RMI PORTS AUTHORITY

(A COMPONENT UNIT OF THE REPUBLIC OF THE MARSHALL ISLANDS)

FINANCIAL STATEMENTS, ADDITIONAL INFORMATION AND INDEPENDENT AUDITORS' REPORT

YEARS ENDED SEPTEMBER 30, 2011 AND 2010

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INDEPENDENT AUDITORS' REPORT

Board of Directors
RMI Ports Authority:

We have audited the accompanying statements of net assets of the RMI Ports Authority (the Authority), a component unit of the Republic of the Marshall Islands, as of September 30, 2011 and 2010, and the related statements of revenues, expenses and changes in net assets and of cash flows for the years then ended. These financial statements are the responsibility of the Authority'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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 the Authority as of September 30, 2011 and 2010, and the changes in its net assets 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 September 20, 2012, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 21 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the Authority's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit such information and we do not express an opinion on it.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements of the Authority taken as a whole. The accompanying combining divisional information for the year ended September 30, 2011 (page 36) is presented for the purpose of additional analysis and is not a required part of the basic financial statements. This combining divisional information is the responsibility of the Authority's management. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements for the year ended September 30, 2011 and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Deloitte + Touche LLP

September 20, 2012

I) INTRODUCTION

Our discussion and analysis of the financial performance of airport and seaport divisions of the RMI Ports Authority (Ports Authority) provides an overview of Ports Authority's financial activities presented in the audited financial statements for the fiscal year ending September 30, 2011. This discussion and analysis should be read in conjunction with the more detailed information contained within the accompanying audited financial statements.

Ports Authority is a component unit of the Republic of the Marshall Islands (RMI) and was established as a public corporation under RMI Public Law 2003-81, known as the RMI Ports Authority Act of 2003. The new Act supersedes the previous Acts of the Marshall Islands Airports Authority (MIAA) and the Marshall Islands Ports Authority (MIPA) and merges the two aforementioned authorities into one single ports authority.

A seven-member Board of Directors governs Ports Authority, all of whom are appointed by the Cabinet. One of the members is designated by the Cabinet as the Chairperson of the Board. Ports Authority is responsible for establishing, maintaining, managing and operating all airports and port facilities designated by the law and by the RMI Government. At the time of writing, Ports Authority has the overall responsibilities in management, operations and maintenance of all airport and seaport facilities in Majuro, except for the fish base facilities.

As of September 30, 2011, Ports Authority had 62 full-time employees. Composition is as follows: 3 in Administration; 6 in Finance; 6 in Airport Operations (Tower); 5 in Seaport Operations; 12 in Maintenance; and 30 in Security. Out of the 30 Security Officers, 12 are cross-trained and certified as airport firefighters.

II) FINANCIAL STATEMENTS OVERVIEW

Ports Authority's financial reports are prepared in accordance with accounting principles generally accepted in the United States of America mandated by Governmental Accounting Standards Board (GASB) as well as Statements and Interpretations issued by the Financial Accounting Standards Board (FASB), Accounting Principles Board Opinion, and Accounting Research Bulletins of the Committee on Accounting Procedures, as applicable to government entities.

III) FINANCIAL HIGHLIGHTS

- For fiscal period ending September 30, 2011, total net assets was $52,127,988, an increase of $695,673 from the prior fiscal year. The increase was mainly due to Road Realignment Project, which started in FY 2011 and funds accrued and received from U.S. Federal Grants with corresponding local matching funds from the Ports Authority for the Airport Improvement Program projects constructed / implemented at Amata Kabua International Airport (AKIA).

- Total operating revenues increased by $128,371 or 5%. The Airport Division accounted for the increase in fiscal year 2011 by 8%. This is the first time this has happened since Ports Authority merged in 2003. The increase was due to the increase in flight movement, number of travelers, Ground Handling transient, and Wharfage.

- Total operating expenses, inclusive of bad debts and depreciation, was $5,492,786 for fiscal year 2011. It increased by 21% or by $958,209 compared to last year. The increase was due to depreciation, bad debts, and rent. The details of the increases in the operating expenses are as follows:

III) FINANCIAL HIGHLIGHTS, CONTINUED

i) The Bad Debts was for the additional set-up of uncollectible receivables for the financing charges receivable, advances to affiliates, and receivables from Air Marshall Islands (AMI) and Directorate of Civil Aviation (DCA) for FY 2011.

ii) The depreciation also increased by 39% or by $872,787 for fiscal year 2011. The increase was due to the transfer of most of its projects in the Airport, which are 100% complete and operational. **This, however, is a non-cash expense**. It reduces the value of an asset as a result of wear and tear, age, or obsolescence. Most of the assets lose their value – in other words, they depreciate and must be replaced once the end of their useful life is reached or make an improvement by upgrading or by doing major repairs that could increase the life of the asset. Because it is a non-cash expense, depreciation lowers the Company's reported earnings while not impacting cash flow. ***This account does not affect the statement of cash flows, but cost of acquiring and improving the assets does.***

iii) The rent increase due to the amendment of the lease agreement for the Lobotin Weto at Seaport for the additional 4.2452 acres at $3,000 per acre. Ports Authority paid $54,126 in FY 2011 for the years 2007 to the 1st quarter of 2011. Ports Authority's land lease increase from $70,361 to $73,545 or $3,184 per quarter. Ports Authority pays annual lease of $257,931 and $84,007 for the Airport and Seaport, respectively.

- The Ports Authority incurred an operating loss of $2,719,188 for fiscal year 2011. This is an increase in operating loss by 44% or $ 829,838 compared to last year. The increase in the operating loss was caused by the increase in the operating expenses mentioned above. As explained above, depreciation lowers the operating income, but it does not affect the cash flows. Ports Authority generated a positive operating income of $383,858 excluding depreciation in FY 2011.

- The overall performance of the Ports Authority was better compared to last year. Operating revenues for Airport and Seaport both went up in FY 2011 by 8% and 4%, respectively. Operating expenses went up by $958,209, including depreciation. The depreciation represents 91% of the increase while cash-related expenses represent the 9% in FY 2011.

IV) STATEMENTS OF NET ASSETS

	2011	2010	Change	%	2009
Current assets	$ 2,785,857	$ 3,605,424	$ (819,567)	(23)	$ 3,275,147
Non-current assets	403,656	347,744	55,912	16	750,000
Property, plant, and equipment, net	50,491,994	49,142,013	1,349,981	3	45,343,122
Total Assets	$ 53,681,507	$ 53,095,181	$ 586,326	1	$ 49,368,269
Current liabilities	$ 1,499,589	$ 1,506,902	$ (7,313)	(0.5)	$ 1,515,557
Non-current liabilities	53,930	155,964	(102,034)	(65)	-
Net Assets	52,127,988	51,432,315	695,673	1.4	47,852,712
Total Liabilities and Net Assets	$ 53,681,507	$ 53,095,181	$ 586,326	1	$ 49,368,269

Current assets decreased by 23% as seen in the above table. The decrease was caused by the withdrawal of TCD used to finance the Airport's operation; receivables went down because Ports Authority was able to collect its receivables from the customers except affiliates; cash decreased to pay for its AIP matchings; and receivables from FAA went down when Ports Authority received grants from FAA particularly the RSA Project.

IV) STATEMENTS OF NET ASSETS, CONTINUED

Non-current assets represent the restricted TCD and the non-current portion of notes receivable of AMI amounting to $295,000 and $108,656, respectively.

V) STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

	2011	2010	Change	%	2009
Operating Revenues:					
Airport Division	$ 904,098	$ 839,350	$ 64,748	8	$ 871,538
Seaport Division	1,869,500	1,805,877	63,623	4	1,367,071
	2,773,598	2,645,227	128,371	5	2,238,609
Operating Expenses:					
Airport Division	4,052,883	3,117,517	935,366	30	2,588,061
Seaport Division	1,439,903	1,417,060	22,843	2	1,249,203
	5,492,786	4,534,577	958,209	21	3,837,264
Non-Operating Revenues (Expenses):					
Airport Division	(225,578)	26,066	(251,644)	(965)	(6,633)
Seaport Division	(169,504)	81,400	(250,904)	(308)	103,405
	(395,082)	107,466	(502,548)	(468)	96,772
Capital Contributions:					
Airport Division	3,809,943	5,361,487	(1,551,544)	(29)	10,906,500
Seaport Division	-	-	-	-	-
	3,809,943	5,361,487	(1,551,544)	(29)	10,906,500
Change in Net Assets:					
Airport Division	435,580	3,109,386	(2,673,806)	(86)	9,183,344
Seaport Division	260,093	470,217	(210,124)	(45)	221,273
	$ 695,673	$ 3,579,603	$ (2,883,930)	(81)	$ 9,404,617

In fiscal year 2011, the Airport Division generated 33% of the total revenues for the Ports Authority. Their revenue this year increased by 8% compared to last year 2010 while operating expenses increased by 30%. Its net loss this year has increased to $3.1 million from $2.3 million (including depreciation) when compared to last year. Net operating loss for FY 2011 without depreciation is $449,466 compared with $469,251 for FY2010.

The capital contributions of the Airport Division refer to its AIP projects that the Ports Authority administers. Non-operating revenues (expenses), net include the contribution of $500,000 to the RMI Government shared by the Airport and Seaport Divisions. However, the Ports Authority was not able to pay the entire amount because it also pays land lease and AIP matchings. Please take note that AIP matchings will increase from 5% to 10% for the new grants.

