

MARSHALL ISLANDS MARINE RESOURCES AUTHORITY

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

YEARS ENDED SEPTEMBER 30, 2003 AND 2002

INDEPENDENT AUDITORS' REPORT

Board of Directors
Marshall Islands Marine Resources Authority:

We have audited the accompanying statements of net assets of the Marshall Islands Marine Resources Authority (MIMRA), a component unit of the Republic of the Marshall Islands (RepMar), as of September 30, 2003 and 2002, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of MIMRA's management. Our responsibility is to express an opinion on these financial statements based on our audits.

Except as discussed in the following paragraphs, 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 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 audits provide 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, balances which materially affect the determination of results of operations and cash flows for the year ended September 30, 2002.

As discussed in notes 1 and 4 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.

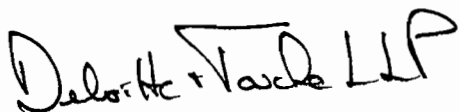
Because of the matter discussed in the third paragraph, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the statements of revenues, expenses and changes in net assets and cash flows for the year ended September 30, 2002.

In our opinion, the statements of net assets as of September 30, 2003 and 2002, and the related statements of revenues, expenses and changes in net assets and cash flows for the year ended September 30, 2003 present fairly, in all material respects, the financial position of MIMRA as of September 30, 2003 and 2002, and the results of its operations and its cash flows for the year ended September 30, 2003, in conformity with accounting principles generally accepted in the United States of America.

As described in note 2 to the accompanying financial statements, MIMRA adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*.

The Management's Discussion and Analysis on pages 3 through 7 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. 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 November 14, 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 audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

A handwritten signature in black ink that reads "Deloitte + Touche LLP". The signature is written in a cursive, stylized font.

November 14, 2003

MARSHALL ISLANDS MARINE RESOURCES AUTHORITY

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Management's Discussion and Analysis

This section of the Marshall Islands Marine Resources Authority (MIMRA) annual financial report presents our discussion and analysis of MIMRA's financial performance for the year that ended on September 30, 2003. Please read it in conjunction with the financial statements, which follow this section. The following table summarizes the financial condition and operations of MIMRA for fiscal years 2003 and 2002.

	<u>2003</u>	<u>2002</u>	<u>% Change</u>
Assets:			
Current and other assets	\$ 1,037,042	1,522,486	-32%
Capital assets	<u>481,309</u>	<u>454,775</u>	6%
Total assets	<u>\$ 1,518,351</u>	<u>\$ 1,977,261</u>	-23%
Liabilities:			
Current liabilities	\$ 440,710	\$ 814,757	-46%
Long-term liabilities	<u>128,553</u>	<u>141,049</u>	-9%
Total liabilities	<u>569,263</u>	<u>955,806</u>	-40%
Net assets:			
Investment in capital assets	481,309	454,775	6%
Unrestricted	<u>467,779</u>	<u>566,680</u>	-17%
Total net assets	<u>949,088</u>	<u>1,021,455</u>	-7%
	<u>\$ 1,518,351</u>	<u>\$ 1,977,261</u>	-23%
Revenues, Expenses, and Changes in Net Assets:			
Operating revenues	\$ 1,647,374	\$ 1,861,309	-11%
Operating expenses	<u>1,131,043</u>	<u>1,419,013</u>	-20%
Operating income	<u>516,331</u>	<u>442,296</u>	17%
Non-operating revenues	46,065	214,842	-79%
Non-operating expenses	<u>634,763</u>	<u>320,000</u>	98%
Total non-operating revenues (expenses), net	<u>(588,698)</u>	<u>(105,158)</u>	460%
Change in net assets	(72,367)	337,138	-121%
Net assets at beginning of year	<u>1,021,455</u>	<u>684,317</u>	49%
Net assets at end of year	<u>\$ 949,088</u>	<u>\$ 1,021,455</u>	-7%

MARSHALL ISLANDS MARINE RESOURCES AUTHORITY

Management's Discussion and Analysis, Continued

Overall analysis.

Compared to last year's (2002) result of operations, there was an 11% decrease in the operating revenue in 2003 which can be attributed to the El Niño phenomenon affecting the Pacific countries during the fiscal year. Even with a slight increase in the total licensing fees collected, which increased by \$92,784 or 9% compared to last year, this was offset by the decrease of all other fees collected of \$306,719 or 40%. The decrease in the other fees collected can be attributed to a reduction in the number of vessels calling into port at Majuro compared to last year.

