

**MARSHALL ISLANDS SHIPPING CORPORATION**

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

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**FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITORS' REPORT**

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**YEAR ENDED SEPTEMBER 30, 2007**

## INDEPENDENT AUDITORS' REPORT

Board of Directors  
Marshall Islands Shipping Corporation:

We have audited the accompanying statement of net assets of the Marshall Islands Shipping Corporation (MISC), a component unit of the Republic of the Marshall Islands (RepMar), as of September 30, 2007. This financial statement is the responsibility of MISC's management. Our responsibility is to express an opinion on this financial statement based on our audit.

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

Because of inadequacies in MISC's accounting records and internal control, underlying supporting documentation evidencing the validity and completeness of operating revenues and expenses have not been maintained and were not made available for our audit. Therefore, we are unable to satisfy ourselves about the amounts at which operating revenues and expenses are recorded in the accompanying statement of revenues, expenses, and changes in net assets for the year ended September 30, 2007. The amount of operating revenues and expenses materially affect the determination of the results of operations and cash flows for the year ended September 30, 2007. Therefore, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the accompanying statements of revenues, expenses, and changes in net assets and of cash flows for the year ended September 30, 2007.

In our opinion, the statement of net assets referred to in the first paragraph, presents fairly, in all material respects, the financial position of MISC as of September 30, 2007, 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 MISC'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.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 5, 2009, on our consideration of 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 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.

Deloitte + Tatchell LLP

October 5, 2009

# MARSHALL ISLANDS SHIPPING CORPORATION

## Management's Discussion and Analysis September 30, 2007

As management of the Marshall Islands Shipping Corporation (MISC), we offer readers of MISC's financial statements this narrative overview and analysis of the financial activities of MISC for the fiscal year ending September 30<sup>th</sup>, 2007. We encourage the readers to consider the information presented here in conjunction with additional information that we have furnished in the MISC's financial statements, which follow this narrative. MISC commenced operations on October 1, 2006, thus no comparative information is presented.

### FINANCIAL HIGHLIGHTS

- The assets of MISC exceeded its liabilities at the close of business for the year by \$0.539M (Net Assets).
- As of the close of business on September 30, 2007, MISC earned \$1.03M in revenues. Most of these were derived from revenues generated from Charter and Freight (Cargo) which account for 33.1% and 50.6% or 83.7% of the total revenue earned during the year. On the other hand, MISC incurred various expenses, which are directly and indirectly related to provision of sea-transport services to the outer islands, and which totaled \$1.96M. These expenses were funded by income generated from Charter, Freight and Passenger fees, and other Sales of \$1.04M and by Subsidy from RMI Government of \$1.46M.

### Overview of Financial Statements

This discussion and analysis is intended to serve as an introduction to MISC's basic financial statements. MISC's financial statements are comprised of four (4) components: 1) Statement of Net Assets, 2) Statement of Revenues, Expenses and Changes in Net Assets, 3) Statement of Cash Flows, and 4) Notes to the financial statements.

MISC, like other government agencies, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. MISC is comprised of a single proprietary fund. A proprietary fund operates by charging its customer a fee for the service provided (*operating revenue*), like a typical business enterprise. A proprietary fund may also receive revenue from governmental agencies such as grants or support (*non-operating revenue*). These basic financial statements are designed to provide readers with a broad overview of MISC's finances, in a manner similar to a private-sector business.

The *Statement of Net Assets* presents information on all of MISC's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of MISC is improving or deteriorating.

The *Statement of Revenues, Expenses, and Changes in Net Assets* presents information showing how MISC's net assets changed during the fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of the related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. accounts receivable and accounts payable).

The *Statement of Cash Flows* presents information showing how MISC's cash increased or decreased during the year. Cash is received and used in three ways: operating activities, capital and non-capital financing activities, and investing activities. The statement of cash flows can be found on page 9.

# MARSHALL ISLANDS SHIPPING CORPORATION

## Management's Discussion and Analysis September 30, 2007

The *Notes to the financial statements* provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes to the financial statements can be found on pages 10 through 15 of this report.

### FINANCIAL ANALYSIS

#### Net Assets

Net Assets may serve over time as a useful indicator of a government's financial position. The Summary of Statement of Net Assets below was prepared to give insight on MISC's resources, liabilities, and net assets. At the close of business on September 30th, 2007, MISC's assets exceeded its liabilities by \$0.539M. Out of this total, \$0.447M or 83% are unrestricted assets which mean they can be used to finance the day-to-day operations of the corporation.

