RMI PORTS AUTHORITY

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

YEARS ENDED SEPTEMBER 30, 2005 AND 2004

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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, 2005 and 2004, 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 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, 2005 and 2004, 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.

The Management's Discussion and Analysis on pages 3 through 12 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, 2005 (page 24) 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 and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Member of
Deloitte Touche Tohmatsu

In accordance with *Government Auditing Standards,* we have also issued our report dated March 31, 2006, 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 the 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.

Deloitte & Touche LLP

March 31, 2006

RMI PORTS AUTHORITY

Management's Discussion and Analysis
Year Ended September 30, 2005

I) INTRODUCTION

Our discussion and analysis of the financial performance of the airport and seaport divisions of the RMI Ports Authority (the Authority) provides an overview of the Authority's financial activities presented in the audited financial statements for the fiscal year ending September 30, 2005. This discussion and analysis should be read in conjunction with the more detailed information contained within the accompanying audited financial statements.

The 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 the Authority, all of whom are appointed by the Cabinet. One of the members is designated by the Cabinet as the Chairperson of the Board. The Authority is responsible for establishing, maintaining, managing and operating all airports and port facilities designated by law and the RMI Government. At the time of writing, the Authority has direct management and oversight responsibilities for the airport and ports in Majuro only. On the other hand, The Authority Act of 2003 specifies that Port of Ebeye (Port) fall under the Authority's management. The Port, however, is being managed by Kwajalein Atoll Local Government (KalGov).

As of September 30, 2005, the Authority had 54 full-time employees, an increase of 2 personnel when compared to last year's. But the composition has changed and is as follows: 2 in Administration; 7 in Finance; 4 in Airport Operations (Tower); 5 in Seaport Operations; 8 in Maintenance; 1 in Aircraft Rescue and Fire Fighting; and 27 in Security. Out of the 27 Security Officers, 6 are cross-trained and certified as airport firefighters

II) FINANCIAL STATEMENTS OVERVIEW

The Authority's financial reports are prepared in accordance with the generally accepted accounting principles in the United States of America mandated by Government 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

- Net assets increased by $293,306 to $13,964,688 from $13,671,382 at September 30, 2005. The increase was due to increased in operational revenues supported by decreased in operational expenses.
- Operating revenues increased by $110,710 to $2,552,808 from $2,442,098 at September 30, 2005. Traffic on special flights increased during the period compensating for the loss of Aloha Airlines flights that stopped in January 2005. For shipping, more vessels, specifically cruise ships and pleasure yachts, arrived this year when compared to last year's.
- Operating expenses decreased by $136,334 from $2,560,058 to $2,423,724 at September 30, 2005. Major expenses, like depreciation, bad debts, oil and lubricants, decreased during the year.
- For the fiscal year ending September 30, 2005, the Authority made an operating income of $129,084 compared to operating loss of $117,960 of prior fiscal year.

IV) STATEMENT OF NET ASSETS

	2005	2004	Change	Percentage
Current assets	$ 3,701,736	$ 3,287,840	$413,896	13%
Property, plant and equipment, net	10,605,676	10,787,467	(181,791)	(2)%
Total assets	$14,307,412	$14,075,307	$ 232,105	2%
Current liabilities	$ 342,724	$ 377,197	$ (34,473)	(9)%
Notes payable, net of current portion	-	26,728	(26,728)	(100)%
Net assets	13,964,688	13,671,382	293,306	2%
Total liabilities and net assets	$14,307,412	$14,307,412	$232,105	2%

For fiscal period ending September 30, 2005, the largest portion of net assets is investment in capital assets, net of related debt, amounting $10,578,684. The capital assets comprise of terminal facilities and equipment and, the runway. The remaining unrestricted net assets of $3,386,004 are used primarily to meet any of the Authority's ongoing obligations.

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

	2005	2004	Change	Percentage
Operating revenues				
Airport Division	$ 911,845	$ 839,533	$ 72,312	9%
Seaport Division	1,640,963	1,602,565	38,398	2%
	2,552,808	2,442,098	110,710	5%
Operating expenses				
Airport Division	1,006,480	1,031,850	(25,370)	(2%)
Seaport Division	1,417,244	1,528,208	(110,964)	(7%)
	2,423,724	2,560,058	(136,334)	(5%)
Non-operating revenues (expenses)				
Airport Division	118,225	170,421	(52,196)	(31%
Seaport Division	45,997	46,028	(31)	(0.07%)
	164,222	216,449	952,227	(24%)
Change in net assets				
Airport Division	23,590	(21,896)	45,486	(208%)
Seaport Division	269,716	120,385	149,331	124%
	$ 293,306	$ 98,489	$194,817	198%

Airport Division's contribution to total revenues was 36% for fiscal period ending 2005 and Seaport Division was 64%, compared to last fiscal year's of 34% and 66%, respectively. On operating expenses, Airport Division's share was 42% and Seaport Division was 58% and compared to last fiscal period, 40% and 60%, respectively.

