

LAND REGISTRATION AUTHORITY
(A COMPONENT UNIT OF THE REPUBLIC
OF THE MARSHALL ISLANDS)

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

YEARS ENDED SEPTEMBER 30, 2006 and 2005



REPUBLIC OF THE MARSHALL ISLANDS
Office of the Auditor General
Post Office Box 245
Majuro, Republic of the Marshall Islands 96960

Telephone:
Auditor General 625-3192
Staff 625-3390
Facsimile 625-5135

INDEPENDENT AUDITORS' REPORT

Board of Directors
Land Registration Authority:

We have audited the accompanying statements of net assets of the Land Registration Authority (the Authority), a component unit of the Republic of the Marshall Islands, as of September 30, 2006 and 2005, 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 the Authority'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 the Authority's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of the Land Registration Authority as of September 30, 2006 and 2005, and the results of its operations 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 5 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 the Authority'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 the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 11, 2008, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

July 11, 2008

A handwritten signature in black ink, appearing to read 'Almita Jonathan', written over a horizontal line.

Almita Jonathan
Acting Auditor-General

LAND REGISTRATION AUTHORITY

Management's Discussion and Analysis September 30, 2006 and 2005

This section of the Land Registration Authority's (LRA) annual financial report presents our discussion and analysis for LRA's financial performance during the fiscal year ended on September 30, 2006. Please read it in conjunction with the financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

LRA commenced operations as a statutory corporation on October 14, 2004 upon receiving its first operational budget. Accordingly, comparative financial data is presented in the analysis of LRA's statement of net assets and changes in net assets only for fiscal year 2005. At September 30, 2006, LRA's net assets amounted to \$68,415. During the year ended September 30, 2006, operating revenues amounted to \$48,755, a decrease of \$19,514 (or 29%) compared with 2005. At the same time, operating expenses amounted to \$29,816, a decrease of \$12,332 (or 29%) compared with 2005. As a result, operating income for 2006 amounted to \$18,939, a decrease of \$7,182 (or 27%) compared with 2005.

FINANCIAL ANALYSIS OF LRA

The Statement of Net Assets (page 6) and the Statement of Revenues, Expenses, and Changes in Net Assets (page 7) are designed to provide readers with a broad overview of LRA's finances, in a manner similar to a private-sector business. These two statements provide an indication of LRA's financial condition. LRA's net assets reflect the difference between assets and liabilities, which is one way to measure LRA's financial health or position. Over time, increases or decreases in LRA's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.

A summary of LRA's net assets with comparative financial data for 2005 are as follows:

As of September 30	<u>2006</u>	<u>2005</u>
Current assets	\$ 57,048	\$ 30,471
Capital assets	<u>11,367</u>	<u>19,005</u>
Total assets	\$ <u>68,415</u>	\$ <u>49,476</u>
Fund equity:		
Invested in capital assets	\$ 11,367	\$ 19,005
Unrestricted	<u>57,048</u>	<u>30,471</u>
Total net assets	\$ <u>68,415</u>	\$ <u>49,476</u>
Total liabilities and net assets	\$ <u>68,415</u>	\$ <u>49,476</u>

As indicated above, total assets increased by \$18,939 (or 38%) from \$49,476 in 2005 to \$68,415 in 2006. The increase in total assets reflects operating revenues earned that exceeded operating expenses incurred. As no major liabilities exist as of the end of fiscal year, total assets equals total net assets, which is comprised of investment in fixed assets of \$11,367 with the remaining amount of \$57,048 designated as unrestricted and available to fund future operations.

LAND REGISTRATION AUTHORITY

Management's Discussion and Analysis September 30, 2006 and 2005

A summary of LRA's Statement of Revenues, Expenses, and Changes in Net Assets with comparative financial data are presented below:

Year Ended September 30,	<u>2006</u>	<u>2005</u>
Operating revenues	\$ 48,755	\$ 68,269
Operating expenses	<u>29,816</u>	<u>42,148</u>
Operating income	18,939	26,121
Capital contributions	<u> -</u>	<u>23,355</u>
Change in net assets	18,939	49,476
Net assets at beginning of year	<u>49,476</u>	<u> -</u>
Net assets at end of year	\$ <u>68,415</u>	\$ <u>49,476</u>

The Statement of Revenues, Expenses, and Changes in Net Assets identify the various revenues and expense items that implicit the change in net assets. As indicated above, LRA's total revenues and capital contributions amounted to \$48,755 in 2006 compared with \$91,624 in 2005, which were offset by operating expenses of \$29,816 in 2006 compared with \$42,148 in 2005.