As stated earlier, it can be attributed to the El Niño phenomenon affecting the Pacific countries, wherein the vessels registered in the Marshall Islands decided to call into port in other Pacific Island countries where they can find more fish than in the Marshall Islands fishing zone and its immediate vicinity. As a whole, there was a **17% increase in the operating income** of MIMRA, thus, considering an improved operation, mainly because during the current year, total operating expenses decreased by \$287,970 or 20% overall, thus, increasing the net operating income of the current year. The only thing that affects the overall financial operation of MIMRA, thus, deteriorating net assets was the decrease of non-operating revenue by \$168,777 or 79% and the increase of non-operating (transfer-out to RepMar) expenses by \$314,763 or 98% in the current year compared to last year.

Fund Analysis:

As MIMRA completed the year, the agency's combined funds (Savings and Current Account) had a total balance of \$784,476, which was \$545,986 lower compared to last year. The reason for the decrease was due to the increase in the Transfer Out to RepMar of \$634,763 during the current year compared to \$320,000 in 2002, being a 98% increase in transfers out with only a 9% increase in the revenue generated during the fiscal would definitely change the picture of the overall funds balance.

Budget Variances:

Total revenues lagged by almost \$45,000 compared to the final budget because vessels transshipping in the Majuro port is minimal. All other revenue sources also fell short of the final budget estimates.

Capital Assets:

At the end the fiscal year 2003, MIMRA has invested \$481,309 in capital assets. The total capital assets represent additional payments for building improvements, additional installation and improvement for the Wabal boat, boat and engine for the Arno Fish-base and carrier boat-PDF project, additional furniture, and computer equipment for the back-up server and replacements of old ones and the equipment acquired for the FNTC Training School and for Wabal boat. A pick-up was also acquired in addition to the existing vehicles owned by MIMRA. This amount represents a net increase of 6%, net of depreciation over last year. (See table below).

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Management's Discussion and Analysis, Continued

A Summary of MIMRA's Capital Assets

	<u>2003</u>	<u>2002</u>
Buildings and improvements	\$ 339,216	\$ 335,801
Equipment	113,000	44,530
Equipment improvements	71,615	61,943
Vehicles	68,995	48,995
Furniture and fixtures	17,957	14,963
Motorboats	15,114	-
	<u>625,897</u>	<u>506,232</u>
Less: accumulated depreciation	<u>(146,739)</u>	<u>(53,608)</u>
	479,158	452,624
Construction in progress	2,151	2,151
	<u>\$ 481,309</u>	<u>\$ 454,775</u>

The fiscal year 2003 major capital asset additions include:

1. Equipment - Computer equipment and accessories \$15,935, FNTPC-training school equipment \$30,025, Wabal boat equipment \$17,966 and all others \$ 4,544.
2. Vehicle which was acquired in the amount of \$20,000.
3. Motorboats for the use of Arno Clam Hatchery and a carrier boat (a PDF project) acquired in the amount of \$15,114.

Long-Term Debt:

The long-term debt shown in MIMRA's financial statements and captioned leasehold payable represents the renovation cost performed by Edgewater Fisheries (tenant) at the Majuro fish-base. Payment for this is deducted at the rate of up to 50% from the total monthly lease rental payments they should be paying. In other words, instead of paying the whole monthly lease rental, payment will only be one half of that and the other half is to be applied against the cost of renovation over a certain timeframe or the termination date of the rental agreement.

There is no additional debt to be taken into consideration.

Economic Factors and Next year Budgets and Rates

- El Niño phenomenon, as discussed earlier, impacts revenue collection for the current year.

The above was taken into account in the preparation of the Fiscal Year 2004 budget, thus reducing the total revenue budget from \$ 3.5M in 2003 to \$ 2.8M in 2004.

Budgeted expenditures are expected to increase by a rate of 2% to \$ 1.110M in 2004 from \$ 1.086M in 2003. The highest increments are increased wages, which was due from previous years but is expected to be effected only by year 2004, which is 7%. This increase will be taken from the decrease in the budget for capital expenditures of 13% compared to last year's budget.

