

MARSHALL ISLANDS PORTS AUTHORITY

FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITORS' REPORT

YEARS ENDED SEPTEMBER 30, 2002 AND 2001



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, 2002 and 2001, and the related statements of earnings 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, 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 9 to the financial statements, MIPA 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 January 8, 2003, 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.

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

January 8, 2003

MARSHALL ISLANDS PORTS AUTHORITY

Balance Sheets  
September 30, 2002 and 2001

ASSETS

	<u>2002</u>	2001 (As Restated note 9)
Current assets:		
Cash	\$ <u>624,835</u>	\$ <u>421,763</u>
Time certificates of deposit	<u>1,202,261</u>	<u>700,000</u>
Receivables:		
Trade	596,804	590,418
Affiliates (note 6)	379,751	295,203
Notes (note 4)	100,000	100,000
Accrued interest	61,902	55,396
Other	<u>-</u>	<u>8,721</u>
	1,138,457	1,049,738
Less allowance for doubtful accounts	<u>(511,566)</u>	<u>(511,566)</u>
	<u>626,891</u>	<u>538,172</u>
Total current assets	2,453,987	1,659,935
Property, plant and equipment, net (note 5)	<u>6,250,212</u>	<u>6,419,958</u>
	<u>\$ 8,704,199</u>	<u>\$ 8,079,893</u>

LIABILITIES AND FUND EQUITY

Current liabilities:		
Accounts payable	\$ 36,576	\$ 12,200
Other liabilities and accruals	32,729	21,929
Payable to affiliates (note 6)	<u>12,748</u>	<u>24,055</u>
Total current liabilities	<u>82,053</u>	<u>58,184</u>
Fund equity:		
Retained earnings	<u>8,622,146</u>	<u>8,021,709</u>
Total fund equity	<u>8,622,146</u>	<u>8,021,709</u>
Commitments and contingency (notes 7 and 8)	<u>\$ 8,704,199</u>	<u>\$ 8,079,893</u>

See accompanying notes to financial statements.

MARSHALL ISLANDS PORTS AUTHORITY

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

	<u>2002</u>	2001 (As Restated note 9)
Operating revenues:		
Pilotage fees	\$ 887,949	\$ 782,321
Wharfage and dockage	664,110	650,042
Foreign entry fees	204,299	104,069
Lease and storage revenue	48,146	30,369
Light dues	36,270	21,600
Fuel and water service	36,253	28,203
Other	<u>26,785</u>	<u>31,074</u>
Total operating revenues	<u>1,903,812</u>	<u>1,647,678</u>
Operating expenses:		
Depreciation	515,188	502,571
Pilotage	403,826	491,372
Salaries and wages	208,961	168,867
Petroleum, oil and lubricants	57,055	10,938
Security	27,004	66,180
Repairs and maintenance	23,082	27,054
Bad debts	19,974	142,982
Utilities	11,206	8,695
Insurance	11,006	9,198
Training and travel	10,578	22,176
Supplies	8,130	5,805
Communications	7,926	10,555
Miscellaneous	<u>41,200</u>	<u>30,165</u>
Total operating expenses	<u>1,345,136</u>	<u>1,496,558</u>
Operating income	<u>558,676</u>	<u>151,120</u>
Nonoperating income:		
Transfer from Seaport Trust Fund (note 6)	-	89,221
Interest income	41,073	49,001
Gain on sale of fixed assets	<u>688</u>	<u>4,000</u>
Total nonoperating income	<u>41,761</u>	<u>142,222</u>
Net earnings	600,437	293,342
Retained earnings at beginning of year	<u>8,021,709</u>	<u>7,728,367</u>
Retained earnings at end of year	<u>\$ 8,622,146</u>	<u>\$ 8,021,709</u>

See accompanying notes to financial statements.

MARSHALL ISLANDS PORTS AUTHORITY

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

	<u>2002</u>	<u>2001</u>
Cash flows from operating activities:		
Operating income	\$ 558,676	\$ 151,120
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	515,188	502,571
Bad debts	19,974	142,982
(Increase) decrease in assets:		
Receivables:		
Trade	(26,360)	(189,728)
Affiliates	(84,548)	(107,307)
Other	8,721	(8,721)
Increase (decrease) in liabilities:		
Accounts payable	24,376	(7,654)
Other liabilities and accruals	10,800	4,957
Payable to affiliates	<u>(11,307)</u>	<u>13,850</u>
Net cash provided by operating activities	<u>1,015,520</u>	<u>502,070</u>
Cash flows from noncapital financing activities:		
Transfer from Seaport Trust Fund (note 6)	<u>-</u>	<u>89,221</u>
Net cash provided by noncapital financing activities	<u>-</u>	<u>89,221</u>
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(345,442)	(252,524)
Proceeds from sale of fixed assets	<u>688</u>	<u>4,000</u>
Net cash used for capital and related financing activities	<u>(344,754)</u>	<u>(248,524)</u>
Cash flows from investing activities:		
Purchases of time certificates of deposit	(502,261)	(97,798)
Interest on time certificates of deposit	<u>34,567</u>	<u>34,729</u>
Net cash used for investing activities	<u>(467,694)</u>	<u>(63,069)</u>
Net increase in cash	203,072	279,698
Cash at beginning of year	<u>421,763</u>	<u>142,065</u>
Cash at end of year	\$ <u>624,835</u>	\$ <u>421,763</u>

See accompanying notes to financial statements.

