MARSHALL ISLANDS PORTS AUTHORITY

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

YEARS ENDED SEPTEMBER 30, 2003 AND 2002

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**Deloitte
Touche
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INDEPENDENT AUDITORS' REPORT

Board of Directors
Marshall Islands Ports Authority:

We have audited the accompanying statements of net assets of the Marshall Islands Ports Authority (MIPA), a component unit of the Republic of the Marshall Islands, 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 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, 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 MIPA will continue as a going concern. As described in note 9 to the accompanying financial statements, RepMar Public Law 2003-81 will integrate MIPA into the RMI Ports Authority effective June 3, 2004.

As described in note 2 to the accompanying financial statements, MIPA 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 3 through 7 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 19, 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.

Deloitte & Touche LLP

December 19, 2003

MARSHALL ISLANDS PORTS AUTHORITY

MANAGEMENT DISCUSSION & ANALYSIS
As of and For the Year Ended September 30, 2003

Condensed Financial Information

	2003	2002
STATEMENT OF NET ASSETS - SUMMARY		
Current assets	$ 2,580,127	$ 2,453,987
Capital assets	6,364,661	6,250,212
Total assets	$ 8,944,788	$ 8,704,199
Current liabilities	$ 73,889	$ 82,053
Investment in capital assets	6,364,661	6,250,212
Unrestricted	2,506,238	2,371,934
Total net assets	8,870,899	8,622,146
Total liabilities and net assets	$ 8,944,788	$ 8,704,199

	2003	2002
SUMMARY OF OPERATIONS		
Operating revenues	$ 1,866,571	$ 1,903,812
Operating expenses	1,381,966	1,345,136
Operating income	484,605	558,676
Nonoperating revenues (expenses)	(235,852)	41,761
Change in net assets	248,753	600,437
Net assets at beginning of year	8,622,146	8,021,709
Net assets at end of year	$ 8,870,899	$ 8,622,146

Results of Current Year Operations

Operating revenues

		2003		2002
Vessel arrivals [in numbers]				
Cargo vessels		58		55
Fishing vessels		1,330		1129
Foreign tankers		20		14
Other vessels [cruise ship, pleasure yachts]		7		10
Total vessel arrivals		1,415		1,208
Wharfage and dockage revenue	$	753,927	$	664,110

Increase in revenue is largely due to petroleum product wharfage which jumped from $189,833 in 2002 to $293,122 in 2003. Foreign tanker delivery of petroleum products to Majuro increased to 20 voyages against 14 voyages of the previous year.

		2003		2002
Pilotage fees	$	685,248	$	887,949
Foreign entry fees				
Vessel arrivals charged with regular foreign entry fees	$	97,454	$	116,219
Domestically based vessel arrivals charged with special rate	$	187,680	$	88,080
Total foreign entry fees	$	285,134	$	204,299

Starting January 2002, domestically based fishing vessels of the Marshall Islands Fishing Venture (MIFV) and Edgewater Fisheries were charged a fixed rate of $240 for each vessel arrival in lieu of the normal entry fees (of $60 minimum each vessel arrival) and pilotage fees (of $225 pilot fee minimum per move plus $200 pilot boat fee per move). These fees were entered and classified as foreign entry fees.

Consequently, pilotage fees decreased and foreign entry fees increased mainly due to increase in the numbers of domestically based vessels arrivals.

		2003		2002
Vessel arrivals charged with regular pilotage rates		617		832
Domestically based vessel arrivals		782		367
Vessel arrivals not charged with pilotage		16		9
Total vessel arrivals		1,415		1,208
Light dues	$	42,450	$	36,270

A light dues of $30 is levied to each arriving vessel. The increase in revenue is solely due to increase in number of vessel arrivals from the previous year of 1,208 to the current year of 1,415.

		2003		2002
Lease and storage revenue	$	49,546	$	48,146
Revenue earned from lease :				
1 Majuro Stevedore & Terminal Co.				
4th quarter (Oct-Dec)		4,965		4,965
1.5% of operating revenue		5,184		5,711
1st quarter (Jan-Mar)		4,965		4,965
1.5% of operating revenue		4,209		5,226
2nd quarter (Apr-Jun)		4,965		4,965
1.5% of operating revenue		5,556		5,554

	3rd quarter (Jul-Sep)		4,965		4,965
	1.5% of operating revenue		5,437		5,045
2	Kendall Micronesian Inc.		9,000		6,750
3	Twin Mast Shipping Agency		300		-
	Total	$	49,546	$	48,146

Operating revenues decreased when compared with last year mostly because of the increased number of domestically based vessels which were granted a special entry fee without the need of pilotage.

		2003		***2002***

Operating expenses

Depreciation	$	387,115	$	515,188

Decrease in depreciation is due mainly to the fully depreciated navigational aids facility which was built for a cost of $2,200,000 depreciated over 15 years at $146,667 per year till the end of FY2002.

