RMI PORTS AUTHORITY

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

YEARS ENDED SEPTEMBER 30, 2006 AND 2005

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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, 2006 and 2005, 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, 2006 and 2005, 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 13 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, 2006 (page 26) 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 20, 2007, 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

June 20, 2007

RMI PORTS AUTHORITY

Management's Discussion and Analysis
Year Ended September 30, 2006

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 the Ports Authority's financial activities presented in the audited financial statements for the fiscal year ending September 30, 2006. This discussion and analysis should be read in conjunction with the more detailed information contained within the accompanying audited financial statements.

The 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 the 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. The Ports 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 Ports 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, 2006, Ports Authority had 52 full-time employees, a decrease of 2 personnel when compared to prior fiscal year. Composition is as follows: 3 in Administration; 6 in Finance; 3 in Airport Operations (Tower); 4 in Seaport Operations; 7 in Maintenance; 1 in Aircraft Rescue and Fire Fighting; and 28 in Security. Out of the 28 Security Officers, 7 are cross-trained and certified as airport firefighters.

II) FINANCIAL STATEMENTS OVERVIEW

The Ports 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 $13,455,264, or by 96%, to $27,419,952 from $13,964,688 for fiscal year ending September 30, 2006. The increase was mainly due to funds accrued and received from U.S. Federal Grants with corresponding matching funds from RMI Government.

- Operating revenues decreased by $463,301, or by 19%, to $2,011,038 from $2,474,339 for fiscal year ending September 30, 2006. Air Nauru stopped flight operations to Majuro in December 2005 and, vessel traffic decreased from 1,164 ships to 998. (Note: Air Nauru resumed their flights to Marshall Islands in October 2006 under a new name Our Airlines).

- Operating expenses increased by $298,510, or by 13%, from $2,345,255 to $2,643,765 for fiscal year ending September 30, 2006. Major expenses, like salaries and wages, depreciation, utilities, insurance, and professional fees increased during the year.

- As a result, Ports Authority incurred an operating loss of $632,727 for fiscal year ending September 30, 2006 compared to operating income of $129,084 of the prior fiscal year.

IV) STATEMENTS OF NET ASSETS

	2006	2005	Change	Percentage	2004
Current assets	$ 8,809,499	$ 3,701,736	$ 5,107,763	138%	$ 3,287,840
Property, plant and equipment, net	24,979,255	10,605,676	14,373,579	136%	10,787,467
Total assets	$33,788,754	$14,307,412	$19,481,342	136%	$14,075,307
Current liabilities	$ 6,368,802	$ 342,724	$ 6,026,078	1758%	$ 377,197
Noncurrent liabilities	-	-	-		26,728
Net assets	27,419,952	13,964,688	13,455,264	96%	13,671,382
Total liabilities and net assets	$33,788,754	$14,307,412	$19,481,342	136%	$14,075,307

For fiscal year ending September 30, 2006 and 2005, the largest portion of net assets is investment in capital assets amounting to $24,979,255 and $10,578,684, respectively. The capital assets comprise of terminal facilities and equipment and the runway upgrade. The remaining unrestricted net assets of $2,440,697 and of $3,386,004, respectively, are used primarily to meet any of the Ports Authority's ongoing obligations.

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

	2006	2005	Change	Percentage	2004
Operating revenues					
Airport Division	$ 799,804	$ 872,610	$ (72,806)	-8%	$ 813,646
Seaport Division	1,211,234	1,601,729	(390,495)	-24%	1,392,717
	2,011,038	2,474,339	(463,301)	-19%	2,206,363
Operating expenses					
Airport Division	1,355,846	967,245	388,601	40%	1,005,963
Seaport Division	1,287,919	1,378,010	(90,091)	-7%	1,318,360
	2,643,765	2,345,255	298,510	13%	2,324,323
Non-operating revenues (expenses)					
Airport Division	6,829	118,225	(111,396)	-94%	170,421
Seaport Division	54,362	45,997	8,365	18%	46,028
	61,191	164,222	(103,031)	-63%	216,449
Capital contributions					
Airport Division	14,026,800	-	14,026,800		-
Change in net assets					
Airport Division	13,477,587	23,590	13,453,997	57033%	(21,896)
Seaport Division	(22,323)	269,716	(292,039)	-108%	120,385
	$13,455,264	$ 293,306	$13,161,958	4487%	$ 98,489

Airport Division's contribution to total revenues was 40% for fiscal year ending September 30, 2006; and Seaport Division was 60%, compared to last fiscal year's of 35% and 65%, respectively. On operating expenses, Airport Division's share was 51% and Seaport Division was 49% and compared to last fiscal year, 41% and 59%, respectively. The variances are discussed in detail in the sections below.

Management's Discussion and Analysis for the year ended September 30, 2005 is set forth in the Ports Authority's report on the audit of financial statements, which is dated March 31, 2006. That Discussion and Analysis explains the major factors impacting the 2005 financial statements and can be obtained from the Ports Authority's Executive Director, P.O. Box 109, Majuro, MH 96960.

