

**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, 2018 AND 2017

MARSHALL ISLANDS MARINE RESOURCES AUTHORITY

Years Ended September 30, 2018 and 2017
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INDEPENDENT AUDITORS' REPORT

Board of Directors
Marshall Islands Marine Resources Authority:

Report on the Financial Statements

We have audited the accompanying financial statements of the Marshall Islands Marine Resources Authority (MIMRA), a component unit of the Republic of the Marshall Islands, which comprise the statements of net position as of September 30, 2018 and 2017, and the related statements of revenues, expenses and changes in net position and of cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Marshall Islands Marine Resources Authority as of September 30, 2018 and 2017, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

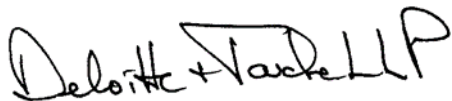
Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 to 10 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 5, 2019, on our consideration of MIMRA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely 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 effectiveness of MIMRA's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering MIMRA's internal control over financial reporting and compliance.



June 5, 2019

MARSHALL ISLANDS MARINE RESOURCES AUTHORITY

Management's Discussion and Analysis September 30, 2018 and 2017

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, 2018. Please read it and verify any clarification to the financial statements, which follow this section. The below table summarizes the financial condition and operations of MIMRA for fiscal years 2018, 2017 and 2016.

Statements of Net Position

	<u>2018</u>	<u>2017</u>	(%) <u>Change</u>	<u>2016</u>
ASSETS:				
Current and other assets	\$ 25,963,219	\$ 25,170,217	3%	\$ 35,141,562
Capital assets	3,842,778	1,965,793	95%	1,183,609
Investment in JV	<u>4,917,702</u>	<u>6,209,153</u>	(21%)	<u>5,298,919</u>
Total Assets	\$ <u>34,723,699</u>	\$ <u>33,345,163</u>	4%	\$ <u>41,624,090</u>
LIABILITIES:				
Current liabilities	\$ <u>903,041</u>	\$ <u>909,837</u>	(0.7%)	\$ <u>394,715</u>
NET POSITION:				
Net investment in capital assets	3,842,778	1,965,793	95%	1,183,609
Restricted	740,780	692,160	7%	443,151
Unrestricted	<u>29,235,100</u>	<u>29,777,373</u>	(2%)	<u>39,602,615</u>
Total Net Position	<u>33,820,658</u>	<u>32,435,326</u>	4%	<u>41,229,375</u>
	\$ <u>34,723,699</u>	\$ <u>33,345,163</u>	4%	\$ <u>41,624,090</u>

Statements of Revenue, Expenses and Changes in Net Position

	<u>2018</u>	<u>2017</u>	(%) <u>Change</u>	<u>2016</u>
REVENUES:				
Operating Revenues	\$ 33,938,061	\$ 34,057,424	(0.4%)	\$ 31,666,145
Capital Contributions	153,875	-	100%	-
Non-Operating Revenues	<u>779,393</u>	<u>2,047,217</u>	(62%)	<u>2,122,087</u>
Total Revenues	<u>34,871,329</u>	<u>36,104,641</u>	(3.4%)	<u>33,788,232</u>
EXPENSES:				
Operating Expenses	4,030,989	4,759,761	(15%)	3,520,937
Non-operating expenses	<u>29,455,008</u>	<u>40,138,929</u>	(27%)	<u>26,285,938</u>
Total Expenses	<u>33,485,997</u>	<u>44,898,690</u>	(25%)	<u>29,806,875</u>
Changes in net position	1,385,332	(8,794,049)	84%	3,981,357
Net position at beginning of year	<u>32,435,326</u>	<u>41,229,375</u>	21%	<u>37,248,018</u>
Net position at end of year	\$ <u>33,820,658</u>	\$ <u>32,435,326</u>	4%	\$ <u>41,229,375</u>

MARSHALL ISLANDS MARINE RESOURCES AUTHORITY

Management's Discussion and Analysis, Continued
September 30, 2018 and 2017

Overall analysis:

Management's Discussion and Analysis for the year ended September 30, 2017 is set forth in MIMRA's report on the audit of financial statements, which is dated June 27, 2018. That Management Discussion and Analysis explains the major factors impacting the 2017 financial statements and can be obtained from MIMRA's Administrator via the contact information in page 10.

<u>REVENUE:</u>	<u>2018</u>	<u>2017</u>	<u>Change</u>	<u>2016</u>
Operating Revenues	\$ <u>33,938,061</u>	\$ <u>34,057,424</u>	\$ <u>(119,363)</u>	\$ <u>31,666,145</u>

Operating revenues decreased by 0.4% due to the increase in allowance for doubtful accounts

Detailed as follows:

	<u>2018</u>	<u>2017</u>	<u>Change</u>	<u>2016</u>
VDS	\$ 25,842,384	\$ 25,389,600	\$ 452,784	\$ 23,991,991
Fishing rights	3,302,312	3,143,085	159,227	2,978,087
Licensing/registration	2,320,700	2,508,792	(188,092)	2,202,988
Observers fees	826,797	815,987	10,810	544,040
Boat charter fees	700,000	700,000	-	700,000
Fishing violation	550,000	715,000	(165,000)	380,000
Transshipment fees	475,500	596,000	(120,500)	799,000
Others	<u>176,904</u>	<u>196,430</u>	<u>(19,526)</u>	<u>70,039</u>
	34,194,597	34,064,894	129,703	31,666,145
Bad debts	<u>(256,536)</u>	<u>(7,470)</u>	<u>(249,066)</u>	<u>-</u>
	\$ <u>33,938,061</u>	\$ <u>34,057,424</u>	\$ <u>(119,363)</u>	\$ <u>31,666,145</u>

VDS and FISHING RIGHTS revenues have increased, which can be attributed to the increase in fishing days prices. LICENSING AND REGISTRATION revenues have decreased due to fewer transshipments that happened during the year. OBSERVERS FEES revenues have increased due to the observers trips, which required a 100% coverage of boats to be boarded by observers. BOAT CHARTER FEES revenues remain the same. FISHING VIOLATION FINES have decreased by 23%. This means that operators and master fishermen have been observing good fishing etiquette and lesser penalties were charged to fishing boats. TRANSSHIPMENT FEES have decreased by 20% due to some vessels looking for the more economical ports to berth besides Majuro, and which were closer to the fishing zones offering more fishing opportunities. On the other hand, OTHER revenues decreased by 10%. More donations were received in FY17 during the NOS Symposium hosted by the RMI.

	<u>2018</u>	<u>2017</u>	<u>Change</u>	<u>(%) Change</u>
TRANSSHIPMENT:				
No. of boats (PS/Carrier)	468	560	(92)	(16%)

Due to the fewer numbers of boats berthing in the Marshall Islands lagoon, transshipment and registration fees decreased. Transshipment charges depend upon whether the boats are licensed or unlicensed. Licensed vessels are charged \$1,000 while unlicensed vessels are charged \$2,000 transshipment fees.

