MARSHALL ISLANDS SHIPPING CORPORATION

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

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

YEARS ENDED SEPTEMBER 30, 2015 and 2014

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

Years Ended September 30, 2015 and 2014
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INDEPENDENT AUDITORS' REPORT

Board of Directors
Marshall Islands Shipping Corporation:

Report on the Financial Statements

We have audited the accompanying financial statements of the Marshall Islands Shipping Corporation (MISC), a component unit of the Republic of the Marshall Islands, which comprise the statements of net position as of September 30, 2015 and 2014, and the related statements of revenues, expenses and changes in net position and of cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Marshall Islands Shipping Corporation as of September 30, 2015 and 2014, 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 11 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 August 19, 2016, on our consideration of MISC'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 financing reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering MISC's internal control over financial reporting and compliance.

Deloitte & Touche LLP

August 19, 2016

Marshall Islands Shipping Corporation (MISC) herewith presents a discussion and analysis of the company's financial performance for the financial year ended 30th September 2015. It is to be read in conjunction with the financial statements following this section.

FINANCIAL HIGHLIGHTS

MISC's net position at the end of the fiscal year 2015 was $279,970 compared to net position of $224,931 in 2014. The increase in net position from 2014 to 2015 is a positive indicator of the stabilization of MISC operations, and ongoing efforts by management to maintain its expenditure spending within its operational revenues, as well as nonoperational revenues in the form of government subsidies.

MISC's total net operating revenues decreased by $454,922 (27%) from $1,659,203 in 2014 compared to $1,204,281 in 2015. The decrease in revenue is driven by two factors. First, MISC's current fleet was reduced to four (4) vessels in FY15. MISC's shipping fleet suffered a loss with MV Landrik, which was forced to be fully decommissioned and is no longer operational due to deteriorating conditions posing a safety concern for its passengers. The second factor is based on the absence of prior year's extraordinary circumstances in the form of a natural disaster, which provided a revenue generating opportunity for MISC. MISC's charter revenue increased significantly in 2014 due to RepMar's drought disaster declaration. The charter service demands to provide relief efforts to the drought affected islands resulted in an increased revenue stream in 2014, and should be treated as extraordinary circumstances. MISC's charter revenue decreased significantly by $528,811 (56%) from $940,597 in 2014 to $411,786 in 2015. The passenger revenues also experienced a slight decrease by $4,751 (5%) to $96,231 in 2015. All other revenue sources, on the other hand, increased in 2015. MISC's cargo revenues increased by $9,400 (2%) to $510,605 in 2015 compared to $501,205 in 2014. MISC's ship sales revenue increased by $23,225 (13%) to $204,085 in 2015 compared to $180,860 in 2014. Other revenue sources increased significantly by $51,473 (281%) to $69,784 compared to $18,311 in 2014. There is an increasing trend with copra fee revenues. Copra fee revenues increased by $8,078 (76%) to $18,662 in 2015 compared to $10,584 in 2014. This increase in copra fee revenue is an indicator of MISC's support to assist Tobolar with copra purchases and is authorized at the discretion of the ship vessels captain.

Total operating expenses increased marginally from 2014 to 2015. Total operating expenses were $2,898,783 in 2015 compared to $2,869,028 in 2014. Overall, MISC increased its total operating expenses by $29,755 (1%). Personnel and petroleum, oil, and lube (POL) expenses continue to remain as MISC's leading operational expenses. Salaries, wages and benefit expenses increased by $34,496 (3%) from $1,050,583 in 2014 to $1,085,079 in 2015. In line with declining global fuel prices and the reduction in MISC's shipping fleet, POL expenses decreased by $86,222 (12%) from $735,569 in 2014 to $649,347 in 2014.

MISC's operating loss increased significantly by $484,677 (40%) from an operating loss of $1,209,825 in 2014 compared to an operating loss of $1,694,502 in 2015. Although MISC has maintained its efforts to reduce its operating expenses, MISC will continue to operate at a loss of ranging from $1.2M to $1.8M annually based on the current tariff rate structure that has been in place since the early 1980's.

MISC continues to depend heavily on subsidies from RepMar, which accounts for approximately 59% of MISC's source of total operating and non-operating revenues during 2015. The subsidy from RepMar to support the Shipping Vessel Repairs and Maintenance Act resumed in 2015. Although it was appropriated in the national budget, MISC did not receive the 2014 subsidy for the Shipping Vessel Repairs Act. As a result, the subsidies from RepMar accounted for approximately 44% of MISC's source of total operating and non-operating revenues in 2014. Without the approval of RepMar to allow management of MISC to increase its tariff rates, it is expected that MISC will always operate at a loss and its future sustainability will continue to be a burden on RepMar as a community service obligation.

FINANCIAL ANALYSIS OF MISC

The Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Position provide an indication of MISC's financial condition. MISC's net position reflects the difference between total assets and total liabilities. An increase in net position over time normally indicates an improvement in financial condition. As illustrated in the figures below, MISC's net position increased for the year ended 30th September 2015.

The Summary Statement of Net Position for MISC is presented below:

	2015	2014	2013
Current and other assets	$ 506,717	$ 450,275	$ 448,217
Capital assets	238,474	242,444	69,295
Total Assets	745,191	692,719	517,512
Current and other liabilities	465,221	467,788	381,813
Total Liabilities	465,221	467,788	381,813
Net Position:			
Net investment in capital assets	238,474	242,444	69,295
Restricted	190,641	-	-
Unrestricted	(149,145)	(17,513)	66,404
Total net position	$ 279,970	$ 224,931	$ 135,699

Total assets increased from $517,512 in 2013 to $692,719 in 2014, and increased further to $745,191 in 2015. The increase in total assets by $175,207 (34%) from 2013 to 2014 is driven primarily by a significant increase in capital assets with the acquisition of vehicles including utility flatbeds. In 2015, total assets increased further by $52,472 (8%) primarily due to the dry dock prepayment. Capital asset acquisition of $74,752 was offset by accumulated depreciation of $78,722.

