

MARSHALL ISLANDS AIRPORTS AUTHORITY

FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITORS' REPORT

YEARS ENDED SEPTEMBER 30, 2001 AND 2000

INDEPENDENT AUDITORS' REPORT

Board of Directors  
Marshall Islands Airports Authority:

We have audited the accompanying balance sheets of the Marshall Islands Airports Authority (MIAA), a component unit of the Republic of the Marshall Islands, as of September 30, 2001 and 2000, and the related statements of loss and retained earnings and cash flows for the years then ended. These financial statements are the responsibility of MIAA's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of MIAA as of September 30, 2001 and 2000, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 15, 2001, on our consideration of MIAA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.



November 15, 2001

MARSHALL ISLANDS AIRPORTS AUTHORITY

Balance Sheets  
September 30, 2001 and 2000

<u>ASSETS</u>	<u>2001</u>	<u>2000</u>
Current assets:		
Cash	\$ 376,147	\$ 284,323
Receivables:		
Trade	36,973	34,562
Affiliates (note 6)	22,888	1,580
Other	<u>7,100</u>	<u>-</u>
	66,961	36,142
Less allowance for doubtful accounts	<u>(22,769)</u>	<u>-</u>
Total receivables, net	<u>44,192</u>	<u>36,142</u>
Prepaid expenses	<u>260</u>	<u>260</u>
Total current assets	420,599	320,725
Property, plant and equipment, net (note 4)	<u>4,809,100</u>	<u>5,016,652</u>
	<u>\$ 5,229,699</u>	<u>\$ 5,337,377</u>

LIABILITIES AND FUND EQUITY

Current liabilities:		
Accounts payable	\$ 10,987	\$ 1,399
Payable to affiliates (note 6)	173,212	158,908
Deferred lease income, current portion (note 6)	7,862	7,862
Deferred revenue	19,536	-
Other liabilities and accruals	<u>21,319</u>	<u>20,650</u>
Total current liabilities	232,916	188,819
Deferred lease income, net of current portion (note 6)	<u>12,198</u>	<u>20,060</u>
Total liabilities	<u>245,114</u>	<u>208,879</u>
Fund equity:		
Contributed capital (note 5)	4,739,719	4,952,500
Retained earnings	<u>244,866</u>	<u>175,998</u>
Total fund equity	<u>4,984,585</u>	<u>5,128,498</u>
Commitments and contingency (notes 7 and 8)	<u>\$ 5,229,699</u>	<u>\$ 5,337,377</u>

See accompanying notes to financial statements.

MARSHALL ISLANDS AIRPORTS AUTHORITY

Statements of Loss and Retained Earnings  
Years Ended September 30, 2001 and 2000

	<u>2001</u>	<u>2000</u>
Operating revenues:		
Departure fees	\$ 251,630	\$ 243,051
Landing fees	192,986	266,799
Airport rent	84,832	20,472
Runway lights and navigation aides fees	30,450	28,200
Aircraft parking charges	14,965	7,219
International cargo fees	11,532	-
Other	<u>15,656</u>	<u>16,723</u>
Total operating revenues	<u>602,051</u>	<u>582,464</u>
Operating expenses:		
Depreciation and amortization	342,859	328,441
Salaries and wages	265,234	313,378
Utilities	85,788	67,837
Repairs and maintenance	43,068	27,398
Legal and professional services	29,896	495
Employee benefits	22,965	22,279
Bad debts	22,769	-
Petroleum, oil and lubricants	8,377	4,233
Communications	7,013	4,031
Office supplies	6,274	4,809
Other	<u>19,472</u>	<u>4,398</u>
Total operating expenses	<u>853,715</u>	<u>777,299</u>
Operating loss	<u>(251,664)</u>	<u>(194,835)</u>
Nonoperating revenues:		
Transfer from Airport Trust Fund (note 6)	<u>-</u>	<u>50,000</u>
Total nonoperating revenues	<u>-</u>	<u>50,000</u>
Net loss	(251,664)	(144,835)
Add depreciation on fixed assets acquired by grants externally restricted for capital acquisition and construction that reduces contributed capital	320,532	320,833
Retained earnings at beginning of year	<u>175,998</u>	<u>-</u>
Retained earnings at end of year	\$ <u>244,866</u>	\$ <u>175,998</u>

See accompanying notes to financial statements.

