MARSHALL ISLANDS MARINE RESOURCES AUTHORITY

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

FINANCIAL STATEMENTS, ADDITIONAL INFORMATION AND INDEPENDENT AUDITORS' REPORT

YEARS ENDED SEPTEMBER 30, 2016 AND 2015

MARSHALL ISLANDS MARINE RESOURCES AUTHORITY

Years Ended September 30, 2016 and 2015
Table of Contents

Deloitte & Touche LLP
361 South Marine Corps Drive
Tamuning, GU 96913
USA

Tel: +1 (671) 646-3884
Fax: +1 (671) 649-4265

www.deloitte.com

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, 2016 and 2015, 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.

Deloitte.

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, 2016 and 2015, 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 9 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 20, 2017, 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 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 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.

Deloitte + Touche LLP

June 20, 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, 2016. 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 2016, 2015 and 2014.

Statements of Net Position

	2016	2015	% Change	2014
ASSETS:				
Current and other assets	$ 35,141,562	$ 32,741,649	7%	$ 19,662,248
Capital assets	1,183,609	202,955	483%	206,048
Investment in stock	-	-	0%	980,000
Investment in JV	5,298,919	4,811,417	10%	4,550,922
Total assets	$ 41,624,090	$ 37,756,021	10%	$ 25,399,218
LIABILITIES:				
Current liabilities	$ 394,715	$ 508,003	(22%)	$ 735,196
NET POSITION:				
Net investment in capital assets	1,183,609	202,955	483%	206,048
Restricted	433,049	-	100%	-
Unrestricted	39,612,717	37,045,063	7%	24,457,974
Total net position	41,229,375	37,248,018	11%	24,664,022
	$ 41,624,090	$ 37,756,021	10%	$ 25,399,218

Statements of Revenue, Expenses, and Changes in Net Position

	2016	2015	% Change	2014
REVENUES:				
Operating revenues	$ 31,666,145	$ 31,569,468	0.3%	$ 19,815,209
Non-operating revenues	2,122,087	608,612	249%	1,355,891
Total revenues	33,788,232	32,178,080	5%	21,171,100
EXPENSES:				
Operating expenses	3,520,937	3,821,084	(8%)	2,708,186
Non-operating expenses	26,285,938	15,773,000	67%	11,549,000
Total expenses	29,806,875	19,594,084	52%	14,257,186
Changes in net position	3,981,357	12,583,996	(68%)	6,913,914
Net position at beginning of year	37,248,018	24,664,022	51%	17,750,108
Net position at end of year	$ 41,229,375	$ 37,248,018	11%	$ 24,664,022

Management's Discussion and Analysis for the year ended September 30, 2015 is set forth in MIMRA's report on the audit of financial statements, which is dated July 13, 2016. That Management's Discussion and Analysis explains the major factors impacting 2015 financial statements and can be obtained from MIMRA's Administrator via the contact information on page 9.

Overall analysis

In FY2016, operating revenues increased by $96,677 or 0.3% compared with FY2015; and, for FY2015, operating revenues increased by $11,754,259 or 59% compared with FY2014. For FY2016, all revenue generated has increased except for fishing rights, observer fees, fishing violation fines and other operating revenues. Fishing rights (income from Japan Bilateral, U.S. Treaty & FSM Arrangement) decreased due to US Treaty share taken as fishing rights in FY2015 when they should have been fishing days revenue; hence, Vessel Day Scheme (VDS) revenue increased by $8,763,056 or 58%; licensing and registration fees increased by $581,488 or 36%; and transshipment fees increased by $122,000 or 18%. On the other hand, observer fees decreased by $103,379 or 16%; fishing violation fines decreased by $2,855,000 or 88%; and other operating revenues decreased by $356,053 or 84%. Boat chartering fees remained at $700,000 for each respective year.

MIMRA was able to collect fishing fines during FY2016 for violations in the access agreement amounting to $380,000, 88% lower compared with $3,235,000 in FY2015. VDS revenues boosted total revenue generated by MIMRA during the current year in the amount of $23,991,991, from $15,228,935 in FY2015, an increase of 58% compared to the 25% increase in FY2015 versus FY2014.

Total fishing vessels (purse seiners, carriers and bunker vessels) transshipped in the RMI port during the current year was 706 boats, which is 43 boats more than in FY2015 with 663 boats and higher than FY2014, which has 531 boats.

For the current year, Korea registered 32 boats (FY2015: 5 boats); Taiwan 28 boats (FY2015: 25 boats); China 0 boats (FY2015: 5 boats); New Zealand 0 boats (FY2015: 2 boats); Shanghai Kaichuang (China) 2 boats (FY2015: 2 boats); and Japan 30 boats (FY2015: 0 boats). The above also purchased fishing days from MIMRA for 869 days amounting to $6,688,000. Domestic companies like Koo's Fishing (***4 boats)***, Marshall Islands Fishing Corporation (***1 boat)***, and Pan Pacific Fishing (**3 *boats)*** had the same number of boats registered in FY 2015 except for Central Pacific Fishing that transferred the registration of their boats to FSM. Domestic-based companies also bought fishing days from MIMRA as follows: Koo's Fishing - 600 days for $3,600,000; Marshall Islands Fishing Corporation - 150 days for $900,000; and Pan Pacific Fishing – 450 days for $2,700,000. The above made a significant impact on the overall revenue picture of MIMRA for the current year. Another domestic-based company, Marshall Islands Fishing Venture (MIFV), registered long-line boats with same rates as in previous years for $304,000. Parties to the Nauru Agreement (PNA) pooling and FSMA traded days share also boosted MIMRA revenue by $5,442,381. Carriers and bunkers also contributed $668,788 to the total revenue of MIMRA. Overall, total revenues of $33,788,232 (including non-operating) exceeded estimated revenues by $8,788,232 against the budgeted collection of $25,000,000 for FY2016.