MARSHALL ISLANDS MARINE RESOURCES AUTHORITY

Management's Discussion and Analysis, Continued
September 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>	<u>Change</u>	<u>(%) Percent</u>
BOAT REGISTRATION:				
a.) Foreign Boats (Purse Seiner):				
• CHINA	8	6	2	33%
• JAPAN	25	25	-	0%
• KOREA	26	34	(8)	(24%)
• PHILIPPINES (RD/TJ)	13	7	6	86%
• TAIWAN	23	26	(3)	(12%)
• PNG (Great Investment)	11	-	-	100%
• OTHERS	<u>9</u>	<u>2</u>	<u>7</u>	<u>350%</u>
TOTAL	<u>115</u>	<u>110</u>	<u>5</u>	<u>4%</u>
b.) Domestic Boats (Purse Seiner):				
• KOO'S FISHING	4	4	-	0%
• MIFCO	1	1	-	0%
• PAN_Pacific	<u>5</u>	<u>5</u>	<u>-</u>	<u>0%</u>
TOTAL	<u>10</u>	<u>10</u>	<u>-</u>	<u>0%</u>
c.) Japan Fisheries (Longline/Pole and Line):				
POLE and LINE	23	22	1	4.5%
LONGLINE	<u>9</u>	<u>8</u>	<u>1</u>	<u>12.5%</u>
TOTAL	<u>32</u>	<u>30</u>	<u>2</u>	<u>6.6%</u>
d.) DOMESTIC(Longline):				
China Overseas	8	9	(1)	(11%)
LianCheng Fisheries	<u>23</u>	<u>32</u>	<u>(9)</u>	<u>(28%)</u>
TOTAL	<u>31</u>	<u>41</u>	<u>(10)</u>	<u>(24%)</u>
e.) CARRIER/BUNKER				
Bunker	12	24	(12)	(50%)
Carrier	<u>60</u>	<u>69</u>	<u>(9)</u>	<u>(13%)</u>
TOTAL	<u>72</u>	<u>93</u>	<u>(21)</u>	<u>(23%)</u>
Grand Total	<u>260</u>	<u>284</u>	<u>(24)</u>	<u>(8%)</u>

Above are the details of the boats registered in FY18. The net effect is 8% less registered boats in FY18 compared in FY17. On the other hand, aside from paying license fees, China, Japan, Philippines, PNG and Taiwan, have purchased Fishing Days for the current year amounting to \$5,632,000, which is equal to 512 days. Korea was also involved in the bidding process by PNA of which pooled days from member countries are offered. In FY18, the pooling days has contributed \$3,861,168, which is equal to 308 days, to the income generation. US Treaty through Forum Fisheries Agency has also contributed \$3,484,766 with estimated 300 equivalent days. Domestic-based companies, Koo's Fishing, MIFCO (joint venture) and Pan Pacific have contributed to the total VDS fishing days income of \$12,646,450, which is equivalent to 1,893 days.

Another domestic-based company, Marshall Islands Fishing Venture (MIFV) that operates China Overseas and Lian Cheng Fisheries had fewer registered boats in FY18 and contributed \$372,000 compared to \$468,000 in FY17. Bunkers and carriers also registered fewer boats in FY18 with equivalent revenues of \$720,000 compared to \$869,592 in FY17.

Overall, total revenues of \$34,717,454 (includes non-operating revenues) exceeded estimated revenues by \$4,527,454 (FY18 revenue budget of \$30,190,000), a favorable outcome even it is a decrease of 20% compared with the \$5,699,141 favorable result in FY17 (FY17 revenue budget of \$30,405,500).

MARSHALL ISLANDS MARINE RESOURCES AUTHORITY

Management's Discussion and Analysis, Continued
September 30, 2018 and 2017

In FY18, total operating expense is \$4,030,989, a decrease of 15% from previous year, equivalent to \$728,772 difference. \$356,910 of the operating expense pertains to World Bank (WB) project expenses for operation and other projects such as Rei-Maanlok, boat charter, travel (overseas & domestic), consultancy fees, and meetings/conference/trainings. Thus, the net expenses for MIMRA operations were \$3,674,079, which is lower by 16% compared with the operating expense in FY17 but 11% higher compared with the FY16 operating expense amounting to \$3,274,925. Almost all of the operating expenses have gone down during the year except salaries and wages, contributions, professional fees, communications, freight and the noncash depreciation expense.

Contributions to RepMar in FY18 amounting to \$29,440,214 is lower than in FY17 transfer of \$40,129,700. This 27% decrease contributed to MIMRA's net income of \$1,385,332, an 83% increase from FY17 net loss of \$8,794,049.

MIMRA's financial condition as shown by the net position at end of the year shows an overall increase of 4% compared with FY17.

Fund Analysis:

At the end of FY18, MIMRA's combined cash funds (Savings and Current Account) amounted to \$18,710,050, which was slightly higher by 8% compared to \$17,310,570 at the end of FY17. The increase can be attributed to the collection from the domestic based fishing companies on the sale of VDS fishing and the slight increase in the fishing days price. The Contributions to RepMar decreased by \$10,689,486 from \$40,129,700 in FY17 to \$29,440,214 in FY18. This decrease, together with the lower operating expenses, contributed to the increase in the overall cash fund balance of MIMRA during the current year. Equity earnings from the joint venture decreased by 84% from \$910,234 in FY17 to \$148,763 in FY18. The joint venture has distributed dividends amounting to \$2,939,213, which were directly paid by the joint venture to RepMar and recorded by MIMRA as part of the Contributions to RepMar. Grants amounted to \$492,906 (World Bank Grant \$467,906 and TNC Grant \$25,000) in FY18 decreased by 36% in comparison to the \$772,879 in FY17. Interest income amounted to \$137,724 during the current year is lower by 48% compared to the \$264,104 in FY17, which also affected the overall cash fund balances of MIMRA in FY18.

Budget Variances:

Actual total revenues, including both operating and non-operating revenues, generated in FY18 were \$34,717,454 compared to the budgeted total revenues in FY18 of \$30,190,000. The result was favorable by as much as \$4,527,454 but 20% lower compared to the final budget of the same year. Actual expenses, including contributions to RepMar and other contributions, in FY18 amounted to \$33,938,061 compared to the budget of \$32,677,784, which represents unfavorable variance of \$1,260,277 or 3.95%.

Capital Asset:

At the end of the FY18, MIMRA has a net investment in capital asset of \$3,842,778 compare to FY17 for \$1,965,793, a 95% increase equals to \$1,876,985. The table below indicates an excellent standing of the MIMRA capital assets. Details of addition and disposal are also shown at the table below.

