RMI PORTS AUTHORITY

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

FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT

YEARS ENDED SEPTEMBER 30, 2008 AND 2007

Deloitte.

Deloitte & Touche LLP
361 South Marine Corps Drive
Tamuning, GU 96913-3911
USA
Tel: (671)646-3884
Fax: (671)649-4932
www.deloitte.com

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, 2008 and 2007, and the related statements of revenues, expenses and changes in net assets and of cash flows for the years then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of the Authority as of September 30, 2008 and 2007, 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 15 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, 2008 (page 29) is presented for the purpose of additional analysis and is not a required part of the basic financial statements. This combining divisional information is the responsibility of the Authority's management. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements for the year ended September 30, 2008 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 July 13, 2009, 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

July 13, 2009

I) INTRODUCTION

Our discussion and analysis of the financial performance of airport and seaport divisions of the RMI Ports Authority (Ports Authority) provides an overview of Ports Authority's financial activities presented in the audited financial statements for the fiscal year ending September 30, 2008. This discussion and analysis should be read in conjunction with the more detailed information contained within the accompanying audited financial statements.

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

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

As of September 30, 2008, Ports Authority had 55 full-time employees. Composition is as follows: 4 in Administration; 7 in Finance; 5 in Airport Operations (Tower); 4 in Seaport Operations; 9 in Maintenance; and 26 in Security. Out of the 26 Security Officers, 10 are cross-trained and certified as airport firefighters

II) FINANCIAL STATEMENTS OVERVIEW

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

- For fiscal period ending September 30, 2008, net assets increased by 23%, or by $7,268,984, from $31,179,111 to $38,448,095. The increase was mainly due to funds accrued and received from U.S. Federal Grants with corresponding local matching funds from RMI Government.

- Operating revenues decreased by $6,664 to $2,202,898 for current fiscal period when compared to prior fiscal period of $2,209,562. Seaport Division's operating revenues increased by 7% from $1,265,612 to $1,347,903. Airport Division's operating revenues, however, decreased by 9% from $943,950 to $854,995, largely due to decline in passenger traffic-domestic, and drop in landing fees-special.

- Operating expenses increased by $72,996, or by 2%, from $3,734,123 to $3,807,119 for period ending September 30, 2008. The increase was due to depreciation, utilities, insurance, repairs, auto expenses, and miscellaneous; by 13%, or by $250,612 from $2,003,971 to $2,254,583.

- Ports Authority incurred an operating loss of $1,604,221 for fiscal year ending September 30, 2008; an increase of $79,660 when compared to previous year of $1,524,561.

- Overall performance of Ports Authority is better when compared to last year's. Removing the depreciation expenses, fiscal year 2008 made an income of $165,746 compared to $142,060 of prior fiscal period, including non-operating revenues.

IV) STATEMENT OF NET ASSETS

	2008	2007	Change	Percentage	2006
Current assets	$ 4,290,171	$ 6,433,454	$(2,143,283)	(33)%	$ 8,809,499
Non-current assets	750,000	750,000	-	0%	-
Property, plant and equipment, net	35,844,590	29,176,320	6,668,270	23%	24,979,255
Total assets	$40,884,761	$36,359,774	$ 4,524,987	12%	$33,788,754
Current liabilities	$ 2,396,066	$ 4,866,151	$(2,470,085)	(51)%	$ 6,368,802
Noncurrent liabilities	40,600	314,512	(273,912)	(87)%	-
Net assets	38,448,095	31,179,111	7,268,984	23%	27,419,952
Total liabilities and net assets	$40,884,761	$36,359,774	$ 4,524,987	12%	$33,788,754

Current assets decreased by 33%, from $6,433,454 to $4,290,171 as the receivable from federal grants went down. Fixed assets increased by 23%, from $29,176,320 to $35,884,590 due to increased in construction activities: for Apron/Taxiway Reconstruction and ARFF Building and Facilities Projects.

Liabilities decreased by $2,743,997 because payables to contractors went down, and net assets increased by 23%, or by $7,268,984, due to funds received from the U.S. Federal grants and from RMI representing the local matching fund.

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

	2008	2007	Change	Percentage	2006
Operating revenues:					
Airport Division	$ 854,995	$ 943,950	$ (88,955)	(9%)	$ 799,804
Seaport Division	1,347,903	1,265,612	82,291	7%	1,211,234
	2,202,898	2,209,562	(6,664)	0%	2,011,038
Operating expenses:					
Airport Division	2,494,213	2,455,760	38,453	2%	1,355,846
Seaport Division	1,312,906	1,278,363	34,543	3%	1,287,919
	3,807,119	3,734,123	72,996	2%	2,643,765
Non-operating revenues (expenses):					
Airport Division	(27,699)	(15,736)	(11,963)	76%	6,829
Seaport Division	92,704	90,922	1,782	2%	54,362
	65,005	75,186	(10,181)	(14%)	61,191
Capital contributions:					
Airport Division	8,808,200	5,208,534	3,599,666	69%	14,026,800
Seaport Division	-	-	-	0%	-
	8,808,200	5,208,534	3,599,666	69%	14,026,800
Change in net assets:					
Airport Division	7,141,283	3,680,988	3,460,295	94%	13,477,587
Seaport Division	127,701	78,171	49,530	63%	(22,323)
	$7,268,984	$3,759,159	$3,509,825	93%	$13,455,264

Airport Division's contribution to total revenues was 39% and Seaport Division was 61% for fiscal year ending September 30, 2008, compared to last fiscal year's of 43% and 57%, respectively. In operating expenses, Airport Division's share was 66% and Seaport Division was 34%, which are the same with last year's. The variances are discussed in detail in sections that follow.

Management's Discussion and Analysis for the year ended September 30, 2007 is set forth in the report on the audit of the Port Authority's financial statements, which is dated August 15, 2008. That Discussion and Analysis explains the major factors impacting the 2007 financial statements.

VI) AIRPORT DIVISION

1) Financial Operations Highlights

- Net assets increased by $7,141,283, or by 33%, to $29,003,546 from $21,862,263 for fiscal period ending September 30, 2008. The increase was due to funds accrued and received from grants awarded by the U.S. Government with corresponding local matching funds from the RMI Government. As of September 30, 2008, total funds accrued and received to finance airport projects amounted to $8,808,200.

