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, 2017 AND 2016

MARSHALL ISLANDS MARINE RESOURCES AUTHORITY

Years Ended September 30, 2017 and 2016
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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, 2017 and 2016, 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, 2017 and 2016, 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 27, 2018, 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.

Deloitte & Touche LLP

June 27, 2018

Management's Discussion and Analysis
September 30, 2017 and 2016

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, 2017. 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 year 2017, 2016 and 2015.

Statements of Net Position

	2017	2016	(%) Change	2015
ASSETS:				
Current and other assets	$ 25,170,217	$ 35,141,562	(28%)	$ 32,741,649
Capital assets	1,965,793	1,183,609	66%	202,955
Investment in JV	6,209,153	5,298,919	17%	4,811,417
Total Assets	$ 33,345,163	$ 41,624,090	(20%)	$ 37,756,021
LIABILITIES:				
Current liabilities	$ 909,837	$ 394,715	131%	$ 508,003
NET POSITION:				
Net investment in capital assets	1,965,793	1,183,609	66%	202,955
Restricted	636,077	423,049	47%	-
Unrestricted	29,833,456	39,612,717	(25%)	37,045,063
Total Net Position	32,435,326	41,229,375	(21%)	37,248,018
	$ 33,345,163	$ 41,624,090	(20%)	$ 37,756,021

Statements of Revenue, Expenses and Changes in Net Position

	2017	2016	(%) Change	2015
REVENUES:				
Operating Revenue	$ 34,057,424	$ 31,666,145	8%	$ 31,569,468
Non-Operating Revenue	2,047,217	2,122,087	(4%)	608,612
Total Revenue	36,104,641	33,788,232	7%	32,178,080
EXPENSES:				
Operating Expenses	4,759,761	3,520,937	35%	3,821,084
Non-operating expenses	40,138,929	26,285,938	53%	15,773,000
Total Expenses	44,898,690	29,806,875	51%	19,594,084
Changes in net position	(8,794,049)	3,981,357	(321)%	12,583,996
Net position at beginning of year	41,229,375	37,248,018	11%	24,664,022
Net position at end of year	$ 32,435,326	$ 41,229,375	(21)%	$ 37,248,018

Overall analysis:

Management's Discussion and Analysis for the year ended September 30, 2016 is set forth in MIMRA's report on the audit of financial statements, which is dated June 20, 2017. That Management Discussion and Analysis explains the major factors impacting the 2016 financial statements and can be obtained from MIMRA's Administrator via the contact information in page 9.

In FY2017, operating revenues increased by $2,391,279 or 8% compared with FY2016; and, for FY2016, operating revenues increased by $96,677 or 0.31% compared with FY2015. For FY2017, all revenue generated has increased except for transshipment revenues which only generated $596,000 compared with FY2016 recorded revenue of $799,000. Vessel Day Scheme (VDS) revenue increased by $1,397,609 or 6%; licensing and registration fees increased by $305,804 or 14%; fishing rights increased by $164,998 or 6%; observer's fee increased by $271,947 or 50%. Other revenues also increased by 180% or $126,391. Boat chartering fees remained at $700,000 for each respective year.

MIMRA was able to collect fishing fines during FY2017 for violations in the access agreement amounting to $715,000, higher by 88% compared with $380,000 in FY2016. VDS revenues boosted total revenue generated by MIMRA during the current year in the amount of $25,389,600, from $23,991,991 in FY2016, an increase of 6% compared to the 58% increase in FY2016 versus FY2015.

Total fishing vessels (purse seiners, carriers and bunker vessels) transshipped in the RMI port during the current year was 560 boats, which is 146 boats lower than in FY2016 with 706 boats and also lower than FY2015 which has 663 boats.

