MARSHALL ISLANDS MARINE RESOURCES AUTHORITY

(A COMPONENT UNIT OF THE REPUBLIC OF THE MARSHALL ISLANDS)

FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT

YEARS ENDED SEPTEMBER 30, 2013 AND 2012

MARSHALL ISLANDS MARINE RESOURCES AUTHORITY

Years Ended September 30, 2013 and 2012
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INDEPENDENT AUDITORS' REPORT

Board of Directors
Marshall Islands Marine Resources Authority:

Report on the Financial Statements

We have audited the accompanying financial statements of the Marshall Islands Marine Resources Authority (MIMRA), a component unit of the Republic of the Marshall Islands, which comprise the statements of net position as of September 30, 2013 and 2012, and the related of revenues, expenses and changes in net position and of cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of MIMRA as of September 30, 2013 and 2012, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 to 9 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards,* we have also issued our report dated September 17, 2014, on our consideration of MIMRA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering MIMRA 's internal control over financial reporting and compliance.

Deloitte + Touche LLP

September 17, 2014

MARSHALL ISLANDS MARINE RESOURCES AUTHORITY

Management's Discussion and Analysis
September 30, 2013 and 2012

This section of the Marshall Islands Marine Resources Authority (MIMRA) annual financial report presents our discussion and analysis of MIMRA's financial performance for the fiscal year ending September 30, 2013. Please read it and verify any clarification to the financial statements, which follow this section. The below table summarizes the financial condition and operations of MIMRA for fiscal years 2013, 2012 and 2011.

Statements of Net Position

	2013	2012	% Change	2011
ASSETS:				
Current and other assets	$ 12,627,881	$ 7,968,672	58%	$ 5,145,531
Capital assets	224,570	194,231	16%	101,599
Construction in Progress	19,794	-	100%	-
Investment in JV	5,240,001	4,195,986	25%	5,259,874
Total assets	$ 18,112,246	$ 12,358,889	47%	$ 10,507,004
LIABILITIES:				
Current liabilities	$ 362,138	$ 246,525	47%	$ 551,170
NET POSITION:				
Net investment in capital assets	244,364	194,231	26%	101,599
Unrestricted	17,505,744	11,918,133	47%	9,854,235
Total net position	17,750,108	12,112,364	47%	9,955,834
	$ 18,112,246	$ 12,358,889	47%	$ 10,507,004

Statements of Revenue, Expenses and Changes in Net Position

	2013	2012	% Change	2011
OPERATING:				
Operating revenue	$ 11,641,057	$ 8,385,782	39%	$ 7,865,925
Operating expenses	2,379,051	2,185,428	9%	2,007,390
Operating income	9,262,006	6,200,354	49%	5,858,535
NON-OPERATING:				
Non-operating revenues	3,118,299	2,121,176	47%	1,990,569
Non-operating expenses	6,742,561	6,165,000	9%	3,250,000
Net non-operating revenues (expenses)	(3,624,262)	(4,043,824)	(10%)	(1,259,431)
Changes in net position	5,637,744	2,156,530	161%	4,599,104
Net position at beginning of year	12,112,364	9,955,834	22%	5,356,730
Net position at end of year	$ 17,750,108	$ 12,112,364	47%	$ 9,955,834

Overall Analysis

In FY 2013, operating revenues increased by $3,255,275 or 39% compared with FY 2012; however, for FY 2012, operating revenues increased by $519,857 or 7% compared to FY 2011. For FY 2013, licensing fees and registration fees decreased by $270,036 or 19% while transshipment fees increased by $140,500 or 52%, respectively, compared with FY 2012 and observer fees decreased by $136,463 or 34% compared with FY 2012.

On the other hand, MIMRA was able to collect fishing fines during FY 2013 for violations in the access agreement signed by both parties amounting to $870,000 compared with $335,000 in FY 2012. Vessel day scheme (VDS) revenues boosted total revenue generated by MIMRA during the current year in the amount of $7,746,478, a $4,881,379 increase compared to FY 2012 or 170% higher. Included also in operating revenues are fishing rights revenue, which is income from Japan Bilateral, U.S. Treaty and FSM arrangement share amounting to $2,478,875, which is 19% lower than FY 2012.

Total fishing vessels (purse seiners, carriers and bunker vessels) transshipped in the RMI port in FY 2013 is 396 boats, 114 boats more than in FY 2012 with 282 boats and higher than FY 2011 with 307 boats, which is higher than the average berthing of 200 boats per year in years prior to FY 2011.

For the current year, Korea registered 28 boats and Taiwan/China registered 12 boats, respectively. These boats also purchased fishing days from MIMRA of 250 and 370 fishing days, respectively, which amounted to $3,100,000. Registered boats for FY 2013 from domestic companies such as Koo's Fishing ***(4 boats)***, Marshall Islands Fishing Corporation (MIFCO) ***(1 boat)***, Central Pacific Fishing ***(2 boats)*** and Pan Pacific ***(3 boats)*** were the same number of boats registered as in FY 2012. Domestic-based companies did not have a significant impact on the overall revenue picture of MIMRA for the current year as there was no increase in their license rates, but the abovementioned companies also purchased fishing days with MIMRA. Another domestic based company, the Marshall Islands Fishing Venture (MIFV) registered long lines boats with the same rates as in previous years. Overall, operating revenues for FY 2013 increased by 39% from $11,641,057 compared to $8,385,782 in FY 2012 and exceeded estimated revenues by $5,825,657 against the budgeted collection of $5,815,400 for FY 2013.

