

MARSHALL ISLANDS PORTS AUTHORITY

FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITORS' REPORT

YEARS ENDED SEPTEMBER 30, 2001 AND 2000

INDEPENDENT AUDITORS' REPORT

Board of Directors  
Marshall Islands Ports Authority:

We have audited the accompanying balance sheets of the Marshall Islands Ports Authority (MIPA), a component unit of the Republic of the Marshall Islands, as of September 30, 2001 and 2000, and the related statements of earnings (loss) and retained earnings and cash flows for the years then ended. These financial statements are the responsibility of MIPA'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 MIPA 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 7, 2001, on our consideration of MIPA'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.

*Deloitte & Touche*

November 7, 2001

MARSHALL ISLANDS PORTS AUTHORITY

Balance Sheets  
September 30, 2001 and 2000

<u>ASSETS</u>	<u>2001</u>	<u>2000</u>
Current assets:		
Cash and cash equivalents	\$ 421,763	\$ 142,065
Time certificates of deposit	<u>700,000</u>	<u>602,202</u>
Receivables:		
Trade	590,418	400,690
Affiliates (note 7)	295,203	187,896
Notes (note 4)	100,000	100,000
Accrued interest	55,396	41,124
Other	<u>8,721</u>	<u>-</u>
	1,049,738	729,710
Less allowance for doubtful accounts	<u>(511,566)</u>	<u>(368,584)</u>
	<u>538,172</u>	<u>361,126</u>
Total current assets	1,659,935	1,105,393
Property, plant and equipment, net (note 5)	<u>6,419,958</u>	<u>6,670,005</u>
	<u>\$ 8,079,893</u>	<u>\$ 7,775,398</u>
 <u>LIABILITIES AND FUND EQUITY</u> 		
Current liabilities:		
Accounts payable	\$ 12,200	\$ 19,854
Other liabilities and accruals	21,929	16,972
Payable to affiliates (note 7)	<u>24,055</u>	<u>10,205</u>
Total current liabilities	<u>58,184</u>	<u>47,031</u>
Fund equity:		
Contributed capital (note 6)	6,058,173	6,513,339
Retained earnings	<u>1,963,536</u>	<u>1,215,028</u>
Total fund equity	<u>8,021,709</u>	<u>7,728,367</u>
Commitment and contingency (notes 8 and 9)	<u>\$ 8,079,893</u>	<u>\$ 7,775,398</u>

See accompanying notes to financial statements.

MARSHALL ISLANDS PORTS AUTHORITY

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

	<u>2001</u>	<u>2000</u>
Operating revenues:		
Pilotage fees	\$ 782,321	\$ 553,677
Wharfage and dockage	650,042	498,982
Foreign entry fees	104,069	77,435
Lease and storage revenue (note 8)	30,369	-
Fuel and water service	28,203	34,373
Light dues	21,600	16,282
Other	<u>31,074</u>	<u>30,830</u>
Total operating revenues	<u>1,647,678</u>	<u>1,211,579</u>
Operating expenses:		
Depreciation	502,571	495,187
Pilotage	491,372	462,065
Salaries and wages	168,867	151,211
Bad debts	142,982	150,646
Security	66,180	50,370
Repairs and maintenance	27,054	16,042
Training and travel	22,176	19,967
Petroleum, oil and lubricants	10,938	2,535
Communications	10,555	7,519
Insurance	9,198	2,265
Utilities	8,695	9,011
Supplies	5,805	11,530
Miscellaneous	<u>30,165</u>	<u>16,155</u>
Total operating expenses	<u>1,496,558</u>	<u>1,394,503</u>
Operating income (loss)	<u>151,120</u>	<u>(182,924)</u>
Nonoperating income:		
Transfer from Seaport Trust Fund (note 7)	89,221	-
Interest income	49,001	79,762
Gain on sale of fixed assets	<u>4,000</u>	<u>-</u>
Total other income	<u>142,222</u>	<u>79,762</u>
Net earnings (loss)	293,342	(103,162)
Add depreciation on fixed assets acquired by grants externally restricted for capital acquisition and construction that reduces contributed capital	455,166	455,795
Retained earnings at beginning of year	<u>1,215,028</u>	<u>862,395</u>
Retained earnings at end of year	<u>\$ 1,963,536</u>	<u>\$ 1,215,028</u>

See accompanying notes to financial statements.

