

**MARSHALL ISLANDS MARINE RESOURCES
AUTHORITY**

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

**FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT**

YEARS ENDED SEPTEMBER 30, 2007 AND 2006

INDEPENDENT AUDITORS' REPORT

Board of Directors
Marshall Islands Marine Resources Authority:

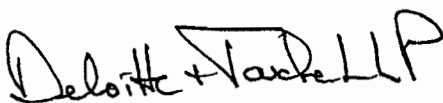
We have audited the accompanying statements of net assets of the Marshall Islands Marine Resources Authority (MIMRA), a component unit of the Republic of the Marshall Islands (RepMar), as of September 30, 2007 and 2006, and the related statements of revenues, expenses, and changes in net assets and of cash flows for the years then ended. These financial statements are the responsibility of MIMRA'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 MIMRA'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 MIMRA as of September 30, 2007 and 2006, and the changes in its net assets 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 2 through 7 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 MIMRA'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 such information and we do not express an opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 14, 2008, on our consideration of internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.


May 14, 2008

MARSHALL ISLANDS MARINE RESOURCES AUTHORITY

Management's Discussion and Analysis September 30, 2007

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 fiscal year ending September 30, 2007. Please read it and verify any clarification to the financial statements, which follow this section. The table below summarizes the financial condition and operations of MIMRA for fiscal year 2007, 2006 and 2005.

	<u>2007</u>	<u>2006</u>	<u>%</u> <u>Change</u>	<u>2005</u>
ASSETS:				
Current and other assets	\$ 1,120,309	\$ 1,489,120	(25)%	\$ 944,635
Capital assets	<u>233,272</u>	<u>351,799</u>	(33)%	<u>403,780</u>
Total Assets	<u>\$ 1,353,581</u>	<u>\$ 1,840,919</u>		<u>\$ 1,348,415</u>
LIABILITIES:				
Current liabilities	\$ 337,244	\$ 337,444	0%	276,226
Long-term liabilities	<u>-</u>	<u>-</u>		<u>103,545</u>
Total Liabilities	<u>337,444</u>	<u>337,444</u>		<u>379,771</u>
NET ASSETS:				
Invested in capital assets	232,272	351,799	(33)%	403,780
Unrestricted	<u>784,065</u>	<u>1,151,676</u>	(32)%	<u>564,864</u>
Total Net Assets	<u>1,016,337</u>	<u>1,503,475</u>		<u>968,644</u>
	<u>\$ 1,353,581</u>	<u>\$ 1,840,919</u>		<u>\$ 1,348,415</u>
Operating revenues:				
Licensing fees	\$ 751,799	\$ 1,614,222		\$ 1,354,000
Other fees and charges	130,952	214,422		255,130
Transshipment fees	105,600	140,400		168,600
Grants	166,153	29,312		92,895
Other	<u>50,664</u>	<u>75,686</u>		<u>42,001</u>
	1,205,168	2,074,042		1,912,626
Less allowance for uncollectible accounts	<u>(164,189)</u>	<u>(38,142)</u>		<u>(64,486)</u>
	<u>1,040,979</u>	<u>2,035,900</u>	(49)%	<u>1,848,140</u>
Operating expenses	<u>1,596,816</u>	<u>1,540,016</u>	4%	<u>1,503,791</u>
Operating income	<u>(555,837)</u>	<u>495,884</u>		<u>344,399</u>
Non-operating revenues	68,699	38,947	76%	25,307
Non-operating expenses	<u>-</u>	<u>-</u>	0%	<u>(144,016)</u>
	<u>68,699</u>	<u>38,947</u>		<u>(118,709)</u>
Changes in net assets	(487,138)	534,831	(191)%	225,690
Net assets at beginning of year	<u>1,503,475</u>	<u>968,644</u>	55%	<u>742,954</u>
Net assets at end of year	<u>\$ 1,016,337</u>	<u>\$ 1,503,475</u>		<u>\$ 968,644</u>