Although Licensing/Registration Fees, Fishing Rights and Observers Fees revenues are lower by an average of 20% compared to last fiscal year, earnings from all other revenue sources, including VDS revenues, transshipment fees, fishing violations and other fees, increased by 159%. As discussed above, fishing day sales, fishing violation fines and transshipment fee boosted total revenues of MIMRA for the current fiscal year, thus, positively impacting the overall picture of MIMRA's financial condition during FY 2013.

For FY 2013, operating expenses increased by $193,623 or 9% compared with FY 2012. The increase was lower than the budgeted 23% increase in operating expenses, representing a savings of 14% against budget. The 9% increase also represents the same percentage increase between FY 2012 and FY 2011.

Overall, even with the increase in expenses, MIMRA's operations still resulted in an increase in operating income of $9,262,006 during the current FY 2013 compared to the operating income for FY 2012 of $6,200,354, an increase of $3,061,652 or 49%. Net non-operating expenses of $3,624,262 further decreased the results of operations of MIMRA for FY 2013; however, changes in net position for FY 2013 was $3,481,214 higher compared with FY 2012.

MIMRA's financial condition as shown on the Statements of Net Position at the end of the current year shows an overall increase in net position of 47% compared to FY 2012. The change during FY 2012 is 78% higher compared to FY 2011.

Management's Discussion and Analysis for the year ended September 30, 2012 is set forth in MIMRA's report on the audit of financial statements, which is dated October 7, 2013. That Management's Discussion and Analysis explains the major factors impacting the 2012 financial statements and can be obtained from MIMRA's Administrator via the contact information on page 9.

Fund Analysis

At the end of FY 2013, MIMRA's combined fund (Savings and Current Account) amounted to $8,952,674, which was a 23% increase compared to the balances of $7,260,716 at the end of FY 2012. The major reason for the increase in the cash balances is due to the higher collections made from VDS revenues, which is equivalent to 60% of MIMRA's revenues generated in FY 2013. Fishing violation fines added $870,000 to total revenues. Non-operating revenues, which consisted of equity earnings from the Joint Venture investment of $2,717,942, grants revenue of $216,102 and interest income of $184,255 also added to the overall funds generated during FY 2013. Non-operating expenses, which consisted of transfer payments to RepMar in FY 2013 of $6,348,374 compared to $6,100,000 in FY 2012 and other contributions of $394,187 in FY 2013 compared to $65,000 in FY 2012, reduced overall funds generated during FY 2013.

Budget Variances

Actual total revenues, including both operating and non-operating revenues, generated during the current FY 2013 was $14,759,356 as compared to the budgeted total revenues for FY 2013 of $6,875,700, which represents a favorable variance of $7,883,656 or 115% compared to the final budget of the same year. Actual total expenses, including both operating and non-operating expenses, incurred during the current FY 2013 were $9,121,612 as compared to the budgeted total expenses for FY 2013 of $5,932,052, which represents an unfavorable variance of $3,189,560 or 54%.

Capital Assets

At the end of FY 2013, MIMRA recorded net investment in capital assets of $244,364, an increase of $50,133 or 26% compared to the end of FY 2012. This increase was due to the acquisition of capital assets in FY 2013 of $133,091, net of depreciation expense of $82,958. The increase indicates that MIMRA capital assets right now are in good standing. (See table below).

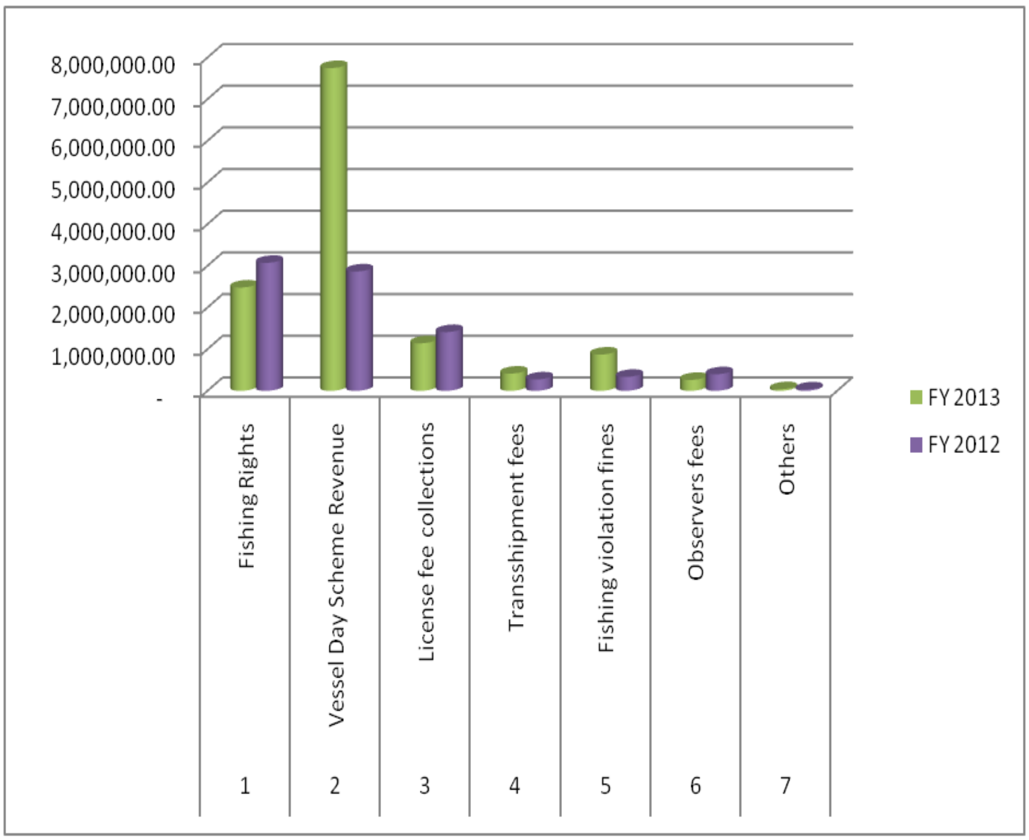
	2013	2012	2011
Buildings and improvements	$ 176,367	$ 176,367	$ 176,367
Equipment improvements	23,446	23,446	16,210
Vehicles	208,590	211,585	146,595
Equipment	335,298	310,374	267,320
Furniture and fixtures	34,093	31,754	25,828
Motorboats	118,002	90,617	90,617
	895,796	844,143	722,937
Less: accumulated depreciation	671,226	649,912	621,338
	224,570	194,231	101,599
Construction-in-progress	19,794	-	-
Net	$ 244,364	$ 194,231	$ 101,599

