RMI PORTS AUTHORITY

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

FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT

YEARS ENDED SEPTEMBER 30, 2009 AND 2008

Deloitte.

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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, 2009 and 2008, 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, 2009 and 2008, 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 17 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, 2009 (page 31) 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, 2009 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 16, 2010, 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 16, 2010

RMI PORTS AUTHORITY

Management's Discussion and Analysis
Year Ended September 30, 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, 2009. 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 RMI 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, 2009, Ports Authority had 56 full-time employees. Composition is as follows: 4 in Administration; 7 in Finance; 5 in Airport Operations (Tower); 3 in Seaport Operations; 10 in Maintenance; and 27 in Security. Out of the 27 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 Governmental Accounting Standards Board (GASB) as well as Statements and Interpretations issued by the Financial Accounting Standards Board (FASB), Accounting Principles Board Opinion, and Accounting Research Bulletins of the Committee on Accounting Procedures, as applicable to government entities.

III) FINANCIAL HIGHLIGHTS

- For fiscal period ending September 30, 2009, total net assets were $47,852,712, an increase of $9,404,617 from the prior fiscal year. The increase was mainly due to funds accrued and received from U.S. Federal Grants with corresponding local matching funds from the Ports Authority for the Airport Improvement Program projects constructed / implemented at Amata Kabua International Airport (AKIA).

- Total operating revenues increased by $35,711 to $2,238,609 from the prior fiscal period. The Ports Authority's Seaport Division accounted for a majority of the increase in operating revenues. This was caused by the increase in vessel traffic plus the leasing of the Ports Authority's Uliga Dock Warehouse.

- Total operating expenses, inclusive of depreciation, was $3,837,264 for FY 2009. This was an increase of $30,145 from the last fiscal year. This small increase was primarily the result of depreciation expense, which totaled $1,827,281.

III) FINANCIAL HIGHLIGHTS, CONTINUED

- For FY 2009, the Ports Authority incurred an operating loss of $1,598,655 for fiscal year ending September 30, 2009. This is an improvement to last fiscal year's operating loss of $1,604,221.

- Overall performance of the Ports Authority improved in FY 2009. Without depreciation expense, the Ports Authority earned income of $228,626. This is an improvement from last fiscal year's income of $100,741.

  Management's Discussion and Analysis for the year ended September 30, 2008 is set forth in the report of the audit of the Ports Authority's financial statements, which is dated July 13, 2009. That Discussion and Analysis explains the major factors impacting the 2008 financial statements.

IV) STATEMENT OF NET ASSETS

	2009	2008	Change	Percentage	2007
Current assets	$ 3,275,147	$ 4,290,171	$ (1,015,024)	(24%)	$ 6,433,454
Non-current assets	750,000	750,000	-	0%	750,000
Property, plant and equipment, net	45,343,122	35,844,590	9,498,532	27%	29,176,320
Total assets	$ 49,368,269	$ 40,884,761	$ 8,483,508	21%	$ 36,359,774
Current liabilities	$ 1,515,557	$ 2,396,066	$ (880,509)	(37%)	$ 4,866,151
Noncurrent liabilities	-	40,600	(40,600)	(100%)	314,512
Net assets	47,852,712	38,448,095	9,404,617	24%	31,179,111
Total liabilities and net assets	$ 49,368,269	$ 40,884,761	$ 8,483,508	21%	$ 36,359,774

Current assets decreased by 24% as seen from the above table. This was because receivables from federal grants went down and the Ports Authority improved its collection of debts from its customers.

Current liabilities decreased by 37%. The primary reason for this decrease is the Ports Authority's reduced debt from the loan it obtained from the Bank of Marshall Islands in January 2007 for the purchase of the airport ground handling equipment. This loan was fully paid off on November 28, 2009.

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

	2009	2008	Change	Percentage	2007
Operating revenues:					
Airport Division	$ 871,538	$ 854,995	$ 16,543	2.0%	$ 943,950
Seaport Division	1,367,071	1,347,903	19,168	1.4%	1,265,612
	2,238,609	2,202,898	35,711	1.6%	2,209,562
Operating expenses:					
Airport Division	2,588,061	2,494,213	93,848	3.8%	2,455,760
Seaport Division	1,249,203	1,312,906	(63,703)	-4.9%	1,278,363
	3,837,264	3,807,119	30,145	0.8%	3,734,123
Non-operating revenues (expenses):					
Airport Division	(6,633)	(27,699)	21,066	76%	(15,736)
Seaport Division	103,405	92,704	10,701	11.5%	90,922
	96,772	65,005	31,767	48.9%	75,186

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

	2009	2008	Change	Percentage	2007
Capital contributions:					
Airport Division	10,906,500	8,808,200	2,098,300	23.8%	5,208,534
Seaport Division	0	0	0	0%	0
	10,906,500	8,808,200	2,098,300	23.8%	5,208,534
Change in net assets:					
Airport Division	9,183,344	7,141,283	2,042,061	28.6%	3,680,988
Seaport Division	221,273	127,701	93,572	73.3%	78,171
	$ 9,404,617	$ 7,268,984	$ 2,135,633	29.4%	$ 3,759,159

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

As in the prior fiscal year, the Airport Division generated 39% of the total revenues for the Ports Authority. The remaining 61% of revenues were generated by the Seaport Division. On the expense side, the Airport Division accounted for 67% of total operating expenses, with 33% incurred from the Seaport Division. It is very clear from the above that the Airport Division is not generating enough revenue to cover its operating expenses.

Capital contributions increased to $10,906,500 from $8,808,200 in the prior year. This is all attributed to the AIP projects that the Ports Authority administers. Out of the total contribution amount shown above, approximately $10.5 million came from the FAA's AIP program during FY 2009.

VI) AIRPORT DIVISION

a) Financial Operations Highlights

- Net assets increased by $9,183,344 or by 32% for fiscal period ending September 30, 2009. 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 and the Ports Authority. As of 30 September 2009, total funds accrued and received to finance airport projects amounted to $10,906,500.

- Operating revenues improved by 2% to $871,538 when compared to the prior fiscal year. The improvements was due to increase in revenue generated from landing fees of scheduled/commercial flights, i.e. Continental Micronesia, APA, etc. In addition, there was no allowance for doubtful accounts recorded for FY 2009. In FY 2008, the allowance for doubtful accounts was $93,794. This allowance is recommended by the auditors each fiscal year to account for delinquent receivables that are deemed uncollectible.