Net capital assets increased from $69,295 in 2013 to $242,444 in 2014, and decreased to $238,474 in 2015. In 2014, net capital assets increased significantly by $173,149 (250%) with the purchase of equipment, vehicles, and motorboats in the total amount of $245,087 offset by the annual depreciation amount of $71,938. In 2015, net capital assets decreased slightly by $3,970 (2%) with capital asset acquisition of $74,752 offset by the annual depreciation of $78,722. Capital asset acquisition was primarily equipment totaling $66,252. The dry dock repairs extending the life span of the vessels are currently being treated as a direct expense provided the shipping vessel assets have yet to be transferred to MISC as required under the Public Law 2005-41. Public Law 2005-41 established MISC and authorized all movable and immovable property of the shipping services under the Ministry of Transportation and Communication be vest absolutely in MISC.

Refer to note 5 to the accompanying financial statements for additional information relating to capital assets.

Total liabilities increased by $85,975 (23%) from $381,813 in 2013 to $467,788 in 2014, and decreased by $2,567 (1%) in 2015. In 2014, the significant increase in total liabilities is primarily driven by MISC's obligations due to RepMar related parties, with RMI Ports Authority (RMIPA) being the highest. MISC rents warehouse and storage space from RMIPA but is not currently able to service the obligation due to cash flow constraints. MISC's total liabilities for RepMar related parties were $296,217 in 2014, of which $158,641 was due to RMIPA, followed by $73,215 due to Marshall Islands Social Security Administration (MISSA). In 2015, MISC's total liabilities for RepMar related parties were $276,564, down by $19,653 (7%) in comparison to 2014. Although, MISC's total liabilities due to RMIPA increased by $27,227 (17%), it was offset by decreases to MISSA by $26,478 (36%), to Ministry of Finance by $8,083 (17%), and to the remaining other RepMar related parties by $12,319 (74%).

A summary of MISC's Statement of Revenues, Expenses and Changes in Net Position is presented below:

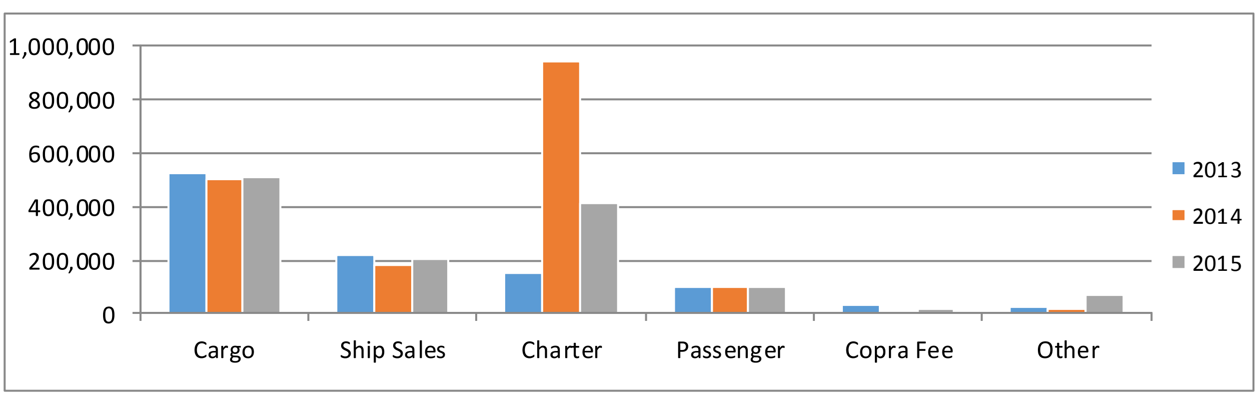
	2015	2014	2013
Revenue:			
Net operating revenues	$ 1,204,281	$ 1,659,203	$ 1,032,368
Expenses:			
Operating expenses	2,898,783	2,869,028	2,032,030
Operating loss	(1,694,502)	(1,209,825)	(999,662)
Nonoperating revenues	1,749,541	1,299,057	1,225,405
Change in net position	$ 55,039	$ 89,232	$ 225,743

The Statements of Revenue, Expenses and Changes in Net Position identify the various revenue and expense items that contributed to the change in net position. MISC's total net operating revenue increased by $626,835 (61%) to a total of $1,659,203 in 2014 compared to $1,032,368 in 2013. In 2015, net operating revenue decreased by $454,922 (27%). The major factors contributing to the significant increase in net operating revenue for 2014 is driven by two factors. With the State of Drought Disaster Declaration issued by RepMar in June and July 2013, ongoing relief efforts resulted in the increase in MISC chartering revenue. In addition, RepMar received two new shipping vessels from the government of Japan in December 2013. The increase in vessels, bringing MISC's existing shipping fleet to a total five (5) is another driver for the increase in net operating revenues. All shipping vessels in MISC's fleet were in service during 2014. In 2015, MISC's shipping fleet was reduced to four (4) with the decommissioning of MV Landrik. The decrease in charter demands and the reduction of MISC's shipping fleet had resulted in a significant decrease in MISC's net operating revenue for 2015. Additionally, MV Aemman had been taken out of service briefly to undergo dry dock services in June 2015.

Charter revenue decreased significantly by $528,811 (56%) from $940,597 in 2014 to $411,786 in 2015; cargo sales increased by $9,400 (2%) from $501,205 in 2014 to $510,605 in 2015; ship sales increased by $23,225 (13%) from $180,860 in 2014 to $204,085 in 2015; passenger sales decreased by $4,751 (5%) from $100,982 in 2014 to $96,231 in 2015; copra fee increased by $8,078 (76%) from $10,584 in 2014 to $18,662 in 2015; and all other revenue increased by $51,473 (281%) from $18,311 in 2014 to $69,784 in 2015.