Fiscal Year 2013 major capital asset additions include:

1.	Equipment and improvement	$ 57,573
2.	Vehicles	26,000
3.	Furniture and fixtures	2,339
4.	Motorboats	27,385
5.	Construction in Progress	19,794
		$ 133,091

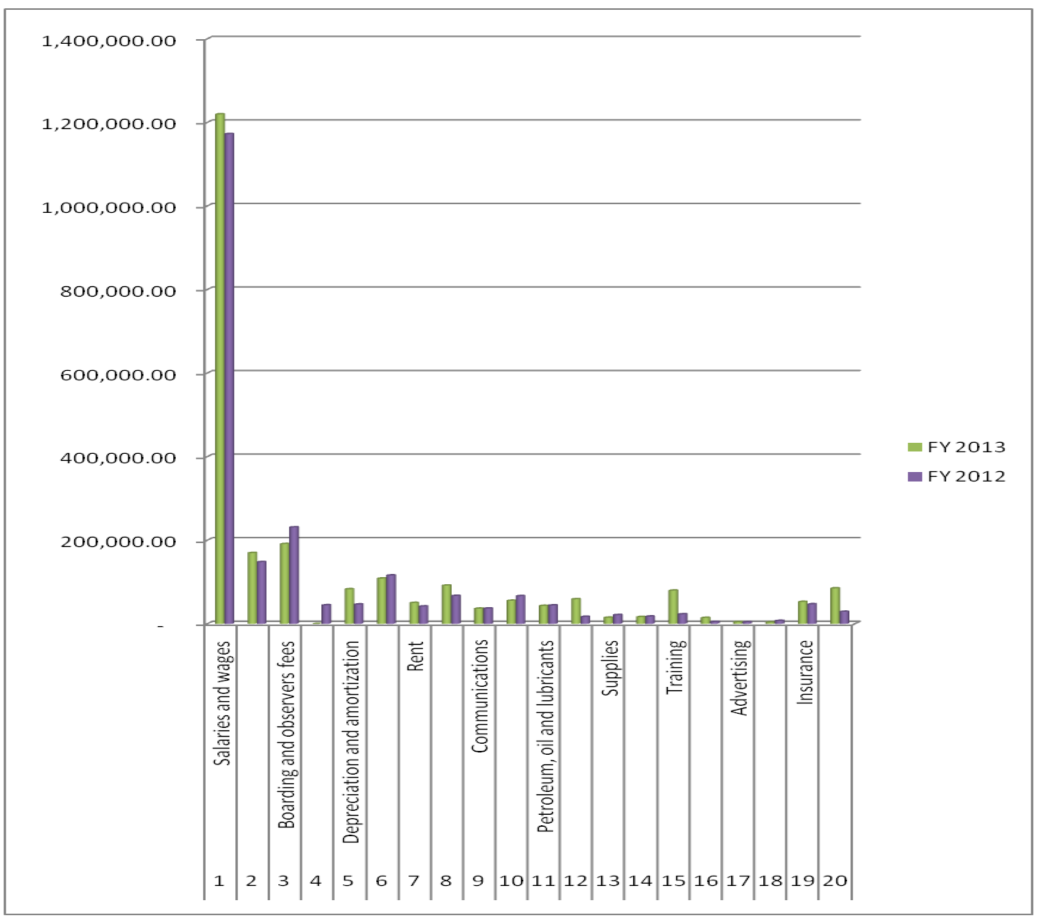
For additional information concerning capital assets, please see note 5 to the financial statements.