- Operating expenses was higher in FY 2009 than in FY 2008 by 3.8% or by $93,848. Significant contributors to this increase were from depreciation.

- The Airport Division incurred a net loss before depreciation of $279,651 for FY 2009. Although, this was another loss, it actually improved from last fiscal year's loss of $328,661.

VI) AIRPORT DIVISION, CONTINUED

b) Statement of Revenues and Expenses

	2009	2008	Change	Percentage	2007
Operating revenues:					
Landing fees - Scheduled	$ 218,654	$ 155,174	$ 63,480	41%	$ 152,359
Landing fees - Special	44,079	140,623	(96,544)	(69%)	160,361
Departure fees - International	244,990	274,110	(29,120)	(11%)	293,335
Departure fees - Domestic	9,590	8,290	1,300	16%	17,126
Concession and lease income	87,753	84,953	2,800	3%	82,968
Ground handling - Transient	38,528	57,484	(18,956)	(33%)	57,725
Other operating revenues	227,944	228,155	(211)	0%	180,076
Allowance for doubtful debts	0	(93,794)	93,794	100%	0
Total	871,538	854,995	16,543	2%	943,950
Operating expenses:					
Salaries and wages	464,041	438,951	25,090	6%	451,343
Utilities	179,816	256,283	(76,467)	(30%)	218,068
Insurance	37,542	62,422	(24,880)	(40%)	29,447
Repairs and maintenance	43,157	36,748	6,409	17%	12,959
Landlease	261,680	257,930	3,750	1%	259,890
Bad debts	0	0	0	0%	159,240
Other operating expenses	164,953	131,322	33,631	26%	142,256
Total	1,151,189	1,183,656	(32,467)	(3%)	1,273,203
Income (loss) before depreciation	(279,651)	(328,661)	49,010	(15%)	(329,253)
Less: depreciation and amortization	(1,436,872)	(1,310,557)	(126,315)	10%	(1,182,557)
Income (loss) after depreciation and amortization	(1,716,523)	(1,639,218)	(77,305)	5%	(1,511,810)
Add: Non-operating revenues (expenses)	10,899,867	8,780,501	2,119,366	24%	5,192,798
Net income	9,183,344	7,141,283	2,042,061	29%	3,680,988
Add: Beginning balance	29,003,546	21,862,263	7,141,283	33%	18,181,275
Net Assets, End of Year	$ 38,186,890	$ 29,003,546	$ 9,183,344	32%	$ 21,862,263

Although the Airport Division generated 2% more in operating revenue compared to last fiscal year, it still had a poor performance evident in the operating loss of $279,651 (before depreciation expense) it incurred. It is very clear that the airport's current business volume is not enough to cover its operating expenses. Drastic measures to raise the airport tariffs or to reduce expenses have to be implemented to stop this "financial bleeding". This is becoming ever more important due to the expected increase in utilities and maintenance from the improvements the airport received from the AIP projects. These improvements, i.e. apron, ARFF building, and runway, will require regular maintenance to maintain minimum safety standards. The ARFF building will add to the electricity bill for the airport when it becomes fully online.

VI) AIRPORT DIVISION, CONTINUED

Salaries and Wages increased in FY 2009 due to the implementation of casual workers for the security and maintenance department. The Ports Authority put this scheme in FY 2009 as a means to reduce overtime expenses paid to full-time employees, who were paid time and a half over their normal pay rate for hours they worked in excess of 80 hours in a given payroll period.

c) Scheduled/Commercial Flights Movements

	2009	2008	Change	Percentage	2007
Continental Airlines	350	428	-78	(18%)	372
Our Airlines (Air Nauru)	0	2	-2	100%	45
Air Marshall Islands	346	115	231	200%	628
Asia Pacific Airlines (air cargo flight)	214	224	-10	(4%)	237
	910	769	141	18%	1,282

Continental Airlines basically maintained its normal 6-weekly flights to Majuro during FY 2009, with hardly any additional flights operated during the peak seasons. Hence, the drop in Continental flight traffic by 78 flights when compared to the previous year.

Air Marshall Islands (AMI) operated 346 domestic flights in FY 2009. This is an improvement to last year's 115 flights. AMI was able to perform some of its scheduled flights due to a rented Dornier aircraft the airline leased from a company in Australia.

d) Unscheduled/Special Flight Movements

	2009	2008	Change	Percentage	2007
Category 1 (MTOW up to 45,000 lbs)	59	88	-29	(33%)	92
Category 2 (MTOW 45,001 to 90,000 lbs)	26	36	-10	(28%)	37
Category 3 (MTOW over 90,000 lbs)	109	103	6	6%	112
	194	227	(33)	(15%)	241

FY 2009 was not a good year for the Ports Authority in terms of special flights traffic, which dropped by 15% when compared to FY 2008. The high cost of jet fuel in Majuro may have contributed to this lower traffic volume.

Note that the U.S military aircrafts utilize the airport facilities for landings and are exempt from landing charges but pay for ground handling charges. For the fiscal period ending September 30, 2009, there were 41 military aircrafts that landed at AKIA compared to 9 for the prior year.

e) Actual versus Budget Analysis

	FY09 Actual	FY09 Budget	Change	Percentage
Operating revenues:				
Landing fees - Scheduled	$ 218,654	$ 219,952	$ 1,298	0%
Landing fees - Special	44,079	84,000	(39,921)	(47%)
Departure fees - International	244,990	268,963	(23,973)	(9%)
Departure fees - Domestic	9,590	16,757	(7,167)	(42%)
Concession and lease income	87,753	88,258	(505)	0%
Ground handling - Transient	38,528	48,138	(9,610)	(20%)
Other operating revenues	227,944	168,811	59,133	35%
Total	871,538	894,879	(23,341)	(3%)

VI) AIRPORT DIVISION, CONTINUED

	FY09 Actual	FY09 Budget	Change	Percentage
Operating expenses:				
Salaries and wages	464,041	418,276	45,765	11%
Utilities	179,816	256,465	(76,649)	(30%)
Insurance	37,542	32,764	4,778	15%
Repairs and maintenance	43,157	14,858	28,299	190%
Landlease	261,680	257,931	3,749	1%
Other operating expenses	164,953	307,627	(142,674)	(46%)
Total	1,151,189	1,287,921	(136,732)	(11%)
Surplus (deficit)	(279,651)	(393,042)	113,391	29%
Less: depreciation and amortization	(1,436,872)	(1,225,622)	(211,250)	17%
Income (loss) after depreciation and amortization	(1,716,523)	(1,618,664)	(97,859)	6%
Add: Non-operating revenues (expenses)	(6,633)	0	(6,633)	0%
Net income (loss)	$ (1,723,156)	$ (1,618,664)	$ 104,492	6%