- Operating revenues decreased by $88,955 from $943,950 to $854,995 for fiscal period ending September 30, 2008. The decrease was due to decline in passenger traffic-domestic and in landing fees-special. In addition, an allowance for doubtful debt of $93,794 was provided and was charged to revenues. The additional allowance was set up for delinquent receivables that are deemed uncollectible, and one of them is the receivable from Air Marshall Islands, Inc., which amounts to $216,630 as of May 12, 2009.

- Operating expenses increased by $38,453 from $2,455,760 to $2,494,213 for fiscal period ending September 30, 2008. The increase was due to depreciation, utilities, insurance and repairs.

- As a result, operating loss increased by $127,408 from $1,511,810 to $1,639,218 for fiscal period ending September 30, 2008.

2) Statement of Revenues, Expenses and Changes in Net Assets

	2008	2007	Change	Percentage	2006
Operating revenues:					
Landing fees - Scheduled	$ 155,174	$ 152,359	$ 2,815	2%	$ 214,424
Landing fees - Special	140,623	160,361	(19,738)	(12%)	132,604
Departure fees - International	274,110	293,335	(19,225)	(7%)	244,550
Departure fees - Domestic	8,290	17,126	(8,836)	(52%)	16,427
Concession and lease income	84,953	82,968	1,985	2%	81,299
Ground handling - Transient	57,484	57,725	(241)	0%	38,550
Other operating revenues	228,155	180,076	48,079	27%	122,324
Allowance for doubtful debts	(93,794)	-	(93,794)	(93%)	(50,374)
Total	854,995	943,950	(88,955)	(9%)	799,804

	2008	2007	Change	Percentage	2006
Operating expenses:					
Salaries and wages	438,951	451,343	(12,392)	(3%)	434,719
Utilities	256,283	218,068	38,215	18%	172,450
Insurance	62,422	29,447	32,975	112%	116,624
Repairs and maintenance	36,748	12,959	23,789	184%	28,393
Land lease	257,930	259,890	(1,960)	(1%)	4,500
Bad debts	-	159,240	(159,240)	(100%)	-
Other operating expenses	131,322	142,256	(10,934)	(8%)	214,293
Total	1,183,656	1,273,203	(89,547)	(7%)	970,979
Income before depreciation	(328,661)	(329,253)	592	0%	(171,175)
Depreciation and amortization	1,310,557	1,182,557	128,000	11%	384,867
Income (loss) after depreciation and amortization	(1,639,218)	(1,511,810)	(127,408)	8%	(556,042)
Add: Non-operating revenues	8,780,501	5,192,798	3,587,703	69%	14,033,629
Net income	7,141,283	3,680,988	3,460,295	94%	13,477,587
Add: Beginning balance	21,862,263	18,181,275	3,680,988	20%	4,703,687
Net Assets, End of Year	$29,003,546	$21,862,263	$7,141,283	33%	$18,181,275

According to the construction managers, the Runway Overlay Project is designed for a 20-year life from completion. The construction was completed in July 2006. As a result, the estimated useful life, for depreciation purposes, of the Runway Upgrade has been changed from 30 to 20 years, increasing the depreciation expense for the current fiscal year by $128,000.

Utility billings for electricity usage increased by $38,215 from $218,068 in 2007 to $256,283 in 2008. During this period, Marshalls Energy Company (MEC) increased electric rates four times; from $0.30 (in October 2007) to $0.47 (in September 2008) per kilowatt-hour. In February 2009, however, MEC decreased the applicable rate per kilowatt-hour to $0.30 from $0.39 in December 2008.

Insurance increased by $32,975 from $29,447 to $62,422. The increase was due to the aviation liability insurance taken by Ports Authority in December 2007 in order to protect itself from any third party liability that may arise due to the Apron Rehabilitation Project that was ongoing. Premium was $50,000.

In April 2007, a memorandum of understanding has been signed by and between RMI Finance and Ports Authority that Ports Authority has to reimbursed RMI Finance for the lease of parcels of land under the jurisdiction of Ports Authority. The annual lease rental is $281,444 payable quarterly. The agreement is effective October 2006.

For fiscal period ending 2007, a provision for bad debts was set up for the undelivered tug bought from Mactec Aerospace International Ltd of New Zealand. Payments were made in advance but the tug, valued at $159,240, remained undelivered as of March 25, 2009.

3) Commercial Flights Movements

	2008	2007	Change	Percentage	2006
Continental Airlines	428	372	56	15%	337
Our Airlines (Air Nauru)	2	45	(43)	(96%)	21
Air Marshall Islands	115	628	(513)	(82%)	775
	545	1,045	(500)	(48%)	1,133

Continental Airlines increased its flights during the period particularly during peak seasons to cope with the increase in passenger traffic. Our Airlines had 2 commercial flights during the period whose operations stopped in June 2007.

Air Marshall Islands (AMI) had 115 commercial flights during the period. AMI was unable to meet Ports Authority's expectations of 624 commercial flights. Reason being that AMI's planes were under repair most of the time.

4) Unscheduled/Special Flight Movements

	2008	2007	Change	Percentage	2006
Category 1	88	92	(4)	(4%)	103
Category 2	36	37	(1)	(3%)	124
Category 3	103	112	(9)	(8%)	58
Asia Pacific Airlines	224	237	(13)	(5%)	196
	451	478	(27)	(6%)	481

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 pays for the ground handling charges. For the fiscal period ending September 30, 2008, there were only 9 military aircrafts that landed compared to 54 for the prior period. Reason is because of the ongoing airport projects.

5) Actual versus Budget Analysis

	Actual	Budget	Change	Percentage
Operating revenues:				
Landing fees - Scheduled	$ 155,174	$ 135,951	$ 19,223	14%
Landing fees - Special	140,623	160,988	(20,365)	(13%)
Departure fees - International	274,110	294,194	(20,084)	(7%)
Departure fees - Domestic	8,290	17,873	(9,583)	(54%)
Concession and lease income	84,953	88,793	(3,840)	(4%)
Ground handling - Transient	57,484	74,515	(17,031)	(23%)
Other operating revenues	228,155	176,970	51,185	29%
Bad debts	(93,794)	-	(93,794)	0%
Total	854,995	949,284	(94,289)	(10%)