#### Summary of Statement of Net Assets

Assets:	
Cash	\$ 236,498
Receivables, net	400,740
Equipment, net	91,830
Other non-current assets	<u>72,000</u>
Total Assets	\$ <u>801,068</u>
Current Liabilities:	
Accounts payable	\$ 93,883
Payable to affiliates	105,333
Other liabilities and accruals	<u>62,662</u>
Total Liabilities	<u>261,878</u>
Net Assets:	
Invested in capital assets	91,830
Unrestricted	<u>447,360</u>
Total Net Assets	<u>539,190</u>
	\$ <u>801,068</u>

#### Changes in Net Assets

Current year activities resulted in a positive increase in net assets of MISC in the amount of \$0.539M. The Summary of Statement of Revenues, Expenses, and Changes in Net Assets below was prepared to show the net asset calculation for the year.

#### Summary of Statements of Revenues, Expenses, and Changes in Net Assets

Revenues:	
Charter	\$ 341,546
Cargo	522,201
Passenger	111,286
Other	<u>70,529</u>
Total operating revenues	<u>1,045,562</u>

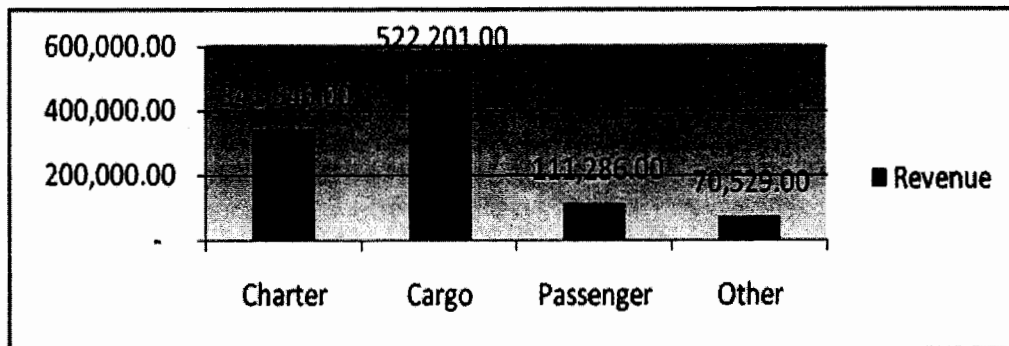
# MARSHALL ISLANDS SHIPPING CORPORATION

## Management's Discussion and Analysis September 30, 2007

Expenses:	
Total operating expenses	1,960,011
Provision for doubtful accounts	<u>13,827</u>
Total operating expenses	<u>1,973,838</u>
Loss from operations	<u>(928,276)</u>
Non-operating revenues	1,467,466
Net change in net assets	539,190
Net assets the beginning of the year	<u>-</u>
Net assets at the end of the year	\$ <u>539,190</u>

MISC's total revenues (excluding Non-operating revenues) earned and reported at the end of the year amounted to \$1.04M. About \$0.863M of MISC's revenue generated during the year comes from Charter and Freight (Cargo) which, respectively, account for 32% and 49% (or 81%) of the total of \$1.04M earned during the year. The chart below was prepared to describe MISC's revenue sources.

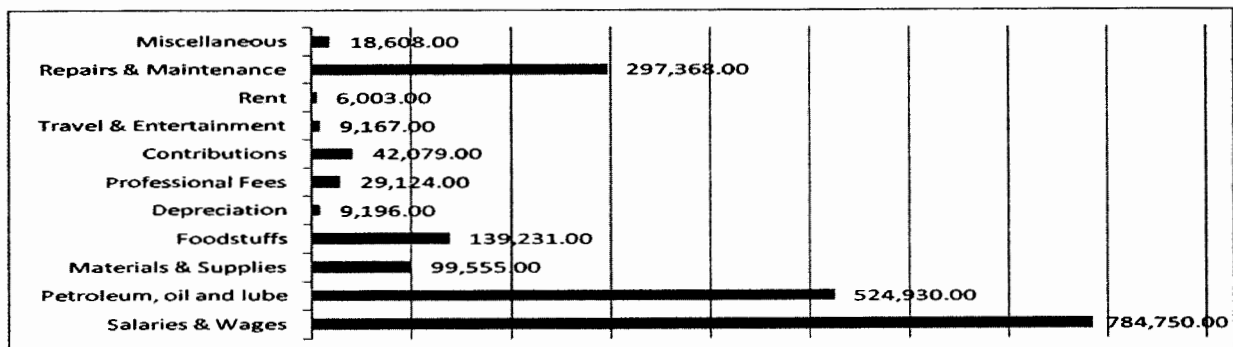
Revenue Sources FY2007



Total expenses incurred as of the close of business on September 30<sup>th</sup>, 2007, amounted to \$1.96M. Out of this, MISC incurred the total of approximately \$0.784M, \$0.524M, \$0.297M, and \$0.139M, respectively, for Salaries for employees, cost of fuel, maintenance and repair, and food supply for ship crew. These expense line items account for 90% of the total expenses of \$1.96M incurred during the year.