COMPARATIVE OPERATING REVENUES - FY 2013 v FY 2012



	2013	2012	2011
Vessel Day Scheme Revenue	$ 7,746,478	$ 2,865,099	$ 3,636,500
Fishing Rights	2,478,875	3,071,879	2,116,371
License fee collections	1,140,200	1,410,236	1,415,952
Fishing violation fines	870,000	335,000	10,000
Transshipment fees	413,000	272,500	312,000
Observers fees	261,286	397,749	370,601
Others	38,813	33,319	11,508
	12,948,652	8,385,782	7,872,932
Allowance for bad debts	(1,307,595)	-	(7,007)
Net operating revenues	$ 11,641,057	$ 8,385,782	$ 7,865,925
Overall change for FY 2013 compared to FY 2012	$ 3,255,275	39%	

COMPARATIVE OPERATING EXPENSES - FY 2013 v FY 2012



	2013	2012	2011
Salaries and wages	$ 1,219,448	$ 1,172,247	$ 948,833
Boarding and observers fees	191,101	230,962	239,201
Membership dues and subscription	169,631	147,866	149,542
Utilities	108,639	115,901	76,859
Travel	91,702	67,008	59,109
Depreciation and amortization	82,958	46,540	26,337
Training	79,709	22,977	28,024
Professional fees	59,000	17,000	17,050
Repairs and maintenance	55,435	66,561	45,941
Insurance	52,657	46,986	-
Rent	50,245	41,659	48,799
Petroleum, oil and lubricants	43,160	44,269	45,448
Communications	36,537	36,905	24,726
Contributions	16,500	17,718	12,686
Supplies	14,841	21,077	19,743
Entertainment	14,543	4,671	15,633
Advertising	4,225	4,178	5,348
Freight	3,658	7,355	1,912
Bad debts expense	-	44,595	199,639
Miscellaneous	85,062	28,953	42,560
Operating expenses	$ 2,379,051	$ 2,185,428	$ 2,007,390
Overall change for FY 2013 compared to FY 2012	$ 193,623	9%	

Economic Factors and Next Year Budgets and Rates

The budget for FY 2014 has been formulated and approved by the MIMRA Board. Projected revenues, including both operating and non-operating revenues, is $8,762,300, while projected expenses, including transfer payments to RepMar, is $7,204,386. An increase of 10% to 15% in operating expenses is provided (net of both increase and decrease of budget on some line items) due to high prices in the Marshall Islands. Though the MIMRA Board approved a 15% across the board increase in salaries and wages, such is considered adequate for employees with 2014 contract renewals as well as those with 2015 contract renewals. Travel expenses, both international and domestic, will depend on how it will be funded but, for those unfunded trips, MIMRA will shoulder the cost. Some domestic travel is covered by grants that were approved and released to MIMRA in previous years, and will be used during FY 2014. For international travel, internal agreement by management for such shall be limited to externally funded travel unless, in certain cases, where MIMRA shall match the travel expenses and, in other cases, where it is necessary that MIMRA must fund the travel. Supplemental budget amounting to $3,400,000 for FY 2014 has also been approved, $2,700,000 of which is appropriated for MIMRA Headquarters.

The continuing up and down prices of fuel in the world market also affected the Marshall Islands. The Marshall Islands still has the highest fuel prices in Micronesia by a little more than 30% of the pump prices. Price ranges from $5 to $ 6 per gallon on the island; thus, commodities on island continue to have high prices compared to that in previous years, including the cost of utilities. MIMRA's cost savings and conservation measures adopted in FY 2011 will continue to be adopted in the formulation for the FY 2014 budget. As mentioned above salaries and wages has an approved 15% increase across the board by the MIMRA Board of Directors with some positions still to be filled. Accordingly, budget for new hires is provided.

Though climate change is continuing, FAD closure is also an aspect that affects the revenue collections of MIMRA, especially on the transshipment revenue. Because of FAD closure, such means fewer boats berthing in Majuro. A new Bilateral Agreement between Japan and MIMRA has been signed and would definitely help in the increase of revenue for FY 2014. Fishing Days sales are also one factor that will boost operating revenues for MIMRA in FY 2014 and onwards.

Contacting MIMRA's financial management

This financial report is designed to provide our beneficiaries and others a general overview of MIMRA's finances and to demonstrate its accountability for the money it collects. If you have questions about this report or need additional financial information, contact the Administrator, P.O. Box 175, Majuro, MH 96960 or via e-mail at mimra.@ntamar.net

MARSHALL ISLANDS MARINE RESOURCES AUTHORITY

Statements of Net Position
September 30, 2013 and 2012

ASSETS	2013	2012
Current assets:		
Cash	$ 670,433	$ 457,460
Time certificates of deposit	8,282,241	6,803,256
Receivables:		
Affiliates	105,309	502,410
Trade	2,275,969	242,886
Due from PNA Office	718,561	307,099
Due from joint venture	1,749,427	-
Accrued interest	92,036	68,363
Other	202,361	967,790
	5,143,663	2,088,548
Less allowance for doubtful accounts	(1,468,456)	(1,380,592)
	3,675,207	707,956
Total current assets	12,627,881	7,968,672
Capital assets:		
Nondepreciable capital assets	19,794	-
Other capital assets, net of accumulated depreciation	224,570	194,231
Investment in joint venture	5,240,001	4,195,986
	$ 18,112,246	$ 12,358,889
LIABILITIES AND NET POSITION		
Liabilities:		
Accounts payable	$ 158,429	$ 43,640
Payable to affiliates	79,968	80,523
Other liabilities and accruals	123,741	122,362
Total liabilities	362,138	246,525
Commitments		
Net position:		
Net investment in capital assets	244,364	194,231
Unrestricted	17,505,744	11,918,133
Total net position	17,750,108	12,112,364
	$ 18,112,246	$ 12,358,889

See accompanying notes to financial statements.

