MARSHALL ISLANDS SHIPPING CORPORATION

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

FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT

YEARS ENDED SEPTEMBER 30, 2008 AND 2007

Deloitte.

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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, 2008, and the related statements of revenues, expenses, and changes in net assets and of cash flows for the year then ended. We have also audited the accompanying statement of net assets of MISC as of September 30, 2007. These financial statements are the responsibility of MISC'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 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 audits provide a reasonable basis for our opinion.

We were engaged to audit MISC's financial statements for the year ended September 30, 2007; however, the system of financial accounting and reporting in operation for MISC for the year ended September 30, 2007 was inadequate. 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 financial statements referred to in the first paragraph, present fairly, in all material respects, the financial position of MISC as of September 30, 2008 and 2007, and the changes in its net assets and its cash flows for the year ended September 30, 2008 in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 3 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 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 & Touche LLP

October 5, 2009

MARSHALL ISLANDS SHIPPING CORPORATION

Management's Discussion and Analysis
September 30, 2008

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, 2008. We encourage the readers to consider the information presented here in conjunction with additional information that we have furnished in 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 $0.365M (Net Assets), decreasing by $0.174M (or 32%) from $0.539M in the prior year.

- As of the close of business on September 30th, 2008, MISC earned $1.5M in revenues, an increase of $0.469M or 45% in comparison with the prior year. Most of these were derived as a result of increased demand for Charter and Freight, which went up by approximately $0.385M and $0.080M, respectively. On the other hand, MISC incurred various expenses, which are directly and indirectly related to provision to sea-transport services to the outer islands, and which totaled $2.68M, an increase of $0.723M or 37% over the previous year. These expenses were funded by income generated from Charter, Freight and Passenger fees of $1.4M and by Subsidy from RMI Government of $1.0M.

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 pages 10 and 11.

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 12 through 17 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 compared with previous year. At the close of business on September 30th, 2008, MISC's assets exceeded liabilities by $0.365M. However, $0.298M or 82% of these represent its investment in capital assets (mostly equipment); consequently, these assets are not available for future spending.

Summary of Statement of Net Assets

	2008	2007
Assets:		
Cash	$ 190,543	$ 236,498
Receivables, net	79,563	400,740
Equipment, net	298,020	91,830
Other non-current assets	-	72,000
Total Assets	$ 568,126	$ 801,068
Current Liabilities:		
Accounts Payable	$ 22,300	$ 93,883
Payable to affiliates	81,143	105,333
Other liabilities and accruals	99,410	62,662
Total Liabilities	202,853	261,878
Net Assets:		
Invested in capital assets	298,020	91,830
Unrestricted	67,253	447,360
Total Net Assets	365,273	539,190
	$ 568,126	$ 801,068

Changes in Net Assets

Current year activities decreased MISC's net assets by $0.173M. The Summary of Statement of Revenues, Expenses, and Changes in Net Assets below was prepared to show the net asset calculation for the year.

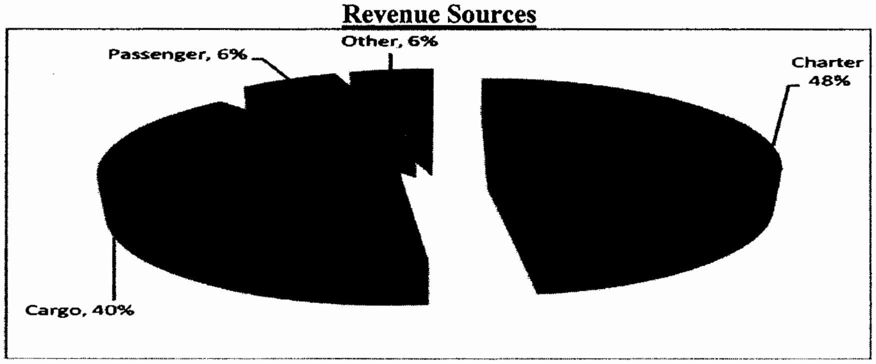
Summary of Statements of Revenues, Expenses, and Changes in Net Assets

	2008	2007
Revenues:		
Charter	$ 726,658	$ 341,546
Cargo	603,138	522,201
Passenger	97,819	111,286
Other	83,783	70,529
Total operating revenues	1,511,398	1,045,562

Expenses:		
Total operating expenses	2,682,755	1,960,011
Provision for doubtful accounts	10,710	13,827
Total operating expenses	2,693,465	1,973,838
Loss from operations	(1,182,067)	(928,276)
Non-operating revenues	1,008,150	1,467,466
Net change in net assets	(173,917)	539,190
Net assets the beginning of the year	539,190	-
Net assets at the end of the year	$ 365,273	$ 539,190

MISC's total revenues (excluding Non-operating revenues) reported in the current year increased in comparison to previous financial year. About $1.33M of MISC's revenue generated during the year comes from Charter and Freight (Cargo) which, respectively, account for 48% and 40% (or 88%) of total revenue earned during the year. The chart below was prepared to describe MISC's revenue sources.