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Depreciable assets	\$ 1,593,084	\$ 1,388,825	\$ 1,161,979
Less: Accumulated Depreciation	<u>(966,206)</u>	<u>(940,790)</u>	<u>(856,870)</u>
	626,878	448,035	305,109
Construction in Progress	<u>3,215,900</u>	<u>1,517,758</u>	<u>878,500</u>
	<u>\$ 3,842,778</u>	<u>\$ 1,965,793</u>	<u>\$ 1,183,609</u>

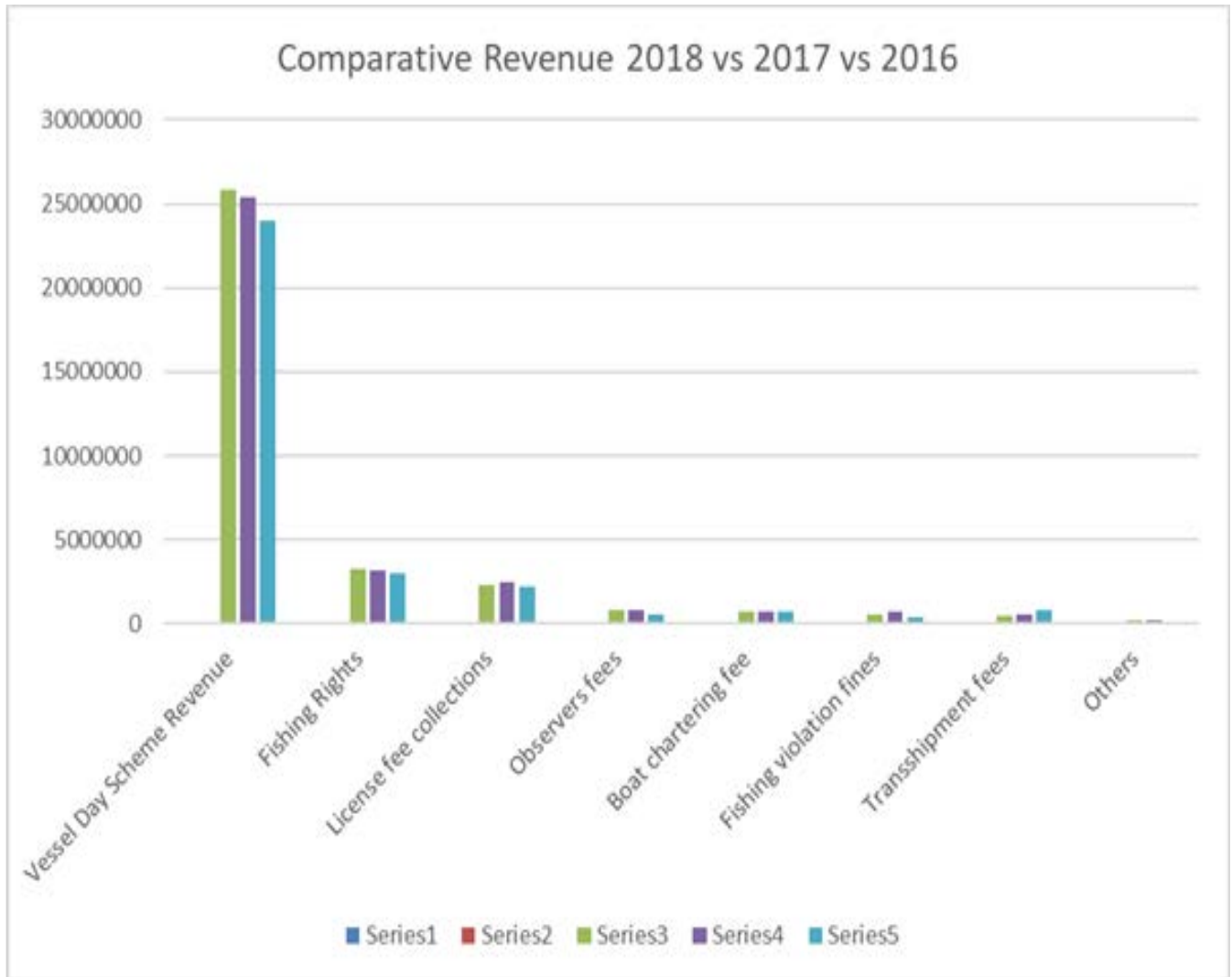
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Management's Discussion and Analysis, Continued
September 30, 2018 and 2017

FY18 capital asset additions and disposals include:

	<u>Addition</u>	<u>Disposal</u>	<u>Net</u>
1. Equipment	\$ 226,736	\$ 126,779	\$ 99,957
2. Vehicles	125,134	39,450	85,684
3. Equipment improvements	13,218	-	13,218
4. Motorboats	5,400	-	5,400
5. MIMRA building construction	<u>1,698,142</u>	<u>-</u>	<u>1,698,142</u>
TOTAL	\$ <u>2,068,630</u>	\$ <u>166,229</u>	\$ <u>1,902,401</u>

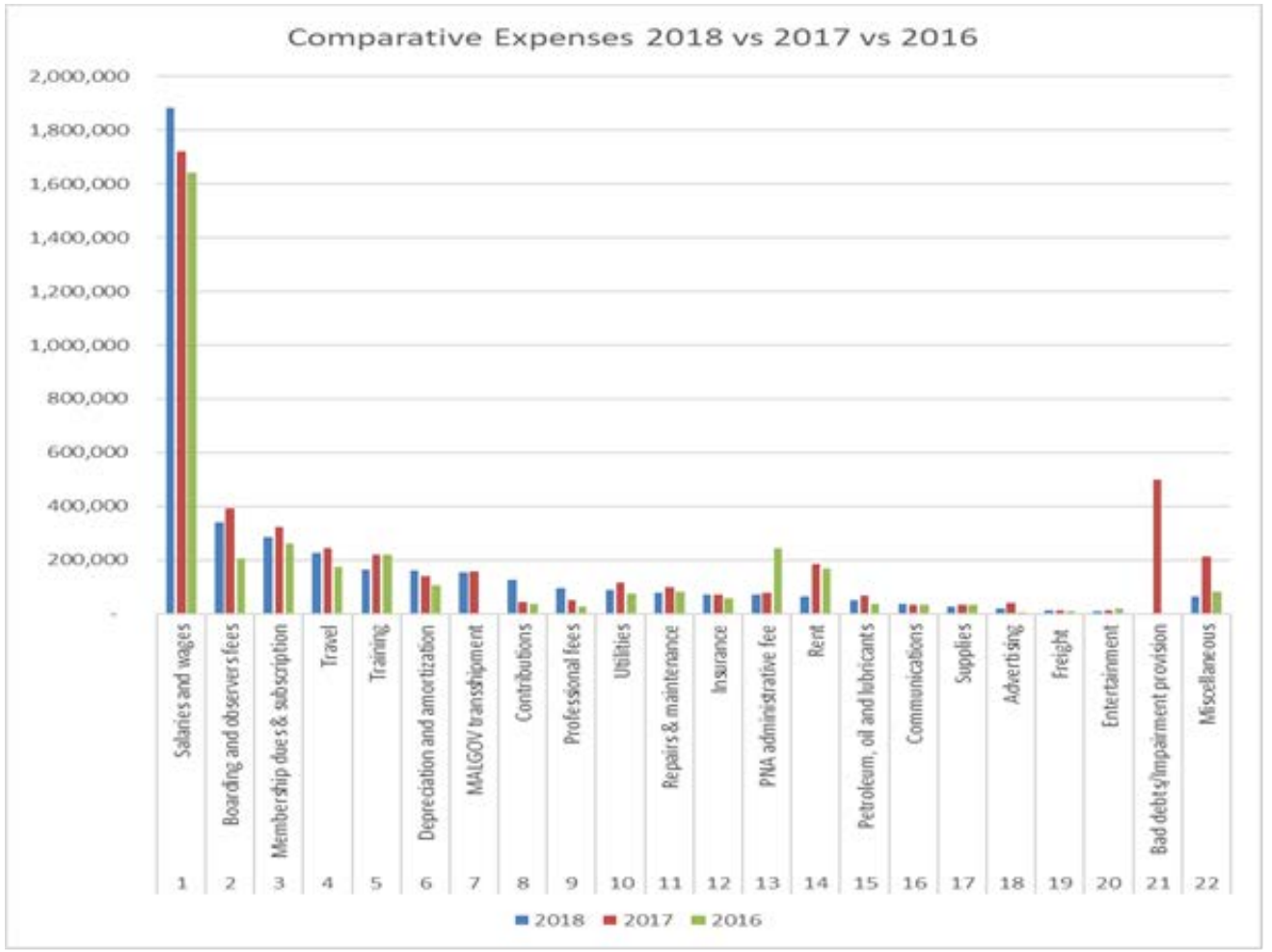
For additional info concerning capital assets, please see note 6 to the financial statement.