For FY2016, total operating expenses was $3,520,937, $421,582 (12%) of which pertains to World Bank project expenses for operations and surveillance. Total operating expenses decreased by $300,127 or 8% compared with FY2015. As stated, $421,582 is a World Bank project expense; thus, the net operating expenses for MIMRA operations was $3,099,355, which increased by 9% compared with the operating expenses in FY2015 amounting to $2,841,084, net of the impairment provision of $980,000 for MIMRA's investment in stocks of an affiliate, which is a non-recurring expense. Therefore, the 9% increase in FY2016 operating expenses related to MIMRA operations is less than the 13% budgeted increase in operating expenses for FY2016. The significant factor for the increase pertains to the PNA administrative fee.

Even with the increase in operating expenses, MIMRA's operations in FY2016 still resulted in an operating income of $28,145,208 which is higher by $396,824 or 1% compared with the operating income in FY2015 of $27,748,384. Net non-operating expenses of $24,163,851 decreased MIMRA's results of operations for FY2016. Change in net position for FY2016 decreased by $8,602,639, compared with the increase of $5,670,082 for FY2015.

MIMRA's financial condition as shown by the change in net position at end of the year shows an overall increase of 11% compared to FY2015. The change during the current year is 40% lower compared to FY2014.

Management's Discussion and Analysis for the year ended September 30, 2015 is set forth in MIMRA's report on the audit of financial statements, which is dated July 13, 2016. That Management's Discussion and Analysis explains the major factors impacting the 2015 financial statements and can be obtained from MIMRA's Administrator via the contact information on page 9.

Fund Analysis

At the end of FY2016, MIMRA's combined fund (Savings and Current Account) amounted to $30,602,638, which was an 11% increase compared to $27,578,920 at the end of FY2015. The increase can be attributed to the increase in collection from VDS revenue and income from fishing rights amounting to $26,970,078 in FY2016 compared to $24,406,606 in FY2015, or an 11% increase. Equity earnings from the joint venture amounting to $794,704, grants amounting to $865,468 and interest income amounting to $441,615 also added to the overall funds generated during the current year FY2016. Transfer payments to RepMar were $26,285,938 in FY2016 compared to $15,773,000 in FY2015.

Budget Variances

Actual total revenues, including both operating and non-operating revenues, generated during the current FY2016 was $33,788,232 compared to the budgeted total revenues for FY2016 of $25,000,000. The result was favorable by as much as $8,788,232 or 35% compared to the final budget of the same year. Actual expenses, including transfers out to RepMar, and other contributions for FY2016 amounted to $29,806,875 compared to the budget of $24,276,990, which represents unfavorable variance of $5,529,885 or 23%.

Capital Assets

At the end of the FY2016, MIMRA has a net investment in capital assets of $1,183,609. The increase of 483% from FY2015 was due to the increase in non-depreciable capital assets of $878,500. Non-depreciable capital assets pertain to the purchase of the PNA Office Headquarters amounting to $500,000 and initial payment for the construction of the MIMRA building amounting to $378,500. This increase indicates that MIMRA capital assets are on the positive side and hopefully will be maintained. (See table below).

