LAND REGISTRATION AUTHORITY

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

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

YEARS ENDED SEPTEMBER 30, 2007 and 2006

REPUBLIC OF THE MARSHALL ISLANDS
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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, 2007 and 2006, 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, 2007 and 2006, 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 August 10, 2009, 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.

August 10, 2009

Atmita Jonathan
Acting Auditor-General

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, 2007. Please read it in conjunction with the financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

LRA started operations on October 14, 2004, after receiving its first operational budget. The following financial data is presented in the analysis of LRA's statement of net assets and changes in net assets. As of September 30, 2007, LRA's net assets amounted to $87,691. During the year ended September 30, 2007, operating revenues amounted to $48,327, a decrease of $518 or 1.06% compared with 2006. At the same time, operating expenses amounted to $28,961, a decrease $855 or 2.87% compared with 2006. As a result, operating income for 2007 amounted to $19,276, an increase of $377 or 1.78% compared to 2006.

FINANCIAL ANALYSIS OF LRA

The Statement of Net Assets (page 6) and the Statement of Revenues, Expenses and Changes in Net Assets (page 7) provide an indication of LRA's financial condition. LRA's net assets reflect the difference between assets and liabilities. This indicates either an improvement or deterioration in the financial condition of the organization. As noted, comparative financial data for both years 2007 and 2006 are as follows.

A summary of LRA's Statement of Net Assets is presented below:

As of September 30	**2007**	**2006**	**2005**
Current assets	$ 81,896	$ 57,048	$ 30,471
Capital assets	5,795	11,367	19,005
Total assets	$ 87,691	$ 68,415	$ 49,476
Fund equity:			
Invested in capital assets	$ 5,795	$ 11,367	$ 19,005
Unrestricted	81,896	57,048	30,471
Total liabilities and net assets	$ 87,691	$ 68,415	$ 49,476

As indicated above, total assets increased by $19,276 from $68,415 in 2006 to $87,691 in 2007. This increase in total assets reflects revenue that was received from the technical grant. As no major liabilities exist as of the end of the fiscal year, total assets equals total net assets, which is comprised of investment in fixed assets of $5,795 with the remaining amount of $81,896 designated as unrestricted and available to fund future operations.

A summary of LRA's changes in net assets with comparative financial data for both years 2007 and 2006 are as follows:

Year Ended September 30	2007	2006	2005
Operating revenues	$ 48,237	$ 48,755	$ 68,269
Operating expenses	28,961	29,816	42,148
Operating income	19,276	18,939	26,121
Capital contributions	-	-	23,355
Change in net assets	19,276	18,939	49,476
Net assets at beginning of year	68,415	49,476	-
Net assets at end of year	$ 87,691	$ 68,415	$ 49,476

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 revenue and capital contributions amounted to $48,237 in 2007 compared with $48,755 in 2006, which were offset by operating expenses of $28,961 in 2007 compared with $29,816 in 2006.

Below is a summary of the major components of operating revenues for LRA in 2007, 2006 and 2005:

Year Ended September 30	2007	2006	2005
Nitijela appropriation	$ 48,237	$ 48,420	$ 62,999
Other revenues	-	335	5,270
	$ 48,237	$ 48,755	$ 68,269

Below is a list of the main contributions to the increase in operating expenses for LRA in 2007, 2006 and 2005.

Year Ended September 30	2007	2006	2005
Depreciation	$ 5,572	$ 9,097	$ 12,441
Leased and rental housing	7,200	7,200	6,300
Travel	7,028	2,402	8,807
Communications	2,616	2,364	3,074
Sitting fees	1,750	2,360	4,863
Other supplies and materials	2,056	2,245	2,865
Petroleum, oil and lubricants	1,730	1,428	1,129
Training and staff development	-	1,000	1,200
Other	1,009	1,720	1,469
	$ 28,961	$ 29,816	$ 42,148

Management's Discussion and Analysis for the year ended September 30, 2006 is set forth in LRA's report on the audit of financial statements, which is dated July 11, 2008. That Discussion and Analysis explains the major factors impacting the 2006 financial statements and can be obtained from LRA's Registrar via the contact information on page 5.

CAPITAL ASSETS

Net capital assets are $5,795 as result of additions of $-0- less depreciation expense of $5,572. A summary of LRA's investment in capital assets is presented below for 2007, 2006 and 2005.