MARSHALL ISLANDS MARINE RESOURCES AUTHORITY

Management's Discussion and Analysis, Continued
September 30, 2018 and 2017

	2018	2017	2016
1 Vessel Day Scheme Revenue	\$ 25,842,384	\$ 25,389,600	\$ 23,991,991
2 Fishing rights	3,302,312	3,143,085	2,978,087
3 Licensing and registration fees	2,320,700	2,508,792	2,202,988
4 Observers fees	826,797	815,987	544,040
5 Boat charter fees	700,000	700,000	700,000
6 Fishing violation fines	550,000	715,000	380,000
7 Transshipment fees	475,500	596,000	799,000
8 Others	176,904	196,430	70,039
9 Total Revenues	34,194,597	34,064,894	31,666,145
Bad debt expenses	(256,536)	(7,470)	-
Net Revenues	\$ 33,938,061	\$ 34,057,424	\$ 31,666,145
Overall Change (FY18 vs FY17)	\$ (119,233)	-0.35%	



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Management's Discussion and Analysis, Continued
September 30, 2018 and 2017

	2018	2017	2016
1 Salaries and wages	\$1,882,955	\$ 1,721,637	\$ 1,642,751
2 Boarding and observers fees	340,825	391,391	207,640
3 Membership dues & subscription	286,978	322,266	261,329
4 Travel	225,326	245,248	173,553
5 Training	163,779	221,444	218,552
6 Depreciation and amortization	160,414	140,754	107,421
7 Transshipment inspectiob	154,800	157,200	-
8 Contributions	127,997	177,160	60,666
9 Professional fees	96,122	51,550	25,000
10 Utilities	90,240	116,532	74,703
11 Repairs & maintenance	76,624	97,359	82,433
12 Insurance	70,212	70,445	58,010
13 PNA administrative fee	69,893	77,978	242,265
14 Rent	65,844	186,968	168,885
15 Petroleum, oil and lubricants	49,011	69,295	36,316
16 Communications	36,619	34,315	34,025
17 Supplies	25,464	33,377	33,381
18 Advertising	21,048	40,096	6,747
19 Freight	13,947	11,018	9,057
20 Entertainment	8,521	11,869	18,227
21 Impairment loss	-	500,000	-
22 Miscellaneous	64,370	81,859	59,977
Total Operating Expense	<u>\$ 4,030,989</u>	<u>\$ 4,759,761</u>	<u>\$ 3,520,937</u>
Overall change (FY18 vs FY17)	<u>\$ (728,772)</u>	<u>(15%)</u>	

Economic Factors and Next year Budgets and Rates

The budget has been formulated and approved by the MIMRA Board for FY19. Projected revenues, both operating and non-operating, are \$33,812,500, while projected expenses, including contributions to RepMar, are \$32,677,784 (\$27,550,000 for RMI General Fund and Transfer Out-others). A 20% increase is provided in the operating expenses projection compared in FY17 due to the transfer of office to the new headquarters. The projected operating expenses includes World Bank Project related expenses amounting to \$1,005,000. The 15% across the board increase approved by the MIMRA Board are for employee contract renewals and new contracts in FY19. Travel expenses, both international and domestic, will depend on how it will be funded, but for unfunded trips, MIMRA will shoulder the cost. Some domestic travels covered by grants that were approved and released to MIMRA in previous years, will be used in FY19. International travel shall be limited to externally funded travel unless, in certain cases, where MIMRA shall match the travel expenses. Supplemental budget amounting to \$1,000,000 for FY19 has also been approved. The funds will be taken out from the enforcement fund as discussed by the Board during one of the board meetings. This amount will be used for outer-islands fish base renovation and equipment acquisition.

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Management's Discussion and Analysis, Continued
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The continuing up and down prices of fuel in the world market also affected the Marshall Islands. The Marshall Islands still has the highest fuel prices in the Micronesia by at least an average of 23% of the pump prices. Commodities in the island continue to have high prices compared to that in the previous years, including the cost of utilities. MIMRA's cost saving and conservation measures adopted in FY11 is still adopted in the formulation of the FY19 budget. As mentioned above, salaries and wages have an approved 15% increase across the board, by the MIMRA Board of Directors. Some positions are still to be filled thus budget for new hires is also provided.

Though climate change is a continuing factor that would affect MIMRA's revenue generation, FAD closure is also an aspect that affects the revenue collections of MIMRA, especially on the transshipment revenue. FAD closure, means fewer boats berthing in Majuro. Bilateral agreements with MIMRA between Japan, China, Taiwan, PNG and Philippines were signed with matching Fishing Days incorporated therein as part of the agreements. Korea did not register the members' vessels under Korea Fishing Association as practiced, but instead, the members registered their vessels as individual companies and preferred to be in the VDS pooling. The companies also signed an agreement with MIMRA. These will be a boost to the revenue generation for FY19.

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 our website mimra.com.