The Airport Division had a poor performance in FY 2009 when compared to its budget projections for the same fiscal year. The Airport Division did not meet its budgeted revenues by 3% and spent 11% more in operating expenses. The reason for the "overspending" was due primarily to the hiring of casual workers (as explained earlier in this report) and Repairs and Maintenance. Major repair and maintenance expense items for FY 2009 consisted of: wind cones assembly ($10,068), temporary shelter for ARFF trucks ($5,580), waste bins collection paid to Majuro Atoll Waste Company ($3,232), and runway beads ($6,243). The runway beads were actually purchased a few years back but were taken off inventory and classified as a direct maintenance expense in FY 2009 because they got wet and were no longer useable.

VII) SEAPORT DIVISION

1) Financial Operations Highlights

- Net assets increased by $221,273 from $9,444,549 to $9,665,822 for fiscal period ending September 30, 2009. Operational revenues increased by $19,168 with a resulting decrease in operational expenses by $63,703 when compared to last year fiscal period's operational revenues and expenses, respectively.

- As previously mentioned, operating revenues increased by 1% or by $19,168, from $1,347,903 to $1,367,071 for fiscal period ending September 30, 2009. Pilotage fees and pilot boat usage fees increased by 13% from $498,713 to $561,772 and other revenue-generating vessels traffic activities decreased by $59,173, from $787,647 to $728,475.

- Operating expenses was down by $63,703 from $1,312,906 to $1,249,203 for fiscal period ending September 30, 2009 primarily due to a decrease in salaries and wages expense as a result of a reduction in overtime costs.

VII) SEAPORT DIVISION, CONTINUED

- Seaport Division made a significant operating income for the period amounting to $117,868 compared to last fiscal year's income of $34,997.

2) Statement of Revenues and Expenses, Continued

	2009	2008	Change	Percentage	2007
Operating revenues:					
Pilotage fees	$ 327,322	$ 311,963	$ 15,359	5%	$ 276,748
Pilot boat usage fees	234,450	186,750	47,700	26%	150,313
Wharfage fees	373,029	403,875	(30,846)	(8%)	438,508
Dockage fees - International	105,090	95,522	9,568	10%	91,392
Dockage fees - Domestic	0	11,080	(11,080)	(100%)	17,960
Anchorage fees	11,182	9,401	1,781	19%	8,101
Foreign vessels entry fees	196,176	219,840	(23,664)	(11%)	179,838
Light dues	29,460	31,890	(2,430)	(8%)	26,970
Fuel and water service charges	11,992	14,094	(2,102)	(15%)	12,441
Disembark and change crew	1,545	1,946	(401)	(21%)	2,710
Concession and lease income	54,136	54,248	(112)	0%	56,485
Other operating revenues	22,688	7,295	15,393	211%	4,146
Total	1,367,071	1,347,903	19,168	1%	1,265,612
Operating expenses:					
Salaries and wages	403,788	450,191	(46,403)	(10%)	446,810
Pilotage	146,888	146,017	871	1%	186,930
Pilot boat	87,391	92,815	(5,424)	(6%)	51,089
Utilities	33,505	43,244	(9,739)	(23%)	33,062
Insurance	25,949	23,407	2,542	11%	21,606
Repairs and maintenance	11,607	3,908	7,699	197%	4,944
Landlease	27,263	23,513	3,750	16%	21,554
Other operating expenses	122,403	135,406	(13,003)	(10%)	103,490
Total	858,794	918,501	(59,707)	(7%)	869,485
Income before depreciation	508,277	429,402	78,875	18%	396,127
Less: Depreciation and amortization	(390,409)	(394,405)	3,996	1%	(408,878)
Income (loss) after depreciation and amortization	117,868	34,997	82,871	237%	(12,751)
Add: non-operativing revenues	103,405	92,704	10,701	12%	90,922
Net income	221,273	127,701	93,572	73%	78,171
Add: Beginning balance	9,444,549	9,316,848	127,701	1%	9,238,677
Net Assets, End of Year	$ 9,665,822	$ 9,444,549	$ 221,273	2%	$ 9,316,848

Revenues generated from vessel traffic decreased by $43,129 from $787,647 of prior period to $728,475 for the current period.

VII) SEAPORT DIVISION, CONTINUED

3) **Vessel Arrivals (In numbers)**

	2009	2008	Change	Percentage	2007
Cargo vessels	38	43	(5)	(12%)	46
Fishing vessels - International	378	390	(12)	(3%)	335
Fishing vessels - Domestic	696	688	8	1%	557
Foreign tankers	15	16	(1)	(6%)	21
Military ships	4	3	1	33%	3
Cruise ships	0	3	(3)	(100%)	4
Others	21	18	3	17%	24
	1,152	1,161	9	(2%)	990

Vessel traffic remained static for fiscal period ending September 30, 2009 versus last year's fiscal period. International fishing vessel traffic decreased by 3% in the current year from 390 to 378. Cargo vessels went down by 12%, from 43 to 38. There were fewer cargo vessels plying the route because their tonnage to the Micronesian region has not increased. Foreign tankers traffic decreased from 16 to 15 during the fiscal period.

The most active months for fishing vessels to Majuro during FY 2009 were July with 55 arrivals, August with 40 arrivals, and September with 22. When vessels come to Majuro, they normally don't do a quick turnaround and go out to sea again. For instance, most of the vessels that arrived in Majuro in July and August did not depart until September. In fact, there were 111 vessels that arrived Majuro towards the end of FY 2009, but were not billed or invoiced until they departed sometime in FY 2010. So these revenues earned from such vessels, totaling $24,362, are recorded in FY 2010.