There appears to be a growing trend with copra fee revenues as an indicator of MISC's assistance to pay the copra farmers due to possible cash flow constraints experienced by Tobolar at times. Revenue recognized from ship sales have reversed from a declining trend to a positive upward trend in 2015. Ship sales service aboard the shipping vessels to the outer island consumers has been one of MISC's alternative sources of income and cash flow to subsidize its operations and was initiated in 2009. It is crucial that MISC continues to review its ship sales process to identify and remediate any internal control gaps in order to maximize the revenue generation opportunity. As a constraint on the RepMar's national budget, ship sales provide a viable business solution for MISC as an alternative source of revenue for cross subsidization opportunities for MISC while continuing to operate with low tariff rates.

The graphic below shows the major components of MISC's operating revenue from 2013 through to 2015:



Total operating expenses increased significantly by $0.8M (41%) from $2.03M in 2013 compared to $2.87M in 2014. In 2015, total operating expenses remained constant with a slight increase of $29,755 (1%) to $2.90M. For 2015, the top five components of operating expenses are: (1) Salaries, Wages and Benefits, (2) Petroleum, Oil & Lube (POL), (3) Materials and Supplies, (4) Foodstuff and (5) Cost of Goods Sold.

Salaries, wages and benefits remain as the leading operational expense and increased significantly by $280,395 from $0.77M in 2013 to $1.05M in 2014 and increased further by $34,496 (3%) to $1.08M in 2015. Since 2011, MISC's salaries, wages and benefits for MISC had been on a declining trend as a result of management's efforts to reduce and control its recurrent expenditures for personnel due to a shortage of workload due to the loss of one its shipping vessels, MV Jeljelat AE, back in January 2011. As expected, the salary and wage bill increased in 2014 with the additional two new shipping vessels received in December 2013 and has stabilized in 2015.

POL expense increased by $339,029 (85%) from $396,540 in 2013 to $735,569 in 2014, and decreased by $86,222 (12%) to $649,347 in 2015. The additional two new shipping vessels received in December 2013 was the main contributor for the significant increase in POL expenses for 2014. In 2015, the decrease was a result of the declining trend in global fuel prices together with the reduction of MISC's shipping fleet.

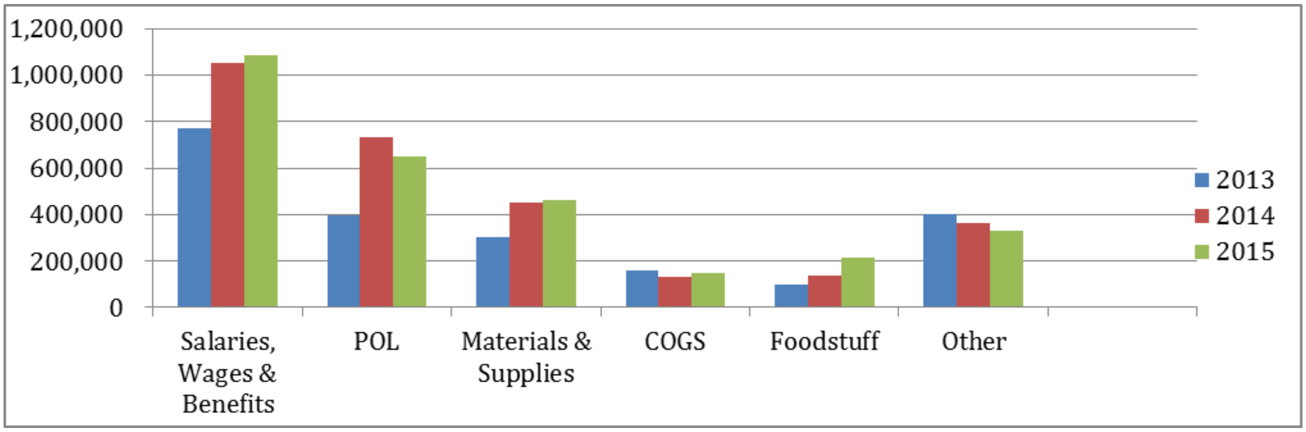
Materials and supplies expense increased by $147,595 (49%) from $301,731 in 2013 to $449,326 in 2014 and increased further by $16,116 (4%) to $465,442 in 2015. With the establishment of the Shipping Vessel Repairs and Maintenance Act in 2011, annual subsidy is granted by RepMar for proper and timely repairs and maintenance to be undertaken by MISC to ensure the good and operable conditions of the shipping fleet for the safety and reliability of sea transportation services for the RMI outer island community. Although MISC did not receive its repair and maintenance subsidy for 2014, an increase in materials and supplies expense offer a positive indicator that this remains a priority focus for MISC, despite cash flow constraints.

Foodstuff expense increased by $40,736 (42%) from $96,545 in 2013 to $137,281 in 2014 and increased further by $79,429 (58%) to $216,710 in 2015. The significant increase in 2014 is expected as a result of the two new shipping vessels received from the government of Japan. The increase in 2015 is due to increased water provisioning compared with prior year.

Cost of goods sold (COGS) is an operating expense component introduced in 2009 for the ship sales aboard the shipping vessels to the outer island consumers. Ship sales service aboard the shipping vessels to the outer island consumers provides MISC an alternative source of income to subsidize its operations. COGS decreased by $28,604 (18%) from $162,063 in 2013 to $133,459 in 2014 and increased by $17,518 (13%) to $150,977 in 2015. The decrease in cost of goods sold for 2014 is attributed primarily to the allowance of private vendors to establish ship sales aboard selected shipping vessels. For 2015, the increase in COGS is in line with the ship sales revenues.

Other expenses increased by $57,847 (19%) from $304,963 in 2013 to $362,810 in 2014, and decreased by $31,582 (9%) to $331,228 in 2015. The rent component, followed by travel and entertainment and professional fees were the main drivers for the increase in other expenses in 2014 and 2015. Repair and maintenance expenses are included in the other expenses.