VI) AIRPORT DIVISION

1) Financial Operations Highlights

- Net assets increased by $23,590 to $4,703,688 from $4,680,098 at September 30, 2005. The increase was due to increased in operational revenues supported by decreased in operational expenses.
- Operating revenues increased by $72,312 from $839,533 to $911,845 at September 30, 2005. Traffic on special flights increased during the period compensating for the loss of Aloha Airlines flights that stopped in January 2005. The total landings fees for Air Marshall Islands, Inc. (AMI) was recorded as revenue amounting to $99,360 for financial statement purposes only and has no effect nor influence on the airport division's increase in operating revenues. AMI utilizes the airport facilities for which the Authority does not levy fees or charges.
- Operating expenses decreased by $25,370 from $1,031,850 to $1,006,480 at September 30, 2005 in spite of recording as expense the subsidy of $99,360 afforded to AMI for the use of the airport facilities.
- Operating loss decreased by $97,682 from $192,317 to $94,635. All major expenses during the period decrease, except for landing fee subsidy given to AMI, which was recognized as expense during the period. The account was created, for financial statement purposes only, to show landing charges that were supposed to be paid by Air Marshall Islands, Inc. but not billed.

2) Statement of Revenues and Expenses

	2005	2004	Change	Percentage
Operating revenues				
Landing fees – Scheduled	$ 214,417	$ 154,524	$ 59,893	39%
Landing fees – Unscheduled	169,323	185,223	(15,900)	(9%)
Departure fees – International	259,715	254,730	4,985	2%
Departure fees – Domestic	20,790	23,624	(2,834)	(12%)
Concession and lease income	70,704	67,744	2,960	4%
Ground handling – Transient	38,750	46,275	(7,525)	(16%)
Other operating revenues	138,146	107,413	30,733	29%
Total	911,845	839,533	72,312	9%
Operating expenses				
Salaries and wages	426,840	430,647	(3,807)	(1%)
Utilities	130,634	76,463	54,171	71%
Repairs and maintenance	84,632	43,377	41,255	95%
Other operating expenses	229,967	167,204	62,763	38%
Total	872,073	717,691	154,382	22%
Income before depreciation	39,772	121,842	(82,070)	(67%)
Less: Depreciation and amortization	134,407	314,159	(179,752)	(57%)
Loss after depreciation and amortization	(94,635)	(192,317)	97,682	(51%)
Add: Non-operating revenues	118,225	170,421	(52,196)	(31%)
Change in net assets	23,590	(21,896)	45,486	208%
Add: Beginning balance	4,680,098	4,701,994	(21,896)	-0.47%
Net Assets, End of Year	$4,703,688	$4,680,098	$ 23,590	1%

The increase in utilities was due to increase in Marshalls Energy Company (MEC) rates affected during the period. The increase in repairs and maintenance was due to various spare parts bought for the donated firetrucks.

3) Commercial Flights Movements

	2005	2004	Change	Percentage
Continental Airlines	333	340	(7)	(2%)
Aloha Airlines	29	123	(94)	(76%)
Air Nauru	108	23	85	370%
	470	486	(16)	(3%)

Continental Airlines added additional flights during peak seasons to cope with the increase in passenger volumes. But compared to last year, Continental Airlines' flights during peak seasons were lesser. Air Nauru's flights, which started in July 2004, to the Marshall Islands increased during the period filling the vacuum created by stoppage of flights by Aloha Airlines (Aloha).

4) Unscheduled/Special Flight Movements

	2005	2004	Change	Percentage
Category 1	40	85	(45)	(53%)
Category 2	43	52	(9)	(17%)
Category 3	131	53	78	147%
Asia Pacific Airlines	298	386	(88)	(23%)
	512	576	(64)	(11%)

Category 1 refers to private/ferry/transit flights having a maximum take-off load of up to 45,000 pounds; Category 2 refers to private/ferry/transit flights having a maximum take-off load of 45,001 to 90,000 pounds; and, Category 3 refers to private/ferry/transit flights having a maximum take-off load of over 90,000 pounds.

Asia Pacific Airlines reduced their flights during the period because of jet fuel prices.

Note that the U.S military aircrafts utilize the airport facilities for landings and are exempt from landing charges but pay for the ground handling charges. For the fiscal period ending September 30, 2005, there were 51 military aircrafts that landed. Data for fiscal period ending September 30, 2004 are not available.

