

MARSHALL ISLANDS MARINE RESOURCES AUTHORITY

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

YEARS ENDED SEPTEMBER 30, 2002 AND 2001

INDEPENDENT AUDITORS' REPORT

Board of Directors
Marshall Islands Marine Resources Authority:

We have audited the accompanying balance sheet of the Marshall Islands Marine Resources Authority (MIMRA), a component unit of the Republic of the Marshall Islands (RepMar), as of September 30, 2002. We were also engaged to audit the accompanying balance sheet as of September 30, 2001 and the related statements of earnings and retained earnings and cash flows for the years ended September 30, 2002 and 2001. These financial statements are the responsibility of MIMRA's management. Our responsibility is to express an opinion on the 2002 balance sheet based on our audit.

Except as discussed in the following paragraphs, we conducted our audit 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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 year ended September 30, 2001. Furthermore, in our judgment, the above balances materially affect the determination of results of operations and cash flows for the years ended September 30, 2002 and 2001.

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 third and fourth paragraphs, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the balance sheet as of September 30, 2001, or on the statements of earnings and retained earnings and cash flows for the years ended September 30, 2002 and 2001.

In our opinion, the balance sheet as of September 30, 2002, referred to in the first paragraph, presents fairly, in all material respects, the financial position of MIMRA as of September 30, 2002, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 28, 2003, 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

May 28, 2003

MARSHALL ISLANDS MARINE RESOURCES AUTHORITY

Balance Sheets
September 30, 2002 and 2001

<u>ASSETS</u>	<u>2002</u>	<u>2001</u>
Current assets:		
Cash	\$ 272,714	\$ 74,380
Time certificates of deposit	<u>1,057,748</u>	<u>581,163</u>
Receivables:		
Affiliate (note 5)	423,288	300,000
Trade	88,898	27,185
Grants	53,000	53,000
Accrued interest	8,200	13,320
Other	<u>95,697</u>	<u>48,030</u>
	669,083	441,535
Less allowance for doubtful accounts	<u>(477,059)</u>	<u>(317,339)</u>
	<u>192,024</u>	<u>124,196</u>
Total current assets	1,522,486	779,739
Improvements and equipment, net (note 4)	<u>454,775</u>	<u>134,948</u>
	<u>\$ 1,977,261</u>	<u>\$ 914,687</u>
 <u>LIABILITIES AND FUND EQUITY</u> 		
Current liabilities:		
Bank overdraft	\$ -	\$ 15,166
Accounts payable	29,314	75,813
Deferred revenue	221,777	-
Payable to affiliates (note 5)	464,825	80,404
Other liabilities and accruals	<u>98,841</u>	<u>58,987</u>
Total current liabilities	814,757	230,370
Leasehold payable (note 6)	<u>141,049</u>	<u>-</u>
Total liabilities	<u>955,806</u>	<u>230,370</u>
Fund equity:		
Retained earnings	<u>1,021,455</u>	<u>684,317</u>
Total fund equity	<u>1,021,455</u>	<u>684,317</u>
Commitments and contingency (notes 7 and 8)	<u>\$ 1,977,261</u>	<u>\$ 914,687</u>

See accompanying notes to financial statements.

MARSHALL ISLANDS MARINE RESOURCES AUTHORITY

Statements of Earnings and Retained Earnings
Years Ended September 30, 2002 and 2001

	<u>2002</u>	<u>2001</u>
Operating revenues:		
Licensing fees	\$ 1,086,018	\$ 898,470
Transshipment fees	264,300	257,700
Other fees and charges	237,414	117,292
Grants	92,815	92,970
Other	<u>180,762</u>	<u>60,803</u>
Total operating revenues	<u>1,861,309</u>	<u>1,427,235</u>
Operating expenses:		
Salaries and wages	555,699	462,168
Bad debts	172,017	17,339
Boarding and observer fees	171,895	110,204
Contributions	79,588	70,200
Utilities	59,416	-
Contractual services	55,295	82,663
Travel	47,391	48,986
Depreciation	43,495	6,374
Training	43,271	25,833
Petroleum, oil and lubricants	26,338	18,390
Communications	20,231	23,303
Supplies	18,523	13,042
Professional fees	17,500	14,500
Entertainment	14,385	7,219
Repairs and maintenance	13,901	17,393
Freight	6,567	1,038
Advertising	4,487	1,038
Miscellaneous	<u>69,014</u>	<u>71,908</u>
Total operating expenses	<u>1,419,013</u>	<u>991,598</u>
Operating income	<u>442,296</u>	<u>435,637</u>
Other income (expense):		
Other income	123,288	-
Transfer from RepMar (note 5)	50,000	-
Interest income	41,554	51,129
Gain on sale of fixed assets	-	17,500
Transfer to RepMar (note 5)	<u>(320,000)</u>	<u>(400,000)</u>
Total other income (expense), net	<u>(105,158)</u>	<u>(331,371)</u>
Net earnings	337,138	104,266
Retained earnings at beginning of year	<u>684,317</u>	<u>580,051</u>
Retained earnings at end of year	\$ <u>1,021,455</u>	\$ <u>684,317</u>

