

MARSHALL ISLANDS MARINE RESOURCES AUTHORITY

FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITORS' REPORT

YEARS ENDED SEPTEMBER 30, 2001 AND 2000

INDEPENDENT AUDITORS' REPORT

Board of Directors  
Marshall Islands Marine Resources Authority:

We were engaged to audit the accompanying balance sheets of the Marshall Islands Marine Resources Authority (MIMRA), a component unit of the Republic of the Marshall Islands (RepMar), as of September 30, 2001 and 2000, and the related statements of earnings (loss) and retained earnings and cash flows for the years then ended. These financial statements are the responsibility of MIMRA's management.

Because of inadequacies in MIMRA's accounting records and internal control, we were unable to form an opinion regarding receivables, accounts payable, payable to affiliates, other liabilities and accruals, revenues and expenses as of and for the years ended September 30, 2001 and 2000. Furthermore, in our judgment, the above balances materially affect the determination of financial position as of September 30, 2001 and 2000, and results of operations and cash flows for the years then ended.

As discussed in notes 1 and 5 to the financial statements, the financial statements of MIMRA relate solely to those accounting records maintained by MIMRA and do not incorporate any accounts related to its operations that may be accounted for by RepMar's Treasury or any of RepMar's other branches, departmental units or component units.

Because of the matters discussed in the second and third paragraphs, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the financial statements referred to in the first paragraph.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 19, 2002 on our consideration of MIMRA's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an engagement to audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our engagement.

*Deloitte & Touche*

March 19, 2002

MARSHALL ISLANDS MARINE RESOURCES AUTHORITY

Balance Sheets  
September 30, 2001 and 2000

<u>ASSETS</u>	<u>2001</u>	<u>2000</u>
Current assets:		
Cash	\$ 74,380	\$ 134,416
Time certificates of deposit	<u>581,163</u>	<u>587,182</u>
Receivables:		
Affiliate (note 5)	300,000	300,000
Grants	53,000	-
Trade	27,185	2,370
Accrued interest	13,320	7,985
Other	<u>48,030</u>	<u>12,128</u>
	441,535	322,483
Less allowance for doubtful accounts	<u>(317,339)</u>	<u>(300,000)</u>
	<u>124,196</u>	<u>22,483</u>
Total current assets	779,739	744,081
Equipment, net (note 4)	<u>134,948</u>	<u>13,578</u>
	<u>\$ 914,687</u>	<u>\$ 757,659</u>
 <u>LIABILITIES AND FUND EQUITY</u> 		
Current liabilities:		
Bank overdraft	\$ 15,166	\$ -
Accounts payable	75,813	37,925
Payable to affiliates (note 5)	80,404	69,746
Other liabilities and accruals	<u>58,987</u>	<u>69,937</u>
Total current liabilities	<u>230,370</u>	<u>177,608</u>
Fund equity:		
Retained earnings	<u>684,317</u>	<u>580,051</u>
Total fund equity	<u>684,317</u>	<u>580,051</u>
Commitments and contingency (notes 6 and 7)	<u>\$ 914,687</u>	<u>\$ 757,659</u>

See accompanying notes to financial statements.

MARSHALL ISLANDS MARINE RESOURCES AUTHORITY

Statements of Earnings (Loss) and Retained Earnings  
Years Ended September 30, 2001 and 2000