This year, Seaport generated $1.9 million revenues, which represents 67% of total revenues for 2011. Its expenses, likewise, increased by $22,843 from $1.42 million in 2010 to $1.44 million in 2011 or an increase of only 2%. This is actually lower by 30% compared to the expenses incurred by the Airport Division.

VI) FINANCIAL RATIOS

	2011	2010
Current Ratio	1.9:1	2.4:1
Receivable Turnover	3 times	7.6 times
Average Age of Receivables	122 days	47 days
Net Profit Ratio - Airport	(373%)	(268%)
Net Profit Ratio – Seaport	14%	26%

The current ratio is still within the normal range for fiscal year 2011 and 2010. This ratio shows that the Ports Authority was able to pay its current obligations with its available current assets during the fiscal year like its contractual obligations and AIP matchings. This shows that the Ports Authority's current assets like cash and receivables are enough and not excessive and can pay its liabilities when it becomes due.

The Receivable Turnover, on the other hand, confirms the fairness of the receivable balance and would help the Ports Authority indicate the presence of possible collection problems in cases of low turnover. Same with FY 2010, the turnover and average age of receivables shows below average performance because it exceeded its 30 days normal collection cycle. These receivables that were not collected during the year are from affiliates. ***Most of the unpaid receivables of the Ports Authority from the government entities and agencies and were set-up as additional allowance during the year.***

Though Airport has improved its revenues, still does not contribute positive income to the Ports Authority with its current operations in fiscal year 2011 because the amount of service and maintenance is higher compared to Seaport. Seaport, on the other hand, contributed 14% profit to the Ports Authority in FY 2011.

VII) PER DIVISION

A. AIRPORT DIVISION

- Net assets increased by $435,580 in the fiscal period ending September 30, 2011 compared with increase by $3,109,386 in the fiscal period ending September 30, 2010. The capital contributions in FY 2011 decreased because most of the AIP projects are almost complete and waiting for close-out report. The capital contributions received during the year are related to the Road Realignment Project/RSA and NDB/DME Project. As of September 30, 2011, total funds accrued and received to finance airport projects amounted to $ 3.4 million net of the 50% share in the contribution to the RMI Government.

- Operating revenues increased by 8% from $839,350 in fiscal year ending September 30, 2010 to $904,098 during the fiscal year ending September 30, 2011. This was caused by the increase in the Departure Fees, Landing Charges from scheduled flights, Aircraft Parking Charges, Runway Lights and NavAids Fees, and Ground Handling from transient flights.

- Operating expenses was higher in FY 2011 than in FY 2010 by 30% or by $935,366. Significant contributors to this increase were from Bad Debts, Depreciation, and Gas, Oil, and Fuel;

  i) Bad Debts were set-up as an additional allowance for uncollectible accounts from financing charges, AMI and DCA;

VII) PER DIVISION, CONTINUED

A. AIRPORT DIVISION, CONTINUED

ii) Depreciation expense increased by $890,403 or 49% in fiscal year 2011. The increase was due to the transfer of most of its projects in the Airport, which are almost 100% completed and operational. As explained under sub-heading III above, this is a non-cash item; and

iii) Gas, Oil, and Fuel increased by $11,371 or 49% in terms of percentage. The consumption of fuel increased during fiscal year ending September 30, 2011 for its two generators at the ARFF building and the fire truck.

- The Airport Division incurred a net loss before depreciation amounting to $449,466 for FY 2011. This, however, is a decrease in loss by 4% or $19,785 from prior fiscal year.

DIVISIONAL STATEMENT OF REVENUES AND EXPENSES

	2011	2010	Change	%	2009
Operating revenues:					
Departure fees-International	$ 250,660	$ 241,195	$ 9,465	4	$ 244,990
Departure fees-Domestic	14,632	12,670	1,962	15	9,590
Landing charges-Scheduled	238,389	220,456	17,933	8	218,654
Landing charges-Special	54,040	53,607	433	1	44,079
Concession/Lease	72,682	82,152	(9,470)	(12)	87,753
Ground handling-Transient	57,181	46,256	10,925	24	38,528
Other operating revenues	216,514	183,014	33,500	18	227,944
Total	904,098	839,350	64,748	8	871,538
Operating expenses:					
Salaries and wages	599,444	572,102	27,342	5	464,041
Utilities	208,619	194,733	13,886	7	179,816
Gas, Oil, and Fuel	34,674	23,303	11,371	49	10,910
Insurance	29,589	24,815	4,774	19	37,542
Repairs and maintenance	12,372	60,013	(47,641)	(79)	43,157
Bad Debts	90,610	-	90,610	100	-
Rent	257,931	254,140	3,791	1	261,680
Other OPEX	120,325	179,495	(59,170)	(33)	154,043
Total	1,353,564	1,308,601	44,963	3	1,151,189
Loss before depreciation	(449,466)	(469,251)	19,785	(4)	(279,651)
Less: Depreciation	2,699,319	1,808,916	890,403	49	1,436,872
Loss after depreciation	(3,148,785)	(2,278,167)	(870,617)	38	(1,716,523)
Add: non-operating revenues and (expenses)	3,584,365	5,387,553	(1,803,188)	(33)	10,899,867
Net Income	435,580	3,109,386	(2,673,804)	(86)	9,183,344
Add: Beginning balance	41,296,276	38,186,890	3,109,384	8	29,003,546
Net Assets, Ending	$ 41,731,856	$ 41,296,276	$ 435,582	1	$ 38,186,890

VII) PER DIVISION, CONTINUED

A. AIRPORT DIVISION, CONTINUED

The Airport Division has generated more in the operating revenues this year compared to last fiscal year by 8%. Its performance this year was better than last year evident in the decrease in the operating loss it incurred this year at $449,466 before depreciation. This is a reduction in the loss incurred by the Airport by $19,785 or 4% compared with fiscal year ending September 30, 2010. This is the first time that Airport revenues increased since the time it merged in 2003. The Ports Authority believes that drastic measures, such as raising the airport tariffs or reducing expenses, have to be implemented to improve this "financial bleeding". This is becoming ever more important due to the expected increase in utilities and maintenance from the improvements the airport received from the AIP projects. These improvements, i.e. apron, ARFF building, and runway will require regular maintenance to maintain minimum safety standards. The ARFF building added to the electricity bill and fuel for the airport since it became fully online in fiscal year 2011.

Bad Debts, Depreciation, and Gas, Oil, and Fuel are the accounts that increased in FY 2011.

DEPARTURE FEES - INTERNATIONAL

No of Passengers

	FY2011	FY2010	Inc/(Dec)	%	Fee	Amount
Adult	10,831	10,946	(115)	(1)	20	$ (2,300)
Student	2,269	1,485	784	53	15	11,760
Others	5	-	-	-	-	5
Total	13,105	12,431	669	5		$ 9,465

Departure fees - International increased from 12,431 passengers in FY 2010 to 13,105 in FY 2011 or 5% increase as shown in the table above.

Adults travelers decreased by 115 while students increased by 784. The highest numbers of adult and student travelers are in the month of July and the lowest are in the months of January and October for FY 2011. When these figures are compared against FY 2010, the highest adult and student travelers were in the months of July while the lowest were in the months of September and October.

Departure Fees – Domestic passengers increased by 981 during the fiscal year ending September 30, 2011.

The Cabinet did not approve the requested increase of the departure fees for international passengers in FY 2011.

SCHEDULED/COMMERCIAL FLIGHT MOVEMENTS

	2011	2010	Change	%	2009
Number of Flights:					
Continental Airlines	417	364	53	15	350
Air Marshall Islands	491	241	250	104	346
Asia Pacific Airlines (air cargo flight)	193	213	(20)	(9)	214
	1101	818	283	35	910

VII) PER DIVISION, CONTINUED

A. AIRPORT DIVISION, CONTINUED

Continental airlines increased by 15% during the fiscal year ending September 30, 2011 due to the addition of a direct flight from Guam. Continental operated eight flights per week to Majuro in FY 2010 and FY 2011. The increase in the flight traffic from Continental flights increased landing charges by $17,933 during the fiscal year ending September 30, 2011. ***Please take note that Continental (now United) cancelled their Saturday direct flight from Guam, thus will reduce the weekly flight frequency from eight to six flights effective October 1, 2011.***

Air Marshall Islands (AMI) increased by 250 flights during the fiscal year ending September 30, 2011 or by 1.04% in terms of percentage when compared to prior fiscal year. The revenue generated from AMI flights in FY 2011 amounted to $7,588 was not collected and added to the outstanding receivables of AMI.

The overall flight traffic from scheduled flights increased by 35% or by 283 flights compared to last fiscal year as shown in the table above.

UNSCHEDULED/SPECIAL FLIGHT MOVEMENTS

	2011	2010	Inc/(Dec)	%
Number of Flights (MTOW):				
0-4500	84	71	13	18
45001-90000	29	30	(1)	(3)
90001-up	128	192	(64)	(33)
	241	293	(52)	(18)
% to Total:				
0-45000	35%	24%		
45001-90000	12%	10%		
90001-up	53%	66%		

The revenue generated by landing charges from special flights increased only by $433 or 1% in terms of percentage when compared to last fiscal year. The increase was not significant in FY 2011 in spite of the increase in the tariff fee for special flights. As shown in the table above, the aircraft with 90,001 pounds and up went down in numbers by 64, thus the increase during the year was not significant.

Take note that U.S. military aircraft utilize the airport facilities for landings and are exempt from paying landing charges, but pay for ground handling charges. For the fiscal year ending September 30, 2011, there were 36 military aircraft that landed at AKIA compared to 24 of last year.

