Cabinet Operations	442,051	434,074	427,943	6,131
Customary Law Commission	155,000	116,652	114,169	2,483
RMI/USP Joint Secondary Education Project	224,000	222,880	222,880	-
National Band	142,982	129,780	129,779	1
	<u>1,791,074</u>	<u>1,745,536</u>	<u>1,728,206</u>	<u>17,330</u>
<b>Office of the Chief Secretary:</b>				
Administration	216,430	178,728	179,123	(395)
Deputy Chief Secretary - Ebeye	98,500	100,992	103,883	(2,891)
EPPSO	232,000	190,890	184,157	6,733
OEPPC	70,000	71,767	74,238	(2,471)
Disaster Office	48,000	51,313	51,309	4
	<u>664,930</u>	<u>593,690</u>	<u>592,710</u>	<u>980</u>
<b>Special appropriations:</b>				
Government electricity bills - Majuro	940,000	1,131,111	1,131,110	1
Government electricity bills - Ebeye	53,000	46,769	47,761	(992)
KAJUR subsidy - Ebeye	400,000	697,600	697,600	-
Land leases	1,000,000	866,677	874,819	(8,142)
Leased housing	301,250	233,686	224,039	9,647
Marshall Islands Visitors Authority	123,504	122,763	122,763	-
MWSC subsidy/water bills	100,000	99,400	99,400	-
International subscriptions/membership fees	277,514	286,957	286,957	-
Disaster matching	200,000	40,907	40,908	(1)
Prior year liabilities	600,000	622,288	587,772	34,516
Public works - Ebeye	100,000	103,206	103,206	-
Copra price stabilization subsidy	900,000	894,600	894,600	-
ADB loan repayment	900,000	894,600	1,572,914	(678,314)
Sport and Youth Development	100,000	99,031	100,997	(1,966)
Legal services	100,000	99,400	99,400	-
Constitutional Convention	500,000	244,607	244,607	-
Rural Development Program	225,000	223,650	223,650	-
College of Marshall Islands	2,000,000	2,000,000	2,000,000	-
Air Marshall Islands	-	-	400,000	(400,000)
Contingencies fund	200,000	88,366	85,774	2,592
	<u>9,020,268</u>	<u>8,795,618</u>	<u>9,838,277</u>	<u>(1,042,659)</u>
<b>Council of Iroij:</b>				
Administration	83,043	85,392	86,469	(1,077)
Members	326,104	339,387	338,635	752
	<u>409,147</u>	<u>424,779</u>	<u>425,104</u>	<u>(325)</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, 2005

	Budgeted Amounts		Actual - Budgetary Basis	Variance
	Original	Final		
Expenditures, continued:				
Current, continued:				
General government, continued:				
Office of the Auditor-General	41,000	234,045	208,064	25,981
Public Service Commission:				
Members	93,813	94,830	95,178	(348)
Administration	374,707	347,650	345,127	2,523
	468,520	442,480	440,305	2,175
Office of the Attorney General	846,024	683,458	662,325	21,133
Ministries:				
Ministry of Education	1,870,160	1,518,705	1,185,509	333,196
Ministry of Health and Environment	2,226,839	2,374,094	2,253,687	120,407
Ministry of Transportation and Communication	2,547,873	2,615,670	2,512,326	103,344
Ministry of Resources and Development	591,838	567,028	1,829,685	(1,262,657)
Ministry of Internal Affairs	1,758,028	1,745,067	1,911,393	(166,326)
Ministry of Justice	2,631,745	2,671,777	2,668,507	3,270
Ministry of Finance	1,665,151	2,000,631	2,023,686	(23,055)
Ministry of Foreign Affairs and Trade	2,477,577	2,432,733	2,544,881	(112,148)
Ministry of Public Works	1,228,017	1,219,771	1,167,809	51,962
	16,997,228	17,145,476	18,097,483	(952,007)
Nitijela:				
Operations	524,828	508,483	493,608	14,875
General Membership	976,755	976,766	973,338	3,428
Speaker's Contingency	69,879	119,844	124,167	(4,323)
Committee	56,275	45,919	43,966	1,953
Legislative Counsel	59,153	43,919	43,946	(27)
	1,686,890	1,694,931	1,679,025	15,906
Total general government	31,925,081	31,760,013	33,671,499	(1,911,486)
Other:				
Other	-	6,813	4,393	2,420
Total expenditures	31,925,081	31,766,826	33,675,892	(1,909,066)
Excess of revenues over expenditures	2,403,484	2,561,739	(1,702,325)	(4,264,064)
Other financing uses:				
Operating transfers out:				
Infrastructure Maintenance (Compact Matching)	669,288	667,576	674,287	(6,711)
Transportation Services Fund	-	-	48,124	(48,124)
Section 213 Audit Fund	-	-	108,927	(108,927)
Section 211 Compact Capital Account Fund	-	-	16,300	(16,300)
Other Capital Projects Fund	-	-	18,080	(18,080)
Judiciary Fund	914,479	908,992	908,992	-
Intergenerational Trust Fund	-	316,640	316,635	5
Postal Services Fund	30,450	30,450	42,418	(11,968)
Local Government Fund	789,267	782,804	394,240	388,564
Total other financing uses	2,403,484	2,706,462	2,528,003	178,459
Net change in deficit	-	(144,723)	(4,230,328)	(4,085,605)
Other changes in unreserved deficit:				
Decrease in reserve for related assets	-	-	1,601,603	1,601,603
Unreserved deficit at the beginning of the year	(2,633,167)	(2,633,167)	(2,633,167)	-
Unreserved deficit at the end of the year	\$ (2,633,167)	\$ (2,777,890)	\$ (5,261,892)	\$ (2,484,002)

See Accompanying Independent Auditors' Report.

REPUBLIC OF THE MARSHALL ISLANDS

Combined Balance Sheet  
 Nonmajor Governmental Funds  
 September 30, 2005  
 (with comparative totals as of September 30, 2004)

	Other		Totals	
	Special Revenue	Capital Projects	2005	2004
<b>ASSETS</b>				
Cash and cash equivalents	\$ 3,259,843	\$ -	\$ 3,259,843	\$ 2,995,123
Time certificates of deposit	418,819	-	418,819	-
Investments	-	318,630	318,630	318,630
Receivables, net:				
Taxes	35,105	-	35,105	873,866
Federal agencies	709,539	-	709,539	96,845
General	1,191,765	-	1,191,765	-
Other	378,720	-	378,720	2,992,278
Due from other funds	3,410,487	472,253	3,882,740	3,303,361
Advances	38,337	-	38,337	285,539
Restricted assets:				
Cash and cash equivalents	-	71,024	71,024	375,000
Total assets	<u>\$ 9,442,615</u>	<u>\$ 861,907</u>	<u>\$ 10,304,522</u>	<u>\$ 11,240,642</u>
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities:				
Accounts payable	\$ 1,117,111	\$ -	\$ 1,117,111	\$ 652,720
Other liabilities and accruals	727,120	-	727,120	774,361
Deferred revenue	426,004	-	426,004	-
Due to component units	-	-	-	42,880
Due to other funds	1,331,551	-	1,331,551	1,593,596
Total liabilities	<u>3,601,786</u>	<u>-</u>	<u>3,601,786</u>	<u>3,063,557</u>
Fund balances:				
Reserved for:				
Related assets	-	389,654	389,654	1,165,883
Encumbrances	1,038,693	2,692	1,041,385	642,854
Unreserved:				
Special revenue funds	4,802,136	-	4,802,136	6,388,845
Capital projects funds	-	469,561	469,561	(20,497)
Total fund balances	<u>5,840,829</u>	<u>861,907</u>	<u>6,702,736</u>	<u>8,177,085</u>
Total liabilities and fund balances	<u>\$ 9,442,615</u>	<u>\$ 861,907</u>	<u>\$ 10,304,522</u>	<u>\$ 11,240,642</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, 2005  
(with comparative totals for the year ended September 30, 2004)