	Actual	Budget	Change	Percentage
Operating expenses:				
Salaries and wages	438,951	512,728	(73,777)	(14%)
Utilities	256,283	232,835	23,448	10%
Insurance	62,422	23,963	38,459	160%
Repairs and maintenance	36,748	21,122	15,626	74%
Land lease	257,930	257,931	(1)	0%
Other operating expenses	131,322	158,905	(27,583)	(17%)
Total	1,183,656	1,207,484	(23,828)	(2%)
Income before depreciation	(328,661)	(258,200)	(70,461)	27%
Less: Depreciation and amortization	1,310,557	833,068	477,489	57%
Income (loss) after depreciation and amortization	(1,639,218)	(1,091,268)	(547,950)	50%
Add: Non-operating revenues	8,780,501	(24,348)	8,804,849	(36162%)
Change in net assets	$7,141,283	$(1,115,617)	$8,256,900	(740%)

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, Airport Division performed 10% below the budgeted figures. Landing fees-Scheduled, however, was above expectation because of Continental Airlines commercial flights of 428 versus budget of 312. AMI was a disappointment. Budgeted scheduled flights for the period were 624; instead AMI was able to do 115 flights only. Landing fees-Special was down by 13%, or by $20,365, from $160,988 to $140,623. Special flights were down by 27 flights, or by 6%, from 478 to 451 of current fiscal period. Passenger traffic (both International and Domestic) was down by $29,667, or by 10%, from budget amount of $312,067 to actual amount of $282,400. Other operating revenues were up by $51,185, or by 29%, from budget amount of $176,970 to actual amount of $228,155. The other operating revenues are: aircraft parking charges, pushcart collections, runway lights, international cargo services fees, overtime from transit flights, utilities charges reimbursed and others.

On the expense side, Airport Division's operational expenses before depreciation and amortization were down by 2%. Actual expenditures for major expenses increased except for salaries and wages, which went down by 14%, or by $73,777 when compared to budget amount of $512,728. Other major expenses that went up are utilities, insurance (due to aviation liability premium of $50,000) and repairs and maintenance. Other operating expenses decreased by $27,583, or by 17%, when compared to budget of $158,905. The other operating expenses are telephone charges, travel, supplies, housing allowance and professional fees.

Depreciation and amortization, actual increased by 57% when compared to budget of $833,068 to $1,310,557 actual.

VII) SEAPORT DIVISION

1) Financial Operations Highlights

- Net assets increased by $127,701 to $9,444,549 from $9,316,848 for fiscal period ending September 30, 2008. Operational revenues increased by $82,291 with a resulting increase in operational expenses by $34,543 when compared to last year fiscal period's operational revenues and expenses, respectively.

- As previously mentioned, operating revenues increased by 7%, or by $82,291, from $1,265,612 to $1,347,903 for fiscal period ending September 30, 2008. Pilotage fees and pilot boat usage fees increased by 17%, from $427,061 to $498,713; and other revenue-generating vessels traffic activities increased by $12,876, from $782,066 to $794,942.

- Operating expenses was up by $34,543, from $1,278,363 to $1,312,906 for fiscal period ending September 30, 2008. Salaries, utilities and insurance increased by $15,364 from $501,478 of prior period to $516,842 for current fiscal year. Other operating expenses increased by $18,367 to $557,233 when compared to prior period of $538,866. Pilotage expenses only increased by $813 to $238,832.

- Seaport Division made an operating income for the period amounting to $34,997 compared to last fiscal year with an operating loss of $12,751.

2) Statement of Revenues, Expenses and Changes in Net Assets

	2008	2007	Change	Percentage	2006
Operating revenues:					
Pilotage fees	$ 311,963	$ 276,748	$ 35,215	13%	$ 286,691
Pilot boat usage fees	186,750	150,313	36,437	24%	169,800
Wharfage fees	403,875	438,508	(34,633)	(8%)	349,129
Dockage fees - International	95,522	91,392	4,130	5%	103,727
Dockage fees - Domestic	11,080	17,960	(6,880)	(38%)	22,910
Anchorage fees	9,401	8,101	1,300	16%	7,694
Foreign vessels entry fees	219,840	179,838	40,002	22%	204,141
Light dues	31,890	26,970	4,920	18%	31,180
Fuel and water service charges	14,094	12,441	1,653	13%	12,288
Disembark and change crew	1,946	2,710	(764)	(28%)	2,976
Concession and lease income	54,248	56,485	(2,237)	(4%)	58,216
Other operating revenues	7,295	4,146	3,149	76%	12,856
Bad debts	-	-	-	0%	(50,374)
Total	1,347,903	1,265,612	82,291	7%	1,211,234
Operating expenses:					
Salaries and wages	450,191	446,810	3,381	1%	455,117
Pilotage	146,017	186,930	(40,913)	(22%)	274,457
Pilot boat	92,815	51,089	41,726	82%	-
Utilities	43,244	33,062	10,182	31%	20,634
Insurance	23,407	21,606	1,801	8%	21,903
Repairs and maintenance	3,908	4,944	(1,036)	(21%)	13,134
Land lease	23,513	21,554	1,959	9%	4,500
Other operating expenses	135,406	103,490	31,916	31%	118,962
Total	918,501	869,485	49,016	6%	908,707

	2008	2007	Change	Percentage	2006
Income before depreciation	429,402	396,127	33,275	8%	302,528
Depreciation and amortization	394,405	408,878	(14,473)	(4%)	378,279
Income (loss) after depreciation and amortization	34,997	(12,751)	47,748	(374%)	(75,752)
Add: Non-operating revenues	92,704	90,922	1,782	2%	53,429
Net income	127,701	78,171	49,530	63%	(22,323)
Add: Beginning balance	9,316,848	9,238,677	78,171	1%	9,261,000
Net Assets, End of Year	$9,444,549	$9,316,848	$127,701	1%	$9,238,677

Revenues generated in vessel traffic increased by $12,876, from $782,066 of prior period to $794,942 for the current period.

3) Vessel Arrivals (In numbers)

	2008	2007	Change	Percentage	2006
Cargo vessels	43	46	(3)	(7%)	31
Fishing vessels - International	262	335	(73)	(22%)	408
Fishing vessels - Domestic	688	557	131	24%	530
Foreign tankers	16	21	(5)	(24%)	15
Military ships	3	3	0	0%	3
Cruise ships	3	4	(1)	(25%)	3
Others	18	24	(6)	(25%)	8
	1,033	990	43	4%	998

Vessel traffic increased by 4% for fiscal period ending September 30, 2008 versus last year's fiscal period. Fishing vessels increased by 7% from 892 to 950. Cargo vessels went down by 7%, from 46 to 43. There were few cargo vessels plying the route because their tonnage has increased. Foreign tankers traffic decreased from 21 to 16 during the fiscal period.

