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, 2011 AND 2010

Deloitte.

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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, 2011 and 2010, 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, 2011 and 2010, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 3, 2012, 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* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 2 through 7 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 such information and we do not express an opinion on it.

Deloitte + Touche LLP

July 3, 2012

MARSHALL ISLANDS MARINE RESOURCES AUTHORITY

Management's Discussion and Analysis
September 30, 2011 and 2010

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, 2011. 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 2011 and 2010.

	2011	2010	% Change	2009
ASSETS:				
Current and other assets	$ 2,573,531	$ 3,119,533	(18)%	$ 1,836,422
Capital assets	101,599	110,652	(08)%	152,279
Investment in JV	5,259,874	3,395,490	55 %	4,583,558
Total Assets	7,935,004	6,625,675		6,572,259
LIABILITIES:				
Current liabilities	551,170	1,268,945	(57)%	706,221
Long-term liabilities	-	-		1,818,443
Total Liabilities	551,170	1,268,945		2,524,664
NET ASSETS:				
Investment in capital Assets	101,599	110,652	(08)%	152,279
Unrestricted	7,282,235	5,246,078	39%	3,895,316
Total Net Assets	$ 7,383,834	$ 5,356,730		$ 4,047,595
Revenue, Expenses and Changes in Net Assets:				
Operating Revenue	$ 3,177,554	$ 2,232,183	42%	$ 1,809,231
Operating Expenses	2,007,390	1,865,868	08%	1,615,896
Operating Income	1,170,164	366,315		193,335
Non-operating revenues	1,990,569	1,146,394	64%	1,314,078
Non-operating expenses	1,133,629	203,574	457%	703,255
Net non-op rev(expenses)	856,940	942,820		637,823
Changes in net assets	2,027,104	1,309,135	86%	831,158
Net assets at beginning of year	5,356,730	4,047,595	32%	3,216,437
NET ASSETS at end of year	$ 7,383,834	$ 5,356,730		$ 4,047,595

Overall Analysis.

In FY 2010, operating revenues increased by $422,952 (or 23%) compared with FY 2009; however, for FY2011, operating revenues increased by $945,371 (or 42%) compared with FY 2010. For FY 2011, licensing and registration revenue fees and observers revenue fees increased by $71,086 (or 5%) and $249,733 (or 207%), respectively, compared with FY 2010 while transshipment revenue fees decreased by $99,000 (or 24%) compared with FY 2010. On the other hand, MIMRA was able to collect fishing fines during FY 2011 for violation as stated in the access agreement signed by both (Vessel owner and MIMRA) amounting to $10,000 compared with $325,000 in FY 2010. Fishing day sales (Vessel Day Scheme or "VDS") significantly boosted total revenues generated by MIMRA during the current year in the amount of $1,064,500. For FY 2011, total fishing vessels (purse seiners, carriers and bunker vessels) transshipped in the Marshall Islands was Three Hundred Seven (307) vessels, which was higher than the yearly average of 200 vessels but lower by around 23% compared to FY 2010.

For FY 2011, Korea did not register any vessels. In addition, Taiwan registered 12 vessels compared with 16 vessels in the prior year while the domestic-based Marshall Islands Fishing Company (MIFCO) registered 3 vessels in FY 2011, which is the same number as in prior year. All other domestic-based companies had no significant impact on the overall revenue picture of MIMRA for the current year as there was no increase in their license rates, including the long liners of Marshall Islands Fishing Venture (MIFV). Overall, operating revenues for FY 2011 increased by 42% compared to FY 2010 and exceeded estimated revenues by $444,154 against the budgeted amount of $2.734 million for FY 2011 (Budgeted amount does not include Japan bilateral, FSM & US Treaty and interest and other income).

Although transshipment revenue fees and fishing violation fines were lower compared to last fiscal year, earnings from all other revenue sources went up such as license fees and observers fees. As discussed above, fishing day sales boosted total revenues of MIMRA for the current fiscal year, thus, it positively impacted the overall picture of MIMRA's financial condition during FY 2011.

