

MARSHALL ISLANDS AIRPORTS AUTHORITY

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

YEARS ENDED SEPTEMBER 30, 2003 AND 2002



INDEPENDENT AUDITORS' REPORT

Board of Directors
Marshall Islands Airports Authority:

We have audited the accompanying statements of net assets of the Marshall Islands Airports Authority (MIAA), a component unit of the Republic of the Marshall Islands (RepMar), as of September 30, 2003 and 2002, and the related statements of revenues, expenses and changes in net assets 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.

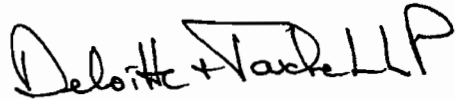
In our opinion, such financial statements present fairly, in all material respects, the financial position of MIAA as of September 30, 2003 and 2002, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming MIAA will continue as a going concern. As described in note 9 to the accompanying financial statements, RepMar Public Law 2003-81 will integrate MIAA into the RMI Ports Authority effective June 3, 2004.

As described in note 2 to the accompanying financial statements, MIAA adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*.

The Management's Discussion and Analysis on pages 12 through 21 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 9, 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 black ink that reads "Deloitte + Tatchell LLP". The signature is written in a cursive, stylized font.

December 9, 2003

MARSHALL ISLANDS AIRPORTS AUTHORITY

Statements of Net Assets
September 30, 2003 and 2002

<u>ASSETS</u>	<u>2003</u>	<u>2002</u>
Current assets:		
Cash	\$ <u>380,763</u>	\$ <u>236,827</u>
Time certificates of deposit	<u>211,714</u>	<u>200,000</u>
Receivables:		
Trade	74,814	65,596
Affiliates	65,026	54,950
Other	<u>1,443</u>	<u>-</u>
	141,283	120,546
Less allowance for doubtful accounts	<u>(66,201)</u>	<u>(45,748)</u>
Total receivables, net	<u>75,082</u>	<u>74,798</u>
Prepaid expenses and other assets	<u>18,023</u>	<u>21,809</u>
Total current assets	685,582	533,434
Property, plant and equipment, net	<u>4,330,751</u>	<u>4,562,652</u>
	<u>\$ 5,016,333</u>	<u>\$ 5,096,086</u>
 <u>LIABILITIES AND NET ASSETS</u> 		
Current liabilities:		
Note payable, current portion	\$ 31,524	\$ -
Accounts payable	657	28,516
Payable to affiliates	174,213	169,518
Deferred lease income, current portion	4,336	7,862
Other liabilities and accruals	<u>39,967</u>	<u>32,533</u>
Total current liabilities	250,697	238,429
Note payable, net of current portion	63,642	-
Deferred lease income, net of current portion	<u>-</u>	<u>4,336</u>
Total liabilities	<u>314,339</u>	<u>242,765</u>
Commitments and contingency		
Net assets:		
Investment in capital assets, net of related debt	4,235,585	4,562,652
Unrestricted	<u>466,409</u>	<u>290,669</u>
Total net assets	<u>4,701,994</u>	<u>4,853,321</u>
	<u>\$ 5,016,333</u>	<u>\$ 5,096,086</u>

See accompanying notes to financial statements.

MARSHALL ISLANDS AIRPORTS AUTHORITY

Statements of Revenues, Expenses and Changes in Net Assets
Years Ended September 30, 2003 and 2002

	<u>2003</u>	<u>2002</u>
Operating revenues:		
Landing fees	\$ 352,032	\$ 290,705
Departure fees	287,113	278,667
Airport rent	85,195	85,195
Runway lights and navigation aides fees	40,247	32,550
International cargo fees	25,585	36,522
Ground handling	16,450	-
Aircraft parking charges	12,739	9,864
Other	<u>38,841</u>	<u>38,348</u>
Total operating revenues	<u>858,202</u>	<u>771,851</u>
Operating expenses:		
Depreciation and amortization	381,473	354,158
Salaries and wages	328,732	318,698
Utilities	79,115	79,570
Repairs and maintenance	65,539	26,967
Employee benefits	31,748	28,170
Legal and professional services	21,086	21,965
Bad debts	20,453	25,479
Petroleum, oil and lubricants	16,729	11,064
Communications	15,853	7,887
Office supplies	3,791	8,607
Other	<u>54,056</u>	<u>36,772</u>
Total operating expenses	<u>1,018,575</u>	<u>919,337</u>
Operating loss	<u>(160,373)</u>	<u>(147,486)</u>
Nonoperating revenues:		
Grants and donations	-	7,211
Interest income	<u>9,046</u>	<u>9,011</u>
Total nonoperating revenues	<u>9,046</u>	<u>16,222</u>
Change in net assets	(151,327)	(131,264)
Net assets at beginning of year	<u>4,853,321</u>	<u>4,984,585</u>
Net assets at end of year	<u>\$ 4,701,994</u>	<u>\$ 4,853,321</u>

See accompanying notes to financial statements.