Pilotage	$	322,306	$	403,826

Decrease is due to increased number of domestically based vessels which were granted with special entries without the need of pilotage.

Salaries and wages	$	284,104	$	208,961

Increase is due to hiring of six (6) security guards in April 2002, two (2) maintenance personnel in July 2002 and one (1) secretary in March 2003 and salary raises (ranging from 5% to 15%) of existing personnel as at the end of FY2002.

Security services provided by a security agency were terminated effective April 1, 2002.

Bad debts	$	191,242	$	19,974

Increased provision for doubtful debts was made to include all accounts which are over 90 days outstanding as at the end of FY2003 and remain uncollected as at the end of January 2004. Exceptions are some accounts which are certain of recovery.

Main contributory to the increase in operating expenses are bad debts and salaries and wages.

Nonoperating revenues (expenses)

Transfer to RepMar	$	(300,000)	$	-

In compliance with Public Law 1999-88, Section 5.12, the board and the management of MIPA decided to transfer an amount of $300,000 to RepMar on May 30, 2003, which is 50% of the previous year net profit of $600,437.

Change in net assets	**$**	**248,753**	**$**	**600,437**
50% dividend of previous year profit transferred to RepMar and netted out from this year's operation	$	300,000	$	-
Actual net profit	$	548,753	$	600,437

Compared with last year operation, net profit dropped slightly by 9% but almost comparably the same.

Compared with budget, however, the net result is favorably 3 and 1/4 times of the budgeted net profit of $169,118.

Current assets		2003		2002
Cash	$	849,374	$	624,835
Time certificates of deposit	$	1,237,602	$	1,202,261

Cash position improved with an increase of $224,539 despite maintaining the time certificates of deposits and making the following major payments:

Amount transferred to RepMar representing 50% dividend of previous year	$	300,000
Amount paid for construction and acquisition of capital assets	$	501,564

Receivables		2003		2002
Trade	$	601,910	$	596,804
Affiliates [RepMar & other government agencies]	$	348,811	$	379,751
Notes [Tobolar]	$	100,000	$	100,000
Accrued interest	$	70,973	$	61,902
	$	1,121,694	$	1,138,457
Less allowance for doubtful accounts	$	(702,808)	$	(511,566)
	$	418,886	$	626,891
Advances to suppliers	$	74,265	$	-

These are advance payments made to suppliers for supply of computer systems and office supplies for the new Delap office and nautical lighting equipment for Majuro's navigational aid which were received after September 30, 2003.

Seventy two (72%) percent of the allowance for doubtful accounts of $702,808 relates to accounts receivables from affiliates (RepMar & other government agencies) of $348,811 and Tobolar notes of $100,000 plus interest accrued of $56,397.

		2003		2002
Current liabilities	$	73,889	$	82,053

No major liabilities exists as at the end of the fiscal year. The amount comprises mostly of accruals of expenditures paid after the fiscal year and employees leave pay.

Investment in capital assets

		2003		2002
Property, plant and equipment - at cost	$	14,264,650	$	14,304,197
Less accumulated depreciation	$	(8,456,729)	$	(8,132,579)
	$	5,807,921	$	6,171,618
Construction work in progress	$	556,740	$	78,594
	$	6,364,661	$	6,250,212

The construction work in progress relates to the new Delap office building.

Subsequent event

Public Law 2003-81 (the RMI Ports Authority Act, 2003) which repealed Public Law 1999-88 was passed by the Nitijela of RepMar on September 19, 2003 integrating MIPA with the Marshall Islands Airports 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 a six month transition period for the Act to be fully operational.

Recapitulation

<> The financial position has slightly improved, with net assets increasing from the previous fiscal year amount of $8,622,146 to the current fiscal year amount of $8,870,899.

Compared with last year operation, however, net profit dropped slightly by 9% mainly because of the following:

1 increase in the number of domestically based vessels which were granted with a special entry fees and without the need of pilotage.
2 increase in operating expenses due to bad debts and salaries and wages.

<> Compared with budget, however, the net result is favorably 3 and 1/4 times of the budgeted net profit of $169,118, with revenues achieved very favorably.

<> The new Delap office building, built at a cost of $509,000, became operational in January 2004. This was paid out from the operational fund of MIPA. There is no long-term debt entered into.

<> At the end of the fiscal year, there are no restrictions or commitments which will affect the availability of resources for future use.

<> Public Law 2003-81 (the RMI Ports Authority Act, 2003) which repealed Public Law 1999-88 was passed by the Nitijela of RepMar on September 19, 2003 integrating MIPA with the Marshall Islands Airports 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 a six month transition period for the Act to be fully operational.