Below is a summary of the major components of operating revenues for LRA in 2006 and 2005:

	<u>2006</u>	<u>2005</u>
Nitijela appropriation	\$ 48,420	\$ 62,999
Other revenues	<u> 335</u>	<u> 5,270</u>
	\$ <u>48,755</u>	\$ <u>68,269</u>

Below is a list of the main contributions to the increase in operating expenses for LRA in 2006 and 2005.

	<u>2006</u>	<u>2005</u>
Depreciation	\$ 9,097	\$ 12,441
Leased and rental housing	7,200	6,300
Travel	2,402	8,807
Communications	2,364	3,074
Sitting fees	2,360	4,863
Other supplies and materials	2,245	2,865
Petroleum, Oil and Lubricants	1,428	1,129
Training and staff development	1,000	1,200
Other	<u>1,720</u>	<u>1,469</u>
	\$ <u>29,816</u>	\$ <u>42,148</u>

LAND REGISTRATION AUTHORITY

Management's Discussion and Analysis September 30, 2006 and 2005

CAPITAL ASSETS

Net capital assets are \$11,367 as result of additions of \$1,459 less depreciation expense of \$9,097. A summary of LRA's investment in capital assets is presented below for 2006 and 2005.

	<u>2006</u>	<u>2005</u>
Motor vehicle, furniture, and equipment	\$ 32,905	\$ 31,446
Less accumulated depreciation	<u>(21,538)</u>	<u>(12,441)</u>
Net Capital Assets	\$ <u>11,367</u>	\$ <u>19,005</u>

For additional information concerning LRA's capital assets, please refer to note 3 to the financial statements.

ADDITIONAL FINANCIAL INFORMATION

This discussion and analysis is designed to provide LRA's counterparts with an overview of LRA's financial operations and financial condition. Should the reader have questions regarding the information included in the report or wish to request for additional information, please contact the Registrar of the Land Registration Authority, P.O. Box 3215, Majuro, MH 96960.

LAND REGISTRATION AUTHORITY

Statements of Net Assets
September 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
<u>ASSETS</u>		
Current assets:		
Cash	\$ 51,915	\$ 25,338
Grants receivable	5,133	5,133
	<u>57,048</u>	<u>30,471</u>
Total current assets		
Capital assets, net	<u>11,367</u>	<u>19,005</u>
Total assets	<u>\$ 68,415</u>	<u>\$ 49,476</u>
Commitments and Contingencies		
<u>NET ASSETS</u>		
Net Assets:		
Invested in capital assets	11,367	19,005
Unrestricted	<u>57,048</u>	<u>30,471</u>
Total net assets	<u>\$ 68,415</u>	<u>\$ 49,476</u>

See accompanying notes to financial statements.

LAND REGISTRATION AUTHORITY

Statement of Revenues, Expenses, and Changes in Net Assets Year Ended September 30, 2006 and 2005

	2006	2005
Operating revenues:		
Nitijela appropriation	\$ 48,420	\$ 62,999
Grants	-	5,270
Other revenues	335	-
Total operating revenues	48,755	68,269
Operating expenses:		
Depreciation	9,097	12,441
Leased and rental housing	7,200	6,300
Travel	2,402	8,807
Communications	2,364	3,074
Sitting fees	2,360	4,863
Other supplies and materials	2,245	2,865
Petroleum, oil and lubricants	1,428	1,129
Training and staff development	1,000	1,200
Food Stuffs	822	678
Advertising	252	791
Repairs	183	-
Miscellaneous	463	-
Total operating expenses	29,816	42,148
Operating income	18,939	26,121
Capital contributions	-	23,355
Change in net assets	18,939	49,476
Net assets at beginning of year	49,476	-
Net assets at end of year	\$ 68,415	\$ 49,476

See accompanying notes to financial statements.