MARSHALL ISLANDS AIRPORTS AUTHORITY

Statements of Cash Flows
Years Ended September 30, 2003 and 2002

	<u>2003</u>	<u>2002</u>
Cash flows from operating activities:		
Cash received from customers	\$ 837,465	\$ 715,766
Cash payments to suppliers for goods and services	(311,071)	(247,212)
Cash payments to employees for services	<u>(325,384)</u>	<u>(316,386)</u>
Net cash provided by operating activities	<u>201,010</u>	<u>152,168</u>
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(149,572)	(100,499)
Proceeds from issuance of long-term debt	100,000	-
Repayment of long-term debt	<u>(4,834)</u>	<u>-</u>
Net cash used for capital and related financing activities	<u>(54,406)</u>	<u>(100,499)</u>
Cash flows from investing activities:		
Purchases of time certificates of deposit	(11,714)	(200,000)
Interest on time certificates of deposit	<u>9,046</u>	<u>9,011</u>
Net cash used for investing activities:	<u>(2,668)</u>	<u>(190,989)</u>
Net increase (decrease) in cash	143,936	(139,320)
Cash at beginning of year	<u>236,827</u>	<u>376,147</u>
Cash at end of year	\$ <u>380,763</u>	\$ <u>236,827</u>
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	\$ (160,373)	\$ (147,486)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation and amortization	381,473	354,158
Bad debts	20,453	25,479
(Increase) decrease in assets:		
Receivables:		
Trade	(9,218)	(31,123)
Affiliates	(10,076)	(32,062)
Other	(1,443)	7,100
Prepaid expenses and other assets	3,786	(21,549)
Increase (decrease) in liabilities:		
Accounts payable	(27,859)	17,529
Payable to affiliates	4,695	(3,694)
Deferred lease income	(7,862)	(7,862)
Deferred revenue	-	(19,536)
Other liabilities and accruals	<u>7,434</u>	<u>11,214</u>
Net cash provided by operating activities	\$ <u>201,010</u>	\$ <u>152,168</u>
Supplemental schedule of noncash capital and financing activities:		
Acquisition of capital assets:		
Noncash increase in property, plant and equipment	\$ -	\$ 7,211
Noncash increase in grants and donations	<u>-</u>	<u>(7,211)</u>
	\$ <u>-</u>	\$ <u>-</u>

See accompanying notes to financial statements.

MARSHALL ISLANDS AIRPORTS AUTHORITY

Notes to Financial Statements
September 30, 2003 and 2002

(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, 2003 and 2002

(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 statements of net assets. 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 statements of net assets and cash flows, cash is defined as cash on hand and cash held in demand accounts. Deposits maintained in time certificates of deposit with original maturity dates greater than ninety days are separately classified. As of September 30, 2003 and 2002, the carrying amount of cash was \$380,763 and \$236,827, respectively, and the corresponding bank balances were \$388,989 and \$253,735, respectively. As of September 30, 2003 and 2002, bank balance amounts of \$387,636 and \$251,719, respectively, were maintained in one financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2003 and 2002, time certificates of deposit of \$211,714 and \$200,000, respectively, were maintained in a non-FDIC financial institution (see note 6). As of September 30, 2003 and 2002, 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, 2003 and 2002

(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, 2003 and 2002, the accumulated vacation leave liability totals \$24,560 and \$20,519, respectively, and is included within the statements of net assets as other liabilities and accruals.

New Accounting Standards

GASB has issued Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, which was subsequently amended by Statement No. 37, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, and modified by Statement No. 38, *Certain Financial Statement Disclosures*. These statements 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. MIAA is required to adopt GASB Statement No. 34, as amended by GASB Statement No. 37, and certain provisions of GASB Statement No. 38 in fiscal year 2003.

To conform to the requirements of GASB 34, the following changes have been made to MIAA's financial statements:

- Retained earnings have been reclassified into the following net assets categories:
 - Investment in capital assets; capital assets, net of accumulated depreciation and related debt obtained to finance assets acquisition, plus construction or improvement of those assets.
 - Unrestricted; net assets that are not subject to externally imposed stipulations. Unrestricted net assets 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.
- The statement of cash flow has been presented using the direct method.

(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.