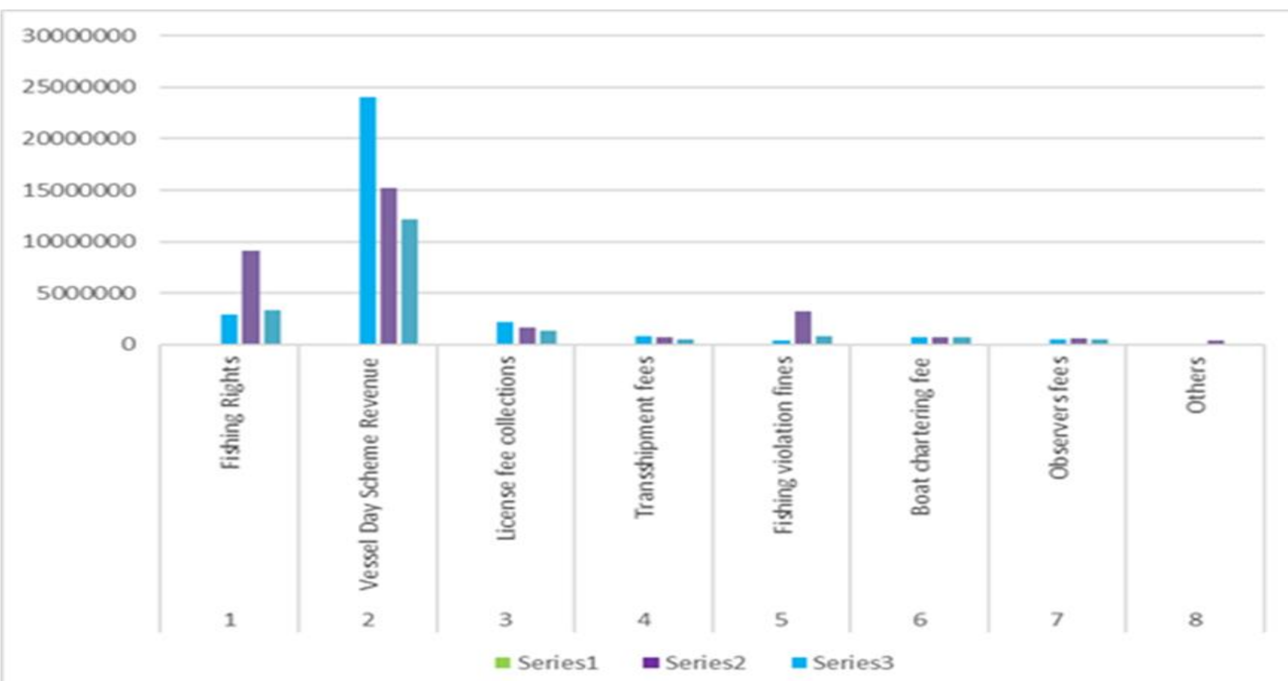
	2016	2015	2014
Buildings and improvements	$ 210,874	$ 176,367	$ 176,367
Equipment improvements	93,965	70,395	26,696
Vehicles	167,480	170,485	170,485
Equipment	523,480	451,886	390,107
Furniture and fixtures	43,218	36,564	35,351
Motorboats	122,962	118,002	118,002
	1,161,979	1,023,699	917,008
Less: accumulated depreciation	856,870	820,744	710,960
	305,109	202,955	206,048
Construction-in-progress	878,500	-	-
Net	$ 1,183,609	$ 202,955	$ 206,048

Fiscal Year 2016 major capital asset additions include:

1. Buildings and improvements	$ 34,507
2. Equipment improvements	23,570
3. Vehicles	63,990
4. Equipment	75,894
5. Furniture and fixtures	6,654
6. Motorboats	4,960
	$ 209,575

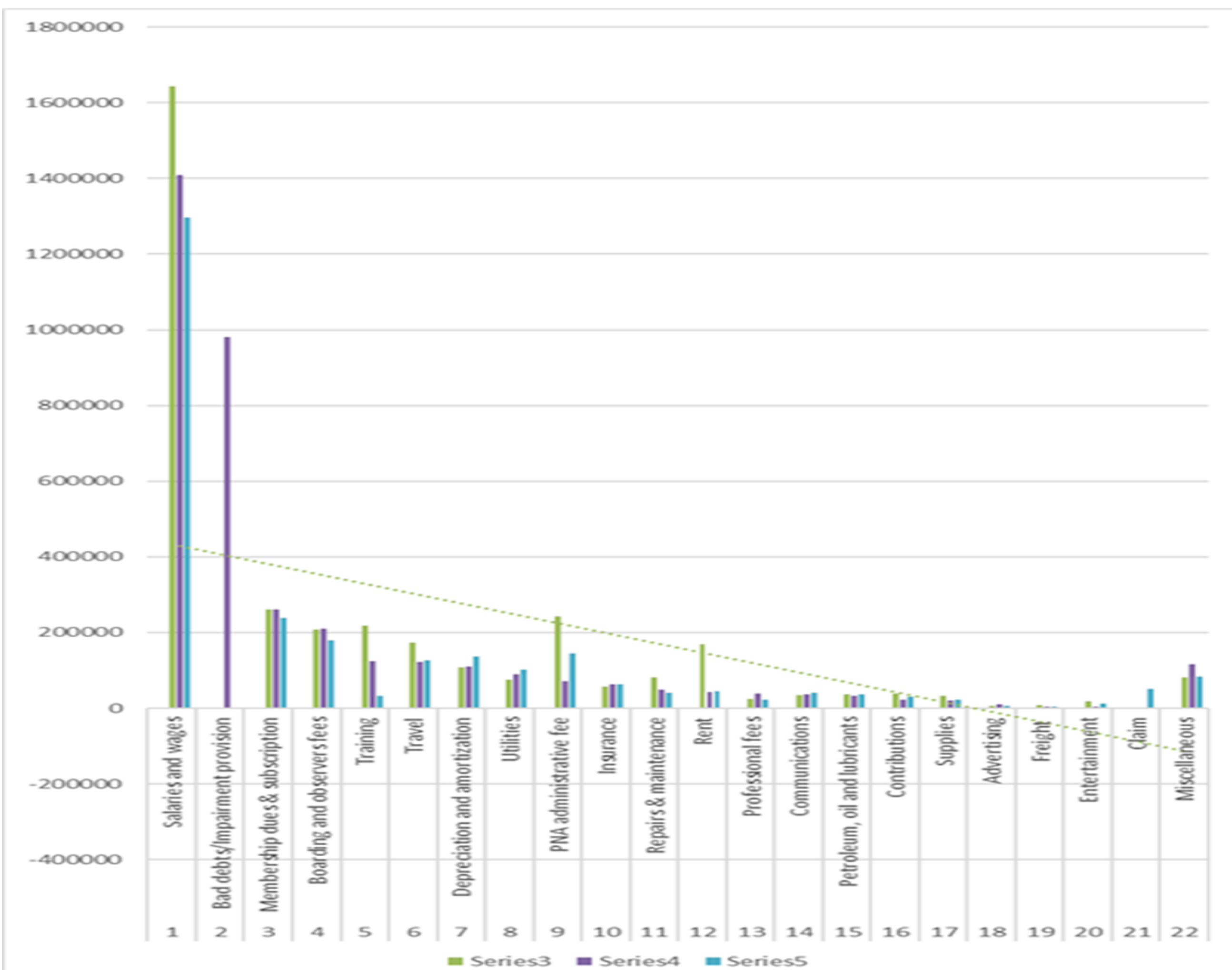
For additional information concerning capital assets, please see note 5 to the financial statements.