4) **Actual versus Budget Analysis**

	FY09 Actual	FY09 Budget	Change	Percentage
Operating revenues				
Pilotage fees	$ 327,322	$ 281,720	$ 42,602	16%
Pilot boat usage fees	234,450	226,750	7,700	3%
Wharfage fees	373,029	393,818	(20,789)	(5%)
Dockage fees - International	105,090	97,560	7,530	8%
Dockage fees - Domestic	0	10,218	(10,218)	(-100%)
Anchorage fees	11,182	7,897	3,285	42%
Foreign vessels entry fees	196,176	191,989	4,187	2%
Light dues	29,460	29,075	385	1%
Fuel and water service charges	11,992	12,364	(372)	(3%)
Disembark and change crew	1,545	2,843	(1,298)	(46%)
Concession and lease income	54,136	93,822	(39,686)	(42%)
Other operating revenues	22,688	13,125	9,563	73%
Total	1,367,071	1,361,181	5,890	0%

VII) SEAPORT DIVISION, CONTINUED

Operating expenses				
Salaries and wages	403,788	416,210	(12,422)	(3%)
Pilotage	146,888	112,688	34,200	30%
Pilot boat	87,391	51,625	35,766	69%
Utilities	33,505	35,272	(1,767)	(5%)
Insurance	25,949	11,297	14,652	130%
Repairs and maintenance	11,607	14,858	(3,251)	(22%)
Landlease	27,263	23,513	3,750	16%
Other operating expenses	122,403	249,452	(127,049)	(51%)
Total	858,794	914,915	(56,121)	(6%)
Surplus/Loss before depreciation	508,277	446,266	62,011	14%
Less: Depreciation and amortization	(390,409)	(380,809)	9,600	2%
Income/loss after depreciation and amortization	117,868	65,457	52,411	80%
Add: Non-operating revenues	103,405	77,863	25,542	33%
Net income (loss)	$ 221,273	$ 143,320	$ 77,953	54%

The Seaport Division performed well within its revenue budget projections for FY 2009. The increase in vessel arrivals contributed to this positive performance. As seen from the above table, revenues from piloting and anchorage exceeded budget estimates by 16% and 42%, respectively. The Concession/Lease Income was well below budget projections by 42% due to delay in construction completion of the Uliga Warehouse. Modifications to the building design and unforeseen change orders caused the completion of the building construction to extend beyond the original completion date. As a result, the Ports Authority did not start generating rental income from this facility until August 2009.

There were no invoices for Dockage Fees-Domestic issued in FY 2009 due to some internal issues concerning flow of information from the seaport department to finance.

The Seaport Division performed exceptionally well on the expense side. Overall it operated 6% below its expense budget estimates. The only expenses that exceeded budget estimates were Pilotage and Pilot Boat, but the overages are justifiable due to the increase in traffic vessel seen in FY 2009.

For the fiscal year ending September 30, 2009, the Ports Authority's Seaport Division earned a net income (after depreciation expense) of $221,273, beating budget projection by 54%.

VIII) BUDGET COMPARISONS (Current vs. Next)

	FY2010	FY2009	Change	Percentage
Operating revenues				
Airport Division	$ 859,684	$ 894,879	$ (35,195)	(4%)
Seaport Division	1,401,655	1,361,181	40,474	3%
	2,261,339	2,256,060	5,279	1%

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

Operating expenses				
Airport Division	1,162,070	1,287,921	(125,851)	(10%)
Seaport Division	890,867	914,915	(24,048)	(3%)
	2,052,937	2,202,836	(149,899)	(7%)
Depreciation and amortization				
Airport Division	1,225,622	1,225,622	0	0%
Seaport Division	389,292	380,809	8,483	2%
	1,614,914	1,606,431	8,483	1%
Non-operating revenues (expenses)				
Airport Division (income interest)	21,270	0	21,270	100%
Seaport Division (income interest)	147,982	77,863	70,119	90%
	169,252	77,863	91,389	117%
Change in net assets				
Airport Division	(1,506,738)	(1,618,665)	(111,927)	(7%)
Seaport Division	269,478	143,320	126,158	88%
	$ (1,237,260)	$ (1,475,345)	$ (238,085)	(16%)

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

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

Operating Revenue Budget:

The FY 2010 proposed budget shows that the Ports Authority will earn approximately $2.4 million in operating revenues, inclusive of non-operating income. This is about 3% more than the FY2009 approved budget. About 62% of total operating revenues will be generated by the Seaport Division. A majority of this revenue is generated from Wharfage, Pilotage, Pilot Boat, and Foreign Vessel Entry Fees, in that order.

Airport operating revenues have been constant since the then Airport Authority was established in FY 2000. Total revenues for the airport have not exceeded the $1 million mark. It is, therefore, the Ports Authority's goal for FY 2010 and beyond to generate more revenues for the AKIA. This is critical since the AKIA is presently not earning enough revenue to pay for its operating expenses. Simply put, the airport has an average operating **cash deficit** of $250,000 per annum. This cash deficit is being currently "subsidized" by the Seaport Operation, which makes and has been making an operating cash surplus every year. The cash deficiency at the airport must be fixed by increasing existing fees, introducing new ones, or both. This is critical with the multi-million dollar projects or infrastructures being built at AKIA. The airport must be financially sustainable to pay for its own operating costs, which includes maintaining its high value assets or facilities.

For FY 2010, the RMIPA anticipates to generate approximately $1.58 million in operating revenue from the Seaport Division. About 44% ($0.66 million) of this revenue will be generated from Pilotage Fees and Wharfage, the seaport's main revenue generating programs.

Concession Lease Income for the seaport is expected to increase by almost 96% in FY 2010 due to the addition of the Uliga Dock Warehouse, which is currently in operation. The main lessee of this facility is the Shipping Corporation. The RMIPA Board approved a favorable lease rate for the Shipping Corporation at $0.50 per square foot. The other lessee is USAid. They will lease 1,000 square feet of space at $0.75 per square feet.

<u>Operating Expenses Budget:</u>

The FY 2010 budget estimates the Ports Authority will incur a little over $2.0 million in operating expenses. This figure excludes depreciation expenses. The total estimated operating expense for FY 2010 is approximately $150,000 less than the prior fiscal year's budget. This is a commitment by the Ports Authority to reduce its operating expenses as directed by its Board of Directors.