For the current year, Korea registered 22 boats (FY2016: 32 boats); Taiwan 26 boats (FY2016: 28 boats); China 6 boats (FY2016: 0 boats); Japan (KAIMAKI) 25 boats (FY2016: 30 boats); RD Fishing 7 boats (FY2016: 0 boats). The above also purchased fishing days from MIMRA for 510 days amounting to $4,211,500. Domestic companies like Koo's Fishing (***4 boats)***, Marshall Islands Fishing Corporation (***1 boat)***, and Pan Pacific Fishing (5 ***boats)*** had the same number of boats registered in FY2016. Domestic-based companies also bought fishing days from MIMRA as follows: Koo's Fishing - 770 days for $4,620,000; Marshall Islands Fishing Corporation - 200 days for $1,000,000; and Pan Pacific Fishing – 998 for $5,988,000. 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 longline boats with same rates as in previous years for $468,000. Parties to the Nauru Agreement pooling and FSMA traded days share, also boosted MIMRA revenue by $5,502,100. Carriers and bunkers also contributed $869,592 to the total revenue of MIMRA. Overall, total revenues of $36,104,641 (includes non-operating) exceeded estimated revenues by $5,699,141 against the budgeted collection of $30,405,500 for FY2017.

For FY2017, total operating expenses is $4,759,761: $522,707 of which pertains to World Bank (WB) project expenses for operation and surveillance and $363,547 pertains to National Ocean Symposium (NOS) expenses. Total operating expenses increased by $1,238,824 or 35% compared with FY2016. As stated, $522,707 is WB project expenses thus, the net operating expenses for MIMRA operations was only $4,237,054 which is higher by 37% compared with the operating expense in FY2016 and 104% higher compared with the FY2015 operating expenses amounting to $2,841,064, net of the impairment provision of $980,000 for MIMRA's investment in stocks of an affiliate, which is a non-recurring expense. The significant factor for the increase pertains to the 100% port monitoring jobs on purse seiner (observer fees) that increased by $183,751.

Increase of expenses and transfer out to RepMar during FY2017 amounting to $40,129,700, 53% higher than the transfers done in FY2016 of $26,285,938, has resulted to MIMRA's net loss of $8,794,049, the first net loss experienced by MIMRA after 10 years in FY2007 with reported net loss of $487,138. Net non-operating expense of $40,821,884 decreased MIMRA's results of operation for FY2017. Change in net position for FY2017 is ($8,794,049) compared with the $3,981,357 in FY2016.

MIMRA's financial condition as shown by the change in net position at end of the year shows an overall decrease of 321% compared to FY2016.

Fund Analysis:

At the end of FY2016, MIMRA's combined fund (Savings and Current Account) amounted to $17,310,570 which was a 43% decrease compared to $30,602,638 at the end of FY2016. The decrease can be attributed to the increase in the transfer out funds to RepMar of $40,129,700 during the current year compared to FY2016 transfer out funds which was only $26,285,938, an increase of $13,843,762, which is equivalent to 53%. Equity earnings from the joint venture amounted to $910,234 in FY2017 compared with $794,704 in FY2016 (15% increase); grants amounted to $642,939 in FY2017 compared with $865,468 in FY2016 (11% decrease); and interest income amounted to $264,104 in FY2017 compared with $441,615 in FY2016 (40% decrease) also affected the overall fund balances of MIMRA in FY2017.

Budget Variances:

Actual total revenues including both operating and non-operating revenue, generated during the current FY2017 was $36,104,641 compared to the budgeted total revenues for FY2017 of $30,405,500. The result was favorable by as much as $5,699,041 or 19% compared to the final budget of the same year. Actual expenses including transfer out to RepMar and other contribution for FY2017 amounted to $44,898,690 compared to the budget of $45,505,534 which represents favorable variance of $606,844 or 1.1%.

Capital Asset:

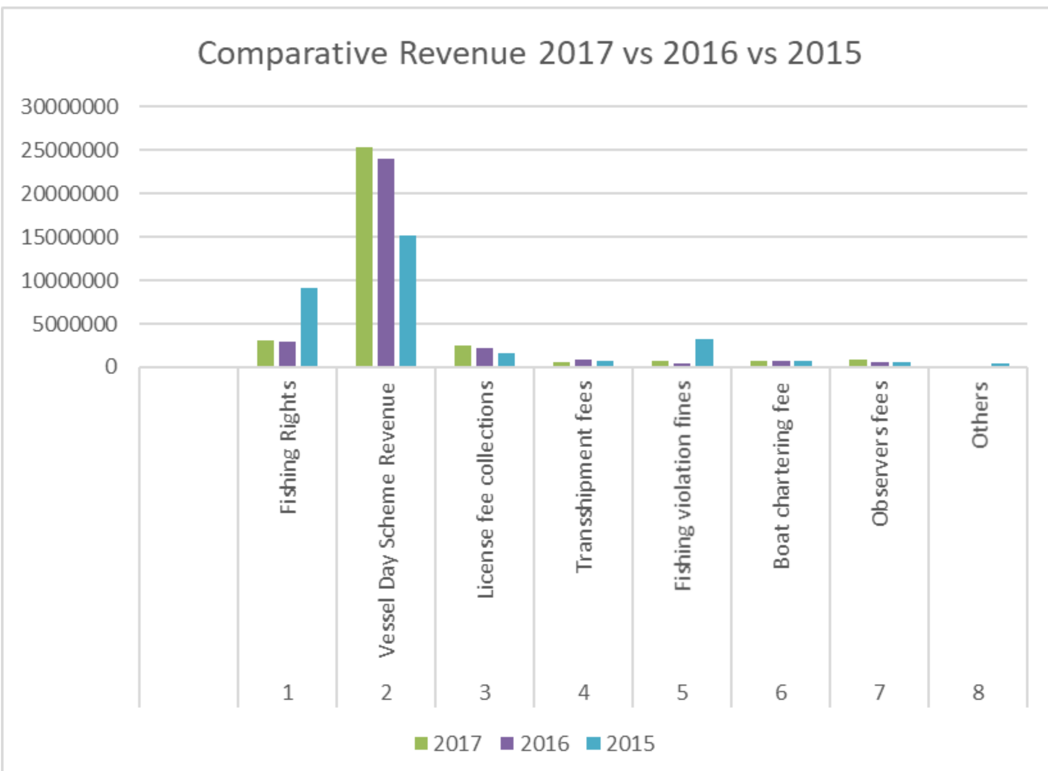
At the end of the FY2016, MIMRA has a net investment in capital asset of $1,965,793. The increase of 66% from FY2016 was due to the increase in depreciable capital assets of $1,432,167. Non-depreciable assets decreased due to the reclassification of the purchased building in FY2016 amounting to $500,000 to asset held for donation. This asset was subject to an operation loss in fiscal year 2017. This overall increase indicates that MIMRA capital assets is on the positive side and hopefully will be maintained. (See table below).

	2017	2016	2015
Buildings & improvements	$ 210,874	$ 210,874	$ 176,367
Equipment improvements	96,052	93,965	70,395
Vehicles	289,080	167,480	170,485
Equipment	591,089	523,480	451,886
Furniture & Fixtures	43,218	43,218	36,564
Motorboats	158,512	122,962	118,002
	1,388,825	1,161,979	1,023,699
Less: Accumulated Depreciation	(940,790)	(856,870)	(820,744)
	448,035	305,109	202,955
Construction in Progress	1,517,758	878,500	-
	$ 1,965,793	$ 1,183,609	$ 202,955

Fiscal Year 2017 major capital asset addition/disposal includes:

