

**MARSHALL ISLANDS MARINE RESOURCES  
AUTHORITY**

**FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITORS' REPORT**

**YEARS ENDED SEPTEMBER 30, 2005 AND 2004**

## INDEPENDENT AUDITORS' REPORT

Board of Directors  
Marshall Islands Marine Resources Authority:

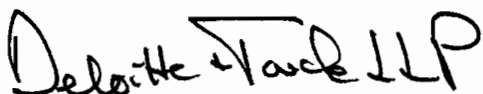
We have audited the accompanying statements of net assets of the Marshall Islands Marine Resources Authority (MIMRA), a component unit of the Republic of the Marshall Islands (RepMar), as of September 30, 2005 and 2004, and the related statements of revenues, expenses, and changes in net assets and of 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.

In our opinion, such financial statements present fairly, in all material respects, the financial position of MIMRA as of September 30, 2005 and 2004, and their changes in net assets and their 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 2 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 supplementary information. However, we did not audit such information and we do not express an opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 26, 2006, on our consideration of 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.



July 26, 2006

# MARSHALL ISLANDS MARINE RESOURCES AUTHORITY

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

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 ended September 30, 2005. Please read it and verify any clarification to the financial statements, which follow this section. The table below summarizes the financial condition and operations of MIMRA for fiscal years 2005 and 2004.

	<u>2005</u>	<u>2004</u>	%	<u>Change</u>
<b>ASSETS:</b>				
Current and other assets	\$ 944,635	\$ 680,741		38%
Capital assets	403,780	441,545		-08%
Total Assets	<u>1,348,415</u>	<u>1,122,286</u>		20%
<b>LIABILITIES:</b>				
Current liabilities	276,226	263,283		05%
Long-term liabilities	103,545	116,049		-11%
Total Liabilities	<u>379,771</u>	<u>379,332</u>		00%
<b>NET ASSETS:</b>				
Investment in capital Assets	403,780	441,545		-08%
Unrestricted	564,864	301,409		87%
Total Net Assets	<u>\$ 968,644</u>	<u>\$ 742,954</u>		30%
<b>Revenue, Expenses and Changes in Net Assets:</b>				
Operating Revenue	\$ 1,912,626	\$ 1,327,405		44%
Operating Expenses	1,568,227	1,315,901		19%
Operating Income	<u>344,399</u>	<u>11,504</u>		2,894%
Non-operating revenues	25,307	17,968		41%
Non-operating expenses	(144,016)	(360,606)		-60%
Net non-operating revenue (expenses)	<u>(118,709)</u>	<u>(342,638)</u>		-65%
Capital contributions	-	125,000		100%
Changes in net assets	225,690	(206,134)		209%
Net assets at beginning of year	<u>742,954</u>	<u>949,088</u>		-22%
Net assets at end of year	<u>\$ 968,644</u>	<u>\$ 742,954</u>		30%

### **Overall Analysis.**

Compared to FY 2004 results of operations, there was a 44% increase in FY 2005 operating revenue. The reason for this was that there were three new access agreements approved for the current year; thus, increasing the total number of boats registered and paid during the year. In addition, there was a 23% increase on boats calling in port at Majuro this year as compared to last year; thus, the improved collection. Licensing fee alone went up by almost \$ 500,000 or 58% compared to the FY 2004 licensing fee received. All other revenue generated also increased resulting in a positive overall picture of MIMRA revenues for the current year.

# MARSHALL ISLANDS MARINE RESOURCES AUTHORITY

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

As a result of the increase in collection of license fees and other related fees and also an increase of the boats calling port at Majuro, the overall picture of MIMRA's financial condition is positive compared to the previous FY2004. Operating expenses increased by \$ 252,326 or 19% compare to FY2004. The increase of this amount was on the salaries and benefits due to the hiring of one aquaculture technician and some salary increments due the previous years but only effected during the current year.

MIMRA's financial condition as shown on the Changes in Net Assets shows an overall 30% positive increase compared to FY 2004 which was a 22% decrease from FY 2003. The overall result means that the total increase in the Change of Net Assets is actually 52% during the current fiscal year.