MARSHALL ISLANDS PORTS AUTHORITY

Statements of Net Assets
September 30, 2003 and 2002

ASSETS

	2003	2002
Current assets:		
Cash	$ 849,374	$ 624,835
Time certificates of deposit	1,237,602	1,202,261
Receivables:		
Trade	601,910	596,804
Affiliates	348,811	379,751
Notes	100,000	100,000
Accrued interest	70,973	61,902
Other	74,265	-
	1,195,959	1,138,457
Less allowance for doubtful accounts	(702,808)	(511,566)
	493,151	626,891
Total current assets	2,580,127	2,453,987
Property, plant and equipment, net	6,364,661	6,250,212
	$ 8,944,788	$ 8,704,199

LIABILITIES AND NET ASSETS

	2003	2002
Current liabilities:		
Accounts payable	$ 12,000	$ 36,576
Other liabilities and accruals	55,357	32,729
Payable to affiliates	6,532	12,748
Total current liabilities	73,889	82,053
Commitments and contingency		
Net assets:		
Investment in capital assets	6,364,661	6,250,212
Unrestricted	2,506,238	2,371,934
Total net assets	8,870,899	8,622,146
	$ 8,944,788	$ 8,704,199

See accompanying notes to financial statements.

MARSHALL ISLANDS PORTS AUTHORITY

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

	2003	2002
Operating revenues:		
Wharfage and dockage	$ 753,927	$ 664,110
Pilotage fees	685,248	887,949
Foreign entry fees	285,134	204,299
Lease and storage revenue	49,546	48,146
Light dues	42,450	36,270
Fuel and water service	28,412	36,253
Other	21,854	26,785
Total operating revenues	1,866,571	1,903,812
Operating expenses:		
Depreciation	387,115	515,188
Pilotage	322,306	403,826
Salaries and wages	284,104	208,961
Bad debts	191,242	19,974
Petroleum, oil and lubricants	59,513	57,055
Training and travel	36,186	10,578
Repairs and maintenance	14,282	23,082
Supplies	10,072	8,130
Insurance	9,819	11,006
Utilities	8,961	11,206
Professional fees	8,775	-
Communications	8,459	7,926
Security	-	27,004
Miscellaneous	41,132	41,200
Total operating expenses	1,381,966	1,345,136
Operating income	484,605	558,676
Nonoperating revenues (expenses):		
Interest income	64,148	41,073
Gain on sale of fixed assets	-	688
Transfer to RepMar	(300,000)	-
Total nonoperating revenues (expenses), net	(235,852)	41,761
Change in net assets	248,753	600,437
Net assets at beginning of year	8,622,146	8,021,709
Net assets at end of year	$ 8,870,899	$ 8,622,146

See accompanying notes to financial statements.

MARSHALL ISLANDS PORTS AUTHORITY

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

	2003	2002
Cash flows from operating activities:		
Cash received from customers	$ 1,883,334	$ 1,808,525
Cash payments to suppliers for goods and services	(368,577)	(243,204)
Cash payments to employees for services	(517,461)	(542,901)
Net cash provided by operating activities	997,296	1,022,420
Cash flows from noncapital financing activities:		
Transfer to RepMar	(300,000)	-
Net cash used for noncapital financing activities	(300,000)	-
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(501,564)	(351,654)
Net cash used for capital and related financing activities	(501,564)	(351,654)
Cash flows from investing activities:		
Purchases of time certificates of deposit	(35,341)	(502,261)
Interest on time certificates of deposit	64,148	34,567
Net cash provided by (used for) investing activities	28,807	(467,694)
Net increase in cash	224,539	203,072
Cash at beginning of year	624,835	421,763
Cash at end of year	$ 849,374	$ 624,835
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	$ 484,605	$ 558,676
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	387,115	515,188
Bad debts	191,242	19,974
(Increase) decrease in assets:		
Receivables:		
Trade	(5,106)	(26,360)
Affiliates	30,940	(77,648)
Accrued interest	(9,071)	8,721
Other	(74,265)	-
Increase (decrease) in liabilities:		
Accounts payable	(24,576)	24,376
Other liabilities and accruals	22,628	10,800
Payable to affiliates	(6,216)	(11,307)
Net cash provided by operating activities	$ 997,296	$ 1,022,420

See accompanying notes to financial statements.

(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.

(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 $849,374 and $624,835, respectively, and the corresponding bank balances were $866,564 and $650,142, respectively, which are maintained in one financial institution located in Majuro subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2003 and 2002, a time certificate of deposit of $1,237,602 and $1,202,261, respectively, was maintained in a non-FDIC bank (see note 6). As of September 30, 2003 and 2002, 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. The estimated useful lives of these assets are as follows:

Facilities	15 - 40 years
Buildings	10 - 20 years
Equipment	15 years
Vehicles	2 - 4 years
Office equipment	3 - 6 years
Furniture and fixtures	8 years

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.