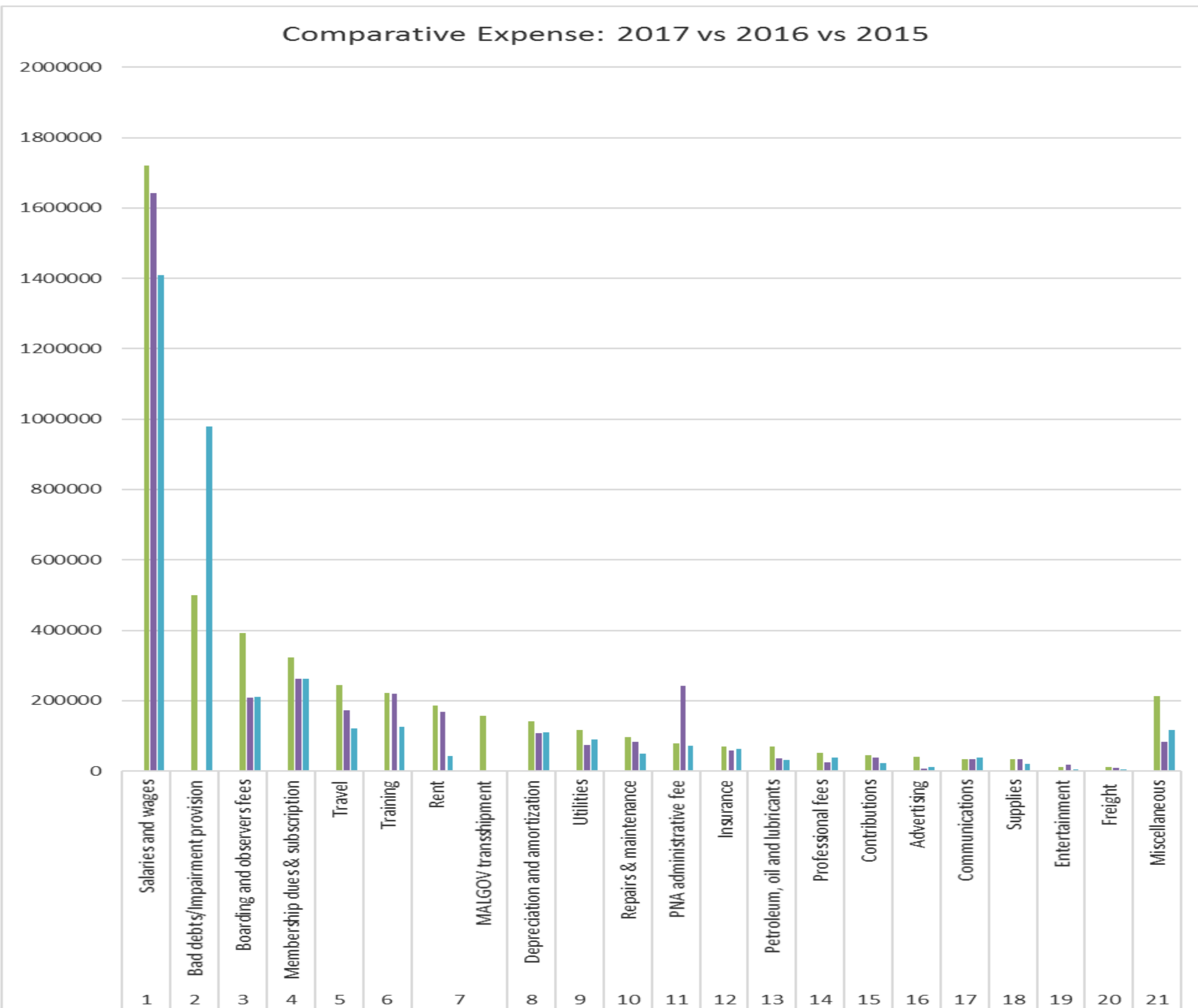
1. Equipment (addition/(disposal))-net	$ 67,609
2. Vehicles (addition/(disposal))-net	121,600
3. Equipment improvements	2,087
4. Motorboats	35,550
	$ 226,846

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



		2017	2016	2015
1	Vessel Day Scheme Revenue	$ 25,389,600	$ 23,991,991	$ 15,228,935
2	Fishing Rights	3,143,085	2,978,087	9,177,671
3	License fee collections	2,508,792	2,202,988	1,621,500
4	Observers fees	815,987	544,040	647,419
5	Fishing violation fines	715,000	380,000	3,235,000
6	Boat chartering fee	700,000	700,000	700,000
7	Transshipment fees	596,000	799,000	677,000
8	Others	196,430	70,039	426,092
9	TOTAL REVENUES	34,064,894	31,666,145	31,713,617
	Recovery(Allowance) for bad debts	(7,470)	-	(144,149)
	NET REVENUES	$ 34,057,424	$ 31,666,145	$ 31,569,468

Overall Change FY2017 vs FY2016 $ 2,391,279 8%



		2017	2016	2015
1	Salaries and wages	$ 1,721,637	$ 1,642,751	$ 1,409,738
2	Impairment loss	500,000	-	-
3	Boarding and observers fee	391,391	207,640	210,820
4	Membership dues and subscription	322,266	261,329	261,325
5	Travel	245,248	173,553	121,431
6	Training	221,444	218,552	124,500
7	Rent	186,968	168,885	42,257
8	MALGOV transshipment share	157,200	-	-
9	Depreciation and amortization	140,754	107,421	109,784
10	Utilities	116,532	74,703	89,567
11	Repairs and maintenance	97,359	82,443	48,629
12	PNA administrative fee	77,978	242,265	71,433
13	Insurance	70,445	58,010	62,635
14	Petroleum, oil and lubricants	69,295	36,316	32,283
15	Professional fees	51,550	25,000	39,000
16	Contributions	45,184	38,517	23,460
17	Advertising	40,096	6,747	10,804
18	Communications	34,315	34,025	37,394
19	Supplies	33,377	33,381	20,789
20	Entertainment	11,869	18,227	4,096
21	Freight	11,018	9,057	4,989
22	Bad debts/Impairment provision	-	-	980,000
23	Miscellaneous	213,835	82,125	116,150
	TOTAL OPEX	$ 4,759,761	$ 3,520,937	$ 3,821,084
	Overall change in OPEX(FY2017 vs FY 2016)	$ 1,238,824	35%	