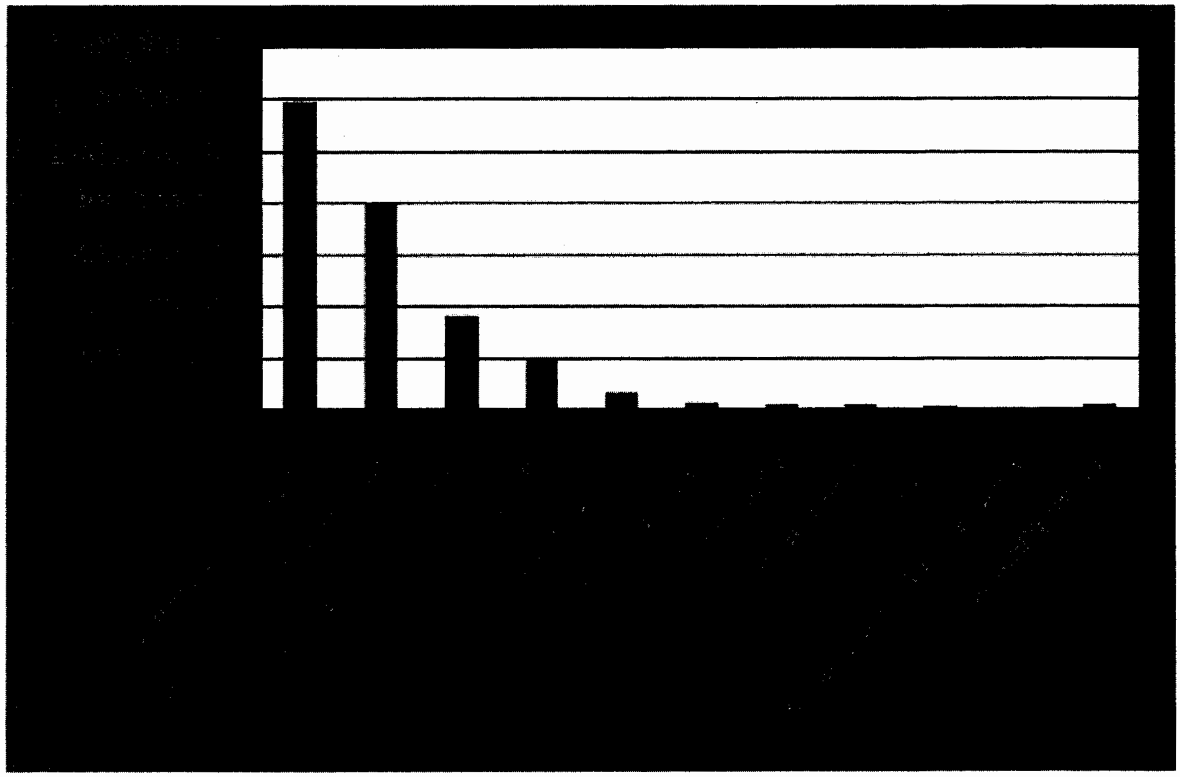
Revenue Sources



Total expenses incurred as of the close of business on September 30th, 2008, amounted to $2.68M, an increase of $0.723M or 37% in comparison with previous financial year. There were three (3) major expense line items that contributed to this increase. The main cause of the increase was due to an increase in the number of employees hired to ensure day-to-day smooth operation and provision of sea-transport services. During the year, the Salaries of employees amounted to $1.2M, an increase of $.401M or 51% in comparison to previous year. Secondly, the cost of fuel for ships increased due to the recent increases in the cost of fuel worldwide which consequently has affected the cost of sea-transport services operation negatively. During the year, the fuel costs increased by $0.265M or 51% compared to prior year. Finally, a major inspection of ships' Tools, Materials and supplies warranted a replacement for these old tools and materials (mostly tools such as cargo nets, parts. navigational tools, life jackets, etc) to ensure a smooth delivery of services as well as security of crew and passengers on-boarding ships. MISC spent $0.363M during the year, an increase of $0.264M or 265% in comparison with the previous year.

The Salary, Fuel, and Materials and Supplies line items account for $2.34M or 87% of total expenses of $2.68M incurred during the year. The graph below was prepared to describe the itemized expenses and spending activities of MISC for the year.

Expenses distribution



Management's Discussion and Analysis for the year ended September 30, 2007 is set forth in the report on the audit of MISC's financial statements which is dated October 5, 2009. That Discussion and Analysis explains the major factors impacting the 2007 financial statements.