MARSHALL ISLANDS AIRPORTS AUTHORITY

Statements of Cash Flows  
Years Ended September 30, 2001 and 2000

	<u>2001</u>	<u>2000</u>
Cash flows from operating activities:		
Operating loss	\$ (251,664)	\$ (194,835)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation and amortization	342,859	328,441
Bad debts	22,769	-
Increase in assets:		
Receivables:		
Trade	(2,411)	(34,562)
Affiliates	(21,308)	(1,580)
Other	(7,100)	-
Prepaid expenses	-	(260)
Increase (decrease) in liabilities:		
Accounts payable	9,588	1,399
Payable to affiliates	14,304	158,908
Deferred lease income	(7,862)	27,922
Deferred revenue	19,536	-
Other liabilities and accruals	669	20,650
Net cash provided by operating activities	<u>119,380</u>	<u>306,083</u>
Cash flows from noncapital financing activities:		
Transfer from Airport Trust Fund (note 6)	-	50,000
Net cash provided by noncapital financing activities	<u>-</u>	<u>50,000</u>
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	<u>(27,556)</u>	<u>(71,760)</u>
Net cash used for capital and related financing activities	<u>(27,556)</u>	<u>(71,760)</u>
Net increase in cash	91,824	284,323
Cash at beginning of year	<u>284,323</u>	<u>-</u>
Cash at end of year	\$ <u>376,147</u>	\$ <u>284,323</u>
Supplemental schedule of noncash investing, capital and financing activities:		
Acquisition of capital assets:		
Noncash increase in property, plant and equipment	\$ (107,751)	\$ -
Noncash increase in contributed capital	<u>107,751</u>	<u>-</u>
	\$ <u>-</u>	\$ <u>-</u>
Transfer of property, plant and equipment (notes 1 and 5):		
Noncash increase in property, plant and equipment	\$ -	\$ (5,273,333)
Noncash increase in contributed capital	<u>-</u>	<u>5,273,333</u>
	\$ <u>-</u>	\$ <u>-</u>

See accompanying notes to financial statements.

## MARSHALL ISLANDS AIRPORTS AUTHORITY

Notes to Financial Statements  
September 30, 2001 and 2000

### (1) Organization

The Marshall Islands Airports Authority (MIAA), a component unit of the Republic of the Marshall Islands (RepMar), was created under Public Law 1999-86. MIAA commenced operations on October 1, 1999. Prior to the commencement of MIAA, airports owned by RepMar were administered by the Directorate of Civil Aviation under the Ministry of Transportation and Communications and accounted for in the general purpose financial statements of RepMar in the Airport Trust Fund. MIAA's principal line of business is the operation and maintenance of commercial airport facilities in the Marshall Islands. Services are currently provided to all passengers and carriers, both commercial and private, arriving and departing at the Amata Kabua International Airport in Majuro.

On March 23, 1999, Public Law 1999-86 was passed by the Nitijela of RepMar which established the Marshall Islands Airports Authority as a corporation. Under Public Law 1999-86, RepMar was required to transfer all items of property that RepMar owned and controlled that were used exclusively for the operations of publicly owned airports within the Republic. An appraisal of property acquired as of October 1, 1999 was conducted and, in accordance with Public Law 1999-86, the appraised amount, net of accumulated depreciation, was transferred in the amount of \$5,273,333 (see note 5). This amount represented the net book value of the Amata Kabua International Airport facilities and equipment, being the only RepMar-owned and controlled airport facilities within the Republic of the Marshall Islands.

MIAA is governed by a seven-member Board of Directors, including three members appointed by the Minister of Transportation and Communications of RepMar.

MIAA's financial statements are incorporated into the general purpose financial statements of RepMar as a component unit.

### (2) Summary of Significant Accounting Policies

The accounting policies of MIAA conform to accounting principles generally accepted in the United States of America, as applicable to governmental entities, specifically proprietary funds. Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, requires that proprietary activities apply all applicable GASB pronouncements as well as Statements and Interpretations issued by the Financial Accounting Standards Board (FASB), Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedures issued on or before November 30, 1989. MIAA has implemented GASB 20 and elected not to apply FASB Statements and Interpretations issued after November 30, 1989.

#### Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

# MARSHALL ISLANDS AIRPORTS AUTHORITY

Notes to Financial Statements  
September 30, 2001 and 2000

## (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 liabilities associated with the operation of the fund are included in the balance sheets. Proprietary fund operating statements present increases and decreases in net total assets. The accrual basis of accounting is utilized by proprietary funds. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

### Cash

For purposes of the balance sheets and the statements of cash flows, cash is defined as cash on hand and cash held in demand accounts. As of September 30, 2001 and 2000, cash balances were \$376,147 and \$284,323, respectively, and the corresponding bank balances were \$382,252 and \$284,493, respectively, which are maintained in one financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2001 and 2000, bank deposits in the amount of \$100,000 were FDIC insured. MIAA does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized.

### Receivables

All receivables are uncollateralized and are due from customers, both businesses and individuals, located within the Republic of the Marshall Islands and the Pacific region. 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 evaluations of the collectibility of these accounts and prior collection experience. The allowance is established through a provision for bad debts charged to expense.

### Property, Plant and Equipment

Property, plant and equipment are stated at cost. Contributed fixed assets are stated at their estimated fair value at the date of transfer from RepMar. Depreciation of property, plant and equipment and amortization of leasehold improvements are calculated using the straight-line method based on the estimated useful lives of the respective assets.

### Fund Equity

Contributed capital is recorded initially through receipt of capital grants. Depreciation expense for capital assets acquired with capital grants is recorded as a reduction of contributed capital.

### 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. MIAA is specifically exempt from this tax.

MARSHALL ISLANDS AIRPORTS AUTHORITY

Notes to Financial Statements  
September 30, 2001 and 2000

(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 benefits. As of September 30, 2001 and 2000, the accumulated vacation leave liability totals \$12,262, and is included within the balance sheets as other liabilities and accruals.

Reclassifications

Certain reclassifications have been made to the 2000 financial statements in order to conform with the 2001 presentation.

(3) Risk Management

MIAA 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. MIAA 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 in any of the past three years. For other risks of loss to which it is exposed, MIAA has elected not to purchase commercial insurance. Instead, MIAA believes it is more economical to manage its risks internally. Claims expenses and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported. No material losses have resulted from MIAA's risk management activities.

(4) Property, Plant and Equipment

Property, plant and equipment as of September 30, 2001 and 2000, consist of the following:

	Estimated Useful Lives	Contributed	2001 Non- Contributed	Total
Facilities	10 - 50 years	\$ 4,933,333	\$ -	\$ 4,933,333
Buildings	30 years	427,751	18,801	446,552
Vehicles	3 - 6 years	10,000	18,995	28,995
Leasehold improvements	4 years	-	28,250	28,250
Furniture and fixtures	5 - 8 years	6,000	14,338	20,338
Other equipment	3 years	4,000	8,693	12,693
Office equipment	3 years	-	10,239	10,239
		5,381,084	99,316	5,480,400
Less accumulated depreciation and amortization		(641,365)	(29,935)	(671,300)
		\$ 4,739,719	\$ 69,381	\$ 4,809,100

MARSHALL ISLANDS AIRPORTS AUTHORITY

Notes to Financial Statements  
September 30, 2001 and 2000

(4) Property, Plant and Equipment, Continued

	Estimated Useful Lives	2000		
		Contributed	Non-Contributed	Total
Facilities	10 - 50 years	\$ 4,933,333	\$ -	\$ 4,933,333
Buildings	30 years	320,000	12,164	332,164
Vehicles	3 - 6 years	10,000	18,995	28,995
Leasehold improvements	4 years	-	28,250	28,250
Furniture and fixtures	5 - 8 years	6,000	5,655	11,655
Other equipment	3 years	4,000	-	4,000
Office equipment	3 years	-	6,696	6,696
		5,273,333	71,760	5,345,093
Less accumulated depreciation and amortization		(320,833)	(7,608)	(328,441)
		<u>\$ 4,952,500</u>	<u>\$ 64,152</u>	<u>\$ 5,016,652</u>

(5) Contributed Capital

Contributed capital as of September 30, 2001 and 2000, is derived from the following sources:

	2001	2000
RepMar (see note 1)	\$ 5,273,333	\$ 5,273,333
Republic of China	75,751	-
Government of Australia	<u>32,000</u>	<u>-</u>
	5,381,084	5,273,333
Less accumulated depreciation of contributed assets	<u>(641,365)</u>	<u>(320,833)</u>
	<u>\$ 4,739,719</u>	<u>\$ 4,952,500</u>

(6) Related Party Transactions

MIAA was created by the Nitijela of RepMar under Public Law 1999-86 and is thus considered a component unit of RepMar. Accordingly, MIAA is affiliated with all RepMar-owned and affiliated entities, including Air Marshall Islands, Inc.