COMPARATIVE REVENUE - FY 2016 VS FY 2015 VS FY 2014



	2016	2015	2014
Vessel Day Scheme Revenue	$ 23,991,991	$ 15,228,935	$ 12,171,596
Fishing rights	2,978,087	9,177,671	3,383,643
Licensing and registration fees	2,202,988	1,621,500	1,363,549
Transshipment fees	799,000	677,000	547,000
Boat charter fees	700,000	700,000	700,000
Observer fees	544,040	647,419	561,924
Fishing violation fines	380,000	3,235,000	825,000
Other	70,039	426,092	146,523
	31,666,145	31,713,617	19,699,235
Recovery of (allowance for) bad debts	-	(144,149)	115,974
Net operating revenues	$ 31,666,145	$ 31,569,468	$ 19,815,209
Overall Change FY2016 vs FY2015	$ 96,677	0.31%	

COMPARATIVE OPERATING EXPENSES (2016-2014)



	2016	2015	2014
Salaries and wages	$ 1,642,751	$ 1,409,738	$ 1,296,812
Membership dues and subscriptions	261,329	261,325	237,785
PNA administrative fee	242,265	71,433	143,972
Training	218,552	124,500	33,182
Boarding and observer fees	207,640	210,820	178,712
Travel	173,553	121,431	126,258
Rent	168,885	42,257	44,458
Depreciation and amortization	107,421	109,784	135,634
Repairs and maintenance	82,433	48,629	40,355
Utilities	74,703	89,567	102,298
Insurance	58,010	62,635	63,255
Contributions	38,517	23,460	29,642
Petroleum, oil and lubricants	36,316	32,283	36,290
Communications	34,025	37,394	41,136
Supplies	33,381	20,789	21,457
Professional fees	25,000	39,000	23,000
Entertainment	18,227	4,096	12,234
Freight	9,057	4,989	3,483
Advertising	6,747	10,804	5,125
Impairment provision for investment	-	980,000	-
Claim	-	-	50,000
Miscellaneous	82,125	116,150	83,098
Operating expenses	$ 3,520,937	$ 3,821,084	$ 2,708,186
Overall change for FY2016 compared to FY2015	$ (300,147)	(8%)	

Economic Factors and Next year Budgets and Rates

Budget has been formulated and approved by the MIMRA Board for FY2017. Projected revenues both operating and non-operating revenues, is $30,405,500, while projected expenses, including transfer payments to RepMar, is $29,260,834 ($25,000,000 for RMI General Fund). No increase provided in the operating expenses projection (20% of projected operating expenses is World Bank Project related as budgeted). The 15% across the board increase approved by the MIMRA Board will still be effected for contract renewals and new contracts during FY2017. Travel expenses, both international and domestic, will depend on how it will be funded, but for those unfunded trips, MIMRA will shoulder the cost. Some domestic travel covered by grants that were approved and released to MIMRA in previous years, will be used during FY2017. For international travel, internal agreement by management for such shall be limited to externally funded travel unless, in certain cases, where MIMRA shall match the travel expenses and, in cases, where it is necessary that MIMRA must fund the travel. Supplemental budget amounting to $1,650,000 for FY2017 has also been approved. This includes PNA building renovation of $100,000 and sea patrol surveillance of $100,000.

The continuing up and down prices of fuel in the world market also affected the Marshall Islands. Marshall Islands still has the highest fuel prices in the Micronesia region by at least a little over 30% of the pump prices, even if the prices went down. Commodities in the islands 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 FY2011 will continue to be adopted in the formulation for the FY2017 budget. As mentioned above, salaries and wages has 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 continuing factor that would affect MIMRA's revenue generation, FAD closure is also an aspect that affects the revenue collection of MIMRA, especially on the transshipment revenue. Because FAD closure, such means fewer boats berthing in Majuro. Bilateral Agreements between MIMRA and Japan, Korea and Taiwan have been signed and would definitely help in the increase of revenue for FY2017. Fishing Vessel Days sales is also one factor that will boost the revenue for MIMRA in the next year.