The following graphic shows the major components of operating expenses from 2013 through 2015:



The operating loss before non-operating revenues (i.e. RepMar subsidy) for 2015 was approximately $1.7M compared to $1.2M and $1.0M in 2014 and 2013, respectively. In 2014, operating loss increased by $210,163 (21%) with the addition of the two new shipping vessels donated by the government of Japan. In 2015, operating loss increased further with re-establishment of the repairs and maintenance subsidy, allowing MISC to incur additional expenditures to prolong the lifetime of its most critical asset, the shipping vessels.

Total subsidies, for operations and for repairs and maintenance, were $1.75M in 2015 compared to $1.30M in 2014 and $1.23M in 2013. The subsidy amount of $1.30M received from RepMar in 2014 represents MISC's operating subsidy only. RepMar's Appropriation Act for the 2014 budget had approved MISC to receive a total subsidy of $1.75M. MISC did not receive the appropriated funds earmarked for the repair and maintenance subsidy. In 2015, receipt of the repair and maintenance subsidy resumed. The subsidy to support the Shipping Vessel Repairs and Maintenance Act fluctuates annually based on the repairs and maintenance schedule and costing developed with the technical assistance of the Japan International Cooperation Agency (JICA) and has taken into account major repairs that will need to be completed and the inclusion of two additional vessels to the MISC fleet.

The operating subsidy received from RepMar in 2015 increased by $450,484 (35%), reflecting the repairs and maintenance subsidy that was not provided to MISC in the prior year. With its current tariff rate structure, MISC is not able to achieve full cost recovery to cover its operational costs and maintain adequate major and ongoing repairs and maintenance without financial support from RepMar. The future financial sustainability and conditions of the MISC shipping fleet will continue to depend on sufficient financial support from RepMar.

CAPITAL ASSET AND DEBT

Net capital assets decreased by $3,970 (2%) in 2015 as a result of the acquisition of equipment and vehicles for a total cost of $74,752 less total depreciation for the year of $78,722.

Refer to note 5 to the accompanying financial statements for additional information relating to capital assets.

MISC did not incur any long-term debt during the year nor did MISC have any outstanding long-term debt at the end of the year.

CASH FLOW

Net cash used for operating activities for 2015 was $1.72M compared to net cash used for operating activities of $0.99M in 2014 and $1.11M in 2013. The cash provided by operational activities was absorbed entirely by MISC's operational costs. Additionally, injection of cash flow from RepMar subsidies were received in the amount of $1.75M, $1.30M and $1.22M during 2015, 2014 and 2013, respectively. In 2013, the RepMar subsidies were utilized by MISC to cover its operational expenses in the amount of $0.84M; and for repairs and maintenance expenses in the amount $0.42M. In 2014, the RepMar subsidies were utilized by MISC to cover its operational expenses in the amount of $1.30M. MISC did not receive RepMar subsidies for repairs and maintenance expenses. In 2015, RepMar subsidies were utilized by MISC to cover its operational expenses in the amount of $1.27M; and for repairs and maintenance expenses in the amount of $0.48M. The repair and maintenance subsidy amount is determined by a schedule developed in January 2011 under the JICA Preparatory Study for the "Project for Improvement of Domestic Shipping Services in the Marshall Islands".

FUTURE OUTLOOK ON SUSTAINABILITY

MISC plays an important role in the lives of people living in the outer islands. The regular fieldtrip services are essential to transfer people and basic needs from the capital city to the outer islands and vice versa.

As an indicator of MISC's future outlook on sustainability, MISC's has continued to improve and increase its net position since 2012. MISC's net position was $279,970 in 2015, compared to a net position of $224,931 in 2014, a net position of $135,699 in 2013, and a net deficiency of $90,044 in 2012. The vast improvement in MISC's financial position from a net deficiency in 2012 to an increasing net position in 2013 – 2015 is a result of increases in revenue streams stemming from increases in charter trips in response to the ongoing relief efforts of the State of Drought Disaster originally issued in June – July 2013, along with the increases in field trips with the addition of the two shipping vessels donated by the government of Japan. Combined with management efforts and persistence to streamline its operational expenses and to continue to reduce its personnel costs in prior years, the rebounds achieved in generating additional revenue streams have been a success factor to MISC's current net position.

MISC's improved trend on net position over the period 2013 to 2015 provides an indicator of MISC management's efforts to reduce its recurrent expenditures. However, at its current tariff rate structure, MISC will continue to have operational losses and rely on RepMar subsidies to minimize operational losses. In order to revive the MISC operations for future sustainability, MISC must be able to obtain RepMar approval to increase its tariff rates or continue to rely on a steady flow of subsidy amounts as a community service obligation to absorb the operational losses of MISC to provide affordable sea-transport services to the people.

Historically, the operating revenue generated by MISC has never been sufficient to cover the related expenses necessary to operate the shipping vessels and provide sea-transportation services. With operating losses over $1.2M to $1.7M annually, MISC continues to be dependent on financial support from RepMar. Most importantly, MISC is not able to generate sufficient revenue through its operations due to its low tariff rate structure, which has been in place since the early 1980's and have not increased despite the increase in fuel costs and inflation rates. As a state owned entity, MISC does not have the authority to increase its tariff rates without the approval of RepMar. MISC has made numerous requests to RepMar but have yet to be successful.

It is the intention of MISC to continue its lobbying efforts for the authority and flexibility to increase its tariff rates to account for the rising fuel costs and inflation rates. MISC's strategic plan expired in 2015; and will therefore need Technical Assistance to update its three-year strategic plan. In the absence of a tariff rate increase, the State-Owned Enterprise Reform Act that was passed into Nitijela in September 2015 is a key legislation to support reform efforts for MISC together with all other state-owned enterprises. With tariff rates likely to remain low, on-going financial support from RepMar will have to continue and may need to increase, as appropriate, to satisfy the community service obligation provided by MISC.

The future outlook on sustainability for MISC continues to be threatened by the deteriorating conditions of the shipping vessels. In 2011, RepMar passed the Shipping Vessel Repairs and Maintenance Act (R&M) to ensure that subsidy funding is made available on an annual basis to ensure that major repairs and services are performed regularly and for the procurement of safety equipment. The R&M Act provides a strong position for MISC to continue to advocate for and to receive subsidy for the sole purpose of repairs and maintenance needs of its aging fleet. Without the R&M subsidy, the continued deteriorating conditions of more than half of MISC's shipping fleet will have a negative impact on MISC's ability to provide safe and reliable shipping services.

