

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

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

YEARS ENDED SEPTEMBER 30, 2009 and 2008



REPUBLIC OF THE MARSHALL ISLANDS
Office of the Auditor-General

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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, 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 the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

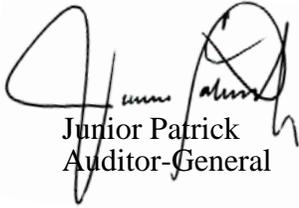
We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan 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, 2009 and 2008, 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 June 10, 2013, 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 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.

June 10, 2013



Junior Patrick
Auditor-General

LAND REGISTRATION AUTHORITY

Management's Discussion and Analysis September 30, 2009 and 2008

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, 2009. 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, 2009, LRA's net assets amounted to \$76,333. During the year ended September 30, 2009, operating revenues amounted to \$31,242, a decrease of \$2,306 or 6.8% compared with 2008. At the same time, operating expenses amounted to \$41,924, an increase of \$7,700 or 22.5% compared with 2008. As a result, the operating loss for 2009 amounted to \$10,682, an increase of \$10,006 compared to 2008.

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 2009, 2008 and 2007 are as follows.

As of September 30	<u>2009</u>	<u>2008</u>	<u>2007</u>
Current assets	\$ 68,472	\$ 75,898	\$ 81,896
Capital assets	<u>8,161</u>	<u>11,417</u>	<u>5,795</u>
Total assets	\$ <u>76,633</u>	\$ <u>87,315</u>	\$ <u>87,691</u>
Current liabilities	\$ 300	\$ 300	\$ -
Net assets:			
Invested in capital assets	8,161	11,417	5,795
Unrestricted	<u>68,172</u>	<u>75,598</u>	<u>81,896</u>
Total liabilities and net assets	\$ <u>76,633</u>	\$ <u>87,315</u>	\$ <u>87,691</u>

As indicated above, total assets decreased by \$10,682 from \$87,315 in 2008 to \$76,633 in 2009. This decrease in total assets reflects an increase in cash balances of \$1,768 offset by a decrease in grants receivable and capital assets of \$9,194 and \$3,256, respectively. Grants receivable are amounts due from RepMar for annual Nitijela appropriations. Capital asset acquisitions amounted to \$350 offset by current year depreciation of \$3,606. As no major liabilities exist as of the end of the fiscal year, total assets approximate total net assets, which is comprised of investment in fixed assets of \$8,161 with the remaining amount of \$68,172 designated as unrestricted and available to fund future operations.

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Management's Discussion and Analysis September 30, 2009 and 2008

A summary of LRA's changes in net assets with comparative financial data for both years 2009, 2008 and 2007 are as follows:

Year Ended September 30	<u>2009</u>	<u>2008</u>	<u>2007</u>
Operating revenues	\$ 31,242	\$ 33,548	\$ 48,237
Operating expenses	<u>41,924</u>	<u>34,224</u>	<u>28,961</u>
Change in net assets	(10,682)	(676)	19,276
Net assets at beginning of year	<u>87,015</u>	<u>87,691</u>	<u>68,415</u>
Net assets at end of year	\$ <u>76,333</u>	\$ <u>87,015</u>	\$ <u>87,691</u>

The Statement of Revenues, Expenses, and Changes in Net Assets identifies the various revenues and expense items that implicit the change in net assets. As indicated above, LRA's total revenues amounted to \$31,242 in 2009 compared with \$33,548 in 2008, which were offset by operating expenses of \$41,924 in 2009 compared with \$34,224 in 2008.

Below is a summary of the major components of operating revenues for LRA in 2009, 2008 and 2007:

Year Ended September 30	<u>2009</u>	<u>2008</u>	<u>2007</u>
Nitijela appropriation	\$ 30,858	\$ 33,313	\$ 48,237
Other revenues	<u>384</u>	<u>235</u>	<u>-</u>
	\$ <u>31,242</u>	\$ <u>33,548</u>	\$ <u>48,237</u>

Below is a list of the main contributions to the increase in operating expenses for LRA in 2009, 2008 and 2007.