Capital Assets and Debt

During the year, MISC purchased equipment and vehicles at a cost approximating $215,000 and $50,000, respectively. For additional information concerning capital assets, please refer to Note 4 to the financial statements on page 16.

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

MISC plays an important role in the lives of people living in the outer islands. In the next years to come, the 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 Capital city of Majuro to the Outer Islands and vice versa.

The recent increases in the cost of imported fuel, coupled with prices increases for electricity and basic food items, have greatly affected the MISC's Fieldtrip services operation. For example, during the year, MISC bought fuel for its ships at a cost that is 51% higher than previous year. Likewise, the costs of food supply for ship crew and office operation has increased as well. MISC has been dependent on the cash infusion from RMI Government to subsidize these costs.

With the recent decreases in cost of fuel worldwide, current demand for Fieldtrip services, current commitment from the RMI Government, and no major competitors in the market, the management is expecting to maintain and possibly 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

Statements of Net Assets
September 30, 2008 and 2007

ASSETS	2008	2007
Current assets:		
Cash	$ 190,543	$ 236,498
Receivables:		
Affiliates	57,042	314,457
Trade	41,016	99,368
Employees	6,042	742
	104,100	414,567
Less allowance for doubtful accounts	(24,537)	(13,827)
	79,563	400,740
Total current assets	270,106	637,238
Equipment, net	298,020	91,830
Advance to vendor	-	72,000
	$ 568,126	$ 801,068
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	$ 22,300	$ 93,883
Payable to affiliates	81,143	105,333
Other liabilities and accruals	99,410	62,662
Total liabilities	202,853	261,878
Contingency		
Net assets:		
Invested in capital assets	298,020	91,830
Unrestricted	67,253	447,360
Total net assets	365,273	539,190
	$ 568,126	$ 801,068

See accompanying notes to financial statements.

MARSHALL ISLANDS SHIPPING CORPORATION

Statements of Revenues, Expenses and Changes in Net Assets
Years Ended September 30, 2008 and 2007

	2008	2007
Operating revenues:		
Charter	$ 726,658	$ 341,546
Cargo	603,138	522,201
Passenger	97,819	111,286
Other	83,783	70,529
	1,511,398	1,045,562
Less provision for doubtful accounts	(10,710)	(13,827)
Total operating revenues	1,500,688	1,031,735
Operating expenses:		
Salaries, wages and benefits	1,185,996	784,750
Petroleum, oil and lube	790,470	524,930
Material and supplies	363,932	99,555
Foodstuffs	198,431	139,231
Depreciation	60,253	9,196
Professional fees	23,419	29,124
Contributions	16,680	42,079
Travel and entertainment	13,556	9,167
Rent	7,386	6,003
Repairs and maintenance	3,468	297,368
Miscellaneous	19,164	18,608
Total operating expenses	2,682,755	1,960,011
Operating loss	(1,182,067)	(928,276)
Nonoperating revenues:		
Operating subsidies	1,008,150	1,467,466
Change in net assets	(173,917)	539,190
Net assets at beginning of year	539,190	-
Net assets at end of year	$ 365,273	$ 539,190

See accompanying notes to financial statements.

MARSHALL ISLANDS SHIPPING CORPORATION

Statements of Cash Flows
Years Ended September 30, 2008 and 2007

	2008	2007
Cash flows from operating activities:		
Cash received from customers	$ 1,721,153	$ 900,871
Cash payments to suppliers for goods and services	(1,481,627)	(989,423)
Cash payments to employees for services	(1,149,248)	(722,088)
Net cash used for operating activities	(909,722)	(810,640)
Cash flows from noncapital financing activities:		
RepMar subsidy received	1,058,210	1,220,164
Net cash provided by noncapital financing activities	1,058,210	1,220,164
Cash flows from capital and related financing activities:		
Acquisition of capital assets	(194,443)	(101,026)
Deposit on equipment	-	(72,000)
Net cash used for capital and related financing activities	(194,443)	(173,026)
Net change in cash	(45,955)	236,498
Cash at beginning of year	236,498	-
Cash at end of year	$ 190,543	$ 236,498
Reconciliation of operating loss to net cash used for operating activities:		
Operating loss	$ (1,182,067)	$ (928,276)
Adjustments to reconcile operating loss to net cash used for operating activities:		
Depreciation	60,253	9,196
Bad debts	10,710	13,827
(Increase) decrease in assets:		
Receivables:		
Affiliates	207,355	(44,581)
Trade	58,352	(99,368)
Employees	(5,300)	(742)
Increase (decrease) in liabilities:		
Accounts payable	(71,583)	71,309
Payable to affiliates	(24,190)	105,333
Other liabilities and accruals	36,748	62,662
Net cash used for operating activities	$ (909,722)	$ (810,640)

See accompanying notes to financial statements.