For FY 2011, operating expenses increased by $141,522 (or 8%) compared with FY 2010; however, such increase is lower compared to the increase in expenses between FY 2010 and FY 2009 of $249,972 (or 13%). The reduction in the incremental difference was due to some expenses which were lower than that of FY 2010. Salaries and wages increased marginally by $8,793 (or 1%) in FY 2011 compared with FY 2010 whereas such increased by $82,055 (or 9.6%) in FY 2010 compared with FY 2009. On the other hand, bad debts expense increased significantly in FY 2011 by $171,134 (or 482%) compared to FY 2010, the result of which was the recognition of an allowance for doubtful debts in FY 2011 for fishing association advances.

Overall, the effect of the above resulted in operating income for FY2011 of $1.170 million, an increase of $0.804 million (or 219%) compared with FY 2010. Non-operating items of $0.857 million further increased the results of operations of MIMRA for FY 2011. These included the recognition of $1.864 million in joint venture equity earnings in MIFCO, offset by a distribution made to RepMar of $0.884 million and a $0.25 million contribution to the College of the Marshall Islands (CMI).

MIMRA's financial condition as shown on the Changes in Net Assets shows an overall 86% increase compared to FY 2010, which is 30% higher compared to FY 2009.

Management's Discussion and Analysis for the year ended September 30, 2010 is set forth in MIMRA's report on the audit of financial statements, which is dated July 19, 2011. That Management Discussion and Analysis explains the major factors impacting the 2010 financial statements and can be obtained from MIMRA's Administrator via the contact information in page 7.

Fund Analysis:

At the end of FY 2011, MIMRA's combined fund (Savings and Current Account) amounted to $2,370,238, which was a decrease of $256,097 compared to the end of FY 2010. The major reason for the decrease is due to distributions made to RepMar of $883,629 in FY 2011 and contributions to CMI of $250,000 offset by positive cash flows from MIMRA operations. Interest earned in FY 2011 was marginally higher by $1,328 compared with FY 2010.

Budget Variances:

Actual operating revenues is favorable by as much as $862,423 compared to the final budget (***budget income includes that of Japan bilateral, FSM arrangement and US Treaty which has a total budget of $1,520,000 during the year***). However, since earnings from the aforementioned group is not included in MIMRA's financial statements, the favorable amount is only around $382,423. Actual expenses of $2.007 million compared to the budgeted amount for the current year of $1.941 million is unfavorable by 3%.

Capital Assets:

At the end of FY2011, MIMRA has a net investment in capital assets of $101,599. Although there were total additions of $17,284 in capital assets in FY 2011, the net effect is a reduced balance of capital assets. The decrease, which is equivalent to 8% compared to the previous year is not a good indication. The capital assets of MIMRA right now are not in good standing, thus management need to look at it carefully. (See table below).

MIMRA Capital Assets

	2011	2010	2009
Buildings and improvements	$ 176,367	$ 176,367	$ 176,367
Equipment improvements	16,210	16,210	90,330
Vehicles	146,595	146,595	146,595
Equipment	267,320	250,036	220,216
Furniture & Fixtures	25,828	25,828	25,828
Motorboats	90,617	90,617	63,316
Grand Total	722,937	705,653	749,953
Less: Accumulated Depreciation	621,338	595,001	597,674
NET	$ 101,599	$ 110,652	$ 152,279

Fiscal Year 2011 major capital asset additions include:

EQUIPMENT (computers/aircon/etc)	$ 17,284

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

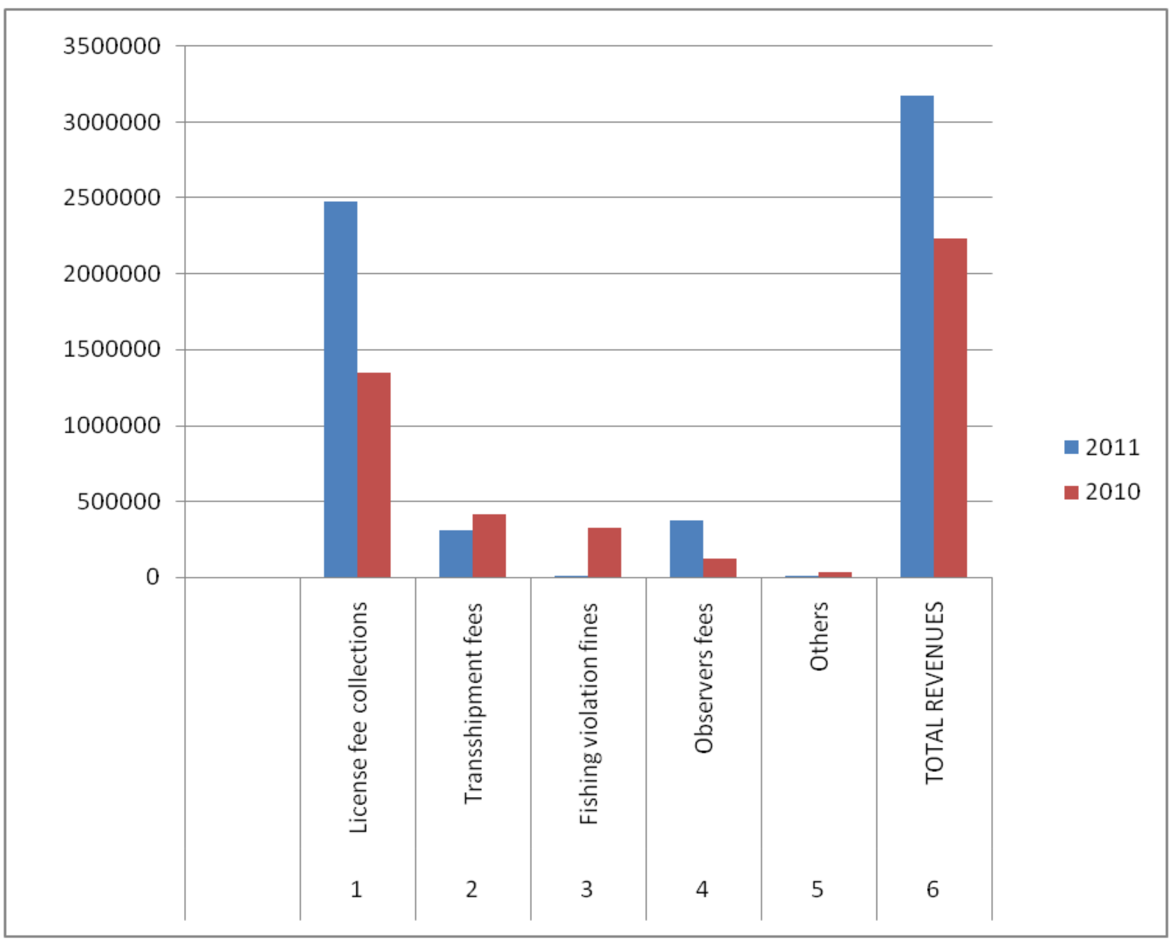
Long-Term Debt:

No long-term debt is presented in the financial statements for FY2011 as full payment has been made. MIMRA's share of income from the MIFCO Joint Venture was applied to the debt (cost of fishing boat) in FY 2010. MIMRA still has to receive the money (dividend share) from the joint venture amounting to $89,225 for FY2011 ($75,715.14 for FY2010 dividend) after offsetting the share to the debt.

For additional information concerning long-term debt, please see note 7 to the financial statements.

