RMI PORTS AUTHORITY

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

FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT

YEARS ENDED SEPTEMBER 30, 2010 AND 2009

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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, 2010 and 2009, 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, 2010 and 2009, 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 19 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, 2010 (page 33) 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, 2010 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 August 11, 2011, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Deloitte + Touche LLP

August 11, 2011

I) INTRODUCTION

Our discussion and analysis of the financial performance of the 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, 2010. 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, 2010, Ports Authority had 62 full-time employees. Composition is as follows: 4 in Administration; 7 in Finance; 6 in Airport Operations (Tower); 4 in Seaport Operations; 12 in Maintenance; and 29 in Security. Out of the 29 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 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 year ending September 30, 2010, total net assets was $51,432,315, an increase of $3,579,603 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 Ports Authority for the Airport Improvement Program projects constructed / implemented at Amata Kabua International Airport (AKIA).

- Total operating revenues increased by $406,618 or 18%. The Seaport Division accounted for the increase in fiscal year 2010. The increase was due to the increase in vessel traffic and the increase in rental income.

- Total operating expenses, inclusive of depreciation, was $4,534,577 for fiscal year 2010. It increased by 18% or by $697,313 compared to last year. The increase was due to salary and wages, depreciation, and training and travel expenses in fiscal year 2010. The detail of the increases in the operating expenses are as follows:

III) FINANCIAL HIGHLIGHTS, CONTINUED

i) Salaries and wages went up by 16% or by $134,868 for fiscal year 2010. One of the priorities of Ports Authority is the safety and security of the Airport and its passengers. In 2010, Ports Authority hired 5 Firefighter security officers and 3 port security officers at the Airport. Other than these new hires at the Airport, this account also combines all expenses related to employees including, but not limited to, its share of Social Security and Basic Health Plan to its employees and staff and the overtime from its special flights operations, which are being reimbursed from its customers.

ii) Depreciation also increased by 22% or by $402,978 for fiscal year 2010. The increase was due to the transfer of most of the projects in the Airport, which are almost 100% completed and are operational. **This, however, is a non-cash expense**. It reduces the value of an asset as a result of wear and tear, age, or obsolescence. Most of the assets lose their value - in other words, they depreciate and must be replaced once the end of their useful life is reached or make an improvement by upgrading or by doing major repairs that could increase the life of the asset. Because it is a non-cash expense, depreciation lowers Port Authority's reported earnings while increasing its cash flow. ***This account does not affect the statement of cash flows, but the cost of acquiring and improving the assets does.***

iii) The details of travel and training for fiscal year 2010 are as the per table below:

Particulars	Amount
ARFF Training – regular staff	$ 15,903
ARFF Training – newly hires	35,126
Conferences	59,005
Workshops	9,500
Meetings	10,831
	$ 130,365

- Ports Authority incurred an operating loss of $1,889,350 for fiscal year 2010. This is an increase in operating loss by 18% or $290,695 compared to last year. The increase in the operating loss was caused by the increase in the operating expenses mentioned above. As explained above, depreciation lowers operating income, but does not affect cash flows.

- The overall performance of Ports Authority was not good compared to last year. It was only the Seaport operation that generated more revenues for Ports Authority in fiscal year 2010.

IV) STATEMENTS OF NET ASSETS

	2010	2009	Change	%	2008
Current assets	$ 3,605,424	$ 3,275,147	$ 330,277	10	$ 4,290,171
Non-current assets	347,744	750,000	(402,256)	(54)	750,000
Capital assets	49,142,013	45,343,122	3,798,891	8	35,844,590
Total assets	$ 53,095,181	$ 49,368,269	$ 3,726,912	8	$ 40,884,761

IV) STATEMENTS OF NET ASSETS, CONTINUED

Current liabilities	$ 1,506,902	$ 1,515,557	$ (8,655)	(1)	$ 2,396,066
Non-current liabilities	155,964	-	155,964	-	40,600
Net Assets:					
Invested in capital assets, net of related debt	48,891,634	45,299,671	3,591,963		35,529,605
Unrestricted	2,540,681	2,553,041	(12,360)	7	2,918,490
Total liabilities and net assets	$ 53,095,181	$ 49,368,269	$ 3,726,912	8	$ 40,884,761

Current assets increased by 10% as seen in the above table. The increase was due to the adjustment of the TCD held as collateral that was previously classified as a restricted noncurrent asset.

Non-current assets represent the restricted TCD and the non-current portion of notes receivable of AMI amounting to $295,000 and $52,744, respectively.

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

	2010	2009	Change	%	2008
Operating Revenues:					
Airport Division	$ 839,350	$ 871,538	$ (32,188)	(4)	$ 854,995
Seaport Division	1,805,877	1,367,071	438,806	32	1,347,903
	2,645,227	2,238,609	406,618	18	2,202,898
Operating Expenses:					
Airport Division	3,117,517	2,588,061	529,456	20	2,494,213
Seaport Division	1,417,060	1,249,203	167,857	13	1,312,906
	4,534,577	3,837,264	697,313	18	3,807,119
Non-Operating Revenues (Expenses):					
Airport Division	26,066	(6,633)	32,699	(493)	(27,699)
Seaport Division	81,400	103,405	(22,005)	(21)	92,704
	107,466	96,772	10,694	11	65,005
Capital Contributions:					
Airport Division	5,361,487	10,906,500	(5,545,013)	(51)	8,808,200
Seaport Division	-	-	-	-	-
	5,361,487	10,906,500	(5,545,013)	(51)	8,808,200
Change in Net Assets:					
Airport Division	3,109,386	9,183,344	(6,073,958)	(66)	7,141,283
Seaport Division	470,217	221,273	248,944	113	127,701
	$ 3,579,603	$ 9,404,617	$ (5,825,014)	(62)	$ 7,268,984

In fiscal year 2010, the Airport Division generated 32% of total revenues for Ports Authority. Airport Division revenue this year decreased by 4% compared to last year 2009 while operating expenses increased by 20%. The Airport Division's net loss this year increased from $1.7 million to $ 2.28 million in fiscal year 2010. This indicates that revenue generated by the Airport Division is not enough to cover its operating expenses.

The capital contributions of Airport Division refer to its Airport Improvement Program (AIP) projects that the Ports Authority administers. This, however, decreased from $10.9 million in 2009 to $5.4 million in 2010.