4) Actual versus Budget Analysis

	Actual	Budget	Change	Percentage
Operating revenues:				
Pilotage fees	$ 311,963	$ 269,413	$ 42,550	16%
Pilot boat usage fees	186,750	245,175	(58,425)	(24%)
Wharfage fees	403,875	420,397	(16,522)	(4%)
Dockage fees - International	95,522	87,196	8,326	10%
Dockage fees - Domestic	11,080	10,175	905	9%
Anchorage fees	9,401	10,941	(1,540)	(14%)
Foreign vessels entry fees	219,840	128,021	91,819	72%
Light dues	31,890	21,240	10,650	50%
Fuel and water service charges	14,094	3,421	10,673	312%
Disembark and change crew	1,946	2,473	(527)	(21%)
Concession and lease income	54,248	89,787	(35,539)	(40%)
Other operating revenues	7,295	3,076	4,219	137%
Total	1,347,903	1,291,314	56,589	4%

	Actual	Budget	Change	Percentage
Operating expenses:				
Salaries and wages	450,191	518,705	(68,514)	(13%)
Pilotage	146,017	51,646	94,371	183%
Pilot boat	92,815	57,172	35,643	62%
Utilities	43,244	33,990	9,254	27%
Insurance	23,407	22,621	786	3%
Repairs and maintenance	3,908	5,324	(1,416)	(27%)
Land lease	23,513	23,513	(0)	0%
Other operating expenses	135,406	136,040	(634)	0%
Total	918,501	849,012	69,489	8%
Income before depreciation	429,402	442,302	(12,900)	(3%)
Less: Depreciation and amortization	394,405	392,917	1,488	0%
Income (loss) after depreciation and amortization	34,997	49,386	(14,389)	(29%)
Add: Non-operating revenues	92,704	76,837	15,867	21%
Net income	$ 127,701	$ 126,223	$ 1,478	1%

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. 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. Shown above is the budget for Seaport Division approved by the Board.

On the revenue side, Seaport Division performed 4% better than budget, or by $56,589. On the expense side, operational expenses were 8% above budget, or by $69,489. Overall, actual performance was able to measure up to budget figures.

VIII) BUDGET COMPARISONS

	2009	2008	Change	Percentage
Operating revenues:				
Airport Division	$ 881,843	$ 949,284	$ (67,441)	(7%)
Seaport Division	1,361,181	1,291,314	69,867	5%
	2,243,024	2,240,598	2,426	0%
Operating expenses:				
Airport Division	1,287,922	1,207,484	80,438	7%
Seaport Division	914,915	849,012	65,903	8%
	2,202,837	2,056,496	146,341	7%
Depreciation and amortization:				
Airport Division	1,225,622	833,068	392,554	47%
Seaport Division	380,809	392,917	(12,108)	(3%)
	1,606,431	1,225,985	380,446	31%
Non-operating revenues (expenses):				
Airport Division	13,036	(24,348)	37,384	(154%)
Seaport Division	77,863	76,837	1,026	1%
	90,899	52,489	38,410	73%

	2009	2008	Change	Percentage
Change in net assets:				
Airport Division	(1,618,665)	(1,115,617)	(503,049)	45%
Seaport Division	143,320	126,223	17,097	14%
	$(1,475,345)	$ (989,394)	$(485,951)	49%

The operating budget for fiscal period 2009 was prepared based on consultations with Ports Authority's managers. The budget amounts, in most cases, were based on an annual average of the last two audited fiscal years' performances, which provide a realistic prediction of how the Ports Authority will perform in fiscal year 2009.

The budgeted revenues for fiscal year 2009 for the Airport Division are lower by 7%, or by $67,441, when compared with fiscal year 2008; from $949,284 to $881,843. The reason being that for fiscal year 2008, operating revenues were lower than expectations by 10%; actual operating revenues were $854,995 and the budgeted figures were $949,284.

For Seaport Division, the budgeted revenues for fiscal period 2009 are higher by 5%, or by $69,867, to $1,361,181 from $1,291,314. The Division expects that shipping vessel traffic will likely to continue increasing. Expectations for fiscal year 2008 increased by 4%, or by $56,589 when compared to budget of $1,291,314.

Airport Division's estimated contribution to total revenues is 39% and Seaport Division is 61% for FY 2009, comparing it to FY 2008 of 42% and 58%, respectively. On operating expenses, Airport Division's estimated share is 58% and Seaport Division 42% for FY 2009 compared to FY 2008 of 59% and 41%, respectively.

IX) PARTY RELATED TRANSACTIONS

As of September 30, 2008, receivable from government entities and agencies amounted to $580,960. The breakdown and activity from October 1, 2008 to May 12, 2009 are as follows:

	30-Sep-08	Collections	Billings	12-May-09
Directorate of Civil Aviation	$ 7,782	$ 805	$ 824	$ 7,801
Air Marshall Islands	197,679	-	18,951	216,630
Foreign Affairs	80	-	-	80
Ministry of Health Services	2,859	-	-	2,859
Health Services	437	-	-	437
Ministry of Internal Affairs	850	-	-	850
Meram, Inc	173,555	-	-	173,555
Marshall Energy Company	16,077	22,611	49,281	42,747
Headstart	159	-	-	159
Ministry of Education	59	-	-	59
Ministry of Public Works	8,959	-	-	8,959
RepMar	25,231	-	-	25,231
Tobolar Copra Processing Plant	18,971	-	-	18,971
Transportation	128,263	-	-	128,263
	$580,960	$23,416	$69,056	$626,600

Nature of receivables is as follows:

- Directorate for Civil Aviation – billings for electric usage, reimbursement for travel expenses, banquet charges, etc.
- Air Marshall Islands, Inc. – billings for utilizing the airport facilities, including landing charges, navigation aids, office space leases, electricity, etc.
- Meram, Inc – cash advances made for boat operations. Ports Authority was supposed to be reimbursed for the said cash advances.
- Marshall Energy Company – billings for using seaport facilities in importing petroleum products.
- Ministry of Public Works – billings for dockage fees.
- RepMar – wharfage charges for items brought into the country.
- Tobolar – billings for using seaport facilities and financing charges on $100,000 promissory notes.