VI) AIRPORT DIVISION

1) Financial Operations Highlights

- Net assets increased by $13,477,587, or by 287%, to $18,181,275 from $4,703,688 for fiscal year ending September 30, 2006. The increase was due to funds accrued and received from grants awarded by the U.S. Federal Aviation Administration and by the USDA-Rural Development with corresponding matching funds from the RMI Government.

- Operating revenues decreased by $72,806 from $872,610 to $799,804 for fiscal year ending September 30, 2006. Air Nauru stopped their flight operations to Majuro in December 2005. Their flights resumed in October 2006 with a new name Our Airlines. Asia Pacific Airlines operated fewer flights during the fiscal year due to increase in jet fuel prices and closure of the airport for runway construction. Despite the runway construction, traffic of other special flights (primarily small aircraft types) increased during the year. For financial statement reporting purposes, landing fees for Air Marshall Islands, Inc. (AMI) was recorded as revenue amounting to $86,736 and $99,360 for fiscal years ended September 30, 2006 and 2005, respectively. It should be noted that these fees have not been paid by AMI.

- Operating expenses increased by $388,601 from $967,245 to $1,355,846 for fiscal year ending September 30, 2006. The increase was due to insurance for the runway construction amounting to $99,450, electricity to $172,450 and depreciation to $384,867 from $130,634 and $134,407, respectively, of previous fiscal year. Landing fee subsidy was given to AMI and recorded as an expense amounting to $86,736 and $99,360 for fiscal years ended September 30, 2006 and 2005, respectively, due to nonpayment by the above carrier.

- Operating loss increased by $422,172 from $133,870 to $556,042 for fiscal year ending September 30, 2006. The expenses that contributed significantly to the increase included depreciation, professional fees, utilities (electricity), and aviation liability insurance.

2) Statement of Revenues and Expenses

	2006	2005	Change	Percentage	2004
Operating revenues					
Landing fees – Scheduled	$ 214,424	$ 214,417	$ 7	0%	$ 154,524
Landing fees - Special	132,604	169,323	(36,719)	-22%	185,223
Departure fees - International	244,550	259,715	(15,165)	-6%	254,730
Departure fees - Domestic	16,427	20,790	(4,363)	-21%	23,624
Concession and lease income	81,299	70,704	10,595	15%	67,744
Ground handling - Transient	38,550	38,750	(200)	-1%	46,275
Other operating revenues	122,324	138,146	(15,822)	-11%	107,413
Bad debts	(50,374)	(39,235)	(11,140)	28%	(25,887)
Total	799,804	872,610	(72,806)	-8%	813,646

Operating expenses					
Salaries and wages	434,719	426,840	7,879	2%	430,647
Utilities	172,450	130,634	41,816	32%	76,463
Insurance	116,624	9,802	106,822	1090%	16,624
Repairs and maintenance	28,393	84,632	(56,239)	-66%	43,377
Other operating expenses	218,793	220,165	(1,372)	-1%	124,693
Total	970,979	872,073	98,906	11%	691,804
Income before depreciation	(171,175)	537	(171,712)	-31976%	121,842
Less: Depreciation and amortization	384,867	134,407	250,460	186%	314,159
Income (loss) after depreciation and amortization	(556,042)	(133,870)	(422,172)	315%	(192,317)
Add: Other	14,033,629	118,225	13,915,404	11770%	170,421
Change in net assets	$13,477,587	$ (15,645)	$13,493,232	-86246%	$ (21,896)

The RMIPA had obtained a $100,000,000 aviation liability insurance policy to protect itself from any third party liability that may arise due to the construction of the Majuro runway. The premium for this policy was approximately $100,000. Additionally, Marshall Energy Company (MEC) increased electric rates three times in FY 2006, ranging from $0.180 to $0.245 per kilowatt-hour.

3) Commercial Flights Movements

	2006	2005	Change	Percentage	2004
Continental Airlines	337	333	4	1%	340
Aloha Airlines	0	29	(29)	-100%	123
Air Nauru	21	108	(87)	-81%	23
	358	470	(112)	-24%	486

Continental Airlines added additional flights during peak seasons to cope with the increase in passenger volumes. Air Nauru stopped their flight operations to Majuro in December 2005. However, as previously mentioned, their flight operations resumed in October 2006 under a new name Our Airline.

4) Unscheduled/Special Flight Movements

	2006	2005	Change	Percentage	2004
Category 1	103	40	63	158%	85
Category 2	124	43	81	188%	52
Category 3	58	38	20	53%	53
Asia Pacific Airlines	196	298	(102)	-34%	386
	481	419	62	15%	576

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.

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 year ending September 30, 2006, there were 33 military aircrafts that landed compared to 51 the prior year.