MARSHALL ISLANDS MARINE RESOURCES AUTHORITY

Management's Discussion and Analysis
September 30, 2007

Overall Analysis

Compared to FY 2006 results of operations, there was a 49% decline in FY 2007 operating revenues as compared to FY 2006 which had a 10% increase compared to FY2005. The reason for this was that both Korea and Taiwan registration of boats has been reduced from the 17 and 18 boats, respectively, for both countries registered in FY 2006 to 5 and 3 boats, respectively, registered during the year. Registered boats in FY2005 for both countries were 27 and 34, respectively, at an access agreement of \$ 8,000 per vessel. The reason for the reduced registration is the implementation of the new fishing access agreement during FY2006 increasing the lump sum payment of the two abovementioned countries. Though the locally registered boats have maintained registration, the non-increase of their registration payments has no effect on the overall revenue picture of the current year. Licensing fee collections decreased by more than 50% and follows all other revenue generation which has also decreased by 33% when compared to FY2006 over FY 2005 which had a 10% increase. Overall, the revenue operation in FY2007 resulted in a decreased collection of 52%, which was way beyond the budgeted collection of \$ 2.28M during the year.

As a result of the decrease in collection of license fees and other related fees and also a decrease of the boats calling port at Majuro, the overall picture of MIMRA financial condition is in the negative compared to the positive picture in FY 2006. Operating expenses for FY 2007 increased by 4% compared to FY2006 and compared to FY2006 over FY2005, which was 2% only. The biggest operating expense increase is membership dues and subscriptions, which has a 122% increase, and boarding and observers expenses which increased 41%. The increase in membership dues is due to the increased membership fees to WCFPC, FFA and IWC, which if compared to FY2006 over FY2005, there was only a 61% increase. The reason for the increase in observer expenses was that there are a lot of overseas trips done by observers to be able to cover at least 20% of the longline vessels and 25% of purse seiners of all the boats registered in the Marshall Islands. Even though travel has decreased compared to FY2006 by 56%, it really did not reduce operating expenses. The decrease in revenue collection and the increase in operating expenses resulted in an operating loss of \$555,837 in the FY2007 financial statements.

MIMRA's financial condition as shown on the Changes in Net Assets shows an overall 9% decrease compared to FY 2006.

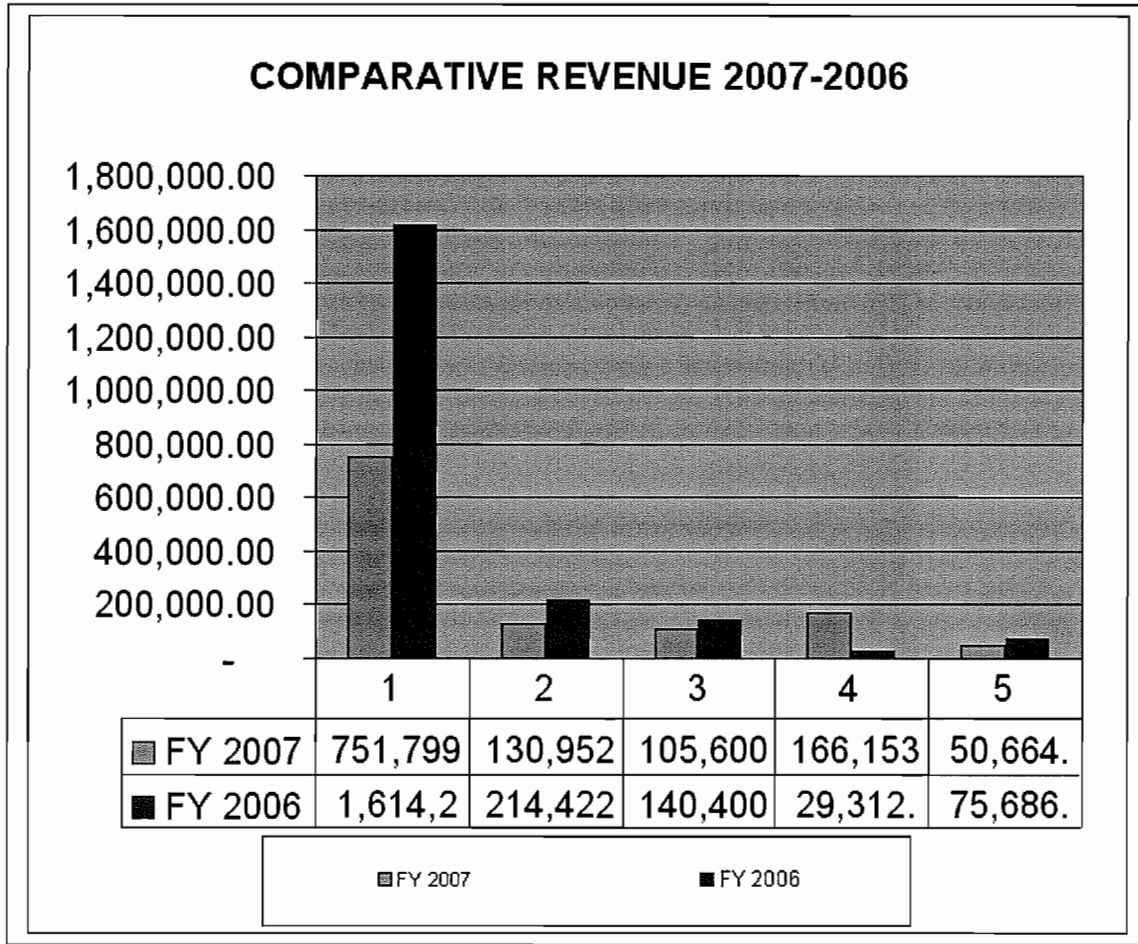
Management's Discussion and Analysis for the year ended September 30, 2006 is set forth in MIMRA's report on the audit of financial statements, which is dated May 10, 2007. The Discussion and Analysis explains the major factors impacting the 2006 financial statements and can be obtained from MIMRA's Administrator via the contact information in page 7.