See accompanying notes to financial statements.

MARSHALL ISLANDS MARINE RESOURCES AUTHORITY

Statements of Cash Flows
Years Ended September 30, 2002 and 2001

	<u>2002</u>	<u>2001</u>
Cash flows from operating activities:		
Operating income	\$ 442,296	\$ 435,637
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	43,495	6,374
Bad debts	159,720	17,339
(Increase) decrease in assets:		
Receivables:		
Trade	(61,713)	(24,815)
Grants	-	(53,000)
Other	(47,667)	(35,902)
Increase (decrease) in liabilities:		
Accounts payable	(46,499)	37,888
Payable to affiliates	384,421	10,658
Deferred revenue	221,777	-
Other liabilities and accruals	27,354	(10,950)
Net cash provided by operating activities	<u>1,123,184</u>	<u>383,229</u>
Cash flows from noncapital financing activities:		
Net (repayments) borrowings under bank overdraft	(15,166)	15,166
Transfers to RepMar's General Fund (note 5)	(320,000)	(400,000)
Transfer from RepMar's Special Revenue Fund (note 5)	50,000	-
Net cash used for noncapital financing activities	<u>(285,166)</u>	<u>(384,834)</u>
Cash flows from capital and related financing activities:		
Acquisition of capital assets	(209,773)	(127,744)
Proceeds from sale of fixed assets	-	17,500
Net cash used for capital and related financing activities	<u>(209,773)</u>	<u>(110,244)</u>
Cash flows from investing activities:		
Net (increase) decrease in time certificates of deposit	(476,585)	6,019
Interest received on time certificates of deposit	46,674	45,794
Net cash (used for) provided by investing activities	<u>(429,911)</u>	<u>51,813</u>
Net increase (decrease) in cash	198,334	(60,036)
Cash at beginning of year	<u>74,380</u>	<u>134,416</u>
Cash at end of year	\$ <u>272,714</u>	\$ <u>74,380</u>

Supplemental schedule of non-cash investing, capital and financing activities:

During the year ended September 30, 2002, MIMRA agreed to reimburse a lessee for cost of improvements made on the property being leased. Portions of future annual rental expense will be applied as reimbursement for cost of improvements (see notes 6 and 7):

Cost of building improvements	\$ 153,549	\$ -
Amount to be reimbursed from portion of 2003 rental income	(12,500)	-
Amount to be reimbursed from long-term portion of rental income	<u>(141,049)</u>	<u>-</u>
	\$ <u>-</u>	\$ <u>-</u>

See accompanying notes to financial statements.

MARSHALL ISLANDS MARINE RESOURCES AUTHORITY

Notes to Financial Statements
September 30, 2002 and 2001

(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.

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Notes to Financial Statements
September 30, 2002 and 2001

(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, 2002 and 2001, the carrying amount of cash and time certificates of deposit were \$1,330,462 and \$655,543, respectively, and the corresponding bank balances were \$1,358,638 and \$668,730, respectively. Of the bank balance amounts, \$118,925 and \$75,882, respectively, were maintained in one financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2002 and 2001, bank deposits in the amount of \$100,000 and \$75,882, 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, 2002 and 2001, the accumulated vacation leave liability totals \$34,094 and \$31,940, respectively, and is included within the balance sheets as other liabilities and accruals.