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

The operation in the Seaport Division is the opposite of the Airport. This year, Seaport generated $1.8 million in revenues representing 68% of Ports Authority revenues for the year. The Seaport Division's expenses, likewise, increased from $1.2 million in 2009 to $1.4 million in 2010 or an increase of 13%. This is actually lower by 7% compared to the expenses incurred by the Airport Division.

VI) FINANCIAL RATIOS

	2010	2009
Current Ratio	2.4:1	2.2:1
Receivable Turnover	7.6	8.6
Average Age of Receivables	47 days	42 days
Net Profit Ratio - Airport	(268%)	(198%)
Net Profit Ratio – Seaport	26%	16%

Current ratio is within the normal range for fiscal year 2010 and 2009. This ratio shows that Ports Authority was able to pay its current obligations with its available current assets during the fiscal year. This shows that Ports Authority's current assets like cash and receivables are enough and not excessive and can pay its liabilities when they become due.

The Receivable Turnover, on the other hand, confirms the fairness of the receivable balance and would help Ports Authority indicate the presence of possible collection problems in cases of low turnover. The turnover and average age of receivables shows a below average performance because it exceeded its 30 days normal collection cycle. This ratio does not include receivables from government entities and agencies. ***Most of the unpaid receivables of the Ports Authority are from the government entities and agencies.***

Airport did not contribute positive income to Ports Authority with its current operation in fiscal year 2010 while the Seaport has improved its revenues resulting in an increase in the Net Profit ratio by 10% from 16% in 2009 to 26% in 2010.

VII) DIVISIONAL RESULTS

A. AIRPORT DIVISION

- Net assets increased by $3,109,386 or by 8% for the fiscal year ending September 30, 2010. The increase was due to the carry-forward AIP Projects from fiscal year 2009. As of September 30, 2010, total funds accrued and received to finance airport projects amounted to $5,361,487.

- Operating revenues decreased by 4% from $871,538 to $839,350 when compared to the prior fiscal year. This was caused by the decrease in revenue generated from rental/concession income and other operating revenues like aircraft parking charges, runway and Navaids fees, pushcart collections, overtime from special flights, international cargo, and utilities reimbursed fees.

  - Operating expenses was higher in FY 2010 than in FY 2009 by 20%, or by $529,456. Significant contributors to this increase were from Salaries and depreciation expense, auto expenses (gas and fuel expenses), repairs and maintenance, and other operating expenses that made a significant increase like Training and Travel.

VII) DIVISIONAL RESULTS, CONTINUED

A. AIRPORT DIVISION, CONTINUED

i) Salaries and wages increased by $108,061 or 23% compared to last fiscal year. As explained under sub-heading III above, Salaries and wages increased due to the hiring of 5 firefighter security officers and three port security officers, which amounted to $71,045 inclusive of the Ports Authority's share of Social Security and Basic Health Plan; and reimbursed overtime from special flights, which amounted to $37,016;

ii) Depreciation expense increased by $372,044 or 26% in fiscal year 2010. The increase was due to the transfer of most of its AIP projects in the Airport which are almost 100% complete and operational. As explained under sub-heading III above, this is not a cash item;

iii) Auto expenses - this refers to the gas and fuel expenses. This also includes gas and fuel for the two generators at the ARFF building and the fire truck. It increased by $12,393 in fiscal year 2010. One of the causes for the increase was when the new ARFF building became operational in 2010 and started to use the standby generators;

iv) Repairs and maintenance increased by $16,856 or 39% in fiscal year 2010. This amount includes payment made to one consultant for the Document Management System at the airport under the OMIP grant; and

v) Other operating expenses:

a) Training and travel increased by $41,571 or 82%. This represents 52% of the total for other operating expenses in fiscal year 2010. The increase was due to the additional training incurred for the five newly hired ARFF security officers, which amounted to $35,126 and travel advances made in September 2009, but liquidated in 2010. The expense was recorded only at the time the advances were liquidated.

b) Communication expenses went up in fiscal year 2010 by $15,841 or 556%. This increase was due to the internet line applied in 2010 at the SAWRS/Tower at a monthly cost of $600; calls made at Delap office to FAA, consultants related to AIP Projects and airport customers. This represents 19% of the total for other operating expenses.

- The Airport Division incurred a net loss before depreciation of $469,251 for FY 2010. This, however, is an additional loss of 68% or $189,600 from prior fiscal year.

DIVISIONAL STATEMENT OF REVENUES AND EXPENSES

	2010	2009	Change	%	2008
Operating revenues:					
Departure fees-International	$ 241,195	$ 244,990	$ (3,795)	(2)	$ 274,110
Departure fees-Domestic	12,670	9,590	3,080	32	8,290
Landing charges-Scheduled	220,456	218,654	1,802	1	155,174
Landing charges-Special	53,607	44,079	9,528	22	140,623
Concession/Lease	82,152	87,753	(5,601)	(6)	84,953
Ground handling-Transient	46,256	38,528	7,728	20	57,484
Other operating revenues	183,014	227,944	(44,930)	(20)	228,155
Allow for doubtful accounts	-	-	-	-	(93,794)
Total	839,350	871,538	(32,188)	(4)	854,995

VII) DIVISIONAL RESULTS, CONTINUED

A. AIRPORT DIVISION, CONTINUED

DIVISIONAL STATEMENT OF REVENUES AND EXPENSES, CONTINUED

	2010	2009	Change	%	2008
Operating expenses:					
Salaries & wages	572,102	464,041	108,061	23	438,951
Utilities	194,733	179,816	14,917	8	256,283
Auto expenses (Gas/Fuel)	23,303	10,910	12,393	114	-
Insurance	24,815	37,542	(12,727)	(34)	62,422
Repairs & maintenance	60,013	43,157	16,856	39	36,748
Rent	254,140	261,680	(7,540)	(3)	257,930
Other operating expenses	179,495	154,043	25,452	17	131,322
Total	1,308,601	1,151,189	157,412	14	1,183,656
Loss before depreciation	(469,251)	(279,651)	(189,600)	68	(328,661)
Less: Depreciation	1,808,916	1,436,872	372,044	26	1,310,557
Loss after depreciation	(2,278,167)	(1,716,523)	(561,644)	33	(1,639,218)
Add: non-operating revenues and (expenses)	5,387,553	10,899,867	(5,512,314)	(51)	8,780,501
Net Income	3,109,386	9,183,344	(6,073,958)	(66)	7,141,283
Net Assets, Beginning	38,186,890	29,003,546	9,183,344	32	21,862,263
Net Assets, Ending	$ 41,296,276	$ 38,186,890	$ 3,109,386	8	$ 29,003,546