Economic Factors and Next year Budgets and Rates

Budget has been formulated and approved by the MIMRA Board for FY2018. Projected revenue both operating and non-operating, is $30,190,000, while projected expenses, including transfer of payments to RepMar is $32,260,834 ($28,000,000 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 renewal and new contract during the FY2018. 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 travel covered by grants that were approved and released to MIMRA in previous years, will be used during FY2018. For international travel, internal agreement by the 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 $1,000,000 for FY2018 has also been approved. The funds will be taken from the enforcement fund as discussed by the Board during one of the board meetings during FY2017. This amount will be used for outer-islands fish base renovation and equipment acquisition.

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 by at least a little over 30% of the pump prices, even if the prices went down. 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 the FY2011 will continue to be adopted in the formulation for the FY2018 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 up 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 collection of MIMRA, especially on the transshipment revenue. FAD closure means fewer boats berthing in Majuro. Bilateral Agreement between MIMRA Japan, China, Taiwan, PNG and Philippines were signed, thus, would definitely help in the revenue generation for FY2018. Fishing Days sales and pooling days are another factors 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 our website mimra.com.

MARSHALL ISLANDS MARINE RESOURCES AUTHORITY

Statements of Net Position
September 30, 2017 and 2016

ASSETS	2017	2016
Current assets:		
Cash	$ 5,930,330	$ 2,381,775
Time certificates of deposit	11,380,240	28,220,863
Receivables:		
Affiliates	3,391,887	754,500
Trade	267,248	328,864
Due from PNA Office	4,827,383	3,865,660
Accrued interest	58,947	172,822
Other	116,545	219,441
	8,662,010	5,341,287
Less allowance for doubtful accounts	(802,363)	(802,363)
	7,859,647	4,538,924
Total current assets	25,170,217	35,141,562
Capital assets:		
Nondepreciable capital assets	1,517,758	878,500
Capital assets, net of accumulated depreciation	448,035	305,109
Investment in joint venture	6,209,153	5,298,919
	$ 33,345,163	$ 41,624,090
LIABILITIES AND NET POSITION		
Liabilities:		
Accounts payable	$ 504,951	$ 55,737
Payable to affiliates	273,353	209,433
Other liabilities and accruals	131,533	129,545
Total liabilities	909,837	394,715
Commitments		
Net position:		
Net investment in capital assets	1,965,793	1,183,609
Restricted	636,077	433,049
Unrestricted	29,833,456	39,612,717
Total net position	32,435,326	41,229,375
	$ 33,345,163	$ 41,624,090

See accompanying notes to financial statements.

MARSHALL ISLANDS MARINE RESOURCES AUTHORITY

Statements of Revenues, Expenses and Changes in Net Position
Years Ended September 30, 2017 and 2016

	2017	2016
Operating revenues:		
Vessel Day Scheme	$ 25,389,600	$ 23,991,991
Fishing rights	3,143,085	2,978,087
Licensing and registration fees	2,508,792	2,202,988
Observer fees	815,987	544,040
Fishing violation fines	715,000	380,000
Boat charter fees	700,000	700,000
Transshipment fees	596,000	799,000
Other	196,430	70,039
Total operating revenues	34,064,894	31,666,145
Allowance for uncollectible accounts	(7,470)	-
Total net operating revenues	34,057,424	31,666,145
Operating expenses:		
Salaries and wages	1,721,637	1,642,751
Impairment loss	500,000	-
Boarding and observer fees	391,391	207,640
Membership dues and subscriptions	322,266	261,329
Travel	245,248	173,553
Training	221,444	218,552
Rent	186,968	168,885
Transshipment inspection	157,200	-
Depreciation and amortization	140,754	107,421
Utilities	116,532	74,703
Repairs and maintenance	97,359	82,433
PNA administrative fee	77,978	242,265
Insurance	70,445	58,010
Petroleum, oil and lubricants	69,295	36,316
Professional fees	51,550	25,000
Contributions	45,184	38,517
Advertising	40,096	6,747
Communications	34,315	34,025
Supplies	33,377	33,381
Entertainment	11,869	18,227
Freight	11,018	9,057
Miscellaneous	213,835	82,125
Total operating expenses	4,759,761	3,520,937
Operating income	29,297,663	28,145,208
Nonoperating revenues (expenses):		
Equity in earnings of joint venture	910,234	794,704
World Bank grants	642,939	865,468
Other grants	129,940	-
Interest income	264,104	441,615
Gain (loss) on sale of asset	(9,229)	20,300
Other income	100,000	-
Transfer out to RepMar	(40,129,700)	(26,285,938)
Total nonoperating revenues (expenses), net	(38,091,712)	(24,163,851)
Change in net position	(8,794,049)	3,981,357
Net position at beginning of year	41,229,375	37,248,018
Net position at end of year	$ 32,435,326	$ 41,229,375