To summarize, MISC's future outlook on sustainability is dependent on, but not limited to, the following factors:

- Approval from RepMar to increase MISC's tariff rate structure towards full cost recovery;
- Ongoing recipient of RepMar subsidy to support both MISC operations and the Shipping Vessel Repairs and Maintenance Act;
- Develop and adhere to an ongoing annual repairs and maintenance schedule;
- Increase the number of vessels in its shipping fleet;
- Explore other grant financing opportunities (i.e. ADB, World Bank, RUS, etc.);
- Continue with budgetary controls to minimize operational expenses, where possible;
- Improve financial and operational management reporting and streamline processes:
- Capacity building opportunities for MISC personnel (administration and technical).

MISC FOCUS IN THE COMING FISCAL YEAR

MISC's focus in the coming fiscal year includes, but not limited to, the following:

- MISC, through its Board of Directors, will continue to lobby for the approval from Cabinet to increase the MISC tariff rates;
- Update MISC strategic plan 2016;
- With the support of its Board of Directors, MISC will continue to implement and monitor activities laid out in its strategic plan addressing both the operational and financial goals of MISC. The strategic plans include, but not limited to, the following:

    - Lobby and seek government and development partner opportunities to finance or co-finance procurement of additional shipping vessels to increase MISC's existing shipping fleet;
    - Develop a tariff rate template to incorporate rising cost and fluctuation of fuel and inflation rates;
    - Streamline operational processes (such as stevedoring, field trip scheduling, shipping vessel loading and unloading process to reduce downtime and turn ships around more frequently to increase its services to the outer island);
    - Develop and improve management and financial reporting;
    - Address capacity building weaknesses and provide or seek opportunities for capacity building; and
    - Ensure adherence to the shipping repairs and maintenance schedule.

ADDITIONAL FINANCIAL INFORMATION

This discussion and analysis is designed to provide MISC's customers and other stakeholders with an overview of the company's operations and financial condition as at 30th September 2015. Should the reader have questions regarding the information included in this report, or wish to request additional financial information, please contact the Marshall Islands Shipping Corporation General Manager at P.O. Box 1198, Majuro, Marshall Islands, MH 96960.

MARSHALL ISLANDS SHIPPING CORPORATION

Statements of Net Position
September 30, 2015 and 2014

ASSETS	2015	2014
Current assets:		
Cash	$ 214,423	$ 255,103
Receivables:		
Affiliates	223,028	189,574
Trade	167,104	128,939
Employees	43,303	19,683
	433,435	338,196
Less allowance for doubtful accounts	(251,682)	(144,810)
Total receivables, net	181,753	193,386
Inventory	17,808	1,786
Current portion of prepaid drydocking	30,911	-
Total current assets	444,895	450,275
Noncurrent assets:		
Prepaid drydocking, net of current portion	61,822	-
Equipment, net	238,474	242,444
	$ 745,191	$ 692,719
LIABILITIES AND NET POSITION		
Current liabilities:		
Accounts payable	$ 69,012	$ 70,148
Payable to affiliates	276,564	296,217
Accrued payroll liabilities	119,645	101,423
Total liabilities	465,221	467,788
Commitments and contingencies		
Net position:		
Net investment in capital assets	238,474	242,444
Restricted	190,641	-
Unrestricted	(149,145)	(17,513)
Total net position	279,970	224,931
	$ 745,191	$ 692,719

See accompanying notes to financial statements.

MARSHALL ISLANDS SHIPPING CORPORATION

Statements of Revenues, Expenses and Changes in Net Position
Years Ended September 30, 2015 and 2014

	2015	2014
Operating revenues:		
Cargo	$ 510,605	$ 501,205
Charter	411,786	940,597
Ship sales	204,085	180,860
Passenger	96,231	100,982
Copra fee	18,662	10,584
Other	69,784	18,311
Total operating revenues	1,311,153	1,752,539
Provision for bad debts	(106,872)	(93,336)
Net operating revenues	1,204,281	1,659,203
Operating expenses:		
Salaries, wages and benefits	1,085,079	1,050,583
Petroleum, oil and lube	649,347	735,569
Material and supplies	465,442	449,326
Foodstuffs	216,710	137,281
Cost of goods sold	150,977	133,459
Depreciation	78,722	71,938
Travel and entertainment	51,313	32,089
Rent	50,066	80,929
Professional fees	35,163	20,093
Freight	31,683	24,200
Utilities	19,019	20,007
Contributions	15,555	12,290
Communications	7,368	8,740
Drydock expense	5,710	-
Repairs and maintenance	1,490	60,810
Miscellaneous	35,139	31,714
Total operating expenses	2,898,783	2,869,028
Operating loss	(1,694,502)	(1,209,825)
Nonoperating revenues:		
Operating subsidies	1,749,541	1,299,057
Change in net position	55,039	89,232
Net position at beginning of year	224,931	135,699
Net position at end of year	$ 279,970	$ 224,931

See accompanying notes to financial statements.