### **Fund Analysis:**

As MIMRA completed the year, the agency's combined fund (Savings and Current Account) has a total balance of \$838,995, which was \$262,451 higher compared to FY 2004. The reason for the increase was due to higher revenue generated during the current fiscal year and the interest earned also increased to as much as 40% as compared to FY 2004, which was 61% lower than the previous year-FY2003. Transfers out to REPMAR is only a minimal \$144,016 compared to FY2004 \$360,606 or 60% lower; thus, this contributed to the positive financial picture of MIMRA during the current fiscal year.

### **Budget Variances:**

Actual operating revenues is on the favorable side by as much as \$480,000 compared to the final budget due to the additional access agreements approved which improves everything from collection of licensing fees and the related fees. Boats calling ports in Majuro, contributed to the favorable result of the budget versus the actual collection. Though there is total 19% increase in the operating expense budget but the overall picture is favorable to the high 44% increase in the revenue collection.

### **Capital Asset:**

At the end of the current year FY 2005, MIMRA has net capital assets of \$403,780. Though there were total additions of \$63,586 of capital assets, and a slight decrease in depreciation amounting to \$101,351 during the current fiscal year, still the net effect is a reduced 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>2005</u>	<u>2004</u>
Buildings and improvements	\$ 341,367	\$ 341,367
Equipment improvements	76,320	76,320
Vehicles	103,595	68,995
Equipment	155,761	130,075
Furniture and Fixtures	19,047	18,147
Motorboats	<u>60,016</u>	<u>57,616</u>
Grand Total	756,106	692,520
Less: Accumulated Depreciation	<u>352,326</u>	<u>250,975</u>
	403,780	441,545
Construction in Progress	-	-
NET	<u>\$ 403,780</u>	<u>\$ 441,545</u>

**MARSHALL ISLANDS MARINE RESOURCES AUTHORITY**

Management's Discussion and Analysis  
September 30, 2005

Fiscal Year 2005 major capital asset additions include:

1. EQUIPMENT:	
a.) Computers and printer	\$ 12,694
b.) Woja Hatchery Equipment	7,475
c.) Others	2,980
d.) New air condition unit (FNTC)	<u>2,537</u>
TOTAL	<u>\$ 25,686</u>
2. MOTORBOATS – Coastal	<u>\$ 2,400</u>
3. VEHICLES	<u>\$ 34,600</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 the 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**

Budgeted expenditures are expected to rise at a minimal rate of 21% to \$1.6 million in 2006 from \$1.26 million in 2005. The highest increment is on salaries and wages due to the increase to be given to all personnel who are receiving less than the minimum wage and in the expected hiring of five (5) managerial level positions, which will increase salaries to as high as 19% compared to the previous fiscal year. All other expenses, like utilities and communications, went up a little bit. 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 January, 2006, we paid a membership (for the Republic of the Marshall Islands) to the Tuna Commission based in Ponhpei amounting to SIXTY FIVE THOUSAND SIX HUNDRED FORTY ONE & 00/100 ONLY (\$65,641) for calendar years 2005 and 2006. On the other hand, OFCF people who had managed the Arno Clam Hatchery for two years have finished their term; thus, the clam hatchery has been turned-over to MIMRA. MIMRA now will take care of everything including the maintenance of the hatchery and the employees' salaries.