See accompanying notes to financial statements.

MARSHALL ISLANDS MARINE RESOURCES AUTHORITY

Statements of Cash Flows
Years Ended September 30, 2017 and 2016

		2017		2016
Cash flows from operating activities:				
Cash received from customers	$	31,122,826	$	32,236,063
Cash payments to suppliers for goods and services		(2,388,114)		(1,877,962)
Cash payments to employees for services		(1,715,771)		(1,648,841)
Net cash provided by operating activities		27,018,941		28,709,260
Cash flows from noncapital financing activities:				
Operating grants received		872,879		865,468
Payments made to RepMar and affiliates		(40,129,700)		(26,285,938)
Net cash used for noncapital financing activities		(39,256,821)		(25,420,470)
Cash flows from capital and related financing activities:				
Acquisition of capital assets		(1,432,167)		(1,088,075)
Proceeds from sale of capital assets		-		20,300
Net cash used for capital financing activities		(1,432,167)		(1,067,775)
Cash flows from investing activities:				
Net additions to time certificates of deposit		16,840,623		(4,454,259)
Dividend received from joint venture		-		307,202
Interest received on time certificates of deposit		377,979		495,501
Net cash provided by (used for) investing activities		17,218,602		(3,651,556)
Net change in cash		3,548,555		(1,430,541)
Cash at beginning of year		2,381,775		3,812,316
Cash at end of year	$	5,930,330	$	2,381,775

		2017		2016
Reconciliation of operating income to net cash provided by operating activities:				
Operating income	$	29,297,663	$	28,145,208
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation and amortization		140,754		107,421
Bad debts expense		7,470		-
Impairment loss		500,000		-
(Increase) decrease in assets:				
Receivables:				
Affiliates		(3,252,387)		503,525
Trade		669,146		1,437,995
Due from PNA Office		(961,723)		(1,254,220)
Other		102,896		(117,381)
Increase (decrease) in liabilities:				
Accounts payable		449,214		(148,492)
Payable to affiliates		63,920		35,337
Other liabilities and accruals		1,988		(133)
Net cash provided by operating activities	$	27,018,941	$	28,709,260
Summary of noncash financing activities:				
Income from equity share investment:				
Increase in investment in joint venture	$	(910,234)	$	(794,704)
Equity in earnings of joint venture		910,234		794,704
	$	-	$	-

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*, 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, 2017 and 2016, 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, 2017 and 2016, MIMRA has expendable net position of $636,077 and $433,049, 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, 2017 and 2016, the carrying amount of cash and time certificates of deposit were $17,310,570 and $30,602,638, respectively, and the corresponding bank balances were $17,363,120 and $30,741,509, respectively. Of the bank balances, $5,320,822 and $1,724,324, respectively, were maintained in a financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance. The remaining amounts of $12,042,298 and $29,017,185, respectively, were maintained in a financial institution not subject to depository insurance. As of September 30, 2017 and 2016, 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, 2017 and 2016, the accumulated vacation leave liability totals $67,713 and $68,313, 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 2016 financial statements have been reclassified to conform to the 2017 presentation.

New Accounting Standards

During the year ended September 30, 2017, MIMRA implemented the following pronouncements:

- GASB 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.

- GASB 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).

