

**MARSHALL ISLANDS MARINE RESOURCES
AUTHORITY**

**FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT**

YEARS ENDED SEPTEMBER 30, 2004 AND 2003

INDEPENDENT AUDITORS' REPORT

Board of Directors
Marshall Islands Marine Resources Authority:

We have audited the accompanying statements of net assets of the Marshall Islands Marine Resources Authority (MIMRA), a component unit of the Republic of the Marshall Islands (RepMar), as of September 30, 2004 and 2003, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of MIMRA's management. Our responsibility is to express an opinion on these financial statements based on our audits.

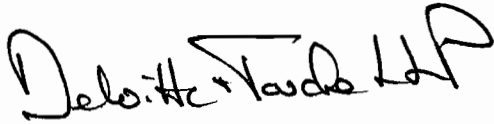
We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 MIMRA'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 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 audits provide a reasonable basis for our opinion.

As discussed in note 1 to the financial statements, the financial statements of MIMRA relate solely to those accounting records maintained by MIMRA and do not incorporate any accounts related to its operations that may be accounted for by RepMar's Treasury or any of RepMar's other branches, departmental units or component units.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of MIMRA as of September 30, 2004 and 2003, and the changes in its net assets and its cash flows for the years 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 6 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of MIMRA's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 15, 2005, on our consideration of MIMRA's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and 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.

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

August 15, 2005

MARSHALL ISLANDS MARINE RESOURCES AUTHORITY

Management's Discussion and Analysis September 30, 2004

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, 2004. 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 2004 and 2003.

	2004	2003	% Change
ASSETS:			
Current and other assets	\$ 680,741	\$ 1,037,042	-34%
Capital assets	<u>441,545</u>	<u>481,309</u>	-8%
Total Assets	\$ <u>1,122,286</u>	\$ <u>1,518,351</u>	-26%
LIABILITIES:			
Current liabilities	\$ 263,283	\$ 440,710	-40%
Long-term liabilities	<u>116,049</u>	<u>128,553</u>	-10%
Total Liabilities	<u>379,332</u>	<u>569,263</u>	-33%
NET ASSETS:			
Investment in capital assets	441,545	481,309	-8%
Unrestricted	<u>301,409</u>	<u>467,779</u>	-36%
Total Net Assets	\$ <u>742,954</u>	\$ <u>949,088</u>	-22%
Revenue, Expenses and Changes in Net Assets:			
Operating Revenue	\$ 1,327,405	\$ 1,632,074	16%
Operating Expenses	<u>1,315,901</u>	<u>1,131,043</u>	-99%
Operating Loss	<u>4,504</u>	<u>501,031</u>	-42%
Non-operating revenues	<u>(342,638)</u>	<u>(588,698)</u>	-61%
Capital contributions	<u>125,000</u>	<u>15,300</u>	717%
Changes in net assets	(206,134)	(72,367)	-185%
Net assets at beginning of year	<u>949,088</u>	<u>1,021,455</u>	-7%
Net assets at end of year	\$ <u>742,954</u>	\$ <u>949,088</u>	-22%

Overall Analysis:

Compare to last year-FY 2003 result of operations, there was a 19% decrease in the operating revenue in FY 2004. The reason for this was already discussed in last year's MD&A. The El Niño phenomenon, continued to affect the Pacific countries during the current fiscal year. Total operating revenues went down by as much as \$304,669 or 19% compare to the FY 2003 total revenues. Though grants and other revenues increased, these did not offset the reduction in collections in the licensing and other related fees that resulted to an overall decrease in the total revenue generated during the current year compared to the FY 2003 results. The decrease in the other fees collected can be attributed to a fewer number of vessels calling port at Majuro during the current year compared to last year.

MARSHALL ISLANDS MARINE RESOURCES AUTHORITY

Management's Discussion and Analysis September 30, 2004

As a result of the fewer boats calling port at Majuro, the overall picture of MIMRA's financial condition also was affected thus, the whole operation during the current year, somehow did not meet the expectation. In addition to the poor revenue collection, the total operating expenses increased by \$184,858 or a 16% increase compare to last year total expense. The increase was due to the hiring of several new employees and salary increases and also the increase in the allowance for bad debts amounting to \$ 86,996 or 215% during the current year. Even if the total non-operating revenue (expenses) is lower than last year, still it does not offset or did not affect the overall financial picture of MIMRA. All other aspects of the financial condition of MIMRA considered, the current year operation is down by 22% as shown in the Statement of Revenues, Expenses and Changes in Net Assets.