MARSHALL ISLANDS MARINE RESOURCES AUTHORITY

Statements of Revenues, Expenses and Changes in Net Position
Years Ended September 30, 2013 and 2012

	2013	2012
Operating revenues:		
Vessel Day Scheme revenue	$ 7,746,478	$ 2,865,099
Fishing Rights	2,478,875	3,071,879
Licensing and registration fees	1,140,200	1,410,236
Fishing violation fines	870,000	335,000
Transshipment fees	413,000	272,500
Observers fees	261,286	397,749
Other	38,813	33,319
	12,948,652	8,385,782
Less allowance for uncollectible accounts	(1,307,595)	-
Total operating revenues	11,641,057	8,385,782
Operating expenses:		
Salaries and wages	1,219,448	1,172,247
Boarding and observer fees	191,101	230,962
Membership dues and subscriptions	169,631	147,866
Utilities	108,639	115,901
Travel	91,702	67,008
Depreciation and amortization	82,958	46,540
Training	79,709	22,977
Professional fees	59,000	17,000
Repairs and maintenance	55,435	66,561
Insurance	52,657	46,986
Rent	50,245	41,659
Petroleum, oil and lubricants	43,160	44,269
Communications	36,537	36,905
Contributions	16,500	17,718
Supplies	14,841	21,077
Entertainment	14,543	4,671
Advertising	4,225	4,178
Freight	3,658	7,355
Bad debts	-	44,595
Miscellaneous	85,062	28,953
Total operating expenses	2,379,051	2,185,428
Operating income	9,262,006	6,200,354
Nonoperating revenues (expenses), net:		
Equity in earnings of joint venture	2,717,942	1,826,838
Grants	216,102	102,485
Interest income	184,255	191,853
Contribution to College of Marshall Islands	(274,587)	-
Contributions to Micronesian Challenge	(119,600)	(65,000)
Transfer out to RepMar	(6,348,374)	(6,100,000)
Total nonoperating revenues (expenses), net	(3,624,262)	(4,043,824)
Change in net position	5,637,744	2,156,530
Net position at beginning of year	12,112,364	9,955,834
Net position at end of year	$ 17,750,108	$ 12,112,364

See accompanying notes to financial statements.

MARSHALL ISLANDS MARINE RESOURCES AUTHORITY

Statements of Cash Flows
Years Ended September 30, 2013 and 2012

	2013	2012
Cash flows from operating activities:		
Cash received from customers	$ 10,371,406	$ 10,261,774
Cash payments to suppliers for goods and services	(962,411)	(1,121,054)
Cash payments to employees for services	(1,218,069)	(1,151,996)
Net cash provided by operating activities	8,190,926	7,988,724
Cash flows from noncapital financing activities:		
Operating grants received	216,102	102,485
Payments made to RepMar and affiliates	(6,622,961)	(6,100,000)
Contributions to Micronesian Challenge	(119,600)	(65,000)
Net cash used for noncapital financing activities	(6,526,459)	(6,062,515)
Cash flows from capital and related financing activities:		
Acquisition of capital assets	(133,091)	(139,172)
Cash flows from investing activities:		
Net additions to time certificates of deposit	(1,478,985)	(4,997,135)
Dividend received from joint venture	-	2,979,951
Interest received on time certificates of deposit	160,582	123,490
Net cash used for investing activities	(1,318,403)	(1,893,694)
Net change in cash	212,973	(106,657)
Cash at beginning of year	457,460	564,117
Cash at end of year	$ 670,433	$ 457,460
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	$ 9,262,006	$ 6,200,354
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	82,958	46,540
Bad debts	1,307,595	44,595
Decrease (increase) in assets:		
Receivables:		
Affiliates	397,101	(73,550)
Trade	(3,252,814)	(100,690)
Due from PNA Office	(411,462)	2,264,901
Due from joint venture	(75,500)	-
Other	765,429	(88,781)
Increase (decrease) in liabilities:		
Accounts payable	114,789	(213,197)
Payable to affiliates	(555)	14,189
Unearned revenue	-	(125,888)
Other liabilities and accruals	1,379	20,251
Net cash provided by operating activities	$ 8,190,926	$ 7,988,724
Summary of noncash financing activities:		
Income from equity share investment:		
Decrease (increase) in investment in joint venture	$ 1,044,015	$ 1,063,888
Decrease (increase) in receivable from joint venture	(1,673,927)	89,225
Dividend income from joint venture	(2,088,030)	(2,979,951)
Equity in earnings of joint venture	2,717,942	1,826,838
	$ -	$ -

See accompanying notes to financial statements.

(1) Organization

The Marshall Islands Marine Resources Authority (MIMRA), a component unit of the Republic of the Marshall Islands (RepMar), was created under Public Law 1997-60, the Marshall Islands Marine Resources Act of 1997. This legislation repealed Public Law 1988-12, the Marshall Islands Marine Resources Authority Act, 1988, and transferred all assets, liabilities, rights and obligations of the former Marshall Islands Marine Resources Authority (established under Public Law 1988-12) to MIMRA, effective October 2, 1997. MIMRA's principal line of business is to facilitate the sustainable and responsible use of the marine resources in the Marshall Islands. Access to the fishery waters of the Marshall Islands, including transshipment related activities, is granted by MIMRA to foreign and domestic-based fishing vessels through an access agreement, for which certain fees and licenses are levied.