	<u>2001</u>	<u>2000</u>
Operating revenues:		
Licensing fees	\$ 898,470	\$ 816,510
Transshipment fees	257,700	148,200
Other fees and charges	117,292	-
Grants	92,970	57,980
Other	<u>60,803</u>	<u>22,167</u>
Total operating revenues	<u>1,427,235</u>	<u>1,044,857</u>
Operating expenses:		
Salaries and wages	462,168	373,923
Boarding and observer fees	110,204	-
Contractual services	82,663	59,566
Contributions	70,200	-
Travel	48,986	60,057
Training	25,833	-
Communications	23,303	21,718
Petroleum, oil and lubricants	18,390	40,996
Repairs and maintenance	17,393	28,755
Bad debts	17,339	300,000
Professional fees	14,500	43,259
Supplies	13,042	6,708
Entertainment	7,219	10,278
Depreciation	6,374	3,739
Freight	1,038	4,082
Advertising	1,038	1,049
Miscellaneous	<u>71,908</u>	<u>26,630</u>
Total operating expenses	<u>991,598</u>	<u>980,760</u>
Operating income	<u>435,637</u>	<u>64,097</u>
Other income (expense):		
Interest income	51,129	50,104
Gain on sale of fixed assets	17,500	-
Transfer to RepMar's General Fund (note 5)	<u>(400,000)</u>	<u>(120,000)</u>
Total other income (expense), net	<u>(331,371)</u>	<u>(69,896)</u>
Net earnings (loss)	104,266	(5,799)
Retained earnings at beginning of year	<u>580,051</u>	<u>585,850</u>
Retained earnings at end of year	\$ <u>684,317</u>	\$ <u>580,051</u>

See accompanying notes to financial statements.

MARSHALL ISLANDS MARINE RESOURCES AUTHORITY

Statements of Cash Flows  
Years Ended September 30, 2001 and 2000

	<u>2001</u>	<u>2000</u>
Cash flows from operating activities:		
Operating income	\$ 435,637	\$ 64,097
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	6,374	3,739
Bad debts	17,339	300,000
(Increase) decrease in assets:		
Receivables:		
Affiliate	-	(300,000)
Grants	(53,000)	-
Trade	(24,815)	2,130
Other	(35,902)	(12,128)
Increase (decrease) in liabilities:		
Accounts payable	37,888	27,925
Payable to affiliates	10,658	69,746
Other liabilities and accruals	<u>(10,950)</u>	<u>69,937</u>
Net cash provided by operating activities	<u>383,229</u>	<u>225,446</u>
Cash flows from noncapital financing activities:		
Net borrowings under bank overdraft	15,166	-
Transfers to RepMar's General Fund (note 5)	<u>(400,000)</u>	<u>(120,000)</u>
Net cash used for noncapital financing activities	<u>(384,834)</u>	<u>(120,000)</u>
Cash flows from capital and related financing activities:		
Acquisition of capital assets	(127,744)	(14,917)
Proceeds from sale of fixed assets	<u>17,500</u>	<u>-</u>
Net cash used for capital and related financing activities	<u>(110,244)</u>	<u>(14,917)</u>
Cash flows from investing activities:		
Net decrease (increase) in time certificates of deposit	6,019	(68,192)
Interest received on time certificates of deposit	<u>45,794</u>	<u>47,030</u>
Net cash provided by (used for) investing activities	<u>51,813</u>	<u>(21,162)</u>
Net (decrease) increase in cash	(60,036)	69,367
Cash at beginning of year	<u>134,416</u>	<u>65,049</u>
Cash at end of year	\$ <u>74,380</u>	\$ <u>134,416</u>

See accompanying notes to financial statements.

# MARSHALL ISLANDS MARINE RESOURCES AUTHORITY

Notes to Financial Statements  
September 30, 2001 and 2000

## (1) Organization

The Marshall Islands Marine Resources Authority (MIMRA), a component unit of the Republic of the Marshall Islands (RepMar), was created under Public Law 1997-60, the Marshall Islands Marine Resources Act of 1997. This legislation repealed Public Law 1988-12, the Marshall Islands Marine Resources Authority Act, 1988, and transferred all assets, liabilities, rights and obligations of the former Marshall Islands Marine Resources Authority (established under Public Law 1988-12) to MIMRA, effective October 2, 1997. MIMRA's principal line of business is to facilitate the sustainable and responsible use of the marine resources in the Marshall Islands. Access to the fishery waters of the Marshall Islands, including transshipment related activities, is granted by MIMRA to foreign and domestic-based fishing vessels through an access agreement, for which certain fees and licenses are levied.