Fund Analysis:

As MIMRA completed the year, the agency's combined fund (Savings and Current Account) has a total balance of \$ 576,544 which was \$ 207,932 lower than FY 2003. The reason for the decrease was the lower revenue generated during the current year by (\$304,669) and lower interest income earned by (\$28,097) and the increase in salaries and other employee benefits (\$58,614). Though Transfer Out to REPMAR is \$360,606 or 46% lower than the previous year, it still contributed to the poor financial picture of the MIMRA during the current year due to the reduction in revenue collection.

Budget Variances:

Total revenues lagged by \$ 380,795 compare to the final budget because vessels transshipping in the Majuro port is minimal and some of the boats expected to be registered during the year did not register. All other revenue sources also fell short of the final budget estimates.

Capital Assets:

At the end the current year FY 2004, MIMRA has net capital assets of \$441,545. Though there were total additions of \$67,109 of capital assets, the increase in the depreciation amounting to \$104,722 during the current year decreased the balance of capital assets. The decrease which is equivalent to 8% compared to the previous year is still a good indication that the capital assets MIMRA has right now are still in good condition. (See table below).

MIMRA Capital Assets

	<u>2004</u>	<u>2003</u>
Buildings and improvements	\$ 341,367	\$ 339,216
Equipment and improvements	76,320	71,615
Vehicles	68,995	68,995
Equipment	130,075	113,000
Furniture and Fixtures	18,147	17,957
Motorboats	<u>57,616</u>	<u>15,114</u>
	692,520	625,897
Less: Accumulated Depreciation	<u>250,975</u>	<u>146,739</u>
	441,545	479,158
Construction in Progress	<u>-</u>	<u>2,151</u>
Net	\$ <u>441,545</u>	\$ <u>481,309</u>

MARSHALL ISLANDS MARINE RESOURCES AUTHORITY

Management's Discussion and Analysis
September 30, 2004

Fiscal Year 2004 major capital asset addition includes:

1. EQUIPMENT:	
a.) Two (2) new computer & two (2) printers (Admin)	\$ 4,243
b.) Projector & camera (Observers Program)	2,750
c.) Electronic scales & ICOM radio for Fish base (Coastal)	8,345
d.) New air condition unit (FNTC)	<u>1,737</u>
TOTAL	\$ <u>17,075</u>
2. MOTORBOATS – Coastal	\$ <u>42,988</u>

Long-Term Debt:

The long-term debt shown in MIMRA's financial statement is the renovation cost done by Edgewater Fisheries (tenant) at the space they rented for fish-base. Payment for this debt is offset against one half of the total monthly lease payment for fish base. The term of payment is based on the lease agreement.

There is no additional debt to be taken into consideration.

Economic Factors and Next year Budgets and Rates

- El Niño phenomenon discuss earlier that affects revenue collection for the current year.

The above was taken into account in the preparation of the Fiscal Year 2005 budget, thus reducing the total revenue budget from \$ 2.950M in 2004 to \$ 2.371M in 2005.