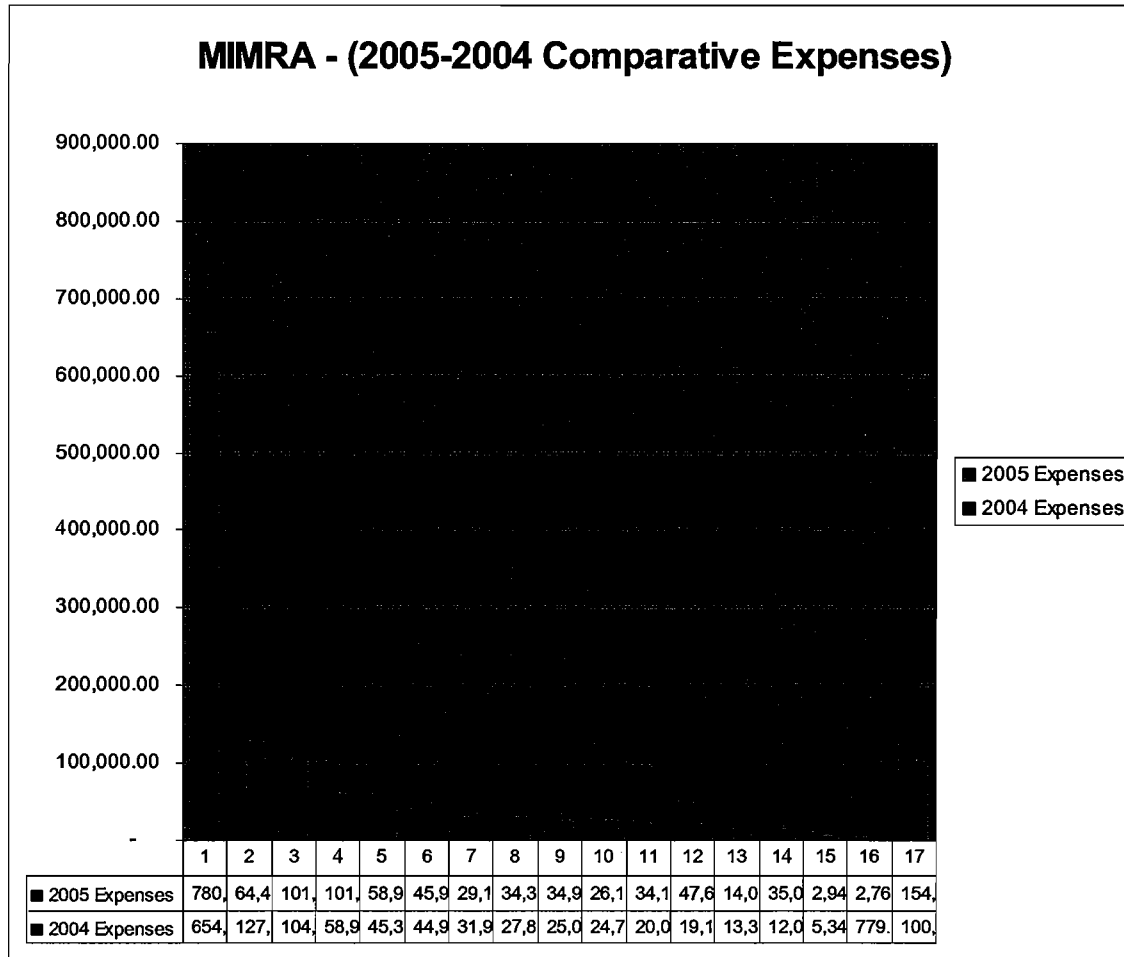
Taiwan and Korea before the FY 2005 year end and on the first quarter of FY2006, were holding negotiations with MIMRA for a new licensing rate. Taiwan and Korea agreed on the new rate as detailed below:

License fees (purse seiner)	\$ 20,000
Observers and Registration fee	<u>1,300</u>
TOTAL	<u>\$ 21,300</u>