LAND REGISTRATION AUTHORITY

Statements of Cash Flows

Years Ended September 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Cash flows from operating activities:		
Operating grants received	\$ 48,420	\$ 63,136
Other cash received from customers	335	-
Cash payments to suppliers for goods and services	<u>(20,719)</u>	<u>(29,707)</u>
Net cash provided by operating activities	<u>28,036</u>	<u>33,429</u>
Cash flows from capital and related financing activities:		
Acquisition of capital assets	<u>(1,459)</u>	<u>(8,091)</u>
Net change in cash	26,577	25,338
Cash at beginning of year	<u>25,338</u>	<u>-</u>
Cash at end of year	<u><u>\$ 51,915</u></u>	<u><u>\$ 25,338</u></u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 18,939	\$ 26,121
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	9,097	12,441
Increase in assets:		
Grants receivable	<u>-</u>	<u>(5,133)</u>
Net cash provided by operating activities	<u><u>\$ 28,036</u></u>	<u><u>\$ 33,429</u></u>

See accompanying notes to financial statements.

LAND REGISTRATION AUTHORITY

Notes to Financial Statements
September 30, 2006 and 2005

(1) Organization

The Land Registration Authority (the Authority), a component unit of the Republic of the Marshall Islands (RepMar), was established pursuant to the Land Recording and Registration Act 2003. The Authority began operations as a statutory corporation on October 14, 2004, in accordance with the Act, upon receiving its first operational budget. The objectives of the Authority are to provide a legal framework for the people of the Marshall Islands to register their interests in land in order to promote investment and development in the Republic of the Marshall Islands. The Authority is funded through operational appropriations from the Nitijela (the RepMar Legislature).

The operations of the Authority were accounted for as a separate fund within RepMar's Ministry of Finance. In October 2004, the Authority established a separate bank account outside of RepMar's Treasury for the purpose of receiving and disbursing funds in accordance with its enabling legislation. Accordingly, the accompanying financial statements relate solely to those accounting records maintained by the Authority and do not incorporate any accounts related to the Authority's operations that may be accounted for by RepMar's Treasury or any of RepMar's other branches, departmental units or component units.

The Authority is controlled and managed by a Board of Directors appointed by the Cabinet of RepMar, and is responsible for setting policy, strategy and financial guidelines for the operation of the Authority; and a Registrar, who is responsible for the day-to-day operations of the Authority.

The Authority's financial statements are incorporated into the financial statements of RepMar as a discretely presented component unit.

(2) Summary of Significant Accounting Policies

The accounting policies of the Authority 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. The Authority has implemented GASB 20 and elected not to apply FASB Statements and Interpretations issued after November 30, 1989.

GASB issued Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, which was subsequently amended by Statement No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus*, and modified by Statement No. 38, *Certain Financial Statement Note Disclosures*. These statements establish financial reporting standards for governmental entities which require that management's discussion and analysis of the financial activities be included with the basic financial statements and notes and modifies certain other financial statement disclosure requirements.

LAND REGISTRATION AUTHORITY

Notes to Financial Statements
September 30, 2006 and 2005

(2) Summary of Significant Accounting Policies, Continued

To conform to the requirements of GASB Statement 34, retained earnings are 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.

Basis of Accounting

Proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operation of the fund are included in the statements of net assets. Proprietary fund operating statements present increases and decreases in net total assets. The accrual basis of accounting is utilized by proprietary funds. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. The Authority considers Nitijela appropriations and operational grants and costs that are directly related to Authority operations 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, the Authority'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. The Authority 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, 2006 and 2005, cash was \$51,915 and \$25,338, respectively, and the corresponding bank balances were \$52,624 and \$26,196, respectively, which were maintained in a financial institution not subject to depository insurance. Accordingly, these deposits are exposed to custodial credit risk. The Authority does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized.

LAND REGISTRATION AUTHORITY

Notes to Financial Statements
September 30, 2006 and 2005

2) Summary of Significant Accounting Policies, Continued

Capital Assets

Capital assets with a cost that equals or exceeds \$300 are capitalized. Such assets are stated at cost. 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:

Motor vehicles	3 years
Computer equipment	5 years
Furniture and equipment	5 years

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, 2006 and 2005, there is no accumulated vacation leave liability.

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. The Authority is specifically exempt from this tax.