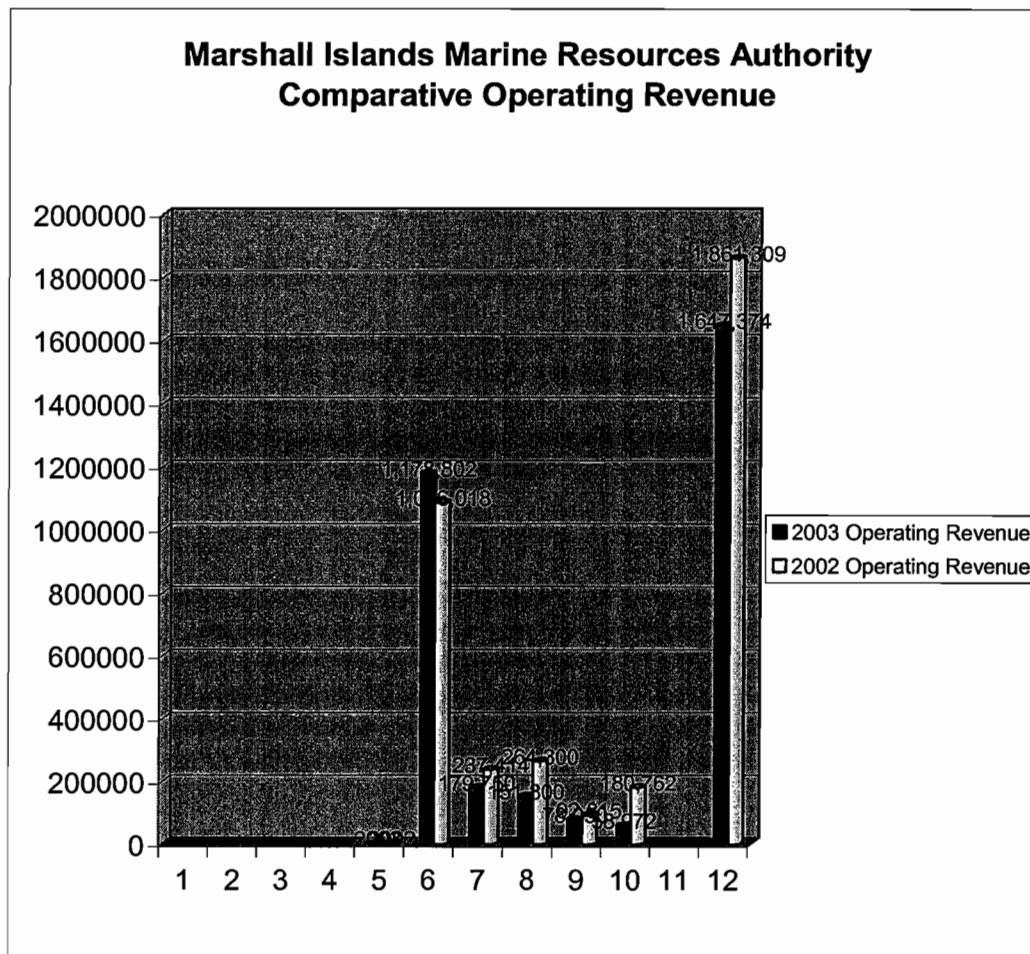
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Management's Discussion and Analysis, Continued

Other potentially significant matters:

Subsequent to year end (November 3, 2003), Edgewater Fisheries, Inc. whose payable to MIMRA amounted to \$168,210, together with their Company lawyer set-up a meeting with the Executive Director to discuss payment of their account. During the meeting Edgewater made a payment of \$55,000 for the balance of fishing penalty. On November 7, 2003, Edgewater made another payment to MIMRA of \$81,184, thus reducing their account with MIMRA.

Summary Data



Scale 6 – License fees collections: 2003 - \$1,178,802; 2002 - \$1,086,018.

Scale 7 – Other fees and charges collections: 2003 - \$179,750; 2002 - \$237,414.

Scale 8 – Transshipment fee collections: 2003 - \$151,800; 2002 - \$264,300.