VII) PER DIVISION, CONTINUED

A. AIRPORT DIVISION, CONTINUED

ANALYSIS OF ACTUAL VERSUS BUDGET – FY 2011

	Actual	Budget	Change	%
Operating revenues:				
Departure Fees – International	$ 250,660	$ 339,348	$ (88,688)	(26)
Department Fees – Domestic	14,632	43,932	(29,300)	(67)
Landing Charges – Scheduled	238,389	216,073	22,316	10
Landing Charges – Special	54,040	65,040	(11,000)	(17)
Concession and Lease income	72,682	83,350	(10,668)	(13)
Aircraft Parking Lights	13,688	21,891	(8,203)	(37)
Runway Lights and NavAids Fees	53,828	49,539	4,289	9
Special Overtime	41,643	25,874	15,769	61
Reserved Parking Space Fees	3,700	4,595	(895)	(19)
International Cargo Service Fees	27,244	70,961	(43,717)	(62)
Utility Charges Reimbursed	68,888	50,296	18,592	37
Ground Handling – Transient	57,181	56,113	1,068	2
Other Operating Revenues	7,523	30,635	(23,112)	(75)
Total	$ 904,098	$ 1,057,647	$ (153,549)	(15)

The Ports Authority did not meet the budget for revenues for FY 2011 by $153,549 or by 15% in terms of percentage. The details of the variances are as follows:

Departure Fees – International: the budget was based on the proposed tariff fee of $35 per pax. The Cabinet did not approve the proposed tariff fees, thus the budget was short by $88,688.

Departure Fees – Domestic: the basis for budget was miscalculated by including the proposed tariff fees for international departure fees for students at $25 per pax, thus making the budget short by $29,300.

Landing Charges from Special Flights: the budget was not met in FY 2011 in spite of the increase in the tariff fees because the number of traffic for aircraft with MTOW of 90,001 pounds and up decreased by 13 or 9% in terms of percentage.

Concession and Lease Income and Reserved Parking Space Fees: the budget was based on the average of the three years from FY 2008, FY 2009 and year-end projected for FY 2010. The budget was not met because five tenants were terminated and ceased operations during the fiscal year ending September 30, 2011 detailed as follows:

- ✓ La Bojie Restaurant – with outstanding receivables of $ 6,370;
- ✓ Flightline Restaurant – with outstanding receivables of $ 6,275;
- ✓ Jemeni Duty Free – with outstanding receivables of $ 18,917;
- ✓ Hertz – with outstanding receivables of $ 800; and
- ✓ Marshall Islands Tour – with outstanding receivables of $ 1,980.

VII) PER DIVISION, CONTINUED

A. AIRPORT DIVISION, CONTINUED

ANALYSIS OF ACTUAL VERSUS BUDGET – FY 2011, CONTINUED

Aircraft Parking Charges: The Ports Authority did not meet the budget in spite of the increase in the tariff fee from $5 to $6 effective June 2011. Aside from the miscalculation in the budget in FY 2011, the traffic from special flights and APA decreased during the fiscal year ending September 30, 2011.

Other Operating Revenues: The budget in FY 2011 includes ground handling equipment such as the rental of Air Stairs while the actual recording of the rental of Air Stairs was included in Ground Handling Equipment. The actual operating revenues in FY 2011 includes Security ID Fees and Other Income such as catering, delayed charges, and bidding fee.

	Actual	Budget	Change	%
Operating expenses:				
Salaries and wages	$ 599,544	$ 600,963	$ (1,520)	(0.3)
Gas, oil, and fuel expenses	34,674	19,182	15,492	81
Bad debts	90,610	-	90,610	-
Insurance expense	29,589	29,056	533	2
Professional fees	13,365	12,594	771	6
Repairs and maintenance	12,372	20,000	(7,628)	(38)
Supplies	3,651	4,011	(360)	(9)
Communications	17,837	10,577	7,260	69
Training and travel	35,237	30,410	4,827	16
Utilities	208,619	219,216	(10,597)	(5)
Rent	257,931	257,931	-	-
Other operating expenses	50,235	37,478	12,757	34
Total	$ 1,353,564	$ 1,241,418	$ 112,146	9

The actual operating expenses excluding depreciation are higher than the budget by $112,146 or 9% in terms of percentage. The operating expenses that have significant increase over the budget are:

Gas, Oil, and Fuel: The actual gas, oil, and fuel are higher by $15,492 in FY 2011. The basis for the budget is the average of the three years ending 2008, 2009, and 2010 year-end projection. The actual for FY 2010 is $23,303, but the projected was only $23,707 which is lower than the actual. Gas, Oil, and Fuel went up beginning in FY 2010 when the Airport started to use the generators when the ARFF building became fully online.

Bad Debts: An additional allowance was set-up for uncollectible accounts from financing charges, AMI, and DCA for fiscal year ending September 30, 2011. The Ports Authority, however, will push through the collections of the receivables especially from its related parties.

VII) PER DIVISION, CONTINUED

A. AIRPORT DIVISION, CONTINUED

Other Operating Expenses: There was no budget for the fixed asset purchases below $500 in FY 2011. The actual for fixed asset purchases below $500 in FY 2011 is $13,254 for the furnitures and fixtures and office equipment procured by the Ports Authority for the new ARFF building.

B. SEAPORT DIVISION

- Net assets increased by $260,093 from $ 10.1 million in FY 2010 to $10.4 million for FY 2011. The increase was not as high compared to FY 2010 since the increase in the revenue and expenses excluding depreciation are the same at 4%.

- Operating revenues went up by 4% or by $63,623. Wharfage and Dockage Fees – Domestic increased by $64,448 and $40,739, respectively. There was no income from dockage fees – domestic in FY 2010. However, Pilot Boat Usage Fees and Foreign/Domestic Entry Vessel Fees decreased by $22,500 and $47,919. The vessels arrivals went down by 19%, which will be discussed in the table below.

- Operating expenses also went up by $ 40,459 or 4% for fiscal period ending September 30, 2011. Pilotage fees, salaries and wages, bad debts, and land lease went up while Pilot Boat expenses and travel went down.

- Seaport Division's operating income before depreciation for the period ending September 30, 2011 increased by $23,164 or 3% when compared to last fiscal year's operating income.

DIVISIONAL STATEMENT OF REVENUES AND EXPENSES

	2011	2010	Change	%	2009
Operating revenues					
Pilotage fees	$ 460,164	$ 454,352	$ 5,812	1	$ 327,322
Pilot boat usage	314,500	337,000	(22,500)	(7)	234,450
Wharfage fees	477,309	412,861	64,448	16	373,029
Dockage fees-International	154,002	153,275	727	0.5	105,090
Dockage fees-Domestic	40,739	-	40,739	100	-
Anchorage	28,054	20,277	7,777	38	11,182
Foreign vessels entry	85,445	268,004	(182,559)	(68)	196,176
Light dues	34,980	41,850	(6,870)	16	29,460
Fuel & water service	20,865	19,993	872	4	11,992
Disembark & change crew	750	245	505	206	1,546
Concession/lease income	97,080	93,145	3,935	4	54,136
Other operating revenues	155,612	4,875	150,737	3100	22,688
Total	1,869,500	1,805,877	63,623	4	1,367,071
Operating expenses					
Salaries and wages	466,090	430,595	35,495	8	403,788
Pilotage	226,693	187,530	39,163	21	146,888
Pilot boat	74,425	183,750	(109,325)	(59)	87,391
Utilities	17,841	25,036	(7,195)	(29)	33,505
Insurance	32,000	24,796	7,205	29	25,949
Repairs and maintenance	6,094	9,284	(3,190)	(34)	11,607
Bad Debts	44,299	-	44,299	100	-
Rent	84,007	27,303	56,704	208	27,263
Other operating expenses	84,727	107,423	(22,696)	(21)	122,403
Total	1,036,176	995,717	40,459	4	858,794

VII) PER DIVISION, CONTINUED

B. SEAPORT DIVISION, CONTINUED

Income before depreciation	833,324	810,160	23,164	3	508,277
Less: Depreciation	403,727	421,343	(17,616)	(4)	390,409
Income after depreciation	429,597	388,817	40,780	10	117,868
Add: Non-operating revenues (expenses)	(169,504)	81,400	(250,904)	(308)	103,405
Net Income	260,093	470,217	210,124	(45)	221,273
Add: Beginning balance	10,136,039	9,665,822	470,217	5	9,444,549
Net Assets, Ending	$ 10,396,132	$ 10,136,039	$ 260,093	3	$ 9,665,822

VESSEL ARRIVALS

	2011	2010	Change	%	2009
Cargo vessels	59	33	26	79	38
Fishing vessels – International	477	601	(124)	(21)	378
Fishing vessels – Domestic	573	743	(170)	(23)	696
Foreign tankers	13	18	(5)	(28)	15
Military ships	6	3	3	100	4
Cruise ships	-	-	-	-	-
Others	4	-	4	-	21
Total	1,132	1,398	(266)	(19)	1,152

Vessels traffic during fiscal year 2011 has decreased by 266 vessels or 19% compared to last fiscal year. First, domestic fishing vessels decreased by 170 from 743 to 573 vessels for fiscal year 2011 and 2010, respectively; second, international fishing vessels went down by 124 from 601 in fiscal year 2010 to 477 vessels during the fiscal year 2011; and third, foreign tankers decreased by 5 from 18 in 2010 to 13 in 2011.

Only cargo vessels increased in the FY 2011 by 79%.