The Airport Division has generated less in operating revenues this year compared to last fiscal year by 4%. The Airport Division's performance this year was not as good as last year evidenced by the operating loss it incurred this year of $469,251. This is a 68% additional loss incurred by the Airport. It is a very clear indication that the airports current business volume is not enough to cover its own operating expenses. Drastic measures to raise the airport tariffs or 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 AIP projects. These improvements, i.e. apron, ARFF building, and runway will require regular maintenance to maintain minimum safety standards. The ARFF building added to the electricity bill for the airport since it started to become fully online in fiscal year 2010.

Salaries and wages, depreciation, gas and fuel, repairs and maintenance, and other operating expenses like travel and training and telephone are the accounts that increased in FY 2010.

When the new ARFF building started to become fully online in fiscal year 2010, the gas and fuel increased as well as utilities by $12,393 and $14,917, respectively. When this new ARFF building became fully online, they have started using the standby generators that use fuel.

VII) DIVISIONAL RESULTS, CONTINUED

A. AIRPORT DIVISION, CONTINUED

SCHEDULED/COMMERCIAL FLIGHT MOVEMENTS

	2010	2009	Change	%	2008
Number of Flights:					
Continental Airlines	364	350	14	4	428
Our Airlines (Air Nauru)	-	-	-	-	2
Air Marshall Islands	241	346	(105)	(30)	115
Asia Pacific Airlines (air cargo flight)	213	214	(1)	0	224
	818	910	(92)	(10)	769

Continental airlines increased its weekly flights in 2010 from 6 flights in fiscal year 2009 to 8 flights to Majuro during fiscal year 2010. The increase in the flight traffic by 14 flights made the landing charges for scheduled flights increase by 1% only during the year.

Air Marshall Islands (AMI) operated 241 domestic flights in fiscal year 2010. This was 30% lower compared to last fiscal year of 346 flights. Though domestic flights decreased in terms of the number of flights, the departure fees for domestic flights increased by 32% or by $3,080. The number of passengers went up in fiscal year 2010 by 32%; the number of passengers departed in 2010 were 6,335 compared to last year of 4,795 or an increase in domestic passengers of 1,540.

Overall flight traffic decreased by 10% or 92 flights compared to last fiscal year.

UNSCHEDULED/SPECIAL FLIGHT MOVEMENTS

	2010	2009	Change	%	2008
Number of Flights (MTOW):					
Category 1 (up to 45,000 lbs)	71	59	12	20	88
Category 2 (45,001-90,000 lbs)	30	26	4	15	36
Category 3 (over 90,000 lbs)	192	109	83	76	103
	293	194	99	51	227

It was a big leap for special flights for fiscal year 2010. The special flights traffic went up by 51% or by 99 flights during fiscal year 2010. This increase resulted in higher revenue generated from landing charges for special flights and ground handling transient by 22% and 20%, respectively.

Take note that U.S. military aircraft utilized the airport facilities for landings and are exempt from paying landing charges, but pay for ground handling charges. For the fiscal year ending September 30, 2010, there were 24 military aircraft that landed at AKIA compared to 41 last year.

VII) DIVISIONAL RESULTS, CONTINUED

A. AIRPORT DIVISION, CONTINUED

ANALYSIS OF ACTUAL VERSUS BUDGET – FY 2010

	Actual	Budget	Change	%
Operating revenues:				
Departure fees-Int'l	$ 241,195	$ 250,720	$ (9,525)	(4)
Departure fees-Domestic	12,670	9,092	3,578	28
Landing charges-Scheduled	220,456	211,135	9,321	4
Landing charges-Special	53,607	40,294	13,313	25
Concession/Lease Income	82,152	94,805	(12,653)	(15)
Ground Handling-Transient	46,256	39,129	7,127	15
Other operating revenues	183,014	203,438	(20,424)	(11)
Total	839,350	848,613	(9,263)	(1.1)
Operating expenses:				
Salaries & wages	572,102	474,380	97,722	17
Utilities	194,733	168,993	25,740	13
Auto expenses	23,303	8,820	14,483	62
Insurance	24,815	34,901	(10,086)	(41)
Repairs & maintenance	60,013	23,028	36,985	62
Rent	254,140	232,137	22,003	9
Other operating expenses	179,495	172,702	6,793	4
Total	1,308,601	1,114,961	193,640	14.8
Loss before depreciation	(469,251)	(266,348)	(202,903)	43
Depreciation expense	1,808,916	1,225,622	583,294	32
Loss after depreciation	(2,278,167)	(1,491,970)	(786,197)	35
Non-operating revenues (expenses)	26,066	15,752	10,314	40
Net Loss	$ (2,252,101)	$ (1,476,218)	$ (775,883)	34

The performance of the Airport Division was not that good for FY 2010 when compared to its budget projections for the same fiscal year. The Airport Division did not meet its budgeted revenues by 1% and spent 15% more for operating expenses. Gas and fuel went up when the airport started to use the standby generators and electricity likewise increased when the new ARFF building became fully online in 2010. Major repairs and maintenance for FY 2010 occurred for the Document Management System under an OMIP grant.

B. SEAPORT DIVISION

- Net assets increased by $470,217 from $9,665,822 to $10,136,039 for fiscal year ending September 30, 2010. The increase was due to 32% higher revenue generated in fiscal year 2010 despite the 13% increase in operating expenses.

- Operating revenues increased by 32% or by $438,806. The cause of the increase was mainly due to the increase in vessel traffic, primarily fishing vessels. The vessels traffic went up by 21%, as discussed below.

VII) DIVISIONAL RESULTS, CONTINUED

B. SEAPORT DIVISION, CONTINUED

- Operating expenses increased by $167,857 or 13% for the fiscal year ending September 30, 2010. Significant contributors to this increase were from Pilotage, Pilot boat usage, and Salaries and wages. It should be noted that Pilotage expenses will be affected every time the income account moves. Salaries and wages increased by $26,806 or 7% in fiscal year 2010 due to the three additional staff hired in 2010.