# MARSHALL ISLANDS MARINE RESOURCES AUTHORITY

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

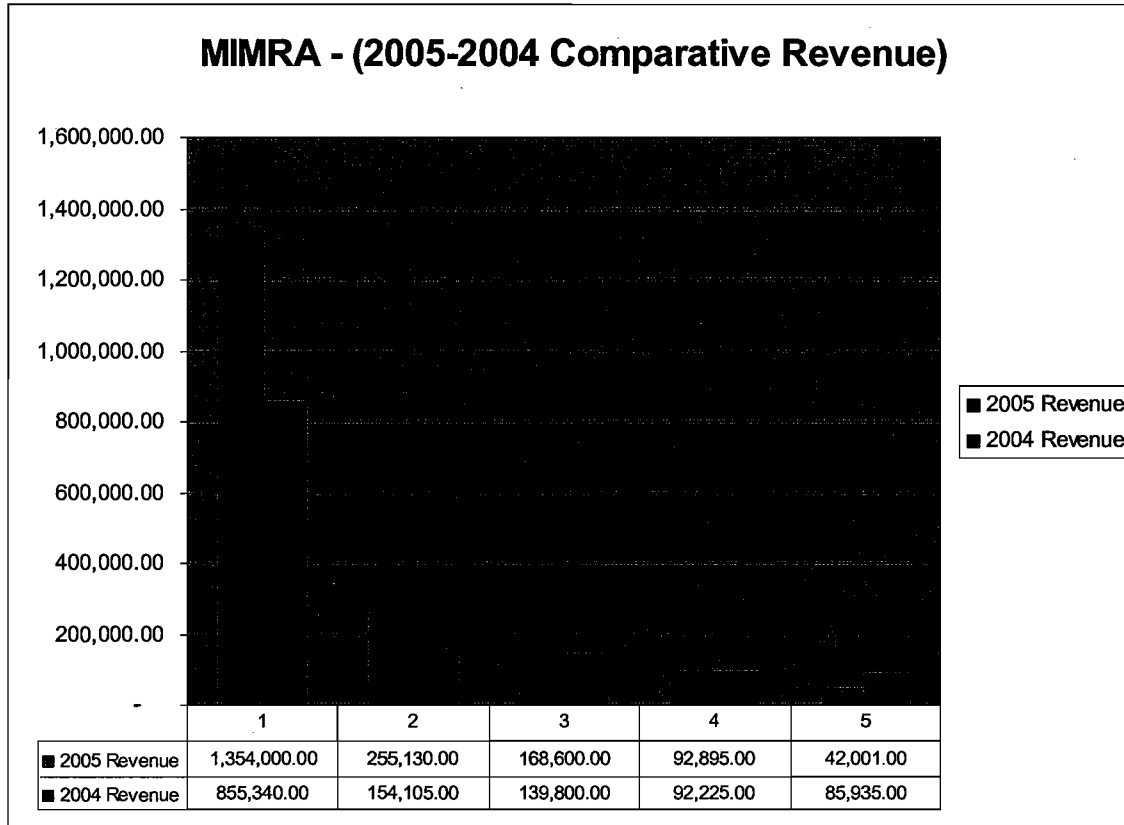
As of today, Taiwan only registered one boat and Korea on the other hand has not registered any boats. This would only mean that if nothing is paid within FY2006, the revenue collection will be on the decrease at the end of FY2006.



	<b>2005</b>	<b>2004</b>
Scale 1 Salaries, wages & employees benefits	\$ 780,680	\$ 654,146
Scale 2 Bad debts	64,486	127,386
Scale 3 Depreciation	101,351	104,722
Scale 4 Utilities	101,032	58,916
Scale 5 Travel	58,912	45,336
Scale 6 Repairs & maintenance	45,900	44,966
Scale 7 Contributions	29,130	31,944
Scale 8 Training	34,309	27,854
Scale 9 Petroleum, oil and lubricants	34,995	25,024
Scale 10 Communications	26,133	24,785
Scale 11 Supplies	34,190	20,062
Scale 12 Boarding & observers fees	47,675	19,134
Scale 13 Entertainment	14,016	13,349
Scale 14 Professional fees	35,008	12,000
Scale 15 Freight	2,942	5,347
Scale 16 Advertising	2,767	779
Scale 17 Miscellaneous	154,701	100,151
<b>TOTAL OPERATING EXPENSES</b>	<b>\$ 1,568,227</b>	<b>\$ 1,315,901</b>
<b>OVERALL CHANGE IN EXPENSES (FY2005 versus FY 2004)</b>	<b>\$ 252,326</b>	<b>19%</b>

**MARSHALL ISLANDS MARINE RESOURCES AUTHORITY**

Management's Discussion and Analysis  
September 30, 2005



	2005	2004
SCALE 1 License fee collections	1,354,000	855,340
SCALE 2 Other fees and charges	255,130	154,105
SCALE 3 Transshipment fees	168,600	139,800
SCALE 5 Grants	92,895	92,225
SCALE 6 Others	42,001	85,935
<b>TOTAL</b>	<b>1,912,626</b>	<b>1,327,405</b>
<b>OVERALL CHANGE IN 2005 COMPARED TO 2004</b>	<b>585,221</b>	<b>44%</b>