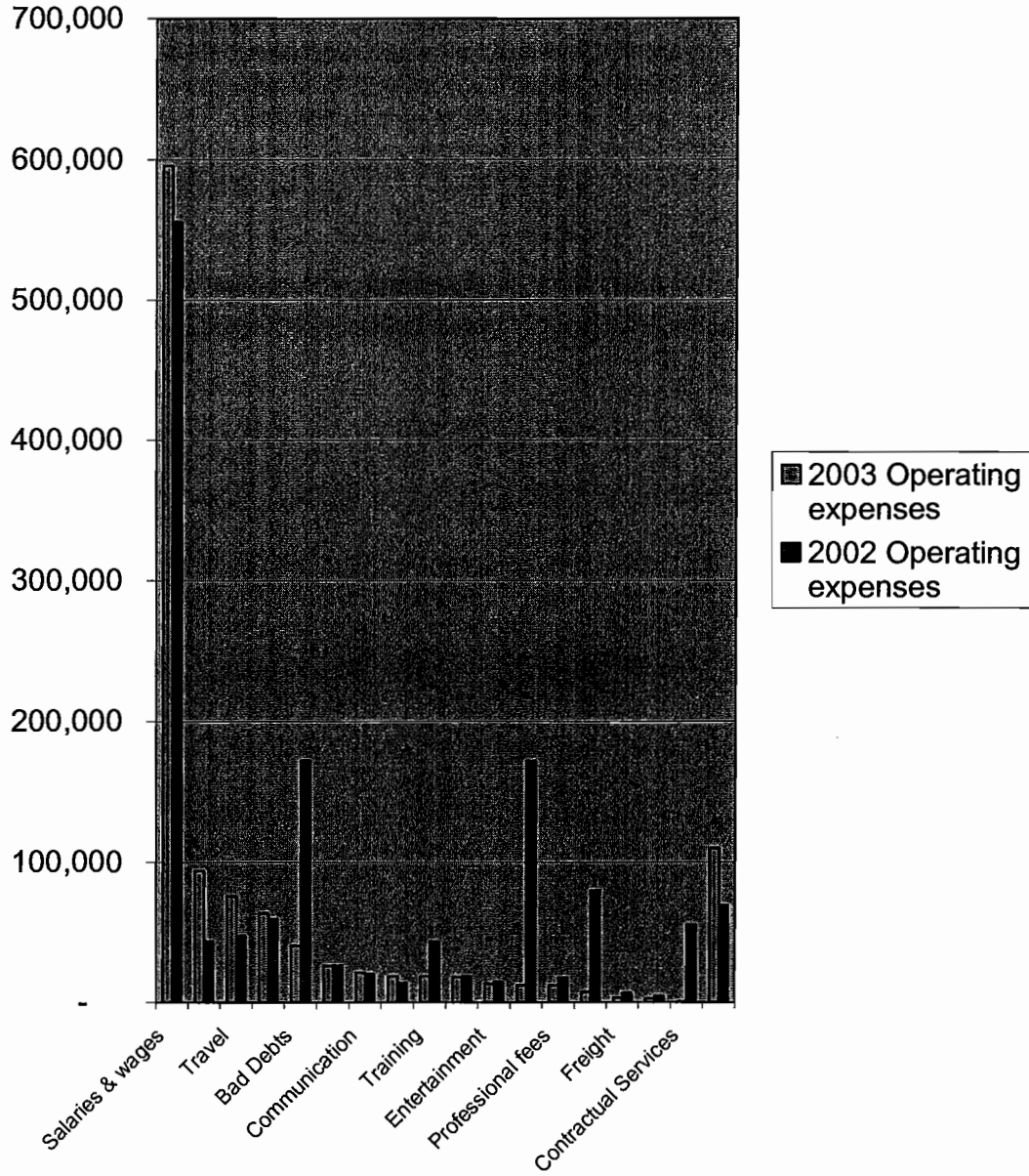
Scale 9 – Grants received: 2003 - \$78,050; 2002 - \$92,815.

Scale 10 – Other collections: 2003 - \$58,972; 2002 - \$180,762.

Scale 12 – Overall operating revenues: 2003 - \$1,647,374; 2002 - \$1,861,309.

Overall change in 2003 compared to 2002 - (\$ 213,935) or -11%.