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Notes to Financial Statements
September 30, 2002 and 2001

(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) Improvements and Equipment

Equipment at September 30, 2002 and 2001, consists of the following:

	<u>Estimated Useful Lives</u>	<u>2002</u>	<u>2001</u>
Building improvements	10 years	\$ 335,801	\$ -
Equipment improvements	10 years	61,943	-
Vehicles	3 years	48,995	28,995
Equipment	4 years	44,530	18,226
Furniture	4 years	<u>14,963</u>	<u>2,596</u>
		506,232	49,817
Less accumulated depreciation		<u>(53,608)</u>	<u>(10,113)</u>
		452,624	39,704
Construction work in progress		<u>2,151</u>	<u>95,244</u>
		<u>\$ 454,775</u>	<u>\$ 134,948</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, 2002 and 2001 and the related payable balances as of September 30, 2002 and 2001, are as follows:

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Notes to Financial Statements
September 30, 2002 and 2001

(5) Related Party Transactions, Continued

	2002	
	<u>Expenses</u>	<u>Payable</u>
Marshall Islands Social Security Administration	\$ 47,664	\$ 27,620
Marshall Islands National Telecommunications Authority	20,231	2,341
Marshalls Energy Company, Inc.	71,237	56,225
College of the Marshall Islands	50,000	25,000
RepMar	-	341,784
Others	24,336	11,855
	<u>\$ 213,468</u>	<u>\$ 464,825</u>
	2001	
	<u>Expenses</u>	<u>Payable</u>
Marshall Islands Social Security Administration	\$ 39,294	\$ 15,605
Marshall Islands National Telecommunications Authority	23,303	-
College of the Marshall Islands	50,000	-
RepMar	-	64,799
	<u>\$ 112,597</u>	<u>\$ 80,404</u>

During the years ended September 30, 2002 and 2001, MIMRA transferred to RepMar's General Fund \$320,000 and \$400,000, respectively. During 2002, RepMar's Special Revenue Fund transferred \$50,000 to MIMRA.

During the years ended September 30, 2002 and 2001, the Marine Resources Fund within RepMar's Treasury recorded operating transfers to RepMar's General Fund of \$-0- and \$681,089, respectively, which pertain to operational activities of MIMRA in accordance with Public Law 1997-60 (see note 1).

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. The promissory note issued by RepMar states that payment is due on September 20, 2001 and that 16% and 24%, interest and penalty, respectively, shall apply in the event of nonpayment on the due date. As of September 30, 2002, MIMRA has not been reimbursed for this amount, as a result, \$123,288 of interest and penalties has been accrued. Accordingly, the receivable balance of \$423,288 and \$300,000, as of September 30, 2002 and 2001, respectively, has been included in the allowance for doubtful accounts.

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

MIMRA maintains deposit accounts amounting to \$1,057,748 and \$581,163 as of September 30, 2002 and 2001, respectively, with a related financial institution.

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Notes to Financial Statements
September 30, 2002 and 2001

(6) Leasehold Payable

MIMRA had entered into a lease agreement for the use of a building and cold storage facility belonging to RepMar. The term of the lease for the building is ten years expiring on July 31, 2011 with options to extend for an additional ten years. The term of the lease for the cold storage facility is one year, or until such time that the operator is able to maintain and operate its own cold storage facility. The lease agreement for the building states that the operator may deduct up to fifty percent of the annual rental fee (up to a maximum of \$250,000) as reimbursement for cost of improvements placed on the premises during the term of the lease, all of which will remain on the premises after the expiration or termination of the lease. As of September 30, 2002, the operator made improvements to the building amounting to \$165,000, of which \$141,049 is to be reimbursed through future rental payments to MIMRA starting in fiscal year 2004, and extending to the end of the lease.

(7) Commitments

As of September 30, 2002, 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 2015.

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

<u>Year ending</u> <u>September 30,</u>	
2003	\$ 20,478
2004	18,922
2005	18,637
2006	16,921
2007	13,922
Thereafter	<u>17,263</u>
	\$ <u>106,143</u>

Lease expense amounted to \$18,580 and \$22,804 for the years ended September 30, 2002 and 2001, respectively.

As described in note 6, MIMRA entered into a lease agreement for the lease of a building belonging to RepMar. Total future minimum rentals for subsequent years ending September 30, are as follows:

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Notes to Financial Statements
September 30, 2002 and 2001

(7) Commitments, Continued

<u>Year ending September 30,</u>	
2003	\$ 25,000
2004	25,000
2005	25,000
2006	25,000
2007	25,000
Thereafter	<u>95,833</u>
	\$ <u>220,833</u>

Rental income amounted to \$45,213 and \$2,700 for the years ended September 30, 2002 and 2001, respectively.

(8) 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.