MARSHALL ISLANDS SHIPPING CORPORATION

Statements of Cash Flows
Years Ended September 30, 2015 and 2014

	2015	2014
Cash flows from operating activities:		
Cash received from customers	$ 1,215,914	$ 1,722,243
Cash payments to suppliers for goods and services	(1,864,526)	(1,673,273)
Cash payments to employees for services	(1,066,857)	(1,035,788)
Net cash used for operating activities	(1,715,469)	(986,818)
Cash flows from noncapital financing activities:		
RepMar subsidy received	1,749,541	1,299,057
Cash flows from capital and related financing activities:		
Acquisition of capital assets	(74,752)	(245,087)
Net change in cash	(40,680)	67,152
Cash at beginning of year	255,103	187,951
Cash at end of year	$ 214,423	$ 255,103
Reconciliation of operating loss to net cash used for operating activities:		
Operating loss	$ (1,694,502)	$ (1,209,825)
Adjustments to reconcile operating loss to net cash used for operating activities:		
Depreciation	78,722	71,938
Provision for bad debts	106,872	93,336
(Increase) decrease in assets:		
Receivables:		
Affiliates	(33,454)	(91,062)
Trade	(38,165)	53,612
Employees	(23,620)	7,154
Inventory	(16,022)	2,054
Prepayments	(92,733)	-
Increase (decrease) in liabilities:		
Accounts payable	(1,136)	5,700
Payable to affiliates	(19,653)	65,480
Accrued payroll liabilities	18,222	14,795
Net cash used for operating activities	$ (1,715,469)	$ (986,818)

See accompanying notes to financial statements.

(1) Organization

The Marshall Islands Shipping Corporation (MISC), a component unit of the Republic of the Marshall Islands (RepMar), was created under Public Law 2005-41, the Marshall Islands Shipping Corporation Act, 2004. MISC was established to manage and operate RepMar's shipping vessels. MISC's principal line of business is to provide sea transportation services; to carry on business as ship owners; and to build and maintain ships and vessels.

MISC is governed by a five-member Board of Directors, including one official each from the Ministry of Finance and the Marshall Islands Ports Authority and three members appointed by the Cabinet of RepMar.

MISC's financial statements are incorporated into the financial statements of RepMar as a component unit.

(2) Summary of Significant Accounting Policies

The accounting policies of MISC conform to accounting principles generally accepted in the United States of America, as applicable to governmental entities, specifically proprietary funds.

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

To conform to the requirements of GASB 34, 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; net position that is constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.

- 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, deferred outflows of resources, liabilities, and deferred inflows of resources associated with the operation of the fund are included in the statement 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. MISC considers revenues and costs that are directly related to operations of shipping vessels to be operating revenues and expenses. Revenues and expenses related to financing and other activities are reflected as nonoperating.

Cash

Custodial credit risk is the risk that in the event of a bank failure, MISC'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. MISC 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. As of September 30, 2015 and 2014, the carrying amount of cash was $214,423 and $255,103, respectively, and the corresponding bank balances were $277,980 and $251,240, respectively, which were maintained in a financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2015 and 2014, bank deposits were fully FDIC insured.

Receivables

All receivables are uncollateralized and are due from affiliates or customers, located within the Republic of the Marshall Islands. 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. The allowance is established through a provision for bad debts charged to expense.

Inventory

Inventory consists of items purchased for resale (on the ships) during outer islands voyages. Inventory is valued at the lower of cost (first-in, first out FIFO) or market value (net realized value).

Deferred Dry-dock Expenditures

Dry-dock expenditures have been recognized as an asset when the recognition criteria were met. The recognition is made when the dry-docking has been performed and is amortized over the period until the next scheduled dry-docking usually 2 to 3 years. Any remaining carrying amount of the cost of the previous inspection is de-recognized. Ordinary repairs and maintenance expenses are charged to the income statement during the financial period in which they are incurred.

(2) Summary of Significant Accounting Policies, Continued

Equipment

MISC has not adopted a formal capitalization policy for equipment; however, items with a cost that equals or exceeds $1,000 are generally capitalized. Depreciation is calculated using the straight-line method based on the estimated useful lives of the respective assets. The estimated useful lives of these assets are 5 years.

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, deferred outflows of resources 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. MISC 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. MISC is specifically exempt from this tax.

Compensated Absences

Vested or accumulated vacation leave is recorded as an expense and liability as the benefits accrue to employees. No liability is recorded for non-vesting accumulating rights to receive sick pay benefits. As of September 30, 2015 and 2014, the accumulated vacation leave liability totals $70,465 and $54,686, respectively, and is included within the statements of net position as accrued payroll liabilities.

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, deferred inflows of resources 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. MISC has no items that qualify for reporting in this category.

Revenue Recognition

Cargo, charter and passenger revenue are recognized when the transportation is provided. Other components of other operating revenue are recognized as revenue when the related goods and services are provided.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets, 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.

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards

During the year ended September 30, 2015, MISC implemented the following pronouncements:

- GASB *Statement* No. 68, *Accounting and Financial Reporting for Pensions,* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of* GASB Statement No. 68, which revise and establish new financial reporting requirements for most governments that provide their employees with pension benefits. The implementation of these statements did not have a material effect on the accompanying financial statements.

- GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*, which improves accounting and financial reporting for state and local governments' combinations and disposals of government operations. Government combinations include mergers, acquisitions, and transfers of operations. A disposal of government operations can occur through a transfer to another government or a sale. The implementation of this statement did not have a material effect on the accompanying financial statements.

In February 2015, GASB issued 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. The provisions in Statement 72 are effective for fiscal years beginning after June 15, 2015. Management believes that the implementation of this statement only requires additional disclosures to be made about fair value measurements, the level of fair value hierarchy, and valuation techniques and will not have a material effect on the financial statements of MISC.

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 MISC.

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 MISC.

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

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 MISC.

In June 2015, 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 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. The provisions in Statement No. 76 are effective for fiscal years beginning after June 15, 2015. Management does not believe that the implementation of this statement will have a material effect on the financial statements of MISC.

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 MISC.

Reclassifications

Certain balances in the 2014 presentation have been reclassified to conform to the 2015 presentation.

(3) Risk Management

MISC 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. MISC has elected to purchase commercial automobile insurance from independent third parties for the risks of loss to which it is exposed with respect to the use of motor vehicles. Settled claims have not exceeded this commercial coverage for the last three years. MISC does not maintain general liability insurance; maritime insurance; and fire, lightning and typhoon insurance for its office building and contents. In the event of an insurable loss, MISC may be self-insured to a material extent.

(4) Prepaid Drydocking

During the year ended September 30, 2015, MISC incurred dry-dock expenditures of $98,443 for the MV Aemman ship in Fiji, which is to be amortized for 3 years. In 2015, amortized dry-dock expense amounted to $5,710. As of September 30, 2015, prepaid dry-docking amounted to $92,733.