New Accounting Pronouncements

During fiscal year 2006, the Authority implemented the following pronouncements:

- GASB Statement No. 44, *Economic Condition Reporting: The Statistical Section*, an amendment to NCGA Statement 1, which improves the understandability and usefulness of statistical section information and adds information from the new financial reporting model for state and local governments required by GASB Statement No. 34.
- GASB Statement No. 46, *Net Assets Restricted by Enabling Legislation (an amendment to GASB Statement No. 34)*, which requires that limitations on the use of net assets imposed by enabling legislation be reported as restricted net assets.
- GASB Statement No. 47, *Accounting for Termination Benefits*, which establishes guidance for state and local governmental employers on accounting and financial reporting for termination of benefits.
- GASB Technical Bulletin No. 2004-2, *Recognition of Pension and Other Postemployment Benefit Expenditures/Expense and Liabilities by Cost-Sharing Employers*, which clarifies the requirements of GASB Statement Nos. 27 and 45 for recognition of pension and other postemployment benefit expenditures/expense and liabilities by cost-sharing employers.

The implementation of these pronouncements did not have a material impact on the accompanying 2006 financial statements.

LAND REGISTRATION AUTHORITY

Notes to Financial Statements
September 30, 2006 and 2005

2) Summary of Significant Accounting Policies, Continued

New Accounting Pronouncements, Continued

In April 2004, GASB issued Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. GASB Statement No. 43 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 the Authority.

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

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 establishes criteria that governments 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 the Authority.

(3) Capital Assets

Capital asset activity for the years ended September 30, 2006 and 2005 were as follows:

	<u>October 1, 2005</u>	<u>Additions</u>	<u>Retirements</u>	<u>September 30, 2006</u>
Motor vehicles	\$ 16,650	\$ -	\$ -	\$ 16,650
Computer equipment	7,304	-	-	7,304
Office Equipment	950	1,459	-	2,409
Furniture & Fixtures	964	-	-	964
Leasehold improvement	<u>5,578</u>	<u>-</u>	<u>-</u>	<u>5,578</u>
	31,446	1,459	-	32,905
Less accumulated depreciation	<u>(12,441)</u>	<u>(9,097)</u>	<u>-</u>	<u>(21,538)</u>
	<u>\$ 19,005</u>	<u>\$ (7,638)</u>	<u>\$ -</u>	<u>\$ 11,367</u>

LAND REGISTRATION AUTHORITY

Notes to Financial Statements
September 30, 2006 and 2005

(3) Capital Assets, Continued

	<u>October 1, 2004</u>	<u>Additions</u>	<u>Retirement</u>	<u>September 30, 2005</u>
Motor Vehicle	\$ -	\$16,650	\$ -	\$ 16,650
Computer equipment	-	7,304	-	7,304
Office equipment	-	950	-	950
Furniture and Fixtures	-	964	-	964
Leasehold improvement	-	<u>5,578</u>	-	<u>5,578</u>
	-	31,446	-	31,446
Less accumulated depreciation	-	<u>(12,441)</u>	-	<u>(12,441)</u>
	<u>\$ -</u>	<u>\$ 19,005</u>	<u>\$ -</u>	<u>\$ 19,005</u>

(4) Related Party Transactions

The Authority entered into an office lease agreement with the Marshall Islands Development Bank, a component unit of RepMar, for a term of five years commencing January 1, 2005 and ending on December 31, 2009. Monthly rent expense is \$600.

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

<u>Year ending</u> <u>September 30,</u>	
2006	\$ 7,200
2007	7,200
2008	7,200
2009	7,200
2010	<u>1,800</u>
	<u>\$ 30,600</u>

For the years ended September 30, 2006 and 2005, RepMar paid salaries and wages relating to the Authority of \$67,947 and \$71,871, respectively. These salaries and wages are not included in the accompanying financial statements. In addition, during the years ended September 30, 2006 and 2005, the Authority was the recipient of Section 211(a)(3) Private Sector Development Compact funding in the amount of \$0 and \$44,680, respectively.

(5) Risk Management

The Authority 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. The Authority has elected to purchase commercial insurance from independent third parties for the risks of loss to which it is exposed. Settled claims from these risks have not exceeded commercial insurance coverage for past three years.