The Airport Division's total expenses budget for FY 2010 is $1,162,070, a 10% decrease from FY 2009's budget. This is despite the fact that staffing levels will increase in FY 2010. The airport's largest expense is from Salaries & Wages. This represents about 32% of the airport's operating expenses. The next biggest expense items are electricity and land lease. The airport land lease, including leased areas that the Ports Authority does not pay for, is about 301 acres. It should be noted that while the airport is burdened with this cost, other government entities are commercially benefiting from it. For example, the runway catches and stores rainwater which is sold by the Majuro Water & Sewer Company (MWSC). The MWSC profits from this water while the Ports Authority pays for the land areas where the runway catchments are situated on. The RMIPA does not receive any compensation from the MWSC for this water. In fact, the Ports Authority buys water from MWSC for its airport facilities and also for the fire fighting trucks.

Like the airport, the biggest operating expense for the Seaport Division is Salaries & Wages (46%), followed by Pilotage Expense (12%). Pilotage Expense figures consist of payments to pilots and expenses incurred by the pilot boat. The ratio for each of Pilotage Expense is 69% and 31%, respectively. The Ports Authority pays 40% of its Piloting Fee to pilots for performing pilotage services, 10% is allocated to the Ministry of Transportation & Communication for pilot trainings, and the remaining 50% stays with the Ports Authority as operating revenue.

The Ports Authority's main office building is in need of some painting work, both interior and exterior. Thus the increase in Repairs & Maintenance for the Seaport Division is planned for FY 2010. The budget figure is just an estimate. There is a possibility that the actual cost to paint the entire building may be more than the budget amount.

IX) RELATED PARTY TRANSACTIONS

As of 30 September 2009, receivables from government entities and agencies amounted to $576,390. Since then and up to 31 May 2010, the total has increased to $639,015 as detailed in the table below.

	Balance as of 30-Sep-09	Balance as of 31-May-10
Directorate of Civil Aviation	$ 7,902	$ 10,228
Air Marshall Islands	234,561	259,564
Foreign Affairs	80	80
Ministry of Health Services	2,859	3,812
Health Services	437	437
Ministry of Internal Affairs	850	850
Meram, Inc	173,555	173,555
Marshall Energy Company	(264)	27,606
Headstart	159	159
Ministry of Education	59	59
Ministry of Public Works	8,959	12,363
Tobolar Copra Processing Plant	18,971	18,971
Ministry of Transportation	128,263	128,263
	$ 576,391	$ 635,947

The nature of the above receivables is as follows:

- Directorate for Civil Aviation – billings for electric usage and office rental.
- Air Marshall Inc. – billings for utilizing the airport facilities, including landing charges, navigation aids, office space leases, electricity, etc.
- Meram, Inc – cash advances made for boat operations. RMIPA was supposed to be reimbursed for this cash advance.
- Ministry of Public Works – billings for dockage fees.
- Tobolar – billings for using seaport facilities and financing charges on $100,000 promissory notes.
- Ministry of Transportation - usage of dock facilities; most of the charges are very "old".

Ports Authority is having difficulty collecting from these government entities and agencies, and will most likely consider writing off these uncollectible accounts.

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

IX) RELATED PARTY TRANSACTIONS, CONTINUED

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

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

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

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

For the space facilities being provided to DCA, at the Ports Authority's head office and at the airport, Ports Authority is losing $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 30 September 2009, the ending balance of the Ports Authority's General Operating Fund kept at the Bank of Guam-Majuro Branch was $599,240. The beginning balance at the start of the same fiscal year was $959,565. Taking over payment of the matching grants for its development projects is the main cause of the significant decrease in the Ports Authority's General Operating Fund.

The Ports Authority still has cash reserves in its TCD accounts kept at the Bank of Marshall Islands that it can utilize. The Ports Authority's TCD accounts earned net interest, after deducting interest expense, of $96,772 in FY 2009.

XI) U.S. FEDERAL GRANTS PROJECTS

Projects funded by U.S Federal Grants with corresponding local matching funds are shown below. The project cost and disbursement amounts below include costs for A&E services, CM services, construction, and administrative expenses. The amounts are as of 30 June 2010:

	Project Costs	Disbursements	Funding Received From		
			U.S. Grants	RMI Finance	RMI Ports
Runway Overlay Project	$ 16,390,934	$ 15,803,683	$ 15,013,498	$ 849,139	$ -
Apron / Taxiway Project	9,432,783	9,069,996	8,600,552	473,305	-
ARFF Building and Facilities	15,812,516	14,807,713	14,020,540	204,272	581,725
ARFF Vehicles /Accessories	1,634,801	1,640,421	1,551,772	75,000	-
Road Realignment (Design)	859,843	735,627	685,499	-	34,604
Airport Master Plan	1,084,156	101,881	78,213	-	59,624
Data Management System	234,000	193,924	147,246	-	46,678
NDB/DME Relocation	553,391	434,203	410,191	-	24,012
	$ 46,002,424	$ 42,787,448	$ 40,507,511	$ 1,601,716	$ 746,643

XI) U.S. FEDERAL GRANTS PROJECTS, CONTINUED

The table above shows that since FY 2004, the Ports Authority has executed more than $46.0 million worth of capital projects. The Ports Authority has already disbursed nearly $43.0 million to consultants and contractors, leaving a balance of about $3.0 million still to be paid out. Approximately $40.5 million of the disbursements are grant funds received from U.S. federal grant programs, mostly from the FAA's Airport Improvement Program. Since the RMI Government stopped providing matching funds to the Ports Authority, the Ports Authority has invested close to $750,000 of its operating funds to cover matching obligations. It is envisaged that this scheme will continue for the foreseeable future.

Following are the AIP Grants awarded by the FAA to the Ports Authority since FY 2004. The amounts shown below are the original amounts of the grants when they were issued/awarded.

- Project No. 3-68-0001-03, Acquire two (2) 1,500-gallon Aircraft Rescue and Fire Fighting (ARFF) vehicles with protective clothing, for $1.5 million
- Project No. 3-68-0001-04, Construct ARFF Building – Phase I (Design), for $1.0 million
- Project No. 3-68-0001-05, Rehabilitate Runway 7/25 – Phase I, for $10.0 million
- Project No. 3-68-0001-06, Rehabilitate Runway 7/25 – Phase II, for $13.0 million; and.
- Project No. 3-68-0001-07, Construct ARFF Building – Phase II, for $13.0 million; Modify Service Road – Phase I (Design), for $1.0 million.
- Project No. 3-68-0001-08, Develop Airport Master Plan (Planning), for $999,995.

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

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

It should be noted that the Ports Authority intends to request additional grant amendments in FY 2010, specifically on AIP grants 3-68-0001-06 and 3-68-0001-07, to cover shortfalls in grant funds.