MARSHALL ISLANDS AIRPORTS AUTHORITY

Notes to Financial Statements
September 30, 2003 and 2002

(4) Property, Plant and Equipment

Property, plant and equipment as of September 30, 2003 and 2002, consist of the following:

	Estimated Useful Lives	Balance at October 1, 2002	Additions	Deletions	Balance at September 30, 2003
Facilities	10 - 50 years	\$ 4,933,333	\$ -	\$ -	\$ 4,933,333
Buildings	30 years	466,522	-	-	466,522
Other equipment	3 years	63,309	73,113	-	136,422
Vehicles	5 - 6 years	51,530	-	-	51,530
Leasehold improvements	5 - 8 years	31,075	6,370	-	37,445
Furniture and fixtures	5 - 8 years	25,881	3,596	1,250	28,227
Office equipment	3 years	<u>16,460</u>	<u>-</u>	<u>-</u>	<u>16,460</u>
		5,588,110	83,079	1,250	5,669,939
Less accumulated depreciation and amortization		<u>(1,025,458)</u>	<u>(380,785)</u>	<u>(563)</u>	<u>(1,405,680)</u>
		4,562,652	(297,706)	687	4,264,259
Construction in progress		<u>-</u>	<u>66,492</u>	<u>-</u>	<u>66,492</u>
		\$ <u>4,562,652</u>	\$ <u>(231,214)</u>	\$ <u>687</u>	\$ <u>4,330,751</u>
	Estimated Useful Lives	Balance at October 1, 2001	Additions	Deletions	Balance at September 30, 2002
Facilities	10 - 50 years	\$ 4,933,333	\$ -	\$ -	\$ 4,933,333
Buildings	30 years	446,552	19,970	-	466,522
Other equipment	3 years	12,693	50,616	-	63,309
Vehicles	5 - 6 years	28,995	22,535	-	51,530
Leasehold improvements	5 - 8 years	28,250	2,825	-	31,075
Furniture and fixtures	5 - 8 years	20,338	5,543	-	25,881
Office equipment	3 years	<u>10,239</u>	<u>6,221</u>	<u>-</u>	<u>16,460</u>
		5,480,400	107,710	-	5,588,110
Less accumulated depreciation and amortization		<u>(671,300)</u>	<u>(354,158)</u>	<u>-</u>	<u>(1,025,458)</u>
		\$ <u>4,809,100</u>	\$ <u>(246,448)</u>	\$ <u>-</u>	\$ <u>4,562,652</u>

(5) Grants and Donations

Grants and donations for the years ended September 30, 2003 and 2002 of \$-0- and \$7,211, respectively, were derived from the U.S. Federal Aviation Administration.

(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.

MARSHALL ISLANDS AIRPORTS AUTHORITY

Notes to Financial Statements
September 30, 2003 and 2002

(6) Related Party Transactions, Continued

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, 2003 and 2002, is as follows:

	<u>2003</u>	<u>2002</u>
Total deferred lease income	\$ 4,336	\$ 12,198
Less current portion	<u>(4,336)</u>	<u>(7,862)</u>
Long-term portion	\$ <u>-</u>	\$ <u>4,336</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, 2003 and 2002 and related receivable and payable balances as of September 30, 2003 and 2002, is as follows:

	<u>2003</u>			
	<u>Revenues</u>	<u>Expenses</u>	<u>Receivables</u>	<u>Payables</u>
Air Marshall Islands, Inc.	\$ 32,404	\$ 1,100	\$ 51,939	\$ -
Bank of Marshall Islands	7,862	1,484	6,343	-
Marshalls Energy Company, Inc.	-	116,179	-	21,019
Marshall Islands Social Security Administration	-	31,748	-	16,851
Marshall Islands National Telecommunications Authority	262	15,733	208	1,496
Majuro Water and Sewer Company, Inc.	-	2,278	-	122
RepMar	-	-	6,315	134,725
Other	475	3,328	221	-
	<u>\$ 41,003</u>	<u>\$ 171,850</u>	<u>\$ 65,026</u>	<u>\$ 174,213</u>
	<u>2002</u>			
	<u>Revenues</u>	<u>Expenses</u>	<u>Receivables</u>	<u>Payables</u>
Air Marshall Islands, Inc.	\$ 26,190	\$ -	\$ 49,232	\$ -
Marshalls 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>

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

As of September 30, 2003 and 2002, MIAA maintained a time certificate of deposit with a related financial institution in the amount of \$211,714 and \$200,000, respectively, and has an outstanding note payable with a related financial institution in the amount of \$95,166 and \$-0-, respectively.