Domestic vessel arrivals decreased in FY 2011 caused by the reduction of offload operation during the fiscal year 2011 from three to two times a week. The reduction of offload was due to the decrease in tuna catch volume, which was less compared to previous years.

The international fishing vessel arrivals were greatly affected by banning the use of FADS, which are commonly used in fishing. This happened from July to September of fiscal year 2011. For better understanding of the FADS, this method of fishing is widely used with purse-seiners to attract small bait fish which in return will attract big fishes. The vessels will visit these FADS and set their nets around them. For vessels without helicopters this is a real handicap because they will be going all over the place looking for fish using binoculars. Since fuel price also went up; vessels chose to stay in port instead of taking the risk of not catching enough to sustain the cost of a longer trip. To summarize, there are two reasons why the ban of FADS affect the number of vessels: (1) the trip that would normally take a month would take two months or longer before returning to port; and (2) some vessels do not want to take risks especially those without helicopters.

The major contributors to the increase in the operating expense for the Seaport Division are Bad Debts, Land Lease, and Pilotage expenses.

VII) PER DIVISION, CONTINUED

B. SEAPORT DIVISION, CONTINUED

ANALYSIS OF ACTUAL VERSUS BUDGET – FY 2011

	Actual	Budget	Change	%
Operating revenues				
Pilotage fees	$ 460,164	$ 528,258	$ (68,094)	(13)
Pilot boat usage	314,500	323,189	(8,689)	(3)
Wharfage fees	477,309	395,100	82,209	21
Dockage fees-International	154,002	166,336	(12,334)	(7)
Dockage fees-Domestic	40,739	3,693	37,046	1003
Concession/lease income	97,080	125,014	(27,934)	(22)
Anchorage Fees	28,054	42,058	(14,004)	(33)
Foreign vessels entry	85,445	316,978	(231,532)	(73)
Domestic entry vessel fees	134,640	-	134,640	-
Special overtime	273	-	273	(28)
Light dues	34,980	48,398	(13,418)	(90)
Port security improvement fees	7,700	74,160	(66,460)	17
Boarding party fees	7,950	104,381	(96,431)	(92)
Disembark & change crew	750	3,320	(2,570)	(77)
Utility charges reimbursed	390	360	30	8
Other operating revenues	4,659	4,496	163	4
Total	$ 1,869,500	$ 2,153,614	$ (284,114)	13

The Seaport Division did not meet its revenue budget projections in FY 2011. The budget in FY 2011 was miscalculated. Instead of using a 4 year average, a 3 year actual was used based on the FY 2008, FY 2009, FY 2010 actuals as of July 2010, and FY 2010 year-end projection. Had the correct formula been used, the short budget would have been $132,656 and not $284,114.

The decrease in the vessel arrivals greatly affects the budget in FY 2011 except for some revenue that is not dependent on the number of arrivals like the Wharfage Fees, in which the actual is over the budget by $82,209 or 21% in terms of percentage.

Foreign vessels entry fees budget includes the domestic vessels entry fees in FY 2011. The net short in budget when compared to the actual revenues is $96,892. This account greatly affects the budget in FY 2011.

	Actual	Budget	Change	%
Operating expenses				
Pilotage	$ 226,693	$ 171,855	$ 54,838	32
Pilot boat	74,425	120,683	(46,258)	(38)
Salaries & wages	466,090	474,754	(8,664)	(2)
Gas, oil, and fuel expenses	15,757	9,334	6,423	69
Bad Debts	44,299	-	44,299	-
Insurance expense	32,000	28,414	3,586	13
Professional fees	9,846	15,841	(5,995)	38)
Repairs & maintenance	6,094	7,204	(1,110)	(15)
Supplies	7,217	6,145	1,072	17
Communications	11,780	15,704	(3,924)	(25)
Training and travel	15,677	27,840	(12,163)	(44)
Utilities	17,841	36,712	(18,871)	(51)
Rent	84,007	23,513	60,494	257
Other operating expenses	24,450	24,679	(229)	(1)
Total	$ 1,036,176	$ 995,717	$ 73,499	7

VII) PER DIVISION, CONTINUED

B. SEAPORT DIVISION, CONTINUED

The actual operating expenses excluding depreciation are higher than the budget by $73,499 or 9% in terms of percentage. The operating expenses that have significant increase or over the budget are:

The Pilotage fees: The Pilotage fees of the late Captain Frank Peter was not included in the accruals in the FY 2010, which amounts to $20,500 plus the accruals in FY 2011, which was paid in FY 2012 amounting to $18,700.

Bad Debts: An additional allowance was set-up for uncollectible accounts from financing charges and from Marshall Islands Shipping Corporation for fiscal year ending September 30, 2011. The Ports Authority, however, will push through the collections of the receivables especially from its related parties.

Land Lease: The increase was caused by the amendment of the lease agreement for the Lobotin Weto at Seaport for the additional 4.2452 acres at $3,000 per acre. The Ports Authority paid $ 54,126 in FY 2011 for the years 2007 to the 1st quarter of FY 2011. The Ports Authority pays annual lease of $ 36,249 effective April 2011.

For the fiscal year ending September 30, 2011, the Ports Authority's Seaport Division earned a net income (after depreciation expense) of $260,093, which is short of budget by 1.28%.

VIII) BUDGET COMPARISONS (Current vs. Next)

	2012	2011	Change	%
Operating revenues:				
Airport Division	$ 947,154	$ 1,057,647	$ (110,493)	(10)
Seaport Division	2,789,671	2,153,614	636,057	30
	3,736,825	3,211,261	525,564	16
Operating expenses:				
Airport Division	1,318,770	1,241,418	77,352	6
Seaport Division	1,099,233	995,717	103,516	10
	2,418,003	2,237,135	180,868	8
Depreciation and Amortization:				
Airport Division	1,899,362	1,394,767	504,595	36
Seaport Division	449,908	416,895	83,013	20
	2,349,270	1,811,662	587,608	32
Non-operating revenues (expenses):				
Airport Division	(382,478)	(232,820)	(149,658)	(64)
Seaport Division	(367,297)	(180,023)	(187,274)	(104)
	(749,775)	(412,843)	(336,932)	(82)
Change in Net Assets:				
Airport Division	(2,653,456)	(1,811,358)	(842,098)	(46)
Seaport Division	873,233	594,018	279,215	47
	$ (1,780,223)	$ (1,217,340)	$ (562,883)	(46)

VIII) BUDGET COMPARISONS (Current vs. Next), CONTINUED

The Board of Directors for the Ports Authority meets every year to review and deliberate on the Ports Authority's annual budget as proposed by the management. The operating budget for each fiscal year is prepared based on consultations with the Ports Authority's managers. The budget amounts, in most cases, are based on an annual average of the last two audited fiscal years' performances, which provide a "realistic" prediction of how the Ports Authority will perform in the new or upcoming fiscal year.

Once the Board approves the budget, it is rarely changed or revised, unless unusual or unforeseen events occur during the fiscal period. Some of these events may have a significant impact to the financial position of the Ports Authority.

OPERATING REVENUE BUDGET

The FY 2012 proposed budget shows that the Ports Authority will earn approximately $3.7 million in operating revenues, inclusive of non-operating income and expenses. This is about 16% more than the FY2011 approved budget. The projected revenue is based on the proposed tariff increase both in the Airport and Seaport and the average of the FY 2011 year-end projection and approved budget for FY 2011. About 75% of the total operating revenues will be generated by the Seaport Division. A majority of this revenue will be generated from Pilotage, Pilot Boat, Wharfage, Foreign Vessel Entry Fees, Domestic Vessel Entry Fees, International Dockage Fees, and other new fees set forth by the Ports Authority like Boarding Party Fee and the Port Security Fee effective FY 2011.

Airport operating revenues for FY 2011 have been constant since the Airport Authority was established in FY 2000. Total revenues for the airport have not exceeded the $1 million mark. However, Airport revenues increased by 8% when compared to the last fiscal year 2010. This is the first time it happened since Seaport and Airport merged in 2003. With this, Ports Authority will push more and do its best to reach its target in fiscal year 2012. Though, it will be difficult since the AKIA is presently not earning enough revenue to pay for its operating expenses. In spite of the proposed target revenues, the airport might incur possible cash deficit of $754,094 in fiscal year 2012; this, will again be subsidized by the Seaport operation. This is critical with the multi-million dollar projects or infrastructures being built at AKIA. The airport must be financially sustainable to pay for its own operating costs, which includes maintaining its high value assets or facilities.

OPERATING EXPENSES BUDGET

The FY 2012 budget estimates the Ports Authority will incur a little over $2.4 million in operating expenses. This figure excludes depreciation expenses. The total estimated operating expense for FY 2012 is approximately $200,000 more than the prior fiscal year's budget. The proposed increase was due to the anticipating increase of the gas or fuel, electricity, repairs and maintenance, and lease. In addition, since there was a proposal increase in the tariff rate, this would have an effect to the Pilotage and Pilot Boat Usage expense.

The Airport Division's total expenses budget for FY 2012 is $1.3 million, this is 6% increase from FY 2011's approved budget. Despite the fact that airport is having problems in generating more revenues, maintaining an airport is more compared to the seaport. It is also noted that cost of gasoline or fuel went up which has an adverse affect in the operations. Most of the expenditures that will be affected for the fiscal year 2012 are the utilities, gas and fuel, insurance, repairs and maintenance, and land lease. It should be noted that while the airport is burdened with this land lease cost, other government entities are commercially benefiting from it. For example, the runway catches and stores rainwater which is sold by the Majuro Water and Sewer Company (MWSC). The MWSC profits from this water while the Ports Authority pays for the land areas where the runway catchments are situated on. The Ports Authority does not receive any compensation from the MWSC for this water. In fact, the Ports Authority buys water from MWSC for its airport facilities and also for the fire fighting trucks.

