

MARSHALL ISLANDS AIRPORTS AUTHORITY

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

YEARS ENDED SEPTEMBER 30, 2002 AND 2001



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, 2002 and 2001, 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, 2002 and 2001, 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.

As described in note 8 to the financial statements, MIAA changed its method of accounting for contributions in aid in 2002 to conform with the provisions of Governmental Accounting Standards Board Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions* and, retroactively, restated the 2001 financial statements for the change.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 7, 2003, 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.

A handwritten signature in cursive script that reads "Deloitte & Touche".

February 7, 2003

MARSHALL ISLANDS AIRPORTS AUTHORITY

Balance Sheets
September 30, 2002 and 2001

ASSETS

	<u>2002</u>	2001 (As Restated note 8)
Current assets:		
Cash	\$ 236,827	\$ 376,147
Time certificates of deposit	<u>200,000</u>	<u>-</u>
Receivables:		
Trade	65,596	36,973
Affiliates (note 6)	54,950	22,888
Other	<u>-</u>	<u>7,100</u>
	120,546	66,961
Less allowance for doubtful accounts	<u>(45,748)</u>	<u>(22,769)</u>
Total receivables, net	<u>74,798</u>	<u>44,192</u>
Prepaid expenses and other assets	<u>21,809</u>	<u>260</u>
Total current assets	533,434	420,599
Property, plant and equipment, net (note 4)	<u>4,562,652</u>	<u>4,809,100</u>
	<u>\$ 5,096,086</u>	<u>\$ 5,229,699</u>

LIABILITIES AND FUND EQUITY

Current liabilities:		
Accounts payable	\$ 28,516	\$ 10,987
Payable to affiliates (note 6)	169,518	173,212
Deferred lease income, current portion (note 6)	7,862	7,862
Deferred revenue	-	19,536
Other liabilities and accruals	<u>32,533</u>	<u>21,319</u>
Total current liabilities	238,429	232,916
Deferred lease income, net of current portion (note 6)	<u>4,336</u>	<u>12,198</u>
Total liabilities	<u>242,765</u>	<u>245,114</u>
Fund equity:		
Retained earnings	<u>4,853,321</u>	<u>4,984,585</u>
Total fund equity	<u>4,853,321</u>	<u>4,984,585</u>
Commitments and contingency (notes 3 and 7)	<u>\$ 5,096,086</u>	<u>\$ 5,229,699</u>

See accompanying notes to financial statements.

MARSHALL ISLANDS AIRPORTS AUTHORITY

Statements of Loss and Retained Earnings
Years Ended September 30, 2002 and 2001

	<u>2002</u>	2001 (As Restated note 8)
Operating revenues:		
Landing fees	\$ 290,705	\$ 192,986
Departure fees	278,667	251,630
Airport rent	85,195	84,832
International cargo fees	36,522	11,532
Runway lights and navigation aides fees	32,550	30,450
Aircraft parking charges	9,864	14,965
Other	<u>38,348</u>	<u>15,656</u>
Total operating revenues	<u>771,851</u>	<u>602,051</u>
Operating expenses:		
Depreciation and amortization	354,158	342,859
Salaries and wages	318,698	265,234
Utilities	79,570	85,788
Employee benefits	28,170	22,965
Repairs and maintenance	26,967	43,068
Bad debts	25,479	22,769
Legal and professional services	21,965	29,896
Petroleum, oil and lubricants	11,064	8,377
Office supplies	8,607	6,274
Communications	7,887	7,013
Other	<u>36,772</u>	<u>19,472</u>
Total operating expenses	<u>919,337</u>	<u>853,715</u>
Operating loss	<u>(147,486)</u>	<u>(251,664)</u>
Nonoperating revenues:		
Grants and donations (note 5)	7,211	107,751
Interest income	<u>9,011</u>	<u>-</u>
Total nonoperating revenues	<u>16,222</u>	<u>107,751</u>
Net loss	(131,264)	(143,913)
Retained earnings at beginning of year	4,984,585	5,128,498
Retained earnings at end of year	\$ <u>4,853,321</u>	\$ <u>4,984,585</u>

See accompanying notes to financial statements.