5) Actual versus Budget Analysis

	Actual	Budget	Change	Percentage
Operating revenues				
Landing fees – Scheduled	$ 214,417	$ 171,720	$ 42,697	25%
Landing fees – Unscheduled	169,323	128,014	41,309	32%
Departure fees – International	259,715	256,680	3,035	1%
Departure fees – Domestic	20,790	24,000	(3,210)	(13%)
Concession and lease income	70,704	91,980	(21,276)	(23%)

	Actual	Budget	Change	Percentage
Ground handling – Transient A/C	38,750	45,120	(6,370)	(14%)
Other operating revenues	138,146	147,440	(9,294)	(6%)
Total	911,845	864,954	46,891	5%
Operating expenses				
Salaries and wages	426,840	411,902	14,938	4%
Utilities	130,634	96,792	33,842	35%
Repairs and maintenance	84,632	42,000	42,632	102%
Other operating expenses	229,967	132,321	97,646	74%
Total	872,073	683,015	189,058	28%
Income before depreciation	39,772	181,939	(142,167)	(78%)
Less: Depreciation and amortization	134,407	332,340	(142,167)	(60%)
Loss after depreciation and amortization	(94,635)	(150,401)	55,766	(37%)
Add: Non-operating revenues	118,225	8,081	110,144	1,363%
Change in Net Assets	23,590	(142,320)	165,910	(117%)

The Board of Directors (the Board) meets every year to review the Authority's financial performance and, in this regard, review the annual budget proposed by management. Once the Board approves the budget, it is rarely changed or revised, unless unusual/ unforeseen events occur during the fiscal period that may have a significant impact to the financial position of the Authority.

On the revenue side, the airport division performed favorably compared to budget. Total operating revenues performed 5% above the budgeted figures. As previously mentioned, the increase in revenues was due to additional unscheduled/special flights during the period. This is in addition to $99,360 landing fees for AMI recorded as revenue in the financial reports.

On the expense side, the airport division performed unfavorable against budget. Total operating expenses increased by 28% compared to budget. All major expenses increased during the period. In addition, subsidy to AMI for the landing fees was recorded as an expense in the financial reports.

6) Air Marshall Islands, Inc

The Authority is providing services to RMI and its affiliates at the same rates charged to third parties, except Air Marshall Islands, Inc. (AMI). Favorable rates and conditions are provided to AMI compared to other parties. AMI use the airport facilities, like landing rights, without being levied or charged. For financial statements purposes ending September 30, 2005, total landing fees for AMI, amounting to $99,360, were recorded in the books as revenue and the subsidy were recorded as expense.

VII) SEAPORT DIVISION

1) Financial Operations Highlights

- Net assets increased by $269,716 to $9,261,000 from $8,991,284 at September 30, 2005. The increase was due to increase in operational revenues assisted by decrease in operational expenses.

- Operating revenues increased by $38,397 from $1,602,565 to $1,640,963 at September 30, 2005. Arrivals of vessels, particularly the cruise ships and pleasure yachts, increased during the year compared to last fiscal year. There were also Swire's transshipments that arrived in RMI that came from the United States.
- Operating expenses decreased by $110,964 from $1,528,208 to $1,417,244 at September 30, 2005. Major expenses decreased during the period except for pilotage, repairs and maintenance and communications.
- Operating income increased during the period by $149,362 from $74,357 to $223,719. The favorable result is due to bad debts recognition that went down from $209,848 to $78,469 this period.

2) Statement of Revenues and Expenses

	2005	2004	Change	Percentage
Operating revenues				
Pilotage fees	$ 413,479	$ 401,060	$ 12,419	3%
Pilot boat usage fees	224,000	216,900	7,100	3%
Wharfage fees	465,472	437,243	28,229	6%
Dockage fees - International	140,982	185,690	(44,708)	(24%)
Dockage fees - Domestic	26,550	7,440	19,110	257%
Anchorage fees	12,033	10,966	1,067	10%
Foreign vessel entry fees	240,436	220,102	20,334	9%
Light dues	35,910	33,540	2,370	7%
Fuel and water service charges	24,017	26,375	(2,358)	(9%)
Disembark and change crew	4,040	6,140	(2,100)	(34%)
Concession and lease income	52,274	48,737	3,537	7%
Other operating revenues	1,770	8,372	(6,602)	(79%)
Total	1,640,963	1,602,565	38,398	2%
Operating expenses				
Salaries and wages	364,279	363,049	1,230	0.34%
Pilotage	390,939	317,095	73,844	23%
Utilities	15,892	12,757	3,135	25%
Repairs and maintenance	40,929	23,106	17,823	77%
Other operating expenses	179,428	398,809	(219,381)	(55%)
Total	991,467	1,114,816	(123,349)	(11%)
Income before depreciation	649,496	487,749	161,747	33%
Less: Depreciation and amortization	425,777	413,392	12,385	3%
Income after depreciation and Amortization	223,719	74,357	149,362	201%
Add: Non-operating revenues	45,997	46,028	(31)	(0.07%)
Change in net assets	269,716	120,385	149,331	124%
Add: Beginning balance	8,991,284	8,870,899	120,385	1%
Net Assets, End of Year	$9,261,000	$8,991,284	$269,716	3%

In operating revenues, the decrease of 24% in dockage fees-international was the direct result of stoppage of bunkering services by MEC to the purse seiners shifting to and from Delap wharf thus decreasing the berth occupancy rate. Increase of 257% in dockage fee-domestic was due to MEC fuel crises, which demanded the shift from bunkering at the Fish Base by MEC to Uliga Dock by Mobil.

