MARSHALL ISLANDS SHIPPING CORPORATION

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

FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT

YEARS ENDED SEPTEMBER 30, 2009 AND 2008

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Marshall Islands Shipping Corporation:

We have audited the accompanying statements 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, 2009 and 2008, 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 MISC's management. Our responsibility is to express an opinion on these financial statements based on our audits.

Except as discussed in the following paragraph, 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.

Because of the inadequacy of accounting records, we were unable to form an opinion regarding the amount at which copra purchases payable (stated at $200,637) is recorded in the accompanying statement of net assets at September 30, 2009, and the validity of other revenues, cost of goods sold expense, and materials and supplies expense (stated at $336,590, $218,989 and $404,381, respectively) that are recorded in the accompanying statement of revenues, expenses and changes in net assets for the year ended September 30, 2009.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had the accounting records concerning copra purchases payable, other revenues, cost of goods sold expense, and materials and supplies expense been adequate, such financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of MISC as of September 30, 2009 and 2008, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 3 through 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 January 24, 2011, 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

January 24, 2011

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^{th}, 2009. 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.

Financial Highlights

Fiscal Year 2009:

- The assets of MISC exceeded its liabilities at the close of business for the year by \$0.126M (Net Assets), decreasing by \$0.239M (or 65%) from \$0.365M in the prior year.

- As of the close of business on September 30^{th}, 2009, MISC earned \$1.27M in revenues; this represents a decrease of \$0.237M or 16% in comparison with the prior year. This decrease is a result of decreasing major revenue sources (Charter and Cargo) which went down from \$0.726M and \$0.603M in prior year to \$0.363M and \$0.504M at the end of FY2009 or about 50% and 16%, 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, totaled \$2.60M, a decrease of \$0.082M or 3% over the previous year. These expenses were funded by income generated from Charter, Freight and Passenger fees of \$1.27M and by an operating subsidy from the RMI Government of \$1.09M.

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 customers a fee for the service provided *(operating revenue)*, like a typical business enterprise. A proprietary fund may also receive revenue from governmental agencies 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 net assets can be found on page 8 of this report.

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 revenues, expenses, and changes in net assets can be found on page 9 of this report.

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 10 of this report.

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 11-16 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 the MISC's resources, liabilities, and net assets compared with previous year. At the close of business on September 3oth, 2009, MISC's assets exceeded liabilities by $0.126M. However, $0.284M or 225% of these represent its investment in capital assets (mostly equipment); consequently, these assets are not available for future spending.

Marshall Islands Shipping Corporation
Summary of Statements of Net Assets

	2009	2008	2007
Assets:			
Cash	$ 226,780	$ 190,543	$ 236,498
Receivables, net	61,796	79,563	400,740
Inventory	8,972	0	0
Equipment, net	283,767	298,020	91,830
Other	0	0	72,000
Total Assets	$ 581,315	$ 568,126	$ 801,068
Current Liabilities:			
Accounts payable	$ 79,827	$ 22,300	$ 93,883
Payable to affiliates	70,338	81,143	105,333
Copra purchases payable	200,637	0	0
Other liabilities and accruals	104,509	99,410	62,662
Total Liabilities	455,311	202,853	261,878
Net Assets:			
Invested in capital assets	283,767	298,020	91,830
Unrestricted	(157,763)	67,253	447,360
Total Net Assets	126,004	365,273	539,190
	$ 581,315	$ 568,126	$ 801,068

Changes in Net Assets

Current year activities decreased MISC's net assets by $0.239M. The Summary of Statement of Revenues, Expenses, and Changes in Net Assets below was prepared to show the net asset calculation for the year.

Marshall Islands Shipping Corporation
Summary of Statements of Revenues, Expenses,
and Changes in Net Assets

	2009	2008	2007
Revenues:			
Operating revenues	$ 1,274,096	$ 1,511,398	$ 1,045,562
Non-operating revenues	1,091,847	1,008,150	1,467,466
Total Revenues	2,365,943	2,519,548	2,513,028
Expenses:			
Operating expenses	2,600,523	2,682,755	1,960,011
Provision for doubtful accounts	4,689	10,710	13,827
Total Expenses	2,605,212	2,693,465	1,973,838
Change in net assets	(239,269)	(173,917)	539,190
Net assets at the beginning of the year	365,273	539,190	0
Net Assets at the end of the year	$ 126,004	$ 365,273	$ 539,190

MISC's total revenues (excluding Non-operating revenues) reported in the current year decreased in comparison to previous financial year. Charter and Freight (Cargo fees) continue to be MISC's two top revenue sources, which account for approximately $.867M of total revenue earned during the year. Charter and Cargo, respectively, account for 29% and 40% or 69% of total revenue earned during the year. The chart below was prepared to describe MISC's revenue sources with comparison with previous year.