	Other	Other	Totals	
	Special Revenue	Capital Projects	2005	2004
<b>Revenues:</b>				
Compact funding	\$ 7,697,427	\$ -	\$ 7,697,427	\$ 7,000,000
Federal and other grants	10,319,165	-	10,319,165	8,475,966
Fees and charges	7,147,783	-	7,147,783	7,288,844
Sales	187,440	-	187,440	255,809
Other	177,408	-	177,408	579,502
<b>Total revenues</b>	<b>25,529,223</b>	<b>-</b>	<b>25,529,223</b>	<b>23,600,121</b>
<b>Expenditures by Function:</b>				
<b>Current:</b>				
<b>General government:</b>				
President and Cabinet	50,000	-	50,000	239,832
Office of the Chief Secretary	168,476	-	168,476	476,081
Special appropriations	472,419	-	472,419	31,465
Council of Iroij	2,487	-	2,487	-
Nitijela	16,000	-	16,000	-
Office of the Auditor-General	217,854	-	217,854	-
Public Service Commission	10,523	-	10,523	94,476
Judiciary	768,711	-	768,711	792,072
Office of the Attorney-General	12,989	-	12,989	76,848
Ministry of Education	4,929,512	1,013,250	5,942,762	7,071,415
Ministry of Health and Environment	6,102,459	-	6,102,459	6,544,225
Ministry of Transportation and Communication	3,812,294	798,343	4,610,637	-
Ministry of Resources and Development	425,006	-	425,006	2,453,249
Ministry of Internal Affairs	1,006,103	-	1,006,103	-
Ministry of Justice	561,114	-	561,114	191,193
Ministry of Finance	821,741	-	821,741	1,140,747
Ministry of Foreign Affairs and Trade	66,112	-	66,112	785,241
Ministry of Public Works	704,197	-	704,197	853,577
Environmental Protection Authority	1,295	-	1,295	19,182
Nuclear claims related	3,131,331	-	3,131,331	1,017,525
<b>Capital outlay:</b>				32,470
Capital projects	-	-	-	4,557,953
<b>Total expenditures</b>	<b>23,280,623</b>	<b>1,811,593</b>	<b>25,092,216</b>	<b>26,377,551</b>
<b>Excess (deficiency) of revenues over (under) expenditures</b>	<b>2,248,600</b>	<b>(1,811,593)</b>	<b>437,007</b>	<b>(2,777,430)</b>
<b>Other financing sources (uses):</b>				
Loan proceeds	-	1,041,041	1,041,041	2,260,756
Operating transfers in	7,592,183	34,380	7,626,563	8,719,762
Operating transfers out	(9,971,883)	-	(9,971,883)	(9,732,899)
<b>Total other financing sources (uses), net</b>	<b>(2,379,700)</b>	<b>1,075,421</b>	<b>(1,304,279)</b>	<b>1,247,619</b>
<b>Net change in fund balances</b>	<b>(131,100)</b>	<b>(736,172)</b>	<b>(867,272)</b>	<b>(1,529,811)</b>
Fund balances at the beginning of the year	5,971,929	1,598,079	7,570,008	9,706,896
Fund balances at the end of the year	\$ 5,840,829	\$ 861,907	\$ 6,702,736	\$ 8,177,085

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, 2005  
(with comparative totals for the year ended September 30, 2004)

	Other	Other	Totals	
	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>2005</u>	<u>2004</u>
Revenues:				
Compact funding	\$ 7,697,427	\$ -	\$ 7,697,427	\$ 7,000,000
Federal and other grants	10,319,165	-	10,319,165	8,475,966
Fees and charges	7,147,783	-	7,147,783	7,288,844
Sales	187,440	-	187,440	255,809
Other	177,408	-	177,408	579,502
Total revenues	<u>25,529,223</u>	<u>-</u>	<u>25,529,223</u>	<u>23,600,121</u>
Expenditures by Account:				
Grants and subsidies	5,178,192	450,000	5,628,192	6,712,605
Salaries and wages	4,094,104	-	4,094,104	4,340,478
Medical supplies	5,166,313	-	5,166,313	4,277,155
Contractual services	761,930	1,345,017	2,106,947	5,452,619
Capital outlay	4,032,605	16,576	4,049,181	2,330,599
Travel	575,883	-	575,883	737,383
Food stuffs	471,818	-	471,818	388,570
Supplies and materials	288,508	-	288,508	320,987
POL	406,932	-	406,932	247,857
Rentals	136,480	-	136,480	212,963
Communications	109,283	-	109,283	94,477
Insurance	23,637	-	23,637	97,529
Utilities	140,311	-	140,311	89,796
Leased housing	55,786	-	55,786	65,239
Freight	91,780	-	91,780	51,040
Professional services	89,447	-	89,447	50,064
Printing and reproduction	1,546	-	1,546	9,478
Other	1,656,068	-	1,656,068	898,712
Total expenditures	<u>23,280,623</u>	<u>1,811,593</u>	<u>25,092,216</u>	<u>26,377,551</u>
Excess (deficiency) of revenues over (under) expenditures	<u>2,248,600</u>	<u>(1,811,593)</u>	<u>437,007</u>	<u>(2,777,430)</u>
Other financing sources (uses):				
Loan proceeds	-	1,041,041	1,041,041	2,260,756
Operating transfers in	7,592,183	34,380	7,626,563	8,719,762
Operating transfers out	(9,971,883)	-	(9,971,883)	(9,732,899)
Total other financing sources (uses), net	<u>(2,379,700)</u>	<u>1,075,421</u>	<u>(1,304,279)</u>	<u>1,247,619</u>
Net change in fund balances	(131,100)	(736,172)	(867,272)	(1,529,811)
Fund balances at the beginning of the year	<u>5,971,929</u>	<u>1,598,079</u>	<u>7,570,008</u>	<u>9,706,896</u>
Fund balances at the end of the year	<u>\$ 5,840,829</u>	<u>\$ 861,907</u>	<u>\$ 6,702,736</u>	<u>\$ 8,177,085</u>

See Accompanying Independent Auditors' Report.

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

September 30, 2005

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, 2005, 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, 2005

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, 2005

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, 2005

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, 2005

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, 2005  
(with comparative totals as of September 30, 2004)**

ASSETS	Reimbursable	Public Works	Land Distribution Authority	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
Cash and cash equivalents	-	-	-	-	-	-	-	-	-	-	-	-	-
Time certificates of deposit	-	-	-	-	-	-	-	-	-	-	-	-	-
Receivables, net:													
Taxes	-	-	-	-	-	-	-	-	-	-	-	-	-
Federal agencies	203,513	-	-	-	-	-	-	-	-	35,105	-	-	-
General	-	-	-	-	-	-	-	-	-	-	-	-	-
Other	-	15,095	18,118	-	53,258	549,782	83,001	416	92,736	344,017	122	-	-
Due from other funds	3,682	-	-	380	1,200	1,131	6,713	-	-	-	-	-	-
Advances	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total assets</b>	<b>\$ 207,195</b>	<b>\$ 15,095</b>	<b>\$ 18,118</b>	<b>\$ 380</b>	<b>\$ 54,458</b>	<b>\$ 550,913</b>	<b>\$ 89,714</b>	<b>\$ 416</b>	<b>\$ 92,736</b>	<b>\$ 379,122</b>	<b>\$ 122</b>	<b>\$ -</b>	<b>\$ -</b>
<b>LIABILITIES AND FUND BALANCES</b>													
<b>(DEFICITS)</b>													
Liabilities:													
Accounts payable	334	400	-	-	-	6,676	1,728	-	-	-	-	-	-
Other liabilities and accruals	-	-	-	-	-	-	15,012	-	-	32,250	122	-	-
Deferred revenue	-	-	-	-	-	-	-	-	-	-	-	-	-
Due to component units	-	-	-	-	-	-	-	-	-	-	-	-	-
Due to other funds	181,060	-	-	380	-	-	-	-	-	-	-	-	-
<b>Total liabilities</b>	<b>181,394</b>	<b>400</b>	<b>-</b>	<b>380</b>	<b>-</b>	<b>6,676</b>	<b>16,740</b>	<b>-</b>	<b>-</b>	<b>32,250</b>	<b>122</b>	<b>-</b>	<b>-</b>
Fund balances (deficits):													
Reserved for:													
Encumbrances	7,894	-	-	-	-	8,151	8,839	-	-	4,948	-	-	-
Unreserved (deficit)	17,907	14,695	18,118	-	54,458	536,086	64,135	416	92,736	341,924	-	-	-
<b>Total fund balances (deficits)</b>	<b>25,801</b>	<b>14,695</b>	<b>18,118</b>	<b>-</b>	<b>54,458</b>	<b>544,237</b>	<b>72,974</b>	<b>416</b>	<b>92,736</b>	<b>346,872</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total liabilities and fund balances</b>	<b>\$ 207,195</b>	<b>\$ 15,095</b>	<b>\$ 18,118</b>	<b>\$ 380</b>	<b>\$ 54,458</b>	<b>\$ 550,913</b>	<b>\$ 89,714</b>	<b>\$ 416</b>	<b>\$ 92,736</b>	<b>\$ 379,122</b>	<b>\$ 122</b>	<b>\$ -</b>	<b>\$ -</b>

Continued

See Accompanying Independent Auditors' Report.