Year Ended September 30	<u>2009</u>	<u>2008</u>	<u>2007</u>
Depreciation	\$ 3,606	\$ 3,349	\$ 5,572
Leased and rental housing	7,200	7,200	7,200
Travel	9,359	3,232	7,028
Communications	3,498	2,094	2,616
Sitting fees	3,807	2,888	1,750
Other supplies and materials	5,295	1,606	2,056
Petroleum, oil and lubricants	5,009	4,663	1,730
Training and staff development	-	2,000	-
Other	<u>4,150</u>	<u>7,192</u>	<u>1,009</u>
	\$ <u>41,924</u>	\$ <u>34,224</u>	\$ <u>28,961</u>

Management's Discussion and Analysis for the year ended September 30, 2008 is set forth in LRA's report on the audit of financial statements, which is dated March 24, 2011. That Discussion and Analysis explains the major factors impacting the 2008 financial statements and can be obtained from LRA's Registrar via the contact information on page 5.

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Management's Discussion and Analysis September 30, 2009 and 2008

CAPITAL ASSETS

Net capital assets are \$8,161 a decrease from prior year as result of additions of \$350 less depreciation expense of \$3,606. A summary of LRA's investment in capital assets is presented below for 2009, 2008 and 2007.

Year Ended September 30	<u>2009</u>	<u>2008</u>	<u>2007</u>
Motor vehicle, furniture, and equipment	\$ 41,511	\$ 41,161	\$ 32,190
Less accumulated depreciation	<u>(33,350)</u>	<u>(29,744)</u>	<u>(26,395)</u>
Net Capital Assets	\$ <u>8,161</u>	\$ <u>11,417</u>	\$ <u>5,795</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, 2009 and 2008

	<u>2009</u>	<u>2008</u>
<u>ASSETS</u>		
Current assets:		
Cash	\$ 68,472	\$ 66,704
Grants receivable	<u>-</u>	<u>9,194</u>
Total current assets	68,472	75,898
Capital assets, net	<u>8,161</u>	<u>11,417</u>
Total assets	<u>\$ 76,633</u>	<u>\$ 87,315</u>
Commitments and Contingencies		
<u>LIABILITIES AND NET ASSETS</u>		
Liabilities:		
Account Payable	\$ <u>300</u>	\$ <u>300</u>
Commitments and contingencies		
Net Assets:		
Invested in capital assets	8,161	11,417
Unrestricted	<u>68,172</u>	<u>75,598</u>
Total net assets	<u>76,333</u>	<u>87,015</u>
	<u>\$ 76,633</u>	<u>\$ 87,315</u>

See accompanying notes to financial statements.

LAND REGISTRATION AUTHORITY

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

	2009	2008
Operating revenues:		
Nitijela appropriation	\$ 30,858	\$ 33,313
Other revenues	384	235
Total operating revenues	31,242	33,548
Operating expenses:		
Travel	9,359	3,232
Leased and rental housing	7,200	7,200
Other supplies and materials	5,295	1,606
Petroleum, oil and lubricants	5,009	4,663
Sitting fees	3,807	2,888
Depreciation	3,606	3,349
Communications	3,498	2,094
Repairs	3,238	1,027
Food stuffs	396	280
Training and staff development	-	2,000
Advertising	-	504
Miscellaneous	516	5,381
Total operating expenses	41,924	34,224
Change in net assets	(10,682)	(676)
Net assets at beginning of year	87,015	87,691
Net assets at end of year	\$ 76,333	\$ 87,015

See accompanying notes to financial statements.