5) Actual versus Budget Analysis

	Actual	Budget	Change	Percentage
Operating revenues				
Landing fees – Scheduled	$ 214,424	$ 139,185	$ 75,239	54%
Landing fees – Special	132,604	149,820	(17,216)	-11%
Departure fees – International	244,550	249,342	(4,792)	-2%
Departure fees – Domestic	16,427	20,052	(3,625)	-18%
Concession and lease income	81,299	85,066	(3,767)	-4%
Ground handling - Transient	38,550	39,120	(570)	-1%
Other operating revenues	122,324	139,902	(17,578)	-13%
Bad debts	(50,374)	-	(50,374)	-00%
Total	799,804	822,487	(22,683)	-3%
Operating expenses				
Salaries and wages	434,719	451,828	(17,109)	-4%
Utilities	172,450	100,431	72,019	72%
Insurance	116,624	24,197	92,427	382%
Repairs and maintenance	28,393	27,559	834	3%
Other operating expenses	218,793	131,295	87,498	67%
Total	970,979	735,310	235,669	32%
Income before depreciation	(171,175)	87,177	(258,352)	-296%
Less: Depreciation and amortization	384,867	361,537	23,330	6%
Income (loss) after depreciation and amortization	(556,042)	(274,360)	(281,682)	103%
Add: Other	14,033,629	7,733	14,025,896	181377%
Change in net assets	$13,477,587	$ (266,627)	$13,744,214	-5155%

The Board of Directors (the Board) meets every year to review the Ports 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 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.

On the revenue side, the airport division performed 3% below the budgeted figures. Landing fees from scheduled airlines was the only revenue program to exceed budget expectations. This is due mainly from the recording of landing fee revenue of $86,736 that would be generated from Air Marshall Islands, Inc. (AMI) if they were to pay for use of the runway facility.

On the expense side, the airport division's operational expenses increased by 32% compared to budget. Electricity cost was budgeted at $0.180 per kilowatt-hour but actual expenses was at $0.225 -$0.245 per kilowatt-hour. Insurance increased by $106,822 during the period because of the runway construction. In addition, subsidy to AMI for the landing fees, $86,736, was recorded as an expense in the financial reports due to the inability by AMI to pay such fees. This figure was not considered in the budget.

6) Air Marshall Islands, Inc.

The Ports 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 statement purposes ending September 30, 2006 and 2005, total landing fees for AMI, amounted to $86,736 and $99,360, respectively, were recorded in the books as revenue and the subsidies were recorded as expense.

On July 06, 2006, AMI was informed that beginning October 01, 2006 they will have to pay for the aircraft landing charges in order to alleviate the airport operational costs, which have increased primarily due to continuous increases in fuel, electricity and insurance.

VII) SEAPORT DIVISION

1) Financial Operations Highlights

- Net assets decreased by $22,323 to $9,238,677 from $9,261,000 for fiscal year ending September 30, 2006. Operational revenues decreased by $390,495 and by $90,091 on operational expenses when compared to last year fiscal year's operational revenues and expenses, respectively.
- Operating revenues decreased by $390,495, or by 24%, from $1,601,729 to $1,211,234 for fiscal year ending September 30, 2006. Vessel traffic decreased by 14% when compared to previous fiscal year.
- Operating expenses decreased by $90,091 from $1,378,010 to $1,287,919 for fiscal year ending September 30, 2006. Operational expenses, like pilotage and repairs, decreased during the year, except for salaries and wages, utilities, insurance and travel.
- Incurred an operating loss of $76,685 for the fiscal year ending September 30, 2006 when compared to operating income of $262,954 of prior year. The operating loss was due to substantial decrease in revenues, by 24%.

2) Statement of Revenues and Expenses

	2006	2005	Change	Percentage	2004
Operating revenues					
Pilotage fees	$ 286,691	$ 413,479	$ (126,788)	-31%	$ 401,060
Pilot boat usage fees	169,800	224,000	(54,200)	-24%	216,900
Wharfage fees	349,129	465,472	(116,343)	-25%	437,243
Dockage fees - International	103,727	140,982	(37,255)	-26%	185,690
Dockage fees - Domestic	22,910	26,550	(3,640)	-14%	7,440
Anchorage fees	7,694	12,033	(4,339)	-36%	10,966
Foreign vessels entry fees	204,141	240,436	(36,295)	-15%	220,102
Light dues	31,180	35,910	(4,730)	-13%	33,540
Fuel and water service charges	12,288	24,017	(11,729)	-49%	26,375
Disembark and change crew	2,976	4,040	(1,064)	-26%	6,140
Concession and lease income	58,216	52,274	5,942	11%	48,737
Other operating revenues	12,856	1,771	11,085	626%	8,372
Bad debts	(50,374)	(39,235)	(11,139)	28%	(209,848)
Total	1,211,234	1,601,729	(390,495)	-24%	1,392,717

Operating expenses					
Salaries and wages	455,117	364,279	90,838	25%	363,049
Pilotage	274,457	390,939	(116,482)	-30%	317,095
Utilities	20,634	15,892	4,742	30%	12,757
Repairs and maintenance	13,134	40,929	(27,795)	-68%	23,106
Other operating expenses	146,298	140,194	6,104	4%	188,961
Total	909,640	952,233	(42,593)	-4%	904,968
Income before depreciation	301,594	649,496	(347,902)	-54%	487,749
Less: Depreciation and amortization	378,279	425,777	(47,498)	-11%	413,392
Income (loss) after depreciation and amortization	(76,685)	223,719	(300,404)	-134%	74,357
Add: Other	54,362	45,997	8,365	18%	46,028
Change in net assets	$ (22,323)	$ 269,716	$ (292,039)	-108%	$ 120,385

For fiscal year ending September 30, 2006, operating revenues decreased due to drop in fishing vessels by 128 ships, or by 12%, compared to last year's fiscal period. Decrease in fishing vessel traffic contributed in proportional decrease in pilotage expenses.