Marshall Islands Marine Resources Authority Comparative Operating Expenses 2003 - 2002



MARSHALL ISLANDS MARINE RESOURCES AUTHORITY

Statements of Net Assets
September 30, 2003 and 2002

<u>ASSETS</u>	<u>2003</u>	<u>2002</u>
Current assets:		
Cash	\$ <u>76,469</u>	\$ <u>272,714</u>
Time certificates of deposit	<u>708,007</u>	<u>1,057,748</u>
Receivables:		
Affiliate	431,166	423,288
Trade	191,079	88,898
Accrued interest	9,587	8,200
Grants	-	53,000
Other	<u>134,603</u>	<u>95,697</u>
	766,435	669,083
Less allowance for doubtful accounts	<u>(517,449)</u>	<u>(477,059)</u>
	<u>248,986</u>	<u>192,024</u>
Inventory	<u>3,580</u>	<u>-</u>
Total current assets	1,037,042	1,522,486
Improvements and equipment, net	<u>481,309</u>	<u>454,775</u>
	<u>\$ 1,518,351</u>	<u>\$ 1,977,261</u>
<u>LIABILITIES AND NET ASSETS</u>		
Current liabilities:		
Accounts payable	\$ 11,092	\$ 29,314
Deferred revenue	185,250	221,777
Payable to affiliates	135,424	464,825
Other liabilities and accruals	<u>108,944</u>	<u>98,841</u>
Total current liabilities	440,710	814,757
Leasehold payable	<u>128,553</u>	<u>141,049</u>
Total liabilities	<u>569,263</u>	<u>955,806</u>
Commitments and contingency		
Net assets:		
Investment in capital assets	481,309	454,775
Unrestricted	<u>467,779</u>	<u>566,680</u>
Total net assets	<u>949,088</u>	<u>1,021,455</u>
	<u>\$ 1,518,351</u>	<u>\$ 1,977,261</u>

See accompanying notes to financial statements.

MARSHALL ISLANDS MARINE RESOURCES AUTHORITY

Statements of Revenues, Expenses and Changes in Net Assets
Years Ended September 30, 2003 and 2002

	<u>2003</u>	<u>2002</u>
Operating revenues:		
Licensing fees	\$ 1,178,802	\$ 1,086,018
Other fees and charges	179,750	237,414
Transshipment fees	151,800	264,300
Grants	78,050	92,815
Other	<u>58,972</u>	<u>180,762</u>
Total operating revenues	<u>1,647,374</u>	<u>1,861,309</u>
Operating expenses:		
Salaries and wages	595,532	555,699
Depreciation	93,722	43,495
Travel	75,617	47,391
Utilities	63,347	59,416
Bad debts	40,390	172,017
Petroleum, oil and lubricants	25,937	26,338
Communications	21,215	20,231
Repairs and maintenance	18,401	13,901
Training	18,394	43,271
Supplies	18,031	18,523
Entertainment	13,242	14,385
Boarding and observer fees	12,025	171,895
Professional fees	12,000	17,500
Contributions	7,235	79,588
Freight	3,088	6,567
Advertising	2,716	4,487
Contractual services	426	55,295
Miscellaneous	<u>109,725</u>	<u>69,014</u>
Total operating expenses	<u>1,131,043</u>	<u>1,419,013</u>
Operating income	<u>516,331</u>	<u>442,296</u>
Nonoperating revenues (expenses):		
Other income	-	123,288
Transfer from RepMar	-	50,000
Interest income	46,065	41,554
Transfer to RepMar	<u>(634,763)</u>	<u>(320,000)</u>
Total nonoperating revenues (expenses), net	<u>(588,698)</u>	<u>(105,158)</u>
Change in net assets	(72,367)	337,138
Net assets at beginning of year	<u>1,021,455</u>	<u>684,317</u>
Net assets at end of year	<u>\$ 949,088</u>	<u>\$ 1,021,455</u>

See accompanying notes to financial statements.