VIII) BUDGET COMPARISONS (Current vs. Next), CONTINUED

OPERATING EXPENSES BUDGET, CONTINUED

Like the airport, the biggest operating expense for the Seaport Division are Salaries and Wages, 36%; followed by Pilotage Expense, 21%; and Pilot Boat, 17%. Pilotage and Pilot Boat go up due to the proposed increase in tariff rates. The ratio of the Pilotage expense for the Ports Authority and the Pilot is 60% and 40%, respectively, net of the 10% allotted for Transportation and Communication. The Ports Authority pays 40% of its Piloting Fee to pilots for performing pilotage services after deducting the 10% allocated to the Ministry of Transportation and Communication.

The Ports Authority's main office building is in need of some painting work, both interior and exterior. This was not done in the fiscal year 2011 as proposed.

IX) RELATED PARTY TRANSACTIONS

The receivables from government entities and agencies went up from $556,642 as of September 30, 2010 to $813,301 as of September 30, 2011 due to the writing-off of and payment of the account. The details are shown below:

	As of Sept 30, 2011	As of Sept 30, 2010
Directorate of Civil Aviation	$ 16,471	$ 11,502
AMI – Accounts Receivable	318,377	269,284
AMI – Notes Receivable (inclusive of interest)	242,659	-
Ministry of Finance	27,919	27,455
Ministry of Health Services	3,913	3,052
EPA	115	115
College of the Marshall Islands	231	231
MISC	49,711	17,441
Ministry of Internal Affairs	650	-
Marshall Energy Company	-	57,710
Ministry of Education	3,625	3,127
Ministry of Public Works	15,244	12,526
MIMRA	915	915
Tobolar Copra Processing Plant	4,992	4,992
Ministry of R&D	126	126
Ministry of Transportation	128,263	128,263
MIVA	90	90
Other	-	19,813
	$ 813,301	$ 556,642

IX) RELATED PARTY TRANSACTIONS, CONTINUED

The nature of the receivables with significant balances is as follows:

- Directorate for Civil Aviation – billings for electric usage and office rental;
- Air Marshall Inc. – billings for utilizing the airport facilities, including landing charges, navigation aids, office space leases, electricity, and the loan acquired from the Ports Authority at 8% per annum payable in 30 months with a monthly installment of $11,560.25 a month. AMI has paid only 5 monthly installments in September 2010 up to January 2011;
- MISC – billings for rental in arrears;
- BOMI – interest receivable on TCD;
- Ministry of Public Works – billings for dockage fees; and
- Ministry of Transportation – billings for usage of dock facilities; most of the charges are very "old".

The Ports Authority has again tried to follow-up from these government entities and agencies, but did not respond. These accounts are already sent for review and will be discussed by the Board if they are to be sent for legal or to write them off.

In addition to the above, the Ports Authority is also providing services to these government entities and agencies that are not quantified and, as such, not included in abovementioned receivables, like use of office space, parking space provision, landlease, and electricity usage.

The Ministry of Foreign Affairs (Ministry), and the DCA have been provided with VIP Lounge and office space facility, respectively, at the airport but neither payments nor compensation have been received for the use of these facilities. In addition to the VIP Lounge, parking space has been made available for free and the Ports Authority is paying the land lease rental and electricity usage for the VIP Lounge.

Please also note that, the Ports Authority is paying land lease rental for the following government entities:

- Marshall Islands Shipping Corporation (at Uliga Dock); and;
- Majuro Water & Sewer Company (MWSC) (at the Airport);
- Marshall Energy Company (at the airport); and
- National Telecommunications Authority (at the Airport).

The above entities are commercially benefitting at the expense of the Ports Authority, with no offset or reimbursement to the Ports Authority.

There is a possibility that land lease rental for the land occupied by Air Marshall Islands (AMI) hangar at the airport will also be paid by the Ports Authority in the future. Landowners for these "wetos" or land areas have demanded payment/compensation from the Government, although an existing lease is in place.

For the space facilities being provided to DCA, at the Ports Authority's head office and at the airport, Ports Authority is losing $240 per month for space rental. Aside from DCA, other government entity that is occupying space facilities is:

- Ministry of Transportation & Communications (at the Uliga Dock) – for $240 per month

X) CASHFLOW PROJECTION

As of September 30, 2011, the ending balance of the Ports Authority's General Operating Fund kept at the Bank of Guam-Majuro Branch was $129,102. The beginning balance at the start of the same fiscal year was $284,741. Taking over payment of the matching grants for its development projects and the partial payment of the contribution to RMI General Fund are the main cause of the significant decrease in the Ports Authority's General Operating Fund.

The Ports Authority still has cash reserves in its TCD accounts kept at the Bank of Marshall Islands that it can utilize for the various AIP and CIP Projects. The Ports Authority's TCD accounts earned a net interest, after deducting interest expense, of $64,250 in FY 2011.

XI) U.S. FEDERAL GRANTS PROJECTS

Projects funded by the U.S Federal Grants with corresponding local matching funds are shown below. The project cost and disbursement amounts below include cost for A&E services, CM services, construction, and administrative expenses. The amounts are as of September 30, 2011:

			Source of Funding		
	Project Costs	Disbursements	U.S. Grants	RMI Finance	Ports Authority
Runway Overlay	$ 16,390,934	$ 15,803,683	$ 15,013,498	$ 849,139	$ -
Apron/Taxiway	9,786,107	9,786,106	9,247,367	473,305	65,433
ARFF Building and Facilities	16,126,507	15,897,921	15,013,678	204,272	679,971
ARFF Vehicles and Accessories	1,634,801	1,634,801	1,573,670	61,131	-
Road Realignment	18,176,445	3,057,415	2,879,493	-	177,922
Airport Master Plan	1,084,156	1,040,882	958,364	-	82,518
Data Mgmnt System	234,000	215,473	161,554	-	53,919
NDB/DME	1,401,263	950,378	914,402	-	35,976
Totals	$ 64,834,213	$ 48,386,659	$ 45,762,026	$ 1,587,847	$ 1,095,739

The table above shows that since FY 2004, the Ports Authority has executed more than $64.0 million worth of capital projects. The Ports Authority has already disbursed over $48.0 million to consultants and contractors, leaving a balance of about $16.0 million still to be paid out. Approximately $45.8 million of the disbursements are grant funds received from U.S. federal grant programs, mostly from the FAA's Airport Improvement Program. Ports Authority has started to pay for the local matchings in fiscal year 2011 for its FAA-AIP Projects. In addition, AIP matchings will increase from 5% to 10% for the new grants effective FY 2012. Please see table below the details of the matching funds for fiscal year 2011:

FAA-AIP Projects	FAA	RMIPA	Repmar
AIP-06	$ 515,593	$ 27,357	$ -
AIP-07 (CM & Design)	1,304,097	69,064	-
AIP-08	164,046	9,051	-
AIP-09	2,718,434	144,391	-
OMIP	12,446	-	-
Totals	$ 4,714,616	$ 249,863	$ -

XI) U.S. FEDERAL GRANTS PROJECTS, CONTINUED

The following are the AIP Grants awarded by the FAA to the Ports Authority since FY 2004. The amounts showing below are the original amounts of the grants when issued/awarded.

- Project No. 3-68-0001-03, Acquire two (2) 1,500-gallon Aircraft Rescue and Fire Fighting (ARFF) vehicles with protective clothing, for $1.5 million
- Project No. 3-68-0001-04, Construct ARFF Building – Phase I (Design), for $1.0 million
- Project No. 3-68-0001-05, Rehabilitate Runway 7/25 – Phase I, for $10.0 million

- Project No. 3-68-0001-06, Rehabilitate Runway 7/25 – Phase II, for $13.0 million; and.
- Project No. 3-68-0001-07, Construct ARFF Building – Phase II, for $13.0 million; Modify Service Road – Phase I (Design), for $1.0 million.
- Project No. 3-68-0001-08, Develop Airport Master Plan (Planning), for $999,995.
- Project No. 3-68-0001-09, Road Realignment Project/RSA, for $8.0 million.

The following AIP grants were increased through Grant Amendments as detailed below. The increases are additional grant funds issued to the Ports Authority on top of the original grant amount.

- Project No. 3-68-0001-03, Acquire two (2) 1,500-gallon Aircraft Rescue and Fire Fighting (ARFF) vehicles - grant amendment of $51,772 issued on 30 April 2009.
- Project No. 3-68-0001-04, Construct ARFF Building – grant amendment of $124,063 issued on 13 February 2009.
- Project No. 3-68-0001-05, Rehabilitate Runway 7/25 – grant amendment of $1.5 million issued on 08 September 2009.
- Project No. 3-68-0001-07, Construct ARFF Building – Phase II, grant amendment of $2.1 million.

For additional information concerning Port Authority's capital assets, please refer to Note 4 to the accompanying financial statements.

Management's Discussion and Analysis for the year ended September 30, 2010 is set forth in the Ports Authority's report on the audit of financial statements, which is dated August 11, 2011. That Discussion and Analysis explains the major factors impacting the 2010 financial statements and can be obtained from the Ports Authority's General Manager via the contact information below.