- GASB Statement No. 77, *Tax Abatement Disclosures*, which requires governments that enter into tax abatement agreements to disclose certain information about the agreements.

- GASB 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*.

- GASB 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.

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

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

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.

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.

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 March 2017, GASB issued Statement No. 85, *Omnibus 2017*, which addresses 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). The provisions in Statement No. 85 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.

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In May 2017, GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*, which improves consistency in accounting and financial reporting for in-substance defeasance of debt. The provisions in Statement No. 86 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.

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.

(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

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, 2017 and 2016, for investees accounted for using the equity method of accounting for investments, are as follows:

	2017	2016
Assets	$ 18,965,701	$ 15,094,635
Liabilities	$ 5,846,049	$ 3,771,047
Net earnings	$ 1,796,064	$ 2,042,284

During the year ended September 30, 2016, MIMRA received a distribution of $307,202 from the joint venture. No distribution was received in 2017.

(5) Asset Held for Donation

MIMRA purchased a $500,000 building to donate to a third party as of September 30, 2016. The donation was expected to occur as of September 30, 2017. An impairment loss of $500,000 is recorded in relation to this building, which will be demolished.

(6) Improvements and Equipment

Capital asset activity for the years ended September 30, 2017 and 2016 is as follows:

	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	122,962	35,550	-	158,512
	1,161,979	292,909	(66,063)	1,388,825
Less accumulated depreciation	(856,870)	(140,754)	56,834	(940,790)
	305,109	152,155	(9,229)	448,035
Non-depreciable capital assets	878,500	1,139,258	(500,000)	1,517,758
	$ 1,183,609	$ 1,291,413	$ (509,229)	$ 1,965,793

	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

(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, 2017 and 2016. No dividends were received during the years ended September 30, 2017 and 2016. As of September 30, 2017 and 2016, 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.

(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 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, 2017 and 2016 and for the years then ended is as follows:

	2017			
	Revenues	Expenses	Payables	Receivables
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	-	200,577	2,113	7,887
	$ 6,365,000	$ 533,330	$ 273,353	$ 3,391,881

	2016			
	Revenues	Expenses	Payables	Receivables
Marshall Islands Fishing Company	$ 935,000	$ -	$ -	$ 60,000
Koo's Fishing Company, Ltd.	3,812,500	-	-	615,000
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	-
	$ 4,747,500	$ 296,102	$ 209,433	$ 754,500

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, 2017 and 2016, $50,000 and $75,000, respectively, remains uncollected and due from Tobolar.

(8) Related Party Transactions, Continued

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, 2017 and 2016, MIMRA collected $3,143,085 and $2,978,087, respectively, under these treaties.

During the years ended September 30, 2017 and 2016, MIMRA provided cash contributions to RepMar's General Fund of $40,129,700 and $20,000,000, respectively, in accordance with annual legislative appropriations as enacted by the Nitijela. Furthermore in 2016, MIMRA provided other contributions of $6,285,938 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.

(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, 2017 and 2016, MIMRA received $529,761 and $700,000, 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 $113,177 and $165,468, respectively, from the World Bank in the form of financial support from GEF (TF 18606). A summary of these grant activities is as follows:

	2017	2016
IDA Grant ID 0170:		
Balance at beginning of the year	$ 443,151	$ (10,837)
Grant funds received during the year	529,761	700,000
Grant expenses incurred during the year	(363,547)	(246,012)
Balance at end of the year	$ 609,365	$ 443,151
GEF Grant TF 18606:		
Balance at beginning of the year	$ (10,102)	$ -
Grant funds received during the year	113,177	165,468
Grant expenses incurred during the year	(159,158)	(175,570)
Balance at end of the year	$ (56,083)	$ (10,102)

(9) Financing, Continued

World Bank

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.

Conservancy

In January 2017, The Nature Conservancy, a District of Columbia non-profit corporation has 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:

	2017
Balance at beginning of the year	$ -
Grant funds received during the year	75,000
Grant expenses incurred during the year	(42,145)
Balance at end of the year	$ 32,855

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. No related expenses were incurred during the year ended September 30, 2017.

(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, 2017 and 2016, MIMRA recognized revenues related to the VDS program of $25,389,600 and $23,991,991, respectively. As of September 30, 2017 and 2016, receivables due from the PNA Office associated with VDS revenues amounted to $4,827,383 and $3,865,660, respectively. During the years ended September 30, 2017 and 2016, MIMRA incurred administrative fees of $77,978 and $242,265, respectively, associated with administration of the VDS program by the PNA Office.