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 Position
September 30, 2016 and 2015

ASSETS	2016	2015
Current assets:		
Cash	$ 2,381,775	$ 3,812,316
Time certificates of deposit	28,220,863	23,766,604
Receivables:		
Affiliates	79,500	100,000
Trade	943,864	2,374,384
Due from PNA Office	3,865,660	2,611,440
Due from joint venture	60,000	550,500
Accrued interest	172,822	226,708
Other	219,441	102,060
	5,341,287	5,965,092
Less allowance for doubtful accounts	(802,363)	(802,363)
	4,538,924	5,162,729
Total current assets	35,141,562	32,741,649
Capital assets:		
Nondepreciable capital assets	878,500	-
Capital assets, net of accumulated depreciation	305,109	202,955
Investment in joint venture	5,298,919	4,811,417
	$ 41,624,090	$ 37,756,021

LIABILITIES AND NET POSITION	2016	2015
Liabilities:		
Accounts payable	$ 55,737	$ 204,229
Payable to affiliates	209,433	174,096
Other liabilities and accruals	129,545	129,678
Total liabilities	394,715	508,003
Commitments		
Net position:		
Net investment in capital assets	1,183,609	202,955
Restricted	433,049	-
Unrestricted	39,612,717	37,045,063
Total net position	41,229,375	37,248,018
	$ 41,624,090	$ 37,756,021

See accompanying notes to financial statements.

MARSHALL ISLANDS MARINE RESOURCES AUTHORITY

Statements of Revenues, Expenses and Changes in Net Position
Years Ended September 30, 2016 and 2015

	2016	2015
Operating revenues:		
Vessel Day Scheme	$ 23,991,991	$ 15,228,935
Fishing rights	2,978,087	9,177,671
Licensing and registration fees	2,202,988	1,621,500
Transshipment fees	799,000	677,000
Boat charter fees	700,000	700,000
Observer fees	544,040	647,419
Fishing violation fines	380,000	3,235,000
Other	70,039	426,092
Total operating revenues	31,666,145	31,713,617
Allowance for uncollectible accounts	-	(144,149)
Total net operating revenues	31,666,145	31,569,468
Operating expenses:		
Salaries and wages	1,642,751	1,409,738
Membership dues and subscriptions	261,329	261,325
PNA administrative fee	242,265	71,433
Training	218,552	124,500
Boarding and observer fees	207,640	210,820
Travel	173,553	121,431
Rent	168,885	42,257
Depreciation and amortization	107,421	109,784
Repairs and maintenance	82,433	48,629
Utilities	74,703	89,567
Insurance	58,010	62,635
Contributions	38,517	23,460
Petroleum, oil and lubricants	36,316	32,283
Communications	34,025	37,394
Supplies	33,381	20,789
Professional fees	25,000	39,000
Entertainment	18,227	4,096
Freight	9,057	4,989
Advertising	6,747	10,804
Impairment provision for investment	-	980,000
Miscellaneous	82,125	116,150
Total operating expenses	3,520,937	3,821,084
Operating income	28,145,208	27,748,384
Nonoperating revenues (expenses):		
Equity in earnings of joint venture	794,704	260,495
World Bank grants	865,468	-
Other grants	-	16,000
Interest income	441,615	332,117
Gain on sale of asset	20,300	-
Transfer out to RepMar	(26,285,938)	(15,773,000)
Total nonoperating revenues (expenses), net	(24,163,851)	(15,164,388)
Change in net position	3,981,357	12,583,996
Net position at beginning of year	37,248,018	24,664,022
Net position at end of year	$ 41,229,375	$ 37,248,018

See accompanying notes to financial statements.

MARSHALL ISLANDS MARINE RESOURCES AUTHORITY

Statements of Cash Flows
Years Ended September 30, 2016 and 2015

	2016	2015
Cash flows from operating activities:		
Cash received from customers	$ 32,236,063	$ 32,649,373
Cash payments to suppliers for goods and services	(1,877,962)	(1,554,155)
Cash payments to employees for services	(1,648,841)	(1,404,338)
Net cash provided by operating activities	28,709,260	29,690,880
Cash flows from noncapital financing activities:		
Operating grants received	865,468	16,000
Payments made to RepMar and affiliates	(26,285,938)	(15,773,000)
Net cash used for noncapital financing activities	(25,420,470)	(15,757,000)
Cash flows from capital and related financing activities:		
Acquisition of capital assets	(1,088,075)	(106,691)
Proceeds from sale of capital assets	20,300	-
Net cash used for capital financing activities	(1,067,775)	(106,691)
Cash flows from investing activities:		
Net additions to time certificates of deposit	(4,454,259)	(14,103,803)
Dividend received from joint venture	307,202	-
Interest received on time certificates of deposit	495,501	222,042
Net cash used for investing activities	(3,651,556)	(13,881,761)
Net change in cash	(1,430,541)	(54,572)
Cash at beginning of year	3,812,316	3,866,888
Cash at end of year	$ 2,381,775	$ 3,812,316
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	$ 28,145,208	$ 27,748,384
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	107,421	109,784
Bad debts expense	-	144,149
Impairment loss	-	980,000
(Increase) decrease in assets:		
Receivables:		
Affiliates	20,500	25,000
Trade	1,430,520	657,149
Due from PNA Office	(1,254,220)	18,106
Due from joint venture	490,500	158,025
Other	(117,381)	77,476
Increase (decrease) in liabilities:		
Accounts payable	(148,492)	(286,171)
Payable to affiliates	35,337	53,578
Other liabilities and accruals	(133)	5,400
Net cash provided by operating activities	$ 28,709,260	$ 29,690,880
Summary of noncash financing activities:		
Income from equity share investment:		
Increase in investment in joint venture	$ (794,704)	$ (260,495)
Equity in earnings of joint venture	794,704	260,495
	$ -	$ -

See accompanying notes to financial statements.