Ports Authority is having difficulty collecting from these government entities and agencies. Most of these receivables, except for Marshalls Energy Company (MEC), are delinquent. For MEC, Port Authority can simply offset the electricity bills for unpaid receivables.

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

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

In addition, Ports Authority is paying land lease rental for the following government entities:

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

The above entities are commercially benefiting at the expense of Ports Authority.

There is a possibility that land lease rental for the land occupied by Air Marshall Islands (AMI) hangar at the airport will also be paid by Ports Authority in the future.

For the space facilities being provided to DCA, at the Ports Authority's head office and at the airport, Ports Authority is losing $360 per month for space rental. Aside from DCA, other government entities that are occupying space facilities are:

- Division of Revenue & Taxation (the Customs Office at the Head Office) – for $210 per month;
- Ministry of Transportation & Communications (at the Uliga Dock) – for $240 per month

X) CASHFLOW PROJECTION

As of September 30, 2008, cash balance is at $959,565, a decrease of $416,971 when compared to $1,376,536 as of September 30, 2006. One of the reasons for the decrease in cash is the annual lease payment of $281,444, payable in four quarterly installments of $70,361. The quarterly installment started in fiscal year 2007.

XI) CAPITAL EXPENDITURES

The following projects have been completed:

- Amata Kabua International Airport (AKIA) Runway Overlay Project – the physical construction activities have been completed in September 2006, and final value of the Project is $15,803,683 finalized in December 2008. A Close Out Report has been submitted to U.S. Federal Aviation Administration (U.S. FAA) on February 25, 2009, for their review and approval. This report is submitted for the purpose of closing the project; and,

- AKIA Fire Trucks and Accessories – the ARFF vehicles have been received in August 2007, and the necessary accessories in October 2007. The cost amounted to $1,640,421. A Close Out Report has been submitted to U.S. FAA, on January 23, 2009, and has been reviewed and approved.

Projects funded by the U.S Federal Grants with corresponding local matching funds are shown below. Total funds received as of April 29, 2009 are as follows:

			Funding Received From			
	Project Cost	Disbursement	U.S. Grants	RMI Finance	RMI Ports	Savings
Runway Overlay Project	$16,390,934	$15,803,683	$15,013,498	$ 849,139	$ -	$587,251
Apron / Taxiway Project	9,305,559	8,485,307	8,052,197	451,610	-	-
ARFF Building and Facilities	15,718,595	6,701,819	6,332,347	204,272	-	-
ARFF Vehicles and Accessories	1,634,801	1,640,421	1,551,772	75,000	-	-
Road Realignment (Design)	735,635	634,489	512,959	34,366	-	-
Airport Master Plan	962,656	53,879	49,694	-	-	-
Data Management System	69,228	69,228	51,872	-	17,356	-
	$44,817,408	$33,388,826	$31,564,339	$1,614,388	$17,356	$587,251

Grants awarded by the U.S. Federal Aviation Administration to Ports Authority as of April 29, 2009 are as follows:

- 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 (and increased by $51,772 on April 30, 2008);
- Project No. 3-68-0001-04, Construct ARFF Building – Phase I (Design), for $1.0 million (and increased by $124,063 on February 13, 2009);
- Project No. 3-68-0001-05, Rehabilitate Runway 7/25 – Phase I, for $10.0 million (and increased by $1.5 million on September 8, 2008);
- Project No. 3-68-0001-06, Rehabilitate Runway 7/25 – Phase II, for $13.0 million; and.
- Project No. 3-68-0001-07, Construct ARFF Building – Phase II, for $13.0 million; Modify Service Road – Phase I (Design), for $1.0 million.
- Project No. 3-68-0001-08, Conduct Airport Master Plan, for $999,995.

During the 28th Constitutional Regular Session, 2007, the Nitijela approved the amount of $786,875 as local matching fund for the U.S. FAA funding. The appropriation came from the Compact Capital Fund.

On October 12, 2007, the U.S. Department of the Interior, Office of Insular Affairs, Operations and Maintenance Improvement Program (OMIP) awarded a grant to Ports Authority for $174,000. The grant is to finance the Document Management System Program. Ports Authority is to provide $60,000 as local matching fund for the project.

For additional information concerning the Port Authority's capital assets, please refer to note 5 to the accompanying financial statements.

During the year ended September 30, 2007, the Port Authority borrowed $750,000 to finance the acquisition of certain capital assets. For additional information concerning the Port Authority's long-term debt, please refer to note 7 to the accompanying financial statements.

XII) ECONOMIC FACTORS

These are events that happened or might happened during and after the fiscal period September 30, 2008:

- Matson (managed by Majuro Marine of PII) started its cargo transshipment operations from Guam, and cease 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; filling the void created by PM&O when it ceased operations.
- Electricity cost is expected to decrease in the foreseeable future. In June 2008, MEC increased their electricity rate to $0.47 per kilowatt-hour, and in February 2009 rate per kilowatt-hour was $0.30.
- Depreciation expense will significantly increase due to investment on existing facilities such as the runway and the apron and on the new facilities ARFF/SAWRS building, which includes approximately 4.1 acres of land reclamation.
- Migratory nature of tuna and increases in price of fuel will have effect in fishing vessels traffic to Majuro.
- When the newly completed loining plant becomes commercially operational, wharfage fees and other related revenue-generating activities would increase due to forecasted export of 44 TEU (20-foot-container) monthly.
- Construction of a warehouse at Uliga dock will increase revenue on lease rental. The project is estimated to start late this year 2008.
- Planned to build a marine terminal soon at Uliga dock, and will likely increase revenue because departure fees for shipping passengers will start to be collected. In addition, stalls will be built to house restaurants and other kinds of stores resulting to collecting of lease rentals.
- Soon the Road Realignment and Runway Safeway Area Project will start costing approximately $10.0 million. The project is funded by the U.S. FAA Airport Improvement Program.
- When all of the U.S.FAA-AIP Projects at the airport are completed, maintenance cost will likely to increase.