The graph below was prepared to describe the expenses distribution of MISC during the year.

Expenses distribution during FY2007



# MARSHALL ISLANDS SHIPPING CORPORATION

Management's Discussion and Analysis  
September 30, 2007

## **Capital Assets and Debt**

During the year, MISC purchased equipment, vehicles, and other fixed assets at a cost approximating \$56,000, \$29,000 and \$15,800, respectively. For additional information concerning capital assets, please refer to Note 4 to the financial statements on page 14.

MISC did not incur any long-term debt during the year nor did MISC have any outstanding long-term debt at the end of the year.

## **ECONOMIC OUTLOOK**

In the next years to come, MISC is expecting the demand for Fieldtrip services to continue to remain high. The regular Fieldtrip services are essential to transfer people and basic needs from the Capitol city of Majuro to the Outer Islands and vice versa.

Assuming that everything else is the same, with current demand for Fieldtrip services, current commitment from the RMI Government, and no major competitors in the market, the management aims to increase the number of Fieldtrip services in the near future.

## **REQUEST FOR INFORMATION**

The financial report is designed to provide a general overview of MISC's finances for all those with an interest in the corporation's finances. Questions concerning any of the information provided in this report or request for additional financial information should be addressed to the Manager of Marshall Islands Shipping Corporation, P.O. Box 1198, Majuro, MH 96960.

# MARSHALL ISLANDS SHIPPING CORPORATION

## Statement of Net Assets

September 30, 2007

### ASSETS

Current assets:	
Cash	\$ 236,498
Receivables:	
Affiliates	314,457
Trade	99,368
Employees	742
	<hr/>
	414,567
Less allowance for doubtful accounts	(13,827)
	<hr/>
	400,740
	<hr/>
Total current assets	637,238
Equipment, net	91,830
Advance to vendor	72,000
	<hr/>
	\$ 801,068
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### LIABILITIES AND NET ASSETS

Current liabilities:	
Accounts payable	\$ 93,883
Payable to affiliates	105,333
Other liabilities and accruals	62,662
	<hr/>
Total liabilities	261,878
	<hr/>
Contingency	
Net assets:	
Invested in capital assets	91,830
Unrestricted	447,360
	<hr/>
Total net assets	539,190
	<hr/>
	\$ 801,068
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See accompanying notes to financial statements.



## MARSHALL ISLANDS SHIPPING CORPORATION

### Statement of Revenues, Expenses and Changes in Net Assets Year Ended September 30, 2007

Operating revenues:	
Cargo	\$ 522,201
Charter	341,546
Passenger	111,286
Other	<u>70,529</u>
	1,045,562
Less provision for doubtful accounts	<u>(13,827)</u>
Total operating revenues	<u>1,031,735</u>
Operating expenses:	
Salaries, wages and benefits	784,750
Petroleum, oil and lube	524,930
Repairs and maintenance	297,368
Foodstuffs	139,231
Material and supplies	99,555
Contributions	42,079
Professional fees	29,124
Depreciation	9,196
Travel and entertainment	9,167
Rent	6,003
Miscellaneous	<u>18,608</u>
Total operating expenses	<u>1,960,011</u>
Operating loss	<u>(928,276)</u>
Nonoperating revenues:	
Operating subsidies	<u>1,467,466</u>
Change in net assets	539,190
Net assets at beginning of year	<u>-</u>
Net assets at end of year	<u>\$ 539,190</u>

See accompanying notes to financial statements.