MARSHALL ISLANDS SHIPPING CORPORATION

Statements of Cash Flows, Continued
Years Ended September 30, 2008 and 2007

	2008	2007
Summary of noncash operating and noncapital financing activities:		
Trade receivables	$ (50,652)	$ -
Accounts payable	50,652	-
	$ -	$ -
Receivables from affiliates	$ -	$ 319,816
Accounts payable	-	(22,574)
Operating subsidies	-	(297,242)
	$ -	$ -

See accompanying notes to financial statements.

(1) Organization

The Marshall Islands Shipping Corporation (MISC), a component unit of the Republic of the Marshall Islands (RepMar), was created under 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 Marshall Islands 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.

Estimates

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

(2) Summary of Significant Accounting Policies, Continued

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, 2008 and 2007, the carrying amount of cash were $190,543 and $236,498, respectively, and the corresponding bank balances were $208,526 and $303,050, respectively, which were maintained in a financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2008 and 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.

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

(2) Summary of Significant Accounting Policies, Continued

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, 2008 and 2007, the accumulated vacation leave liability totals $69,033 and $40,132, respectively, and is included within the statements of net assets as other liabilities and accruals.

Revenue Recognition

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

New Accounting Standards

During fiscal year 2008, MISC implemented the following pronouncements:

- GASB 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.
- GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfer of Assets and Future Revenues,* which establishes criteria that governments will use to ascertain whether certain transactions should be regarded as a sale or a collateralized borrowing.
- GASB 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 implementation of these pronouncements did not have a material effect on the accompanying financial statements.

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In June 2004, GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Post employment Benefits Other Than Pensions*. GASB Statement No. 45 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.

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 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.

In November 2007, GASB issued Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*. GASB Statement No. 52 improves the quality of financial reporting by requiring endowments to report their land and other real estate investments at fair value, creating consistency in reporting among similar entities that exist to invest resources for the purpose of generating income. The provisions of this statement are effective for periods beginning after June 15, 2008. Management does not believe that the implementation of this statement will have a material effect on the financial statements of MISC.

In June 2008, GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. GASB Statement No. 53 is intended to improve how state and local governments report information about derivative instruments – financial arrangements used by governments to manage specific risks or make investments – in their financial statements. 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 for the years ended September 30, 2008 and 2007. MISC does not maintain general liability insurance; maritime insurance; and 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.

(4) Equipment

Capital asset activity during the years ended September 30, 2008 and 2007, is as follows:

	2008			
	October 1, 2007	Additions	Retirements	September 30, 2008
Equipment	$ 56,153	$ 215,372	$ -	$ 271,525
Vehicles	28,995	49,954	-	78,949
Furniture	7,378	1,117	-	8,495
Motor boats	8,500	-	-	8,500
	101,026	266,443	-	367,469
Less accumulated depreciation	(9,196)	(60,253)	-	(69,449)
	$ 91,830	$ 206,190	$ -	$ 298,020

	2007			
	October 1, 2006	Additions	Retirements	September 30, 2007
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)
	$ -	$ 91,830	$ -	$ 91,830

(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 years ended September 30, 2008 and 2007, is as follows:

	2008			
	Revenues	Expenses	Receivables	Payables
Tobolar Copra Processing Plant, Inc.	$ 281,567	$ -	$ -	$ -
Marshall Islands Social Security Administration	-	28,326	-	55,672
Marshalls Energy Company, Inc.	148,578	623,075	-	6,338
Majuro Water and Sewer Company, Inc.	-	19,562	-	8,370
Republic of the Marshall Islands	301,441	11,839	56,762	8,745
Other	1,750	10,208	280	2,018
	$ 733,336	$ 693,010	$ 57,042	$ 81,143

(5) Related Party Transactions, Continued

	2007			
	Revenues	Expenses	Receivables	Payables
Tobolar Copra Processing Plant, Inc.	$ 286,348	$ -	$ 261,638	$ -
Marshall Islands Social Security Administration	-	70,089	-	52,252
Marshalls 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
	$ 452,097	$ 340,003	$ 314,457	$ 105,333

During the years ended September 30, 2008 and 2007, the operations of MISC were funded by appropriations, totaling $1,008,150 and $1,056,833, respectively, from the Nitijela of RepMar, of which $0 and $50,060, respectively, are recorded as receivables from RepMar as of September 30, 2008 and 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 vessels belonging to RepMar 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.

(6) Contingency

MISC receives a substantial amount of its revenue from annual RepMar appropriations. A significant reduction in the level of budgetary support form RepMar, if this were to occur, may have an effect on MISC's programs and activities. For the year ended September 30, 2009, RepMar appropriated funding to MISC in the amount of $1,000,000 for the purpose of funding operations.