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

**Combining Balance Sheet, Continued  
September 30, 2005  
(with comparative totals as of September 30, 2004)**

	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) Communications	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	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Time certificates of deposit	-	-	-	-	-	-	-	-	-	-	-	-	-
Receivables, net:													
Taxes	-	-	-	-	-	-	-	-	-	-	-	-	-
Federal agencies	-	-	-	-	-	-	-	-	-	-	-	-	-
General	-	-	-	-	-	-	-	-	-	-	-	-	-
Other	-	-	977	-	-	-	-	-	-	-	12,598	-	-
Due from other funds	-	2,696	72,375	-	391	44,690	133,733	97,635	68,828	163,713	-	991	-
Advances	-	-	-	-	-	-	840	-	-	-	-	602	-
<b>Total assets</b>	<b>\$ -</b>	<b>\$ 2,696</b>	<b>\$ 72,375</b>	<b>\$ 977</b>	<b>\$ 391</b>	<b>\$ 44,690</b>	<b>\$ 134,573</b>	<b>\$ 97,635</b>	<b>\$ 68,828</b>	<b>\$ 163,713</b>	<b>\$ 12,598</b>	<b>\$ 1,593</b>	<b>\$ -</b>
<b>LIABILITIES AND FUND BALANCES (DEFICITS)</b>													
Liabilities:													
Accounts payable	\$ -	\$ 1,796	\$ 22,937	\$ -	\$ -	\$ 655	\$ -	\$ -	\$ -	\$ 103,333	\$ -	\$ -	\$ 308
Other liabilities and accruals	-	900	-	-	-	-	-	39,368	-	-	-	-	-
Deferred revenue	-	-	-	-	-	-	-	-	-	-	-	-	-
Due to component units	-	-	-	-	-	-	-	-	-	-	-	-	-
Due to other funds	-	-	-	977	-	-	-	-	-	-	11,908	-	3,972
<b>Total liabilities</b>	<b>\$ -</b>	<b>\$ 2,696</b>	<b>\$ 22,937</b>	<b>\$ 977</b>	<b>\$ -</b>	<b>\$ 655</b>	<b>\$ -</b>	<b>\$ 39,368</b>	<b>\$ -</b>	<b>\$ 103,333</b>	<b>\$ 11,908</b>	<b>\$ -</b>	<b>\$ 4,280</b>
Fund balances (deficits):													
Reserved for:													
Encumbrances	-	6,749	49,000	10,432	-	3,273	1,458	-	-	60,380	-	-	-
Unreserved (deficit)	-	(6,749)	438	(10,432)	391	40,762	133,115	58,267	68,828	-	690	1,593	(4,280)
<b>Total fund balances (deficits)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 49,438</b>	<b>\$ -</b>	<b>\$ 391</b>	<b>\$ 44,035</b>	<b>\$ 134,573</b>	<b>\$ 58,267</b>	<b>\$ 68,828</b>	<b>\$ 60,380</b>	<b>\$ 690</b>	<b>\$ 1,593</b>	<b>\$ (4,280)</b>
<b>Total liabilities and fund balances</b>	<b>\$ -</b>	<b>\$ 2,696</b>	<b>\$ 72,375</b>	<b>\$ 977</b>	<b>\$ 391</b>	<b>\$ 44,690</b>	<b>\$ 134,573</b>	<b>\$ 97,635</b>	<b>\$ 68,828</b>	<b>\$ 163,713</b>	<b>\$ 12,598</b>	<b>\$ 1,593</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)  
Year Ended September 30, 2005  
(with comparative totals for the year ended September 30, 2004)**

	Reimbursable	Public Works	Land Distribution Authority	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	361,335	-	-	-	-	-	-	-	-	-	-	-	-
Fees and charges	-	979	-	-	-	2,175	117,502	-	1,083	130,592	-	-	-
Sales	-	-	-	-	-	-	-	-	-	-	-	-	-
Other	89,293	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total revenues</b>	<b>450,628</b>	<b>979</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,175</b>	<b>117,502</b>	<b>-</b>	<b>1,083</b>	<b>130,592</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Expenditures by Function:</b>													
<b>Current:</b>													
General government:													
President and Cabinet	-	-	-	-	-	-	-	-	-	-	-	-	-
Office of the Chief Secretary	-	-	-	-	-	-	-	-	-	-	-	-	-
Special appropriations	-	-	-	-	-	-	-	-	-	-	-	-	-
Council of Iroij	-	-	-	-	-	-	-	-	-	-	-	-	-
Nitijela	-	-	-	-	-	-	-	-	-	-	-	-	-
Office of the Auditor-General	-	-	-	-	-	-	-	-	-	-	-	-	-
Public Service Commission	-	-	-	-	-	-	-	-	-	-	-	-	-
Judiciary	-	-	-	-	-	768,711	-	-	-	-	-	-	-
Attorney-General	12,989	-	-	-	-	-	-	-	-	-	-	-	-
Ministry of Education	-	-	-	-	-	-	-	-	-	6,460	-	-	-
Ministry of Health and Environment	-	-	-	-	-	-	-	-	-	-	-	-	-
Ministry of Transportation and Communication	-	-	-	-	-	-	-	-	-	-	-	-	-
Ministry of Resources and Development	2,727	-	-	-	-	-	-	-	-	-	-	-	-
Ministry of Internal Affairs	-	-	-	-	-	-	-	-	-	-	-	-	-
Ministry of Justice	-	-	-	-	-	-	126,377	-	-	-	-	-	-
Ministry of Finance	410,674	-	-	-	-	-	-	-	-	-	-	-	-
Ministry of Foreign Affairs and Trade	-	-	-	-	-	-	-	-	-	-	-	-	-
Ministry of Public Works	-	155	-	-	-	-	-	-	-	-	-	-	-
Environmental Protection Authority	-	-	-	-	-	-	-	-	1,295	-	-	-	-
Nuclear claims related	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total expenditures</b>	<b>426,390</b>	<b>155</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>768,711</b>	<b>126,377</b>	<b>-</b>	<b>1,295</b>	<b>6,460</b>	<b>-</b>	<b>-</b>	<b>-</b>
Excess (deficiency) of revenues over (under) expenditures	24,238	824	-	-	-	(766,536)	(8,875)	-	(212)	124,132	-	-	-
<b>Other financing sources (uses):</b>													
Operating transfers in	-	-	-	-	-	908,992	-	-	-	-	-	-	-
Operating transfers out	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total other financing sources (uses), net</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>908,992</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net change in fund balances (deficit)</b>	<b>24,238</b>	<b>824</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>142,456</b>	<b>(8,875)</b>	<b>-</b>	<b>(212)</b>	<b>124,132</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Fund balances (deficits) at the beginning 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>
<b>Fund balances (deficits) at the end of the year</b>	<b>25,801</b>	<b>14,695</b>	<b>18,118</b>	<b>-</b>	<b>54,458</b>	<b>544,237</b>	<b>72,974</b>	<b>416</b>	<b>92,736</b>	<b>346,872</b>	<b>-</b>	<b>-</b>	<b>-</b>

See Accompanying Independent Auditors' Report.

Continued

**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, 2005  
(with comparative totals for the year ended September 30, 2004)**

	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) Comm- nications	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	-	62,137	84,981	303,843	-	44,835	-	-	-	-	-	-	-
Sales	-	187,440	-	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-	-	-	-
Total revenues	-	249,577	84,981	303,843	-	44,835	-	-	-	-	-	-	-
Expenditures by Function:													
Current:													
General government:													
President and Cabinet	-	-	-	-	-	-	-	-	-	-	-	-	-
Office of the Chief Secretary	-	-	-	-	-	-	-	-	-	-	-	-	-
Special appropriations	-	-	-	-	-	-	-	-	-	-	-	-	-
Council of Iroij	-	-	-	-	-	-	-	-	-	-	-	-	-
Nitijela	-	-	-	-	-	-	-	-	-	-	-	-	-
Office of the Auditor-General	-	-	-	-	-	-	-	-	-	-	-	-	-
Public Service Commission	-	-	-	-	-	-	-	-	-	-	-	-	-
Judiciary	-	-	-	-	-	-	-	-	-	-	-	-	-
Attorney-General	-	-	-	-	-	-	-	-	-	-	-	-	-
Ministry of Education	-	-	-	-	-	-	-	-	-	-	-	-	-
Ministry of Health and Environment	-	-	-	-	-	-	-	-	-	-	-	-	-
Ministry of Transportation and Communication	-	-	-	347,670	-	-	-	-	-	758,185	-	-	-
Ministry of Resources and Development	-	-	-	-	-	-	-	-	-	-	-	-	-
Ministry of Internal Affairs	-	-	-	-	-	30,742	340,800	-	-	-	-	-	-
Ministry of Justice	-	-	39,437	-	-	-	-	-	-	-	-	-	-
Ministry of Finance	-	298,383	-	-	-	-	-	-	-	-	-	-	-
Ministry of Foreign Affairs and Trade	-	-	-	-	-	-	-	-	-	-	-	-	-
Ministry of Public Works	-	-	-	-	-	-	-	-	-	-	-	-	-
Environmental Protection Authority	-	-	-	-	-	-	-	-	-	-	-	-	-
Nuclear claims related	-	-	-	-	-	-	-	721,411	-	-	-	-	-
Total expenditures	-	298,383	39,437	347,670	-	30,742	340,800	721,411	-	758,185	-	-	-
Excess (deficiency) of revenues over (under) expenditures	-	(48,806)	45,544	(43,827)	-	14,093	(340,800)	(721,411)	-	(758,185)	-	-	-
Other financing sources (uses):													
Operating transfers in	-	42,418	-	48,124	-	-	394,240	493,000	-	-	-	-	-
Operating transfers out	-	-	-	-	-	-	-	-	-	-	-	-	-
Total other financing sources (uses), net	-	42,418	-	48,124	-	-	394,240	493,000	-	-	-	-	-
Net change in fund balances (deficit)	-	(6,388)	45,544	4,297	-	14,093	53,440	(228,411)	-	(758,185)	-	-	-
Fund balances (deficits) at the beginning 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)
Fund balances (deficits) at the end of the year	\$ -	\$ -	\$ 49,438	\$ -	\$ 391	\$ 44,035	\$ 134,573	\$ 58,267	\$ 68,828	\$ 60,380	\$ 690	\$ 1,593	\$ (4,280)

See Accompanying Independent Auditors' Report.