3) Vessel Arrivals (In numbers)

	2006	2005	Change	Percentage	2004
Cargo vessels	31	45	(14)	-31%	63
Fishing vessels	938	1,066	(128)	-12%	1,034
Foreign tankers	15	16	(1)	-6%	18
Others (cruise ships, pleasure yachts)	14	37	(23)	-62%	3
	998	1,164	(166)	-14%	1,118

Vessel traffic decreased by 14% for fiscal year ending September 30, 2006 compared to last year's fiscal year. Fishing vessels decreased by 128 ships from 1,066 to 938, or by 12%, as the traffic is seasonal. Cargo vessels went down by 31% due to the demise of PM&O lines that was operating with two vessels. Matson, however, came in to fill the vacuum created by PM&O in August 2006. Foreign tankers traffic decreased as a result of crisis in delivery fuel schedule for MEC.

4) Actual versus Budget Analysis

	Actual	Budget	Change	Percentage
Operating revenues				
Pilotage fees	$ 286,691	$ 390,223	$ (103,532)	-27%
Pilot boat usage fees	169,800	215,040	(45,240)	-21%
Wharfage fees	349,129	452,867	(103,738)	-23%
Dockage fees - International	103,727	129,448	(25,721)	-20%
Dockage fees - Domestic	22,910	26,052	(3,142)	-12%
Anchorage fees	7,694	11,157	(3,463)	-31%
Foreign vessels entry fees	204,141	230,358	(26,217)	-11%
Light dues	31,180	34,560	(3,380)	-10%
Fuel and water service charges	12,288	25,197	(12,909)	-51%
Disembark and change crew	2,976	4,356	(1,380)	-32%
Concession and lease income	58,216	54,238	3,978	7%
Other operating revenues	12,856	1,759	11,097	631%
Bad debts	(50,374)	-	(50,374)	-100%
Total	1,211,234	1,575,255	(364,021)	-23%
Operating expenses				
Salaries and wages	455,117	420,639	34,478	8%
Pilotage	274,457	381,274	(106,817)	-28%
Utilities	20,634	13,240	7,394	56%
Repairs and maintenance	13,134	13,775	(641)	-5%
Other operating expenses	146,298	147,819	(1,521)	-1%
Total	909,640	976,747	(67,107)	-7%
Income before depreciation	301,594	598,508	(296,914)	-50%
Less: Depreciation and amortization	378,279	424,413	(46,134)	-11%
Income (loss) after depreciation and amortization	(76,685)	174,095	(250,780)	-144%
Add: Other	54,362	45,214	9,148	20%
Change in net assets	$ (22,323)	$ 219,309	$ (241,632)	-110%

As previously mentioned the Board meets every year to review the Ports 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.

Seaport Division did not meet the overall expectation for fiscal year ending September 30, 2006. On the revenue side, performance is below by 23% of budget figures. On the expense side, expenses are below the budget figures by 7%, or $67,107.

VIII) BUDGET COMPARISONS

	2007	2006	Change	Percentage
Operating revenues				
Airport Division	$ 935,294	$ 822,487	$ 112,807	14%
Seaport Division	1,603,265	1,575,255	28,010	2%
	2,538,559	2,397,742	140,817	6%
Operating expenses				
Airport Division	1,340,373	735,310	605,063	82%
Seaport Division	1,019,639	976,747	42,892	4%
	2,360,012	1,712,057	647,955	38%
Depreciation and amortization				
Airport Division	361,537	361,537	-	0%
Seaport Division	424,413	424,413	-	0%
	785,950	785,950	-	0%
Non-operating revenues (expenses)				
Airport Division	7,733	7,733	-	0%
Seaport Division	45,214	45,214	-	0%
	52,947	52,947	-	0%
Change in net assets				
Airport Division	(758,883)	(266,627)	(492,256)	185%
Seaport Division	204,427	219,309	(14,882)	-7%
	(554,456)	(47,318)	(507,138)	1072%

The operating budget for fiscal year 2007 was done conservatively when compared to fiscal year 2006. Budget for operating revenues was increased in 2007 due to the improved runway and shipping vessel traffic is expected to pick up. Budget for operating expenses was increased due to salaries and wages, electricity bills and auto expenses. Due to projected construction works at the airport, insurance and professional fees are likely to increase. For the Seaport Division, pilotage expenses are estimated to increase due to probable rise in vessel traffic. RMI passed on the payment of landleases to Ports Authority and has been included in the budget.

Airport Division's anticipated contribution to total revenues is 37% and Seaport Division is 63% for FY 2007, comparing it to FY 2006 of 34% and 66%, respectively. On operating expenses, Airport Division's expected share is 57% and Seaport Division is 43% for FY 2007, comparing it to FY 2006 of 44% and 56%, respectively.