(5) Equipment

Capital asset activity during the years ended September 30, 2015 and 2014 is as follows:

	2015			
	October 1, 2014	Additions	Retirements	September 30, 2015
Equipment	$ 327,983	$ 66,252	$ -	$ 394,235
Vehicles	313,597	8,500	-	322,097
Furniture	6,000	-	-	6,000
Motor boats	86,623	-	-	86,623
	734,203	74,752	-	808,955
Less accumulated depreciation	(491,759)	(78,722)	-	(570,481)
	$ 242,444	$ (3,970)	$ -	$ 238,474

	2014			
	October 1, 2013	Additions	Retirements	September 30, 2014
Equipment	$ 286,863	$ 41,120	$ -	$ 327,983
Vehicles	149,630	163,967	-	313,597
Furniture	6,000	-	-	6,000
Motor boats	46,623	40,000	-	86,623
	489,116	245,087	-	734,203
Less accumulated depreciation	(419,821)	(71,938)	-	(491,759)
	$ 69,295	$ 173,149	$ -	$ 242,444

(6) Related Party Transactions

MISC was created by the Nitijela of RepMar under Public Law 2005-41 and is thus considered a component unit of RepMar. Accordingly, MISC is affiliated with all RepMar-owned and affiliated entities, including Tobolar Copra Processing Authority (Tobolar).

A summary of related party transactions for the years ended September 30, 2015 and 2014 is as follows:

	2015			
	Revenues	Expenses	Receivables	Payables
Tobolar	$ 290,087	$ -	$ 134,885	$ -
Marshall Islands Social Security Administration	-	94,635	-	46,737
Marshalls Energy Company, Inc.	246,330	21,525	38,500	1,867
RMI Ports Authority	-	48,444	-	185,868
Republic of the Marshall Islands	132,165	14,542	49,513	39,690
Other	401	40,878	130	2,402
	$ 668,983	$ 220,024	$ 223,028	$ 276,564

	2014			
	Revenues	Expenses	Receivables	Payables
Tobolar	$ 244,066	$ -	$ 106,342	$ -
Marshall Islands Social Security Administration	62	91,480	148	73,215
Marshalls Energy Company, Inc.	251,809	148,062	28,500	6,879
RMI Ports Authority	-	36,731	-	158,641
Republic of the Marshall Islands	163,498	100,136	54,484	47,773
Other	616	26,365	100	9,709
	$ 660,051	$ 402,774	$ 189,574	$ 296,217

(6) Related Party Transactions, Continued

During the years ended September 30, 2015 and 2014, the operations of MISC were funded by appropriations, totaling $1,310,085 and $1,299,057, respectively, from the Nitijela of RepMar. In addition, MISC received an appropriation from the Nitijela of RepMar of $439,456 restricted for dry-docking and related expenses. As of September 30, 2015, MISC has yet to expend $190,641 under this appropriation. Accordingly, this amount is restricted within net position.

MISC occupies certain office space and utilizes four vessels belonging to RepMar at no cost. No lease agreements have been executed to formalize these arrangements. However, management is of the opinion that no rental payments for the use of these properties 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 expense in the accompanying financial statements.

As described in note 7, MISC leases space from a related party.

(7) Commitments and Contingencies

Commitments

MISC leased a warehouse for $2,557 per month, effective August 1, 2014, from the RMI Ports Authority, and expires on July 31, 2016. In addition, MISC leases garage and storage space for $688 per month from a related party, effective October 1, 2013, and expires on September 30, 2018. For the years ended September 30, 2015 and 2014, MISC recorded rent expense associated with these leases of $45,167 and $77,471, respectively.

Total minimum future rental payments for non-cancelable lease agreements for subsequent years ending September 30, are as follows:

Year ending September 30,	
2016	$ 33,815
2017	8,250
2018	8,250
	$ 50,315

Contingencies

During the years ended September 30, 2015 and 2014, MISC incurred losses from operations of $1,694,502 and $1,209,825, respectively. For the years ended September 30, 2015 and 2014, MISC received operational subsidies of $1,310,085 and $1,299,057, respectively, from the Nitijela of RepMar. Although RepMar has provided funding in the past, MISC does not have a formal agreement with RepMar to provide future funding. A significant reduction in the level of budgetary support from RepMar, if this were to occur, may have an effect on MISC's programs and activities. For the year ended September 30, 2016, RepMar appropriated $1,270,247 and $481,000, respectively, to fund MISC operations and dry-docking expenses. In addition, RepMar appropriated $1,700,000 for the purchase of a new vessel.

MISC is party to certain legal proceedings arising from the ordinary course of its business. Management is of the opinion that the ultimate outcome of these proceedings is currently not determinable. Therefore, no provision has been recorded in the accompanying financial statements.

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

Chairman
Board of Directors
Marshall Islands Shipping Corporation:

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 the Marshall Islands Shipping Corporation (MISC), which comprise the statement of net position as September 30, 2015, and the related 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 August 19, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered MISC'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 MISC's internal control. Accordingly, we do not express an opinion on the effectiveness of MISC'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 item 2015-001, which we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the MISC'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 items 2015-002 through 2015-004.

MISC's Response to Findings

MISC's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. MISC'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 results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Deloitte + Touche LLP

August 19, 2016

Finding No. 2015-001

Revenues

Criteria: Adequate internal control policies and procedures should be established requiring that revenues be accurately supported, identified, recorded, and collected.

Condition: The following exceptions concerning revenue tests were noted:

1. Significant delays occur in preparation and completion of cargo and passenger manifests. As of June 6, 2016, cargo and passenger manifests for the fiscal year-ended September 30, 2015 could not be provided.

2. Cargo and passenger sales analyses per voyage (voyage report vs. recorded revenue) were not performed.

Cause: The cause of the above condition is the lack of established policies and procedures that require that revenues be accurately supported, identified, recorded, and collected.