- Seaport Division realized significant operating income for the Ports Authority for fiscal year September 30, 2010 of $388,817 compared to last fiscal year's income of $117,868, or an increase of 230%.

DIVISIONAL STATEMENT OF REVENUES AND EXPENSES

	2010	2009	Change	%	2008
Operating revenues:					
Pilotage fees	$ 454,352	$ 327,322	$ 127,030	39	$ 311,963
Pilot boat usage	337,000	234,450	102,550	44	186,750
Wharfage fees	412,861	373,029	39,832	11	403,875
Dockage fees - international	153,275	105,090	48,185	46	95,522
Dockage fees - domestic	-	-	-	-	11,080
Anchorage	20,277	11,182	9,095	81	9,401
Foreign vessels entry	268,004	196,176	71,828	37	219,840
Light dues	41,850	29,460	12,390	42	31,890
Fuel and water service	19,993	11,992	8,001	67	14,094
Disembark and change crew	245	1,546	(1,301)	(84)	1,945
Concession/lease income	93,145	54,136	39,009	72	54,248
Other operating revenues	4,875	22,688	(17,813)	(79)	7,295
Total	1,805,877	1,367,071	438,806	32	1,347,903
Operating expenses:					
Salaries & wages	430,594	403,788	26,806	7	450,191
Pilotage	187,530	146,888	40,642	28	146,017
Pilot boat	183,750	87,391	96,359	110	92,815
Utilities	25,036	33,505	(8,469)	(25)	43,244
Insurance	24,796	25,949	(1,153)	(4)	23,407
Repairs & maintenance	9,284	11,607	(2,323)	(20)	3,908
Rent	27,303	27,263	40	-	23,513
Other operating expenses	107,424	122,403	(14,979)	(12)	135,406
Total	995,717	858,794	136,923	16	918,501
Income before depreciation	810,160	508,277	301,883	59	429,402
Less: Depreciation	421,343	390,409	30,934	8	394,405
Income after depreciation	388,817	117,868	270,949	230	34,997
Add: non-operating revenues and (expenses)	81,400	103,405	(22,005)	(21)	92,704
Net Income	470,217	221,273	248,944	113	127,701
Net Assets, Beginning	9,665,822	9,444,549	221,273	2	9,316,848
Net Assets, Ending	$ 10,136,039	$ 9,665,822	$ 470,217	5	$ 9,444,549

VII) DIVISIONAL RESULTS, CONTINUED

B. SEAPORT DIVISION, CONTINUED

The Seaport Division has generated more operating revenues this year compared to last fiscal year by 32%. The Seaport Division's performance this year was better than last year, which is evident in the operating income it earned this year of $470,217. This is an increase of 113% compared with the prior year earnings of the Seaport.

VESSEL ARRIVALS

	2010	2009	Change	%	2008
Cargo vessels	33	38	(5)	(13)	43
Fishing vessels – International	601	378	223	59	390
Fishing vessels – Domestic	743	696	47	7	688
Foreign tankers	18	15	3	20	16
Military ships	3	4	(1)	(25)	3
Cruise ships	-	-	-	-	3
Others	-	21	(21)	(100)	18
Total	1,398	1,152	246	21	1,161

Vessel traffic during fiscal year 2010 increased by 246 vessels or 21% compared to last fiscal year. First, International fishing vessel traffic increased by 59% from 378 to 601 vessels for fiscal year 2010 and 2009, respectively. Secondly, Tanker vessel traffic likewise increased by 20% from 15 in fiscal year 2009 to 18 vessels during fiscal year 2010. Thirdly, domestic fishing vessel traffic increased by 7% or 47 vessels from 696 in 2009 to 743 in 2010.

	Most Active	Least Active
February 2010	68	
August 2010	68	
July 2010	65	
September 2010		21
May 2010		30
April 2010		36

The most active months for fishing vessels to Majuro were in the months of February, August and July 2010 with 68, 68 and 65 arrivals, respectively. The least active months for fishing were in the months of September, May, and April 2010 with 21, 30, and 36 arrivals, respectively.

VII) DIVISIONAL RESULTS, CONTINUED

B. SEAPORT DIVISION, CONTINUED

ANALYSIS OF ACTUAL VERSUS BUDGET – FY 2010

	Actual	Budget	Change	%
Operating revenues:				
Pilotage fees	$ 454,352	316,358	137,994	30
Pilot boat usage fees	337,000	229,140	107,860	32
Wharfage fees	412,861	369,642	43,219	10
Dockage fees-International	153,275	102,949	50,326	33
Anchorage fees	20,277	10,509	9,768	48
Foreign vessels entry fees	268,004	208,489	59,515	22
Light dues	41,850	30,780	11,070	26
Fuel & water services	19,993	10,678	9,315	47
Disembark & change crew	245	1,854	(1,609)	(657)
Concession & lease income	93,145	96,496	(3,351)	(4)
Other operating revenues	4,875	6,305	(1,430)	(29)
Total	1,805,877	1,383,200	422,677	23
Operating expenses:				
Salaries & wages	430,594	482,722	(52,128)	(12)
Pilotage	187,530	99,578	87,952	47
Pilot boat	183,750	93,735	90,015	49
Utilities	25,036	32,131	(7,095)	(28)
Insurance	24,796	18,320	6,476	26
Repairs & maintenance	9,284	12,587	(3,303)	(36)
Rent	27,303	21,162	6,141	22
Other operating expenses	107,424	127,390	(19,966)	(19)
Total	995,717	887,625	108,092	11
Income before depreciation	810,160	495,575	314,585	39
Less: Depreciation	421,343	389,292	32,051	8
Income after depreciation	388,817	106,283	282,534	73
Non-operating revenues (expenses)	81,400	147,982	(66,582)	(82)
Net Income	$ 470,217	$ 254,265	$ 215,952	46

The Seaport Division did a very good job in fiscal year 2010 as far as their revenue budget projections are concerned. The increase in vessel arrivals contributed to this positive performance. As seen from the above table, revenues all went up except for Disembark and change crew, concession and lease income, and other operating revenues.

Most of the operating expenses for seaport went down except for the Pilotage fees and Pilot Boat that increased as high as 47% and 49%, respectively. The excess in budget, however, appears justifiable due to the increase in vessel traffic seen in FY 2010.