IX) CAPITAL EXPENDITURES

Status of on-going projects as of September 2006 is as follows. The RMI Government and Ports Authority's Board approved all projects mentioned in 2005:

- Amata Kabua International Airport (AKIA) Runway Overlay Project for $16.4 million – mostly completed since currently under a defects liability period, which ends in September 2007. Total expenditures of the project paid to date is $13.8 million;
- AKIA Apron/Taxiway Reconstruction Project for $10.0 million (estimate) – ongoing and expenditures totaled $306,681. Award of construction contract is anticipated for mid 2007.
- AKIA Airport Rescue and Fire Fighting (ARFF) Building and Facilities for $1.25 million (estimate) – ongoing and expenditures totaled $135,901. Anticipate to be awarded mid 2007.
- AKIA Fire Trucks for $1.6 million – ongoing and expenditures to date totaled $1,606. Delivery of the two fire trucks is anticipated for November or December 2007.

- AKIA Airport Improvement Program Master Plan for $210,000 – presently deferred due to AIP funding constraints. Total expenditure to date is $5,461;
- AKIA Technical Assistance Grant from USDA of $499,000 and from the Authority's own funds of $138,000 to cover construction management services of Beca International Consultants for the Runway Upgrade Works projects. Total expenditure to date is $560,902;
- AKIA Stalls at Departure Area for $15,000 – to be carried out in 2007;
- AKIA Restroom Renovation in the terminal and departure areas for $80,000 – the Lobby is done and the Departure Area is ongoing;
- AKIA Runway Lights for $15,000 – to be carried out in 2007;
- AKIA Check-In Counter Renovation for $8,000 – to be carried out in 2007;
- Spareparts for Fire Trucks and Others for $43,980 – partial purchase of $9,792 done in 2006; the rest will be carried out in 2007;
- Seaports Security Checkpoints for $40,040 – checkpoint in Delap is done, and checkpoint in Uliga will be carried out in 2007;
- Seaports – Delap Warehouse Renovation for $20,000 – to be carried out in 2007;
- Seaports – Navigational Aids for $400,000 – approved in prior fiscal years but never materialized due to delay in design and bid documents. RMIPA anticipates to carry out this project in 2007;
- Seaports – Service Booms, Timber Fenders and, Ramp, RIRAP Repairs and Others for $63,000 – to be carried out in 2007;
- Administration – Electric Generator for Ports Authority's Building in Delap for $50,000 – generator was purchased and delivered in 2006; waiting for its shelter to be completed and to become operational;
- Administration – Receptionist Counter Renovation for $5,000 – to be carried out in 2007; and
- Administration – Accounting software upgrade for $15,000 – to be carried in 2007.

For fiscal year 2007, to acquire new vehicle, for $23,000, was approved by the Board of Directors.

U.S. Federal Aviation Administration (FAA) funds some of the projects/expenditures mentioned above with corresponding matching funds from RMI and the Ports Authority. Projects funded by FAA 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
Total	$23,300,000	$1,300,000	$75,000	$24,685,000

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

As of September 30, 2006, FAA awarded the following grants to Ports Authority:

- 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.
- On March 31, 2006, FAA awarded Rehabilitate Runway 7/25 – Phase II (Project 3-68-0001-06) Grant for $13.0 million to Ports Authority. The grant will finance the Apron/Taxiway Project and the completion cost of the Runway Upgrade Project.

During the 26th Constitutional Regular Session, 2005, the Nitijela approved the following funding to match the FAA funding:

- 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 the 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 funding.

In fiscal year 2005, the Board approved the $75,000 as matching fund for the AKIA ARFF Trucks. However, due to funding constraints anticipated for the Authority for FY 2007, the Authority will request funding assistance from the RMI for this matching fund requirement.

X) ECONOMIC FACTORS

These are events that happened or might happen during and after the fiscal year September 30, 2006:

- Matson (managed by Majuro Marine of PII) started its cargo transshipment operations from Guam and ceased direct service to Majuro from U.S. west coast in August 2006. This resulted in Matson increasing its frequency to Majuro from one to two services a month. This helped in filling the void created by PM&O when it ceased operations.
- Japan Airlines will start their charter flights to Majuro in February 2007 using a B767-300 aircraft. It is expected that related airport revenues, like landing charges, ground handling charges and departure fees will increase as a direct result of this new service.
- The Ports Authority was directed by the RMI Government to purchase required ground handling equipment to support JAL's charter operation. This required a significant investment of approximately $750,000, which the Ports Authority obtained a loan for from the Bank of Marshall Islands. The loan is payable $24,000 monthly up to 28 November 2009 at 7.5% per annum.
- Before executing the investment above, the Ports Authority's Board and Management had informed the RMI Government that the Ports Authority stand to lose money from the JAL charter service. Cost analysis performed by the Ports Authority showed that revenues to be generated by the airport from the JAL charter service would not be sufficient to cover the costs of operating and maintaining the ground handling equipment. Because the Ports Authority is mandated to support the overall Government strategic development plans, it had to perform the direction given by the Government.
- Electricity cost is expected to continually increase in the foreseeable future. In fact, MEC had increased their electricity rate to $0.255 per kilowatt-hour in October 2006. In January 2007, MEC again increased their rate to $0.27 per kilowatt-hour. It is very likely that this upward trend will continue.
- Depreciation expense is expected to increase significantly to investment on existing facilities such as the runway and apron and on new facilities such as the ARFF/SAWRS building, which includes approximately 4.1 acres of land reclamation.
- The Government has directed the Authority to pay the lease of the lands it occupies. This obligation will cost the Ports Authority an additional $300,000 in operating expenses.