XII) ECONOMIC AND EXTERNAL FACTORS

These are some events that may happen during the fiscal period September 30, 2012 and beyond:

- Depreciation expense will increase in 2012 due to investment on existing facilities such as the Road Realignment/RSA Project, NDB/DME Project, and the facilities like the Airport Security Fence.

- New grants are expected to be received in FY 2012 such as AIP 3-68-0001-10 for the additional grant for the Road Realignment/RSA Project, $3.0 million; AIP 3-68-0001-11 for the FAA-GIS Project, $500,000 million; and the AIP 3-68-0001-12, $200,000 for the Airport Security Fence Project.

- Maintenance cost is also anticipated to increase due to the existing facilities, transportation equipment and ARFF building at the Airport.

- Migratory nature of tuna and increases in price of fuel will have a positive effect in fishing vessels traffic to Majuro.

XII) ECONOMIC AND EXTERNAL FACTORS, CONTINUED

- Continental Micronesia (now United Airlines) may change its number of flights to Majuro.

- Increase of AIP matchings from 5% to 10% for the new grants effective FY 2012.

- The ongoing construction of its road realignment and runway safety area projects in fiscal year 2012. These will make a lot of improvements in the Marshall Islands.

- When all of the U.S.FAA-AIP Projects at the airport are completed, maintenance and utilities costs will increase, yet the airport's revenues and tariffs remain constant. This will significantly increase the cash deficit that the airport incurs each year if measures to either increase revenues or decrease expenses, or both, are not implemented.

- It is highly likely that the Ports Authority will continue to pay the 5% matching for the AIP projects for the foreseeable future, including matching requirements for the other U.S. federal grant programs that the Ports Authority has obtained or is working to obtain from DOI, OMIP, USDA and EDA (Economic Development Authority). As mentioned above, RMIPA will pay 10% for its AIP matchings effective FY 2012. ***Please take note, as mentioned before the local matching will increase from 5% to 10% for the newly grants.***

- The ongoing construction of the Channel Markers. The Ports Authority is funding this project and will likely to pay approximately $.600 million in FY 2012 as per contract.

- The contribution to the RMI General Fund of $ .500 million, which the Ports Authority pays only $214,285 in FY 2011 leaving a balance of $285,714 in FY 2011.

- The operating cash shortfall incurred by the Airport Division will continue and will get worse unless measures are implemented to increase revenues or decrease expenses, or both.

XIII) ADDITIONAL FINANCIAL INFORMATION

This discussion and analysis is designed to provide the Ports Authority's customers and other interested parties with an overview of the Ports Authority's financial operations and financial condition. Should the reader have questions regarding the information included in this report or wish to request additional financial information, please contact the RMI Ports Authority Executive Director at P.O. Box 109, Majuro MH 96960.

RMI PORTS AUTHORITY

Statements of Net Assets
September 30, 2011 and 2010

ASSETS	2011	2010
Current assets:		
Cash	$ 138,171	$ 238,992
Time certificates of deposit	1,530,334	1,709,567
Receivables:		
Trade	307,933	491,912
Affiliates	570,642	556,642
Note receivable, current portion	128,667	150,283
Interest receivable	87,551	124,503
Grants receivable	526,042	904,673
Other	216,100	230,380
	1,836,935	2,458,393
Less allowance for doubtful accounts	(759,354)	(835,334)
	1,077,581	1,623,059
Prepaid expenses and other assets	39,771	33,806
Total current assets	2,785,857	3,605,424
Restricted time certificates of deposit	295,000	295,000
Note receivable, net of current portion	108,656	52,744
Property, plant and equipment, net	50,491,994	49,142,013
	$ 53,681,507	$ 53,095,181
LIABILITIES AND NET ASSETS		
Current liabilities:		
Current portion of note payable	$ 110,599	$ 94,415
Accounts payable	34,724	51,254
Contracts payable	617,002	963,486
Payable to affiliates	289,670	279,874
Due to RepMar	285,714	-
Other liabilities and accruals	161,880	117,873
Total current liabilities	1,499,589	1,506,902
Noncurrent portion of note payable	53,930	155,964
Total liabilities	1,553,519	1,662,866
Commitments and contingencies		
Net assets:		
Invested in capital assets, net of related debt	50,327,465	48,891,634
Unrestricted	1,800,523	2,540,681
Total net assets	52,127,988	51,432,315
	$ 53,681,507	$ 53,095,181

See accompanying notes to financial statements.

RMI PORTS AUTHORITY

Statements of Revenues, Expenses and Changes in Net Assets
Years Ended September 30, 2011 and 2010

	2011	2010
Operating revenues:		
Seaport fees	$ 1,767,098	$ 1,707,857
Aviation fees	724,062	669,793
Concession and lease income	169,761	175,297
Other	112,677	92,280
	2,773,598	2,645,227
Allowance for doubtful debts	(134,909)	-
Total operating revenues	2,638,689	2,645,227
Operating expenses:		
Depreciation	3,103,046	2,230,259
Salaries and wages	1,065,534	1,002,697
Rent	341,938	281,443
Pilotage	226,693	187,530
Utilities	226,460	219,769
Pilot boat	74,425	183,750
Insurance	61,589	49,611
Training and travel	50,914	130,365
Gas, oil, and fuel expenses	50,431	42,523
Communications	29,617	34,107
Professional fees	23,211	9,572
Repairs and maintenance	18,466	69,297
Supplies	10,868	6,730
Miscellaneous	74,685	86,924
Total operating expenses	5,357,877	4,534,577
Operating loss	(2,719,188)	(1,889,350)
Nonoperating revenues (expenses):		
Gain on disposal of capital assets	2,100	751
Interest income	120,783	118,566
Contributions to RepMar	(500,000)	-
Interest expense	(17,965)	(11,851)
Total nonoperating revenues (expenses), net	(395,082)	107,466
Loss before capital contributions	(3,114,270)	(1,781,884)
Capital contributions:		
Contributions from U.S. government	3,809,943	5,329,439
Contributions from RepMar	-	32,048
	3,809,943	5,361,487
Change in net assets	695,673	3,579,603
Net assets at beginning of year	51,432,315	47,852,712
Net assets at end of year	$ 52,127,988	$ 51,432,315

See accompanying notes to financial statements.

RMI PORTS AUTHORITY

Statements of Cash Flows
Years Ended September 30, 2011 and 2010

	2011	2010
Cash flows from operating activities:		
Cash received from customers	$ 2,732,688	$ 2,453,203
Cash payments to suppliers for goods and services	(1,158,678)	(1,255,177)
Cash payments to employees for services	(1,050,565)	(990,033)
Net cash provided by operating activities	523,445	207,993
Cash flows from noncapital financing activities:		
Payments to RepMar	(214,286)	-
Net loan advanced to Air Marshall Islands, Inc.	(34,296)	(203,027)
Net cash used for noncapital financing activities	(248,582)	(203,027)
Cash flows from capital and related financing activities:		
Proceeds from issuance of long-term debt	-	295,000
Acquisition and construction of capital assets	(4,863,927)	(6,155,107)
Principal paid on long-term debt	(85,850)	(88,072)
Interest paid on long-term debt	(17,965)	(11,851)
Proceeds from sale of capital assets	66,516	751
Capital contributions received	4,188,574	5,461,532
Net cash used for capital and related financing activities	(712,652)	(497,747)
Cash flows from investing activities:		
Withdrawal from time certificates of deposit	298,980	-
Interest income received	37,988	2,340
Net cash provided by investing activities	336,968	2,340
Net change in cash	(100,821)	(490,441)
Cash at beginning of year	238,992	729,433
Cash at end of year	$ 138,171	$ 238,992
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	$ (2,719,188)	$ (1,889,350)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation	3,103,046	2,230,259
Bad debts	134,909	-
(Increase) decrease in assets:		
Receivables:		
Trade	(26,910)	(89,005)
Affiliates	(14,000)	(103,019)
Other	14,280	(6,234)
Prepaid expenses and other assets	(5,965)	(996)
Increase (decrease) in liabilities:		
Accounts payable	(16,530)	20,971
Payable to affiliates	9,796	61,684
Other liabilities and accruals	44,007	(16,317)
Net cash provided by operating activities	$ 523,445	$ 207,993
Summary of noncash financing activities:		
Construction work-in-progress	$ 346,484	$ 125,957
Contracts payable	(346,484)	(125,957)
	$ -	$ -

See accompanying notes to financial statements.

(1) Organization

The RMI Ports Authority (the Authority), a component unit of the Republic of the Marshall Islands (RepMar), was created under Public Law No. 2003-81. This legislation repealed Public Law No. 1999-86 and Public Law No. 1999-88 and integrated the Marshall Islands Airport Authority (MIAA) with the Marshall Islands Ports Authority (MIPA) into a single Ports Authority and transferred all assets and liabilities of the former Marshall Islands Airport Authority and Marshall Islands Ports Authority to the Authority, effective June 4, 2004. The Authority's principal line of business is the operation and maintenance of commercial port facilities in the Marshall Islands. Services are currently provided to passengers and carriers, both commercial and private, arriving and departing at the Amata Kabua International Airport and all vessels, both commercial and private, arriving at port facilities in Majuro.

On March 23, 1999, Public Law No. 1999-86 was passed by the Nitijela of RepMar that established MIAA as a corporation. Under Public Law No. 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 No. 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.

On February 19, 1994, the Nitijela of RepMar passed Public Law No. 1994-90 which established MIPA as a corporation. Under Public Law No. 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 No. 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.

The Authority is governed by a seven-member Board of Directors appointed by the Cabinet of RepMar.