MARSHALL ISLANDS PORTS AUTHORITY

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

	<u>2001</u>	<u>2000</u>
Cash flows from operating activities:		
Operating income (loss)	\$ 151,120	\$ (182,924)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation	502,571	495,187
Bad debts	142,982	150,646
(Increase) decrease in assets:		
Receivables:		
Trade	(189,728)	(85,385)
Affiliates	(107,307)	(85,124)
Other	(8,721)	-
Inventories	-	2,739
Increase (decrease) in liabilities:		
Accounts payable	(7,654)	305
Other liabilities and accruals	4,957	(25,360)
Payable to affiliates	<u>13,850</u>	<u>10,205</u>
Net cash provided by operating activities	<u>502,070</u>	<u>280,289</u>
Cash flows from noncapital financing activities:		
Transfer from Seaport Trust Fund (note 7)	<u>89,221</u>	<u>-</u>
Net cash provided by noncapital financing activities	<u>89,221</u>	<u>-</u>
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(252,524)	(71,308)
Proceeds from sale of fixed assets	<u>4,000</u>	<u>9,998</u>
Net cash used for capital and related financing activities	<u>(248,524)</u>	<u>(61,310)</u>
Cash flows from investing activities:		
Purchases of time certificates of deposit	(97,798)	(299,014)
Interest on time certificates of deposit	<u>34,729</u>	<u>59,334</u>
Net cash used for investing activities	<u>(63,069)</u>	<u>(239,680)</u>
Net increase (decrease) in cash and cash equivalents	279,698	(20,701)
Cash and cash equivalents at beginning of year	<u>142,065</u>	<u>162,766</u>
Cash and cash equivalents at end of year	\$ <u>421,763</u>	\$ <u>142,065</u>

See accompanying notes to financial statements.

## MARSHALL ISLANDS PORTS AUTHORITY

Notes to Financial Statements  
September 30, 2001 and 2000

### (1) Organization

The Marshall Islands Ports Authority (MIPA), a component unit of the Republic of the Marshall Islands (RepMar), was created under Public Law 1999-88. This legislation repealed Public Law 1994-90 and transferred all assets and liabilities of the former Marshall Islands Port Authority to MIPA, effective March 23, 1999. MIPA's principal line of business is the operation and maintenance of commercial port facilities in the Marshall Islands. Services are currently provided to all vessels, both commercial and private, arriving at port facilities in Majuro.

On February 19, 1994, Public Law 1994-90 was passed by the Nitijela of RepMar which established the Marshall Islands Port Authority as a corporation. Under Public Law 1994-90, RepMar was required to transfer all items of property that RepMar owned and controlled that were used exclusively for the operations of public ports within the Republic. An appraisal of property acquired as of September 30, 1996 was conducted and, in accordance with Public Law 1994-90, the appraised amount, net of accumulated depreciation, was transferred in the amount of \$8,344,972 (see note 6). This amount represented the net book value of the Majuro port facilities, being the only RepMar-owned and controlled facilities within the Republic of the Marshall Islands.

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

MIPA'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 MIPA 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. MIPA 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 PORTS 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 and Cash Equivalents and Time Certificates of Deposit

For purposes of the balance sheets and the statements of cash flows, cash and cash equivalents is defined as cash on hand and cash held in demand accounts as well as short-term investments with a maturity date within ninety days of the date acquired. Deposits maintained in time certificates of deposit with original maturity dates greater than ninety days are separately classified. As of September 30, 2001 and 2000, cash and cash equivalents and time certificates of deposit were \$1,121,763 and \$744,267, respectively, and the corresponding bank balances were \$1,108,719 and \$759,179, respectively, which are maintained in one financial institution located in Majuro 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. MIPA 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. 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. Depreciation is 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. MIPA is specifically exempt from this tax.

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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 \$10,052 and \$10,811, respectively, 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

MIPA 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. MIPA has elected to purchase commercial insurance from independent third parties for the risks of loss to which it is exposed with the exception of its dock facilities. 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, MIPA has elected not to purchase commercial insurance. Instead, MIPA 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 MIPA's risk management activities.