RMI PORTS AUTHORITY

Statements of Net Assets
September 30, 2008 and 2007

ASSETS	2008	2007
Current assets:		
Cash	$ 959,565	$ 919,394
Time certificates of deposit	1,038,187	950,531
Receivables:		
Trade	676,305	938,152
Affiliates	728,288	927,788
Note	-	50,000
Interest receivable	111,279	99,778
Grants receivable	1,771,746	3,218,887
Other	212,699	472,284
	3,500,317	5,706,889
Less allowance for doubtful accounts	(1,258,502)	(1,187,114)
	2,241,815	4,519,775
Prepaid expenses and other assets	50,604	43,754
Total current assets	4,290,171	6,433,454
Restricted time certificates of deposit	750,000	750,000
Property, plant and equipment, net	35,844,590	29,176,320
	$ 40,884,761	$ 36,359,774
LIABILITIES AND NET ASSETS		
Current liabilities:		
Current portion of note payable	$ 274,385	$ 253,806
Accounts payable	46,083	38,025
Contracts payable	1,677,312	3,966,063
Payable to affiliates	267,370	227,857
Other liabilities and accruals	91,916	88,224
Deferred revenue	39,000	292,176
Total current liabilities	2,396,066	4,866,151
Noncurrent portion of note payable	40,600	314,512
Total liabilities	2,436,666	5,180,663
Commitments and contingencies		
Net assets:		
Invested in capital assets, net of related debt	35,529,605	28,608,002
Unrestricted	2,918,490	2,571,109
Total net assets	38,448,095	31,179,111
	$ 40,884,761	$ 36,359,774

See accompanying notes to financial statements.

RMI PORTS AUTHORITY

Statements of Revenues, Expenses and Changes in Net Assets
Years Ended September 30, 2008 and 2007

	2008	2007
Operating revenues:		
Seaport fees	$ 1,286,360	$ 1,204,981
Aviation fees	723,291	756,146
Concession and lease income	139,201	139,453
Other	147,840	108,982
Total operating revenues	2,296,692	2,209,562
Less allowance for doubtful debts	(93,794)	-
	2,202,898	2,209,562
Operating expenses:		
Depreciation	1,704,962	1,591,435
Salaries and wages	889,142	898,153
Utilities	299,527	251,130
Rent	290,443	290,444
Pilotage	238,832	238,019
Insurance	85,829	51,053
Training and travel	79,763	94,674
Repairs and maintenance	40,656	17,903
Auto expenses	33,554	17,775
Communications	29,095	26,708
Supplies	12,667	11,768
Professional fees	12,594	11,146
Bad debts	-	159,240
Miscellaneous	90,055	74,675
Total operating expenses	3,807,119	3,734,123
Operating loss	(1,604,221)	(1,524,561)
Nonoperating revenues (expenses):		
Gain (loss) on disposal of capital assets	515	11,588
Interest income	99,157	97,916
Interest expense	(34,667)	(34,318)
Total nonoperating revenues (expenses), net	65,005	75,186
Loss before capital contributions	(1,539,216)	(1,449,375)
Capital contributions:		
Contributions from U.S. government	8,383,274	4,901,892
Contributions from RepMar	424,926	306,642
	8,808,200	5,208,534
Change in net assets	7,268,984	3,759,159
Net assets at beginning of year	31,179,111	27,419,952
Net assets at end of year	$ 38,448,095	$ 31,179,111

See accompanying notes to financial statements.

RMI PORTS AUTHORITY

Statements of Cash Flows
Years Ended September 30, 2008 and 2007

	2008	2007
Cash flows from operating activities:		
Cash received from customers	$ 2,597,160	$ 2,426,115
Cash payments to suppliers for goods and services	(912,709)	(1,534,282)
Cash payments to employees for services	(885,450)	(902,152)
Net cash provided by (used for) operating activities	799,001	(10,319)
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(10,661,983)	(7,733,248)
Proceeds from sale of fixed assets	515	13,090
Proceeds from issuance of long-term debt	-	750,000
Principal paid on long-term debt	(253,333)	(181,682)
Interest paid on long-term debt	(34,667)	(34,318)
Capital contributions received	10,190,638	6,739,335
Net cash used for capital and related financing activities	(758,830)	(446,823)
Net change in cash	40,171	(457,142)
Cash at beginning of year	919,394	1,376,536
Cash at end of year	$ 959,565	$ 919,394
Reconciliation of operating loss to net cash used for operating activities:		
Operating loss	$ (1,604,221)	$ (1,524,561)
Adjustments to reconcile operating loss to net cash used for operating activities:		
Depreciation	1,704,962	1,591,435
Bad debts	93,794	159,240
(Increase) decrease in assets:		
Receivables:		
Trade	239,441	(84,001)
Affiliates	11,027	119,170
Note	50,000	50,000
Other	259,585	(296,934)
Prepaid expenses and other assets	(6,850)	2,719
Increase (decrease) in liabilities:		
Accounts payable	8,058	31,514
Payable to affiliates	39,513	(36,324)
Other liabilities and accruals	3,692	(22,577)
Net cash provided by (used for) operating activities	$ 799,001	$ (10,319)
Summary of noncash financing activities:		
Construction work-in-progress	$ 2,288,751	$ 1,943,246
Contracts payable	(2,288,751)	(1,943,246)
	$ -	$ -

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

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

(2) Summary of Significant Accounting Policies, Continued

Cash and Time Certificates of Deposit

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

For purposes of the statements of net assets and cash flows, cash is defined as cash on hand and cash held in demand accounts. Deposits maintained in time certificates of deposit with original maturity dates greater than ninety days are separately classified. Custodial credit risk for deposits with financial institutions is the risk that in the event of bank failure, the Authority's deposits may not be returned to it. As of September 30, 2008 and 2007, the carrying amount of cash and time certificates of deposit were $2,747,544 and $2,619,925, respectively, and the corresponding bank balances were $2,753,010 and $2,684,460, respectively. Of the bank balances amounts, $964,823 and $983,929, respectively, are maintained in one financial institution located in Majuro subject to Federal Deposit Insurance Corporation (FDIC) insurance with the remaining bank balances being maintained in a non-FDIC bank (see note 6). As of September 30, 2008 and 2007, time certificates of deposit amounting to $314,985 and $568,318, respectively, collateralized a note payable (see note 7). As of September 30, 2008 and 2007, bank deposits 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

(2) Summary of Significant Accounting Policies, Continued

Taxes

Corporate profits are not subject to income tax in the Republic of the Marshall Islands. The Government of the Republic of the Marshall Islands imposes a gross receipts tax of 3% on revenues. The Authority is specifically exempt from this tax.

Compensated Absences

Vested or accumulated vacation leave is recorded as an expense and liability as the benefits accrue to employees. No liability is recorded for nonvesting accumulating rights to receive sick benefits. As of September 30, 2008 and 2007, an accumulated vacation leave liability of $67,624 and $71,003, respectively, is included within the statement of net assets in other liabilities and accruals.