MIMRA is governed by a seven-member Board of Directors, including three members consisting of the Minister of Resources and Development, the Secretary of Foreign Affairs and the Attorney General and four members appointed by the President of RepMar.

MIMRA's financial statements are incorporated into the financial statements of RepMar as a component unit.

(2) Summary of Significant Accounting Policies

GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, which was subsequently amended by Statement No. 37, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments: Omnibus*, and modified by Statement No. 38, *Certain Financial Statement Note Disclosures*, establishes financial reporting standards for governmental entities which require that management's discussion and analysis of the financial activities be included with the basic financial statements and notes and modifies certain other financial statement disclosure requirements.

To conform to the requirements of GASB 34, equity is presented in the following net asset categories:

- Net investment in capital assets; capital assets, net of accumulated depreciation, plus construction or improvement of those assets.

- Unrestricted; net position that is not subject to externally imposed stipulations. Unrestricted net position may be designated for specific purposes by action of management or the Board of Directors or may otherwise be limited by contractual agreements with outside parties.

Basis of Accounting

Proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operation of the fund are included in the statements of net position. Proprietary fund operating statements present increases and decreases in net total assets. The accrual basis of accounting is utilized by proprietary funds. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. MIMRA considers operating revenues to include activities that have the characteristics of exchange transactions, such as (1) fishing rights, Vessel Day Scheme revenues, licensing, transshipment, and other fees, and (2) other local revenues. Revenues and expenses related to other activities are considered to be nonoperating.

(2) Summary of Significant Accounting Policies, Continued

Cash and Time Certificates of Deposit

Custodial credit risk is the risk that in the event of a bank failure, MIMRA'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. MIMRA does not have a deposit policy for custodial credit risk.

For purposes of the statements of net position and cash flows, cash is defined as cash on hand and cash held in demand accounts. Deposits maintained in time certificates of deposit with original maturity dates greater than ninety days are separately classified. As of September 30, 2013 and 2012, the carrying amount of cash and time certificates of deposit were $8,952,674 and $7,260,716, respectively, and the corresponding bank balances were $8,969,682 and $7,274,813, respectively. Of the bank balances, $545,609 and $352,351, respectively, were maintained in a financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance. The remaining amounts of $8,424,073 and $6,922,462, respectively, were maintained in a non-FDIC insured financial institution. As of September 30, 2013 and 2012, bank deposits in the amount of $250,000 were FDIC insured. MIMRA 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.

Receivables

All receivables are uncollateralized and are due from customers, both governmental agencies and businesses, located within the Republic of the Marshall Islands and the Pacific region, including Japan, Korea and Taiwan. The allowance for doubtful accounts is stated at an amount which management believes will be adequate to absorb possible losses on accounts receivable that may become uncollectible based on evaluation of the collectibility of these accounts and prior collection experience. The allowance is established through a provision for losses on accounts receivable charged to expense.

Improvements and Equipment

MIMRA has not adopted a formal capitalization policy for improvements and equipment; however, items with a cost that equals or exceeds $1,000 are generally capitalized. Depreciation is calculated using the straight-line method based on the estimated useful lives of the respective assets as follows:

Building improvements	10 years
Equipment improvements	10 years
Vehicles	3 years
Equipment	4 years
Furniture	4 years
Motor boats	6 years

(2) Summary of Significant Accounting Policies, Continued

Deferred Outflows of Resources

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

Deferred Inflows of Resources

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

Taxes

Corporate profits are not subject to income tax in the Republic of the Marshall Islands. The Government of the Republic of the Marshall Islands imposes a gross receipts tax of 3% on revenues. MIMRA is specifically exempt from this tax.

Revenue Recognition

Fees with respect to services are recognized as the right to consideration accrues through the provision of the service to the customer. Licensing and other fees are recognized as revenue when paid based on the licensing period they pertain to. The Vessel Day Scheme (VDS) is a scheme where vessel owners can purchase and trade days fishing at sea in places subject to the Parties to the Nauru Agreement (PNA). Revenues from the VDS are recognized upon issuance of fishing days transfer notification.

Non-operating revenues and expenses primarily consist of equity earnings in joint venture, investment earnings, grants, and contributions to RepMar.

Compensated Absences

Vested or accumulated vacation leave is recorded as an expense and liability as the benefits accrue to employees. No liability is recorded for nonvesting accumulating rights to receive sick pay benefits. As of September 30, 2013 and 2012, the accumulated vacation leave liability totals $54,374 and $57,380, respectively, and is included within the statements of net position as other liabilities and accruals.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards

During the year ended September 30, 2013, MIMRA implemented the following pronouncements:

- GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements,* which addressed how to account for and report service concession arrangements (SCAs), a type of public-private or public-public partnership that state and local governments are increasingly entering into. The implementation of this statement did not have a material effect on the accompanying financial statements.

- GASB Statement No. 61, *The Financial Reporting Entity: Omnibus*, which improved financial reporting for governmental entities by amending the requirements of Statements No. 14, *The Financial Reporting Entity,* and No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments,* to better meet user needs and address reporting entity issues that have come to light since those Statements were issued in 1991 and 1999, respectively. The implementation of this statement did not have a material effect on the accompanying financial statements.

- GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which enhanced the usefulness of its Codification by incorporating guidance that previously could only be found in certain Financial Accounting Standards Board (FASB) and American Institute of Certified Public Accountants (AICPA) pronouncements issued on or before November 30, 1989, which does not conflict or contradict GASB pronouncements. GASB Statement No. 62 superseded GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*. The implementation of this statement did not have a material effect on the accompanying financial statements.

- GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which established guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position, and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities,* which clarifies the appropriate reporting of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. These Statements amend the net asset reporting requirements in Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments,* and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. With the implementation of GASB Statement No. 63 and Statement No. 65, the Statement of Net Assets was renamed the Statement of Net Position.

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

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

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

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

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

(3) Risk Management

MIMRA 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. MIMRA has elected to purchase commercial insurance from independent third parties for the risks of loss to which it is exposed. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years.

(4) Investment in Joint Venture

On May 1, 2005, MIMRA entered into a joint venture agreement with Koo's Fishing Company, Ltd. (KFC) to form the Marshall Islands Fishing Company (MIFCO), an ongoing association for the purpose of engaging in the purse seine fishing business. The association was formally organized during fiscal year 2006 with the purchase of the vessel, RMI201. MIMRA and KFC's contributed capital at the time was $2,940,000 and $3,060,000, respectively, which represented a 49% and 51% interest, respectively, of the vessel's value of $6,000,000.

(4) Investment in Joint Venture, Continued

The parties agreed that the joint venture will be operated by KFC and MIMRA will not be liable to the joint venture.

A summary of financial information as of and for the years ended December 31, 2013 and 2012, for investees accounted for using the equity method of accounting for investments, are as follows:

	2013	2012
Assets	$ 18,000,783	$ 13,761,157
Liabilities	$ 5,743,748	$ 4,344,979
Net earnings	$ 6,257,035	$ 3,416,178

During the years ended September 30, 2013 and 2012, MIMRA received distributions of $2,088,030 and $2,979,951, respectively, from the joint venture.

(5) Improvements and Equipment

Capital assets activity during the years ended September 30, 2013 and 2012 is as follows:

	2013			
	October 1, 2012	Additions	Disposal	September 30, 2013
Building improvements	$ 176,367	$ -	$ -	$ 176,367
Equipment	310,374	57,573	(17,966)	335,298
Equipment improvements	23,446	-	-	23,446
Vehicles	211,585	26,000	(28,995)	208,590
Furniture and fixtures	31,754	2,339	-	34,093
Motor boats	90,617	27,385	-	118,002
	844,143	113,297	(61,644)	895,796
Less accumulated depreciation	(649,912)	(82,958)	61,644	(671,226)
	194,231	30,339	-	224,570
Construction in progress	-	19,794	-	19,794
	$ 194,231	$ 50,133	$ -	$ 244,364

	2011			
	October 1, 2011	Additions	Disposal	September 30, 2012
Building improvements	$ 176,367	$ -	$ -	$ 176,367
Equipment	267,320	61,020	(17,966)	310,374
Equipment improvements	16,210	7,236	-	23,446
Vehicles	146,595	64,990	-	211,585
Furniture and fixtures	25,828	5,926	-	31,754
Motor boats	90,617	-	-	90,617
	722,937	139,172	(17,966)	844,143
Less accumulated depreciation	(621,338)	(46,540)	17,966	(649,912)
	$ 101,599	$ 92,632	$ -	$ 194,231

(6) Related Party Transactions

MIMRA was created by the Nitijela of RepMar under Public Law 1997-60 and is thus considered a component unit of RepMar. Accordingly, MIMRA is affiliated with all RepMar-owned and affiliated entities, including the Marshall Islands Social Security Administration (MISSA), the College of Marshall Islands, and Air Marshall Islands, Inc.

On September 20, 2000, the Cabinet of RepMar approved the disbursement of funds from MIMRA, totaling $300,000, to MISSA and approved the subsequent reimbursement to MIMRA from RepMar's General Fund. The promissory note issued by RepMar states that payment is due on September 20, 2001 and that 16% and 24%, interest and penalty, respectively, shall apply in the event of nonpayment on the due date. As of September 30, 2013 and 2012, MIMRA has not been reimbursed for this amount. As a result, $123,288 of interest and penalties has been accrued at September 30, 2013 and 2012 and $423,288 has been included in the allowance for doubtful accounts at September 30, 2013 and 2012.

During the year ended September 30, 2012, MIMRA advanced $2,000,000 to the Marshalls Energy Company, Inc. (MEC), to be repaid one year from August 2, 2012 at no interest. In the memorandum of agreement between MIMRA and MEC, future utility billing collections received by MEC from RepMar will be used to repay the advance. On January 29, 2013, MIMRA's Board of Directors approved the forgiveness of the advance to MEC for the purposes of satisfying budgetary requirements of RepMar through contributions from MIMRA for the funding of RepMar's utility billings. Accordingly, this advance is considered a cash contribution to RepMar's General Fund of $2,000,000 during the year ended September 30, 2012.