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

During the year ended September 30, 2007, the Ports Authority borrowed $750,000 to finance the acquisition of certain capital assets. For additional information concerning the Ports Authority's long-term debt, please refer to note 6 to the accompanying financial statements.

XII) ECONOMIC AND EXTERNAL FACTORS

These are some events that happened or might happen during the fiscal period September 30, 2009 and beyond:

- 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.

XII) ECONOMIC AND EXTERNAL FACTORS, CONTINUED

- Chief Container Service (CCS) ceased its operation March 2010 and that service was picked up by Reef Shipping calling into Majuro every 27 days. All FSM cargoes carried by Reef is transshipped in Majuro to Matson.

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

- The operation of the lining plant on Majuro has also contributed to the increase in traffic of vessels to Majuro Port.

- Continental Micronesia introduced an additional flight to their normal island-hopping flight schedule. This will increase the number of Continental flights to Majuro from 6 to 8 weekly flights.

- Plans to build a marine terminal soon at Uliga dock is still being contemplated by the Ports Authority. Such investment will increase revenue for the seaport because departure fees for shipping passengers will start to be collected. In addition, concession stalls will be built to house restaurants and other kinds of stores resulting additional lease revenues.

- The Airport Road Realignment and Runway Safeway Area Project is under bid for the second time. Bids will be closed and opened on 20 July 2010. If the bid for the project is accepted by the FAA, the RMI will receive additional AIP grant funds to finance the project, which is estimated to cost approximately $11.0 million.

- During FY 2010, the Ports Authority secured a loan in the amount of $295,000 with the Bank of Marshall Islands for the purchase of a new pilot boat. The timed deposit account at the same financial institution was used to collateralize the loan. The term of the loan is 3 years.

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

- It highly likely that the Ports Authority will continue to pay the 5% matching for the AIP projects for the foreseeable future, including matching requirements for the other U.S. federal grant programs that the Ports Authority has obtained or is working to obtain from DOI, OMIP, USDA and EDA (Economic Development Authority).

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

- There is a Cabinet Paper being contemplated or proposed by the current Cabinet to transfer all RMIPA revenues to the RMI Government General Fund and give the Ministry of Finance the responsibility of managing all of RMIPA's financial functions. At the time of writing this report, the Cabinet has not made a final decision on this matter.

RMI PORTS AUTHORITY

Statements of Net Assets
September 30, 2009 and 2008

ASSETS	2009	2008
Current assets:		
Cash	$ 729,433	$ 959,565
Time certificates of deposit	1,143,238	1,038,187
Receivables:		
Trade	652,520	676,305
Affiliates	632,267	728,288
Interest receivable	119,606	111,279
Grants receivable	999,629	1,771,746
Other	224,146	212,699
	2,628,168	3,500,317
Less allowance for doubtful accounts	(1,258,502)	(1,258,502)
	1,369,666	2,241,815
Prepaid expenses and other assets	32,810	50,604
Total current assets	3,275,147	4,290,171
Restricted time certificates of deposit	750,000	750,000
Property, plant and equipment, net	45,343,122	35,844,590
	$ 49,368,269	$ 40,884,761
LIABILITIES AND NET ASSETS		
Current liabilities:		
Current portion of note payable	$ 43,451	$ 274,385
Accounts payable	135,793	46,083
Contracts payable	1,089,443	1,677,312
Payable to affiliates	83,465	267,370
Other liabilities and accruals	163,405	91,916
Deferred revenue	-	39,000
Total current liabilities	1,515,557	2,396,066
Noncurrent portion of note payable	-	40,600
Total liabilities	1,515,557	2,436,666
Commitments and contingencies		
Net assets:		
Invested in capital assets, net of related debt	45,299,671	35,529,605
Unrestricted	2,553,041	2,918,490
Total net assets	47,852,712	38,448,095
	$ 49,368,269	$ 40,884,761

See accompanying notes to financial statements.

RMI PORTS AUTHORITY

Statements of Revenues, Expenses and Changes in Net Assets
Years Ended September 30, 2009 and 2008

	2009	2008
Operating revenues:		
Seaport fees	$ 1,290,247	$ 1,286,360
Aviation fees	638,748	723,291
Concession and lease income	141,889	139,201
Other	167,725	147,840
Total operating revenues	2,238,609	2,296,692
Less allowance for doubtful debts	-	(93,794)
	2,238,609	2,202,898
Operating expenses:		
Depreciation	1,827,281	1,704,962
Salaries and wages	867,829	889,142
Rent	288,943	290,443
Pilotage	234,279	238,832
Utilities	213,321	299,527
Training and travel	102,763	79,763
Insurance	63,491	85,829
Repairs and maintenance	54,764	40,656
Communications	22,524	29,095
Auto expenses	16,799	33,554
Supplies	12,121	12,667
Professional fees	5,350	12,594
Miscellaneous	127,799	90,055
Total operating expenses	3,837,264	3,807,119
Operating loss	(1,598,655)	(1,604,221)
Nonoperating revenues (expenses):		
Gain on disposal of capital assets	-	515
Interest income	113,378	99,157
Interest expense	(16,606)	(34,667)
Total nonoperating revenues (expenses), net	96,772	65,005
Loss before capital contributions	(1,501,883)	(1,539,216)
Capital contributions:		
Contributions from U.S. government	10,591,850	8,383,274
Contributions from RepMar	314,650	424,926
	10,906,500	8,808,200
Change in net assets	9,404,617	7,268,984
Net assets at beginning of year	38,448,095	31,179,111
Net assets at end of year	$ 47,852,712	$ 38,448,095

See accompanying notes to financial statements.