During the years ended September 30, 2001 and 2000, MIAA received cash contributions of \$-0- and \$50,000, respectively, from the Airport Trust Fund, a fund administered by RepMar's Ministry of Transportation and Communications.

During the year ended September 30, 2000, an affiliated financial institution constructed a branch office building at the airport terminal on behalf of MIAA at a cost of \$28,250. MIAA has capitalized the cost of construction for the branch office and considers it lease income received in advance in lieu of monthly rental payments. A summary of deferred lease income as of September 30, 2001 and 2000, is as follows:

MARSHALL ISLANDS AIRPORTS AUTHORITY

Notes to Financial Statements  
September 30, 2001 and 2000

(6) Related Party Transactions, Continued

	<u>2001</u>	<u>2000</u>
Total deferred lease income	\$ 20,060	\$ 27,922
Less current portion	<u>(7,862)</u>	<u>(7,862)</u>
Long-term portion	\$ <u>12,198</u>	\$ <u>20,060</u>

MIAA's services are provided to Air Marshall Islands, Inc. (AMI), a component unit of RepMar, at more favorable rates and conditions than afforded to third parties. AMI utilizes airport facilities at the Amata Kabua International Airport, including landing rights, for which no fees or charges are levied by MIAA.

MIAA utilizes services from all other affiliates at the same rates and conditions as afforded to third parties.

A summary of related party transactions for the years ended September 30, 2001 and 2000 and related receivable and payable balances as of September 30, 2001 and 2000, is as follows:

	<u>2001</u>			
	<u>Revenues</u>	<u>Expenses</u>	<u>Receivables</u>	<u>Payables</u>
Air Marshall Islands, Inc.	\$ 25,990	\$ -	\$ 17,170	\$ -
Marshalls Energy Company, Inc.	-	85,031	-	17,506
Marshall Islands Social Security Administration	-	22,965	-	15,003
Marshall Islands National Telecommunications Authority	-	7,013	-	1,407
Majuro Water and Sewer Company, Inc.	-	757	-	23
RepMar	<u>-</u>	<u>-</u>	<u>5,718</u>	<u>139,273</u>
	\$ <u>25,990</u>	\$ <u>115,766</u>	\$ <u>22,888</u>	\$ <u>173,212</u>
	<u>2000</u>			
	<u>Revenues</u>	<u>Expenses</u>	<u>Receivables</u>	<u>Payables</u>
Air Marshall Islands, Inc.	\$ 5,830	\$ -	\$ 960	\$ -
Marshalls Energy Company, Inc.	-	81,475	-	75,393
Marshall Islands Social Security Administration	-	22,279	-	11,922
Marshall Islands National Telecommunications Authority	-	4,031	-	497
Majuro Water and Sewer Company, Inc.	-	2,026	-	1,043
RepMar	<u>-</u>	<u>-</u>	<u>620</u>	<u>70,053</u>
	\$ <u>5,830</u>	\$ <u>109,811</u>	\$ <u>1,580</u>	\$ <u>158,908</u>

MARSHALL ISLANDS AIRPORTS AUTHORITY

Notes to Financial Statements  
September 30, 2001 and 2000

(7) Commitments

MIAA is the lessor of office, restaurant, bar and warehouse space at the Amata Kabua International Airport. Seven leases have greater than one year terms expiring on October 24, 2002 through December 31, 2024. The remaining leases have one year terms. Total future minimum rentals under these leases for subsequent years ending September 30, are as follows:

<u>Year ending</u> <u>September 30,</u>	
2002	\$ 64,795
2003	32,430
2004	13,462
2005	7,862
2006	7,862
Subsequent years	<u>135,626</u>
Total future minimum rentals	\$ <u>262,037</u>

(8) Contingency

MIAA does not maintain insurance coverage on its property, plant and equipment (except for vehicles) or operations. In the event of a loss, MIAA may be self-insured to a material extent.