MIMRA utilizes services from certain affiliated entities at substantially the same terms and conditions as those incurred from third parties. A summary of related party transactions for the years ended September 30, 2013 and 2012 is as follows:

	2013		
	Expenses	Payables	Receivables
Marshall Islands Social Security Administration	$ 98,509	$ 59,380	$ -
Marshall Islands National Telecommunications Authority	36,537	-	-
Marshalls Energy Company, Inc.	109,708	10,963	-
RepMar	9,847	9,625	-
Tobolar Copra Processing Authority	-	-	100,000
Others	10,577	-	5,309
	$ 265,178	$ 79,968	$ 105,309

	2012		
	Expenses	Payables	Receivables
Marshall Islands Social Security Administration	$ 65,424	$ 51,713	$ -
Marshall Islands National Telecommunications Authority	37,353	-	-
Marshalls Energy Company, Inc.	109,222	8,726	-
RepMar	39,003	20,084	423,288
Others	9,474	-	79,122
	$ 260,476	$ 80,523	$ 502,410

(6) Related Party Transactions, Continued

During the year ended September 30, 2013, MIMRA advanced funds to Tobolar Copra Processing Authority (Tobolar) in the amount of $100,000 for the purpose of assisting Tobolar in funding the purchase of copra. The advance is uncollateralized and non-interest bearing and is due and payable by Tobolar from the proceeds of oil sales.

MIMRA acts as an agent of RepMar for the purposes of collecting and remitting income received from sovereign nations in accordance with various international fishing rights treaties. During the years ended September 30, 2013 and 2012, MIMRA collected $2,478,875, and $3,071,879, respectively, under these treaties.

MIMRA provided cash contributions to RepMar's General Fund of $6,000,000 and $4,100,000, respectively, during the years ended September 30, 2013 and 2012.

MIMRA occupies certain office space and uses properties belonging to RepMar at no cost. No lease agreements have been executed to formalize these arrangements and no rental payments are anticipated. The fair value of these contributions is presently not determinable. Accordingly, the contributed use of facilities has not been recognized as revenue and expenses in the accompanying financial statements.

(7) Commitments

MIMRA has assumed payment obligations under certain ground leases, which were previously obligations of RepMar's Ministry of Internal Affairs. In addition, MIMRA has assumed the payment obligation under a ground lease, which was previously the obligation of an unrelated party. These ground leases have original terms ranging from five to twenty-five years, expiring in 2010 through 2034.

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

Year ending September 30,	
2014	$ 23,833
2015	22,825
2016	22,490
2017	19,490
2018	19,490
2019 - 2023	92,437
2024 - 2028	11,838
2029 - 2033	9,314
2034	931
	$ 222,648

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Directors
Marshall Islands Marine Resources Authority:

We have audited, in accordance with the 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, the financial statements of Marshall Islands Marine Resources Authority (MIMRA), which comprise the statement of net position as of September 30, 2013, and the statements of revenues, expenses and changes in net position and of cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated September 17, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered MIMRA's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of MIMRA's internal control. Accordingly, we do not express an opinion on the effectiveness of MIMRA's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, maternal weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Responses we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Responses as item 2013-001 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether MIMRA's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

MIMRA's Responses to Findings

MIMRA's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. MIMRA's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of MIMRA's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering MIMRA's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Deloitte + Touche LLP

September 17, 2014

Finding 2013-1

Revenue Recognition

Criteria: Management is responsible to require that proper recording of revenues earned by the entity during the period occurs and that the revenues are actually earned and collected by the entity.

Condition: Marshall Islands Marine Resources Authority recorded revenues earned and related receivables under the Vessel Day Scheme (VDS). Total receivables related to VDS revenues amounting to $2,214,885 remained outstanding as of September 30, 2013, of which $1,299,500 remained uncollected through July 2014. As a result, an additional allowance of $1,299,500 was recorded to provide for the outstanding receivables with uncertain collectability.

Cause: The cause of the above condition appears to be due to the absence of proper coordination and agreement between the parties involved as to the usage and payment of fishing days.

Effect: The effect of the above condition is the possible overstatement of VDS revenues and related receivables that potentially may not be collectible.

Recommendation: We recommend that management implement a mechanism as to the recording and collection of VDS revenues.

Auditee Response and Corrective Action Plan: The above case is an FSMA fishing days which, is distributed/allocated to the domestic based vessels under FSMA. In 2012 up to the first half of 2013 as a party member, MIMRA allocated FSMA fishing days to the domestic sponsored vessels thru PNA. A list of allocation was send to MIMRA (from PNA), stating the number of days allocated to the domestic vessels, which MIMRA invoiced. No memorandum of agreement has been signed by both parties on the above allocation.

Reconciliation is ongoing on the above finding, to be able to finalize the number of days used by FSMA vessels based domestically. It is unfortunate that invoice was based on the allocated number of fishing days and not on the number of fishing days used. Adjustment as to the charges to the domestic vessels will be done accordingly when the reconciliation is finished and the amount involved will be agreeable to both parties (MIMRA and the Agents/Owner of the FSMA domestic based vessels).

We will have to prepare MOA (Memorandum of Agreement) for the above findings even how late it may seem, and will have to have the involved vessel owners/agent signed so that MIMRA will be able to collect.

As of FY 2014, recording of VDS revenues is based on an MOA (Memorandum of Agreement). No VDS revenue is to be invoiced unless a MOA is signed by both parties and is on hand as basis of invoicing the VDS fishing day revenues.

MARSHALL ISLANDS MARINE RESOURCES AUTHORITY

Unresolved Prior Year Findings
Year Ended September 30, 2013

There were no unresolved audit findings from prior year audits of MIMRA.