RMI PORTS AUTHORITY

Statements of Net Assets
September 30, 2006 and 2005

ASSETS	2006	2005
Current assets:		
Cash	$ 1,376,536	$ 1,515,732
Time certificates of deposit	1,621,600	1,564,777
Receivables:		
Trade	857,416	591,626
Affiliates	708,129	719,087
Note	100,000	100,000
Interest receivable	80,793	76,425
Grants receivable	4,874,341	111,000
Other	175,350	51,377
	6,796,029	1,649,515
Less allowance for doubtful accounts	(1,031,139)	(1,065,163)
	5,764,890	584,352
Prepaid expenses and other assets	46,473	36,875
Total current assets	8,809,499	3,701,736
Property, plant and equipment, net	24,979,255	10,605,676
	$33,788,754	$14,307,412
LIABILITIES AND NET ASSETS		
Current liabilities:		
Current portion of notes payable	$ -	$ 26,992
Accounts payable	5,915,820	39,042
Payable to affiliates	264,181	219,845
Other liabilities and accruals	110,801	56,845
Deferred revenue	78,000	-
Total liabilities	6,368,802	342,724
Commitments and contingencies		
Net assets:		
Invested in capital assets, net of related debt	24,979,255	10,578,684
Unrestricted	2,440,697	3,386,004
Total net assets	27,419,952	13,964,688
	$33,788,754	$14,307,412

See accompanying notes to financial statements.

RMI PORTS AUTHORITY

Statements of Revenues, Expenses and Changes in Net Assets
Years Ended September 30, 2006 and 2005

	2006	2005
Operating revenues:		
Seaport fees	$ 1,151,228	$ 1,547,684
Aviation fees	648,066	748,989
Concession and lease income	139,515	122,978
Other	72,229	54,688
Total operating revenues	2,011,038	2,474,339
Operating expenses:		
Salaries and wages	889,836	791,119
Depreciation	763,146	560,184
Pilotage	274,457	390,939
Utilities	193,084	146,526
Insurance	138,527	22,681
Landing fees subsidy	86,736	99,360
Training and travel	64,866	56,986
Repairs and maintenance	41,527	125,561
Professional fees	39,038	14,089
Auto expenses	25,884	23,147
Communications	25,312	32,412
Supplies	13,681	10,991
Miscellaneous	87,671	71,260
Total operating expenses	2,643,765	2,345,255
Operating income (loss)	(632,727)	129,084
Other nonoperating revenues:		
Interest income	61,191	53,222
Earnings (loss) before capital contribution	(571,536)	182,306
Capital contributions:		
Contributions from U.S. government	13,285,978	111,000
Contributions from RepMar	740,822	-
	14,026,800	111,000
Change in net assets	13,455,264	293,306
Net assets at beginning of year	13,964,688	13,671,382
Net assets at end of year	$ 27,419,952	$ 13,964,688

See accompanying notes to financial statements.

RMI PORTS AUTHORITY

Statements of Cash Flows
Years Ended September 30, 2006 and 2005

	2006	2005
Cash flows from operating activities:		
Cash received from customers	$ 1,669,796	$ 2,340,467
Cash payments to suppliers for goods and services	(357,772)	(958,713)
Cash payments to employees for services	(889,836)	(791,119)
Net cash provided by operating activities	422,188	590,635
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(10,605,105)	(378,393)
Principal paid on long-term debt	(26,992)	(33,955)
Capital contributions	10,070,713	-
Net cash used for capital and related financing activities	(561,384)	(412,348)
Cash flows from investing activities:		
Net increase in time certificates of deposit	(56,823)	(51,996)
Interest received	56,823	47,398
Net cash provided by (used for) investing activities	-	(4,598)
Net change in cash	(139,196)	173,689
Cash at beginning of year	1,515,732	1,342,043
Cash at end of year	$ 1,376,536	$ 1,515,732
Reconciliation of operating income (loss) to net cash provided by operating activities:		
Operating income (loss)	$ (632,727)	$ 129,084
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation	763,146	560,184
Bad debts	100,748	78,469
Loss from disposal of assets	1,867	-
Increase in assets:		
Receivables:		
Trade	(308,948)	(21,339)
Affiliates	(80,676)	(85,226)
Other	(123,973)	(6,416)
Prepaid expenses and other assets	(9,598)	(36,875)
Increase (decrease) in liabilities:		
Accounts payable	536,057	5,284
Payable to affiliates	44,336	11,991
Deferred revenue	78,000	(44,521)
Other liabilities and accruals	53,956	-
Net cash provided by operating activities	$ 422,188	$ 590,635

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 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.