(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

GASB 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*, establishes 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, 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, 2016 and 2015, 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, 2016 and 2015, MIMRA has expendable net position of $433,049 and $0, respectively, relating to unexpended World Bank grants.

- 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.

(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, 2016 and 2015, the carrying amount of cash and time certificates of deposit were $30,602,638 and $27,578,920, respectively, and the corresponding bank balances were $30,741,509 and $27,596,558, respectively. Of the bank balances, $1,724,324 and $3,118,153, respectively, were maintained in a financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance. The remaining amounts of $29,017,185 and $24,478,405, respectively, were maintained in a financial institution not subject to depository insurance. As of September 30, 2016 and 2015, 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:

(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.

(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, 2016 and 2015, the accumulated vacation leave liability totals $68,313 and $36,686, 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.

New Accounting Standards

During the year ended September 30, 2016, MIMRA implemented the following pronouncements:

- GASB Statement No. 72, *Fair Value Measurement and Application,* which addresses accounting and financial reporting issues related to fair value measurements and requires entities to expand their fair value disclosures by determining major categories of debt and equity securities within the fair value hierarchy on the basis of the nature and risk of the investment.

- GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, which eliminates two of the four categories of authoritative GAAP that exist under the existing hierarchy prescribed by Statement No. 55. The two categories that will remain under the new standard are (1) GASB Statements and (2) GASB technical bulletins and implementation guides in addition to AICPA guidance that the GASB clears.

- GASB Statement No. 79, *Certain External Investment Pools and Pool Participants,* addresses for certain external investment pools and their participants the accounting and financial reporting implications that result from changes in the regulatory provisions referenced by previous accounting and financial reporting standards. Those provisions were based on the Investment Company Act of 1940, Rule 2a7. Rule 2a7 contains the Securities and Exchange Commission's regulations that apply to money market funds and were significantly amended in 2014.

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

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In June 2015, GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, which aligns the reporting requirements for pensions and pension plans not covered in GASB Statements 67 and 68 with the reporting requirements in Statement 68. The provisions in Statement No. 73 are effective for fiscal years beginning after June 15, 2015, with the exception of the provisions that address employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement 68, which are effective for fiscal years beginning after June 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the financial statements of MIMRA.

In June 2015, GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, and addresses financial reporting requirements for governments whose employees are provided with postemployment benefits other than pensions (other postemployment benefits or OPEB). The provisions in Statement No. 74 are effective for fiscal years beginning after June 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the financial statements of MIMRA.

In June 2015, GASB issued 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. The provisions in Statement No. 75 are effective for fiscal years beginning after June 15, 2017. Management does not believe that the implementation of this statement will have a material effect on the financial statements of MIMRA.

In August 2015, GASB issued Statement No. 77, *Tax Abatement Disclosures*, which requires governments that enter into tax abatement agreements to disclose certain information about the agreements. The provisions in Statement No. 77 are effective for fiscal years beginning after December 15, 2015. Management does not believe that the implementation of this statement will have a material effect on the financial statements of MIMRA.

In December 2015, GASB issued Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, which addresses a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The provisions in Statement No. 78 are effective for fiscal years beginning after December 15, 2015. Management does not believe that the implementation of this statement will have a material effect on the financial statements of MIMRA.

In January 2016, GASB issued Statement No. 80, *Blending Requirements for Certain Component Units - an amendment of GASB Statement No. 14*, which improves financial reporting by clarifying the financial statement presentation requirements for certain component units. The provisions in Statement No. 80 are effective for fiscal years beginning after June 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the financial statements of MIMRA.

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In March 2016, GASB issued 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. The provisions in Statement No. 81 are effective for fiscal years beginning after December 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the financial statements of MIMRA.

In March 2016, GASB issued Statement No. 82, *Pension Issues - an amendment of GASB Statements No. 67, No. 68, and No. 73*, which addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The provisions in Statement No. 82 are effective for fiscal years beginning after June 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the financial statements of MIMRA.

(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.

(4) Investment in Joint Venture

On May 1, 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, 2016 and 2015, for investees accounted for using the equity method of accounting for investments, are as follows:

	2016	2015
Assets	$ 15,094,635	$ 13,874,090
Liabilities	$ 3,771,047	$ 3,965,842
Net earnings	$ 2,042,284	$ 360,528

During the year ended September 30, 2016, MIMRA received a distribution of $307,202 from the joint venture. No distribution was received in 2015.