MARSHALL ISLANDS MARINE RESOURCES AUTHORITY

Statements of Cash Flows
Years Ended September 30, 2003 and 2002

	<u>2003</u>	<u>2002</u>
Cash flows from operating activities:		
Cash received from customers	\$ 1,551,409	\$ 1,751,929
Cash payments to suppliers for goods and services	(875,801)	(117,263)
Cash payments to employees for services	<u>(511,253)</u>	<u>(511,482)</u>
Net cash provided by operating activities	<u>164,355</u>	<u>1,123,184</u>
Cash flows from noncapital financing activities:		
Net repayments under bank overdraft	-	(15,166)
Transfers to RepMar's General Fund	(634,763)	(320,000)
Transfer from RepMar's Special Revenue Fund	-	50,000
Net cash used for noncapital financing activities	<u>(634,763)</u>	<u>(285,166)</u>
Cash flows from capital and related financing activities:		
Acquisition of capital assets	<u>(120,256)</u>	<u>(209,773)</u>
Net cash used for capital and related financing activities	<u>(120,256)</u>	<u>(209,773)</u>
Cash flows from investing activities:		
Net decrease (increase) in time certificates of deposit	349,741	(476,585)
Interest received on time certificates of deposit	<u>44,678</u>	<u>46,674</u>
Net cash provided by (used for) investing activities	<u>394,419</u>	<u>(429,911)</u>
Net (decrease) increase in cash	(196,245)	198,334
Cash at beginning of year	<u>272,714</u>	<u>74,380</u>
Cash at end of year	\$ <u>76,469</u>	\$ <u>272,714</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 516,331	\$ 442,296
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	93,722	43,495
Bad debts	40,390	159,720
(Increase) decrease in assets:		
Receivables:		
Affiliate	(7,878)	-
Trade	(102,181)	(61,713)
Grants	53,000	-
Other	(38,906)	(47,667)
Inventory	(3,580)	-
Increase (decrease) in liabilities:		
Accounts payable	(18,222)	(46,499)
Deferred revenue	(36,527)	221,777
Payable to affiliates	(329,401)	384,421
Other liabilities and accruals	<u>(2,393)</u>	<u>27,354</u>
Total adjustments	\$ <u>164,355</u>	\$ <u>1,123,184</u>

See accompanying notes to financial statements.

MARSHALL ISLANDS MARINE RESOURCES AUTHORITY

Statements of Cash Flows, Continued
 Years Ended September 30, 2003 and 2002

	<u>2003</u>	<u>2002</u>
Supplemental schedule of noncash investing, capital and financing activities:		
<p>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:</p>		
Cost of building improvements	\$ -	\$ 153,549
Amount to be reimbursed from current portion of rental income		(12,500)
Amount to be reimbursed from long-term portion of rental income	<u>-</u>	<u>(141,049)</u>
	<u>\$ -</u>	<u>\$ -</u>

During the year ended September 30, 2003, MIMRA applied rental expense of \$12,496 as reimbursement for cost of improvements.

See accompanying notes to financial statements.

MARSHALL ISLANDS MARINE RESOURCES AUTHORITY

Notes to Financial Statements
September 30, 2003 and 2002

(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.

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, 2003 and 2002

(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 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.

Cash and Time Certificates of Deposit

For purpose of the statements of net assets and 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, 2003 and 2002, the carrying amount of cash and time certificates of deposit were \$784,476 and \$1,330,462, respectively, and the corresponding bank balances were \$885,754 and \$1,358,638, respectively. Of the bank balance amounts, \$-0- and \$118,925, respectively, were maintained in one financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2003 and 2002, bank deposits in the amount of \$-0- and \$100,000, 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 governmental 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. The estimated useful lives of these assets are as follows:

Building improvements	10 years
Equipment improvements	10 years
Vehicles	3 years
Equipment	4 years
Furniture	4 years
Motor boats	6 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. MIMRA is specifically exempt from this tax.

MARSHALL ISLANDS MARINE RESOURCES AUTHORITY

Notes to Financial Statements
September 30, 2003 and 2002

(2) Summary of Significant Accounting Policies, Continued

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, 2003 and 2002, the accumulated vacation leave liability totals \$51,694 and \$34,094, respectively, and is included within the statements of net assets as other liabilities and accruals.

New Accounting Standards

GASB has 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*, and modified by Statement No. 38, *Certain Financial Statement 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. MIMRA is required to adopt GASB Statement No. 34, as amended by GASB Statement No. 37, and certain provisions of GASB Statement No. 38 in fiscal year 2003.

To conform to the requirements of GASB 34, the following changes have been made to MIMRA's financial statements:

- Retained earnings have been reclassified into the following net assets categories:
 - Investment 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.
- The statement of cash flows has been presented using the direct method.

(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 insurance from independent third parties for the risks of loss to which it is exposed. Settled claims have not exceeded this commercial coverage in any of the past three years.