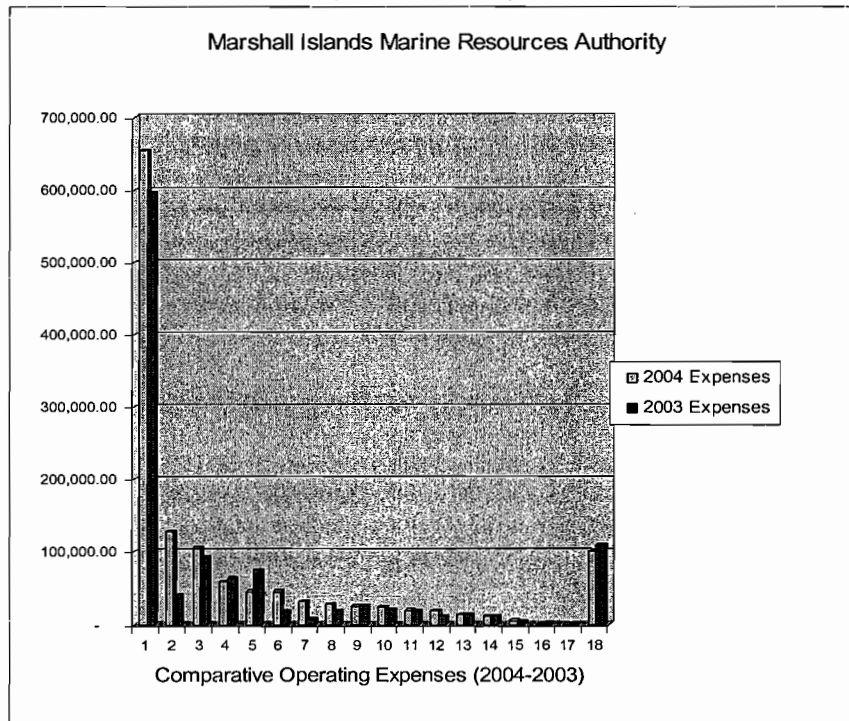
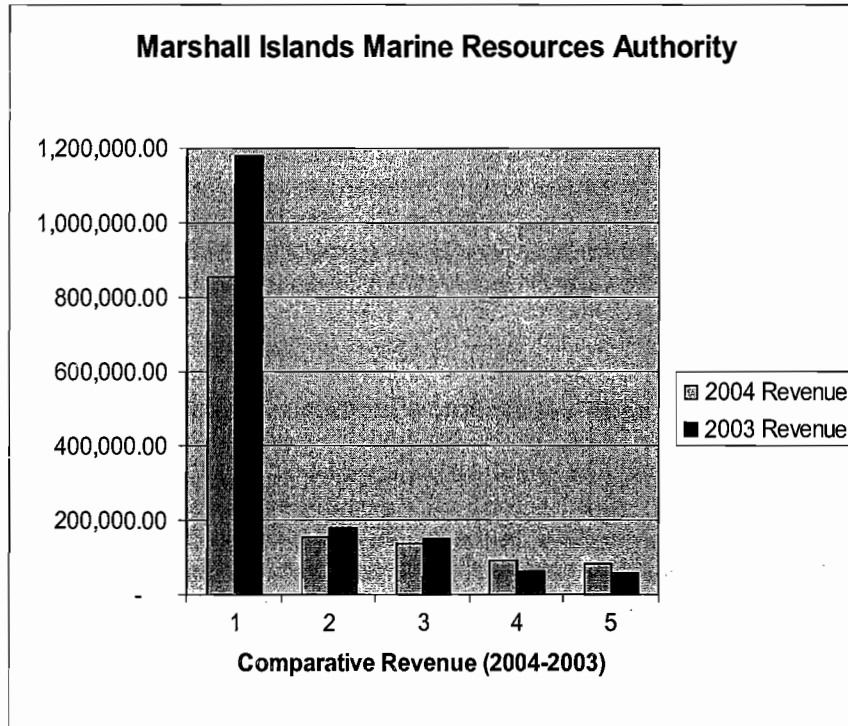
Budgeted expenditures are expected to rise at a minimal rate of 8% to \$ 1.259M in 2005 from \$ 1.165M in 2004. The highest increment is on the insurance expense budget due to the increase in the coverage of fire insurance from \$300K to \$500K which equals 17%. Also, an increase in the housing allowance has been budgeted due to the hiring of one observer coordinator. Anyhow, this increase will be taken out from the decrease in the budget for capital expenditures.

Other Potentially Significant Matters:

During the course of the audit, in December 2004, a blue Mitsubishi pick-up was acquired for the use of the Observers Coordinator amounting to \$ 16,750 and a Mazda pick-up was also acquired in April 2005 for the used of FNTC School. There are a couple of new fishing agreements which were finalized around the first quarter of FY2005. They are the Sanko Bussan based in Guam and Pacific Foods which is based in Pohnpei, FSM.