MARSHALL ISLANDS AIRPORTS AUTHORITY

Notes to Financial Statements
September 30, 2003 and 2002

(7) Note Payable

	<u>2003</u>	<u>2002</u>
Note payable to a related financial institution, due June 28, 2006, payable in monthly installments of \$3,134, interest at 7%, collateralized by a time certificate of deposit.	\$ 95,166	\$ -
Less current portion	<u>(31,524)</u>	<u>-</u>
Note payable, net of current portion	\$ <u>63,642</u>	\$ <u>-</u>

Principal payments for subsequent years ending September 30, are as follows:

<u>Year ending September 30,</u>	
2004	\$ 31,524
2005	34,241
2006	<u>29,401</u>
	\$ <u>95,166</u>

(8) 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 September 30,</u>	
2004	\$ 19,090
2005	12,083
2006	7,862
2007	7,862
2008	7,862
Subsequent years	<u>119,902</u>
Total future minimum rentals	\$ <u>174,661</u>

(9) Subsequent Event

On September 19, 2003, the Nitijela of RepMar passed Public Law 2003-81 (the RMI Ports Authority Act, 2003) which repealed Public Law 1999-86 and integrated MIAA with the Marshall Islands Port Authority into a single ports authority, to be known as the RMI Ports Authority. Public Law 2003-81 is effective December 3, 2003 and allows MIAA to operate as a separate entity during a six month transition period (June 3, 2004).



Marshall Islands Airports Authority

Amata Kabua (Majuro) International Airport

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Majuro, Marshall Islands 96960

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Management's Discussion & Analysis (MD&A) Fiscal Year 2003

Introduction

Our discussion and analysis of the Marshall Islands Airports Authority (MIAA) financial performance provides an overview of MIAA's financial activities for the fiscal year ended September 30, 2003. This MD&A is to be used in conjunction with the financial statements that precede this section.

Deloitte & Touche, a nationally recognized accounting firm, audited MIAA's financial statements for FY2003 and issued an unqualified audit opinion that said statements were presented in accordance with generally accepted accounting principles governed by the Governmental Accounting Standards Board (GASB).

MIAA is a component unit of the Republic of the Marshall Islands (RMI) and was established as a public corporation under RMI Public Law 1999-86. This law was subsequently amended by RMI Public Law 2001-48. Although P.L. 1999-86 was signed into law on March 23, 1999, MIAA did not commence operation until October 1, 1999.

MIAA is governed by a five-member Board of Directors, four of the members are appointed by the Cabinet. The permanent secretary of Transportation & Communications, the last member, is automatically appointed as Chairperson of the Board. MIAA is responsible for establishing, maintaining, managing and operating airport facilities within the RMI. However, the only airport facility that MIAA is currently responsible for is Amata Kabua International Airport, located on Majuro Atoll.

As of September 30, 2003, MIAA had 25 full-time employees: 2 in Administration, 3 in Finance, 3 in Aviation Operations (Tower), 3 in Maintenance and 14 in Security. Out of the 14 Security Officers, 8 have been certified as airport fire fighters.

Adoption of GASB 34

For the fiscal year ending on September 30, 2003, the Marshall Islands Airports Authority is required to adopt GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, which was issued in June 1999. GASB 34 was developed to make financial reports of governmental entities easier to understand and more useful for oversight bodies. GASB 34 brought about significant changes in the format of the financial reports, one of which is the management's discussion and analysis.

Financial Highlights

- Total assets were \$5,016,333 at September 30, 2003. This was a slight decrease of 2% or \$79,753 from the prior year due to increase in accumulated depreciation.
- Total liabilities were \$314,339 at September 30, 2003. This was an increase of 29% or \$71,574 from the prior year due to the loan MIAA secured with the Bank of Marshall Islands. Consequently, total net assets dropped by 3% in FY2003 from \$4,853,321 in the prior year to \$4,701,994.
- Total Operating Revenues increased by \$86,351 from FY2002 mainly due to higher revenue earned from unscheduled flight operations and the implementation of ground handling services. Total Operating Expenses, excluding depreciation expense, also increased in FY2003. This was due to rising costs of repairing and maintaining facilities and services.
- MIAA has not had a favorable net result since it commenced operations in FY2000. Total Net Loss accumulated from FY2000 to FY2003 was \$754,358.

Statement of Net Assets

	Fiscal Year		Total Percentage
	2003	2002	Change 2003-2002
Assets			
Cash	\$380,763	\$236,827	61%
Time Certificates of Deposit	211,714	200,000	6%
Accounts Receivable, Net	75,082	74,798	0%
Prepaid Expenses	18,023	21,809	-17%
Property, Plant and Equipment, Net Of Accumulated Depreciation	4,330,751	4,562,652	-5%
TOTAL ASSETS	5,016,333	5,096,086	-2%
Liabilities			
Note Payable, Current	31,524	-	100%
Accounts Payable	657	28,516	-98%
Deferred Revenue	4,336	7,862	-45%
Other Current Liability	214,180	202,051	6%
Note Payable, Long-Term	63,642	-	100%
Other Long-Term Liability	-	4,336	-100%
TOTAL LIABILITIES	314,339	242,765	29%
Net Assets			
Invested in Capital Assets, Net of Related Debt	4,235,585	4,562,652	-7%
Unrestricted	466,409	290,669	60%
TOTAL NET ASSETS	\$4,701,994	\$4,853,321	-3%

Cash in MIAA's checking account with the Bank of Guam, Majuro Branch, increased by 61% or \$143,936 from the prior year due to improved collections on accounts receivable and implementation of new user fees between FY2001 and FY2003. Furthermore, cash collections are continuously monitored and deposited every two days, at the latest.