(5) Improvements and Equipment

Capital asset activity for the years ended September 30, 2016 and 2015 is as follows:

	2016			
	October 1, 2015	Additions	Disposal/Transfers	September 30, 2016
Building improvements	$ 176,367	$ 34,507	$ -	$ 210,874
Equipment	451,886	75,894	(4,300)	523,480
Equipment improvements	70,395	23,570	-	93,965
Vehicles	170,485	63,990	(66,995)	167,480
Furniture and fixtures	36,564	6,654	-	43,218
Motor boats	118,002	4,960	-	122,962
	1,023,699	209,575	(71,295)	1,161,979
Less accumulated depreciation	(820,744)	(107,421)	71,295	(856,870)
	202,955	102,154	-	305,109
Non-depreciable capital assets	-	878,500	-	878,500
	$ 202,955	$ 980,654	$ -	$ 1,183,609

	2015			
	October 1, 2014	Additions	Disposal/Transfers	September 30, 2015
Building improvements	$ 176,367	$ -	$ -	$ 176,367
Equipment	390,107	61,779	-	451,886
Equipment improvements	26,696	43,699	-	70,395
Vehicles	170,485	-	-	170,485
Furniture and fixtures	35,351	1,213	-	36,564
Motor boats	118,002	-	-	118,002
	917,008	106,691	-	1,023,699
Less accumulated depreciation	(710,960)	(109,784)	-	(820,744)
	$ 206,048	$ (3,093)	$ -	$ 202,955

(6) 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, 2016 and 2015. No dividends were received during the years ended September 30, 2016 and 2015. As of September 30, 2016 and 2015, 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.

(7) 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) and the Office of Commerce and Investment (OCI).

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, 2016 and 2015 and for the years then ended is as follows:

	2016		
	Expenses	Payables	Receivables
Marshall Islands Social Security Administration	$ 140,401	$ 83,491	$ -
Marshall Islands National Telecommunications Authority	33,988	-	-
Marshalls Energy Company, Inc.	74,570	107,149	-
RepMar	15,121	15,241	4,500
Tobolar Copra Processing Authority	-	-	75,000
Other	32,022	3,552	-
	$ 296,102	$ 209,433	$ 79,500

	2015		
	Expenses	Payables	Receivables
Marshall Islands Social Security Administration	$ 103,502	$ 55,733	$ -
Marshall Islands National Telecommunications Authority	37,394	3,021	-
Marshalls Energy Company, Inc.	81,002	106,003	-
RepMar	2,196	8,124	-
Tobolar Copra Processing Authority	148	-	75,000
Other	53,114	1,215	25,000
	$ 277,356	$ 174,096	$ 100,000

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, 2016 and 2015, $75,000 remains uncollected and due from Tobolar.

On February 14, 2014, MIMRA advanced $100,000 to OCI for the purpose of financing its operations. The advance is uncollateralized and is non-interest bearing and is due and payable by OCI in April 2014. As of September 30, 2015, $25,000 remained uncollected and due from OCI and which was paid in full by OCI during the year ended September 30, 2016.

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, 2016 and 2015, MIMRA collected $2,978,087 and $9,177,671, respectively, under these treaties.

(7) Related Party Transactions, Continued

During the years ended September 30, 2016 and 2015, MIMRA provided cash contributions to RepMar's General Fund of $20,000,000 and $11,000,000, respectively, in accordance with annual legislative appropriations as enacted by the Nitijela. Furthermore, MIMRA provided other contributions of $6,285,938 and $4,773,000, respectively, in accordance with various RepMar Cabinet Minute directives. 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 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.

(8) World Bank Financing

On December 22, 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 year ended September 30, 2016, MIMRA received $700,000 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 $165,468 from the World Bank in the form of financial support from GEF (TF 18606).

A summary of activities under these grants is as follows:

	2016	2015
IDA Grant ID 0170:		
Balance at beginning of the year	$ (10,837)	$ -
Grant funds received during the year	700,000	-
Grant expenses incurred during the year	(246,012)	(10,837)
Balance at end of the year	$ 443,151	$ (10,837)
GEF Grant TF 18606:		
Balance at beginning of the year	$ -	$ -
Grant funds received during the year	165,468	-
Grant expenses incurred during the year	(175,570)	-
Balance at end of the year	$ (10,102)	$ -

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

(9) 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, 2016 and 2015, MIMRA recognized revenues related to the VDS program of $23,991,991 and $15,228,935, respectively. As of September 30, 2016 and 2015, receivables due from the PNA Office associated with VDS revenues amounted to $3,865,660 and $2,611,440, respectively. During the years ended September 30, 2016 and 2015, MIMRA incurred administrative fees of $242,265 and $71,433, respectively, associated with administration of the VDS program by the PNA Office.

(10) Commitments

MIMRA has assumed payment obligations under certain ground leases, which were previous obligations of RepMar's Ministry of 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 2010 through 2034.

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

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

Year ending September 30,	
2017	$ 30,041
2018	30,041
2019	29,548
2020	27,781
2021	25,803
2022 - 2026	68,497
2027 - 2031	35,505
2032 - 2036	35,312
2037 – 2038	21,840
	$ 304,368

(10) Commitments, Continued

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:

Year ending September 30,	
2017	$ 20,265
2018	20,265
2019	20,265
2020	20,265
2021	16,098
2022 - 2023	8,778
	$ 105,936

Deloitte.

Deloitte & Touche LLP
361 South Marine Corps Drive
Tamuning, GU 96913
USA

Tel: +1 (671) 646-3884
Fax: +1 (671) 649-4265

www.deloitte.com

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, 2016, 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 20, 2017.

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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Responses as items 2016-001 and 2016-002 that we consider to be material weaknesses.

Deloitte.

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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Responses as item 2016-003.