For the fiscal year ending September 30, 2010, Ports Authority's Seaport Division earned net income (after depreciation expense) of $470,217 exceeding the budget projection by 46%.

VIII) BUDGET COMPARISONS (Current Year vs. Next Year)

	2011	2010	Change	%
Operating revenues:				
Airport Division	$ 1,057,647	$ 848,613	$ 209,034	25
Seaport Division	2,153,614	1,383,200	770,414	56
	3,211,261	2,231,813	979,448	44
Operating expenses:				
Airport Division	1,241,418	1,114,961	126,457	11
Seaport Division	962,679	887,625	75,054	8
	2,204,097	2,002,586	201,511	10
Depreciation & Amortization:				
Airport Division	1,394,767	1,225,622	169,145	14
Seaport Division	416,895	389,292	27,603	7
	1,811,662	1,614,914	196,748	12
Non-operating revenues (expenses):				
Airport Division	(94,097)	15,752	(109,849)	(697)
Seaport Division	(180,023)	147,982	(328,005)	
	(274,120)	163,734	(437,854)	(267)
Change in Net Assets:				
Airport Division	(1,672,635)	(1,476,218)	(196,417)	13
Seaport Division	594,017	254,265	339,752	134
	$ (1,078,618)	$ (1,221,953)	$ 143,335	(12)

The Board of Directors of the Ports Authority meets every year to review and deliberate on the Ports Authority's annual budget as proposed by management. The operating budget for each fiscal year is prepared based on consultation with Ports Authority managers and is carefully analyzed. The budget amounts, in most cases, are based on an annual average of the last two audited fiscal years' performance, which provides a "realistic" prediction of how 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 year. Some of these events may have a significant impact on the financial position of the Ports Authority.

OPERATING REVENUE BUDGET

The FY 2011 proposed budget shows that Ports Authority will earn approximately $2.9 million in operating revenues, inclusive of non-operating income. This is about 20% more than the FY 2010 approved budget. The projected revenue is based on the proposed tariff increase both in the Airport and Seaport. About 67% of the total operating revenues will be generated by the Seaport Division. A majority of this revenue is generated from Pilotage, Pilot Boat, Wharfage, Foreign Vessel Entry Fees, and other new fees set forth by Ports Authority like Boarding Party Fee and the Port Security Fee.

Airport operating revenues have been constant since the Airport Authority was established in FY 2000. Total revenues for the airport have not exceeded the $1 million mark. Again, Ports Authority will push and do its best to reach its target in fiscal year 2011. This is critical since the AKIA is presently not earning enough revenue to pay for its operating expenses. In spite of the proposed target revenues, airport might incur possible cash deficit of $280,000 in fiscal year 2011; this, will again be subsidized by the Seaport operation. This is critical with the multi-million dollar projects or infrastructures being built at AKIA. The airport must be financially sustainable to pay for its own operating costs, which includes maintaining its high value assets or facilities.

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

OPERATING EXPENSES BUDGET

The FY 2011 proposed budget shows that Ports Authority will incur a little over $2.2 million in operating expenses. This figure excludes depreciation expense. The total estimated operating expense for FY 2011 is approximately $200,000 more than the prior fiscal year's budget. The proposed increase was due to the anticipated increases in fuel, electricity, and lease expenses. In addition, since there was a proposed increase in the tariff rate, this would have an effect on the Pilotage and Pilot Boat Usage expense.

The Airport Division's total expense budget for FY 2011 is $1,241,418, which is an 11% increase from FY 2010's approved budget. Despite the fact that airport is having problems in generating more revenues, maintaining an airport is more compared to the seaport. It is also noted that the cost of fuel went up which has an adverse affect on operations. Most of the expenses that will be affected for fiscal year 2011 are salaries and wages, utilities, gas and fuel, insurance, and land lease. It should be noted that while the airport is burdened with this land lease cost, other government entities are commercially benefiting from it. For example, the runway catches and stores rainwater which is sold by the Majuro Water and Sewer Company (MWSC). MWSC profits from this water while Ports Authority pays for the land areas where the runway catchments are situated on. Ports Authority does not receive any compensation from MWSC for this water. In fact, 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 are Salaries & Wages, 44%; followed by Pilotage Expense, 19%; and Pilot Boat, 18%. Pilotage and Pilot Boat go up due to the proposed increase in tariff rates. The ratio of the Pilotage expense for Ports Authority and the Pilot is 60% and 40%, respectively, net of the 10% allotted for Transportation and Communication. Ports Authority pays 40% of its Piloting Fee to pilots for performing pilotage services after deducting the 10% allocated to the Ministry of Transportation and Communication.

Ports Authority's main office building is in need of some painting work, both interior and exterior. This was not done in the fiscal year 2010 as proposed.

IX) RELATED PARTY TRANSACTIONS

Receivables from government entities and agencies went down from $635,847 as of **May 31, 2010** to $485,463 as of **September 30, 2010** due to write-offs and payments of accounts. The details are shown below:

	As of May 31, 2010	As of Sept 30, 2010	Remarks
Directorate of Civil Aviation	$ 10,228	$ 11,502	
AMI – Accounts Receivable	259,564	269,284	
Foreign Affairs	80	-	written-off
Ministry of Health Services	3,812	3,052	
Health Services	437	-	written-off
Ministry of Internal Affairs	850	-	written-off
Meram, Inc.	173,555	-	written-off
Marshalls Energy Company	27,606	57,710	paid in 2010/11
Headstart	159	-	written-off
Ministry of Education	59	3,127	

IX) RELATED PARTY TRANSACTIONS, CONTINUED

	As of May 31, 2010	As of Sept 30, 2010	Remarks
Ministry of Public Works	12,363	12,526	
Tobolar Copra Processing Plant	18,871	-	written-off
Ministry of Transportation	128,263	128,263	
	$ 635,847	$ 485,463	

The nature of the receivables is as follows:

- Directorate for Civil Aviation – billings for electric usage and office rental;
- Air Marshall Islands, Inc. – billings for utilizing the airport facilities, including landing charges, navigation aids, office space leases, and electricity. Excluded from the receivables above is the loan provided to AMI by Ports Authority of $203,027 at 8% per annum payable in 30 months with a monthly installment of $11,560 a month. AMI has paid only 5 monthly installments in September 2010 up to January 2011;
- Ministry of Education – billings for Wharfage fees;
- Ministry of Public Works – billings for dockage fees; and
- Ministry of Transportation – billings for usage of dock facilities; most of the charges are very "old".