MARSHALL ISLANDS MARINE RESOURCES AUTHORITY

Notes to Financial Statements
September 30, 2003 and 2002

(4) Improvements and Equipment

Capital assets activity for the years ended at September 30, 2003 and 2002, was as follows:

	2003			September 30, 2003
	October 1, 2002	Additions	Retirements	
Building improvements	\$ 335,801	\$ 3,415	\$ -	\$ 339,216
Equipment	44,530	68,470	-	113,000
Equipment improvements	61,943	9,672	-	71,615
Vehicles	48,995	20,000	-	68,995
Furniture	14,963	3,585	(591)	17,957
Motor boats	-	15,114	-	15,114
	<u>506,232</u>	<u>120,256</u>	<u>(591)</u>	<u>625,897</u>
Less accumulated depreciation	<u>(53,608)</u>	<u>(93,722)</u>	<u>591</u>	<u>(146,739)</u>
	452,624	26,534	-	479,158
Construction work-in-progress	2,151	-	-	2,151
	<u>\$ 454,775</u>	<u>\$ 26,534</u>	<u>\$ -</u>	<u>\$ 481,309</u>

	2002			September 30, 2002
	October 1, 2001	Additions	Retirements	
Building improvements	\$ -	\$ 335,801	\$ -	\$ 335,801
Equipment	18,226	26,304	-	44,530
Equipment improvements	-	61,943	-	61,943
Vehicles	28,995	20,000	-	48,995
Furniture	2,596	12,367	-	14,963
	<u>49,817</u>	<u>456,415</u>	<u>-</u>	<u>506,232</u>
Less accumulated depreciation	<u>(10,113)</u>	<u>(43,495)</u>	<u>-</u>	<u>(53,608)</u>
	39,704	412,920	-	452,624
Construction work-in-progress	95,244	99,143	(192,236)	2,151
	<u>\$ 134,948</u>	<u>\$ 512,063</u>	<u>\$ (192,236)</u>	<u>\$ 454,775</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, 2003 and 2002 is as follows:

	2003	
	Expenses	Payable
Marshall Islands Social Security Administration	\$ 47,868	\$ 28,431
Marshall Islands National Telecommunications Authority	21,215	1,540
Marshalls Energy Company, Inc.	63,347	42,038
RepMar	-	58,954
Others	17,398	4,461
	<u>\$ 149,828</u>	<u>\$ 135,424</u>

MARSHALL ISLANDS MARINE RESOURCES AUTHORITY

Notes to Financial Statements
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(5) Related Party Transactions, Continued

	<u>2002</u>	
	<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	<u>24,336</u>	<u>11,855</u>
	<u>\$ 213,468</u>	<u>\$ 464,825</u>

During the years ended September 30, 2003 and 2002, MIMRA transferred to RepMar's General Fund \$634,763 and \$320,000, respectively. During 2002, RepMar's Special Revenue Fund transferred \$50,000 to MIMRA.

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, 2003, MIMRA has not been reimbursed for this amount. As a result, \$123,288 of interest and penalties has been accrued. The balance (\$423,288) has been included in the allowance for doubtful accounts at September 30, 2003 and 2002.

MIMRA occupies certain office space and uses properties belonging to RepMar at no cost. No lease agreements have been executed to formalize these arrangements and no rental payments 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 expenses in the accompanying financial statements.

MIMRA maintains deposit accounts amounting to \$708,007 and \$1,057,748 as of September 30, 2003 and 2002, respectively, with a related financial institution.

(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, 2003, the operator made \$165,000 of improvements to the building, of which \$128,553 is to be reimbursed through future rental payments starting in fiscal year 2005, and extending to the end of the lease.

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(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. During the year ended September 30, 2003, MIMRA assumed the payment obligation under a ground lease, which was previously the obligation of an unrelated party. The ground leases have original terms ranging from five to twenty-five years, expiring in 2005 through 2024.

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

<u>Year ending September 30,</u>	
2004	\$ 26,427
2005	26,142
2006	23,676
2007	21,426
2008	14,133
Thereafter	<u>87,996</u>
	\$ <u>199,800</u>

Lease expense amounted to \$28,654 and \$18,580 for the years ended September 30, 2003 and 2002, 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:

<u>Year ending September 30,</u>	
2004	\$ 25,000
2005	25,000
2006	25,000
2007	25,000
2008	25,000
Thereafter	<u>70,833</u>
	\$ <u>195,833</u>

Rental income amounted to \$49,300 and \$45,213 for the years ended September 30, 2003 and 2002, respectively.

(8) Contingency

MIMRA's fire/lightning/typhoon/flood insurance coverage over its building and equipment amounted to \$300,000. The net book value of these assets in excess of applicable insurance coverage as of September 30, 2003 is \$181,309. In the event of an insurable loss, MIMRA may be self-insured to a material extent.