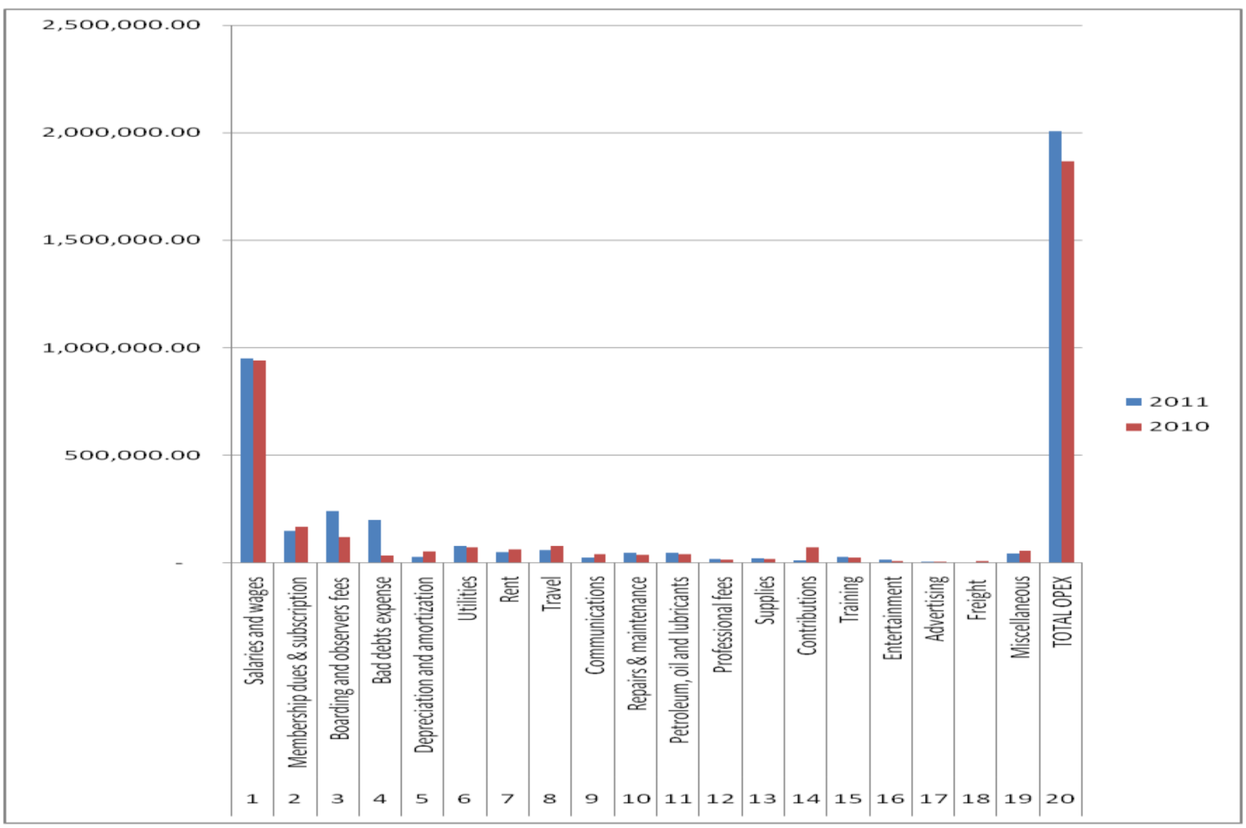
COMPARATIVE REVENUE 2011-2010

	2011	2010	2009
Licensing, registration and VDS revenue	$ 2,473,445	$ 1,344,866	$ 1,545,700
Transshipment fees	312,000	411,000	210,800
Fishing violation fines	10,000	325,000	-
Observers fees	370,601	120,868	115,968
Other	11,508	30,449	35,004
TOTAL	$ 3,177,554	$ 2,232,183	$ 2,232,183
Overall change in 2011 compared to 2010	$ 945,371	42%	



COMPARATIVE OPERATING EXPENSES (2010-2009)

	2010	2009	2008
Salaries and wages	$ 948,833	$ 940,040	$ 857,985
Membership dues & subscription	149,542	167,093	151,590
Boarding and observers fees	239,201	122,160	106,209
Bad debts expense	199,639	35,512	-
Depreciation and amortization	26,337	54,073	69,789
Utilities	76,859	72,784	85,346
Rent	48,799	62,198	38,895
Travel	59,109	79,384	52,916
Communications	24,726	39,791	40,422
Repairs & maintenance	45,941	37,164	38,625
Petroleum, oil and lubricants	45,448	42,910	39,476
Professional fees	17,050	17,000	46,042
Supplies	19,743	18,042	15,172
Contributions	12,686	71,724	5,140
Trainin	28,024	25,037	10,693
Entertainment	15,633	8,626	9,116
Advertising	5,348	6,133	10,833
Freight	1,912	8,237	1,498
Miscellaneous	42,560	57,960	36,149
TOTAL OPEX	$ 2,007,390	$ 1,865,868	$ 1,615,896
Overall change in OPEX(FY2011 vs FY 2010)	$ 141,522	8%	