The Airport Trust Fund, which is kept with the Bank of Marshall Islands, Majuro Branch, earned a modest interest income of \$9,046. MIAA expects the account to earn another \$9,000 of interest income next fiscal year.

The increase to Note Payable, Current and Note Payable, Long-Term is related to the loan that MIAA secured with the Bank of Marshall Islands, Majuro Branch for the purpose of performing much needed facility improvements at the airport terminal.

Statement of Revenues, Expenses and Changes in Net Assets

	Fiscal Year		Total Percentage
	2003	2002	Change 2003-2002
Operating Revenues			
Landing Fees-Scheduled	\$166,634	\$157,416	6%
Landing Fees-Unscheduled	185,398	133,289	39%
Departure Fees-International	264,825	256,325	3%
Departure Fees-Domestic	22,288	22,342	0%
Airport Rent	85,195	85,195	0%
Ground Handling-Transient A/C	16,450	-	100%
Other Operating Revenues	117,412	117,284	0%
TOTAL OPERATING REVENUES	858,202	771,851	11%
Operating Expenses			
Salaries & Wages	328,732	318,698	3%
Utilities	79,115	79,570	0%
Repairs and Maintenance	65,539	26,967	143%
Other Operating Expenses	163,716	139,949	17%
TOTAL OPERATING EXPENSES	637,102	565,179	13%
INCOME BEFORE DEPRECIATION	221,100	206,672	7%
Less: Depreciation	(381,473)	(354,158)	8%
LOSS AFTER DEPRECIATION	(160,373)	(147,486)	9%
Add: Non-operating Revenues	9,046	16,222	-44%
CHANGE IN NET ASSETS	(\$151,327)	(\$131,264)	15%
Beginning Net Assets	\$4,853,321	\$4,984,585	-3%
Change in Net Assets	(151,327)	(131,264)	15%
ENDING NET ASSETS	\$4,701,994	\$4,853,321	-3%

Revenue from aircraft landing charges increased by 6% in FY2003 due to the commencement of air services between Majuro and Tarawa, Kiribati by Air Kiribati Ltd. The new service utilized an ATR-72 aircraft that is able carry up to 70 passengers. Initially,

Air Kiribati operated the service twice a week, but that was reduced to one flight a week due to low passenger demand.

The 39% increase in landing fees of unscheduled flights in FY2003 was mainly due to the increase in Asia Pacific Airlines flights. Statistical information on APA's traffic movements to Majuro can be found in the latter pages of this MD&A.

Despite the effects of September 11th, MIAA was fortunate that international passenger departures remained steady. In fact, revenue from international passenger departures increased by 6% or \$14,181 in FY2003 from the prior year.

Revenues from MIAA's ground handling services increased by 100% because this was a new service introduced in FY2003.

In FY2003, MIAA hired additional staff for its Security/Firefighting Department. That explains the 3% increase in staff salaries and wages from the prior year. Repairs and Maintenance Expenses had the highest increase from the prior year because: 1) not many repairs on facilities were carried out in FY2002, and 2) about \$26,800 worth of repairs was spent solely on MIAA's two crash trucks to keep them in operable condition. It should be noted that without working fire trucks and firefighting staff, international flights cannot land or take-off from the airport.

The considerable drop in Non-operating Revenues was the result of nil grants or donations received by MIAA in FY2003. In the prior year the Federal Aviation Administration donated some airport equipment to MIAA valued at \$7,211.

Unscheduled/Special Flights Movements

	Fiscal Year		Total Percentage Change
	2003	2002	2003-2002
Category 1	48	77	-38%
Category 2	31	24	29%
Category 3	57	72	-21%
Asia Pacific Airlines	401	246	63%
Total Special Flights Landings	537	419	28%