The Authority's financial statements are incorporated into the financial statements of RepMar as a component unit.

(2) Summary of Significant Accounting Policies

The accounting policies of the Authority 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. The Authority has implemented GASB 20 and elected not to apply FASB Statements and Interpretations issued after November 30, 1989.

(2) Summary of Significant Accounting Policies, Continued

GASB 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: Omnibus*, and modified by Statement No. 38, *Certain Financial Statement Note Disclosures*, 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.

To conform to the requirements of GASB Statement No. 34, the Authority's equity is presented in the following net asset categories:

- Investment in capital assets net of related debt; capital assets, net of accumulated depreciation, plus construction or improvement of those assets, less related debt.

- 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.

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.

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.

The Authority's revenues are derived primarily from providing various services to major shipping and airline customers under an approved tariff rate schedule and are reported as operating revenues. Capital, grants, financing or investing related transactions are reported as non-operating revenues. Revenue is recognized on the accrual basis and is recorded upon billing when services have been completed. All expenses related to operating the Authority are reported as operating expenses. Interest income or federal program revenues are the primary components of non-operating expenses and revenues.

(2) Summary of Significant Accounting Policies, Continued

Cash and Time Certificates of Deposit

Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. Such deposits are not covered by depository insurance and are either uncollateralized or collateralized with securities held by the pledging financial institution or held by the pledging financial institution but not in the depositor-government's name. The Authority does not have a deposit policy for custodial credit risk.

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. Custodial credit risk for deposits with financial institutions is the risk that in the event of bank failure, the Authority's deposits may not be returned to it. As of September 30, 2011 and 2010, the carrying amount of cash and time certificates of deposit were $1,963,505 and $2,243,559, respectively, and the corresponding bank balances were $1,970,311 and $2,296,651, respectively. Of the bank balance amounts, $141,030 and $305,557, respectively, are maintained in one financial institution located in Majuro subject to Federal Deposit Insurance Corporation (FDIC) insurance with the remaining bank balances being maintained in a non-FDIC bank. As of September 30, 2011 and 2010, time certificates of deposit amounting to $295,000 collateralized a note payable (see note 6). As of September 30, 2011 and 2010, bank deposits in the amount of $141,030 and $250,000, respectively, were FDIC insured. Accordingly, these deposits are exposed to custodial credit risk. The Authority 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. Contributed fixed assets are stated at their estimated fair value at the date of transfer from RepMar. Depreciation of property, plant and equipment is calculated using the straight-line method based on the estimated useful lives of the respective assets. Individual items with a cost of $500 or greater are capitalized. The estimated useful lives of these assets are as follows:

Facilities	5 - 50 years
Buildings	3 - 34 years
Equipment	2 - 5 years
Vehicles	5 - 20 years
Office furniture, fixtures and equipment	2 - 5 years
Runway upgrade	20 years

(2) Summary of Significant Accounting Policies, Continued

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. The Authority is specifically exempt from this tax.

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, 2011 and 2010, an accumulated vacation leave liability of $81,834 and $66,747, respectively, is included within the statement of net assets in other liabilities and accruals.

Reclassifications

Certain amounts in the 2010 financial statements have been reclassified to conform to the 2011 financial statement presentation.

New Accounting Standards

During fiscal year 2011, the Authority implemented the following pronouncements:

- GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions.

- GASB Statement No. 59, *Financial Instruments Omnibus*, which updates and improves existing standards regarding financial reporting of certain financial instruments and external investment pools.

The implementation of these pronouncements did not have a material effect on the accompanying financial statements.

In December 2009, GASB issued Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, which amends Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, and addresses issues related to measurement of OPEB obligations by certain employers participating in agent multiple-employer OPEB plans. The provisions of Statement 57 related to the use and reporting of the alternative measurement method are effective immediately. The provisions related to the frequency and timing of measurements are effective for actuarial valuations first used to report funded status information in OPEB plan financial statements for periods beginning after June 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Authority.

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In December 2010, GASB issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements,* which addresses how to account for and report service concession arrangements (SCAs), a type of public-private or public-public partnership that state and local governments are increasingly entering into. The provisions of this statement are effective for periods beginning after December 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Authority.

In December 2010, GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus,* which is designed to improve financial reporting for governmental entities by amending the requirements of Statements No. 14, *The Financial Reporting Entity,* and No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments,* to better meet user needs and address reporting entity issues that have come to light since those Statements were issued in 1991 and 1999, respectively. The provisions of this statement are effective for periods beginning after June 15, 2012. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Authority.

In December 2010, GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which is intended to enhance the usefulness of its Codification by incorporating guidance that previously could only be found in certain Financial Accounting Standards Board (FASB) and American Institute of Certified Public Accountants (AICPA) pronouncements. The provisions of this statement are effective for periods beginning after December 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Authority.

In July 2011, GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which establishes guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position. The provisions of this statement are effective for periods beginning after December 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Authority.

In July 2011, GASB issued Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions* (an amendment of GASB Statement No. 53), which will improve financial reporting by state and local governments by clarifying the circumstances in which hedge accounting continues to be applied when a swap counterparty, or a swap counterparty's credit support provider, is replaced. The provisions of this statement are effective for periods beginning after June 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Authority.

(3) Risk Management

The Authority 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. The Authority 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 9). 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, the Authority has elected not to purchase commercial insurance. Instead, the Authority 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 the Authority's risk management activities during the years ended September 30, 2011, 2010 and 2009.

(4) Property, Plant and Equipment

Capital asset activity for the years ended September 30, 2011 and 2010, was as follows:

	October 1, 2010	Additions	Transfers	Reductions	September 30, 2011
Facilities	$ 19,774,233	$ 101,912	$ 26,649	$ -	$ 19,902,794
Buildings	19,035,293	199,148	-	-	19,234,441
Equipment	2,747,112	3,683	(1,606,396)	(191,816)	952,583
Vehicles	162,010	83,668	1,893,391	(41,495)	2,097,574
Office furniture, fixtures and equipment	480,291	67,665	-	(94,478)	453,478
Runway upgrade	25,716,310	441,508	-	-	26,157,818
	67,915,249	897,584	313,644	(327,789)	68,798,688
Less accumulated depreciation	(19,131,501)	(3,103,046)	-	263,373	(21,971,174)
	48,783,748	(2,205,462)	313,644	(64,416)	46,827,514
Construction work-in-progress	358,265	3,619,859	(313,644)	-	3,664,480
	$ 49,142,013	$ 1,414,397	$ -	$ (64,416)	$ 50,491,994

	October 1, 2009	Additions	Transfers	Reductions	September 30, 2010
Facilities	$ 18,871,078	$ -	$ 903,155	$ -	$ 19,774,233
Buildings	2,427,158	-	16,608,135	-	19,035,293
Equipment	2,711,582	35,530	-	-	2,747,112
Vehicles	138,645	41,215	-	(17,850)	162,010
Office furniture, fixtures and equipment	453,302	26,989	-	-	480,291
Runway upgrade	25,136,908	-	579,402	-	25,716,310
	49,738,673	103,734	18,090,692	(17,850)	67,915,249
Less accumulated depreciation	(16,919,092)	(2,230,259)	-	17,850	(19,131,501)
	32,819,581	(2,126,525)	18,090,692	-	48,783,748
Construction work-in-progress	12,523,541	5,925,416	(18,090,692)	-	358,265
	$ 45,343,122	$ 3,798,891	$ -	$ -	$ 49,142,013

(5) Related Party Transactions

The Authority was created by the Nitijela of RepMar under Public Law No. 2003-81 and is thus considered a component unit of RepMar. Accordingly, the Authority is affiliated with all RepMar-owned and affiliated entities.

The Authority's services are provided to RepMar and all RepMar-owned and affiliated entities. Services are extended to these entities at more favorable terms and conditions than those afforded to third parties.

The Authority utilizes services from certain affiliated entities at the same terms and conditions as those provided to third parties.

A summary of related party transactions for the years ended September 30, 2011 and 2010 and related receivable and payable balances as of September 30, 2011 and 2010, are as follows:

	2011			
	Revenues	Expenses	Receivables	Payables
Air Marshall Islands, Inc.	$ 27,740	$ -	$ 318,377	$ -
Directorate of Civil Aviation	4,969	-	16,471	-
Marshall Islands National Telecommunications Authority	-	28,944	-	-
Marshall Islands Shipping Corporation	40,714	-	49,711	-
Marshall Islands Social Security Administration	-	125,600	-	34,587
Marshalls Energy Company, Inc.	121,344	226,460	-	-
Ministry of Public Works	-	-	15,244	-
Ministry of Transportation and Communication	-	37,217	128,263	37,217
RepMar	-	341,938	-	-
RMI Finance	-	18,933	27,919	216,959
Other	2,095	6,591	14,657	907
	$ 196,862	$ 785,683	$ 570,642	$ 289,670

	2010			
	Revenues	Expenses	Receivables	Payables
Air Marshall Islands, Inc.	$ 35,711	$ -	$ 269,284	$ -
Marshalls Energy Company, Inc.	108,027	218,441	57,710	-
Marshall Islands Social Security Administration	-	83,818	-	36,689
Marshall Islands National Telecommunications Authority	639	33,956	115	-
Majuro Water and Sewer Company, Inc.	-	1,328	-	398
RepMar	9,045	287,579	196,425	242,787
Tobolar Copra Processing Plant, Inc.	-	-	4,992	-
Other	4,503	188,198	28,116	-
	$ 157,925	$ 813,320	$ 556,642	$ 279,874

During the year ended September 30, 1998, MIPA advanced cash to Tobolar Copra Processing Plant, Inc., a component unit of RepMar. The uncollateralized advances which bear interest at 10% per annum have already been repaid but the interest is in arrears. As of September 30, 2011 and 2010, the total interest receivable of $36,659 is included in the allowance for doubtful accounts. As of November 24, 2011, this amount was approved by the Board of Directors for write-off.