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.

(2) Summary of Significant Accounting Policies, Continued

Cash and Time Certificates of Deposit, Continued

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, 2006 and 2005, the carrying amount of cash was $1,376,536 and $1,515,732, respectively, and the corresponding bank balance was $1,414,877 and $1,556,012, respectively, which is maintained in one financial institution located in Majuro subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2006 and 2005, two time certificates of deposits totaling $1,621,600 and $1,564,777, respectively, were maintained in a non-FDIC bank (see note 6). As of September 30, 2006 and 2005, 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.

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.

(2) Summary of Significant Accounting Policies, Continued

Compensated Absences

Vested or accumulated vacation leave is recorded as an expense and liability as the benefits accrue to employees. No liability is recorded for nonvesting accumulating rights to receive sick benefits. As of September 30, 2006 and 2005, an accumulated vacation leave liability of $71,003 and $52,886, respectively, is included within the statement of net assets in other liabilities and accruals.

Accounting Standards

During fiscal year 2006, the Authority implemented the following pronouncements:

GASB Statement No. 44, *Economic Condition Reporting: The Statistical Section, an amendment to NCGA Statement 1*, which improves the understandability and usefulness of statistical section information and adds information from the new financial reporting model for state and local governments required by GASB Statement No. 34.

GASB Statement No. 46, *Net Assets Restricted by Enabling Legislation, an amendment of GASB Statement No. 34*), which improves the understandability and comparability of net assets information by making the assessment of legal enforceability more uniform across governments. This Statement requires governments to disclose the portion of total net assets that is restricted by enabling legislation.

GASB Statement No. 47, *Accounting for Termination Benefits*, which requires employees to disclose a description of the termination benefit arrangement, the cost of termination benefits, and significance methods and assumptions used to determine termination benefits liabilities.

GASB Technical Bulletin No. 2004-2, *Recognition of Pension and Other Postemployment Benefit Expenditures/Expense and Liabilities by cost-Sharing Employers*, which clarifies the requirements of GASB Statement Nos. 27 and 45 for recognition of pension and other postemployment benefit expenditures/expense and liabilities by cost-sharing employers.

Implementation of these GASB pronouncements had no material impact on the financial statements of the Authority.

In April 2004, GASB issued Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which establishes uniform financial reporting for other postemployment benefit plans by state and local governments. The provisions of this Statement are effective for periods beginning after December 15, 2007. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Authority.

In June 2004, GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Post employment Benefits Other Than Pensions*, which establishes standards for the measurement, recognition, and display of other post employment benefits expense/expenditures and related liabilities, note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers. The provisions of this Statement are effective for periods beginning after December 15, 2008. 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

Accounting Standards, Continued

In September 2006, GASB issued Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfer of Assets and Future Revenues*. GASB Statement No. 48 establishes criteria that governments will use to ascertain whether certain transactions should be regarded as a sale or a collateralized borrowing. The statement also includes a provision that stipulates that governments should not revalue assets that are transferred between financial reporting entity components. The provisions of this Statement are effective for periods beginning after December 15, 2006. 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 2006, 2005 or 2004.

(4) Note Receivable

Note receivable as of September 30, 2006 and 2005, consists of the following:

Note receivable from Tobolar Copra Processing Plant, Inc., advanced on January 23, 1998 and February 27, 1998, due on September 30, 1998, bearing interest at 10%, uncollateralized.	$ 100,000

Repayment of the above note receivable, including interest, is in arrears and, accordingly, the total note receivable and related interest receivable balances have been included in the allowance for doubtful accounts. As of September 30, 2006 and 2005, interest receivable relating to the above notes receivable totals $80,000.

(5) Property, Plant and Equipment

Capital asset activity for the years ended September 30, 2006 and 2005, was as follows:

	October 1, 2005	Additions	Retirements	September 30, 2006
Facilities	$ 18,841,777	$ -	$ -	$ 18,841,777
Buildings	1,841,125	46,320	-	1,887,445
Equipment	310,060	24,734	(1,851)	332,943
Vehicles	143,033	17,850	-	160,883
Office furniture, fixtures and equipment	242,687	76,469	(19,673)	299,483
Runway upgrade	-	14,623,191	-	14,623,191
	21,378,682	14,788,564	(21,524	36,145,722
Less accumulated depreciation	(11,124,563)	(763,146)	19,657	(11,868,052)
	10,254,119	14,025,418	(1,867)	24,277,670
Construction work-in-progress	351,557	12,878,848	(12,528,820)	701,585
	$ 10,605,676	$ 26,904,266	$ (12,530,687)	$ 24,979,255

	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

(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, 2006 and 2005, total landing fees for AMI amounted to $86,736 and $99,360, respectively, which were recorded in the Authority's financial statements as revenue and subsidy. Effective October 1, 2006, AMI will be charged for landing fees.