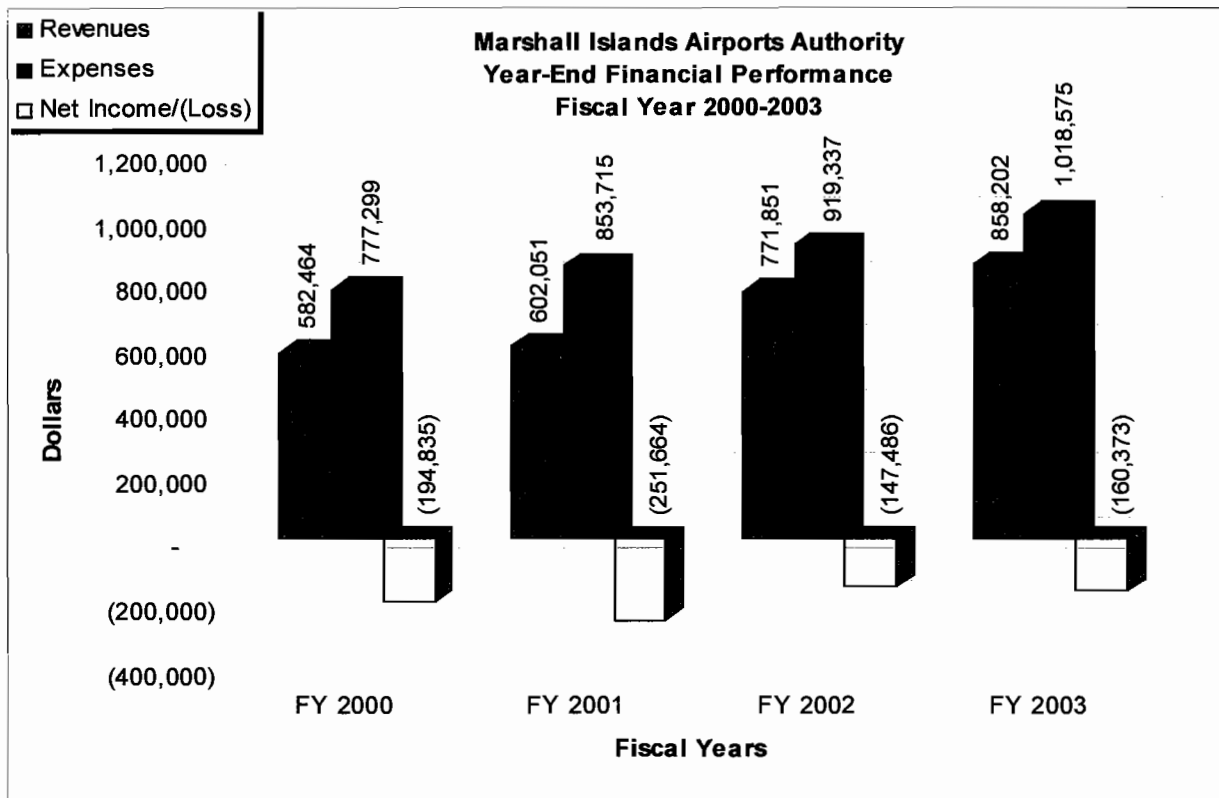
Notes: Category 1 refers to private or ferry flights having a maximum take-off weight of up to 45,000 lbs
 Category 2 refers to private or ferry flights having a maximum take-off weight of 45,001 to 90,000 lbs
 Category 3 refers to private or ferry flights having a maximum take-off weight over 90,000 lbs

The main reason for the drop in Category 3 aircraft traffic was due to the cessation of services by Charter America, a charter airline that temporarily carried US mail between Guam and Honolulu, Hawaii with a brief stop in Majuro in each direction. Their temporary service represented about 22% of the unscheduled flights that operated to Majuro during FY2002.

Landings of Asia Pacific Airlines flights increased by 63% due to fresh fish exports and a new contract with the U.S. Postal Service, which caused APA to increase its flight frequency to Majuro from four to eight flights a week.

Note that landings of military aircraft are not included in the table above. Data on these flights was not yet available.

Audited Financial Results (FY00-03)



The chart above depicts the audited financial results of MIAA from FY2000 to FY2003. As shown on the chart, total operating revenues steadily increased each fiscal year. This was due to stringent collection efforts by MIAA’s accounting staff and the implementation of new airport user fees between FY2001 and FY2003.

Like revenues, overall expenses also increased from year to year. Most of the increases in expenditures, however, were beyond MIAA’s control. After the September 11, 2001 tragedy, numerous security measures were implemented. This caused MIAA to incur additional costs related to the hiring of more security and safety personnel and improving of airport facilities in order for MIAA to meet the new security requirements.

Budget vs. Actual Analysis

The Board of Directors meets every year to review MIAA's annual budget as proposed by airport management. Once the Board approves the budget, it is rarely changed or revised, unless unusual/unforeseen events occur during the fiscal year that may significantly impact the financial position of the MIAA. The table provided below shows the final budget figures and actual amounts for FY2003.