Economic Factors and Next year Budgets and Rates

Budget has been formulated for FY2012. A 10% to 15% percent increase in the operating expenses was provided (net of both increase and decrease of budget on some line items) due to high prices in the Marshall Islands. FY2011 budget was provided for a 14% increase. Travel expenses, both international and domestic, will depend on how such will be funded. Some domestic travel is covered by grants that were approved and released to MIMRA in previous years. For international travel, internal agreement by management for such shall be limited to externally funded travel unless, in certain cases, where MIMRA shall match travel expense and, in other cases, where it is necessary that MIMRA must fund the travel.

The continuing up and down prices of oil in the world market also affected the Marshall Islands. Marshall Islands still has the highest fuel prices in the Micronesia by at least a little bit over 30% of the pump prices. Price ranges from $5 to $6 per gallon and reach as high as $6.50 per gallon. Thus, commodities in the islands continue to have high prices compared to that in the previous years. MIMRA's cost savings and conservation measures, adopted in FY 2011, will continue to be adopted in the formulation for the FY 2012 budget. Salaries and wages will have to be provided for a 10% increase in the budget due to regularization of some employees and contract renewal. It will also be provided for new hires to fill out vacant positions.

Though climate change is still on, it is not the only aspect that affects the revenue collection of the Agency. The non-signing of access agreements by Korea and Taiwan continues to affect MIMRA's revenues. Negotiation is underway but so far no positive results have come up yet. Due to the sale of the Fishing Days to Solomon for Korea the first eight months of FY2012 looks bright for the Agency.

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 Assets
September 30, 2011 and 2010

ASSETS	2011	2010
Current assets:		
Cash	$ 564,117	$ 806,193
Time certificates of deposit	1,806,121	1,820,142
Receivables:		
Affiliates	428,860	428,860
Trade	166,370	257,411
Accrued interest	-	20,319
Due from joint venture	89,225	75,715
Other	879,009	864,418
	1,563,464	1,646,723
Less allowance for doubtful accounts	(1,360,171)	(1,153,525)
	203,293	493,198
Total current assets	2,573,531	3,119,533
Improvements and equipment, net	101,599	110,652
Investment in joint venture	5,259,874	3,395,490
	$ 7,935,004	$ 6,625,675
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable	$ 256,837	$ 253,180
Payable to affiliates	66,334	228,059
Deferred revenue	125,888	690,519
Other liabilities and accruals	102,111	97,187
Total liabilities	551,170	1,268,945
Commitments		
Net assets:		
Invested in capital assets	101,599	110,652
Unrestricted	7,282,235	5,246,078
Total net assets	7,383,834	5,356,730
	$ 7,935,004	$ 6,625,675

See accompanying notes to financial statements.

MARSHALL ISLANDS MARINE RESOURCES AUTHORITY

Statements of Revenues, Expenses and Changes in Net Assets
Years Ended September 30, 2011 and 2010