(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 $22,029 and $17,240, 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. MIPA 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 MIPA's financial statements:

- Retained earnings have been reclassified into the following net assets categories:
    - Investment in capital assets; capital assets, net of accumulated depreciation, 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 flows has been presented using the direct method.

(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, 2003 and 2002, consist of the following:

	2003	2002
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.	50,000	50,000
	$ 100,000	$ 100,000

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, 2003 and 2002, interest receivable relating to the above notes receivable totals $56,397 and $46,397, respectively, and is included within the statements of net assets as accrued interest receivable.

(5) Property, Plant and Equipment

Capital assets activity for the years ended September 30, 2003 and 2002, was as follows:

	2003			
	October 1, 2002	Additions	Retirements	September 30, 2003
Facilities	$ 13,553,421	$ -	$ -	$ 13,553,421
Buildings	447,488	-	-	447,488
Equipment	145,045	1,464	(36,527)	109,982
Vehicles	78,008	3,000	(21,000)	60,008
Office equipment	70,505	349	(5,438)	65,416
Furniture and fixtures	9,730	18,605	-	28,335
	14,304,197	23,418	(62,965)	14,264,650
Less accumulated depreciation	(8,132,579)	(387,115)	62,965	(8,456,729)
	6,171,618	(363,697)	-	5,807,921
Construction work-in-progress	78,594	478,146	-	556,740
	$ 6,250,212	$ 114,449	$ -	$ 6,364,661

	2002			
	October 1, 2001	Additions	Retirements	September 30, 2002
Facilities	$ 13,167,272	$ 386,149	$ -	$ 13,553,421
Buildings	420,093	27,395	-	447,488
Equipment	125,638	19,407	-	145,045
Vehicles	71,128	37,850	(30,970)	78,008
Office equipment	62,746	7,759	-	70,505
Furniture and fixtures	8,610	1,120	-	9,730
	13,855,487	479,680	(30,970)	14,304,197
Less accumulated depreciation	(7,642,149)	(515,188)	24,758	(8,132,579)
	6,213,338	(35,508)	(6,212)	6,171,618
Construction work-in-progress	206,620	78,594	(206,620)	78,594
	$ 6,419,958	$ 43,086	$ (212,832)	$ 6,250,212

(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, 2003 and 2002, these amounts have not been repaid and are included in receivables from affiliates, RepMar.

Public Law 1999-88, Section 5.12, required MIPA to pay dividends to RepMar from MIPA's operating income. The dividend amount was to be agreed by the Board and the RepMar Minister of Communications and Transportation, after considering MIPA's level of debt and any proposed capital projects in its corporate plan. The dividend was not to exceed 50% of net profit. During the years ended September 30, 2003 and 2002, MIPA recorded transfers to RepMar in the amount of $300,000 and $-0-, respectively, in consideration of this requirement. On October 11, 2002, the Nitijela of RepMar, through Public Law 2002-69, repealed Section 5.12 and amended Section 5.5 of Public Law 1999-88, requiring MIPA to pay up to a maximum 10% of annual revenues to the Ministry of Communications and Transportation. As of September 30, 2003, the Board of Directors have not agreed on an amount to be paid to the Ministry of Communications and Transportation.

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. Pilots who are not employees of MIPA do not contribute the thirty-three percent to 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, 2003 and 2002, MIPA compensated qualified pilots, who were employees and directors of MIPA, for these pilotage services amounting to $235,806 and $319,023, 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, 2003 and 2002, MIPA's receivables from and payables to affiliates are as follows:

	2003	
	Receivables	Payables
RepMar	$ 348,811	$ 1,845
Marshall Islands Social Security Administration	-	4,687
	$ 348,811	$ 6,532

(6) Related Party Transactions, Continued

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

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

As of September 30, 2003 and 2002, MIPA maintained a time certificate of deposit with a related financial institution in the amount of $1,237,602 and $1,202,261, 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 years ended September 30, 2003 and 2002, amounted to $40,246 and $30,369, respectively.

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 years ended September 30, 2003 and 2002, amounted to $9,000 and $6,750, respectively.

On September 1, 2003, MIPA entered into a five-year lease agreement with a trading company to lease out the Delap Wharf located at the Delap Dock, with an option to extend for an additional five years subject to renegotiation of the payment provisions. The terms of the lease requires a minimum payment of $300 per month or $3,600 per annum.

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

Year ending September 30,	
2004	$ 32,460
2005	32,460
2006	32,460
2007	25,710
2008	23,460
Subsequent years	111,795
Total future minimum rentals	$ 258,345

(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) 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 1999-88 and integrated MIPA with the Marshall Islands Airports 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 MIPA to operate as a separate entity during a six month transition period (June 4, 2004).