	Fiscal Year 2003		Total Percentage Change
	Actual Results	Budget Amounts	(Actual-Budget)
Operating Revenues			
Landing Fees-Scheduled	\$166,634	\$156,609	6%
Landing Fees-Unscheduled	185,398	166,343	11%
Departure Fees-International	264,825	250,644	6%
Departure Fees-Domestic	22,288	22,020	1%
Airport Rent	85,195	77,340	10%
Ground Handling-Transient A/C	16,450	17,550	-6%
Other Operating Revenues	117,412	142,668	-18%
TOTAL OPERATING REVENUES	858,202	833,174	3%
Operating Expenses			
Salaries & Wages	328,732	330,824	-1%
Utilities	79,115	81,600	-3%
Repairs and Maintenance	65,539	42,000	56%
Other Operating Expenses	163,716	191,072	-14%
TOTAL OPERATING EXPENSES	637,102	644,496	-1%
INCOME BEFORE DEPRECIATION	221,100	188,678	17%
Less: Depreciation	(381,473)	(351,240)	9%
LOSS AFTER DEPRECIATION	(160,373)	(162,562)	-1%
Add: Non-operating Revenues	9,046	9,828	-8%
CHANGE IN NET ASSETS	(\$151,327)	(\$152,734)	-1%

Significant changes in operating revenues and expenses are discussed in detail under the section headed, "Statement of Revenues, Expenses and Changes in Net Assets". Final results for Other Operating Revenues were less than budgeted because MIAA was unable to get Cabinet approval to implement a vehicle parking charge. This fee would have generated approximately \$25,000 a year in additional revenue for MIAA.

Operating expenses were well within budget limits, except for Repairs and Maintenance Expenses which went over budget by 56% or \$23,539. The primary cause for this high variance was attributed to unplanned purchases of replacement parts needed for the crash trucks and repairs performed; specifically, construction of new wooden stairs for Aloha Airline's office and repainting of certain areas of the terminal building.

Overall, MIAA performed better than what was anticipated in its FY2003 budget.

Property, Plant and Equipment

	Fiscal Year		Total Percentage Change
	2003	2002	2003-2002
Facilities and Runway	\$4,933,333	\$4,933,333	0%
Buildings	466,522	466,522	0%
Other Equipment	136,422	63,309	115%
Vehicles	51,530	51,530	0%
Leasehold Improvements	37,445	31,075	20%
Furniture and Fixtures	28,227	25,881	9%
Office Equipment	16,460	16,460	0%
	5,669,939	5,588,110	1%
Less: Accumulated Depreciation	(1,405,680)	(1,025,458)	37%
Work In Progress	66,492	-	100%
Total Property, Plant & Equipment	\$4,330,751	\$4,562,652	-5%

The substantial increase in Other Equipment was the result of the acquisition of safety and firefighting equipment for the Airport Fire Department. This equipment, valued a little over \$55,000, included stretchers, SCBA units, hydraulic-powered cutter and spreader, oxygen bottles, and so forth.

To follow are the capital improvement projects (CIP) MIAA performed during FY2003. The table depicts the total cost, payments made in FY2003, and any unpaid balance remaining as of September 30, 2003 of each project.

	Total Cost	Payments	Unpaid Balance
AMI Flight Ops Office Repair	\$6,370	\$6,370	\$ -
Airport Security Fence-Phase 1	41,680	41,680	-
Concession Stalls Renovation-P1	49,479	17,812	31,667
Terminal Tiling	7,000	7,000	-
TOTAL	\$104,529	\$72,862	\$31,667

The only CIP from the above list that was completed prior to the closing of FY2003 was the repairs performed on the AMI flight operations office at the airport terminal. Construction projects still in progress at the start of the new fiscal year included Airport Security Fence-Phase 1, Concession Stalls Renovation-Phase 1 and Terminal Tiling. At time of writing, only the airport fence work has been completed.

The RMI Government also funded a couple of capital improvement projects that were performed on the terminal building during FY2003. Funding was approved by the Cabinet as per Cabinet Minute 087(2002). The projects are listed on the next page as follows:

	<u>Total Cost</u>	<u>Completion Status</u>
Terminal Roof Repair	\$101,993	95%
New Roof Extension at Terminal Main Entrance	<u>60,556</u>	80%
RMI GRANTS TOTAL	<u><u>\$162,549</u></u>	

Work on the above projects was still in progress at the end of fiscal year 2003. As such, they will be capitalized sometime in FY2004.

Long-Term Debt

During FY2003, MIAA took out a financial loan of \$100,000 with the Bank of Marshall Islands, Majuro Branch, to fund capital improvements projects planned for FY03 and FY04. The term of the loan is for three years at an annual interest rate of 7%. MIAA used its Airport Trust Fund, kept with the same institution, as collateral for the loan.