	2011	2010
Operating revenues:		
Licensing and registration fees	$ 1,415,952	$ 1,344,866
Vessel Day Scheme revenue	1,064,500	-
Observers fees	370,601	120,868
Transshipment fees	312,000	411,000
Fishing violation fines	10,000	325,000
Other	11,508	30,449
	3,184,561	2,232,183
Less allowance for uncollectible accounts	(7,007)	-
Total operating revenues	3,177,554	2,232,183
Operating expenses:		
Salaries and wages	948,833	940,040
Boarding and observer fees	239,201	122,160
Bad debt expense	199,639	35,512
Membership dues and subscriptions	149,542	167,093
Utilities	76,859	72,784
Travel	59,109	79,384
Rent	48,799	62,198
Repairs and maintenance	45,941	37,164
Petroleum, oil and lubricants	45,448	42,910
Training	28,024	25,037
Depreciation and amortization	26,337	54,073
Communications	24,726	39,791
Supplies	19,743	18,042
Professional fees	17,050	17,000
Entertainment	15,633	8,626
Contributions	12,686	71,724
Advertising	5,348	6,133
Freight	1,912	8,237
Miscellaneous	42,560	57,960
Total operating expenses	2,007,390	1,865,868
Operating income	1,170,164	366,315
Nonoperating revenues (expenses), net:		
Equity in earnings of joint venture	1,864,384	753,019
Grants	39,029	321,057
Interest income	73,646	72,318
Contribution to College of Marshall Islands	(250,000)	-
Endowment fund contribution	-	(200,000)
Other	13,510	(3,574)
Transfer out to RepMar	(883,629)	-
Total nonoperating revenues, net	856,940	942,820
Change in net assets	2,027,104	1,309,135
Net assets at beginning of year	5,356,730	4,047,595
Net assets at end of year	$ 7,383,834	$ 5,356,730

See accompanying notes to financial statements.

MARSHALL ISLANDS MARINE RESOURCES AUTHORITY

Statements of Cash Flows
Years Ended September 30, 2011 and 2010

	2011	2010
Cash flows from operating activities:		
Cash received from customers	$ 2,696,380	$ 2,551,792
Cash payments to suppliers for goods and services	(990,649)	(861,744)
Cash payments to employees for services	(943,909)	(930,932)
Net cash provided by operating activities	761,822	759,116
Cash flows from noncapital financing activities:		
Operating grants received	39,029	339,498
Payments to Micronesia Conservation Trust endowment fund	-	(200,000)
Payments made to RepMar and affiliate	(1,133,629)	-
Net cash (used for) provided by noncapital financing activities	(1,094,600)	139,498
Cash flows from capital and related financing activities:		
Acquisition of capital assets	(17,284)	(32,020)
Proceeds from sale of fixed assets	-	16,000
Net cash used for capital and related financing activities	(17,284)	(16,020)
Cash flows from investing activities:		
Net additions (withdrawals) time certificates of deposit	14,021	(350,000)
Interest received on time certificates of deposit	93,965	82,275
Net cash provided by (used for) investing activities	107,986	(267,725)
Net change in cash	(242,076)	614,869
Cash at beginning of year	806,193	376,057
Cash at end of year	$ 564,117	$ 806,193
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	$ 1,170,164	$ 366,315
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	26,337	54,073
Bad debts	206,646	35,512
Decrease (increase) in assets:		
Receivables:		
Trade	91,041	(138,888)
Other	(14,591)	(151,873)
Increase (decrease) in liabilities:		
Accounts payable	3,657	66,723
Payable to affiliates	(161,725)	(92,186)
Deferred revenue	(564,631)	610,370
Other liabilities and accruals	4,924	9,070
Net cash provided by operating activities	$ 761,822	$ 759,116
Summary of noncash financing activities:		
Income from equity share investment:		
Decrease (increase) in investment in joint venture	$ (1,864,384)	$ 1,188,068
Increase in receivable from joint venture	(13,510)	(75,715)
Decrease in interest payable	-	(49,694)
Decrease in long-term payable to joint venture partner	-	(1,818,443)
Interest income	13,510	2,765
Equity in earnings of joint venture	1,864,384	753,019
	$ -	$ -

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

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 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:

- Invested 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.

(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

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 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, 2011 and 2010, the carrying amount of cash and time certificates of deposit were $2,370,238 and $2,626,335, respectively, and the corresponding bank balances were $2,641,978 and $2,635,485, respectively. Of the bank balances, $463,180 and $538,603, respectively, were maintained in a financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance. The remaining amounts of $2,178,798 and $2,096,882, respectively, were maintained in a non-FDIC insured financial institution. As of September 30, 2011 and 2010, 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.