(5) Related Party Transactions, Continued

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 $173,555 to Meram, Inc. (a corporation solely owned by RepMar) for boat operations. As of September 30, 2010, this amount was approved by the Board of Directors for write-off.

The above receivables from affiliates are uncollateralized, interest free and have no set repayment terms.

On August 30, 2010, the Authority entered into a loan agreement with Air Marshall Islands, Inc. (AMI) in the amount of $313,385 whereby the Authority will provide funding to AMI for operational purposes. As of September 30, 2011 and 2010, a total of $237,323 and $203,027, respectively, of principal has been advanced to AMI. Interest is at 8% per annum, payable in monthly installments of $11,560 for 30 months beginning September 30, 2010.

In accordance with established tariffs, the Authority 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, the Authority utilizes the services of qualified pilots. Since the inception of compulsory pilotage, the majority of qualified pilots are employees of the Authority and other RepMar Ministries and Agencies. Pilots retain sixty-seven (67) percent of compensation, and the Authority retains thirty-three (33) percent. Pilots who are not employees of the Authority do not contribute the thirty-three percent to the Authority. Effective August 9, 2007, pilots retain forty (40) percent of compensation and the Authority retains sixty (60) percent. Ten (10) percent of the compensation collected by the Authority shall be remitted to the Ministry of Transportation and Communication. It is the intention of the Authority to train pilots in accordance with the pilotage regulations. During the years ended September 30, 2011 and 2010, the Authority compensated qualified pilots, who were employees and directors of the Authority, for pilotage services of $226,693 and $187,530, respectively.

On April 1, 2007, the Authority entered into a memorandum of understanding (MOU) with RepMar's Ministry of Finance to transfer the responsibility of lease payments to the Authority for parcels of land under the Authority's jurisdiction based on ground leases executed by RepMar. Under the MOU, the Authority shall pay the Ministry of Finance an annual lease payment of $281,444, payable in four equal quarterly installments of $70,361 (see note 7). On February 18, 2011, the Authority entered into an amended MOU to reimburse the Ministry of Finance an additional $54,126 for certain lease payments made by RepMar to various landowners on certain lands controlled or occupied by the Authority. This amount covered periods for 2007 to the first quarter of 2011. The revised annual lease payment of $294,180 is payable in four equal quarterly installments of $73,545 commencing February 18, 2011.

During the year ended September 30, 2011, the Cabinet of RepMar approved the distribution from the Authority to RepMar's General Fund of $500,000 in accordance with Public Law 2010-43. As of September 30, 2011, the Authority was liable to RepMar in the amount of $285,714 pertaining to this authorized distribution.

(6) Notes Payable

On January 11, 2007, the Authority obtained a $750,000 bank loan, 7.5% interest, payable in monthly installments of $24,000 for 34 months beginning January 31, 2007 with a final payment of $20,945 on November 28, 2009. The note is collateralized by a time certificate of deposit. The proceeds of the loan were used to purchase ground handling equipment. This note was paid in full during the year ended September 30, 2010.

On April 6, 2010, the Authority obtained a $250,000 bank loan, 8.5% interest, payable in monthly installments of $9,330 for 34 months beginning April 30, 2010 with a final payment of $7,994 on March 28, 2013. The note is collateralized by a time certificate of deposit. The proceeds of the loan were used to purchase a pilot boat.

Annual debt service requirements to maturity for principal and interest are as follows:

Year ending September 30,	Principal	Interest	Total
2012	$ 110,599	$ 10,691	$ 121,290
2013	53,930	1,310	55,240
	$ 164,529	$ 12,001	$ 176,530

Changes in notes payable for the years ended September 30, 2011 and 2010, are as follows:

2011				
Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
$ 250,379	$ -	$ (85,850)	$ 164,529	$ 110,599

2010				
Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
$ 43,451	$ 295,000	$ (88,072)	$ 250,379	$ 94,415

(7) Commitments

The Authority is the lessor of office, restaurant, bar and warehouse space at the Amata Kabua International Airport. Three leases have three-year terms or greater expiring on varying dates through December 31, 2024. The remaining leases have two-year terms.

On January 23, 2001, the Authority 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 payment of $19,860 per annum plus a gross receipts fee equal to 1.5% of total operating revenues. Subsequently, the Authority entered into an amending agreement during the year ended September 30, 2011 to extend the lease agreement from January 1, 2011 to December 31, 2020. The terms of the amending lease requires a minimum payment of $19,194 per annum paid quarterly, plus a gross receipts fee equal to 1.5% of total operating revenues.

(7) Commitments, Continued

Additional rental income under this lease for the years ended September 30, 2011 and 2010 amounted to $19,361 and $21,475, respectively.

On September 1, 2003, the Authority 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 require a minimum payment of $3,600 per annum. This agreement was terminated January 30, 2009.

On August 1, 2009, the Authority entered into a five-year lease agreement with a shipping company to lease out warehouse space. The terms of the lease require a minimum payment of $2,905.

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

Year ending September 30,	
2012	$ 111,960
2013	84,955
2014	67,644
2015	33,716
2016	32,051
2017 - 2021	108,226
2022 - 2025	38,314
Total future minimum rentals	$ 476,866

Effective fiscal year 2007, RepMar's Ministry of Finance transferred the responsibility of lease payments to the Authority for parcels of land under the Authority's jurisdiction based on ground leases executed by RepMar. The Authority has to maintain this responsibility until mutually terminated by both parties. Since there is no definite term on the transfer of responsibility, no future lease commitments have been disclosed.

On August 16, 2007, the Authority was awarded $14,000,000 by the FAA, representing 95%, to construct an aircraft rescue and fire fighting building. On April 4, 2011, the Authority was awarded an additional $2,100,000 by the FAA under this award.

On August 26, 2008, the Authority was awarded $999,995 by the FAA, representing 95%, to conduct an airport master plan study.

On August 16, 2010, the Authority was awarded $8,000,000 by the FAA, representing 95%, to improve runway safety areas (relocate service road) – Phase I.

Subsequent to September 30, 2011, three new grants were approved effective January 2012. These included i) an additional $3,000,000 for the AIP-10 Road Realignment/RSA Project, ii) $500,000 for FAA-GIS AIP-11, and iii) $200,000 for the AIP-12 Airport Security Fence Project. Furthermore, AIP local matchings will increase from 5% to 10% for new grants awarded.

(8) Contingencies

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

The Authority is a party to several legal proceedings arising from its operations; however, no provision for any liability has been made in the accompanying financial statements because management believes that no unfavorable outcome is likely to occur.

The Authority has a loan receivable of $237,323 with AMI as described in note 5. There is a possibility that the loan receivable may not be recoverable. Management of the Authority is currently discussing alternative arrangements to ensure collection of this receivable. In addition to this loan, the Authority has a receivable from AMI of $318,377 included in accounts receivable related to the rental for the office, warehouse space, and electricity, as the Authority is current subsidizing AMI for its lease and electricity. This amount has been included in the allowance for doubtful accounts.

RMI PORTS AUTHORITY

Combining Divisional Statements of Revenues, Expenses and Changes in Net Assets
Year Ended September 30, 2011

	Airport Division	Seaport Division	Total
Operating revenues:			
Seaport fees	$ -	$ 1,767,098	$ 1,767,098
Aviation fees	724,062	-	724,062
Concession and lease income	72,681	97,080	169,761
Other	107,355	5,322	112,677
	904,098	1,869,500	2,773,598
Allowance for doubtful debts	(90,610)	(44,299)	(134,909)
Total operating revenues	813,488	1,825,201	2,638,689
Operating expenses:			
Depreciation	2,699,319	403,727	3,103,046
Salaries and wages	599,444	466,090	1,065,534
Rent	257,931	84,007	341,938
Pilotage	-	226,693	226,693
Utilities	208,619	17,841	226,460
Pilot Boat Expenses	-	74,425	74,425
Insurance	29,589	32,000	61,589
Training and travel	35,237	15,677	50,914
Gas, oil, and fuel expenses	34,674	15,757	50,431
Communications	17,837	11,780	29,617
Professional fees	13,365	9,846	23,211
Repairs and maintenance	12,372	6,094	18,466
Supplies	3,651	7,217	10,868
Miscellaneous	50,235	24,450	74,685
Total operating expenses	3,962,273	1,395,604	5,357,877
Operating income (loss)	(3,148,785)	429,597	(2,719,188)
Nonoperating revenues (expenses):			
Gain on disposal of capital assets	1,050	1,050	2,100
Interest income	23,372	97,411	120,783
Contributions to RepMar	(250,000)	(250,000)	(500,000)
Interest expense	-	(17,965)	(17,965)
Total nonoperating revenues (expenses), net	(225,578)	(169,504)	(395,082)
Loss before capital contributions	(3,374,363)	260,093	(3,114,270)
Capital contributions:			
Contributions from U.S. government	3,809,943	-	3,809,943
Change in net assets	435,580	260,093	695,673
Net assets at beginning of year	41,296,276	10,136,039	51,432,315
Net assets at end of year	$ 41,731,856	$ 10,396,132	$ 52,127,988

See accompanying independent auditor's report.