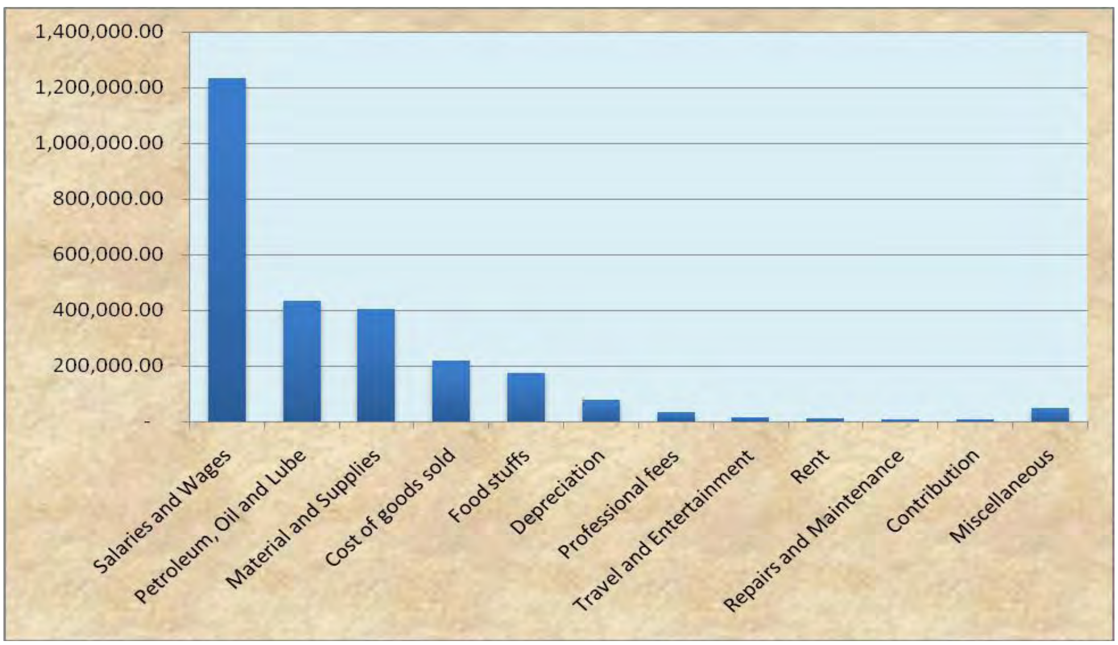
Revenue Sources

Other revenues increased by $0.25M in comparison with the prior year due to the commencement retail sales on board the ships operated by MISC. Operating revenue realized from these sales amounted to $0.23M for the year ended September 30th, 2009.

The total cost incurred by MISC as of the close of business on September 30th, 2009, amounted to $2.60M, a decrease of $0.82M or about 3% in comparison with the previous financial year. The main cause of this decrease is primarily due to significant drop in petroleum, oil and lube, which is a result of recent decreases in the cost of fuel worldwide. Aside from fuel costs, all other expense line items increased marginally. Finally, MISC's decision to purchase and sell goods (merchants) on the ships in 2009 resulted in MISC recording cost of goods sold in the amount of $0.22M.

The payroll, fuel, and supplies continue to be top three expense line items, which accounted for $2.18M, or 84%, of total expenses incurred during the year. The graph below was prepared to describe the itemized expenses and spending activities of MISC during the current year.

Expenses distribution



Management's Discussion and Analysis for the year ended September 30, 2008 is set forth in MISC's report on the audit of financial statements, which is dated October 5, 2009. That Discussion and Analysis explains the major factors impacting the 2008 financial statements and can be obtained from MISC's General Manager via the contact information below.