In operating expenses, repairs and maintenance increased by 77% because of increase in maintenance costs to timber fenders and the removal costs associated with Ion Meto I.

3) Vessel Arrivals (In numbers)

	2005	2004	Change	Percentage
Cargo vessels	45	63	(18)	(29%)
Fishing vessels	1,066	1,034	32	3%
Foreign tankers	16	18	(2)	(11%)
Other vessels (cruise ships, pleasure yachts)	37	3	34	1,133%
	1,164	1,118	46	4%

Vessel arrivals increased by 4% when compared to last fiscal year. This was due to cruise ships and pleasure yachts that went up to 37 from 3 of prior period. Arrivals of cargo vessels decreased during the period because operations of Philippine Micronesia & Orient's (PM&O) in RMI were substantially reduced.

4) Actual versus Budget Analysis

	Actual	Budget	Change	Percentage
Operating revenues				
Pilotage fees	$ 413,479	$ 395,604	$ 17,875	5%
Pilot boat usage fees	224,000	213,000	11,000	5%
Wharfage fees	465,472	454,332	11,140	2%
Dockage fees - International	140,982	185,760	(44,778)	(24%)
Dockage fees - Domestic	26,550	14,412	12,138	84%
Anchorage fees	12,033	10,848	1,185	11%
Foreign vessel entry fees	240,436	218,652	21,784	10%
Light dues	35,910	33,060	2,850	9%
Fuel and water service charges	24,017	25,260	(1,243)	(5%)
Disembark and change crew	4,040	-	4,040	100%
Concession and lease income	52,274	64,200	(11,926)	(19%)
Other operating revenues	1,770	17,300	(15,530)	(90%)
Total	1,640,963	1,632,428	8,535	1%
Operating expenses				
Salaries and wages	364,279	380,125	(15,846)	(4%)
Pilotage	390,939	318,803	72,136	23%
Utilities	15,892	13,152	2,740	21%
Repairs and maintenance	40,929	24,000	16,929	71%
Other operating expenses	179,428	146,270	33,158	23%
Total	991,467	882,350	109,117	12%
Income before depreciation	649,496	750,078	(100,582)	(13%)
Less: Depreciation and amortization	425,777	404,388	21,389	5%
Loss after depreciation and amortization	223,719	345,690	(121,971)	(35%)
Add: Non-operating revenues	45,997	46,575	(578)	(1%)
Change in net assets	$ 269,716	$ 392,265	$(122,549)	(31%)

As previously mentioned the Board meets every year to review the Authority's financial performance and, in this regard, review the annual budget proposed by management. Shown above is the budget for the seaport division approved by the Board.

On the revenue side, seaport division was able to meet the overall expectations. Actual performance is up by 1% when compared to budget figures.

On the expense side, expenses increased by $109,117, or 12%, from $882,350 of prior fiscal period to $991,467. Major expenses like pilotage and pilot boat expenses, repairs and maintenance, depreciation increased during the period.

VIII) BUDGET COMPARISONS

	2006	2005	Change	Percentage
Operating revenues				
Airport Division	$ 814,487	$ 864,954	$ (50,467)	(6)%
Seaport Division	1,575,255	1,632,428	(57,173)	(4)%
	2,389,742	2,497,382	(107,640)	(4)%
Operating expenses				
Airport Division	735,310	683,015	52,295	8%
Seaport Division	976,747	882,350	94,397	11%
	1,712,057	1,565,365	146,692	9%
Depreciation and amortization				
Airport Division	361,537	332,340	29,197	9%
Seaport Division	424,413	404,388	20,025	5%
	785,950	736,728	49,222	7%
Non-operating revenues (expenses)				
Airport Division	15,733	8,081	7,652	95%
Seaport Division	45,214	46,575	(1,361)	(3)%
	60,947	54,656	6,291	12%
Change in net assets				
Airport Division	(266,627)	(142,320)	(124,307)	87%
Seaport Division	219,309	392,265	(172,956)	(44)%
	$ (47,318)	$ 249,945	$(297,263)	(119)%

The operating revenues budget for fiscal period 2006 was done conservatively when compared to fiscal period 2005. The operating expenses side, the budget was higher for fiscal period 2006 when compared to fiscal period 2005 due to expected increases in utilities, repairs and maintenance, insurance, salaries and wages, communications and including depreciation.