Continued

**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, 2005  
(with comparative totals for the year ended September 30, 2004)**

Section 213 Audit	Section 216 Trust	Other Direct Assistance	Republic of China Projects	Marshall Islands Scholarship, Grant and Loan Board	Health Care Revenue Fund	Marshall Islands Health Fund	Marshall Islands Health Fund	Nuclear Claims Tribunal	Totals		
									2005	2004	
\$	108,927	\$	\$	\$	\$	\$	\$	\$	7,697,427	\$	7,000,000
	-	292,076	6,170,922	22,000	145,914	3,326,918	-	-	10,319,165	\$	8,475,966
	-	-	-	-	194,275	6,205,381	-	-	7,147,783		7,288,844
	-	-	-	-	-	-	-	-	187,440		255,809
	-	-	-	934	85,669	-	-	1,512	177,408		579,502
	108,927	292,076	6,170,922	22,934	425,858	6,205,381	1,512	1,512	25,529,223		23,600,121
<b>Revenues:</b>											
<b>Expenditures by Function:</b>											
<b>Current:</b>											
	-	-	50,000	-	-	-	-	-	-	50,000	239,832
	-	137,271	31,205	-	-	-	-	-	-	168,476	321,898
	-	-	472,419	-	-	-	-	-	-	472,419	31,465
	-	-	16,000	-	-	-	-	-	-	2,487	-
	-	-	10,523	-	-	-	-	-	-	16,000	-
	217,854	-	-	-	-	-	-	-	-	217,854	94,476
	-	-	-	-	-	-	-	-	-	792,072	76,848
	-	-	527,581	1,111,546	-	3,283,925	-	-	4,929,512	5,107,016	5,107,016
	-	-	63,699	-	3,081,189	2,957,571	-	-	6,102,459	5,914,404	5,914,404
	-	-	2,706,439	-	-	-	-	-	3,812,294	1,450,625	1,450,625
	-	-	422,279	-	-	-	-	-	425,006	191,193	191,193
	-	-	634,561	-	-	-	-	-	1,006,103	1,140,747	1,140,747
	-	-	395,300	-	-	-	-	-	561,114	785,241	785,241
	-	-	112,684	-	-	-	-	-	821,741	853,577	853,577
	-	-	66,112	-	-	-	-	-	66,112	19,182	19,182
	-	-	704,042	-	-	-	-	-	704,197	1,017,525	1,017,525
	-	-	-	-	-	-	-	-	1,295	32,470	32,470
	217,854	137,271	6,215,331	1,111,546	3,081,189	2,957,571	2,409,920	2,409,920	3,131,331	4,557,953	
	(108,927)	154,805	(44,409)	(1,088,612)	(2,655,331)	3,247,810	(2,408,408)	(2,408,408)	23,280,623	22,626,524	
	108,927	-	-	988,836	2,419,918	(2,383,383)	-	-	2,248,600	979,597	
	-	-	-	988,836	-	(2,383,383)	-	-	7,592,183	8,719,762	
	108,927	-	-	988,836	2,419,918	(2,383,383)	-	-	(9,971,883)	(9,732,899)	
	-	-	-	-	-	-	-	-	(2,379,700)	(1,013,137)	
	-	154,805	(44,409)	(99,776)	(235,413)	864,427	(220,680)	(131,100)	(39,540)	(39,540)	
	-	(71,481)	91,271	194,663	1,773,995	882,923	525,236	5,971,929	6,618,546	6,618,546	
	-	83,324	46,862	94,887	1,538,582	1,747,350	304,556	5,840,829	6,579,006	6,579,006	
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$

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, 2005  
(with comparative totals for the year ended September 30, 2004)**

	Reimbursable	Public Works	Land Distribution Authority	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
Revenues:													
Compact funding	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Federal and other grants	361,335	-	-	-	-	-	-	-	-	-	-	-	-
Fees and charges	-	979	-	-	-	2,175	117,502	-	1,083	130,592	-	-	-
Sales	-	-	-	-	-	-	-	-	-	-	-	-	-
Other	89,293	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total revenues</b>	<b>450,628</b>	<b>979</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,175</b>	<b>117,502</b>	<b>-</b>	<b>1,083</b>	<b>130,592</b>	<b>-</b>	<b>-</b>	<b>-</b>
Expenditures by Account:													
Grants and subsidies	-	-	-	-	-	-	-	-	-	-	-	-	-
Salaries and wages	354,958	-	-	-	-	549,044	-	-	1,295	-	-	-	-
Medical supplies	-	-	-	-	-	-	-	-	-	-	-	-	-
Contractual services	-	-	-	-	-	4,010	-	-	-	-	-	-	-
Capital outlay	156	-	-	-	-	15,091	1,453	-	-	-	-	-	-
Travel	20,836	-	-	-	-	39,629	31,658	-	-	-	-	-	-
Food stuffs	282	-	-	-	-	2,450	998	-	-	-	-	-	-
Supplies and materials	6,742	-	-	-	-	19,392	19,588	-	-	68	-	-	-
POL	5,238	-	-	-	-	15,581	44,173	-	-	2,359	-	-	-
Rentals	401	-	-	-	-	1,995	3,128	-	-	378	-	-	-
Communications	1,283	-	-	-	-	16,075	13,068	-	-	-	-	-	-
Insurance	60	-	-	-	-	787	-	-	-	-	-	-	-
Utilities	29,506	-	-	-	-	5,705	-	-	-	-	-	-	-
Leased housing	-	-	-	-	-	55,500	-	-	-	-	-	-	-
Freight	386	-	-	-	-	-	90	-	-	-	-	-	-
Professional services	1,250	-	-	-	-	2,962	-	-	-	-	-	-	-
Printing and reproduction	-	-	-	-	-	1,209	204	-	-	-	-	-	-
Other	5,292	155	-	-	-	39,281	12,017	-	-	3,655	-	-	-
<b>Total expenditures</b>	<b>426,390</b>	<b>155</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>768,711</b>	<b>126,377</b>	<b>-</b>	<b>1,295</b>	<b>6,460</b>	<b>-</b>	<b>-</b>	<b>-</b>
Excess (deficiency) of revenues over (under) expenditures	24,238	824	-	-	-	(766,536)	(8,875)	-	(212)	124,132	-	-	-
Other financing sources (uses):													
Operating transfers in	-	-	-	-	-	908,992	-	-	-	-	-	-	-
Operating transfers out	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total other financing sources (uses), net</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>908,992</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Net change in fund balances (deficit)	24,238	824	-	-	-	142,456	(8,875)	-	(212)	124,132	-	-	-
Fund balances (deficits) at the beginning of the year	1,563	13,871	18,118	-	54,458	401,781	81,849	416	92,948	222,740	-	-	-
<b>Fund balances (deficits) at the end of the year</b>	<b>\$ 25,801</b>	<b>\$ 14,695</b>	<b>\$ 18,118</b>	<b>\$ -</b>	<b>\$ 54,458</b>	<b>\$ 544,237</b>	<b>\$ 72,974</b>	<b>\$ 416</b>	<b>\$ 92,736</b>	<b>\$ 346,872</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

Continued

See Accompanying Independent Auditors' Report.