Ports Authority has tried to follow up with these government entities and agencies without much response. These accounts will be analyzed further if they are to be sent for legal action or to be written off.

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

The Ministry of Foreign Affairs and the Directorate of Civil Aviation (DCA) have been provided with VIP Lounge and office space facilities 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.

Please also note that Ports Authority is paying land lease rental for the following government entities:
- Marshall Islands Shipping Corporation (at Uliga Dock);
- Majuro Water and Sewer Company (MWSC) (at the Airport);
- Marshalls Energy Company (at the airport); and
- Marshall Islands National Telecommunications Authority (at the Airport).

The above entities are commercially benefitting at the expense of Ports Authority, with no offset or reimbursement to 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. Landowners for these "wetos" or land areas have demanded payment/compensation from the RMI Government, although an existing lease is in place.

For the space facilities being provided to DCA at Ports Authority's head office and at the airport, Ports Authority is losing $360 per month for space rental.

X) CASHFLOW PROJECTION

As of September 30, 2010, the ending balance of Ports Authority's General Operating Fund kept at the Bank of Guam-Majuro Branch was $284,741. The beginning balance at the start of the same fiscal year was $599,240. Taking over payment of the matching grants for its development projects is the main cause of the significant decrease in Ports Authority's General Operating Fund.

Ports Authority still has cash reserves in its TCD accounts kept at the Bank of Marshall Islands that it can utilize. Ports Authority's TCD accounts earned a net interest, after deducting interest expense, of $118,566 in FY 2010.

XI) U.S. FEDERAL GRANTS PROJECTS

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

			Source of Funding		
	Project Costs	Disbursements	U.S. Grants	RMI Finance	Ports Authority
Runway- Overlay	$ 16,390,934	$ 15,803,683	$ 15,013,498	$ 849,139	$ -
Apron/Taxiway	9,509,424	9,103,015	8,631,919	473,305	27,813
ARFF Building and Facilities	16,034,094	15,113,940	14,308,549	204,272	599,943
ARFF Vehicles and Accessories	1,634,801	1,634,801	1,573,670	61,131	-
Road Realignment	18,114,455	859,834	800,060	-	50,128
Airport Master Plan	1,084,156	909,267	36,973	-	72,294
Data Mgmnt System	234,000	215,473	161,554	-	53,919
NDB/DME	1,325,734	434,203	410,191	-	24,012
Total	$ 64,327,598	$ 44,074,216	$ 41,736.414	$ 1,587,847	$ 828,109

The table above shows that since FY 2004, Ports Authority has executed more than $64 million worth of capital projects. Ports Authority has already disbursed over $44 million to consultants and contractors, leaving a balance of $20 million still to be paid out. Approximately $41.7 million of disbursements are grant funds received from U.S. federal grant programs, mostly from the FAA Airport Improvement Program. Ports Authority has started to pay for the local matchings in fiscal year 2009 for its FAA-AIP Projects. Please see table below the details of the matching funds for fiscal year 2010:

FAA-AIP Projects	FAA	Port Authority	RMI Finance
AIP-06	$ 712,528	$ 38,428	$ -
AIP-07 (CM & Design)	3,785,550	235,172	32,048
AIP-08	643,754	51,123	-
AIP-09	123,601	-	-
OMIP	64,006	-	-
	$ 5,329,439	$ 324,723	$ 32,048

XI) U.S. FEDERAL GRANTS PROJECTS, CONTINUED

The matching of RepMar of $32,048 was paid in 2007 for the design of ARFF Building but was only recorded by Ports Authority as revenue in 2010.

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

- Project No. 3-68-0001-03, Acquire two (2) 1,500-gallon Aircraft Rescue and Fire Fighting (ARFF) vehicles with protective clothing, for $1.5 million
- Project No. 3-68-0001-04, Construct ARFF Building – Phase I (Design), for $1.0 million
- Project No. 3-68-0001-05, Rehabilitate Runway 7/25 – Phase I, for $10.0 million
- Project No. 3-68-0001-06, Rehabilitate Runway 7/25 – Phase II, for $13.0 million; and.
- Project No. 3-68-0001-07, Construct ARFF Building – Phase II, for $13.0 million; Modify Service Road – Phase I (Design), for $1.0 million.
- Project No. 3-68-0001-08, Develop Airport Master Plan (Planning), for $999,995; and
- Project No. 3-68-0001-09, Road Realignment Project/RSA, for $8.0 million.

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

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

No grant amendments were issued in fiscal year 2010 but Ports Authority intends to request additional grant amendments in FY 2011; specifically on AIP grant 3-68-0001-07 to cover shortfalls in grant funds.

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

During the year ended September 30, 2010, Ports Authority borrowed $295,000 to finance the acquisition of a pilot boat. For additional information concerning Ports Authority's long-term debt, please refer to note 6 to the accompanying financial statements.

Management's Discussion and Analysis for the year ended September 30, 2009 is set forth in Ports Authority's report on the audit of financial statements, which is dated July 16, 2010. That Discussion and Analysis explains the major factors impacting the 2009 financial statements and can be obtained from Ports Authority's General Manager via the contact information below.

XII) ECONOMIC AND EXTERNAL FACTORS

These are some events that may happen during fiscal year ending September 30, 2011 and beyond:

- Depreciation expense will again increase in 2011 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