Year Ended September 30	2007	2006	2005
Motor vehicle, furniture, and equipment	32,190	$ 32,905	$ 31,446
Less accumulated depreciation	(26,395)	(21,538)	(12,441)
Net Capital Assets	$ 5,795	$ 11,367	$ 19,005

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, 2007 and 2006

		2007		2006
ASSETS				
Current assets:				
Cash	$	76,763	$	51,915
Grants receivable		5,133		5,133
Total current assets		81,896		57,048
Capital assets, net		5,795		11,367
Total assets	$	87,691	$	68,415
Commitments and Contingencies				
NET ASSETS				
Net Assets:				
Invested in capital assets		5,795		11,367
Unrestricted		81,896		57,048
Total net assets	$	87,691	$	68,415

See accompanying notes to finanical statements.

LAND REGISTRATION AUTHORITY

Statements of Revenues, Expenses, and Changes in Net Assets
Years Ended September 30, 2007 and 2006

	2007	2006
Operating revenues:		
Nitijela appropriation	$ 48,237	$ 48,420
Other revenues	-	335
Total operating revenues	48,237	48,755
Operating expenses:		
Leased and rental housing	7,200	7,200
Travel	7,028	2,402
Depreciation	5,572	9,097
Communications	2,616	2,364
Other supplies and materials	2,056	2,245
Sitting fees	1,750	2,360
Petroleum, oil and lubricants	1,730	1,428
Bank charges	261	-
Food stuffs	106	822
Advertising	95	252
Repairs	67	183
Training and staff development	-	1,000
Miscellanous	480	463
Total operating expenses	28,961	29,816
Change in net assets	19,276	18,939
Net assets at beginning of year	68,415	49,476
Net assets at end of year	$ 87,691	$ 68,415

See accompanying notes to financial statements.

LAND REGISTRATION AUTHORITY

Statements of Cash Flows

Years Ended September 30, 2007 and 2006

		2007		2006
Cash flows from operating activities:				
Operating grants received	$	48,237	$	48,420
Other cash received from customers		-		335
Cash payments to suppliers for goods and services		(23,389)		(20,719)
Net cash provided by operating activities		24,848		28,036
Cash flows from capital and related financing activities:				
Acquisition of capital assets		-		(1,459)
Net change in cash		24,848		26,577
Cash at beginning of year		51,915		25,338
Cash at end of year	$	76,763	$	51,915
Reconciliation of operating income to net cash provided by operating activities:				
Operating income	$	19,276	$	18,939
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation		5,572		9,097
Net cash provided by operating activities	$	24,848	$	28,036

See accompanying notes to financial statements.

(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.

(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, 2007 and 2006, cash was $76,693 and $51,915, respectively, and the corresponding bank balances were $77,950 and $52,624, respectively, which were maintained in a financial institution not subject to depository insurance. Accordingly, there 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.

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, 2007 and 2006, 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

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.

2) Summary of Significant Accounting Policies, Continued

New Accounting Pronouncements, Continued

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 the Authority.

In May 2007, GASB issued Statement No. 50, *Pension Disclosures an amendment of GASB Statements No. 25 and 27*. GASB Statement No. 50 more closely aligns the financial reporting requirements for pensions with those for other post-employment benefits. The provisions of this statement are effective for periods beginning after June 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 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 the Authority.

(3) Capital Assets

Capital asset activity for the years ended September 30, 2007 and 2006 were as follows:

	October 1, 2006	Additions	Retirements	September 30, 2007
Motor vehicles	$ 16,650	$ -	$ -	$ 16,650
Computer equipment	7,304	-	(715)	6,589
Office equipment	2,409	-	-	2,409
Furniture and fixtures	964	-	-	964
Leasehold improvement	5,578	-	-	5,578
	32,905	-	-	32,190
Less accumulated depreciation	(21,538)	(5,572)	(715)	(26,395)
	$ 11,367	$ (5,572)	$ 0	$ 5,795

(3) Capital Assets, Continued

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

(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:

Year ending September 30,	
2008	$ 7,200
2009	7,200
2010	1,800
	$ 16,200

For the years ended September 30, 2007 and 2006, RepMar paid salaries and wages relating to the Authority of $73,429 and $67,947, respectively. These salaries and wages are not included in the accompanying financial statements.

(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.