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

	2009	2008
Cash flows from operating activities:		
Operating grants received	\$ 40,052	\$ 29,252
Other cash received from customers	384	235
Cash payments to suppliers for goods and services	(38,318)	(30,575)
Net cash provided by (used for) operating activities	2,118	(1,088)
Cash flows from capital and related financing activities:		
Acquisition of capital assets	(350)	(8,971)
Net change in cash	1,768	(10,059)
Cash at beginning of year	66,704	76,763
Cash at end of year	\$ 68,472	\$ 66,704
Reconciliation of change in net assets to net cash provided by (used for) operating activities:		
Change in net assets	\$ (10,682)	\$ (676)
Adjustments to reconcile operating income to net cash provided by (used for) operating activities:		
Depreciation	3,606	3,349
Change in assets and liabilities:		
Decrease (increase) in grants receivable	9,194	(4,061)
Increase in accounts payable	-	300
Net cash provided by (used for) operating activities	\$ 2,118	\$ (1,088)

See accompanying notes to financial statements.

LAND REGISTRATION AUTHORITY

Notes to Financial Statements
September 30, 2009 and 2008

(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 salaries and wages and the related accrued liabilities and 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 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*, 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, 2009 and 2008

(2) Summary of Significant Accounting Policies, Continued

To conform to the requirements of GASB Statement 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.

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, 2009 and 2008, cash was \$68,472 and \$66,704, respectively, and the corresponding bank balances were \$71,845 and \$67,594, 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, these deposits are uncollateralized.

LAND REGISTRATION AUTHORITY

Notes to Financial Statements
September 30, 2009 and 2008

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

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 Standards

During fiscal year 2009, the Authority 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.
- 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.

LAND REGISTRATION AUTHORITY

Notes to Financial Statements
September 30, 2009 and 2008

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

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*, which 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.

In June 2008, GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, which 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 the Authority.

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 the Authority.

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 the Authority.

LAND REGISTRATION AUTHORITY

Notes to Financial Statements
September 30, 2009 and 2008

(3) Capital Assets

Capital asset activity for the years ended September 30, 2009 and 2008 were as follows:

	<u>October 1, 2008</u>	<u>Additions</u>	<u>Retirements</u>	<u>September 30, 2009</u>
Motor vehicles	\$ 16,650	\$ -	\$ -	\$ 16,650
Computer equipment	14,564	-	-	14,564
Office equipment	3,405	350	-	3,755
Furniture and fixtures	964	-	-	964
Leasehold improvement	<u>5,578</u>	<u>-</u>	<u>-</u>	<u>5,578</u>
	41,161	350	-	41,511
Less accumulated depreciation	<u>(29,744)</u>	<u>(3,606)</u>	<u>-</u>	<u>(33,350)</u>
	<u>\$ 11,417</u>	<u>\$ (3,256)</u>	<u>\$ -</u>	<u>\$ 8,161</u>
	<u>October 1, 2007</u>	<u>Additions</u>	<u>Retirements</u>	<u>September 30, 2008</u>
Motor vehicles	\$ 16,650	\$ -	\$ -	\$ 16,650
Computer equipment	6,589	7,975	-	14,564
Office equipment	2,409	996	-	3,405
Furniture and fixtures	964	-	-	964
Leasehold improvement	<u>5,578</u>	<u>-</u>	<u>-</u>	<u>5,578</u>
	32,190	8,971	-	41,161
Less accumulated depreciation	<u>(26,395)</u>	<u>(3,349)</u>	<u>-</u>	<u>(29,744)</u>
	<u>\$ 5,795</u>	<u>\$ 5,622</u>	<u>\$ -</u>	<u>\$ 11,417</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 September 30,</u>	
2010	\$ 7,200
2011	<u>1,800</u>
	<u>\$ 9,000</u>

For the years ended September 30, 2009 and 2008, RepMar paid salaries and wages relating to the Authority of \$42,539 and \$25,768, respectively. These salaries and wages are not included in the accompanying financial statements.

LAND REGISTRATION AUTHORITY

Notes to Financial Statements
September 30, 2009 and 2008

(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.