# MARSHALL ISLANDS PORTS AUTHORITY

Notes to Financial Statements  
September 30, 2002 and 2001

## (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, the Nitijela of RepMar passed Public Law 1994-90 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. 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, 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 \$624,835 and \$421,763, respectively, and the corresponding bank balances were \$650,142 and \$408,719, respectively, which are maintained in one financial institution located in Majuro subject to Federal Deposit Insurance Corporation (FDIC) insurance. At September 30, 2002, a time certificate of deposit of \$1,202,261 was maintained in a non-FDIC bank (see note 6). At September 30, 2001, time certificates of deposit amounting to \$700,000 were maintained in a financial institution subject to FDIC. As of September 30, 2002 and 2001, bank deposits and time certificates of deposit 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.

#### 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.

MARSHALL ISLANDS PORTS 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 \$17,240 and \$10,052, respectively, and is included within the balance sheets as other liabilities and accruals.

(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 or operations (note 8). 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, 2002 and 2001, consist of the following:

	<u>2002</u>	<u>2001</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, 2002 and 2001, interest receivable relating to the above notes receivable totals \$46,397 and \$36,397, respectively, and is included within the balance sheets as accrued interest receivable.

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Notes to Financial Statements  
September 30, 2002 and 2001

(5) 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	15 - 40 years	\$ 13,553,421	\$ 13,167,272
Buildings	10 - 20 years	447,488	420,093
Equipment	15 years	145,045	125,638
Vehicles	2 - 4 years	78,008	71,128
Office equipment	3 - 6 years	70,505	62,746
Furniture and fixtures	8 years	<u>9,730</u>	<u>8,610</u>
		14,304,197	13,855,487
Less accumulated depreciation		<u>(8,132,579)</u>	<u>(7,642,149)</u>
		6,171,618	6,213,338
Construction work in progress		<u>78,594</u>	<u>206,620</u>
		<u>\$ 6,250,212</u>	<u>\$ 6,419,958</u>

(6) 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. On November 22, 2001, MIPA advanced funds in the amount of \$173,555 to Meram, Inc. (a corporation solely owned by the RepMar government) for boat operations. As of September 30, 2002, these amounts have not been repaid and are included in receivables from affiliates.

For the years ended September 30, 2002 and 2001, MIPA received operating subsidies of \$-0- and \$89,221, respectively, from the Seaport Trust Fund, a fund administered by RepMar's Ministry of Transportation and Communications.

In accordance with established tariffs, MIPA imposes compulsory pilotage fees on all commercial vessels arriving at port facilities in Majuro that are one-hundred gross tonnage and over. In order to provide this service, MIPA utilizes the services of qualified pilots. Since the inception of compulsory pilotage, the majority of qualified pilots are employees of MIPA and other RepMar Ministries and Agencies. Sixty-seven (67) percent of compensation is retained by pilots, and thirty-three (33) percent is retained by MIPA. It is the intention of MIPA to train pilots in accordance with the pilotage regulations and eventually contract this service out to qualified private individuals or associations. During the years ended September 30, 2002 and 2001, MIPA compensated qualified pilots, who were employees and directors of MIPA, for these pilotage services amounting to \$319,023 and \$336,284, respectively.

MARSHALL ISLANDS PORTS AUTHORITY

Notes to Financial Statements  
September 30, 2002 and 2001

(6) Related Party Transactions, Continued

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, 2002 and 2001, MIPA's receivables from and payables to affiliates are as follows:

	<u>2002</u>	
	<u>Receivables</u>	<u>Payables</u>
RepMar	\$ 374,381	\$ 1,598
Officers and employees	3,129	-
Marshall Islands Social Security Administration	-	11,150
Others	<u>2,241</u>	<u>-</u>
	<u>\$ 379,751</u>	<u>\$ 12,748</u>
	<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>

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

As of September 30, 2002 and 2001, MIPA maintained a time certificate of deposit with a related financial institution in the amount of \$1,202,261 and \$-0-, respectively.

(7) Commitments

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, 2002, amounted to \$30,369.

On January 1, 2002, MIPA entered into a five-year lease agreement with an exporting company for a warehouse located at the Uliga Dock in Majuro, with an option to extend for an unspecified number of years. The terms of the lease requires a lease payment of \$9,000 per annum. Lease rental income under this lease agreement for the year ended September 30, 2002, amounted to \$6,750.

MARSHALL ISLANDS PORTS AUTHORITY

Notes to Financial Statements  
September 30, 2002 and 2001

(7) Commitments, Continued

Total future minimum rentals for subsequent years ending September 30, are as follows:

Year ending September 30,	
2003	\$ 28,860
2004	28,860
2005	28,860
2006	28,860
2007	22,110
Subsequent years	<u>102,795</u>
Total future minimum rentals	\$ <u>240,345</u>

On August 6, 2002, MIPA entered into an agreement with a contractor in the amount of \$236,966 for the construction of a new office building in Delap, Majuro Atoll.

(8) 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.

(9) Restatement

Effective October 1, 2001, MIPA implemented GASB Statement 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 Earnings and Retained Earnings. In prior periods, capital grants and contributions had been recorded as a direct increase to contributions in the equity section of the Balance Sheet. As a result, contributed capital and retained earnings as of October 1, 2000 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>6,513,339</u>	\$ <u>-</u>
Retained earnings	\$ <u>1,215,028</u>	\$ <u>7,728,367</u>