# MARSHALL ISLANDS SHIPPING CORPORATION

## Statement of Cash Flows Year Ended September 30, 2007

Cash flows from operating activities:	
Cash received from customers	\$ 900,871
Cash payments to suppliers for goods and services	(989,423)
Cash payments to employees for services	<u>(722,088)</u>
Net cash used for operating activities	<u>(810,640)</u>
Cash flows from noncapital financing activities:	
RepMar subsidy received	<u>1,220,164</u>
Net cash provided by noncapital financing activities	<u>1,220,164</u>
Cash flows from capital and related financing activities:	
Acquisition of capital assets	(101,026)
Deposit on equipment	<u>(72,000)</u>
Net cash used for capital and related financing activities	<u>(173,026)</u>
Net change in cash	236,498
Cash at beginning of year	<u>-</u>
Cash at end of year	<u><u>\$ 236,498</u></u>
Reconciliation of operating loss to net cash used for operating activities:	
Operating loss	\$ (928,276)
Adjustments to reconcile operating loss to net cash used for operating activities:	
Depreciation	9,196
Bad debts	13,827
Increase in assets:	
Receivables:	
Affiliates	(44,581)
Trade	(99,368)
Employees	(742)
Increase in liabilities:	
Accounts payable	71,309
Payable to affiliates	105,333
Other liabilities and accruals	<u>62,662</u>
Net cash used for operating activities	<u><u>\$ (810,640)</u></u>
Summary of noncash operating and noncapital financing activities:	
Receivables from affiliates	\$ 319,816
Accounts payable	(22,574)
Operating subsidies	<u>(297,242)</u>
	<u><u>\$ -</u></u>

See accompanying notes to financial statements.

# MARSHALL ISLANDS SHIPPING CORPORATION

Notes to Financial Statements  
September 30, 2007

## (1) Organization

The Marshall Islands Shipping Corporation (MISC), a component unit of the Republic of the Marshall Islands (RepMar), was created by Public Law 2005-41, the Marshall Islands Shipping Corporation Act, 2004. MISC was established to manage and operate RepMar's shipping vessels. MISC's principal line of business is to provide sea transportation services; to carry on business as ship owners; and to build and maintain ships and vessels.

MISC is governed by a five-member Board of Directors, including one official each from the Ministry of Finance and the RMI Ports Authority and three members appointed by the Cabinet of RepMar.

MISC'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 MISC 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. MISC 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*, as amended by Statement No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus* and Statement No. 38, *Certain Financial Statement Note Disclosures* 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 asset 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 SHIPPING CORPORATION

Notes to Financial Statements  
September 30, 2007

## (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 statement 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. MISC considers revenues and costs that are directly related to operations of shipping vessels to be operating revenues and expenses. Revenues and expenses related to financing and other activities are reflected as nonoperating.

### Cash

Custodial credit risk is the risk that in the event of a bank failure, MISC'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. MISC 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. As of September 30, 2007, the carrying amount of cash was \$236,498 and the corresponding bank balance was \$303,050, which was maintained in a financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2007, bank deposits in the amount of \$100,000 were FDIC insured. MISC 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 affiliates or customers, located within the Republic of the Marshall Islands. 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. The allowance is established through a provision for bad debts charged to expense.

# MARSHALL ISLANDS SHIPPING CORPORATION

Notes to Financial Statements  
September 30, 2007

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

### Equipment

MISC has not adopted a formal capitalization policy for 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:

Vehicles	5 years
Equipment	5 years
Furniture	5 years
Motor boats	5 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. MISC 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 non-vesting accumulating rights to receive sick pay benefits. As of September 30, 2007, the accumulated vacation leave liability totals \$40,132, and is included within the statement of net assets as other liabilities and accruals.

### Revenue Recognition

Cargo, charter and passenger revenue are recognized when transportation is provided. Other components of other operating revenue are recognized as revenue when the related goods and services are provided.

### New Accounting Standards

In April 2004, GASB issued Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which establishes uniform financial reporting for other postemployment benefit plans by state and local governments. The provisions of this statement are effective for periods beginning after December 15, 2006. Management does not believe that the implementation of this statement will have a material effect on the financial statements of MISC.

In June 2004, GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which establishes standards for the measurement, recognition, and display of other post employment benefits expense/expenditures and related liabilities, note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers. The provisions of this statement are effective for periods beginning after December 15, 2007. Management does not believe that the implementation of this statement will have a material effect on the financial statements of MISC.

# MARSHALL ISLANDS SHIPPING CORPORATION

Notes to Financial Statements  
September 30, 2007

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

### New Accounting Standards, Continued

In September 2006, GASB issued Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfer of Assets and Future Revenues*. GASB Statement No. 48, which establishes criteria that a government will use to ascertain whether certain transactions should be regarded as a sale or a collateralized borrowing. The statement also includes a provision that stipulates that governments should not revalue assets that are transferred between financial reporting entity components. The provisions of this statement are effective for periods beginning after December 15, 2006. Management does not believe that the implementation of this statement will have a material effect on the financial statements of MISC.