MARSHALL ISLANDS MARINE RESOURCES AUTHORITY

Management's Discussion and Analysis
September 30, 2004



MARSHALL ISLANDS MARINE RESOURCES AUTHORITY

Statements of Net Assets
September 30, 2004 and 2003

ASSETS	2004	2003
Current assets:		
Cash	\$ 85,993	\$ 76,469
Time certificates of deposit	<u>490,551</u>	<u>708,007</u>
Receivables:		
Affiliate	433,484	431,410
Trade	96,241	191,079
Accrued interest	6,213	9,587
Other	<u>210,189</u>	<u>134,359</u>
	746,127	766,435
Less allowance for doubtful accounts	<u>(644,835)</u>	<u>(517,449)</u>
	<u>101,292</u>	<u>248,986</u>
Other assets	<u>2,905</u>	<u>3,580</u>
Total current assets	680,741	1,037,042
Improvements and equipment, net	<u>441,545</u>	<u>481,309</u>
	<u>\$ 1,122,286</u>	<u>\$ 1,518,351</u>
 <u>LIABILITIES AND NET ASSETS</u> 		
Current liabilities:		
Accounts payable	\$ 8,263	\$ 11,092
Current portion of leasehold payable	12,500	12,500
Deferred revenue	-	185,250
Payable to affiliates	135,744	135,424
Other liabilities and accruals	<u>106,776</u>	<u>96,444</u>
Total current liabilities	263,283	440,710
Noncurrent liabilities:		
Leasehold payable, net of current portion	<u>116,049</u>	<u>128,553</u>
Total liabilities	<u>379,332</u>	<u>569,263</u>
Commitments		
Net assets:		
Investment in capital assets	441,545	481,309
Unrestricted	<u>301,409</u>	<u>467,779</u>
Total net assets	<u>742,954</u>	<u>949,088</u>
	<u>\$ 1,122,286</u>	<u>\$ 1,518,351</u>

See accompanying notes to financial statements.

MARSHALL ISLANDS MARINE RESOURCES AUTHORITY

Statements of Revenues, Expenses and Changes in Net Assets
Years Ended September 30, 2004 and 2003

	<u>2004</u>	<u>2003</u>
Operating revenues:		
Licensing fees	\$ 855,340	\$ 1,178,802
Other fees and charges	154,105	179,750
Transshipment fees	139,800	151,800
Grants	92,225	62,750
Other	<u>85,935</u>	<u>58,972</u>
Total operating revenues	<u>1,327,405</u>	<u>1,632,074</u>
Operating expenses:		
Salaries and wages	654,146	595,532
Bad debts	127,386	40,390
Depreciation	104,722	93,722
Utilities	58,916	63,347
Travel	45,336	75,617
Repairs and maintenance	44,966	18,401
Contributions	31,944	7,235
Training	27,854	18,394
Petroleum, oil and lubricants	25,024	25,937
Communications	24,785	21,215
Supplies	20,062	18,031
Boarding and observer fees	19,134	12,025
Entertainment	13,349	13,242
Professional fees	12,000	12,000
Freight	5,347	3,088
Advertising	779	2,716
Contractual services	-	426
Miscellaneous	<u>100,151</u>	<u>109,725</u>
Total operating expenses	<u>1,315,901</u>	<u>1,131,043</u>
Operating income	<u>11,504</u>	<u>501,031</u>
Nonoperating revenues (expenses):		
Interest income	17,968	46,065
Transfer to RepMar	<u>(360,606)</u>	<u>(634,763)</u>
Total nonoperating expenses, net	<u>(342,638)</u>	<u>(588,698)</u>
Capital contributions	<u>125,000</u>	<u>15,300</u>
Change in net assets	<u>(206,134)</u>	<u>(72,367)</u>
Net assets at beginning of year	<u>949,088</u>	<u>1,021,455</u>
Net assets at end of year	<u>\$ 742,954</u>	<u>\$ 949,088</u>

See accompanying notes to financial statements.