Effect: The effect of the above condition is possible misstatement of revenues.

Recommendation: We recommend that MISC maintain and organize cargo and passenger manifests. Furthermore, we recommend that revenue analysis (cargo and passenger) be performed per voyage to verify the reasonableness of recorded revenues against voyage data provided by the booking staff.

Prior Year Status: Lack of established policies and procedures pertaining to revenues was reported as a finding in the audits of MISC for fiscal years 2007 through 2014.

Auditee Response and Corrective Action Plan:

Who: Head Accounting Officer

What: Management will establish MISC revenue policies and procedures to be in effect for FY 2016.

With technical assistance provided by the Asian Development Bank Development Coordination Office, the local consultant will support MISC in the fourth quarter of FY2016 to assist with establishment of MISC's revenue policies and procedures policy and to assist the Accounting Department with capacity building and implementation of the policy. In addition, support will be provided to address the findings.

It is highly likely this will be a repeat finding in FY2016.

When: Fiscal Year 2016

Finding No. 2015-002

Local Noncompliance

Criteria: Public Law 2005-41 established the Marshall Islands Shipping Corporation (MISC) and authorized all movable and immovable property of the shipping services under the Ministry of Transportation and Communication be vest absolutely in MISC. Furthermore, all assets and liabilities, rights, duties, and obligations, and all contracts and agreements relating to shipping services existing on the date of MISC's establishment shall stand transferred and vest in MISC.

Condition: No documentation was provided to indicate that all assets, liabilities, rights, duties and obligations, and all contracts and agreements relating to shipping services existing on the date of MISC's establishment have been transferred to MISC. Specifically, four vessels (Aemman, Ribuuk Ae, Majuro and Kwajalein) operated by MISC and vehicles previously with the Ministry of Transportation and Communications are not recorded by MISC.

Cause: The cause of the above condition is the lack of official documentation transferring all assets and liabilities, rights, duties and obligations, and all contracts and agreements of the relating to shipping services existing on the date of MISC's establishment.

Effect: The effect of the above condition is noncompliance with requirements of Public Law 2005-41.

Recommendation: We recommend that management comply with the requirements of Public Law 2005-41.

Prior Year Status: Noncompliance with Public Law 2005-41 was reported as a finding in the audits of MISC for fiscal years 2007 through 2014.

Auditee Response and Corrective Action Plan:

Who: Head Accounting Officer

What: The noncompliance issue with the Public law 2005-41 has been escalated to the MISC Board. Management's understanding of the progress to have the assets transferred to MISC, as appropriate is slow and at a standstill.

With technical assistance provided by the Asian Development Bank Development Coordination Office, the local consultant will support MISC in the fourth quarter of FY2016 to assist with addressing this issue, including preparing the supporting documentation and required documents for all relevant government stakeholders signatory to include Ministry of Finance and Ministry of Transportation & Communication.

When: Fiscal Year 2016

Finding No. 2015-003

Local Noncompliance

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. 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 supply, service, or construction item without completion when it is determined in writing that there is only one source for the required supply, service, or construction them.

Condition: MISC does not have a formal procurement policy requiring documentation indicating the history of procurement to be maintained on file.

Cause: The cause of the above condition is the lack of established policies and procedures requiring documentation of procurement procedures to ensure compliance with RepMar's Procurement Code.

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

Recommendation: We recommend that management establish policies and procedures to be in compliance with RepMar's Procurement Code.

Prior Year Status: Noncompliance with RepMar's Procurement Code was reported as a finding in the audits of MISC for fiscal years 2007 through 2014.

Auditee Response and Corrective Action Plan:

Who: Head Accounting Officer

What: MISC will adopt the RepMar Procurement policy requiring a minimum of three quotes. In addition, MISC will tailor its Procurement policy to the specialized needs of MISC. In some case, MISC access to vendors in the shipping industry is limited for ordering shipping vessel parts. In the case where a minimum of three quotes cannot be met, the Accounting Department will ensure to clearly document the deviation and in compliance with the RepMar Procurement policy.

It is highly likely this will be a repeat finding in FY2016.

When: Fiscal Year 2016

Finding No. 2015-004

Local Noncompliance

Criteria: Section 426 of Marshall Islands Shipping Corporation Act, 2004 states the following:

(a) The Corporation may from time to time fix charges for services provided by the Corporation.

(b) In fixing the charges, the Corporation must follow the procedures set out in this section.

(c) Before fixing the charges, the Corporation must submit the proposed charges to Cabinet for approval.

(d) The Corporation must publish notice of charges in the local newspaper or the local radio station.

Condition: MISC is charging based on the rate for charter without the approval of the Cabinet. Also, for periods October 1, 2014 through June 21, 2015, MISC is charging on the rate for passenger without the Cabinet approval.

Cause: The cause of the above condition is approval by the Cabinet has not been obtained.

Effect: Noncompliance with Marshall Islands Shipping Corporation Act, 2004 appears to have occurred.

Recommendation: We recommend that management obtain approval from the Cabinet to be in compliance with Marshall Islands Shipping Corporation Act, 2004.

Prior Year Status: Noncompliance with Marshall Islands Shipping Corporation Act, 2004 was reported as a finding in the audit of MISC for fiscal year 2014.

Auditee Response and Corrective Action Plan:

Who: Head Accounting Officer

What: MISC currently operates based on tariff rates established back in 1983. With high fuel prices today, there is a critical need for MISC to review and increase its tariff rate. In September 2011, MISC had prepared a proposal for Cabinet to approve a minimal increase in rates for shipping services. As required, the new rates were published to the general public to foster awareness and as required by Section 426 of Marshall Islands Shipping Corporation Act, 2004. To date, Cabinet approval has not been obtained. In FY2014, new rates were applied erroneously. Immediate corrective action to revert back to the old rates is in effect as of 30 June 2015.

When: Fiscal Year 2016

MARSHALL ISLANDS SHIPPING CORPORATION

Unresolved Prior Year Findings
Year Ended September 30, 2015

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