Fund Analysis

As MIMRA completed the year, the agency's combined fund (savings and current account) has a total balance of \$993,585, which was \$339,007 lower compared to FY 2006. The reason for the decrease was due to the lower revenues generated during the current fiscal year. Even though interest earned increased by 44%, it had no effect on cash balances for the current year. Transfer out to REPMAR is nil just like in FY2006, but this had no effect to turn into a positive financial picture for FY2007.

MARSHALL ISLANDS MARINE RESOURCES AUTHORITY

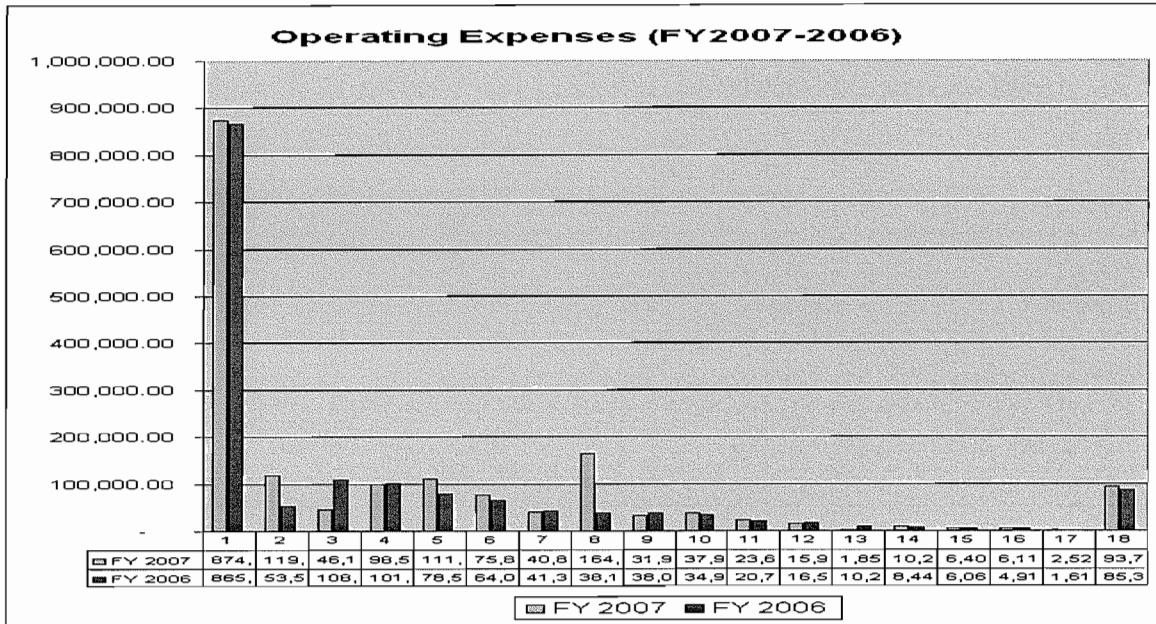
Management's Discussion and Analysis
September 30, 2007