MARSHALL ISLANDS MARINE RESOURCES AUTHORITY

Statements of Net Position
September 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
<u>ASSETS</u>		
Current assets:		
Cash	\$ 11,840,709	\$ 5,930,330
Time certificates of deposit	<u>6,869,341</u>	<u>11,380,240</u>
Receivables:		
Affiliates	704,407	3,391,887
Trade	1,583,453	267,248
Due from PNA Office	5,804,788	4,827,383
Accrued interest	84,624	58,947
Other	<u>134,796</u>	<u>116,545</u>
	8,312,068	8,662,010
Less allowance for doubtful accounts	<u>(1,058,899)</u>	<u>(802,363)</u>
	<u>7,253,169</u>	<u>7,859,647</u>
Total current assets	<u>25,963,219</u>	<u>25,170,217</u>
Capital assets:		
Nondepreciable capital assets	3,215,900	1,517,758
Capital assets, net of accumulated depreciation	626,878	448,035
Investment in joint venture	<u>4,917,702</u>	<u>6,209,153</u>
	<u>8,760,480</u>	<u>8,174,946</u>
	\$ 34,723,699	\$ 33,345,163
<u>LIABILITIES AND NET POSITION</u>		
Current liabilities:		
Accounts payable	\$ 136,025	\$ 447,751
Contracts payable	335,949	57,200
Payable to affiliates	271,569	273,353
Other liabilities and accruals	<u>159,498</u>	<u>131,533</u>
Total liabilities	<u>903,041</u>	<u>909,837</u>
Commitments		
Net position:		
Net investment in capital assets	3,842,778	1,965,793
Restricted	742,780	692,160
Unrestricted	<u>29,235,100</u>	<u>29,777,373</u>
Total net position	<u>33,820,658</u>	<u>32,435,326</u>
	\$ 34,723,699	\$ 33,345,163

See accompanying notes to financial statements.

MARSHALL ISLANDS MARINE RESOURCES AUTHORITY

Statements of Revenues, Expenses and Changes in Net Position
Years Ended September 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Operating revenues:		
Vessel Day Scheme	\$ 25,842,384	\$ 25,389,600
Fishing rights	3,302,312	3,143,085
Licensing and registration fees	2,320,700	2,508,792
Observer fees	826,797	815,987
Boat charter fees	700,000	700,000
Fishing violation fines	550,000	715,000
Transshipment fees	475,500	596,000
Other	<u>176,904</u>	<u>196,430</u>
Total operating revenues	34,194,597	34,064,894
Bad debts expense	<u>(256,536)</u>	<u>(7,470)</u>
Total net operating revenues	<u>33,938,061</u>	<u>34,057,424</u>
Operating expenses:		
Salaries and wages	1,882,955	1,721,637
Boarding and observer fees	340,825	391,391
Membership dues and subscriptions	286,978	322,266
Travel	225,326	245,248
Training	163,779	221,444
Depreciation and amortization	160,414	140,754
Transshipment inspection	154,800	157,200
Contributions	127,997	177,160
Professional fees	96,122	51,550
Utilities	90,240	116,532
Repairs and maintenance	76,624	97,359
Insurance	70,212	70,445
PNA administrative fee	69,893	77,978
Rent	65,844	186,968
Petroleum, oil and lubricants	49,011	69,295
Communications	36,619	34,315
Supplies	25,464	33,377
Advertising	21,048	40,096
Freight	13,947	11,018
Entertainment	8,521	11,869
Impairment loss	-	500,000
Miscellaneous	<u>64,370</u>	<u>81,859</u>
Total operating expenses	<u>4,030,989</u>	<u>4,759,761</u>
Operating income	<u>29,907,072</u>	<u>29,297,663</u>
Nonoperating revenues (expenses):		
Equity in earnings of joint venture	148,763	910,234
World Bank grants	467,906	642,939
Nature Conservancy grant	25,000	75,000
Chinese Taipei grant	-	49,940
Other grants	-	5,000
Interest income	137,724	264,104
Loss on sale of asset	(14,794)	(9,229)
Other income	-	100,000
Contributions to RepMar	<u>(29,440,214)</u>	<u>(40,129,700)</u>
Total nonoperating revenues (expenses), net	<u>(28,675,615)</u>	<u>(38,091,712)</u>
Income (loss) before capital contributions	1,231,457	(8,794,049)
Capital contributions	<u>153,875</u>	<u>-</u>
Change in net position	1,385,332	(8,794,049)
Net position at beginning of year	<u>32,435,326</u>	<u>41,229,375</u>
Net position at end of year	<u>\$ 33,820,658</u>	<u>\$ 32,435,326</u>

See accompanying notes to financial statements.

MARSHALL ISLANDS MARINE RESOURCES AUTHORITY

Statements of Cash Flows
Years Ended September 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities:		
Cash received from customers	\$ 34,570,216	\$ 31,122,826
Cash payments to suppliers for goods and services	(2,298,637)	(2,388,114)
Cash payments to employees for services	<u>(1,857,483)</u>	<u>(1,715,771)</u>
Net cash provided by operating activities	<u>30,414,096</u>	<u>27,018,941</u>
Cash flows from noncapital financing activities:		
Operating grants received	492,906	872,879
Payments made to RepMar	<u>(28,000,000)</u>	<u>(40,129,700)</u>
Net cash used for noncapital financing activities	<u>(27,507,094)</u>	<u>(39,256,821)</u>
Cash flows from capital and related financing activities:		
Acquisition of capital assets	(1,636,006)	(1,432,167)
Proceeds from sale of capital assets	<u>16,437</u>	<u>-</u>
Net cash used for capital and related financing activities	<u>(1,619,569)</u>	<u>(1,432,167)</u>
Cash flows from investing activities:		
Net additions to time certificates of deposit	4,510,899	16,840,623
Interest received on time certificates of deposit	<u>112,047</u>	<u>377,979</u>
Net cash provided by investing activities	<u>4,622,946</u>	<u>17,218,602</u>
Net change in cash	5,910,379	3,548,555
Cash at beginning of year	<u>5,930,330</u>	<u>2,381,775</u>
Cash at end of year	<u>\$ 11,840,709</u>	<u>\$ 5,930,330</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 29,907,072	\$ 29,297,663
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	160,414	140,754
Bad debts expense	256,536	7,470
Impairment loss	-	500,000
(Increase) decrease in assets:		
Receivables:		
Affiliates	2,687,480	(3,252,387)
Trade	(1,316,205)	669,146
Due from PNA Office	(977,405)	(961,723)
Other	(18,251)	102,896
Increase (decrease) in liabilities:		
Accounts payable	(311,726)	449,214
Payable to affiliates	(1,784)	63,920
Other liabilities and accruals	<u>27,965</u>	<u>1,988</u>
Net cash provided by operating activities	\$ <u>30,414,096</u>	\$ <u>27,018,941</u>
Summary of noncash financing activities:		
Income from equity share investment:		
Increase in investment in joint venture	\$ (148,763)	\$ (910,234)
Equity in earnings of joint venture	<u>148,763</u>	<u>910,234</u>
	<u>\$ -</u>	<u>\$ -</u>
Dividends paid directly to RepMar:		
Decrease in investment in joint venture	\$ 1,440,214	\$ -
Contributions to RepMar	<u>(1,440,214)</u>	<u>-</u>
	<u>\$ -</u>	<u>\$ -</u>
Donated capital assets:		
Increase in capital assets	\$ (153,875)	\$ -
Capital contributions	<u>153,875</u>	<u>-</u>
	<u>\$ -</u>	<u>\$ -</u>

See accompanying notes to financial statements.