Next Fiscal Year's Budget and Economic Factors

FY2004 Budget:

On October 1, 2003 the Board of Directors approved MIAA's operating budget for FY2004. The FY2004 budget projects that the MIAA will generate a total of \$846,283 in revenues and incur operating expenses totaling \$678,363. Adding depreciation expense of \$381,960, MIAA anticipates a negative end result of more than \$214,000, an increase of about 34% from the prior year's budget. It should be noted that the budget amounts are only estimates based on MIAA's financial performance during the first eight months of FY2003. The table provided below gives a summary of MIAA's FY2004 budget. Budget amounts for FY2003 are also included in the table for comparison purposes.

	Fiscal Year Budget		Total Percentage
	2004	2003	Change
Operating Revenues			2004-2003
Landing Fees-Scheduled	\$169,808	\$156,609	8%
Landing Fees-Unscheduled	148,261	166,343	-11%
Departure Fees-International	266,016	250,644	4%
Departure Fees-Domestic	22,248	22,020	1%
Airport Rent	77,340	77,340	0%
Ground Handling-Transient A/C	15,600	17,550	-11%
Other Operating Revenues	14,010	142,668	2%
TOTAL OPERATING REVENUES	846,283	833,174	2%
Operating Expenses			
Salaries & Wages	352,430	330,824	7%
Utilities	97,992	81,600	20%
Repairs and Maintenance	42,000	42,000	0%
Other Operating Expenses	185,941	191,072	-3%
TOTAL OPERATING EXPENSES	678,363	644,496	5%
INCOME BEFORE DEPRECIATION	167,920	188,678	-11%
Less: Depreciation	(381,960)	(351,240)	9%
LOSS AFTER DEPRECIATION	(214,040)	(162,562)	32%
Add: Non-operating Revenues	9,848	9,828	0%
CHANGE IN NET ASSETS	(\$204,192)	(\$152,734)	34%

For budget purposes, MIAA management based the revenue to be generated from landing fees of unscheduled flights on six Asia Pacific Airlines flights, instead of the eight flights it presently operates. This decision was based on the assumption that flight cancellations may occur during the year or APA may divert to Kwajalein. Hence, the reason for the decrease in landing fee revenues of unscheduled flights.

The new fiscal year budget also reflects the change in aircraft type Aloha Airlines will utilize between the Majuro-Honolulu route. Aloha will replace its smaller B737-200 aircraft with the much bigger B737-700. This is necessary due to the closure of Johnston runway. With the new aircraft, Aloha will operate a new schedule. Under the new schedule, Aloha will land on Majuro two times a week, instead of four with the smaller aircraft. Although the charge per landing on the B737-700 aircraft is more, the reduction in landings will cause MIAA to lose more than \$15,000 in revenue per annum. Fortunately, this loss is offset by Air Kiribati's weekly service.

For FY2004, Air Marshall Islands will continue to be exempt from landing charges. Air Marshall Islands is the only scheduled commercial airline currently not paying landing charges.

Initial discussions between the RMI Government and Nauru Government were held on Majuro to solicit approval for Air Nauru to commence twice-weekly services between Majuro and Brisbane using a B737-300 aircraft. Although it is likely that approval will be

granted to Air Nauru, MIAA management did not include the anticipated revenue from this new service in the budget.

MIAA plans to recruit two more staff for the maintenance department in FY2004, which will increase the staffing level of that department from three to five.

The airport restaurant and bar will be closed for an extended period during FY2004 for major renovation work. The loss of revenue caused from the closure was not reflected in the FY2004 budget when it was approved. The airport bar and restaurant are part of the capital improvement projects approved by the Board of Directors for FY2004. The rest are as follows:

	<u>Project Cost</u>
Concession Stalls Renovation-Phase 1	\$31,667
Airport Security Fence-Phase 2	40,000
Terminal Restrooms	20,000
Airport Bar and Restaurant Renovation	<u>130,000</u>
TOTAL ESTIMATED COST	<u>\$221,667</u>

Economic Factors:

MIAA is working with the RMI Government and Federal Aviation Administration to resurface the runway, which is estimated to cost about \$21.3 million. MIAA has submitted a grant application to the FAA for possible funding of this project. MIAA's goal is to commence this work as early as FY2004.

Starting from FY2004 to FY2007, MIAA will be eligible for grant funds under the FAA's Airport Improvement Program. Thus, MIAA expects to receive numerous revenue grants from the FAA within the next four fiscal years.

Public Law 2003-81, passed by the RMI Nitijela on September 19, 2003, requires that the Marshall Islands Airports Authority and Marshall Islands Ports Authority be consolidated into one ports authority, to be called the RMI Ports Authority. A transition period of up to six months is allowed in the legislation to give the two agencies sufficient time to prepare for a smooth merger.