In December 2006, GASB issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. GASB Statement No. 49 provides guidance and consistency under which a governmental entity would be required to report a liability related to pollution remediation. The provisions of this statement are effective for periods beginning after December 15, 2007. Management does not believe that the implementation of this statement will have a material effect on the financial statements of MISC.

In May 2007, GASB issued Statement No. 50, *Pension Disclosures—an Amendment of GASB Statements No. 25 and 27*, which amends applicable note disclosure and RSI requirements of Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and No. 27 *Accounting for Pensions by State and Local Governmental Employers*, to conform with requirements of Statements 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*. The provisions of this statement are effective for periods beginning after June 15, 2007. Management does not believe the implementation of this statement will have a material effect on the financial statements of MISC.

In June 2007, GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. GASB Statement No. 51 addresses whether and when intangible assets should be considered capital assets for financial reporting purposes. The provisions of this statement are effective for periods beginning after June 15, 2009. Management does not believe that the implementation of this statement will have a material effect on the financial statements of MISC.

## (3) Risk Management

MISC 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. MISC has elected to purchase commercial automobile insurance from independent third parties for the risks of loss to which it is exposed with respect to the use of motor vehicles. Settled claims have not exceeded this commercial coverage during the year ended September 30, 2007. MISC does not maintain general liability insurance; maritime insurance; or fire, lightning and typhoon insurance for its office building and contents. In the event of an insurable loss, MISC may be self-insured to a material extent.

# MARSHALL ISLANDS SHIPPING CORPORATION

## Notes to Financial Statements September 30, 2007

### (4) Equipment

Capital asset activity during the year ended September 30, 2007 is as follows:

	<u>October 1, 2006</u>	<u>Additions</u>	<u>Retirements</u>	<u>September 30, 2007</u>
Equipment	\$ -	\$ 56,153	\$ -	\$ 56,153
Vehicles	-	28,995	-	28,995
Furniture	-	7,378	-	7,378
Motor boats	-	8,500	-	8,500
	-	101,026	-	101,026
Less accumulated depreciation	-	(9,196)	-	(9,196)
	<u>\$ -</u>	<u>\$ 91,830</u>	<u>\$ -</u>	<u>\$ 91,830</u>

### (5) Related Party Transactions

MISC was created by the Nitijela of RepMar under Public Law 2005-41 and is thus considered a component unit of RepMar. Accordingly, MISC is affiliated with all RepMar-owned and affiliated entities.

A summary of related party transactions for the year ended September 30, 2007 is as follows:

	<u>Revenues</u>	<u>Expenses</u>	<u>Receivables</u>	<u>Payables</u>
Tobolar Copra Processing Plant, Inc.	\$ 286,348	\$ -	\$ 261,638	\$ -
Marshall Islands Social Security Administration	-	70,089	-	52,252
Marshall's Energy Company, Inc.	20,000	250,560	-	36,500
Majuro Water and Sewer Company, Inc.	-	10,380	-	9,520
Republic of the Marshall Islands	145,722	-	52,819	3,753
Other	27	8,974	-	3,308
	<u>\$ 452,097</u>	<u>\$ 340,003</u>	<u>\$ 314,457</u>	<u>\$ 105,333</u>

During the year ended September 30, 2007, the operations of MISC were funded by appropriations, totaling \$1,056,833, from the Nitijela of RepMar, of which \$50,060 is recorded as receivable from RepMar as of September 30, 2007. In addition, receivables and payables in the amounts of \$319,816 and \$22,574, respectively, were transferred from RepMar to MISC upon commencement of MISC's operations in 2007, and which have been recorded as net operating subsidies in the accompanying financial statements.

RepMar paid payroll and other expenses for MISC of \$113,391 during the year ended September 30, 2007, which are recorded as operating subsidies in the accompanying financial statements.

MISC occupies certain office space and utilizes four RepMar-owned vessels at no cost. No lease agreements have been executed to formalize these arrangements. However, management is of the opinion that no rental payments for the use of these properties 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 expense in the accompanying financial statements.

# MARSHALL ISLANDS SHIPPING CORPORATION

Notes to Financial Statements  
September 30, 2007

## (6) Contingency

MISC receives a substantial amount of its revenue from annual RepMar appropriations. A significant reduction in the level of budgetary support from RepMar, if this were to occur, may have an effect on MISC's programs and activities. For the year ended September 30, 2008, RepMar appropriated funding to MISC in the amount of \$1,037,533 for the purpose of funding operations.