**REPUBLIC OF THE MARSHALL ISLANDS  
NON-MAJOR GOVERNMENTAL FUNDS  
SPECIAL REVENUE FUNDS**

**Combining Statement of Revenues, Expenditures By Account,  
and Changes in Fund Balances (Deficits), Continued  
Year Ended September 30, 2005  
(with comparative totals for the year ended September 30, 2004)**

	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>Revenues:</b>													
Compact funding	-	-	-	-	-	-	-	-	-	-	-	-	-
Federal and other grants	-	-	-	-	-	-	-	-	-	-	-	-	-
Fees and charges	-	62,137	84,981	303,843	-	44,835	-	-	-	-	-	-	-
Sales	-	187,440	-	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total revenues</b>	-	<u>249,577</u>	<u>84,981</u>	<u>303,843</u>	-	<u>44,835</u>	-	-	-	-	-	-	-
<b>Expenditures by Account:</b>													
Grants and subsidies	-	-	-	-	-	-	340,975	-	-	758,185	-	-	-
Salaries and wages	-	233,527	-	-	-	-	-	-	-	-	-	-	-
Medical supplies	-	-	-	-	-	-	-	-	-	-	-	-	-
Contractual services	-	-	-	115,840	-	5,292	-	-	-	-	-	-	-
Capital outlay	-	13,440	-	-	-	-	(175)	-	-	-	-	-	-
Travel	-	-	22,937	3,400	-	-	-	-	-	-	-	-	-
Food stuffs	-	-	6,069	9,353	-	-	-	-	-	-	-	-	-
Supplies and materials	-	4,451	1,028	4,508	-	16,326	-	-	-	-	-	-	-
POL	-	5,555	147	230,890	-	6,124	-	-	-	-	-	-	-
Rentals	-	23,777	2,795	-	-	-	-	-	-	-	-	-	-
Communications	-	5,000	185	-	-	-	-	-	-	-	-	-	-
Insurance	-	610	-	-	-	-	-	-	-	-	-	-	-
Utilities	-	6,000	-	-	-	-	-	-	-	-	-	-	-
Leased housing	-	-	-	-	-	-	-	-	-	-	-	-	-
Freight	-	2,113	-	(13,178)	-	-	-	-	-	-	-	-	-
Professional services	-	-	-	-	-	-	-	-	-	-	-	-	-
Printing and reproduction	-	28	-	-	-	-	-	-	-	-	-	-	-
Other	-	3,882	2,876	257	-	3,000	-	721,411	-	-	-	-	-
<b>Total expenditures</b>	-	<u>298,383</u>	<u>39,437</u>	<u>347,670</u>	-	<u>30,742</u>	<u>340,800</u>	<u>721,411</u>	-	<u>758,185</u>	-	-	-
<b>Excess (deficiency) of revenues over (under) expenditures</b>	-	<u>(48,806)</u>	<u>45,544</u>	<u>(43,827)</u>	-	<u>14,093</u>	<u>(340,800)</u>	<u>(721,411)</u>	-	<u>(758,185)</u>	-	-	-
<b>Other financing sources (uses):</b>													
Operating transfers in	-	42,418	-	48,124	-	-	394,240	493,000	-	-	-	-	-
Operating transfers out	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total other financing sources (uses), net</b>	-	<u>42,418</u>	-	<u>48,124</u>	-	-	<u>394,240</u>	<u>493,000</u>	-	-	-	-	-
<b>Net change in fund balances (deficit)</b>	-	<u>(6,388)</u>	<u>45,544</u>	<u>4,297</u>	-	<u>14,093</u>	<u>53,440</u>	<u>(228,411)</u>	-	<u>(758,185)</u>	-	-	-
<b>Fund balances (deficits) at the beginning of the year</b>	-	<u>6,388</u>	<u>3,894</u>	<u>(4,297)</u>	<u>391</u>	<u>29,942</u>	<u>81,133</u>	<u>286,678</u>	<u>68,828</u>	<u>818,565</u>	<u>690</u>	<u>1,593</u>	<u>(4,280)</u>
<b>Fund balances (deficits) at the end of the year</b>	-	<u>-</u>	<u>49,438</u>	<u>-</u>	<u>391</u>	<u>44,035</u>	<u>134,573</u>	<u>58,267</u>	<u>68,828</u>	<u>60,380</u>	<u>690</u>	<u>1,593</u>	<u>(4,280)</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), Continued  
Year Ended September 30, 2005  
(with comparative totals for the year ended September 30, 2004)**

	Section 213 Audit	Section 216 Trust	Other Direct Assistance	Republic of China Projects	Marshall Islands Scholarship, Grant and Loan Board	Health Care Revenue Fund	Marshall Islands Health Fund	Ministry of Education Head Start Program	Nuclear Claims Tribunal	2005	2004
<b>Revenues:</b>											
Compact funding	\$ 108,927	\$ 7,588,500	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 7,697,427	\$ 7,000,000
Federal and other grants	-	-	292,076	6,170,922	22,000	145,914	-	3,326,918	-	10,319,165	8,475,966
Fees and charges	-	-	-	-	-	194,275	6,205,381	-	-	7,147,783	7,288,844
Sales	-	-	-	-	-	-	-	-	-	187,440	255,809
Other	-	-	-	-	934	85,669	-	-	1,512	177,408	579,502
<b>Total revenues</b>	<b>108,927</b>	<b>7,588,500</b>	<b>292,076</b>	<b>6,170,922</b>	<b>22,934</b>	<b>425,858</b>	<b>6,205,381</b>	<b>3,326,918</b>	<b>1,512</b>	<b>25,529,223</b>	<b>23,600,121</b>
<b>Expenditures by Account:</b>											
Grants and subsidies	-	-	-	1,419,790	1,075,586	-	-	-	1,583,656	5,178,192	5,712,605
Salaries and wages	-	-	33,374	418,642	-	24,794	27,989	1,990,767	459,714	4,094,104	4,340,478
Medical supplies	-	-	-	-	-	2,657,508	2,508,805	-	-	5,166,313	4,277,155
Contractual services	217,854	-	-	172,655	-	-	140,000	104,804	122,607	761,930	2,701,592
Capital outlay	-	-	15,811	3,776,374	-	20,289	95,673	59,362	-	4,032,605	2,350,599
Travel	-	-	8,729	138,087	7,775	70,653	-	94,265	-	575,883	737,383
Food snuffs	-	-	3,977	1,431	-	-	-	447,258	-	471,818	388,570
Supplies and materials	-	-	6,447	26,164	-	-	-	183,794	-	288,508	370,987
POL	-	-	1,209	76,864	-	-	-	18,792	-	406,932	247,857
Rentals	-	-	70	9,000	12,000	-	-	8,435	74,501	136,480	212,963
Communications	-	-	6,771	-	4,447	-	-	12,955	22,979	109,283	94,477
Insurance	-	-	-	-	-	-	-	22,180	-	23,637	97,529
Utilities	-	-	115	-	-	-	35,181	63,804	-	140,311	89,796
Leased housing	-	-	-	286	-	-	-	-	-	55,786	65,239
Freight	-	-	-	453	-	101,916	-	-	-	91,780	51,040
Professional services	-	-	26,552	-	-	58,683	-	-	-	89,447	50,064
Printing and reproduction	-	-	-	105	-	-	-	-	-	1,546	9,478
Other	-	-	34,216	175,480	11,738	147,346	123,403	277,509	94,550	1,656,068	896,712
<b>Total expenditures</b>	<b>217,854</b>	<b>-</b>	<b>137,271</b>	<b>6,215,331</b>	<b>1,111,546</b>	<b>3,081,189</b>	<b>2,957,571</b>	<b>3,283,925</b>	<b>2,409,920</b>	<b>23,280,623</b>	<b>22,626,524</b>
Excess (deficiency) of revenues over (under) expenditures	(108,927)	7,588,500	154,805	(44,409)	(1,088,612)	(2,655,331)	3,247,810	42,993	(2,408,408)	2,248,600	973,597
Other financing sources (uses):											
Operating transfers in	108,927	-	-	-	988,836	2,419,918	-	-	2,187,728	7,592,183	8,719,762
Operating transfers out	-	(7,588,500)	-	-	-	-	(2,383,383)	-	-	(9,971,883)	(9,732,899)
<b>Total other financing sources (uses), net</b>	<b>108,927</b>	<b>(7,588,500)</b>	<b>-</b>	<b>-</b>	<b>988,836</b>	<b>2,419,918</b>	<b>(2,383,383)</b>	<b>-</b>	<b>2,187,728</b>	<b>(2,379,700)</b>	<b>(1,013,137)</b>
<b>Net change in fund balances (deficit)</b>	<b>-</b>	<b>-</b>	<b>154,805</b>	<b>(44,409)</b>	<b>(99,776)</b>	<b>(235,413)</b>	<b>864,427</b>	<b>42,993</b>	<b>(220,680)</b>	<b>(131,100)</b>	<b>(39,540)</b>
Fund balances (deficits) at the beginning of the year	-	-	(71,481)	91,271	194,663	1,773,995	882,923	398,053	525,236	5,971,929	6,618,546
Fund balances (deficits) at the end of the year	\$ -	\$ -	\$ 83,324	\$ 46,862	\$ 94,887	\$ 1,538,582	\$ 1,747,350	\$ 441,046	\$ 304,556	\$ 5,840,829	\$ 6,579,006

See Accompanying Independent Auditors' Report.