Airport Division's expected contribution to total revenues is 34% for fiscal period ending 2006 and Seaport Division is 66%, comparing it to fiscal period ending 2005 of 35% and 65%, respectively. On operating expenses, Airport Division's expected share is 44% and Seaport Division is 56%, comparing it to fiscal period 2005 are the same, respectively.

IX) CAPITAL EXPENDITURES

The airport division started Airport Restaurant/Bar Renovation Project in fiscal year 2004 and was completed in fiscal period 2005. Project total cost was $94,295.

For seaport division, pre-fabricated materials amounting to $78,594 are in custody intended for warehouse renovation in Delap.

Projects/expenditures approved by the Board during the fiscal period are the following:

- Amata Kabua International Airport (AKIA) Runway Overlay Project for $16.4 million;
- AKIA Apron Taxiway Reconstruction Project for $5.3 million;
- AKIA Airport Rescue and Fire Fighting (ARFF) Building and Facilities for $1.25 million;
- AKIA Fire Trucks for $1.6 million;
- AKIA Airport Improvement Program Master Plan for $210,000;
- AKIA Technical Assistance for $637,000;
- AKIA Concession Stalls – Phase II for $26,000;
- AKIA Stalls at Departure Area for $15,000;
- AKIA ARFF Trucks for $75,000;
- AKIA Restroom Renovation in the terminal and departure areas for $80,000
- AKIA Master Plan for $10,000;
- AKIA Runway Lights for $15,000;
- Spareparts for Fire Trucks and Others for $47,180;
- Seaports – Security Checkpoints for $40,040;
- Seaports – Delap Warehouse Renovation for $20,000;
- Seaports – Navigational Aids for $400,000; and,
- Seaports – Service Booms, Timber Fenders and, Ramp, RIRAP Repairs and Others for $73,655.
- Administration – Electric Generator for the Authority's Building for $50,000

U.S. Federal Aviation Administration (FAA) funds some of the projects/expenditures mentioned above with corresponding matching funds from RMI and the Authority. The fundings are as follows:

	FAA	RMI	RMIPA	Total
AKIA Runway Overlay Project	$15,600,000	$ 800,000	$ -	$16,400,000
AKIA Apron Taxiway Reconstruction	5,000,000	250,000	-	5,250,000
AKIA ARFF Building and Facilities	1,000,000	250,000	-	1,250,000
AKIA Fire Trucks	1,500,000	-	75,000	1,575,000
AKIA Master Plan	200,000	-	10,000	210,000
Total	$23,300,000	$1,300,000	$85,000	$24,685,000

The USDA is funding the AKIA Technical Assistance for $499,000 with corresponding contribution of $138,000 from the Authority.

As of September 30, 2005, FAA executed the following grants:

- 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; and,
- Project No. 3-68-001-05, Rehabilitate Runway 7/25 – Phase I, for $10.0 million.

During its 26th Constitutional Regular Session, 2005, the Nitijela of RMI approved following funds to match the FAA fundings and they are as follows:

- AKIA Runway Overlay Project for $300,000;
- AKIA Apron Taxiway Reconstruction for $250,000; and,
- AKIA ARFF Building and Facilities for $250,000.

Under the U.S. Compact Funding Subaward Agreement by and between RMI and the Authority, RMI has appropriated and the U.S. Department of Interior has approved $500,000 of the public infrastructure sector grant funding awarded under the Compact of Free Association, as amended, for the AKIA Runway Overlay Project as matching fund for FAA fundings.

The AKIA Runway Overlay Project was awarded to Anderson Pavements (RMI) Inc. in August 2005. For AKIA Technical Assistance, amount expended was $231,100 as of September 30, 2005.

X) ECONOMIC FACTORS

These are the events that happened and that might happened during and after the fiscal period September 30, 2005:

- PM&O stopped their operations completely in RMI effective September 2005;
- There is a possibility that another shipping/cargo line will come into RMI to fill the vacuum created by PM&O. If this happens, cargo vessels arriving in RMI will increase with resulting increases in related revenues.
- There is a possibility that Japan Airlines may start charter flights to RMI soon. If this happens, related airport revenues, like landing charges and ground handling charges, will increase.