Capital Asset and Debt

During the year, MISC purchased several equipment and vehicles at a cost of approximately $29,000 and $30,000, respectively. For additional information concerning capital assets, please refer to Note 4 to the financial statements.

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. The regular fieldtrip services are essential to transfer people and basic needs from the Capitol city to the Outer Islands and vice versa.

The recent decreases in cost imported fuel have affected the operation of MISC positively during the year. That is, fuel consumption significantly dropped by $0.356M or 45% from $0.790M in the prior year. Although fuel expenses dropped, other expense line items such as food and material and supplies increased during the year, which is a result of expansion of the operations of MISC. MISC has been dependent on the cash infusion from the RMI Government to subsidize these costs.

With the recent decreases in cost of fuel worldwide and current commitment from the RMI Government to subsidize the cost associated with providing sea-transport services, management intends to maintain and increase the number of fieldtrip services in the near future. In line with this, the RMI Government has included within its FY 2010 budget an appropriation of $975,000 for the purpose of subsidizing the 2010 operations of MISC.

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, 2009 and 2008

ASSETS	2009	2008
Current assets:		
Cash	$ 226,780	$ 190,543
Receivables:		
Affiliates	37,454	57,042
Trade	50,401	41,016
Employees	3,167	6,042
	91,022	104,100
Less allowance for doubtful accounts	(29,226)	(24,537)
Total receivables, net	61,796	79,563
Inventory	8,972	-
Total current assets	297,548	270,106
Equipment, net	283,767	298,020
	$ 581,315	$ 568,126
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	$ 79,827	$ 22,300
Payable to affiliates	70,338	81,143
Copra purchases payable	200,637	-
Other liabilities and accruals	104,509	99,410
Total liabilities	455,311	202,853
Contingency		
Net assets:		
Invested in capital assets	283,767	298,020
Unrestricted	(157,763)	67,253
Total net assets	126,004	365,273
	$ 581,315	$ 568,126

See accompanying notes to financial statements.

MARSHALL ISLANDS SHIPPING CORPORATION

Statements of Revenues, Expenses and Changes in Net Assets
Years Ended September 30, 2009 and 2008

		2009		2008
Operating revenues:				
Cargo	$	504,114	$	603,138
Charter		363,427		726,658
Passenger		69,965		97,819
Other		336,590		83,783
		1,274,096		1,511,398
Less provision for doubtful accounts		(4,689)		(10,710)
Total operating revenues		1,269,407		1,500,688
Operating expenses:				
Salaries, wages and benefits		1,168,962		1,185,996
Petroleum, oil and lube		434,422		790,470
Material and supplies		404,381		363,932
Cost of goods sold		218,989		-
Foodstuffs		173,083		198,431
Depreciation		78,597		60,253
Professional fees		32,014		23,419
Travel and entertainment		16,554		13,556
Rent		9,924		7,386
Repairs and maintenance		8,159		3,468
Contributions		7,515		16,680
Miscellaneous		47,923		19,164
Total operating expenses		2,600,523		2,682,755
Operating loss		(1,331,116)		(1,182,067)
Nonoperating revenues:				
Operating subsidies		1,091,847		1,008,150
Change in net assets		(239,269)		(173,917)
Net assets at beginning of year		365,273		539,190
Net assets at end of year	$	126,004	$	365,273

See accompanying notes to financial statements.

MARSHALL ISLANDS SHIPPING CORPORATION

Statements of Cash Flows
Years Ended September 30, 2009 and 2008

	2009	2008
Cash flows from operating activities:		
Cash received from customers	$ 1,287,174	$ 1,771,805
Cash payments to suppliers for goods and services	(1,114,577)	(1,532,279)
Cash payments to employees for services	(1,163,863)	(1,149,248)
Net cash used for operating activities	(991,266)	(909,722)
Cash flows from noncapital financing activities:		
RepMar subsidy received	1,091,847	1,058,210
Cash flows from capital and related financing activities:		
Acquisition of capital assets	(64,344)	(194,443)
Net change in cash	36,237	(45,955)
Cash at beginning of year	190,543	236,498
Cash at end of year	$ 226,780	$ 190,543
Reconciliation of operating loss to net cash used for operating activities:		
Operating loss	$ (1,331,116)	$ (1,182,067)
Adjustments to reconcile operating loss to net cash used for operating activities:		
Depreciation	78,597	60,253
Bad debts	4,689	10,710
(Increase) decrease in assets:		
Receivables:		
Affiliates	19,588	207,355
Trade	(9,385)	58,352
Employees	2,875	(5,300)
Inventory	(8,972)	-
Increase (decrease) in liabilities:		
Accounts payable	57,527	(71,583)
Payable to affiliates	(10,805)	(24,190)
Copra purchases payable	200,637	-
Other liabilities and accruals	5,099	36,748
Net cash used for operating activities	$ (991,266)	$ (909,722)

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:

- 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.