RMI PORTS AUTHORITY

Statements of Cash Flows
Years Ended September 30, 2009 and 2008

	2009	2008
Cash flows from operating activities:		
Cash received from customers	$ 2,213,148	$ 2,597,160
Cash payments to suppliers for goods and services	(1,153,764)	(912,709)
Cash payments to employees for services	(872,578)	(885,450)
Net cash provided by operating activities	186,806	799,001
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(11,913,682)	(10,661,983)
Proceeds from sale of fixed assets	-	515
Principal paid on long-term debt	(271,534)	(253,333)
Interest paid on long-term debt	(16,606)	(34,667)
Capital contributions received	11,784,884	10,190,638
Net cash used for capital and related financing activities	(416,938)	(758,830)
Net change in cash	(230,132)	40,171
Cash at beginning of year	959,565	919,394
Cash at end of year	$ 729,433	$ 959,565
Reconciliation of operating loss to net cash used for operating activities:		
Operating loss	$ (1,598,655)	$ (1,604,221)
Adjustments to reconcile operating loss to net cash used for operating activities:		
Depreciation	1,827,281	1,704,962
Bad debts	-	93,794
(Increase) decrease in assets:		
Receivables:		
Trade	23,785	239,441
Affiliates	(49,246)	11,027
Note	-	50,000
Other	(11,447)	259,585
Prepaid expenses and other assets	17,794	(6,850)
Increase (decrease) in liabilities:		
Accounts payable	89,710	8,058
Payable to affiliates	(183,905)	39,513
Other liabilities and accruals	71,489	3,692
Net cash provided by operating activities	$ 186,806	$ 799,001
Summary of noncash financing activities:		
Construction work-in-progress	$ 587,869	$ 2,288,751
Contracts payable	(587,869)	(2,288,751)
	$ -	$ -

See accompanying notes to financial statements.

(1) Organization

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

On March 23, 1999, Public Law No. 1999-86 was passed by the Nitijela of RepMar that established MIAA as a corporation. Under Public Law No. 1999-86, RepMar was required to transfer all items of property that RepMar owned and controlled that were used exclusively for the operations of publicly owned airports within the Republic. An appraisal of property acquired as of October 1, 1999 was conducted and, in accordance with Public Law No. 1999-86, the appraised amount, net of accumulated depreciation, was transferred in the amount of $5,273,333. This amount represented the net book value of the Amata Kabua International Airport facilities and equipment, being the only RepMar owned and controlled airport facility within the Republic of the Marshall Islands.

On February 19, 1994, the Nitijela of RepMar passed Public Law No. 1994-90 which established MIPA as a corporation. Under Public Law No. 1994-90, RepMar was required to transfer all items of property that RepMar owned and controlled that were used exclusively for the operations of public ports within the Republic. An appraisal of property acquired as of September 30, 1996 was conducted and, in accordance with Public Law No. 1994-90, the appraised amount, net of accumulated depreciation, was transferred in the amount of $8,344,972. This amount represented the net book value of the Majuro port facilities, being the only RepMar-owned and controlled facilities within the Republic of the Marshall Islands.

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

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

(2) Summary of Significant Accounting Policies

The accounting policies of the Authority conform to accounting principles generally accepted in the United States of America, as applicable to governmental entities, specifically proprietary funds. Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, requires that proprietary activities apply all applicable GASB pronouncements as well as Statements and Interpretations issued by the Financial Accounting Standards Board (FASB), Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedures issued on or before November 30, 1989. The Authority has implemented GASB 20 and elected not to apply FASB Statements and Interpretations issued after November 30, 1989.

(2) Summary of Significant Accounting Policies, Continued

GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, which was subsequently amended by Statement No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus*, and modified by Statement No. 38, *Certain Financial Statement Note Disclosures*, establish financial reporting standards for governmental entities, which require that management's discussion and analysis of the financial activities be included with the basic financial statements and notes and modifies certain other financial statement disclosure requirements.

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

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

- Unrestricted; net assets that are not subject to externally imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of management or the Board of Directors or may otherwise be limited by contractual agreements with outside parties.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Basis of Accounting

Proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operation of the fund are included in the statements of net assets. Proprietary fund operating statements present increases and decreases in net total assets. The accrual basis of accounting is utilized by proprietary funds. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

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

(2) Summary of Significant Accounting Policies, Continued

Cash and Time Certificates of Deposit

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

For purposes of the statements of net assets and cash flows, cash is defined as cash on hand and cash held in demand accounts. Deposits maintained in time certificates of deposit with original maturity dates greater than ninety days are separately classified. Custodial credit risk for deposits with financial institutions is the risk that in the event of bank failure, the Authority's deposits may not be returned to it. As of September 30, 2009 and 2008, the carrying amount of cash and time certificates of deposit were $2,622,671 and $2,747,752, respectively, and the corresponding bank balances were $2,627,869 and $2,753,010, respectively. Of the bank balance amounts, $734,631 and $964,823, 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 5). As of September 30, 2009 and 2008, time certificates of deposit amounting to $43,451 and $314,985, respectively, collateralized a note payable (see note 6). As of September 30, 2009 and 2008, bank deposits in the amount of $250,000 and $100,000, respectively, were FDIC insured. Accordingly, these deposits are exposed to custodial credit risk. The Authority does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized.

Receivables

All receivables are uncollateralized and are due from customers, both businesses and individuals, located within the Republic of the Marshall Islands. The allowance for doubtful accounts is stated at an amount which management believes will be adequate to absorb possible losses on accounts receivable that may become uncollectible based on evaluations of the collectibility of these accounts and prior collection experience. The allowance is established through a provision for bad debts charged to expense.

Property, Plant and Equipment

Property, plant and equipment are stated at cost. Contributed fixed assets are stated at their estimated fair value at the date of transfer from RepMar. Depreciation of property, plant and equipment is calculated using the straight-line method based on the estimated useful lives of the respective assets. 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, 2009 and 2008, an accumulated vacation leave liability of $57,653 and $67,624, respectively, is included within the statement of net assets in other liabilities and accruals.

New Accounting Standards

During fiscal year 2009, the Authority implemented the following pronouncements:

- GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which establishes standards for the measurement, recognition, and display of other postemployment benefits expense/expenditures and related liabilities, note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers.

- GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, which provides guidance and consistency under which a governmental entity would be required to report a liability related to pollution remediation.

- GASB Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*, which 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.

- GASB Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, which improves financial reporting by contributing to the GASB's efforts to codify all GAAP for state and local governments so that they derive from a single source.

- GASB Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards*, which incorporates accounting and financial reporting guidance previously only contained in the American Institute of Certified Public Accountants (AICPA) auditing literature into the GASB's accounting and financial reporting literature for state and local governments, and addresses three issues from the AICPA's literature - related party transactions, going concern considerations, and subsequent events.

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

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

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.

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.

In December 2008, GASB issued Technical Bulletin No. 2008-1, *Determining the Annual Required Contribution Adjustment for Postemployment Benefits*, which clarifies the requirements of GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers,* and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions,* for calculating the annual required contribution (ARC) adjustment. 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.