**MARSHALL ISLANDS MARINE RESOURCES AUTHORITY**

Statements of Net Assets  
September 30, 2005 and 2004

	<u>ASSETS</u>	<u>2005</u>	<u>2004</u>
Current assets:			
Cash		\$ 56,474	\$ 85,993
Time certificates of deposit		<u>782,521</u>	<u>490,551</u>
Receivables:			
Affiliates		432,463	433,484
Trade		99,689	96,241
Accrued interest		6,707	6,213
Other		<u>265,787</u>	<u>210,189</u>
		804,646	746,127
Less allowance for doubtful accounts		<u>(700,480)</u>	<u>(644,835)</u>
		<u>104,166</u>	<u>101,292</u>
Other assets		<u>1,474</u>	<u>2,905</u>
Total current assets		944,635	680,741
Improvements and equipment, net		<u>403,780</u>	<u>441,545</u>
		<u>\$ 1,348,415</u>	<u>\$ 1,122,286</u>
<u>LIABILITIES AND NET ASSETS</u>			
Current liabilities:			
Accounts payable		\$ 1,478	\$ 8,263
Current portion of leasehold payable		12,500	12,500
Payable to affiliates		118,113	135,744
Other liabilities and accruals		<u>144,135</u>	<u>106,776</u>
Total current liabilities		276,226	263,283
Noncurrent liabilities:			
Leasehold payable, net of current portion		<u>103,545</u>	<u>116,049</u>
Total liabilities		<u>379,771</u>	<u>379,332</u>
Commitments and contingency			
Net assets:			
Invested in capital assets		403,780	441,545
Unrestricted		<u>564,864</u>	<u>301,409</u>
Total net assets		<u>968,644</u>	<u>742,954</u>
		<u>\$ 1,348,415</u>	<u>\$ 1,122,286</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, 2005 and 2004

	2005	2004
Operating revenues:		
Licensing fees	\$ 1,354,000	\$ 855,340
Other fees and charges	255,130	154,105
Transshipment fees	168,600	139,800
Grants	92,895	92,225
Other	42,001	85,935
	<u>1,912,626</u>	<u>1,327,405</u>
Total operating revenues		
Operating expenses:		
Salaries and wages	780,680	654,146
Depreciation	101,351	104,722
Utilities	101,032	58,916
Bad debts	64,486	127,386
Travel	58,912	45,336
Boarding and observer fees	47,675	19,134
Repairs and maintenance	45,900	44,966
Professional fees	35,008	12,000
Petroleum, oil and lubricants	34,995	25,024
Training	34,309	27,854
Supplies	34,190	20,062
Contributions	29,130	31,944
Communications	26,133	24,785
Entertainment	14,016	13,349
Freight	2,942	5,347
Advertising	2,767	779
Miscellaneous	154,701	100,151
	<u>1,568,227</u>	<u>1,315,901</u>
Total operating expenses		
Operating income	<u>344,399</u>	<u>11,504</u>
Nonoperating revenues (expenses):		
Interest income	25,307	17,968
Transfer to RepMar	(144,016)	(360,606)
	<u>(118,709)</u>	<u>(342,638)</u>
Total nonoperating expenses, net		
Capital contributions	-	125,000
Change in net assets	225,690	(206,134)
Net assets at beginning of year	742,954	949,088
Net assets at end of year	<u>\$ 968,644</u>	<u>\$ 742,954</u>

See accompanying notes to financial statements.

**MARSHALL ISLANDS MARINE RESOURCES AUTHORITY**

Statements of Cash Flows  
Years Ended September 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Cash flows from operating activities:		
Cash received from customers	\$ 1,845,760	\$ 1,344,339
Cash payments to suppliers for goods and services	(675,200)	(671,373)
Cash payments to employees for services	(725,320)	(601,676)
Net cash provided by operating activities	<u>445,240</u>	<u>71,290</u>
Cash flows from noncapital financing activities:		
Transfers to RepMar's General Fund	<u>(144,016)</u>	<u>(360,606)</u>
Net cash used in noncapital financing activities	<u>(144,016)</u>	<u>(360,606)</u>
Cash flows from capital and related financing activities:		
Capital contributions	-	125,000
Acquisition of capital assets	<u>(63,586)</u>	<u>(64,958)</u>
Net cash (used in) provided by capital and related financing activities	<u>(63,586)</u>	<u>60,042</u>
Cash flows from investing activities:		
Net change in time certificates of deposit	(291,970)	217,456
Interest received on time certificates of deposit	<u>24,813</u>	<u>21,342</u>
Net cash (used in) provided by investing activities	<u>(267,157)</u>	<u>238,798</u>
Net change in cash	(29,519)	9,524
Cash at beginning of year	<u>85,993</u>	<u>76,469</u>
Cash at end of year	<u>\$ 56,474</u>	<u>\$ 85,993</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 344,399	\$ 11,504
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	101,351	104,722
Bad debts	64,486	127,386
(Increase) decrease in assets:		
Receivables:		
Affiliate	1,021	(2,074)
Trade	(9,609)	94,838
Other	(58,278)	(75,830)
Inventory	1,431	675
Increase (decrease) in liabilities:		
Accounts payable	(6,785)	(2,829)
Deferred revenue	-	(185,250)
Payable to affiliates	(17,631)	320
Other liabilities and accruals	<u>24,855</u>	<u>(2,172)</u>
Net cash provided by operating activities	<u>\$ 445,240</u>	<u>\$ 71,290</u>

Supplemental schedule of noncash investing, capital and financing activities:

During the years ended September 30, 2005 and 2004, MIMRA applied rental expense of \$12,504 as reimbursement of cost of improvements.