New Accounting Standards

During fiscal year 2008, the Authority implemented GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfer of Assets and Future Revenues*, and GASB Statement No. 50, *Pension Disclosures an amendment of GASB Statements No. 25 and 27*. GASB Statement No. 43 establishes uniform financial reporting for other postemployment benefit plans by state and local governments and GASB Statement No. 50 more closely aligns the financial reporting requirements for pensions with those for other post-employment benefits. 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, and includes a provision that stipulates that governments should not revalue assets that are transferred between financial reporting entity components. The implementation of these pronouncements did not have a material effect on the accompanying financial statements.

In June 2004, GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Post employment Benefits Other Than Pensions*. GASB Statement No. 45 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, 2007. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Authority.

In December 2006, GASB issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. GASB Statement No. 49 provides guidance and consistency under which a governmental entity would be required to report a liability related to pollution remediation. 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 2007, GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. GASB Statement No. 51 addresses whether and when intangible assets should be considered capital assets for financial reporting purposes. The provisions of this statement are effective for periods beginning after June 15, 2009. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Authority.

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In November 2007, GASB issued Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*. GASB Statement No. 52 improves the quality of financial reporting by requiring endowments to report their land and other real estate investments at fair value, creating consistency in reporting among similar entities that exist to invest resources for the purpose of generating income. The provisions of this statement are effective for periods beginning after June 15, 2008. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Authority.

In June 2008, GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. GASB Statement No. 53 is intended to improve how state and local governments report information about derivative instruments - financial arrangements used by governments to manage specific risks or make investments - in their financial statements. The provisions of this statement are effective for periods beginning after June 15, 2009. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Authority.

(3) Risk Management

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Authority has elected to purchase commercial insurance from independent third parties for the risks of loss to which it is exposed with the exception of its dock facilities or operations (note 9). Settled claims have not exceeded this commercial coverage in any of the past three years. For other risks of loss to which it is exposed, the Authority has elected not to purchase commercial insurance. Instead, the Authority believes it is more economical to manage its risks internally. Claims expenses and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported. No material losses have resulted from the Authority's risk management activities during the years ended September 30, 2008, 2007 or 2006.

(4) Note Receivable

Note receivable as of September 30, 2008 and 2007, consists of the following:

	2008	2007
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.	$ -	$ 50,000

Repayment of interest is in arrears and, accordingly, total interest receivable has been included in the allowance for doubtful accounts. As of September 30, 2008 and 2007, interest receivable relating to the note totaled $36,659.

(5) Property, Plant and Equipment

Capital asset activity for the years ended September 30, 2008 and 2007, was as follows:

	October 1, 2007	Additions	Retirements	September 30, 2008
Facilities	$ 18,871,077	$ -	$ -	$ 18,871,077
Buildings	2,006,403	-	-	2,006,403
Equipment	2,056,719	606,019	-	2,662,738
Vehicles	138,015	19,440	(18,995)	138,460
Office furniture, fixtures and equipment	300,639	12,587	-	313,226
Runway upgrade	16,413,641	1,387	-	16,415,028
	39,786,494	639,433	(18,995)	40,406,932
Less accumulated depreciation	(13,405,844)	(1,704,962)	18,995	(15,091,811)
	26,380,650	(1,065,529)	-	25,315,121
Construction work-in-progress	2,795,670	7,808,557	(74,758)	10,529,469
	$ 29,176,320	$ 6,743,028	$ (74,758)	$ 35,844,590

	October 1, 2006	Additions	Retirements	September 30, 2007
Facilities	$ 18,841,777	$ 29,300	$ -	$ 18,871,077
Buildings	1,887,445	118,958	-	2,006,403
Equipment	332,943	1,723,776	-	2,056,719
Vehicles	160,883	32,277	(55,145)	138,015
Office furniture, fixtures and equipment	299,483	1,156	-	300,639
Runway upgrade	14,623,191	1,790,450	-	16,413,641
	36,145,722	3,695,917	(55,145)	39,786,494
Less accumulated depreciation	(11,868,052)	(1,591,435)	53,643	(13,405,844)
	24,277,670	2,104,482	(1,502)	26,380,650
Construction work-in-progress	701,585	2,237,495	(143,410)	2,795,670
	$ 24,979,255	$ 4,341,977	$ (144,912)	$ 29,176,320

(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 all RepMar-owned and affiliated entities. Services are extended to these entities at more favorable terms and conditions than those afforded to third parties.

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

(6) Related Party Transactions, Continued

A summary of related party transactions for the years ended September 30, 2008 and 2007 and related receivable and payable balances as of September 30, 2008 and 2007, are as follows:

	2008			
	Revenues	Expenses	Receivables	Payables
Air Marshall Islands, Inc.	$ 21,973	$ -	$ 197,679	$ -
Bank of Marshall Islands	113,369	34,667	-	-
Marshalls Energy Company, Inc.	22,510	296,421	16,077	30,357
Marshall Islands Social Security Administration	-	77,241	-	39,778
Marshall Islands National Telecommunications Authority	-	28,666	555	8,409
Majuro Water and Sewer Company, Inc.	-	3,106	-	407
Meram, Inc.	-	-	173,555	-
RepMar	427,751	281,872	311,784	169,212
Tobolar Copra Processing Plant, Inc.	-	-	18,971	-
Other	2,160	146,017	9,667	19,207
	$ 587,763	$ 867,990	$ 728,288	$ 267,370

	2007			
	Revenues	Expenses	Receivables	Payables
Air Marshall Islands, Inc.	$ 38,078	$ -	$ 167,304	$ -
Bank of Marshall Islands	105,777	34,318	-	-
Marshalls Energy Company, Inc.	-	249,754	14,510	23,272
Marshall Islands Social Security Administration	-	76,132	-	41,016
Marshall Islands National Telecommunications Authority	-	26,526	53	4,768
Majuro Water and Sewer Company, Inc.	-	1,376	-	127
Meram, Inc.	-	-	173,555	-
RepMar	306,642	281,444	536,393	142,672
Tobolar Copra Processing Plant, Inc.	-	-	24,779	-
Other	-	187,717	11,194	16,002
	$ 450,497	$ 857,267	$ 927,788	$ 227,857

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 $173,555 to Meram, Inc. (a corporation solely owned by RepMar) for boat operations. As of September 30, 2008, these amounts have not been repaid and have been fully provided for within the allowance for doubtful accounts.