- Maintenance cost is also anticipated to increase due to the existing facilities and ARFF building at the Airport.
- Migratory nature of tuna and increases in price of fuel will have a positive effect in fishing vessels traffic to Majuro.
- Continental Micronesia increases the number of flights to Majuro from 6 to 8 weekly flights.
- Plans to build a marine terminal soon at Uliga dock is still being contemplated by 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.
- Ports Authority will start its road realignment and runway safety area projects in fiscal year 2011. The total contract cost is $17.2 million; $8.0 million was awarded in fiscal year 2010. The remaining amount is expected to be awarded from FAA as the project progresses.
- In 2010, Ports Authority obtained a $295,000 bank loan, collateralized by a time certificate of deposit. The proceeds of the loan were used to purchase new pilot boat. This new Pilot Boat will help Ports Authority to generate more revenues for fiscal year 2011.
- When all of the U.S.FAA-AIP Projects at the airport are completed, maintenance and utilities costs will increase, yet the airport's revenues and tariffs remain constant. This will significantly increase the cash deficit that the airport incurs each year if measures to either increase revenues or decrease expenses, or both, are not implemented.
- It is highly likely that Ports Authority will continue to pay the 5% match for AIP projects for the foreseeable future, including matching requirements for the other U.S. federal grant programs that Ports Authority has obtained or is working to obtain from DOI, OMIP, USDA and EDA (Economic Development Authority).
- In addition to the matching fund for the Airport Improvement Projects, Ports Authority will also fund projects for the seaport like the Channel Markers, which will likely start in January 2011 amounting to $1,103,297 and surveillance camera for both Delap and Uliga docks.
- In 2011, Ports Authority will likely start to give or contribute $500,000 to RepMar is general fund upon passing of a law.
- The operating cash shortfall incurred by the Airport Division will continue and will get worse unless measures are implemented to increase revenues or decrease Expenses, or both.

XIII) ADDITIONAL FINANCIAL INFORMATION

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

RMI PORTS AUTHORITY

Statements of Net Assets
September 30, 2010 and 2009

ASSETS	2010	2009
Current assets:		
Cash	$ 238,992	$ 729,433
Time certificates of deposit	1,709,567	1,143,238
Receivables:		
Trade	491,912	652,520
Affiliates	556,642	632,267
Note receivable, current portion	150,283	-
Interest receivable	124,503	119,606
Grants receivable	904,673	999,629
Other	230,380	224,146
	2,458,393	2,628,168
Less allowance for doubtful accounts	(835,334)	(1,258,502)
	1,623,059	1,369,666
Prepaid expenses and other assets	33,806	32,810
Total current assets	3,605,424	3,275,147
Restricted time certificates of deposit	295,000	750,000
Note receivable, net of current portion	52,744	-
Property, plant and equipment, net	49,142,013	45,343,122
	$ 53,095,181	$ 49,368,269
LIABILITIES AND NET ASSETS		
Current liabilities:		
Current portion of note payable	$ 94,415	$ 43,451
Accounts payable	51,254	30,283
Contracts payable	963,486	1,089,443
Payable to affiliates	279,874	218,190
Other liabilities and accruals	117,873	134,190
Total current liabilities	1,506,902	1,515,557
Noncurrent portion of note payable	155,964	-
Total liabilities	1,662,866	1,515,557
Commitments and contingencies		
Net assets:		
Invested in capital assets, net of related debt	48,891,634	45,299,671
Unrestricted	2,540,681	2,553,041
Total net assets	51,432,315	47,852,712
	$ 53,095,181	$ 49,368,269

See accompanying notes to financial statements.

RMI PORTS AUTHORITY

Statements of Revenues, Expenses and Changes in Net Assets
Years Ended September 30, 2010 and 2009

	2010	2009
Operating revenues:		
Seaport fees	$ 1,707,857	$ 1,290,247
Aviation fees	669,793	638,748
Concession and lease income	175,297	141,889
Other	92,280	167,725
Total operating revenues	2,645,227	2,238,609
Operating expenses:		
Depreciation	2,230,259	1,827,281
Salaries and wages	1,002,697	867,829
Pilotage	371,280	234,279
Rent	281,443	288,943
Utilities	219,769	213,321
Training and travel	130,365	102,763
Repairs and maintenance	69,297	54,764
Insurance	49,611	63,491
Auto expenses	42,523	16,799
Communications	34,107	22,524
Professional fees	9,572	5,350
Supplies	6,730	12,121
Miscellaneous	86,924	127,799
Total operating expenses	4,534,577	3,837,264
Operating loss	(1,889,350)	(1,598,655)
Nonoperating revenues (expenses):		
Gain on disposal of capital assets	751	-
Interest income	118,566	113,378
Interest expense	(11,851)	(16,606)
Total nonoperating revenues (expenses), net	107,466	96,772
Loss before capital contributions	(1,781,884)	(1,501,883)
Capital contributions:		
Contributions from U.S. government	5,329,439	10,591,850
Contributions from RepMar	32,048	314,650
	5,361,487	10,906,500
Change in net assets	3,579,603	9,404,617
Net assets at beginning of year	47,852,712	38,448,095
Net assets at end of year	$ 51,432,315	$ 47,852,712

See accompanying notes to financial statements.

RMI PORTS AUTHORITY

Statements of Cash Flows
Years Ended September 30, 2010 and 2009

	2010	2009
Cash flows from operating activities:		
Cash received from customers	$ 2,453,203	$ 2,213,148
Cash payments to suppliers for goods and services	(1,255,177)	(1,153,764)
Cash payments to employees for services	(990,033)	(872,578)
Net cash provided by operating activities	207,993	186,806
Cash flows from noncapital financing activities:		
Loan advanced to Air Marshall Islands, Inc.	(203,027)	-
Cash flows from capital and related financing activities:		
Proceeds from issuance of long-term debt	295,000	-
Acquisition and construction of capital assets	(6,155,107)	(11,913,682)
Principal paid on long-term debt	(88,072)	(271,534)
Interest paid on long-term debt	(11,851)	(16,606)
Proceeds from sale of capital assets	751	-
Capital contributions received	5,461,532	11,784,884
Net cash used for capital and related financing activities	(497,747)	(416,938)
Cash flows from investing activities:		
Interest income received	2,340	-
Net change in cash	(490,441)	(230,132)
Cash at beginning of year	729,433	959,565
Cash at end of year	$ 238,992	$ 729,433
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	$ (1,889,350)	$ (1,598,655)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation	2,230,259	1,827,281
(Increase) decrease in assets:		
Receivables:		
Trade	(89,005)	23,785
Affiliates	(103,019)	(49,246)
Other	(6,234)	(11,447)
Prepaid expenses and other assets	(996)	17,794
Increase (decrease) in liabilities:		
Accounts payable	20,971	89,710
Payable to affiliates	61,684	(183,905)
Other liabilities and accruals	(16,317)	71,489
Net cash provided by operating activities	$ 207,993	$ 186,806
Summary of noncash financing activities:		
Construction work-in-progress	$ 125,957	$ 587,869
Contracts payable	(125,957)	(587,869)
	$ -	$ -

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, 2010 and 2009, the carrying amount of cash and time certificates of deposit were $2,243,559 and $2,622,671, respectively, and the corresponding bank balances were $2,296,651 and $2,627,869, respectively. Of the bank balance amounts, $305,557 and $734,631, respectively, are maintained in one financial institution located in Majuro subject to Federal Deposit Insurance Corporation (FDIC) insurance with the remaining bank balances being maintained in a non-FDIC bank. As of September 30, 2010 and 2009, time certificates of deposit amounting to $295,000 and $43,451, respectively, collateralized a note payable (see note 6). As of September 30, 2010 and 2009, bank deposits in the amount of $250,000 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. 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, 2010 and 2009, an accumulated vacation leave liability of $66,747 and $57,653, respectively, is included within the statement of net assets in other liabilities and accruals.