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

September 30, 2005

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, 2005, 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, 2005  
(with comparative totals as of September 30, 2004)

	Section 211 Capital Account	Other Capital Projects	Section 111 Investment Development	MIDA	ADB Development Projects	Totals	
						2005	2004
<b>ASSETS</b>							
Investments	\$ -	\$ -	\$ -	\$ 318,630	\$ -	\$ 318,630	\$ 318,630
Due from other funds	-	-	472,253	-	-	472,253	929,249
Restricted assets:							
Cash and cash equivalents	-	-	-	-	71,024	71,024	375,000
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 472,253</u>	<u>\$ 318,630</u>	<u>\$ 71,024</u>	<u>\$ 861,907</u>	<u>\$ 1,622,879</u>
<b>LIABILITIES AND FUND BALANCES</b>							
<b>(DEFICITS)</b>							
Liabilities:							
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 6,720
Due to other funds	-	-	-	-	-	-	18,080
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>24,800</u>
Fund balances:							
Reserved for:							
Related assets	-	-	-	318,630	71,024	389,654	1,165,883
Encumbrances	2,692	-	-	-	-	2,692	452,693
Unreserved	<u>(2,692)</u>	<u>-</u>	<u>472,253</u>	<u>-</u>	<u>-</u>	<u>469,561</u>	<u>(20,497)</u>
Total fund balances	<u>-</u>	<u>-</u>	<u>472,253</u>	<u>318,630</u>	<u>71,024</u>	<u>861,907</u>	<u>1,598,079</u>
Total liabilities and fund balances	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 472,253</u>	<u>\$ 318,630</u>	<u>\$ 71,024</u>	<u>\$ 861,907</u>	<u>\$ 1,622,879</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, 2005  
(with comparative totals for the year ended September 30, 2004)

	Section 211 Capital Account	Other Capital Projects	Section 111 Investment Development	MIDA	ADB Development Projects	Totals	
						2005	2004
Expenditures by function:							
Office of the Chief Secretary	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 154,183
Ministry of Education	16,576	-	-	-	996,674	1,013,250	1,964,399
Ministry of Health and Environment	-	-	-	-	-	-	629,821
Ministry of Transportation and Communication	450,000	-	-	-	348,343	798,343	1,002,624
Total expenditures	466,576	-	-	-	1,345,017	1,811,593	3,751,027
Other financing sources:							
Loan proceeds	-	-	-	-	1,041,041	1,041,041	2,260,756
Operating transfers in	16,300	18,080	-	-	-	34,380	-
Other financing sources	16,300	18,080	-	-	1,041,041	1,075,421	2,260,756
Net change in fund balances (deficit)	(450,276)	18,080	-	-	(303,976)	(736,172)	(1,490,271)
Fund balances (deficit) at the beginning of the year	450,276	(18,080)	472,253	318,630	375,000	1,598,079	3,088,350
Fund balances at the end of the year	\$ -	\$ -	\$ 472,253	\$ 318,630	\$ 71,024	\$ 861,907	\$ 1,598,079

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, 2005  
(with comparative totals for the year ended September 30, 2004)

	Section 211 Capital Account	Other Capital Projects	Section 111 Investment Development	MIDA	ADB Development Projects	Totals	
						2005	2004
Expenditures by account:							
Contractual services	\$ -	\$ -	\$ -	\$ -	\$ 1,345,017	\$ 1,345,017	\$ 2,751,027
Grants and subsidies	450,000	-	-	-	-	450,000	1,000,000
Capital outlay	16,576	-	-	-	-	16,576	-
Total expenditures	466,576	-	-	-	1,345,017	1,811,593	3,751,027
Other financing sources:							
Loan proceeds	-	-	-	-	1,041,041	1,041,041	2,260,756
Operating transfers in	16,300	18,080	-	-	-	34,380	-
Other financing sources	16,300	18,080	-	-	1,041,041	1,075,421	2,260,756
Net change in fund balances (deficit)	(450,276)	18,080	-	-	(303,976)	(736,172)	(1,490,271)
Fund balances (deficit) at the beginning of the year	450,276	(18,080)	472,253	318,630	375,000	1,598,079	3,088,350
Fund balances at the end of the year	\$ -	\$ -	\$ 472,253	\$ 318,630	\$ 71,024	\$ 861,907	\$ 1,598,079

See Accompanying Independent Auditors' Report.

REPUBLIC OF THE MARSHALL ISLANDS  
FIDUCIARY FUNDS - PRIVATE PURPOSE TRUSTS

September 30, 2005

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, 2005, 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, 2005  
 (with comparative totals as of September 30, 2004)

	Marshall Islands Social Security Admin.	Kwajalein Atoll Trust	Section 212 Kwajalein Landowners	Nuclear Claims Trust	Totals	
					2005	2004
<b>ASSETS</b>						
Cash and cash equivalents	\$ 1,297,934	\$ -	\$ -	\$ -	\$ 1,297,934	\$ 2,023,763
Time certificates of deposit	3,865,788	-	-	-	3,865,788	3,680,934
Receivables, net:						
Contributions	2,251,928	-	-	-	2,251,928	1,867,027
Other	534,684	-	-	-	534,684	706,429
Investments	47,993,111	-	-	3,211,831	51,204,942	44,698,476
Due from other funds	-	875,223	7,895,451	-	8,770,674	4,642,351
Capital assets, net of accumulated depreciation	163,464	-	-	-	163,464	224,983
Total assets	<u>56,106,909</u>	<u>875,223</u>	<u>7,895,451</u>	<u>3,211,831</u>	<u>68,089,414</u>	<u>57,843,963</u>
<b>LIABILITIES</b>						
Accounts payable	89,463	-	-	-	89,463	294,990
Other liabilities and accruals	147,002	-	-	-	147,002	163,467
Total liabilities	<u>236,465</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>236,465</u>	<u>458,457</u>
<b>NET ASSETS</b>						
Held in trust for:						
Social security benefits	55,870,444	-	-	-	55,870,444	47,580,389
Nuclear claims	-	-	-	3,211,831	3,211,831	5,072,407
Land use distributions	-	875,223	7,895,451	-	8,770,674	4,732,710
Total net assets	<u>\$ 55,870,444</u>	<u>\$ 875,223</u>	<u>\$ 7,895,451</u>	<u>\$ 3,211,831</u>	<u>\$ 67,852,949</u>	<u>\$ 57,385,506</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, 2005  
 (with comparative totals for the year ended September 30, 2004)

	Marshall Islands Social Security Admin.	Kwajalein Atoll Trust	Section 212 Kwajalein Landowners	Nuclear Claims Trust	Totals	
					2005	2004
<b>Additions:</b>						
<b>Contributions:</b>						
Private employees	\$ 7,968,979	\$ -	\$ -	\$ -	\$ 7,968,979	\$ 7,510,551
Government employees	3,704,239	-	-	-	3,704,239	3,311,504
Penalties and interest	248,004	-	-	-	248,004	671,879
<b>Total contributions</b>	<b>11,921,222</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>11,921,222</b>	<b>11,493,934</b>
<b>Investment earnings:</b>						
Net increase in the fair value of investments	6,542,638	-	-	264,949	6,807,587	5,561,001
Interest and dividends	1,155,713	-	30,750	103,820	1,290,283	1,133,256
<b>Total investment earnings</b>	<b>7,698,351</b>	<b>-</b>	<b>30,750</b>	<b>368,769</b>	<b>8,097,870</b>	<b>6,694,257</b>
Less investment expense	101,388	-	-	41,617	143,005	84,668
<b>Net investment earnings</b>	<b>7,596,963</b>	<b>-</b>	<b>30,750</b>	<b>327,152</b>	<b>7,954,865</b>	<b>6,609,589</b>
<b>Other:</b>						
Compact funding	-	-	15,176,800	-	15,176,800	15,000,001
Other	425,054	-	-	-	425,054	-
	425,054	-	15,176,800	-	15,601,854	15,000,001
<b>Total additions</b>	<b>19,943,239</b>	<b>-</b>	<b>15,207,550</b>	<b>327,152</b>	<b>35,477,941</b>	<b>33,103,524</b>
<b>Deductions:</b>						
Land use distributions	-	-	11,169,586	-	11,169,586	11,193,699
Benefits	10,673,660	-	-	-	10,673,660	9,747,850
Bad debts	152,684	-	-	-	152,684	729,780
Administrative expenses	826,840	-	-	-	826,840	908,975
Transfers out	-	-	-	2,187,728	2,187,728	4,171,907
<b>Total deductions</b>	<b>11,653,184</b>	<b>-</b>	<b>11,169,586</b>	<b>2,187,728</b>	<b>25,010,498</b>	<b>26,752,211</b>
<b>Change in net assets</b>	<b>8,290,055</b>	<b>-</b>	<b>4,037,964</b>	<b>(1,860,576)</b>	<b>10,467,443</b>	<b>6,351,313</b>
Net assets at the beginning of the year	47,580,389	875,223	3,857,487	5,072,407	57,385,506	51,034,193
<b>Net assets at the end of the year</b>	<b>\$ 55,870,444</b>	<b>\$ 875,223</b>	<b>\$ 7,895,451</b>	<b>\$ 3,211,831</b>	<b>\$ 67,852,949</b>	<b>\$ 57,385,506</b>

See Accompanying Independent Auditors' Report.