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

As of September 30, 2008 and 2007, the Authority maintained time certificates of deposit with a related financial institution totaling $1,788,187 and $1,700,531, respectively.

(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. Effective August 9, 2007, pilots retain forty (40) percent of compensation and the Authority retains sixty (60) percent. Ten (10) percent of the compensation collected by the Authority shall be remitted to the Ministry of Transportation and Communication. It is the intention of the Authority to train pilots in accordance with the pilotage regulations. During the years ended September 30, 2008 and 2007, the Authority compensated qualified pilots, who were employees and directors of the Authority, for these pilotage services amounting to $146,017 and $163,278, respectively.

On April 1, 2007, the Authority entered into a memorandum of understanding (MOU) with RepMar's Ministry of Finance to transfer the responsibility of lease payments to the Authority for parcels of land under the Authority's jurisdiction based on ground leases executed by RepMar. Under the MOU, the Authority shall pay the Ministry of Finance an annual lease payment of $281,444, payable in four equal quarterly installments of $70,361.

On February 15, 2008, the Authority entered into a sub-award agreement with RepMar for $103,902 from the Republic of China for apron rehabilitation.

(7) Note Payable

On January 11, 2007, the Authority obtained a $750,000 bank loan from a related party, 7.5% interest, payable in monthly installments of $24,000 for 34 months beginning January 31, 2007 with a final payment of $20,945 on November 28, 2009. The note is collateralized by a time certificate of deposit. The proceeds of the loan were used to purchase various ground handling equipment.

Changes in long-term liabilities for the years ended September 30, 2008 and 2007, is as follows:

	2008				
	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Note payable	$ 568,318	$ -	$ (255,333)	$ 314,985	$ 274,385

	2007				
	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Note payable	$ -	$ 750,000	$ (181,682)	$ 568,318	$ 253,806

(7) Note Payable, Continued

Principal and interest payments for subsequent years ending September 30 are as follows:

Year Ending September 30,	Principal	Interest	Total
2009	$ 274,385	$ 13,615	$ 288,000
2010	40,600	358	40,958
	$ 314,985	$ 13,973	$ 328,958

(8) Commitments

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

On January 23, 2001, the Authority entered into a ten-year lease agreement with a stevedoring company for the container yard located at the Port of Majuro, with an option to extend for an additional ten years subject to renegotiation of the payment provisions. The terms of the lease requires a minimum payment of $19,860 per annum plus a gross receipts fee equal to 1.5% of total operating revenues. Additional rental income under this lease for the years ended September 30, 2008 and 2007 amounted to $22,170 and $24,121, 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 payment of $9,000 per annum. Rental income under this lease for the years ended September 30, 2008 and 2007 amounted to $0 and $2,250, respectively. The lease was terminated on December 31, 2006.

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,	
2009	$ 69,177
2010	39,930
2011	14,427
2012	7,862
2013	7,862
2014 - 2018	39,312
2019 - 2023	39,312
2024	1,966
Total future minimum rentals	$ 219,848

(8) Commitments, Continued

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

On August 16, 2004, the Authority was awarded $1,500,000 by the U.S. Department of Transportation Federal Aviation Administration (FAA), representing 95%, to acquire two 1,500 gallon Aircraft Rescue and Fire Fighting vehicles with protective coating. On April 30, 2008, the Authority was awarded additional funds of $51,772, which increased the total grant amount to $1,551,772.

On August 17, 2005, the Authority was awarded $1,000,000 by the FAA, 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 August 17, 2005, the Authority was awarded $10,000,000 by the FAA, representing 95%, to rehabilitate Runway 7/25-Phase I Project. On September 8, 2008, the Authority was awarded additional funds of $1,500,000, which increased the total grant amount to $11,500,000.

On March 31, 2006, the Authority was $13,000,000 by the FAA, representing 95%, to rehabilitate Runway 7/25-Phase II Project, with $250,000 being appropriated as matching funds by the Nitijela of RepMar.

On August 16, 2007, the Authority was awarded $14,000,000 by the FAA, representing 95%, to construct aircraft rescue and fire fighting building Phase-II and modify service road Phase-I.

On October 21, 2007, the Authority was awarded an Operations and Maintenance Improvement Program of $174,000 by the U.S. Department of the Interior to establish a document management system.

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

(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 has been 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, 2008

	Airport Division	Seaport Division	Total
Operating revenues:			
Seaport fees	$ -	$ 1,286,360	$ 1,286,360
Aviation fees	723,291	-	723,291
Concession and lease income	84,953	54,248	139,201
Other	140,545	7,295	147,840
Total operating revenues	948,789	1,347,903	2,296,692
Less allowance for doubtful debts	(93,794)	-	(93,794)
	854,995	1,347,903	2,202,898
Operating expenses:			
Depreciation	1,310,557	394,405	1,704,962
Salaries and wages	438,951	450,191	889,142
Rent	262,430	28,013	290,443
Utilities	256,283	43,244	299,527
Pilotage	-	238,832	238,832
Training and travel	42,823	36,940	79,763
Insurance	62,422	23,407	85,829
Communications	9,678	19,417	29,095
Repairs and maintenance	36,748	3,908	40,656
Auto expenses	22,929	10,625	33,554
Supplies	5,579	7,088	12,667
Professional fees	964	11,630	12,594
Miscellaneous	44,849	45,206	90,055
Total operating expenses	2,494,213	1,312,906	3,807,119
Operating income (loss)	(1,639,218)	34,997	(1,604,221)
Nonoperating revenues (expenses):			
Gain on disposal of capital assets	515	-	515
Interest income	6,453	92,704	99,157
Interest expense	(34,667)	-	(34,667)
Total nonoperating revenues (expenses), net	(27,699)	92,704	65,005
Earnings (loss) before capital contributions	(1,666,917)	127,701	(1,539,216)
Capital contributions:			
Contributions from U.S. government	8,383,274	-	8,383,274
Contributions from RepMar	424,926	-	424,926
Total non-operating revenues, net	8,808,200	-	8,808,200
Change in net assets	7,141,283	127,701	7,268,984
Net assets at beginning of year	21,862,263	9,316,848	31,179,111
Net assets at end of year	$ 29,003,546	$ 9,444,549	$ 38,448,095

See accompanying independent auditor's report.