	<u>2007</u>	<u>2006</u>	<u>2005</u>
License fees	\$ 751,799	\$ 1,614,222	\$ 1,354,000
Other fees and charges	130,952	214,422	255,130
Transshipment fees	105,600	140,400	168,600
Grants	166,153	29,312	92,895
Other	<u>50,664</u>	<u>75,686</u>	<u>42,001</u>
TOTAL	\$ <u>1,205,168</u>	\$ <u>2,074,042</u>	\$ <u>1,912,626</u>
Overall change in FY07 compared to FY06	\$ <u>(868,874)</u>	<u>-42%</u>	

MARSHALL ISLANDS MARINE RESOURCES AUTHORITY

Management's Discussion and Analysis
September 30, 2007



	<u>2007</u>	<u>2006</u>	<u>2005</u>
Salaries and wages	\$ 874,612	\$ 865,629	\$ 780,680
Membership dues and subscriptions	119,162	53,564	33,217
Travel	46,145	108,711	58,912
Depreciation and amortization	98,545	101,137	101,351
Boarding and observers fees	111,245	78,596	47,675
Utilities	75,857	64,059	101,032
Communications	40,862	41,382	26,133
Petroleum, oil and lubricants	31,976	38,090	34,995
Repairs and maintenance	37,960	34,915	45,900
Professional fees	23,633	20,768	35,008
Supplies	15,924	16,548	34,190
Freight	1,858	10,248	2,942
Contributions	10,296	8,449	29,130
Training	6,400	6,060	34,309
Entertainment	6,113	4,912	14,016
Advertising	2,528	1,612	2,767
Miscellaneous	<u>93,700</u>	<u>85,336</u>	<u>121,484</u>
TOTAL OPERATING EXPENSES	\$ <u>1,596,816</u>	\$ <u>1,540,016</u>	\$ <u>1,503,741</u>
Overall change in Expenses (FY2007 vs FY2006)	\$ <u>56,800</u>	<u>4%</u>	

MARSHALL ISLANDS MARINE RESOURCES AUTHORITY

Management's Discussion and Analysis September 30, 2007

Budget Variances

Actual operating revenues is unfavorable by as much as \$1,074,832 compared to the final budget, including transshipments and observers/training fees. That's why the overall picture of MIMRA decreased due to the above, since the collection is only 48% of the total budgeted for the current year. Actual expenses compared to the budget for the current year is at least favorable by 2%.

Capital Assets

At the end the current year FY 2007, MIMRA has net capital assets of \$233,272. Though there was a total addition of \$47,393 of capital assets, and a decrease in the depreciation by \$2,592 during the current fiscal year, still the net effect is a reduced balance of capital assets. The decrease, which is equivalent to 34% compared to the previous years, is not a good indication. The capital assets MIMRA uses right now are not in good standing, thus management needs to look at it carefully. (See table below).

	<u>2007</u>	<u>2006</u>
Buildings and improvements	\$ 176,367	\$ 341,367
Equipment improvements	78,920	76,320
Vehicles	146,595	123,595
Equipment	198,665	184,230
Furniture and fixtures	23,792	19,734
Motorboats	<u>63,316</u>	<u>60,016</u>
Total	687,655	805,262
Less: accumulated depreciation and amortization	<u>454,383</u>	<u>453,463</u>
Net	\$ <u>233,272</u>	\$ <u>351,799</u>

Fiscal Year 2007 major capital asset additions include:

1. EQUIPMENT:	
a.) Computers & printer	\$ 10,565
b.) Others	6,066
c.) New air condition unit (FNTC)	<u>3,870</u>
TOTAL	\$ <u>20,501</u>
2. MOTORBOATS – Coastal	\$ <u>3,300</u>
3. VEHICLES	\$ <u>23,000</u>

For additional information concerning capital assets, please see note 4 to the financial statements.

MARSHALL ISLANDS MARINE RESOURCES AUTHORITY

Management's Discussion and Analysis
September 30, 2007

Long-Term Debt

The long-term debt previously shown in MIMRA's financial statements was the renovation cost done by Edgewater Fisheries (tenant) at the space they rented for a fish-base. Payment for this debt was offset against one half of the total monthly lease payment for the fish base. The term of payment is based on the lease agreement. For FY 2007, the property mentioned was torn down, and then it was written-off and the difference was taken as MIMRA's income. For additional information concerning this matter, please refer to note 6 to the financial statements.