REPUBLIC OF THE MARSHALL ISLANDS  
NONMAJOR COMPONENT UNITS

September 30, 2005

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, 2005, 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, 2005

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, 2005  
(with comparative totals as of September 30, 2004)**

	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	Tobolar Copro Processing Plant, Inc.	Totals
	2005	2005	2005	2005	2005	2005	2005	2004
<b>ASSETS</b>								
Current assets:								
Cash and cash equivalents	\$ 41,665	\$ 2,279,959	\$ 103,091	\$ 16,776	\$ 56,474	\$ 138,235	\$ 55,096	\$ 965,460
Time certificates of deposit	-	-	-	-	782,521	-	-	490,551
Receivables, net:								
General	1,492,880	1,195,086	113,167	63,501	99,689	6,096	1,011,544	2,388,494
Other	-	203,284	62,694	20,626	4,477	-	101,276	838,350
Inventories	626,443	180,930	53,252	124,335	-	-	211,448	2,461,675
Due from primary government	495,759	-	-	-	-	50,000	173,640	915,744
Other current assets	151,765	10,598	47,056	3,383	1,474	-	-	333,387
Total current assets	2,808,512	3,869,857	379,260	228,621	944,635	194,331	1,553,004	8,393,661
Noncurrent assets:								
Investments	-	180,039	-	-	-	-	-	180,039
Capital assets, net of accumulated depreciation	2,197,086	1,485,516	2,202,081	75,875	403,780	28,806	964,343	6,347,250
Total noncurrent assets	2,197,086	1,665,555	2,202,081	75,875	403,780	28,806	964,343	6,498,342
Total assets	\$ 5,005,598	\$ 5,535,412	\$ 2,581,341	\$ 304,496	\$ 1,348,415	\$ 223,137	\$ 2,517,347	\$ 14,892,003
<b>LIABILITIES</b>								
Current liabilities:								
Bank overdraft	\$ 87,952	-	-	-	-	-	-	-
Current portion of long-term debt	767,415	-	-	-	-	-	800,000	650,000
Accounts payable	931,456	53,486	51,391	14,384	1,478	1,318	127,657	1,234,253
Other liabilities and accruals	101,149	556,141	450,954	244,086	171,217	10,303	311,331	1,845,181
Due to primary government	-	-	-	146,676	103,531	-	-	277,312
Due to component units	-	-	73,573	524,646	-	-	100,000	560,235
Deferred revenue	355,921	583,207	-	-	-	-	-	1,215,092
Total current liabilities	2,243,893	1,192,834	575,918	929,792	276,226	11,621	1,338,988	6,406,095
Noncurrent liabilities:								
Noncurrent portion of long-term debt	-	-	-	-	-	-	-	-
Due to primary government	2,000,000	-	13,309	-	103,545	-	-	1,050,000
Other noncurrent liabilities	-	-	-	-	-	-	-	613,697
Total noncurrent liabilities	2,000,000	-	13,309	-	103,545	-	-	1,663,697
Total liabilities	4,243,893	1,192,834	589,227	929,792	379,771	11,621	1,338,988	8,069,792
Invested in capital assets, net of related debt	2,197,086	1,485,516	2,202,081	75,875	403,780	28,806	964,343	6,347,250
Restricted	-	180,539	-	-	-	-	-	151,492
Unrestricted	(1,435,381)	2,676,523	(209,967)	(701,171)	564,864	182,710	214,016	323,469
Total net assets	\$ 761,705	\$ 4,342,578	\$ 1,992,114	\$ (625,296)	\$ 968,644	\$ 211,516	\$ 1,178,359	\$ 6,822,211
	\$ 5,005,598	\$ 5,535,412	\$ 2,581,341	\$ 304,496	\$ 1,348,415	\$ 223,137	\$ 2,517,347	\$ 14,892,003

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, 2005

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

	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	Tobolar Copro Processing Plant, Inc.	Totals
								2005
Operating revenues:								
Charges for services	\$ 3,434,120	\$ 3,821,521	\$ 1,885,119	\$ 1,037,480	\$ 1,912,626	\$ -	\$ -	\$ 12,090,866
Sales	-	-	-	-	-	-	2,909,976	2,909,976
Other	172,333	-	-	-	-	3,584	-	175,917
Total operating revenues	3,606,453	3,821,521	1,885,119	1,037,480	1,912,626	3,584	2,909,976	15,176,759
Operating expenses:								
Cost of services	3,024,999	5,630,678	1,543,924	1,253,046	1,402,390	330,138	3,817,723	17,002,898
Impairment loss	-	-	-	-	-	-	-	-
Administration costs	819,850	-	179,850	-	64,486	-	216,618	1,280,804
Depreciation and amortization	478,571	247,364	136,729	30,402	101,351	12,570	60,229	1,067,216
Total operating expenses	4,323,420	5,878,042	1,860,503	1,283,448	1,568,227	342,708	4,094,570	19,350,918
Operating income (loss)	(716,967)	(2,056,521)	24,616	(245,968)	344,399	(339,124)	(1,184,594)	(4,174,159)
Nonoperating revenues (expenses):								
Contributions from the primary government	-	4,540,499	-	-	-	212,763	844,600	5,597,862
Interest income	-	28,947	-	-	25,307	-	-	54,254
Contributions to the primary government	(8,530)	-	-	37,332	(144,016)	-	-	(144,016)
Interest expense	445,928	150,981	4,756	34,266	15,512	(26,409)	(37,809)	(9,007)
Other	-	-	-	-	-	-	-	625,034
Total nonoperating revenues (expenses), net	437,398	4,720,427	4,756	71,598	(103,197)	186,354	806,791	6,124,127
Capital contributions	-	107,846	-	-	-	-	-	107,846
Net income (loss)	(279,569)	2,771,752	29,372	(174,370)	241,202	(152,770)	(377,803)	2,057,814
Net assets at the beginning of the year	1,041,274	1,570,826	1,962,742	(450,926)	727,442	364,286	1,556,162	6,771,806
Net assets at the end of the year	\$ 761,705	\$ 4,342,578	\$ 1,992,114	\$ (625,296)	\$ 968,644	\$ 211,516	\$ 1,178,359	\$ 8,829,620
								\$ 6,822,211

See Accompanying Independent Auditors' Report.

**REPUBLIC OF THE MARSHALL ISLANDS  
COMPACT OF FREE ASSOCIATION SECTOR GRANTS**

**Combining Balance Sheet  
September 30, 2005  
(with comparative totals as of September 30, 2004)**

	<u>ASSETS</u>										Totals	
	Section 211(a)(1) Education	Section 211(a)(2) Health	Section 211(a)(3) Private Sector Development	Section 211(a)(4) Capacity Building	Section 211(a)(5) Environment	Section 211(b)(1) Kwajalein Environment	Section 211(b)(2) Landowners Special Needs	Section 211(d)(1) Public Infrastructure	Section 211(d)(2) Infrastructure Maintenance	Supplemental Education		2005
Receivables:												
Federal agencies	\$ 251,731	\$ 192,440	\$ 64,011	\$ 36,532	\$ 68,602	\$ -	\$ -	\$ 641,415	\$ 1,249,544	\$ -	\$ 641,415	\$ 1,303,101
Due from other funds	5,502	14,267	722	-	931	-	-	-	100	338,370	-	2,201,230
Advances												1,758,502
Total assets	\$ 257,233	\$ 206,707	\$ 64,733	\$ 36,532	\$ 69,533	\$ -	\$ 140,224	\$ 641,415	\$ 1,249,644	\$ 338,370	\$ 3,004,391	\$ 3,087,018
	<u>LIABILITIES AND FUND BALANCES</u>											
Liabilities:												
Accounts payable	\$ 171,516	\$ 75,425	\$ 3,945	\$ 8,984	\$ 5,763	\$ 2,977	\$ -	\$ 508,360	\$ 194,870	\$ 23,114	\$ 994,954	\$ 1,016,359
Other liabilities and accruals	-	-	-	-	-	-	-	-	-	-	-	417,601
Payable to federal agencies	73,849	114,426	35,788	41,748	29,334	-	-	-	-	-	295,145	-
Retention payable	-	-	-	-	-	-	-	128,229	19,926	-	148,155	-
Deferred revenue	-	-	-	-	-	-	-	-	-	-	-	97,874
Due to component units	17,457	18,081	25,000	-	-	-	-	4,826	-	-	60,538	42,095
Due to other funds	-	-	-	-	-	31,441	140,224	-	-	-	176,491	388,366
Total liabilities	262,822	207,932	64,733	50,732	35,097	34,418	140,224	641,415	214,796	23,114	1,675,283	1,962,295
Fund balances:												
Reserved for:												
Related assets	-	-	-	-	-	-	-	-	-	-	-	1,117,771
Encumbrances	-	-	-	-	-	-	-	2,096,981	346,570	10,853	2,454,404	378,751
Unreserved (deficit)	(5,589)	(1,225)	-	(14,200)	34,436	(34,418)	-	(2,096,981)	688,278	304,403	(1,125,296)	(371,799)
Total fund balances	(5,589)	(1,225)	-	(14,200)	34,436	(34,418)	-	-	1,034,848	315,256	1,329,108	1,124,723
Total liabilities and fund balances	\$ 257,233	\$ 206,707	\$ 64,733	\$ 36,532	\$ 69,533	\$ -	\$ 140,224	\$ 641,415	\$ 1,249,644	\$ 338,370	\$ 3,004,391	\$ 3,087,018