MARSHALL ISLANDS MARINE RESOURCES AUTHORITY

Notes to Financial Statements
September 30, 2018 and 2017

(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 Natural Resources and Commerce, the Secretary of Foreign Affairs and Trade, 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

GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, amended by GASB Statement No. 37, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments: Omnibus*, GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, and GASB Statement No. 61, *The Financial Reporting Entity: Omnibus - an amendment of GASB Statements No. 14 and No. 34*, 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 Statement No. 34, equity is presented in the following net position categories:

- Net investment in capital assets - capital assets, net of accumulated depreciation, plus construction or improvement of those assets.
- Restricted - nonexpendable net position subject to externally imposed stipulations that requires MIMRA to maintain such permanently. At September 30, 2018 and 2017, MIMRA does not have nonexpendable net position. Expendable net position whose use by MIMRA is subject to externally imposed stipulations that can be fulfilled by actions of MIMRA pursuant to those stipulations or that expire by the passage of time. At September 30, 2018 and 2017, MIMRA has expendable net position of \$742,780 and \$692,160, respectively.
- Unrestricted - net position that is not subject to externally imposed stipulations. Unrestricted net position 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, 2018 and 2017

(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 deferred outflows of resources, and liabilities and deferred inflows of resources associated with the operation of the fund are included in the statements of net position. Proprietary fund operating statements present increases and decreases in net position. 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) fishing rights, Vessel Day Scheme revenues, licensing, transshipment, and other fees, and (2) other local revenues. 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 position 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, 2018 and 2017, the carrying amount of cash and time certificates of deposit were \$18,710,050 and \$17,310,570, respectively, and the corresponding bank balances were \$18,769,241 and \$17,363,120, respectively. Of the bank balances, \$11,384,614 and \$5,320,822, respectively, were maintained in a financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance. The remaining amounts of \$7,384,627 and \$12,042,298, respectively, were maintained in a financial institution not subject to depository insurance. As of September 30, 2018 and 2017, bank deposits in the amount of \$250,000 were 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 collectability of these accounts and prior collection experience. The allowance is established through a provision for losses on accounts receivable charged to expense.

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 as follows:

MARSHALL ISLANDS MARINE RESOURCES AUTHORITY

Notes to Financial Statements
September 30, 2018 and 2017

(2) Summary of Significant Accounting Policies, Continued

Improvements and Equipment, Continued

Building improvements	10 years
Equipment improvements	10 years
Vehicles	3 years
Equipment	4 years
Furniture	4 years
Motor boats	6 years

Investments

The investment in stock of an affiliate is carried at Net Asset Value (NAV) per share net of an impairment reserve. Investments of 20% or more of the voting stock of a joint venture investee are presumed to give the investor significant influence and are carried using the equity method. Under the equity method, the investor records, as earnings or loss, its proportionate share of the investee's earnings or loss.

Deferred Outflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (deduction of net position) until then. MIMRA has no items that qualify for reporting in this category.

Deferred Inflows of Resources

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (additions to net position) until then. MIMRA has no items that qualify for reporting in this category.

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.

Revenue Recognition

Fees with respect to services are recognized as the right to consideration accrues through the provision of the service to the customer. Licensing and other fees are recognized as revenue when paid based on the licensing period they pertain to. The Vessel Day Scheme (VDS) is a scheme where vessel owners can purchase and trade days fishing at sea in places subject to the Parties to the Nauru Agreement (PNA). Revenues from the VDS are recognized upon issuance of fishing days transfer notification.

Non-operating revenues and expenses primarily consist of equity earnings in joint venture, investment earnings, grants, and contributions to RepMar.

MARSHALL ISLANDS MARINE RESOURCES AUTHORITY

Notes to Financial Statements
September 30, 2018 and 2017

(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, 2018 and 2017, the accumulated vacation leave liability totals \$78,769 and \$67,713, respectively, and is included within the statements of net position as other liabilities and accruals.

Estimates

The preparation of financial statements in accordance 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 deferred outflows of resources, liabilities and deferred inflows of resources, 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.

Reclassifications

Certain balances in the 2017 financial statements have been reclassified to conform to the 2018 presentation. These reclassifications had no impact on operating income, net position or cash flows as previously reported.

New Accounting Standards

During the year ended September 30, 2018, MIMRA implemented the following pronouncements:

- GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, as amended*, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, and provides guidance on reporting by governments that provide OPEB to their employees and for governments that finance OPEB for employees of other governments.
- GASB Statement No. 81, *Irrevocable Split-Interest Agreements*, which improves accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement.
- GASB Statement No. 85, *Omnibus 2017*, which address practice issues that have been identified during implementation and application of certain GASB Statements including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits).
- GASB Statement No. 86, *Certain Debt Extinguishment Issues*, which improves consistency in accounting and financial reporting for in-substance defeasance of debt.

The implementation of these standards did not have a material effect on the accompanying financial statements.

MARSHALL ISLANDS MARINE RESOURCES AUTHORITY

Notes to Financial Statements
September 30, 2018 and 2017

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In November 2016, GASB issued Statement No. 83, *Certain Asset Retirement Obligations*, which addresses accounting and financial reporting for certain asset retirement obligations (AROs) associated with the retirement of a tangible capital asset. The provisions in Statement No. 83 are effective for fiscal years beginning after June 15, 2018. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*, which establishes criteria for identifying fiduciary activities of all state and local governments. The provisions in Statement No. 84 are effective for fiscal years beginning after December 15, 2018. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In June 2017, GASB issued Statement No. 87, *Leases*, which establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The provisions in Statement No. 87 are effective for fiscal years beginning after December 15, 2019. Management has yet to determine whether the implementation of this statement will have a material effect on the financial statements.

In April 2018, GASB issued Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, which improves the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. The provisions in Statement No. 88 are effective for fiscal years beginning after June 15, 2018. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In June 2018, GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, which requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. The provisions in Statement No. 89 are effective for fiscal years beginning after December 15, 2019. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In August 2018, GASB issued Statement No. 90, *Majority Equity Interests – an Amendment of GASB Statements No. 14 and No. 61*, which improves the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and the relevance of financial statement information for certain component units. The provisions in Statement No. 90 are effective for fiscal years beginning after December 15, 2018. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

(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.

MARSHALL ISLANDS MARINE RESOURCES AUTHORITY

Notes to Financial Statements
September 30, 2018 and 2017

(4) Investment in Joint Venture

In 2005, MIMRA entered into a joint venture agreement with Koo's Fishing Company, Ltd. (KFC) to form the Marshall Islands Fishing Company (MIFCO), 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 at the time was \$2,940,000 and \$3,060,000, respectively, which represented a 49% and 51% interest, respectively, of the vessel's value of \$6,000,000.

The parties agreed that the joint venture will be operated by KFC and MIMRA will not be liable to the joint venture.