There is no additional long-term debt to be taken into consideration.

Economic Factors and Next year Budgets and Rates

Budgeted expenditures are expected to rise a bit in FY 2008, to at least 4%. The highest increase budgeted is the membership dues specifically the WCPFC which has an expected increase of almost \$25,000. Also, the expected increase in fuel prices worldwide and the effect in the Marshall Islands will definitely effect the expense budget for next year. All other commodities with the increase in fuel prices will also be affected. Salaries and wages though will be reviewed if an increase will have to be effected for next year.

The El Niño phenomenon is still impacting Marshall Islands; thus, MIMRA is expecting a lower number of boats calling port at Majuro, which will affect the budget for transshipment revenues. Korea and Taiwan are up for negotiation within the year for a new access agreement, if the agreement will be agreed upon by both parties.

Contacting MIMRA's Financial Management

This financial report is designed to provide our beneficiaries and others a general overview of MIMRA's finances and to demonstrate its accountability for the money it collects. If you have questions about this report or need additional financial information, contact the Administrator, P.O. Box 175, Majuro, MH 96960 or via e-mail at mimra.@ntamar.net

MARSHALL ISLANDS MARINE RESOURCES AUTHORITY

Statements of Net Assets
September 30, 2007 and 2006

<u>ASSETS</u>	<u>2007</u>	<u>2006</u>
Current assets:		
Cash	\$ 265,566	\$ 101,321
Time certificates of deposit	<u>728,019</u>	<u>1,231,271</u>
Receivables:		
Affiliates	431,134	431,134
Trade	86,753	95,155
Accrued interest	17,452	11,422
Other	<u>492,722</u>	<u>355,965</u>
	1,028,061	893,676
Less allowance for doubtful accounts	<u>(902,811)</u>	<u>(738,622)</u>
	<u>125,250</u>	<u>155,054</u>
Other assets	<u>1,474</u>	<u>1,474</u>
Total current assets	1,120,309	1,489,120
Improvements and equipment, net	<u>233,272</u>	<u>351,799</u>
	<u>\$ 1,353,581</u>	<u>\$ 1,840,919</u>
 <u>LIABILITIES AND NET ASSETS</u> 		
Current liabilities:		
Accounts payable	\$ 40,093	\$ 16,785
Leasehold payable	-	91,045
Payable to affiliates	206,903	136,414
Other liabilities and accruals	<u>90,248</u>	<u>93,200</u>
Total liabilities	<u>337,244</u>	<u>337,444</u>
Commitments		
Net assets:		
Invested in capital assets	232,272	351,799
Unrestricted	<u>784,065</u>	<u>1,151,676</u>
Total net assets	<u>1,016,337</u>	<u>1,503,475</u>
	<u>\$ 1,353,581</u>	<u>\$ 1,840,919</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, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Operating revenues:		
Licensing fees	\$ 751,799	\$ 1,614,222
Grants	166,153	29,312
Other fees and charges	130,952	214,422
Transshipment fees	105,600	140,400
Other	<u>50,664</u>	<u>75,686</u>
	1,205,168	2,074,042
Less allowance for uncollectible accounts	<u>(164,189)</u>	<u>(38,142)</u>
Total operating revenues	<u>1,040,979</u>	<u>2,035,900</u>
Operating expenses:		
Salaries and wages	874,612	865,629
Membership dues and subscriptions	119,162	53,564
Boarding and observer fees	111,245	78,596
Depreciation and amortization	98,545	101,137
Utilities	75,857	64,059
Travel	46,145	108,711
Communications	40,862	41,382
Repairs and maintenance	37,960	34,915
Petroleum, oil and lubricants	31,976	38,090
Professional fees	23,633	20,768
Supplies	15,924	16,548
Contributions	10,296	8,449
Training	6,400	6,060
Entertainment	6,113	4,912
Advertising	2,528	1,612
Freight	1,858	10,248
Miscellaneous	<u>93,700</u>	<u>85,336</u>
Total operating expenses	<u>1,596,816</u>	<u>1,540,016</u>
Operating (loss) income	<u>(555,837)</u>	<u>495,884</u>
Nonoperating revenues:		
Interest income	56,029	38,947
Other	<u>12,670</u>	<u>-</u>
Total nonoperating revenues	<u>68,699</u>	<u>38,947</u>
Change in net assets	<u>(487,138)</u>	<u>534,831</u>
Net assets at beginning of year	<u>1,503,475</u>	<u>968,644</u>
Net assets at end of year	<u>\$ 1,016,337</u>	<u>\$ 1,503,475</u>

See accompanying notes to financial statements.