MARSHALL ISLANDS MARINE RESOURCES AUTHORITY

Statements of Cash Flows
Years Ended September 30, 2004 and 2003

	<u>2004</u>	<u>2003</u>
Cash flows from operating activities:		
Cash received from customers	\$ 1,344,339	\$ 1,536,109
Cash payments to suppliers for goods and services	(671,373)	(875,801)
Cash payments to employees for services	(601,676)	(511,253)
Net cash provided by operating activities	<u>71,290</u>	<u>149,055</u>
Cash flows from noncapital financing activities:		
Transfers to RepMar's General Fund	(360,606)	(634,763)
Net cash used in noncapital financing activities	<u>(360,606)</u>	<u>(634,763)</u>
Cash flows from capital and related financing activities:		
Capital contributions	125,000	15,300
Acquisition of capital assets	(64,958)	(120,256)
Net cash provided by (used in) capital and related financing activities	<u>60,042</u>	<u>(104,956)</u>
Cash flows from investing activities:		
Net decrease in time certificates of deposit	217,456	349,741
Interest received on time certificates of deposit	21,342	44,678
Net cash provided by investing activities	<u>238,798</u>	<u>394,419</u>
Net increase (decrease) in cash	9,524	(196,245)
Cash at beginning of year	76,469	272,714
Cash at end of year	<u>\$ 85,993</u>	<u>\$ 76,469</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 11,504	\$ 501,031
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	104,722	93,722
Bad debts	127,386	40,390
(Increase) decrease in assets:		
Receivables:		
Affiliate	(2,074)	(8,122)
Trade	94,838	(102,181)
Grants	-	53,000
Other	(75,830)	(38,662)
Inventory	675	(3,580)
Increase (decrease) in liabilities:		
Accounts payable	(2,829)	(18,222)
Deferred revenue	(185,250)	(36,527)
Payable to affiliates	320	(329,401)
Other liabilities and accruals	(2,172)	(2,393)
Net cash provided by operating activities	<u>\$ 71,290</u>	<u>\$ 149,055</u>

Supplemental schedule of noncash investing, capital and financing activities:

During the years ended September 30, 2004 and 2003, MIMRA applied rental expense of \$12,504 and \$12,496, respectively, as reimbursement of cost of improvements.

See accompanying notes to financial statements.

MARSHALL ISLANDS MARINE RESOURCES AUTHORITY

Notes to Financial Statements
September 30, 2004 and 2003

(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.

The operations of MIMRA and the former Marshall Islands Marine Resources Authority were accounted for as a separate fund (the Marine Resources Fund) within RepMar's Ministry of Finance. On July 20, 1999, MIMRA established a separate bank account outside of RepMar's Treasury for the purpose of receiving and disbursing funds in accordance with Public Law 1997-60. Accordingly, the accompanying financial statements relate solely to those accounting records maintained by MIMRA and do not incorporate any accounts related to MIMRA's operations that may be accounted for by RepMar's Treasury or any of RepMar's other branches, departmental units or component units.

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 general purpose financial statements of RepMar as a component unit.

(2) Summary of Significant Accounting Policies

The accounting policies of MIMRA conform to accounting principles generally accepted in the United States of America, as applicable to governmental entities, specifically proprietary funds. Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, requires that proprietary activities apply all applicable GASB pronouncements as well as Statements and Interpretations issued by the Financial Accounting Standards Board (FASB), Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedures issued on or before November 30, 1989. MIMRA has implemented GASB 20 and elected not to apply FASB Statements and Interpretations issued after November 30, 1989.

GASB issued 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*, and modified by Statement No. 38, *Certain Financial Statement Disclosures*. These statements establish 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.

MARSHALL ISLANDS MARINE RESOURCES AUTHORITY

Notes to Financial Statements
September 30, 2004 and 2003

(2) Summary of Significant Accounting Policies, Continued

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

- Investment in capital assets; capital assets, net of accumulated depreciation, plus construction or improvement of those assets.
- Unrestricted; net assets that are not subject to externally imposed stipulations. Unrestricted net assets 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.

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.

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 assets. 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.

Cash and Time Certificates of Deposit

For purposes of the statements of net assets 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, 2004 and 2003, the carrying amount of cash and time certificates of deposit were \$576,544 and \$784,476, respectively, and the corresponding bank balances were \$582,714 and \$885,754, respectively, which were maintained in a financial institution not subject to Federal Deposit Insurance Corporation (FDIC) insurance. MIMRA does not require collateralization of its cash deposits; therefore, its deposits are uncollateralized.