See Accompanying Independent Auditors' Report.

**REPUBLIC OF THE MARSHALL ISLANDS  
COMPACT OF FREE ASSOCIATION SECTOR GRANTS**

**Combining Statement of Revenues, Expenditures by Function,  
and Changes in Fund Balances  
September 30, 2005  
(with comparative totals as of September 30, 2004)**

	Section 211(a)(1) Education	Section 211(a)(2) Health	Section 211(a)(3) Private Sector Development	Section 211(a)(4) Capacity Building	Section 211(a)(5) Environment	Section 211(b)(1) Kwajalein Environment	Section 211(b)(2) Landowners Special Needs	Section 211(d)(1) Public Infrastructure	Section 211(d)(2) Infrastructure Maintenance	Supplemental Education	Totals
	2005	2005	2005	2005	2005	2005	2005	2005	2005	2005	2004
Revenues:											
Compact funding	\$ 12,200,037	\$ 6,994,200	\$ 326,154	\$ 61,764	\$ 230,094	\$ 145,276	\$ -	\$ 4,716,520	\$ 674,287	\$ 2,118,956	\$ 20,543,871
Expenditures by Function:											
Current:											
General government:											
Special appropriations	1,365,000	-	139,547	-	-	-	-	388,710	45,359	166,468	396,702
Office of the Auditor-General	9,934,501	-	-	61,764	-	-	-	-	-	696,947	61,764
Ministry of Education	-	6,958,890	-	-	-	-	-	-	-	-	9,183,116
Ministry of Health and Environment	-	-	114,737	-	-	-	-	-	-	-	6,813,516
Ministry of Resources and Development	-	-	71,870	-	-	-	-	-	-	-	224,618
Ministry of Justice	-	-	-	-	-	-	-	-	-	-	106,895
Ministry of Finance	-	-	-	14,200	-	-	-	-	-	-	14,200
Environmental Protection Authority	-	-	-	-	195,658	179,694	-	-	-	-	326,337
Capital outlay	-	-	-	-	-	-	-	4,327,810	1,393,090	-	2,211,026
Total expenditures	11,299,501	6,958,890	326,154	75,964	195,658	179,694	-	4,716,520	1,438,449	863,415	19,262,210
Excess (deficiency) of revenues over (under) expenditures	900,536	35,310	-	(14,200)	34,436	(34,418)	-	-	(764,162)	1,255,541	1,281,661
Other financing sources (uses):											
Operating transfers in	(906,125)	(36,535)	-	-	-	-	-	-	674,287	-	700,000
Operating transfers out	(906,125)	(36,535)	-	-	-	-	-	-	(940,285)	(940,285)	(856,938)
Total other financing sources (uses), net	(5,589)	(1,225)	-	(14,200)	34,436	(34,418)	-	-	(89,875)	315,256	1,124,723
Net change in fund balances	-	-	-	-	-	(34,418)	-	-	(89,875)	315,256	204,385
Fund balances at the beginning of the year	-	-	-	-	-	-	-	-	1,124,723	-	1,124,723
Fund balances at the end of the year	\$ (5,589)	\$ (1,225)	\$ -	\$ (14,200)	\$ 34,436	\$ (34,418)	\$ -	\$ -	\$ 1,034,848	\$ 315,256	\$ 1,329,108

See Accompanying Independent Auditors' Report.

**REPUBLIC OF THE MARSHALL ISLANDS  
COMPACT OF FREE ASSOCIATION SECTOR GRANTS**

**Combining Statement of Revenues, Expenditures by Account,  
and Changes in Fund Balances**

**September 30, 2005  
(with comparative totals as of September 30, 2004)**

	Section 211(a)(1) Education	Section 211(a)(2) Health	Section 211(a)(3) Private Sector Development	Section 211(a)(4) Capacity Building	Section 211(a)(5) Environment	Section 211(b)(1) Kwajalein Environment	Section 211(b)(2) Landowners Special Needs	Section 211(d)(1) Public Infrastructure	Section 211(d)(2) Infrastructure Maintenance	Supplemental Education	Totals
	2005	2005	2005	2005	2005	2005	2005	2005	2005	2005	2005
Revenues:											
Compact funding	\$ 12,200,037	\$ 6,994,200	\$ 326,154	\$ 61,764	\$ 230,094	\$ 145,276	\$ -	\$ 4,716,520	\$ 674,287	\$ 2,118,956	\$ 27,467,288
Expenditures by Account:											
Salaries and wages	7,341,286	5,046,848	152,351	61,764	150,355	152,174	-	744	-	294,903	13,200,425
Capital outlay	245,465	7,799	662	-	7,306	2,895	-	4,327,066	1,287,676	-	5,878,869
Grants and subsidies	1,707,660	-	144,547	-	-	-	-	388,710	45,359	166,468	2,452,744
Utilities	320,244	453,153	-	-	7,000	-	-	-	-	23,027	803,424
Leased housing	207,233	477,325	-	-	-	-	-	-	-	-	684,558
Supplies and materials	476,399	119,361	2,570	-	3,709	1,695	-	-	234	-	603,968
Contractual services	55,331	48,873	-	14,200	-	15,129	-	-	340,146	1,042	473,679
Travel	187,674	221,095	15,121	-	10,936	6,424	-	-	-	-	442,292
Food stuffs	176,117	107,288	4,737	-	-	-	-	-	24,770	-	312,912
Professional services	-	-	-	-	-	-	-	-	105,262	-	105,262
Medical supplies	-	92,642	-	-	-	-	-	-	-	-	92,642
Communications	37,282	37,545	-	-	5,000	-	-	-	3,941	-	83,768
POL	37,722	29,481	-	-	3,466	-	-	-	6,184	-	76,853
Rentals	7,579	63,456	-	-	-	-	-	-	-	-	71,035
Freight	14,775	25,720	-	-	-	78	-	-	-	-	40,573
Printing and reproduction	9,986	7,220	5,000	-	392	600	-	-	-	-	23,198
Insurance	-	2,398	-	-	480	-	-	-	-	-	2,878
Other	474,748	218,686	1,166	-	7,014	699	-	-	152	2,700	705,165
Total expenditures	11,299,501	6,958,890	326,154	75,964	195,658	179,694	-	4,716,520	1,438,449	863,415	26,054,245
Excess (deficiency) of revenues over (under) expenditures	900,536	35,310	-	(14,200)	34,436	(34,418)	-	-	(764,162)	1,255,541	1,413,043
Other financing sources (uses):											
Operating transfers in	(906,125)	(36,535)	-	-	-	-	-	-	674,287	-	674,287
Operating transfers out	(906,125)	(36,535)	-	-	-	-	-	-	(940,285)	(940,285)	(1,882,945)
Total other financing sources (uses), net	(5,589)	(1,225)	-	(14,200)	34,436	(34,418)	-	-	(89,875)	315,256	204,385
Net change in fund balances	-	-	-	-	-	-	-	-	1,124,723	-	1,124,723
Fund balances at the beginning of the year	-	-	-	-	-	-	-	-	-	-	-
Fund balances at the end of the year	\$ (5,589)	\$ (1,225)	\$ -	\$ (14,200)	\$ 34,436	\$ (34,418)	\$ -	\$ -	\$ 1,034,848	\$ 315,256	\$ 1,329,108
											\$ 1,124,723

See Accompanying Independent Auditors' Report.