MIMRA's Responses to Findings

MIMRA's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. MIMRA's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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.

Deloitte & Touche LLP

June 20, 2017

Financial Reporting

Finding No. 2016-001

Criteria: Timely financial reporting should be facilitated by internal controls conducive to the preparation and independent review of reconciliations of significant general ledger accounts.

Condition: MIMRA did not close its fiscal year September 30, 2016 financial information (trial balance and subsidiary ledgers) until April 3, 2017.

Cause: The cause of the above condition is the lack of timely closing at year-end and the absence of timely reviews and reconciliations of significant general ledger accounts.

Effect: The trial balance was not timely provided for audit purposes.

Recommendation: We recommend that MIMRA implement internal control procedures to facilitate more timely general ledger reconciliation processes.

Auditee Response and Corrective Action Plan: As the Accountant, I assure everyone that this would be the first and the last time that this finding will appear. I will make sure that all adjustments will be posted at the end of the month after the fiscal year ends, and will submit the trial balance, schedules and general ledger on time.

Valuation of Purchased Building

Finding No. 2016-002

Criteria: An appraisal or valuation should be performed to support the appropriateness of the agreed upon value of a purchased building.

Condition: An independent appraisal or valuation to support the purchase of a $500,000 building was not obtained.

Cause: The cause of the above condition is a lack of an independent appraisal or valuation associated with the building purchase.

Effect: The effect of the above condition is the uncertainty of the appropriateness of the determination of the building purchase price.

Recommendation: We recommend that management conduct an independent appraisal or valuation of the building to support the appropriateness of the purchase price.

Auditee Response and Corrective Action Plan: Payment of the above has been made already on January 20, 2016. Since we don't have available appraisal offices and personnel in the island, we can hire a local construction company engineer or we will request the engineer from the Ministry of Public Works to do the appraisal to address this finding. As soon as the appraisal is done, MIMRA will submit the result to the auditor for their reference.

Local Noncompliance

Finding No. 2016-003

Criteria: RepMar's Procurement Code states the following:

(a) Section 124 - unless otherwise authorized by law, all Government contracts shall be awarded by competitive sealed bidding.

(b) Section 127 - procurement of goods and services not exceeding $25,000 may be made in accordance with small purchase procedures promulgated by Repmar's Policy Office; provided, however, that procurement requirements shall not be artificially divided so as to constitute a small purchase under this Section. Small purchase procedures are those relatively simple and informal methods for securing services, supplies, or other property that do not cost more than $25,000. RepMar's Ministry of Finance has previously declared that if small purchase procedures are used, price or rate quotations shall be obtained from an adequate number of qualified sources.

(c) Section 128 - a contract may be awarded for a supply, service, or construction item without competition when it is determined in writing that there is only one source for the required supply, service, or construction item.

(d) Section 129 - notwithstanding any other provision of this Act, emergency procurement may be made when there exists a threat to public health, welfare, or safety under emergency conditions as defined in regulations promulgated by the Policy Office; provided, that such emergency procurement shall be made with such competition as is practicable under the circumstances. A written determination of the basis for the emergence and for the selection of the particular contractor shall be included in the contract file.

Condition: The following payments were not adequately documented to evidence compliance with the procurement process set forth in the criteria:

1) Airfare of $31,387 for the Director and Minister of R&D on business class for a HN/NRT/TPR/NRT/HN trip
2) Contractor payment of $8,200 for repairs and maintenance
3) Purchase of a vehicle (Chevrolet Colorado 4x4) amounting to $32,995
4) Airfare amounting to $10,450 for an employee and dependents for a relocation allowance

Cause: The cause of the above condition is a lack of planning and adequate internal control policies and procedures requiring documentation of procurement procedures and compliance with RepMar's Procurement Code.

Effect: The effect of the above condition is noncompliance with RepMar's Procurement Code.

Recommendation: We recommend that management establish adequate internal control policies and procedures requiring compliance with RepMar's Procurement Code.

Local Noncompliance, Continued

Finding No. 2016-003, Continued

Auditee Response and Corrective Action Plan:

1-We don't have a chance of doing online booking due to the fact that MIMRA has no corporate credit card to do so; thus, we are doing our booking locally and the travel agent will do the work for us for the connecting flight to the various destination. Actually, there are two separate Travel Authorization for this but since there is only one payee, we make one check for the two Travel Authorization, in good faith.

2-This is the repair of boston whaler---we did not do three quotation on this one but we prepare a Purchase Order, as basis for payment.

3-We have at least two quotations for this acquisition but since it is more than the threshold of $25,000 it seems that we need a proposal from the vendors. A PO is also prepared for this.

4-This payment for relocation is for the employee and dependents. This was part of his contract that MIMRA will pay the relocation allowance after two years on his and the dependents vacation. This is the cheapest route to his place of origin, as stated in the response to the first item, we don't have corporate credit card; thus booking online is out of the question. MIMRA goes to the local travel agent for the booking using the Our Airlines for this is the cheapest route. If we will use the route via Honolulu, it would be a bit more expensive.

As the accountant, we will do our best to follow the recommendation by the external auditor.

Unresolved Prior Year Findings
Year Ended September 30, 2016

The status of unresolved prior year findings is disclosed within the Schedule of Findings and Responses section of this report.