See accompanying notes to financial statements.

# MARSHALL ISLANDS MARINE RESOURCES AUTHORITY

Notes to Financial Statements  
September 30, 2005 and 2004

## (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

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.

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.

# MARSHALL ISLANDS MARINE RESOURCES AUTHORITY

Notes to Financial Statements  
September 30, 2005 and 2004

## (2) Summary of Significant Accounting Policies, Continued

### 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. MIMRA considers operating revenues to include activities that have the characteristics of exchange transactions, such as (1) licensing, transshipment, and other fees, and (2) most local and other grants. Revenues and expenses related to other activities are considered to be nonoperating.

### 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, 2005 and 2004, the carrying amount of cash and time certificates of deposit were \$838,995 and \$576,544, respectively, and the corresponding bank balances were \$844,186 and \$582,714, respectively. Of the bank balance amounts, \$19,603 and \$0, respectively, were maintained in a financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance and were fully FDIC insured. Accordingly, these deposits are exposed to custodial credit risk, which is the risk that in the event of 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's name. MIMRA does not have a deposit policy for custodial credit risk. MIMRA does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC insurance coverage 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.

### Allowance for Doubtful Accounts

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.

# MARSHALL ISLANDS MARINE RESOURCES AUTHORITY

Notes to Financial Statements  
September 30, 2005 and 2004

## (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, 2005 and 2004, the accumulated vacation leave liability totals \$42,569 and \$37,344, respectively, and is included within the statements of net assets as other liabilities and accruals.

### New Accounting Standards

In fiscal year 2005, MIMRA implemented 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*. Implementation of GASB Statement Nos. 40 and 42 is reflected in the accompanying financial statements.

In fiscal year 2006, MIMRA will be implementing the following:

Statement No. 44 – *“Economic Condition Reporting: The Statistical Section, an amendment of NCGA Statement 1.”*

Statement No. 46 – *“Net Assets Restricted by Enabling Legislation.”*

Statement No. 47 – *“Accounting for Termination Benefits.”*

For Statements 44 and 46, there is no financial impact for these statements. For Statement 47, as of the date of the opinion, MIMRA has not evaluated the financial impact of implementing this statement.

**MARSHALL ISLANDS MARINE RESOURCES AUTHORITY**

Notes to Financial Statements  
September 30, 2005 and 2004

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In fiscal year 2007, MIMRA will be implementing Statement No. 45 "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions." As of the date of the opinion, MIMRA has not evaluated the financial impact of implementing this statement.

(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) Improvements and Equipment

Capital assets activity during the years ended September 30, 2005 and 2004 is as follows:

	2005			
	October 1, <u>2004</u>	<u>Additions</u>	<u>Retirements</u>	September 30, <u>2005</u>
Building improvements	\$ 341,367	\$ -	\$ -	\$ 341,367
Equipment	130,075	25,686	-	155,761
Equipment improvements	76,320	-	-	76,320
Vehicles	68,995	34,600	-	103,595
Furniture	18,147	900	-	19,047
Motor boats	<u>57,616</u>	<u>2,400</u>	-	<u>60,016</u>
	692,520	63,586	-	756,106
Less accumulated depreciation	<u>(250,975)</u>	<u>(101,351)</u>	-	<u>(352,326)</u>
	441,545	(37,765)	-	403,780
Construction work-in-progress	-	-	-	-
	<u>\$ 441,545</u>	<u>\$ (37,765)</u>	<u>\$ -</u>	<u>\$ 403,780</u>
	2004			
	October 1, <u>2003</u>	<u>Additions</u>	<u>Retirements</u>	September 30, <u>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	<u>15,114</u>	<u>42,988</u>	(486)	<u>57,616</u>
	625,897	67,109	(486)	692,520
Less accumulated depreciation	<u>(146,739)</u>	<u>(104,722)</u>	486	<u>(250,975)</u>
	479,158	(37,613)	-	441,545
Construction work-in-progress	<u>2,151</u>	-	(2,151)	-
	<u>\$ 481,309</u>	<u>\$ (37,613)</u>	<u>\$ (2,151)</u>	<u>\$ 441,545</u>