New Accounting Standards

During fiscal year 2010, the Authority implemented the following pronouncements:

- GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, which addresses whether and when intangible assets should be considered capital assets for financial reporting purposes.

- GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, which 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.

- GASB 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.

- GASB Statement No. 58, *Accounting and Financial Reporting for Chapter 9 Bankruptcies*, which provides guidance for governments that have petitioned for protection from creditors by filing for bankruptcy under Chapter 9 of the United States Bankruptcy Code, and establishes requirements for recognizing and measuring the effects of the bankruptcy process on assets and liabilities, and for classifying changes in those items and related costs.

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

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 has not evaluated the effect that the implementation of this statement will have on the financial statements of the Authority.

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

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

In June 2010, GASB issued Statement No. 59, *Financial Instruments Omnibus*, which updates and improves existing standards regarding financial reporting of certain financial instruments and external investment pools. The provisions of this statement are effective for periods beginning after June 15, 2010. Management has not evaluated the effect that the implementation of this statement will have 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, 2010, 2009 or 2008.

(4) Property, Plant and Equipment

Capital asset activity for the years ended September 30, 2010 and 2009, was as follows:

	October 1, 2009	Additions	Reductions	September 30, 2010
Facilities	$ 18,871,078	$ 903,156	$ -	$ 19,774,234
Buildings	2,427,158	16,608,135	-	19,035,293
Equipment	2,711,582	35,530	-	2,747,112
Vehicles	138,645	41,215	(17,850)	162,010
Office furniture, fixtures and equipment	453,302	26,988	-	480,290
Runway upgrade	25,136,908	579,402	-	25,716,310
	49,738,673	18,194,426	(17,850)	67,915,249
Less accumulated depreciation	(16,919,092)	(2,230,259)	17,850	(19,131,501)
	32,819,581	15,964,167	-	48,783,748
Construction work-in-progress	12,523,541	5,925,416	(18,090,692)	358,265
	$ 45,343,122	$ 21,889,583	$ (18,090,692)	$ 49,142,013

	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

(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, 2010 and 2009 and related receivable and payable balances as of September 30, 2010 and 2009, are as follows:

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

	2009			
	Revenues	Expenses	Receivables	Payables
Air Marshall Islands, Inc.	$ 36,815	$ -	$ 234,560	$ -
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	141,477
Tobolar Copra Processing Plant, Inc.	-	-	18,971	-
Other	1,535	146,888	9,450	625
	$ 163,306	$ 748,382	$ 632,267	$ 218,190

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, 2010 and 2009, 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 $173,555 to Meram, Inc. (a corporation solely owned by RepMar) for boat operations. As of September 30, 2010, this amount was approved by the Board of Directors for write-off.

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

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

(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, 2010 and 2009, the Authority compensated qualified pilots, who were employees and directors of the Authority, for pilotage services of $187,530 and $146,888, 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).

(6) Notes Payable

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

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

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

Year ending September 30,	Principal	Interest	Total
2011	$ 94,415	$ 17,545	$ 111,960
2012	102,625	9,335	111,960
2013	53,339	1,309	54,648
	$ 250,379	$ 28,189	$ 278,568

(6) Notes Payable, Continued

Changes in notes payable for the years ended September 30, 2010 and 2009, are as follows:

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

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

(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, 2010 and 2009 amounted to $21,475 and $21,110, 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,	
2011	$ 70,801
2012	58,361
2013	48,576
2014	41,790
2015	7,862
2016 - 2020	39,312
2021 - 2025	33,415
Total future minimum rentals	$ 300,118

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.

(7) Commitments, Continued

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

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

(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, 2010

	Airport Division	Seaport Division	Total
Operating revenues:			
Seaport fees	$ -	$ 1,707,857	$ 1,707,857
Aviation fees	669,793	-	669,793
Concession and lease income	82,152	93,145	175,297
Other	87,405	4,875	92,280
Total operating revenues	839,350	1,805,877	2,645,227
Operating expenses:			
Depreciation	1,808,916	421,343	2,230,259
Salaries and wages	572,102	430,595	1,002,697
Pilotage	-	371,280	371,280
Rent	254,140	27,303	281,443
Utilities	194,733	25,036	219,769
Training and travel	92,399	37,966	130,365
Repairs and maintenance	60,013	9,284	69,297
Insurance	24,815	24,796	49,611
Auto expenses	23,303	19,220	42,523
Communications	18,690	15,417	34,107
Professional fees	9,572	-	9,572
Supplies	2,339	4,391	6,730
Miscellaneous	56,495	30,429	86,924
Total operating expenses	3,117,517	1,417,060	4,534,577
Operating income (loss)	(2,278,167)	388,817	(1,889,350)
Nonoperating revenues (expenses):			
Gain on disposal of capital assets	375	376	751
Interest income	27,832	90,734	118,566
Interest expense	(2,141)	(9,710)	(11,851)
Total nonoperating revenues (expenses), net	26,066	81,400	107,466
Loss before capital contributions	(2,252,101)	470,217	(1,781,884)
Capital contributions:			
Contributions from U.S. government	5,329,439	-	5,329,439
Contributions from RepMar	32,048	-	32,048
Total capital contributions	5,361,487	-	5,361,487
Change in net assets	3,109,386	470,217	3,579,603
Net assets at beginning of year	38,186,890	9,665,822	47,852,712
Net assets at end of year	$ 41,296,276	$ 10,136,039	$ 51,432,315

See accompanying independent auditor's report.