RMI PORTS AUTHORITY

Statements of Net Assets
September 30, 2005 and 2004

ASSETS	2005	2004
Current assets:		
Cash	$ 1,515,732	$ 1,342,043
Time certificates of deposit	1,564,777	1,512,781
Receivables:		
Trade	591,626	640,888
Affiliates	719,087	633,861
Notes	100,000	100,000
Interest receivable	76,425	-
Grant receivable	111,000	-
Other	51,377	-
	1,649,515	1,374,749
Less allowance for doubtful accounts	(1,065,163)	(986,694)
	584,352	388,055
Prepaid expenses and other assets	36,875	44,961
Total current assets	3,701,736	3,287,840
Property, plant and equipment, net	10,605,676	10,787,467
	$14,307,412	$14,075,307
LIABILITIES AND NET ASSETS		
Current liabilities:		
Current portion of notes payable	$ 26,992	34,219
Accounts payable	39,042	40,151
Payable to affiliates	219,845	201,461
Other liabilities and accruals	56,845	101,366
Total current liabilities	342,724	377,197
Note payable, net of current portion	-	26,728
Total liabilities	342,724	403,925
Commitments and contingencies		
Net assets:		
Invested in capital assets, net of related debt	10,578,684	10,726,520
Unrestricted	3,386,004	2,944,862
Total net assets	13,964,688	13,671,382
	$14,307,412	$14,075,307

See accompanying notes to financial statements.

RMI PORTS AUTHORITY

Statements of Revenues, Expenses and Changes in Net Assets
Years Ended September 30, 2005 and 2004

	2005	2004
Operating revenues:		
Seaport fees	$ 1,586,919	$ 1,528,350
Aviation fees	788,223	734,760
Concession and lease income	122,978	116,481
Other	54,688	62,507
Total operating revenues	2,552,808	2,442,098
Operating expenses:		
Salaries and wages	791,119	793,696
Depreciation	560,184	727,551
Pilotage	390,939	317,095
Utilities	146,526	89,220
Repairs and maintenance	125,561	66,483
Landing fees subsidy	99,360	-
Bad debts	78,469	235,735
Training and travel	56,986	58,772
Communications	32,412	22,411
Insurance	22,681	39,640
Supplies	10,991	34,357
Petroleum, oil and lubricants	-	61,112
Professional fees	-	49,869
Miscellaneous	108,496	64,117
Total operating expenses	2,423,724	2,560,058
Operating income (loss)	129,084	(117,960)
Other revenues (expenses):		
Interest income	53,222	61,756
Other nonoperating revenues (expenses), net	-	(7,856)
Total other revenues (expenses), net	53,222	53,900
Earnings (loss) before capital contribution	182,306	(64,060)
Capital contribution:		
Grant from USDA	111,000	162,549
Change in net assets	293,306	98,489
Net assets at beginning of year	13,671,382	13,572,893
Net assets at end of year	$ 13,964,688	$ 13,671,382

See accompanying notes to financial statements.

RMI PORTS AUTHORITY

Statements of Cash Flows
Years Ended September 30, 2005 and 2004

	2005	2004
Cash flows from operating activities:		
Cash received from customers	$ 2,340,467	$ 2,386,541
Cash payments to suppliers for goods and services	(958,713)	(821,797)
Cash payments to employees for services	(791,119)	(751,996)
Net cash provided by operating activities	590,635	812,748
Cash flows from noncapital financing activities:		
Transfer to Ebeye Port	-	(11,616)
Net cash used for noncapital financing activities	-	(11,616)
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(378,393)	(819,607)
Repayment of long-term debt	(33,955)	(34,219)
Capital contribution from USDA	-	162,549
Net cash used for capital and related financing activities	(412,348)	(691,277)
Cash flows from investing activities:		
Purchases of time certificates of deposit	(51,996)	(63,465)
Interest received	47,398	65,516
Net cash (used for) provided by investing activities	(4,598)	2,051
Net increase in cash	173,689	111,906
Cash at beginning of year	1,342,043	1,230,137
Cash at end of year	$ 1,515,732	$ 1,342,043
Reconciliation of operating income (loss) to net cash provided by operating activities:		
Operating income (loss)	$ 129,084	$ (117,960)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation	560,184	727,551
Bad debts	78,469	235,735
(Increase) decrease in assets:		
Receivables:		
Trade	(21,339)	17,787
Affiliates	(85,226)	(149,423)
Accrued interest	-	372
Other	(6,416)	75,708
Prepaid expenses and other assets	(36,875)	(26,938)
Increase (decrease) in liabilities:		
Accounts payable	5,284	27,494
Payable to affiliates	11,991	20,716
Deferred lease income	(44,521)	(4,336)
Other liabilities and accruals	-	6,042
Net cash provided by operating activities	$ 590,635	$ 812,748

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 the Marshall Islands Airport Authority 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 the Marshall Islands Port Authority 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. MIPA 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 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, require management's discussion and analysis of the financial activities be included with the basic financial statements and notes and modify certain other financial statement disclosure requirements.

To conform to the requirements of GASB Statement No. 34, retained earnings are presented in the following net assets 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.
- The statement of cash flows has been presented using the direct method.