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 bad debts charged to expense.

MARSHALL ISLANDS MARINE RESOURCES AUTHORITY

Notes to Financial Statements
September 30, 2004 and 2003

(2) Summary of Significant Accounting Policies, Continued

Improvements and Equipment

MIMRA does not have a 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. The estimated useful lives of these assets are as follows:

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

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.

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, 2004 and 2003, the accumulated vacation leave liability totals \$37,344 and \$51,694, respectively, and is included within the statements of net assets as other liabilities and accruals.

New Accounting Standards

For fiscal year 2005, MIMRA will be implementing GASB Statement No. 40, *Deposit and Investment Risk Disclosures* (an amendment of GASB Statement No. 3) and GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. MIMRA has not evaluated the financial statement impact of the implementation of GASB Statement Nos. 40 and 42.

Reclassifications

Certain reclassifications have been made to the 2003 financial statements in order to conform with the 2004 presentation.

(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 past three years.

MARSHALL ISLANDS MARINE RESOURCES AUTHORITY

Notes to Financial Statements
September 30, 2004 and 2003

(4) Improvements and Equipment

Capital assets activity for the years ended September 30, 2004 and 2003, was as follows:

	<u>2004</u>			
	<u>October 1, 2003</u>	<u>Additions</u>	<u>Retirements</u>	<u>September 30, 2004</u>
Building improvements	\$ 339,216	\$ 2,151	\$ -	\$ 341,367
Equipment	113,000	17,075	-	130,075
Equipment improvements	71,615	4,705	-	76,320
Vehicles	68,995	-	-	68,995
Furniture	17,957	190	-	18,147
Motor boats	15,114	42,988	(486)	57,616
	<u>625,897</u>	<u>67,109</u>	<u>(486)</u>	<u>692,520</u>
Less accumulated depreciation	(146,739)	(104,722)	486	(250,975)
	479,158	(37,613)	-	441,545
Construction work-in-progress	2,151	-	(2,151)	-
	<u>\$ 481,309</u>	<u>\$ (37,613)</u>	<u>\$ (2,151)</u>	<u>\$ 441,545</u>
	<u>2003</u>			
	<u>October 1, 2002</u>	<u>Additions</u>	<u>Retirements</u>	<u>September 30, 2003</u>
Building improvements	\$ 335,801	\$ 3,415	\$ -	\$ 339,216
Equipment	44,530	68,470	-	113,000
Equipment improvements	61,943	9,672	-	71,615
Vehicles	48,995	20,000	-	68,995
Furniture	14,963	3,585	(591)	17,957
Motor boats	-	15,114	-	15,114
	<u>506,232</u>	<u>120,256</u>	<u>(591)</u>	<u>625,897</u>
Less accumulated depreciation	(53,608)	(93,722)	591	(146,739)
	452,624	26,534	-	479,158
Construction work-in-progress	2,151	-	-	2,151
	<u>\$ 454,775</u>	<u>\$ 26,534</u>	<u>\$ -</u>	<u>\$ 481,309</u>

(5) 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).

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, 2004 and 2003 is as follows:

	<u>2004</u>		
	<u>Expenses</u>	<u>Payables</u>	<u>Receivables</u>
Marshall Islands Social Security Administration	\$ 131,028	\$ 31,504	\$ 423,288
Marshall Islands National Telecommunications Authority	25,575	2,404	-
Marshalls Energy Company, Inc.	70,575	31,135	-
College of the Marshall Islands	25,000	-	-
RepMar	-	63,755	8,912
Others	10,416	6,946	1,284
	<u>\$ 262,594</u>	<u>\$ 135,744</u>	<u>\$ 433,484</u>

MARSHALL ISLANDS MARINE RESOURCES AUTHORITY

Notes to Financial Statements
September 30, 2004 and 2003

(5) Related Party Transactions, Continued

	2003		
	<u>Expenses</u>	<u>Payables</u>	<u>Receivables</u>
Marshall Islands Social Security Administration	\$ 47,868	\$ 28,431	\$ 423,288
Marshall Islands National Telecommunications Authority	21,215	1,540	-
Marshalls Energy Company, Inc.	63,347	42,038	-
RepMar	-	58,954	8,122
Others	17,398	4,461	-
	<u>\$ 149,828</u>	<u>\$ 135,424</u>	<u>\$ 431,410</u>

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, 2004, MIMRA has not been reimbursed for this amount. As a result, \$123,288 of interest and penalties has been accrued. The total balance of \$423,288 has been included in the allowance for doubtful accounts at September 30, 2004 and 2003.