The operations of MIMRA and the former Marshall Islands Marine Resources Authority were accounted for as a separate fund (the Marine Resources Fund) within RepMar's Ministry of Finance. On July 20, 1999, MIMRA established a separate bank account outside of RepMar's Treasury for the purpose of receiving and disbursing funds in accordance with Public Law 1997-60. Accordingly, the accompanying financial statements relate solely to those accounting records maintained by MIMRA and do not incorporate any accounts related to MIMRA's operations that may be accounted for by RepMar's Treasury or any of RepMar's other branches, departmental units or component units (see note 5).

MIMRA is governed by a seven-member Board of Directors, including three members consisting of the Minister of Resources and Development, the Secretary of Foreign Affairs and the Attorney General and four members appointed by the President of RepMar.

MIMRA's financial statements are incorporated into the general purpose financial statements of RepMar as a component unit.

## (2) Summary of Significant Accounting Policies

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

### 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.

# MARSHALL ISLANDS MARINE RESOURCES AUTHORITY

Notes to Financial Statements  
September 30, 2001 and 2000

## (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 balance sheets. 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.

### Cash and Time Certificate of Deposit

For purpose of the balance sheets and the statements of cash flows, cash is defined as cash on hand and cash held in demand accounts. Deposits maintained in time certificates of deposit with original maturity dates greater than ninety days are separately classified. As of September 30, 2001 and 2000, the carrying amount of cash and time certificates of deposit were \$655,543 and \$721,598, respectively, and the corresponding bank balances were \$668,730 and \$783,524, respectively. Of the bank balance amounts, \$75,882 and \$74,380, respectively, were maintained in one financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2001 and 2000, bank deposits in the amount of \$75,882 and \$74,380, respectively, were FDIC insured. MIMRA does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC coverage are uncollateralized.

### Receivables

All receivables are uncollateralized and are due from customers, both foreign government agencies and businesses, located within the Republic of the Marshall Islands and the Pacific region, including Japan, Korea and Taiwan. The allowance for doubtful accounts is stated at an amount which management believes will be adequate to absorb possible losses on accounts receivable that may become uncollectible based on evaluation of the collectibility of these accounts and prior collection experience. The allowance is established through a provision for bad debts charged to expense.

### Equipment

Equipment is stated at cost. Depreciation is calculated using the straight-line method based on the estimated useful lives of the respective assets.

### 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. MIMRA 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 nonvesting accumulating rights to receive sick pay benefits. As of September 30, 2001 and 2000, the accumulated vacation leave liability totals \$31,940 and \$46,081, respectively, and is included within the balance sheets as other liabilities and accruals.

MARSHALL ISLANDS MARINE RESOURCES AUTHORITY

Notes to Financial Statements  
September 30, 2001 and 2000

(3) Risk Management

MIMRA 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. MIMRA 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 in any of the past three years. For other risks of loss to which it is exposed, MIMRA has elected not to purchase commercial insurance. Instead, MIMRA believes it is more economical to manage its risks internally. Claims expenses and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported. No material losses have resulted from MIMRA's risk management activities.

(4) Equipment

Equipment at September 30, 2001 and 2000, consists of the following:

	<u>Estimated Useful Lives</u>	<u>2001</u>	<u>2000</u>
Vehicles	3 years	\$ 28,995	\$ 13,495
Equipment	4 years	18,226	2,400
Furniture	4 years	<u>2,596</u>	<u>1,422</u>
		49,817	17,317
Less accumulated depreciation		<u>(10,113)</u>	<u>(3,739)</u>
		39,704	13,578
Construction work in progress		<u>95,244</u>	<u>-</u>
		<u>\$ 134,948</u>	<u>\$ 13,578</u>

(5) Related Party Transactions

MIMRA was created by the Nitijela of RepMar under Public Law 1997-60 and is thus considered a component unit of RepMar. Accordingly, MIMRA is affiliated with all RepMar-owned and affiliated entities, including the Marshall Islands Social Security Administration (MISSA).