(11) Commitments

Lease 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 2018 through 2037.

(11) Commitments, Continued

Lease Commitments, Continued

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:

Year ending September 30,	
2018	$ 34,489
2019	33,996
2020	32,230
2021	23,693
2022	22,259
2023 - 2027	52,123
2028 - 2032	36,265
2033 - 2037	29,587
	$ 264,588

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,	
2018	$ 20,265
2019	20,265
2020	20,265
2021	16,098
2022	8,778
	$ 85,671

Construction in Progress

Contract commitments in connection with projects-in-progress approximate $2,100,000 as of September 30, 2017.

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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, 2017, 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 27, 2018.

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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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 have not been identified. However, as described in the accompanying Schedule of Findings and Responses, we did identify certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiencies described in the accompanying Schedule of Findings and Responses as item 2017-001 to be material weaknesses.

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. We consider the deficiencies described in the accompanying Schedule of Findings and Responses as item 2017-002 to be significant deficiencies.

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 2017-003.

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 27, 2018

Impairment of Purchased Building

Finding No. 2017-001

Criteria: Impairment is indicated when events or changes in circumstances suggest that the service utility of the capital asset may have significantly and unexpectedly declined.

Condition: No impairment assessment was performed on the building that is to be demolished.

Cause: The cause of the above condition is the lack of established policies and procedures governing impairment of capital assets.

Effect: The effect of the above condition is a possible misstatement of capital assets. A $500,000 audit adjustment was proposed to recognize an impairment loss associated with this building.

Recommendation: We recommend that MIMRA establish internal control policies and procedures governing capital assets, especially in the assessment of impairment.

Auditee Response and Corrective Action Plan: We will do as recommended.

Unrecorded Donated Fixed Assets

Finding No. 2017-002

Criteria: All assets donated to MIMRA with a future economic life should be recorded as fixed assets.

Condition: Various equipment donated by the Overseas Fishery Cooperation Foundation of Japan in 2010 were not recorded in the accounting records.

Cause: The cause of the condition is the lack of formal procedures to communicate grant non-cash receipts to the accounting department.

Effect: The effect of the above condition is the understatement of the fixed assets accumulated depreciation. No audit adjustment was proposed as the resultant donated assets were not considered material to the financial statements.

Recommendation: We recommend that management establish formal procedures for non-cash grant receipts. Further, we recommend that management inventory donated assets and determine appropriate values to be recorded.

Auditee Response and Corrective Action Plan: The formal procedure to be able to record donated assets, is to submit to Accounting all the necessary documentation, so that, a donated asset can be taken up in the books.

We will be discussing procedure as to how it will be done (the division and/or department transacting with OFCF), so that, nothing can be overlooked. All documentations for donated assets shall be submitted to Accounting for determination which asset shall be taken up in MIMRA books and/or which assets will not be booked.

The Accountant should follow-up every now and then with the Division/Department involved in transacting with OFCF so that, immediate gathering of dox needed for booking can be done as soon as possible.

Local Noncompliance

Finding No. 2017-003

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 transactions were not adequately documented to evidence compliance with the procurement process set forth in the criteria:

- Purchase Order No. 17-2679 in relation to the purchase of boat engines for Jokok 2 ($33,998)

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.

Prior Year Status: The lack of compliance with the RepMar Procurement Code was reported as a finding in the audit of MIMRA for 2016.

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

Local Noncompliance, Continued

Finding No. 2017-003, Continued

Auditee Response and Corrective Action Plan: There is only one local vendor that gave us a quotation for the stated equipment but it would take them three months or more to fulfill the order. MIMRA could not wait for three months to have it, because it would only mean, three months without the services of Jolok from Majuro fishmarket to Arno fishbase and vice versa.

So the deputy head of the maintenance division (Gary Roberto) asked around and found a vendor from Guam with the needed engines available immediately, thus, the order was done.

What we had in mind was to immediately acquire the engine so that Jolok's operation could start as soon as possible.

As always, MIMRA follows RepMar's Procurement Code as a government entity, only that there are matters that needs to be acted upon immediately so that operation will not slow down.

Unresolved Prior Year Findings
Year Ended September 30, 2017

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