(4) Notes Receivable

Notes receivable as of September 30, 2001 and 2000, consist of the following:

	<u>2001</u>	<u>2000</u>
Note receivable from Tobolar Copra Processing Plant, Inc., advanced on January 23, 1998, due on September 30, 1998, bearing interest at 10%, uncollateralized.	\$ 50,000	\$ 50,000
Note receivable from Tobolar Copra Processing Plant, Inc., advanced on February 27, 1998, due on September 30, 1998, bearing interest at 10%, uncollateralized.	<u>50,000</u>	<u>50,000</u>
	\$ <u>100,000</u>	\$ <u>100,000</u>

Repayment of the above notes receivable, including interest, is in arrears and, accordingly, the total notes receivable and related interest receivable balances have been included in the allowance for doubtful accounts. As of September 30, 2001 and 2000, interest receivable relating to the above notes receivable totals \$36,397 and \$26,397, respectively, and is included within the balance sheets as accrued interest receivable.



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Notes to Financial Statements  
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(7) Related Party Transactions

MIPA was created by the Nitijela of RepMar under Public Law 1999-88 and is thus considered a component unit of RepMar. Accordingly, MIPA is affiliated with all RepMar-owned and affiliated entities.

During the year ended September 30, 1998, MIPA issued two loans to Tobolar Copra Processing Plant, Inc., a component unit of RepMar (see note 4).

On September 14, 2001, MIPA entered into an agreement with RepMar's Ministry of Transportation and Communications to advance funds for salaries and wages of certain RepMar employees in the amount of \$40,659. As of September 30, 2001, this amount has not been repaid and is included in receivables from affiliates as of September 30, 2001.

On September 30, 2001, MIPA received an operating subsidy of \$89,221 from the Seaport Trust Fund, a fund administered by RepMar's Ministry of Transportation and Communications.

In accordance with established tariffs, MIPA imposes pilotage fees on all commercial vessels arriving at port facilities in Majuro. In order to provide this service, MIPA utilizes the services of qualified pilots. During the years ended September 30, 2001 and 2000, MIPA compensated qualified pilots, who were employees and directors of MIPA, for these pilotage services amounting to \$336,284 and \$247,106, respectively.

MIPA's services are provided to RepMar and its affiliates. Services are provided to these entities at the same rates charged to third parties. As of September 30, 2001 and 2000, MIPA's receivables from and payables to affiliates are as follows:

	<u>2001</u>	
	<u>Receivables</u>	<u>Payables</u>
RepMar	\$ 282,019	\$ 6,845
Officers and employees	10,118	9,151
Marshall Islands Social Security Administration	-	6,754
Others	<u>3,066</u>	<u>1,305</u>
	<u>\$ 295,203</u>	<u>\$ 24,055</u>
	<u>2000</u>	
	<u>Receivables</u>	<u>Payables</u>
RepMar	\$ 160,974	\$ 1,291
Officers and employees	24,156	-
Marshall Islands Social Security Administration	-	6,587
Others	<u>2,766</u>	<u>2,327</u>
	<u>\$ 187,896</u>	<u>\$ 10,205</u>

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

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Notes to Financial Statements  
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(8) Commitment

On January 23, 2001, MIPA entered into a ten year lease agreement with a stevedoring company for the container yard located at the Port of Majuro, with an option to extend for an additional ten years subject to renegotiation of the payment provisions. The terms of the lease requires a minimum lease payment of \$19,860 per annum plus a gross receipts fee equal to 1.5% of total operating revenues. Lease rental income under this lease agreement for the year ended September 30, 2001, amounted to \$30,369. Total future minimum rentals under this lease agreement for subsequent years ending September 30, are as follows:

<u>Year ending September 30,</u>	
2002	\$ 19,860
2003	19,860
2004	19,860
2005	19,860
2006	19,860
Subsequent years	<u>84,405</u>
Total future minimum rentals	\$ <u>183,705</u>

(9) Contingency

MIPA does not maintain insurance coverage on its dock facilities or operations. In the event of a loss, MIPA may be self-insured to a material extent.