MIMRA utilizes services from certain affiliated entities at substantially the same terms and conditions as those incurred from third parties. A summary of related party transactions for the years ended September 30, 2001 and 2000 and the related payable balances as of September 30, 2001 and 2000, are as follows:

MARSHALL ISLANDS MARINE RESOURCES AUTHORITY

Notes to Financial Statements  
September 30, 2001 and 2000

(5) Related Party Transactions, Continued

	2001	
	Expenses	Payable
Marshall Islands Social Security Administration	\$ 39,294	\$ 15,605
Marshall Islands National Telecommunications Authority	23,303	-
RepMar	-	64,799
	\$ 62,597	\$ 80,404
	2000	
	Expenses	Payable
Marshall Islands Social Security Administration	\$ 22,554	\$ 39,047
Marshall Islands National Telecommunications Authority	21,718	3,314
RepMar	-	27,385
	\$ 44,272	\$ 69,746

During the years ended September 30, 2001 and 2000, MIMRA transferred to RepMar's General Fund \$400,000 and \$120,000, respectively.

During the years ended September 30, 2001 and 2000, MIMRA contributed \$50,000 and \$0-, respectively, to the College of the Marshall Islands, a component unit of RepMar, for the operation of a Marine Science Center.

During the years ended September 30, 2001 and 2000, the Marine Resources Fund within RepMar's Treasury recorded revenues of \$0- and \$13,385, respectively, expenditures of \$0- and \$181,879, respectively, and operating transfers to RepMar's General Fund of \$681,089 and \$27,600, respectively, which pertain to operational activities of MIMRA in accordance with Public Law 1997-60 (see notes 1 and 8).

On September 20, 2000, the Cabinet of RepMar approved the disbursement of funds from MIMRA, totaling \$300,000, to MISSA and approved the subsequent reimbursement to MIMRA from RepMar's General Fund. No formal terms and conditions, including interest rate, were established between MIMRA and RepMar pertaining to this reimbursement receivable. As of September 30, 2001, MIMRA has not been reimbursed for this amount. Accordingly, this receivable balance has been included in the allowance for doubtful accounts as of September 30, 2001 and 2000.

MIMRA occupies certain office space belonging to RepMar at no cost. No lease agreement has been executed to formalize this arrangement. However, management is of the opinion that no rental payments for the use of the office space are anticipated. The fair value of this contribution is presently not determinable. Accordingly, the contributed use of facilities has not been recognized as revenue and expense in the accompanying financial statements.

MIMRA maintains deposit accounts amounting to \$581,163 and \$647,148 as of September 30, 2001 and 2000, respectively, with a related financial institution.

MARSHALL ISLANDS MARINE RESOURCES AUTHORITY

Notes to Financial Statements  
September 30, 2001 and 2000

(6) Commitments

As of September 30, 2001, the following long-term commitment existed with respect to certain ground leases. During the year ended September 30, 2000, MIMRA assumed the payment obligations under these ground leases, which were previously the obligations of RepMar's Ministry of Internal Affairs. These ground leases have original terms ranging from five to fifteen years, expiring in 2003 through 2008.

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

<u>Year ending September 30,</u>	
2002	\$ 15,367
2003	15,301
2004	14,579
2005	14,294
2006	12,578
Thereafter	<u>18,762</u>
	<u>\$ 90,881</u>

Lease expense amounted to \$22,804 and \$8,678 for the years ended September 30, 2001 and 2000, respectively.

On June 19, 2001, MIMRA entered into a contract for the renovation and rehabilitation of office space utilized by MIMRA at a cost of \$84,000. As of September 30, 2001, MIMRA has made progress payments amounting to \$39,705 against this contract.

(7) Contingency

MIMRA does not maintain general liability insurance coverage on its operations. In the event of a loss, MIMRA may be self-insured to a material extent.

(8) Subsequent Event

On March 19, 2002, the Board of Directors of MIMRA approved the transfer of \$681,089 from the Marine Resources Fund within RepMar's Treasury to RepMar's General Fund (see note 5). RepMar has elected to record the transfer from the Marine Resources Fund to its General Fund as of September 30, 2001.