(2) Summary of Significant Accounting Policies, Continued

Investments

Investment in joint venture is accounted for under the equity method of accounting. A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control, and a jointly controlled entity is a joint venture that involves the establishment of a separate entity in which each venturer has an interest. Under the equity method, the investor recognizes its proportionate share in the results of operations of the investee. Dividends received are treated as a reduction of the carrying value of the investments.

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. 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

Deferred Revenue

Deferred revenue includes amounts received for fishing licenses prior to the end of the fiscal year but related to the subsequent accounting period.

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 in respect of services are recognized as the right to consideration accrues through the provision of the service to the customer. Licensing fees are recognized as revenue when services are rendered 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 is recognized upon issuance of fishing days transfer notification.

Non-operating revenues and expenses primarily consist of investment earnings, contributions to RepMar, interest on long-term debt, and grant funds received.

(2) Summary of Significant Accounting Policies, Continued

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, 2011 and 2010, the accumulated vacation leave liability totals $51,809 and $51,376, respectively, and is included within the statements of net assets as other liabilities and accruals.

New Accounting Standards

During fiscal year 2011, MIMRA implemented the following pronouncements:

- GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions.

- GASB Statement No. 59, *Financial Instruments Omnibus*, which updates and improves existing standards regarding financial reporting of certain financial instruments and external investment pools.

The implementation of these pronouncements did not have a material effect on the accompanying financial statements.

In December 2009, GASB issued Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, which amends Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, and addresses issues related to measurement of OPEB obligations by certain employers participating in agent multiple-employer OPEB plans. The provisions of Statement 57 related to the use and reporting of the alternative measurement method are effective immediately. The provisions related to the frequency and timing of measurements are effective for actuarial valuations first used to report funded status information in OPEB plan financial statements for periods beginning after June 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of MIMRA.

In December 2010, GASB issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements,* which addresses 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 provisions of this statement are effective for periods beginning after December 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of MIMRA.

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In December 2010, GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus,* which is designed to improve 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 provisions of this statement are effective for periods beginning after June 15, 2012. Management does not believe that the implementation of this statement will have a material effect on the financial statements of MIMRA.

In December 2010, GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements,* which is intended to enhance 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. The provisions of this statement are effective for periods beginning after December 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of MIMRA.

In July 2011, GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which establishes guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position. The provisions of this statement are effective for periods beginning after December 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of MIMRA.

In July 2011, GASB issued Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions* (an amendment of GASB Statement No. 53), which will improve financial reporting by state and local governments by clarifying the circumstances in which hedge accounting continues to be applied when a swap counterparty, or a swap counterparty's credit support provider, is replaced. The provisions of this statement are effective for periods beginning after June 15, 2011. Management does not believe that the implementation of this statement will have a material effect 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. The parties agreed that MIMRA's contribution to working capital will be provided by KFC and shall be classified as a liability due to the joint venture with interest of 3% per annum. For the first two years of operations, 100% of MIMRA's profit share was used to retire this liability; thereafter, it was reduced to 50% of MIMRA's profit share.

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, 2011 and 2010, for investees accounted for using the equity method of accounting for investments, are as follows:

	2011	2010
Assets	$ 16,447,303	$ 11,816,625
Liabilities	$ 4,547,859	$ 4,577,195
Net earnings	$ 4,660,014	$ 1,239,430

During the years ended September 30, 2011 and 2010, MIMRA received distributions of $0 and $1,941,087, respectively, from the joint venture (see note 7).