MARSHALL ISLANDS MARINE RESOURCES AUTHORITY

Statements of Cash Flows
Years Ended September 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Cash flows from operating activities:		
Cash received from customers	\$ 1,065,813	\$ 1,964,727
Cash payments to suppliers for goods and services	(523,100)	(597,879)
Cash payments to employees for services	(884,326)	(858,327)
Net cash (used for) provided by operating activities	<u>(341,613)</u>	<u>508,521</u>
Cash flows from capital and related financing activities:		
Acquisition of capital assets	(47,393)	(49,156)
Net cash used for capital and related financing activities	<u>(47,393)</u>	<u>(49,156)</u>
Cash flows from investing activities:		
Net change in time certificates of deposit	503,252	(448,750)
Interest received on time certificates of deposit	49,999	34,232
Net cash provided by (used in) investing activities	<u>553,251</u>	<u>(414,518)</u>
Net change in cash	164,245	44,847
Cash at beginning of year	101,321	56,474
Cash at end of year	<u>\$ 265,566</u>	<u>\$ 101,321</u>
Reconciliation of operating (loss) income to net cash (used for) provided by operating activities:		
Operating (loss) income	\$ (555,837)	\$ 495,884
Adjustments to reconcile operating (loss) income to net cash (used for) provided by operating activities:		
Depreciation and amortization	98,545	101,137
Bad debts	164,189	38,142
(Increase) decrease in assets:		
Receivables:		
Affiliate	-	1,329
Trade	(2,598)	4,534
Other	(136,757)	(90,178)
Increase (decrease) in liabilities:		
Accounts payable	23,308	15,307
Payable to affiliates	70,489	18,301
Leasehold payable	-	(25,000)
Other liabilities and accruals	(2,952)	(50,935)
Net cash (used for) provided by operating activities	<u>\$ (341,613)</u>	<u>\$ 508,521</u>
Summary of noncash financing activities:		
Write-off of leasehold improvements:		
Improvements and equipment	\$ 67,375	\$ -
Other nonoperating revenues	12,670	-
Decrease in trade receivable	11,000	-
Decrease in leasehold payable	(91,045)	-
	<u>\$ -</u>	<u>\$ -</u>

See accompanying notes to financial statements.

MARSHALL ISLANDS MARINE RESOURCES AUTHORITY

Notes to Financial Statements
September 30, 2007 and 2006

(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.

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 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.

GASB issued Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, which was subsequently amended by Statement No. 37, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments: Omnibus*, and modified by Statement No. 38, *Certain Financial Statement Note Disclosures*. These statements establish financial reporting standards for governmental entities which require that management's discussion and analysis of the financial activities be included with the basic financial statements and notes and modifies certain other financial statement disclosure requirements.

To conform to the requirements of GASB 34, retained earnings 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.

MARSHALL ISLANDS MARINE RESOURCES AUTHORITY

Notes to Financial Statements
September 30, 2007 and 2006

(2) Summary of Significant Accounting Policies, Continued

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. MIMRA considers operating revenues to include activities that have the characteristics of exchange transactions, such as (1) licensing, transshipment, and other fees, and (2) most local and other grants. Revenues and expenses related to other activities are considered to be nonoperating.

Cash and Time Certificates of Deposit

Custodial credit risk is the risk that in the event of a bank failure, MIMRA'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. MIMRA 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. Deposits maintained in time certificates of deposit with original maturity dates greater than ninety days are separately classified. As of September 30, 2007 and 2006, the carrying amount of cash and time certificates of deposit were \$993,585 and \$1,332,592, respectively, and the corresponding bank balances were \$1,021,983 and \$1,348,307, respectively. Of the bank balances, \$22,601 and \$57,289, respectively, were maintained in a financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance and were fully FDIC insured. MIMRA does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized. Accordingly, these deposits are exposed to custodial credit risk.

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 losses on accounts receivable charged to expense.