**MARSHALL ISLANDS MARINE RESOURCES AUTHORITY**

Notes to Financial Statements  
September 30, 2005 and 2004

**(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, 2005 and 2004 is as follows:

	<u>2005</u>		
	<u>Expenses</u>	<u>Payables</u>	<u>Receivables</u>
Marshall Islands Social Security Administration	\$ 63,169	\$ 41,127	\$ 423,288
Marshall Islands National Telecommunications Authority	28,010	2,248	-
Marshalls Energy Company, Inc.	118,598	5,385	-
College of the Marshall Islands	20,000	-	-
RepMar	144,016	67,137	8,912
Others	<u>32,466</u>	<u>2,216</u>	<u>263</u>
	<u>\$ 406,259</u>	<u>\$ 118,113</u>	<u>\$ 432,463</u>
	<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	<u>10,416</u>	<u>6,946</u>	<u>1,284</u>
	<u>\$ 262,594</u>	<u>\$ 135,744</u>	<u>\$ 433,484</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, 2005, 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, 2005 and 2004.

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, 2005 and 2004, MIMRA transferred to RepMar's General Fund \$144,016 and \$360,606, respectively.

During the years ended September 30, 2005 and 2004, MIMRA received capital contributions of \$0 and \$125,000, respectively, from RepMar. MIMRA also received an appropriation of \$60,000 from RepMar during 2004. There were no such appropriations in 2005.

**MARSHALL ISLANDS MARINE RESOURCES AUTHORITY**

Notes to Financial Statements  
September 30, 2005 and 2004

(5) Related Party Transactions, Continued

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 maintained deposit accounts amounting to \$822,277 and \$576,044 as of September 30, 2005 and 2004, 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, 2005, the operator made \$165,000 of building improvements, of which \$103,545 is to be reimbursed through future rental payments to MIMRA commencing in fiscal year 2007, and extending to the end of the lease.

Long-term debt activity during the years ended September 30, 2005 and 2004 is as follows:

2005				
Balance October 1, 2004	<u>Additions</u>	<u>Reductions</u>	Balance September 30, 2005	Amount due within one year
\$ 128,549	\$ -	\$ (12,504)	\$ 116,045	\$ 12,500
2004				
Balance October 1, 2003	<u>Additions</u>	<u>Reductions</u>	Balance September 30, 2004	Amount due within one year
\$ 141,053	\$ -	\$ (12,504)	\$ 128,549	\$ 12,500

(7) Commitments and Contingency

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 2006 through 2024.



# MARSHALL ISLANDS MARINE RESOURCES AUTHORITY

Notes to Financial Statements  
September 30, 2005 and 2004

## (7) Commitments and Contingency, Continued

### Commitments, Continued

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

<u>Year ending September 30,</u>	
2006	\$ 24,359
2007	22,109
2008	15,650
2009	7,075
2010	6,790
2011-2015	32,295
2016-2020	25,245
2021-2024	<u>17,672</u>
	\$ <u>151,195</u>

Lease expense amounted to \$31,064 and \$27,766 for the years ended September 30, 2005 and 2004, respectively.

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 September 30,</u>	
2006	\$ 12,500
2007	12,500
2008	12,500
2009	12,500
2010	12,500
2011	<u>10,417</u>
	\$ <u>72,917</u>

Rental income amounted to \$32,748 and \$39,008 for the years ended September 30, 2005 and 2004, respectively.

### Contingency

MIMRA recorded withholding taxes payable to RepMar amounting to \$44,077 as of September 30, 2005 and 2004 relating to fiscal years 2000 and 2001. Management expects that related penalties and interest on the unpaid taxes, estimated at approximately \$79,000 as of September 30, 2005, will be forgiven. As of September 30, 2005 and 2004, MIMRA only recorded a provision for related penalties and interest of \$14,258. The ultimate resolution of this matter is uncertain but could have a material impact on the 2005 financial statements.