A summary of financial information as of and for the years ended December 31, 2018 and 2017, for investees accounted for using the equity method of accounting for investments, are as follows:

	<u>2018</u>	<u>2017</u>
Assets	\$ <u>15,156,141</u>	\$ <u>18,965,701</u>
Liabilities	\$ <u>5,169,593</u>	\$ <u>5,846,049</u>
Net earnings	\$ <u>(193,891)</u>	\$ <u>1,796,064</u>

Dividend distribution of \$1,440,214 was received in 2018 from MIFCO and paid directly to RepMar, which was recorded by MIMRA as a contribution to RepMar. No distribution was received in 2017.

An analysis of the change in the investment in joint venture during the years ended September 30, 2018 and 2017 is as follows:

	<u>2018</u>	<u>2017</u>
Beginning balance	\$ 6,209,153	\$ 5,298,919
Equity in earnings of MIFCO	148,763	910,234
Dividend distribution from MIFCO	<u>(1,440,214)</u>	-
Ending balance	\$ <u>4,917,702</u>	\$ <u>6,209,153</u>

(5) Asset Held for Donation

In 2016, MIMRA purchased a \$500,000 building to donate to a third party. The donation was subsequently made during the year ended September 30, 2018. An impairment loss of \$500,000 was recorded in 2017 in relation to this building, which was subsequently demolished.

MARSHALL ISLANDS MARINE RESOURCES AUTHORITY

Notes to Financial Statements
September 30, 2018 and 2017

(6) Improvements and Equipment

Capital asset activity for the years ended September 30, 2018 and 2017 is as follows:

	2018			
	October 1, 2017	Additions	Disposal/Transfers	September 30, 2018
Building improvements	\$ 210,874	\$ -	\$ -	\$ 210,874
Equipment	591,089	226,736	(126,779)	691,046
Equipment improvements	96,052	13,218	-	109,270
Vehicles	289,080	125,134	(39,450)	374,764
Furniture and fixtures	43,218	-	-	43,218
Motor boats	<u>158,512</u>	<u>5,400</u>	<u>-</u>	<u>163,912</u>
	1,388,825	370,488	(166,229)	1,593,084
Less accumulated depreciation	<u>(940,790)</u>	<u>(160,414)</u>	<u>134,998</u>	<u>(966,206)</u>
	448,035	210,074	(31,231)	626,878
Non-depreciable capital assets	<u>1,517,758</u>	<u>1,698,142</u>	<u>-</u>	<u>3,215,900</u>
	<u>\$ 1,965,793</u>	<u>\$ 1,908,216</u>	<u>\$ (31,231)</u>	<u>\$ 3,842,778</u>
	2017			
	October 1, 2016	Additions	Disposal/Transfers	September 30, 2017
Building improvements	\$ 210,874	\$ -	\$ -	\$ 210,874
Equipment	523,480	102,677	(35,068)	591,089
Equipment improvements	93,965	2,087	-	96,052
Vehicles	167,480	152,595	(30,995)	289,080
Furniture and fixtures	43,218	-	-	43,218
Motor boats	<u>122,962</u>	<u>35,550</u>	<u>-</u>	<u>158,512</u>
	1,161,979	292,909	(66,063)	1,388,825
Less accumulated depreciation	<u>(856,870)</u>	<u>(140,754)</u>	<u>56,834</u>	<u>(940,790)</u>
	305,109	152,155	(9,229)	448,035
Non-depreciable capital assets	<u>878,500</u>	<u>1,139,258</u>	<u>(500,000)</u>	<u>1,517,758</u>
	<u>\$ 1,183,609</u>	<u>\$ 1,291,413</u>	<u>\$ (509,229)</u>	<u>\$ 1,965,793</u>

During the year ended September 30, 2018, MIMRA received a \$153,875 capital contribution in-kind donation of capital assets from the Overseas Fishery Cooperation Foundation of Japan.

In February 2019, construction of the \$3,215,900 MIMRA building was completed and placed into service.

(7) Investment in Stock of an Affiliated Entity

On June 9, 2014, MIMRA purchased 49,000 shares of the Marshall Islands National Telecommunications Authority (MINTA), a component unit of RepMar, at \$20 per share. The investment in MINTA is recorded at NAV per share since MIMRA does not have a readily determinable fair value. The investment comprises approximately 15% of the outstanding shares of MINTA as of September 30, 2018 and 2017. No dividends were received during the years ended September 30, 2018 and 2017. As of September 30, 2018 and 2017, due to the investee's recurring losses and its inability to generate sufficient cash flows to meet its debt obligation, the investment is recorded net of an impairment allowance in the accompanying financial statements.

MARSHALL ISLANDS MARINE RESOURCES AUTHORITY

Notes to Financial Statements
September 30, 2018 and 2017

(8) 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 Tobolar Copra Processing Authority (Tobolar).

MIMRA acts as an agent of RepMar for the purposes of collecting and remitting income received from sovereign nations in accordance with various international fishing rights treaties. During the years ended September 30, 2018 and 2017, MIMRA collected \$3,302,312 and \$3,143,085, respectively, under these treaties.

During the years ended September 30, 2018 and 2017, MIMRA provided cash contributions to RepMar's General Fund of \$29,440,214 and \$40,129,700, respectively, in accordance with annual legislative appropriations as enacted by the Nitijela. On September 29, 2016, the Nitijela of RepMar enacted the Marshall Islands Marine Resources Authority (MIMRA Surplus Funds Amendment) Act 2016, effective January 1, 2016, which provided a process for the transfer to RepMar's General Fund of any surplus funds from MIMRA.

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 as of September 30, 2018 and 2017 and for the years then ended is as follows:

	2018			
	<u>Revenues</u>	<u>Expenses</u>	<u>Payables</u>	<u>Receivables</u>
Marshall Islands Fishing Company	\$ 912,500	\$ -	\$ -	\$ 64,525
Koo's Fishing Company, Ltd.	4,965,450	-	-	574,075
Marshall Islands Social Security Administration	-	212,354	94,858	-
Marshall Islands National Telecommunications Authority	-	39,982	-	-
Marshalls Energy Company, Inc.	-	86,463	23,803	-
RepMar	-	1,765	112,520	4,500
Tobolar Copra Processing Authority	-	-	-	50,000
Other	-	<u>42,150</u>	<u>40,388</u>	<u>11,307</u>
	<u>\$ 5,877,950</u>	<u>\$ 382,714</u>	<u>\$ 271,569</u>	<u>\$ 704,407</u>
	2017			
	<u>Revenues</u>	<u>Expenses</u>	<u>Payables</u>	<u>Receivables</u>
Marshall Islands Fishing Company	\$ 1,123,500	\$ -	\$ -	\$ 623,000
Koo's Fishing Company, Ltd.	5,241,500	-	-	2,706,500
Marshall Islands Social Security Administration	-	185,772	116,450	-
Marshall Islands National Telecommunications Authority	-	34,315	-	-
Marshalls Energy Company, Inc.	-	80,921	38,516	-
RepMar	-	31,475	116,272	4,500
Tobolar Copra Processing Authority	-	-	-	50,000
Other	-	<u>200,577</u>	<u>2,113</u>	<u>7,887</u>
	<u>\$ 6,365,000</u>	<u>\$ 533,330</u>	<u>\$ 273,353</u>	<u>\$ 3,391,887</u>

MARSHALL ISLANDS MARINE RESOURCES AUTHORITY

Notes to Financial Statements
September 30, 2018 and 2017

(8) Related Party Transactions, Continued

In 2013, MIMRA advanced \$100,000 to Tobolar for the purpose of assisting in funding the purchase of copra. The advance is uncollateralized and is non-interest bearing and is due and payable by Tobolar from the proceeds of oil sales. As of September 30, 2018 and 2017, \$50,000 remains uncollected and due from Tobolar.