MARSHALL ISLANDS MARINE RESOURCES AUTHORITY

Notes to Financial Statements
September 30, 2007 and 2006

(2) Summary of Significant Accounting Policies, Continued

Improvements and Equipment

MIMRA has not adopted a formal capitalization policy for improvements and equipment; however, items with a cost that equals or exceeds \$1,000 are generally capitalized. 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.

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, 2007 and 2006, the accumulated vacation leave liability totals \$33,900 and \$44,299, respectively, and is included within the statements of net assets as other liabilities and accruals.

New Accounting Standards

In April 2004, GASB issued Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which establishes uniform financial reporting for other postemployment benefit plans by state and local governments. The provisions of this statement are effective for periods beginning after December 15, 2006. Management does not believe that the implementation of this statement will have a material effect on the financial statements of MIMRA.

In June 2004, GASB issued 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 post employment benefits expense/expenditures and related liabilities, note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers. The provisions of this statement are effective for periods beginning after December 15, 2007. Management does not believe that the implementation of this statement will have a material effect on the financial statements of MIMRA.

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(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In September 2006, GASB issued Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfer of Assets and Future Revenues*. GASB Statement No. 48, which establishes criteria that governments will use to ascertain whether certain transactions should be regarded as a sale or a collateralized borrowing. The statement also includes a provision that stipulates that governments should not revalue assets that are transferred between financial reporting entity components. The provisions of this statement are effective for periods beginning after December 15, 2006. Management does not believe that the implementation of this statement will have a material effect on the financial statements of MIMRA.

In December 2006, GASB issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. GASB Statement No. 49 provides guidance and consistency under which a governmental entity would be required to report a liability related to pollution remediation. The provisions of this statement are effective for periods beginning after December 15, 2007. Management does not believe that the implementation of this statement will have a material effect on the financial statements of MIMRA.

In May 2007, GASB issued Statement No. 50, *Pension Disclosures-an Amendment of GASB Statements No. 25 and 27*, which amends applicable note disclosure and RSI requirements of Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and No. 27 *Accounting for Pensions by State and Local Governmental Employers*, to conform with requirements of Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* and Statement No. 45 *Accounting and Financial Reporting by Employers for Postemployment Benefits other than Pensions*. The provisions of this statement are effective for periods beginning after June 15, 2007. Management does not believe the implementation of this statement will have a material effect on the financial statements of MIMRA.

In June 2007, GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. GASB Statement No. 51 addresses whether and when intangible assets should be considered capital assets for financial reporting purposes. The provisions of this statement are effective for periods beginning after June 15, 2009. Management does not believe that the implementation of this statement will have a material effect on the financial statements of MIMRA.

Reclassifications

Certain reclassifications have been made to the 2006 financial statements in order to conform with 2007 presentation.

(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 from these risks have not exceeded commercial insurance coverage for the past three years.

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Notes to Financial Statements
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(4) Improvements and Equipment

Capital assets activity during the years ended September 30, 2007 and 2006 is as follows:

	2007			
	October 1, 2005	<u>Additions</u>	<u>Retirements</u>	September 30, 2006
Building improvements	\$ 341,367	\$ -	\$ (165,000)	\$ 176,367
Equipment	184,230	14,435	-	198,665
Equipment improvements	76,320	2,600	-	78,920
Vehicles	123,595	23,000	-	146,595
Furniture	19,734	4,058	-	23,792
Motor boats	<u>60,016</u>	<u>3,300</u>	<u>-</u>	<u>63,316</u>
	805,262	47,393	(165,000)	687,655
Less accumulated depreciation	<u>(453,463)</u>	<u>(98,545)</u>	<u>97,625</u>	<u>(454,383)</u>
	<u>\$ 351,799</u>	<u>\$ (51,152)</u>	<u>\$ (67,375)</u>	<u>\$ 233,272</u>
	2006			
	October 1, 2005	<u>Additions</u>	<u>Retirements</u>	September 30, 2006
Building improvements	\$ 341,367	\$ -	\$ -	\$ 341,367
Equipment	155,761	28,470	-	184,230
Equipment improvements	76,320	-	-	76,320
Vehicles	103,595	20,000	-	123,595
Furniture	19,047	686	-	19,734
Motor boats	<u>60,016</u>	<u>-</u>	<u>-</u>	<u>60,016</u>
	756,106	49,156	-	805,262
Less accumulated depreciation	<u>(352,326)</u>	<u>(101,137)</u>	<u>-</u>	<u>(453,463)</u>
	<u>\$ 403,780</u>	<u>\$ (51,981)</u>	<u>\$ -</u>	<u>\$ 351,799</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, 2007 and 2006 is as follows:

	2007		
	<u>Expenses</u>	<u>Payables</u>	<u>Receivables</u>
Marshall Islands Social Security Administration	\$ 73,499	\$ 47,940	\$ -
Marshall Islands National Telecommunications Authority	43,836	3,525	-
Marshall's Energy Company, Inc.	77,583	7,024	-
RepMar	-	147,381	430,871
Others	<u>10,892</u>	<u>1,033</u>	<u>263</u>
	<u>\$ 205,810</u>	<u>\$ 206,903</u>	<u>\$ 431,134</u>

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Notes to Financial Statements
September 30, 2007 and 2006

(5) Related Party Transactions, Continued

	<u>2006</u>		
	<u>Expenses</u>	<u>Payables</u>	<u>Receivables</u>
Marshall Islands Social Security Administration	\$ 72,305	\$ 45,475	\$ -
Marshall Islands National Telecommunications Authority	41,382	3,710	-
Marshalls Energy Company, Inc.	64,059	5,474	-
RepMar	-	81,694	430,871
Others	<u>6,065</u>	<u>61</u>	<u>263</u>
	<u>\$ 183,811</u>	<u>\$ 136,414</u>	<u>\$ 431,134</u>

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, 2007 and 2006, MIMRA has not been reimbursed for this amount. As a result, \$123,288 of interest and penalties has been accrued at September 30, 2007 and 2006. The total balance of \$423,288 has been included in the allowance for doubtful accounts at September 30, 2007 and 2006.

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 maintained uninsured deposit accounts amounting to \$999,382 and \$1,291,018 as of September 30, 2007 and 2006, respectively, with a related financial institution.

(6) Leasehold Payable

MIMRA entered into a lease agreement for the use of a building and cold storage facility belonging to RepMar. The building lease is for ten years expiring on July 31, 2011, lease term with options to extend for an additional ten years. The cold storage lease term is one year, or until such time as the operator is able to maintain and operate its own cold storage facility. The building lease 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 the 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, 2006, the operator made \$165,000 of building improvements, of which \$103,545 was to be reimbursed through future rental payments commencing in fiscal year 2007, and extending to the end of the lease.

During fiscal year 2007, the operator razed the abandoned property. Consequently, MIMRA wrote-off the leasehold improvements and the corresponding leasehold payable was applied against the cost of the property, net of accumulated depreciation. The difference between the leasehold payable and net book value of the property was recognized as other income.

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(7) Commitments

On May 1, 2005, MIMRA entered into a joint venture agreement with Koo's Fishing Company, Ltd. (KFC) to form an ongoing association for the purpose of engaging in the purse seine fishing business. The association was formally organized during fiscal year 2006 with the purchase of the vessel, RMI201. MIMRA and KFC's contributed capital is to be \$2,940,000 and \$3,060,000, respectively, which represents a 49% and 51% interest, respectively, of the vessel's value of \$6,000,000. The parties agreed that MIMRA's contribution to working capital will be provided by KFC and shall be classified as a loan provided to MIMRA at an annual rate of 3%. 100% of MIMRA's share of the profits will be used to pay off this loan for the first two years of operations; thereafter, it will be 50%. The parties agreed that the joint venture will be operated by KFC and MIMRA will not be liable to the joint venture.

MIMRA contributed neither cash or assets to the joint venture. Therefore, it accounts for its investment in the joint venture at a \$0 value. Income from the joint venture will only be recognized as MIMRA receives cash or assets from the joint venture.

MIMRA has assumed payment obligations under certain ground leases, which were previously obligations of RepMar's Ministry of Internal Affairs. In addition, MIMRA has assumed the payment obligation under a ground lease, which was previously the obligation of an unrelated party. These ground leases have original terms ranging from five to twenty-five years, expiring in 2006 through 2024.

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

<u>Year ending</u> <u>September 30,</u>	
2008	\$ 15,650
2009	7,075
2010	6,790
2011	6,392
2012	6,392
2013-2017	29,609
2018-2022	25,245
2023-2024	<u>7,574</u>
	\$ <u>104,727</u>