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.

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. 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, 2005 and 2004, the carrying amount of cash was $1,515,732 and $1,342,043, respectively, and the corresponding bank balance was $1,556,012 and $1,486,286, respectively, which is maintained in one financial institution located in Majuro subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2005 and 2004, two time certificates of deposits totaling $1,564,777 and $1,512,781, respectively, were maintained in a non-FDIC bank (see note 6). As of September 30, 2005 and 2004, bank deposits and time certificates of deposit in the amount of $100,000 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.

(2) Summary of Significant Accounting Policies, Continued

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. The Authority has set a capitalization threshold of $500. Depreciation of property, plant and equipment 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 - 50 years
Buildings	5 - 30 years
Equipment	15 years
Vehicles	2 - 6 years
Office furniture, fixtures and equipment	3 - 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. 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, 2005 and 2004, accumulated vacation leave liability of $52,886 and $65,999, respectively, are included within the statement of net assets in other liabilities and accruals.

New Accounting Standards

For fiscal year 2005, the Authority implemented GASB Statement No. 40, *Deposit and Investment Risk Disclosures (an amendment of GASB Statement No. 3)* and GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. Implementation of GASB Statement Nos. 40 and 42 is reflected in the accompanying financial statements.

(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 airport and 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.

(4) Notes Receivable

Notes receivable as of September 30, 2005 and 2004, consist of the following:

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
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
	$ 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, 2005 and 2004, interest receivable relating to the above notes receivable totals $80,000 and $66,397, respectively, and are included within the statement of net assets as accrued interest receivable.

(5) Property, Plant and Equipment

Capital asset activity for the years ended September 30, 2005 and 2004, was as follows:

	October 1, 2004	Additions	Retirements	September 30, 2005
Facilities	$ 18,841,778	$ -	$ -	$ 18,841,778
Buildings	1,730,652	110,473	-	1,841,125
Equipment	291,247	18,813	-	310,060
Vehicles	148,033	-	(5,000)	143,033
Office furniture, fixtures and equipment	173,745	74,325	(5,384)	242,686
	21,185,455	203,611	(10,384)	21,378,682
Less accumulated depreciation	(10,573,525)	(560,184)	9,146	(11,124,563)
	10,611,930	(356,573)	(1,238)	10,254,119
Construction work-in-progress	175,537	231,100	(55,080)	351,557
	$ 10,787,467	$ (125,473)	$ (56,318)	$ 10,605,676

(5) Property, Plant and Equipment, Continued

	October 1, 2003	Additions	Retirements	September 30, 2004
Facilities	$ 18,486,754	$ 355,024	$ -	$ 18,841,778
Buildings	951,455	779,197	-	1,730,652
Equipment	246,404	44,843	-	291,247
Vehicles	111,538	36,495	-	148,033
Office furniture, fixtures and equipment	138,438	57,733	(22,426)	173,745
	19,934,589	1,273,292	(22,426)	21,185,455
Less accumulated depreciation	(9,862,409)	(727,373)	16,257	(10,573,525)
	10,072,180	545,919	(6,169)	10,611,930
Construction work-in-progress	623,232	250,302	(697,997)	175,537
	$ 10,695,412	$ 796,221	$ (704,166)	$ 10,787,467

(6) 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 its affiliates. Services are provided to these entities at the same rates charged to third parties, with the exception of Air Marshall Islands, Inc. (AMI), a component unit of RepMar. Services are provided to AMI at more favorable rates and conditions than afforded to third parties. Specifically, AMI utilizes airport facilities at the Amata Kabua International Airport, including landing rights, for which the Authority does not levy fees or charges. During the year ended September 30, 2005, total landing fees for AMI amounted to $99,360, which were recorded in the Authority's financial statements as revenue and subsidy.

The Authority utilizes services from all other affiliates at the same rates and conditions as afforded to third parties.

A summary of related party transactions for the years ended September 30, 2005 and 2004 and related receivable and payable balances as of September 30, 2005 and 2004, are as follows:

	2005			
	Revenues	Expenses	Receivables	Payables
Air Marshall Islands, Inc.	$ 26,200	$ -	$ 103,793	$ -
Bank of Marshall Islands	17,781	-	52,186	-
Marshalls Energy Company, Inc.	-	-	90	33,361
Marshall Islands Social Security Administration	-	3,703	-	38,777
Marshall Islands National Telecommunications Authority	-	146,526	-	196
Majuro Water and Sewer Company, Inc.	-	807	-	-
Meram, Inc.	-	-	173,555	147,511
RepMar	3,184	-	207,878	-
Tobolar Copra Processing Plant, Inc.	-	-	173,858	-
Other	-	-	7,727	-
	$ 47,165	$ 151,036	$ 719,087	$ 219,845