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

(6) Related Party Transactions, Continued

A summary of related party transactions for the years ended September 30, 2006 and 2005 and related receivable and payable balances as of September 30, 2006 and 2005, are as follows:

	2006			
	Revenues	Expenses	Receivables	Payables
Air Marshall Islands, Inc.	$ 14,059	$ 86,736	$ 124,721	$ -
Bank of Marshall Islands	7,862	-	44,134	-
Marshalls Energy Company, Inc.	-	191,211	15,177	37,396
Marshall Islands Social Security Administration	-	75,932	-	38,837
Marshall Islands National Telecommunications Authority	-	23,330	-	4,537
Majuro Water and Sewer Company, Inc.	-	1,874	-	286
Meram, Inc.	-	-	173,555	-
RepMar	20,074	-	188,526	183,125
Tobolar Copra Processing Plant, Inc.	-	-	161,437	-
Other	-	-	579	-
	$ 41,995	$ 379,083	$ 708,129	$ 264,181

	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

During the year ended September 30, 1998, MIPA advanced cash 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, 2006, these amounts have not been repaid and are included in receivables from affiliates.

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

As of September 30, 2006 and 2005, the Authority maintained time certificates of deposit with a related financial institution totaling $1,621,600 and $1,564,777, respectively.

As of September 30, 2006, the Authority received $500,000 from RepMar representing 5% matching funds from Compact II 211(D) Public Infrastructure for the Majuro Airport Repaving Project.

(6) Related Party Transactions, Continued

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, 2006 and 2005, the Authority compensated qualified pilots, who were employees and directors of the Authority, for these pilotage services amounting to $170,906 and $197,961, respectively.

(7) Note Payable

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

Long-term liability activity for the years ended September 30, 2006 and 2005, was as follows:

	2006				
	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Note payable	$ 26,992	$ -	$ (26,992)	$ -	$ -

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

(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 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. Rental income under this lease for the years ended September 30, 2006 and 2005 amounted to $25,407 and $36,514, 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. Rental income under this lease for the years ended September 30, 2006 and 2005 amounted to $9,000 each year.

(8) Commitments, Continued

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 $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,	
2007	$ 102,995
2008	67,359
2009	47,781
2010	36,080
2011	12,827
2012-2017	39,312
2018-2023	39,312
2024	9,828
Total future minimum rentals	$ 355,494

On August 16, 2004, the Authority was awarded 95% or $1,500,000 to acquire two 1,500 gallon Aircraft Rescue and Fire Fighting vehicles with protective coating.

On August 17, 2005, the Authority was awarded $1 million by the U.S. Department of Transportation Federal Aviation Administration representing 95% to construct an aircraft rescue and fire fighting building, with $250,000 being appropriated as matching funds by the Nitijela of RepMar.

On March 31, 2006, the Authority was also awarded 95% or $13,000,000 by the U.S. Department of Transportation Federal Aviation Administration to rehabilitate Runway 7/25-Phase I Project, with $250,000 being appropriated as matching funds by the Nitijela of RepMar.

On November 2, 2006, the Authority signed a resolution for the purchase of ground handling equipment for JAL Charter operations totaling $525,800. On January 19, 2007, the Authority signed a loan agreement with Bank of Marshall Islands totaling $750,000 with interest of 7.5% to fund the purchase of this equipment.

(9) 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 was made in the accompanying financial statements because management believes that no unfavorable outcome is likely to occur.

RMI PORTS AUTHORITY

Combining Divisional Statements of Revenues, Expenses and Changes in Net Assets
Year Ended September 30, 2006

	Airport Division	Seaport Division	Total
Operating revenues:			
Seaport fees	$ -	$ 1,151,228	$ 1,151,228
Aviation fees	648,066	-	648,066
Concession and lease income	81,299	58,216	139,515
Other	70,439	1,790	72,229
Total operating revenues	799,804	1,211,234	2,011,038
Operating expenses:			
Salaries and wages	434,719	455,117	889,836
Depreciation	384,867	378,279	763,146
Pilotage	-	274,457	274,457
Utilities	172,450	20,634	193,084
Insurance	116,624	21,903	138,527
Landing fees subsidy	86,736	-	86,736
Training and travel	31,948	32,918	64,866
Repairs and maintenance	28,393	13,134	41,527
Professional fees	25,886	13,152	39,038
Auto expenses	18,173	7,711	25,884
Communications	10,051	15,261	25,312
Supplies	7,160	6,521	13,681
Miscellaneous	38,839	48,832	87,671
Total operating expenses	1,355,846	1,287,919	2,643,765
Operating loss	(556,042)	(76,685)	(632,727)
Other nonoperating revenues:			
Interest income	6,829	54,362	61,191
Loss before capital contributions	(549,213)	(22,323)	(571,536)
Capital contributions:			
Contributions from U.S. government	13,285,978	-	13,285,978
Contributions from RepMar	740,822	-	740,822
Total non-operating revenues, net	14,026,800	-	14,026,800
Change in net assets	13,477,587	(22,323)	13,455,264
Net assets at beginning of year	4,703,688	9,261,000	13,964,688
Net assets at end of year	$ 18,181,275	$ 9,238,677	$ 27,419,952

See accompanying independent auditor's report.