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, 2009 and 2008, the carrying amount of cash was $226,780 and $190,543, respectively, and the corresponding bank balances were $56,801 and $208,526, respectively, which were maintained in a financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2009 and 2008, bank deposits in the amount of $56,801 and $100,000, respectively, 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 collectability of these accounts. The allowance is established through a provision for bad debts charged to expense.

Inventory

Inventory consists of items purchased for resale (on the ships) during outer islands voyages. Inventory is valued at the lower of cost (first-in, first out FIFO) or market value (net realized value).

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 is 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, 2009 and 2008, the accumulated vacation leave liability totals $68,658 and $69,033, 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 2009, MISC implemented the following pronouncements:

- GASB 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 postemployment benefits expense/expenditures and related liabilities, note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers.

- GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, which provides guidance and consistency under which a governmental entity would be required to report a liability related to pollution remediation.

- GASB Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*, which 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.

- GASB Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, which improves financial reporting by contributing to the GASB's efforts to codify all GAAP for state and local governments so that they derive from a single source.

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

- GASB Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards*, which incorporates accounting and financial reporting guidance previously only contained in the American Institute of Certified Public Accountants (AICPA) auditing literature into the GASB's accounting and financial reporting literature for state and local governments, and addresses three issues from the AICPA's literature - related party transactions, going concern considerations, and subsequent events.

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

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 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.

In December 2008, GASB issued Technical Bulletin No. 2008-1, *Determining the Annual Required Contribution Adjustment for Postemployment Benefits*, which clarifies the requirements of GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers,* and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions,* for calculating the annual required contribution (ARC) adjustment. The provisions of this statement are effective for periods beginning after December 15, 2008. Management does not believe that the implementation of this statement will have a material effect on the financial statements of MISC.

In March 2009, GASB issued 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. The provisions of this statement are effective for periods beginning after June 15, 2010. 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 last three years. 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, 2009 and 2008 is as follows:

	2009			
	October 1, 2008	Additions	Retirements	September 30, 2009
Equipment	$ 271,525	$ 28,844	$ -	$ 300,369
Vehicles	78,949	30,000	-	108,949
Furniture	8,495	-	-	8,495
Motor boats	8,500	5,500	-	14,000
	367,469	64,344	-	431,813
Less accumulated depreciation	(69,449)	(78,597)	-	(148,046)
	$ 298,020	$ (14,253)	$ -	$ 283,767

	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

(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.

(5) Related Party Transactions, Continued

A summary of related party transactions for the years ended September 30, 2009 and 2008 is as follows:

	2009			
	Revenues	Expenses	Receivables	Payables
Tobolar Copra Processing Plant, Inc.	$ 365,668	$ -	$ 8,607	$ -
Marshall Islands Social Security Administration	-	103,773	-	50,301
Marshalls Energy Company, Inc.	400	319,713	-	1,323
Majuro Water and Sewer Company, Inc.	-	3,466	-	-
Republic of the Marshall Islands	182,667	2,579	28,847	10,666
Other	1,126	10,577	-	8,048
	$ 549,861	$ 440,108	$ 37,454	$ 70,338

	2008			
	Revenues	Expenses	Receivables	Payables
Tobolar Copra Processing Plant, Inc.	$ 281,567	$ -	$ -	$ -
Marshall Islands Social Security Administration	-	92,460	-	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	$ 757,144	$ 57,042	$ 81,143

During the years ended September 30, 2009 and 2008, the operations of MISC were funded by appropriations, totaling $1,091,847 and $1,008,150, respectively, from the Nitijela of RepMar.

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, 2010, RepMar appropriated funding to MISC in the amount of $975,000 for the purpose of funding operations.