(6) Related Party Transactions, Continued

	2004			
	Revenues	Expenses	Receivables	Payables
Air Marshall Islands, Inc.	$ 31,666	$ -	$ 58,707	$ -
Bank of Marshall Islands	17,781	6,694	40,566	-
Marshalls Energy Company, Inc.	-	134,292	-	17,538
Marshall Islands Social Security Administration	-	84,002	-	40,111
Marshall Islands National Telecommunications Authority	-	22,252	54	1,279
Majuro Water and Sewer Company, Inc.	-	1,010	-	-
Meram, Inc.	-	-	173,554	-
RepMar	163,025	179	187,709	140,490
Tobolar Copra Processing Plant, Inc.	-	-	171,438	-
Other	841	4,247	1,833	2,043
	$ 213,313	$ 252,676	$ 633,861	$ 201,461

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 $173,554 to Meram, Inc. (a corporation solely owned by RepMar) for boat operations. As of September 30, 2005, these amounts have not been repaid and are included in receivables from affiliates.

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. It is the intention of the Authority 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, 2005 and 2004, the Authority compensated qualified pilots, who were employees and directors of the Authority, for these pilotage services amounting to $197,961 and $212,547, respectively.

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

As of September 30, 2005 and 2004, the Authority maintained time certificates of deposit with a related financial institution totaling $1,564,777 and $1,512,781, respectively.

As of September 30, 2005 and 2004, RepMar paid land lease expenses on behalf of the Authority in the amount of $509,113 and $381,461, respectively.

(7) Note Payable

Note payable to a related financial institution, due June 28, 2006, payable in monthly installments of $3,134, interest at 7%, collateralized by a time certificate of deposit.

(7) Note Payable, Continued

Long-term liability activity for the year ended September 30, 2005 and 2004, was as follows:

	2005				
	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Note payable	$ 60,947	$ -	$ (33,955)	$ 26,992	$ 26,992

	2004				
	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Note payable	$ 95,166	$ -	$ (34,219)	$ 60,947	$ 34,219

(8) Commitments

The Authority is the lessor of office, restaurant, bar and warehouse space at the Amata Kabua International Airport. Four leases have three-year terms or greater expiring on varying dates from October 24, 2002 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 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, 2005 and 2004 amounted to $36,514 and $48,737, respectively.

On January 1, 2002, the Authority 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, 2005 and 2004 amounted to $9,000 each year.

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 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,	
2006	$ 117,695
2007	102,995
2008	62,781
2009	47,781
2010	36,080
2011-2015	39,312
2016-2020	39,312
2021-2025	31,450
Total future minimum rentals	$ 477,406

(8) Commitments, Continued

On August 17, 2005, the Authority was awarded $1 million by the U.S. Department of Transportation Federal Aviation Administration representing 95% of the cost of designing an aircraft rescue and fire fighting building. The remaining $500,000 or 5% is to be funded by RepMar.

On August 26, 2005, the Authority was also awarded by the U.S. Department of Transportation Federal Aviation Administration $15,571,387 representing 95% of the cost of rehabilitating the Amata Kabua International Airport runway. The remaining $819,547 is to be funded by RepMar.

(9) Contingency

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

RMI PORTS AUTHORITY

Combining Divisional Statements of Revenues, Expenses and Changes in Net Assets
Year Ended September 30, 2005

	Airport Division	Seaport Division	Total
Operating revenues:			
Seaport fees	$ -	$ 1,586,919	$ 1,586,919
Aviation fees	788,223	-	788,223
Concession and lease income	70,704	52,274	122,978
Other	52,918	1,770	54,688
Total operating revenues	911,845	1,640,963	2,552,808
Operating expenses:			
Salaries and wages	426,840	364,279	791,119
Depreciation	134,407	425,777	560,184
Pilotage	-	390,939	390,939
Bad debts	-	78,469	78,469
Utilities	130,634	15,892	146,526
Repairs and maintenance	84,632	40,929	125,561
Training and travel	40,832	16,154	56,986
Insurance	9,802	12,879	22,681
Supplies	6,812	4,179	10,991
Communications	12,369	20,043	32,412
Landing fees subsidy	99,360	-	99,360
Miscellaneous	60,792	47,704	108,496
Total operating expenses	1,006,480	1,417,244	2,423,724
Operating (loss) income	(94,635)	223,719	129,084
Non-operating revenues (expenses):			
Grants and donations	111,000	-	111,000
Interest income	7,225	45,997	53,222
Total non-operating revenues, net	118,225	45,997	164,222
Change in net assets	23,590	269,716	293,306
Net assets at beginning of year	4,680,098	8,991,284	13,671,382
Net assets at end of year	$ 4,703,688	$ 9,261,000	$ 13,964,688

See accompanying independent auditor's report.