In March 2009, GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. The provisions of this statement are effective for periods beginning after June 15, 2010. 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, 2009, 2008 or 2007.

(4) Property, Plant and Equipment

Capital asset activity for the years ended September 30, 2009 and 2008, was as follows:

	October 1, 2008	Additions	Reductions	September 30, 2009
Facilities	$ 18,871,078	$ -	$ -	$ 18,871,078
Buildings	2,006,401	420,757	-	2,427,158
Equipment	2,662,738	48,844	-	2,711,582
Vehicles	138,460	185	-	138,645
Office furniture, fixtures and equipment	313,226	140,076	-	453,302
Runway upgrade	16,415,029	8,721,879	-	25,136,908
	40,406,932	9,331,741	-	49,738,673
Less accumulated depreciation	(15,091,811)	(1,827,281)	-	(16,919,092)
	25,315,121	7,504,460	-	32,819,581
Construction work-in-progress	10,529,469	11,304,848	(9,310,776)	12,523,541
	$ 35,844,590	$ 18,809,308	$ (9,310,776)	$ 45,343,122

	October 1, 2007	Additions	Reductions	September 30, 2008
Facilities	$ 18,871,078	$ -	$ -	$ 18,871,078
Buildings	2,006,401	-	-	2,006,401
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	16,413,642	1,387	-	16,415,029
	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

(5) Related Party Transactions

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

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

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

(5) Related Party Transactions, Continued

A summary of related party transactions for the years ended September 30, 2009 and 2008 and related receivable and payable balances as of September 30, 2009 and 2008, are as follows:

	2009			
	Revenues	Expenses	Receivables	Payables
Air Marshall Islands, Inc.	$ 36,815	$ -	$ 234,560	$ -
Bank of Marshall Islands	89,910	16,466	-	-
Marshalls Energy Company, Inc.	82,286	211,543	-	29,215
Marshall Islands Social Security Administration	-	77,427	-	43,611
Marshall Islands National Telecommunications Authority	-	28,888	50	2,531
Majuro Water and Sewer Company, Inc.	-	1,778	-	731
Meram, Inc.	-	-	173,555	-
RepMar	42,670	281,858	195,681	6,752
Tobolar Copra Processing Plant, Inc.	-	-	18,971	-
Other	1,535	146,888	9,450	625
	$ 253,216	$ 764,848	$ 632,267	$ 83,465

	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

During the year ended September 30, 1998, MIPA advanced cash to Tobolar Copra Processing Plant, Inc., a component unit of RepMar. The uncollateralized advances which bear interest at 10% per annum have already been repaid but the interest is in arrears. As of September 30, 2009 and 2008, the total interest receivable of $36,659 is included in the allowance for doubtful accounts.

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, 2009 and 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, 2009 and 2008, the Authority maintained $1,893,238 and $1,788,187, respectively, of time certificates of deposit with a related financial institution.

(5) 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, 2009 and 2008, the Authority compensated qualified pilots, who were employees and directors of the Authority, for these pilotage services amounting to $146,888 and $146,017, respectively.

On April 1, 2007, the Authority entered into a memorandum of understanding (MOU) with RepMar's Ministry of Finance to transfer the responsibility of lease payments to the Authority for parcels of land under the Authority's jurisdiction based on ground leases executed by RepMar. Under the MOU, the Authority shall pay the Ministry of Finance an annual lease payment of $281,444, payable in four equal quarterly installments of $70,361 (see note 7).

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

(6) 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 ground handling equipment.

Changes in note payable for the years ended September 30, 2009 and 2008, are as follows:

2009				
Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
$ 314,985	$ -	$ (271,534)	$ 43,451	$ 43,451

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

(7) 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, 2009 and 2008 amounted to $21,110 and $22,170, respectively.

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

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

Year ending September 30,	
2010	$ 90,863
2011	62,941
2012	53,776
2013	48,576
2014	41,790
2015 - 2019	39,312
2020 - 2024	39,312
2025	1,966
Total future minimum rentals	$ 378,536

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 17, 2005, the Authority was awarded $1,000,000 by the U.S. Department of Transportation Federal Aviation Administration (FAA), representing 95%, to design and construct an aircraft rescue and fire fighting building, with $250,000 being appropriated as matching funds by the Nitijela of RepMar. On February 13, 2009, the Authority was awarded additional funds of $124,063.

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.

(8) Contingencies

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

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

RMI PORTS AUTHORITY

Combining Divisional Statements of Revenues, Expenses and Changes in Net Assets
Year Ended September 30, 2009

	Airport Division	Seaport Division	Total
Operating revenues:			
Seaport fees	$ -	$ 1,290,247	$ 1,290,247
Aviation fees	638,748	-	638,748
Concession and lease income	87,753	54,136	141,889
Other	145,037	22,688	167,725
Total operating revenues	871,538	1,367,071	2,238,609
Less allowance for doubtful debts	-	-	-
	871,538	1,367,071	2,238,609
Operating expenses:			
Depreciation	1,436,872	390,409	1,827,281
Salaries and wages	464,041	403,788	867,829
Rent	261,680	27,263	288,943
Utilities	179,816	33,505	213,321
Pilotage	-	234,279	234,279
Training and travel	50,828	51,935	102,763
Insurance	37,542	25,949	63,491
Communications	2,849	19,675	22,524
Repairs and maintenance	43,157	11,607	54,764
Auto expenses	10,910	5,889	16,799
Supplies	3,991	8,130	12,121
Professional fees	3,056	2,294	5,350
Miscellaneous	93,319	34,480	127,799
Total operating expenses	2,588,061	1,249,203	3,837,264
Operating income (loss)	(1,716,523)	117,868	(1,598,655)
Nonoperating revenues (expenses):			
Interest income	9,903	103,475	113,378
Interest expense	(16,536)	(70)	(16,606)
Total nonoperating revenues (expenses), net	(6,633)	103,405	96,772
Loss before capital contributions	(1,723,156)	221,273	(1,501,883)
Capital contributions:			
Contributions from U.S. government	10,591,850	-	10,591,850
Contributions from RepMar	314,650	-	314,650
Total capital contributions	10,906,500	-	10,906,500
Change in net assets	9,183,344	221,273	9,404,617
Net assets at beginning of year	29,003,546	9,444,549	38,448,095
Net assets at end of year	$ 38,186,890	$ 9,665,822	$ 47,852,712

See accompanying independent auditor's report.