MIMRA remits certain fishing rights fees to RepMar's General Fund. Remittances in excess of such fees are recorded by MIMRA as transfers to RepMar. During the years ended September 30, 2004 and 2003, MIMRA transferred to RepMar's General Fund \$360,606 and \$634,763, respectively.

During the years ended September 30, 2004 and 2003, MIMRA received capital contributions of \$125,000 and \$15,300, respectively, from RepMar. MIMRA also received an appropriation of \$60,000 from RepMar during 2004. There were no such appropriations in 2003.

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.

MIMRA maintains deposit accounts amounting to \$576,044 and \$783,976 as of September 30, 2004 and 2003, respectively, with a related financial institution.

(6) Leasehold Payable

MIMRA had entered into a lease agreement for the use of a building and cold storage facility belonging to RepMar. The term of the lease for the building is ten years expiring on July 31, 2011 with options to extend for an additional ten years. The term of the lease for the cold storage facility is one year, or until such time that the operator is able to maintain and operate its own cold storage facility. The lease agreement for the building states that the operator may deduct up to fifty percent of the annual rental fee (up to a maximum of \$250,000) as reimbursement for cost of improvements placed on the premises during the term of the lease, all of which will remain on the premises after the expiration or termination of the lease. As of September 30, 2004, the operator made \$165,000 of building improvements, of which \$116,049 is to be reimbursed through future rental payments commencing in fiscal year 2006, and extending to the end of the lease.

MARSHALL ISLANDS MARINE RESOURCES AUTHORITY

Notes to Financial Statements
September 30, 2004 and 2003

(6) Leasehold Payable, Continued

Long-term debt activity during the years ended September 30, 2004 and 2003, is as follows:

2004				
Balance October 1, 2003	Additions	Reductions	Balance September 30, 2004	Amount due within one year
\$ <u>128,553</u>	\$ <u>-</u>	\$ <u>(12,504)</u>	\$ <u>116,049</u>	\$ <u>12,500</u>
2003				
Balance October 1, 2002	Additions	Reductions	Balance September 30, 2003	Amount due within one year
\$ <u>141,049</u>	\$ <u>-</u>	\$ <u>(12,496)</u>	\$ <u>128,553</u>	\$ <u>12,500</u>

(7) Commitments

During the year ended September 30, 2000, MIMRA assumed the payment obligations under certain ground leases, which were previously the obligations of RepMar's Ministry of Internal Affairs. During the year ended September 30, 2003, MIMRA 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 2005 through 2024.

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

Year ending September 30,	
2005	\$ 26,142
2006	23,676
2007	21,426
2008	14,967
2009	6,392
2010-2014	33,302
2015-2019	25,581
2020-2024	<u>22,721</u>
	\$ <u>174,207</u>

Lease expense amounted to \$27,766 and \$28,654 for the years ended September 30, 2004 and 2003, respectively.

MARSHALL ISLANDS MARINE RESOURCES AUTHORITY

Notes to Financial Statements
September 30, 2004 and 2003

(7) Commitments, Continued

As described in note 6, MIMRA entered into a lease agreement for the lease of a building belonging to RepMar. Total future minimum rentals, net of cost of improvements placed on the premises, for subsequent years ending September 30, are as follows:

<u>Year ending</u> <u>September 30,</u>	
2005	\$ 12,500
2006	12,500
2007	12,500
2008	12,500
2009	12,500
2010-2011	<u>22,917</u>
	\$ <u>85,417</u>

Rental income amounted to \$39,008 and \$49,300 for the years ended September 30, 2004 and 2003, respectively.