(5) Improvements and Equipment

Capital assets activity during the years ended September 30, 2011 and 2010 is as follows:

	2011			
	October 1, 2010	Additions	Disposal	September 30, 2011
Building improvements	$ 176,367	$ -	$ -	$ 176,367
Equipment	250,036	17,284	-	267,320
Equipment improvements	16,210	-	-	16,210
Vehicles	146,595	-	-	146,595
Furniture and fixtures	25,828	-	-	25,828
Motor boats	90,617	-	-	90,617
	705,653	17,284	-	722,937
Less accumulated depreciation	(595,001)	(26,337)	-	(621,338)
	$ 110,652	$ (9,053)	$ -	$ 101,599

(5) Improvements and Equipment, Continued

	2010			
	October 1, 2009	Additions	Disposal	September 30, 2010
Building improvements	$ 176,367	$ -	$ -	$ 176,367
Equipment	220,216	29,820	-	250,036
Equipment improvements	90,330	2,200	(76,320)	16,210
Vehicles	146,595	-	-	146,595
Furniture and fixtures	25,828	-	-	25,828
Motor boats	90,617	-	-	90,617
	749,953	32,020	(76,320)	705,653
Less accumulated depreciation	(597,674)	(54,073)	56,746	(595,001)
	$ 152,279	$ (22,053)	$ (19,574)	$ 110,652

(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, 2011 and 2010, MIMRA has not been reimbursed for this amount. As a result, $123,288 of interest and penalties has been accrued at September 30, 2011 and 2010 and $423,288 has been included in the allowance for doubtful accounts at September 30, 2011 and 2010.

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, 2011 and 2010 is as follows:

	2011		
	Expenses	Payables	Receivables
Marshall Islands Social Security Administration	$ 68,833	$ 39,571	$ -
Marshall Islands National Telecommunications Authority	26,210	3,708	-
Marshalls Energy Company, Inc.	69,035	9,090	-
RepMar	26,410	13,965	423,288
Others	24,266	-	5,572
	$ 214,754	$ 66,334	$ 428,860

(6) Related Party Transactions, Continued

	2010		
	Expenses	Payables	Receivables
Marshall Islands Social Security Administration	$ 105,630	$ 4,692	$ -
Marshall Islands National Telecommunications Authority	37,785	3,132	-
Marshalls Energy Company, Inc.	67,940	5,246	-
RepMar	-	204,662	423,288
Others	12,906	10,327	5,572
	$ 224,261	$ 228,059	$ 428,860

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, 2011 and 2010, MIMRA collected $1,919,684 and $2,196,687, respectively, under these treaties, of which $0 and $196,687, respectively, remained outstanding and payable as of September 30, 2011 and 2010. In addition, MIMRA provided cash contributions to RepMar's General Fund of $883,629 and $0, respectively, during the years ended September 30, 2011 and 2010.

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.

During the year ended September 30, 2011, MIMRA provided $250,000 to the College of Marshall Islands to establish a Fisheries and Nautical Training Center.

(7) Payable for Working Capital

A long-term payable to joint venture was for unpaid contributions for working capital of MIFCO provided by KFC to be reimbursed by MIMRA.

Repayment of the debt was to be made solely from MIMRA's equity earnings from MIFCO and was not to involve a claim on any other MIMRA asset. Therefore, management considered the debt to be long-term in nature and given the inability to predict the MIFCO earnings stream, it was not possible to predict the amount of future annual debt service.

During the year ended September 30, 2010, MIMRA received dividends of $1,941,087 from MIFCO which were applied against the working capital loan and related interest payable. Of this amount, $46,929 represented payments for interest with the remaining amount $1,818,443 applied against the working capital loan. At September 30, 2010, the working capital loan was paid in full with a residual amount of $75,715 due from MIFCO.

(7) Payable for Working Capital, Continued

The change in the liability during the year ended September 30, 2010, is as follows:

2010			
Balance October 1, 2009	Additions	Reductions	Balance September 30, 2010
$ 1,818,443	$ -	$ (1,818,443)	$ -

(8) 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,	
2012	$ 20,833
2013	20,833
2014	20,833
2015	20,833
2016	19,825
2017-2021	94,943
2022-2026	55,911
2027-2031	9,314
Thereafter	4,657
	$ 267,982

(9) Subsequent Event

On March 16, 2012, MIMRA provided Air Marshall Islands, Inc., with a $1.6 million capital grant pursuant to RepMar's Cabinet Minute C.M. 017 (2012).