MARSHALL ISLANDS AIRPORTS AUTHORITY

Statements of Cash Flows
Years Ended September 30, 2002 and 2001

	<u>2002</u>	2001 (As Restated note 8)
Cash flows from operating activities:		
Operating loss	\$ (147,486)	\$ (251,664)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation and amortization	354,158	342,859
Bad debts	25,479	22,769
(Increase) decrease in assets:		
Receivables:		
Trade	(31,123)	(2,411)
Affiliates	(32,062)	(21,308)
Other	7,100	(7,100)
Prepaid expenses and other assets	(21,549)	-
Increase (decrease) in liabilities:		
Accounts payable	17,529	9,588
Payable to affiliates	(3,694)	14,304
Deferred lease income	(7,862)	(7,862)
Deferred revenue	(19,536)	19,536
Other liabilities and accruals	<u>11,214</u>	<u>669</u>
Net cash provided by operating activities	<u>152,168</u>	<u>119,380</u>
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	<u>(100,499)</u>	<u>(27,556)</u>
Net cash used for capital and related financing activities	<u>(100,499)</u>	<u>(27,556)</u>
Cash flows from investing activities:		
Purchases of time certificates of deposit	(200,000)	-
Interest on time certificates of deposit	<u>9,011</u>	<u>-</u>
Net cash used for investing activities:	<u>(190,989)</u>	<u>-</u>
Net (decrease) increase in cash	(139,320)	91,824
Cash at beginning of year	<u>376,147</u>	<u>284,323</u>
Cash at end of year	\$ <u><u>236,827</u></u>	\$ <u><u>376,147</u></u>
Supplemental schedule of noncash capital and financing activities:		
Acquisition of capital assets (note 5):		
Noncash increase in property, plant and equipment	\$ 7,211	\$ 107,751
Noncash increase in grants and donations	<u>(7,211)</u>	<u>(107,751)</u>
	\$ <u><u>-</u></u>	\$ <u><u>-</u></u>

See accompanying notes to financial statements.

MARSHALL ISLANDS AIRPORTS AUTHORITY

Notes to Financial Statements
September 30, 2002 and 2001

(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, as amended by Public Law 2001-48. 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. This amount represented the net book value of the Amata Kabua International Airport facilities and equipment, being the only RepMar-owned and controlled airport facility within the Republic of the Marshall Islands.

MIAA is governed by a five-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, 2002 and 2001

(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 and Time Certificates of Deposit

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. Deposits maintained in time certificates of deposit with original maturity dates greater than ninety days are separately classified. As of September 30, 2002 and 2001, the carrying amount of cash was \$236,827 and \$376,147, respectively, and the corresponding bank balances were \$253,735 and \$382,252, respectively. As of September 30, 2002 and 2001, bank balance amounts of \$251,719 and \$382,252, respectively, were maintained in one financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance. At September 30, 2002, a time certificate of deposit of \$200,000 was maintained in a non-FDIC financial institution (see note 6). As of September 30, 2002 and 2001, 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.

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, 2002 and 2001

(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, 2002 and 2001, the accumulated vacation leave liability totals \$20,519 and \$12,262, respectively, and is included within the balance sheets as other liabilities and accruals.

(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, workmen's compensation, and property insurance from independent third parties for the risks of loss to which it is exposed with respect to the use of motor vehicles, injuries to employees and building and contents. Settled claims from these risks have not exceeded this commercial coverage in any of the past three years. For risks of loss related to the airport runway facilities, MIAA has elected not to purchase commercial insurance. Instead, MIAA believes it is more economical to manage these 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, 2002 and 2001, consist of the following:

	<u>Estimated Useful Lives</u>	<u>2002</u>	<u>2001</u>
Facilities	10 - 50 years	\$ 4,933,333	\$ 4,933,333
Buildings	30 years	466,522	446,552
Other equipment	3 years	63,309	12,693
Vehicles	3 - 6 years	51,530	28,995
Leasehold improvements	4 years	31,075	28,250
Furniture and fixtures	5 - 8 years	25,881	20,338
Office equipment	3 years	<u>16,460</u>	<u>10,239</u>
		5,588,110	5,480,400
Less accumulated depreciation and amortization		<u>(1,025,458)</u>	<u>(671,300)</u>
		<u>\$ 4,562,652</u>	<u>\$ 4,809,100</u>

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Notes to Financial Statements
September 30, 2002 and 2001

(5) Grants and Donations

Grants and donations for the years ended September 30, 2002 and 2001, were derived from the following sources:

	<u>2002</u>	2001 (As Restated note 8)
U.S. Federal Aviation Administration	\$ 7,211	\$ -
Republic of China	-	75,751
Government of Australia	<u>-</u>	<u>32,000</u>
	<u>\$ 7,211</u>	<u>\$ 107,751</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 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, 2002 and 2001, is as follows:

	<u>2002</u>	<u>2001</u>
Total deferred lease income	\$ 12,198	\$ 20,060
Less current portion	<u>(7,862)</u>	<u>(7,862)</u>
Long-term portion	<u>\$ 4,336</u>	<u>\$ 12,198</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, 2002 and 2001 and related receivable and payable balances as of September 30, 2002 and 2001, is as follows:

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Notes to Financial Statements
September 30, 2002 and 2001

(6) Related Party Transactions, Continued

	2002			
	<u>Revenues</u>	<u>Expenses</u>	<u>Receivables</u>	<u>Payables</u>
Air Marshall Islands, Inc.	\$ 26,190	\$ -	\$ 49,232	\$ -
Marshall's Energy Company, Inc.	-	98,637	-	18,408
Marshall Islands Social Security Administration	-	28,170	-	15,075
Marshall Islands National Telecommunications Authority	-	7,887	-	-
Majuro Water and Sewer Company, Inc.	-	886	-	94
RepMar	-	-	5,718	135,941
	<u>\$ 26,190</u>	<u>\$ 135,580</u>	<u>\$ 54,950</u>	<u>\$ 169,518</u>
	2001			
	<u>Revenues</u>	<u>Expenses</u>	<u>Receivables</u>	<u>Payables</u>
Air Marshall Islands, Inc.	\$ 25,990	\$ -	\$ 17,170	\$ -
Marshall's 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	-	-	5,718	139,273
	<u>\$ 25,990</u>	<u>\$ 115,766</u>	<u>\$ 22,888</u>	<u>\$ 173,212</u>

Receivables from affiliates are uncollateralized, interest free and have no set repayment terms.

As of September 30, 2002 and 2001, MIAA maintained a time certificate of deposit with a related financial institution in the amount of \$200,000 and \$-0-, respectively.

(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>	
2003	\$ 32,430
2004	13,462
2005	7,862
2006	7,862
2007	7,862
Subsequent years	<u>127,764</u>
Total future minimum rentals	<u>\$ 197,242</u>

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Notes to Financial Statements
September 30, 2002 and 2001

(8) Restatement

Effective October 1, 2001, MIAA implemented GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*. The provisions of this statement require capital grants and contributions to be recognized as non-operating revenue on the Statements of Loss and Retained Earnings. In prior periods, capital grants and contributions had been recorded as a direct increase to contributions in aid in the equity section of the Balance Sheet. As a result, contributed capital and retained earnings as of October 1, 2000 and grants and donations for the year ended September 30, 2001 have been restated from the amounts previously reported as follows:

	<u>As Previously Reported</u>	<u>As Restated</u>
At October 1, 2000:		
Contributed capital	\$ <u>4,952,500</u>	\$ <u>-</u>
Retained earnings	\$ <u>175,998</u>	\$ <u>5,128,498</u>
For the year ended September 30, 2001:		
Grants and donations	\$ <u>-</u>	\$ <u>107,751</u>