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.

(9) Financing

World Bank

In 2014, the World Bank approved funding to support the Pacific Islands Regional Oceanscape Program (PROP), a regional program of operations to strengthen the management of fisheries in the Pacific Islands. Various components and activities of the PROP are to be financed by the International Development Association (IDA) and the Global Environment Facility (GEF) Program. On June 26, 2015, MIMRA entered into a subsidiary agreement with RepMar for the purposes of executing the objectives of the PROP.

During the years ended September 30, 2018 and 2017, MIMRA received \$363,370 and \$529,761, respectively, from the World Bank in the form of financial support from IDA (Grant ID 0170) to support implementation of strengthening the shared management of selected Pacific Island oceanic and coastal fisheries, and the critical habitats upon which they depend. In addition, MIMRA received \$104,536 and \$113,178, respectively, from the World Bank in the form of financial support from GEF (TF 18606). A summary of these grant activities is as follows:

	<u>2018</u>	<u>2017</u>
IDA Grant ID 0170:		
Balance at beginning of the year	\$ 609,365	\$ 443,151
Grant funds received during the year	363,370	529,761
Grant expenses incurred during the year	<u>(305,815)</u>	<u>(363,547)</u>
Balance at end of the year	\$ <u>666,920</u>	\$ <u>609,365</u>
GEF Grant TF 18606:		
Balance at beginning of the year	\$ (56,083)	\$ (10,102)
Grant funds received during the year	104,536	113,178
Grant expenses incurred during the year	<u>(51,095)</u>	<u>(159,159)</u>
Balance at end of the year	\$ <u>(2,642)</u>	\$ <u>(56,083)</u>

Management is of the opinion that the proceeds from the IDA and GEF grants have been expended in accordance with intended purposes specified in the respective grant agreements.

MARSHALL ISLANDS MARINE RESOURCES AUTHORITY

Notes to Financial Statements
September 30, 2018 and 2017

(9) Financing, Continued

The Nature Conservancy

In 2017, The Nature Conservancy, a District of Columbia non-profit corporation agreed to make a cooperative grant to RepMar, under the administration of MIMRA, whereby the parties will work together to improve the financial and environmental performance of the RMI's longline tuna fishery. The grant will be for a term of two years. A summary of grant activities follows:

	<u>2018</u>	<u>2017</u>
Balance at beginning of the year	\$ 32,855	\$ -
Grant funds received during the year	25,000	75,000
Grant expenses incurred during the year	<u>(25,300)</u>	<u>(42,145)</u>
Balance at end of the year	\$ <u>32,555</u>	\$ <u>32,855</u>

Chinese Taipei Trust Fund

In 2017, MIMRA received joint assistance from Pacific Community and Forum Fisheries Agency to improve data collection by the Observers and management. The purpose of the assistance is to build technical capacity at MIMRA for the efficiency of the National Observer Program. On July 10, 2017, MIMRA received \$49,940 from Chinese Taipei Trust Fund (CTTF) who approved the funding of the project. A summary of grant activities follows:

	<u>2018</u>	<u>2017</u>
Balance at beginning of the year	\$ 49,940	\$ -
Grant funds received during the year	-	49,940
Grant expenses incurred during the year	<u>(6,635)</u>	<u>-</u>
Balance at end of the year	\$ <u>43,305</u>	\$ <u>49,940</u>

(10) PNA Office

The PNA was established by eight sovereign nations (Federated States of Micronesia, Marshall Islands, Kiribati, Tuvalu, Solomon Islands, Nauru, Papua New Guinea, and Palau) in 1982. The PNA Office was established as a quasi-governmental organization in Majuro as the Head Office of the PNA and is responsible for administering of the VDS program, including collection of revenues associated with this program. During the years ended September 30, 2018 and 2017, MIMRA recognized revenues related to the VDS program of \$25,842,384 and \$25,389,600, respectively. As of September 30, 2018 and 2017, receivables due from the PNA Office associated with VDS revenues amounted to \$5,804,788 and \$4,827,383, respectively. During the years ended September 30, 2018 and 2017, MIMRA incurred administrative fees of \$69,893 and \$77,978, respectively, associated with administration of the VDS program by the PNA Office.

MARSHALL ISLANDS MARINE RESOURCES AUTHORITY

Notes to Financial Statements
September 30, 2018 and 2017

(11) Commitments

Lease Commitments

MIMRA has assumed payment obligations under certain ground leases, which were previous obligations of RepMar's Ministry of Culture and Internal Affairs. In addition, MIMRA assumed the obligation for 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 2019 through 2037.

In 2016, MIMRA also purchased a building for the PNA Office and assumed obligation for an attendant lease, which expires in 2037 (see note 5).

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

<u>Year ending</u> <u>September 30,</u>	
2019	\$ 34,729
2020	32,407
2021	22,543
2022	22,259
2023	22,259
2024 - 2028	34,229
2029 - 2033	33,225
2034 - 2037	<u>25,702</u>
	\$ <u>227,353</u>

MIMRA has entered into lease agreements expiring over various years through December 15, 2022. Future minimum lease income for the subsequent years ending September 30 is as follows:

<u>Year ending</u> <u>September 30,</u>	
2019	\$ 20,265
2020	20,265
2021	16,098
2022	<u>8,778</u>
	\$ <u>65,406</u>

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Directors
Marshall Islands Marine Resources Authority:

We have audited, 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, the financial statements of Marshall Islands Marine Resources Authority (MIMRA), which comprise the statement of net position as of September 30, 2018, and the statements of revenues, expenses and changes in net position and of cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated June 5, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered MIMRA's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of MIMRA's internal control. Accordingly, we do not express an opinion on the effectiveness of MIMRA's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

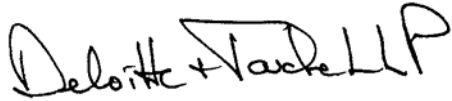
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether MIMRA's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of MIMRA's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering MIMRA's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

June 5, 2019

MARSHALL ISLANDS MARINE RESOURCES AUTHORITY

Unresolved Prior Year Findings
Year Ended September 30, 2018

There are no unresolved audit findings from prior year audits of MIMRA.