RMI PORTS AUTHORITY

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

FINANCIAL STATEMENTS, ADDITIONAL INFORMATION AND INDEPENDENT AUDITORS' REPORT

YEARS ENDED SEPTEMBER 30, 2012 AND 2011

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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, 2012 and 2011, 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, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of September 30, 2012 and 2011, 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.

In accordance with *Government Auditing Standards,* we have also issued our report dated June 28, 2013, 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.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 23 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplemental combining divisional information for the year ended September 30, 2012 on page 37 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining divisional information is fairly stated in all material respects in relation to the financial statements as a whole.

Deloitte & Touche LLP

June 28, 2013

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 ended September 30, 2012 (FY2012). 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 based facilities.

As of September 30, 2012, Ports Authority had 60 full-time employees. Composition is as follows: 6 in Administration; 5 in Finance; 5 in Airport Operations/Tower; 2 in Seaport Operations; 12 in Maintenance; and 30 in Security. Out of the 30 Security Officers, 13 are cross-trained and certified as airport firefighters.

II) FINANCIAL STATEMENTS OVERVIEW

Ports Authority's financial reports are prepared in accordance with the accounting principles generally accepted in the United States of America mandated by Government Accounting Standards Board (GASB) as well as Statements and Interpretations issued by the Financial Accounting Standards Board (FASB), Accounting Principles Board Opinion, and Accounting Research Bulletins of the Committee on Accounting Procedures, as applicable to governmental entities.

III) FINANCIAL HIGHLIGHTS

- At September 30, 2012 total net assets was $50,914,465, a decrease of $1,213,523 from FY2011. The major contributor to the decrease was the increase of depreciation related to Roadways. There was a decrease in the useful life of Roadways, contributing to the increase in depreciation. The increase in total depreciation in FY2012 is $1,751,244, of which $1,743,028 represents the increase in Roadways.

- Total operating revenues, after deduction of bad debts, increased by $314,069 or 12%. The Seaport Division is the major contributor for the increase in FY2012 by $217,518 or by 12%. The increase was due to an increase in the number of vessel arrivals and movements.

- Total operating expenses, inclusive of depreciation, was $7,548,047 for FY2012. It increased by 41% or by $2,190,170 compared to last year. The increase was due to adjustments on the Roadways depreciation, utilities, training and travel, and Pilot Boat expenses. The details are discussed in the Divisional Performance section of this report.

III) FINANCIAL HIGHLIGHTS, CONTINUED

- The Ports Authority incurred an operating loss of $4,595,289 for FY2012. This is an increase in operating loss by 69% or $1,876,101 compared to last year. The increase in the operating loss was caused by the increase in operating expenses mentioned above. As explained above, depreciation lowers operating income, but does not affect cash flows. RMIPA generated a positive operating income of $259,001 excluding depreciation in FY2012.

- The overall performance of the Ports Authority was not as good when compared to last year based on the foregoing report above.

IV) STATEMENTS OF NET ASSETS

	2012	2011	Change $	Change %	2010
Assets:					
Current assets	$ 3,993,747	$ 2,785,857	$ 1,207,890	43	$ 3,605,424
Non-current assets	404,035	403,656	379	-	347,744
Property, plant, and equipment, net	50,432,872	50,491,994	(59,122)	-	49,142,013
Total assets	$ 54,830,654	$ 53,681,507	$ 1,149,147	2	$ 53,095,181
Liabilities:					
Current liabilities	$ 3,916,189	$ 1,499,589	$ 2,416,600	161	$ 1,506,902
Non-current liabilities	-	53,930	(53,930)	(100)	155,964
Total liabilities	3,916,189	1,553,519	2,362,670	152	1,662,866
Net assets:					
Invested in capital assets, net of related debt	50,379,438	50,327,465	51,973	-	48,891,634
Unrestricted	535,027	1,800,523	(1,265,496)	(70)	2,540,681
Total net assets	50,914,465	52,127,988	(1,213,523)	(2)	51,432,315
Total liabilities and net assets	$ 54,830,654	$ 53,681,507	$ 1,149,147	2	$ 53,095,181

Current assets increased by 43% as seen in the above table. The increase was caused by an increase in grants received by RMIPA for FAA projects and interest income received on Time Certificates of Deposit (TCDs) kept at Bank of the Marshall Islands.

Non-current assets represent restricted TCD and the non-current portion of a cash loan given to AMI of $295,000 and $109,035, respectively.

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

	2012	2011	Change $	Change %	2010
Operating Revenues:					
Airport Division	$ 919,829	$ 904,098	$ 15,731	2	$ 839,350
Seaport Division	2,102,170	1,869,500	232,670	12	1,805,877
	3,021,999	2,773,598	248,401	9	2,645,227
Operating Expenses:					
Airport Division	6,015,791	4,052,883	1,962,908	48	3,117,517
Seaport Division	1,601,497	1,439,903	161,594	11	1,417,060
	7,617,288	5,492,786	2,124,502	39	4,534,577
Non-Operating Revenues (Expenses):					
Airport Division	(223,839)	(225,578)	1,739	(1)	26,066
Seaport Division	(161,211)	(169,504)	8,293	(5)	81,400
	(385,050)	(395,082)	10,032	(3)	107,466
Capital Contributions:					
Airport Division	3,766,816	3,809,943	(43,127)	(1)	5,361,487
Seaport Division	-	-	-	-	-
	3,766,816	3,809,943	(43,127)	(1)	5,361,487
Change in Net Assets:					
Airport Division	(1,552,985)	435,580	(1,988,565)	(457)	3,109,386
Seaport Division	339,462	260,093	79,369	31	470,217
	$ (1,213,523)	$ 695,673	$ (1,909,196)	(274)	$ 3,579,603

In FY2012, the Airport Division generated 30% of total Ports Authority revenue. Revenue this year increased by only 2% compared to last year while operating expenses increased by 48%. The operating net loss this year increased to $5.1 million from $3.1 million (including depreciation) when compared to last year. Net operating income (loss) for FY2012 without depreciation is $678,091 compared with ($449,466) for FY2011.

The capital contributions of the Airport Division refer to AIP projects that the Ports Authority administers. Net non-operating revenues (expenses) include the contribution of $500,000 to the RMI Government shared by the Airport and Seaport Divisions. However, the Ports Authority was not able to pay the entire amount because it also pays land leases and AIP matching. Please take note that AIP matching will increase from 5% to 10% for new grants in FY2013.

This year, Seaport generated $2.1 million of revenues; this gives the Ports Authority 70% of revenues for this year. Expenses, likewise, increased by $161,594 from $1.4 million in 2011 to $1.6 million in 2012 or an increase of 11%. This represents 21% of total operating expenses in FY2012.

VI) FINANCIAL RATIOS

	2012	2011
Current Ratio	1.02:1	1.9:1
Receivable Turnover	3 times	3 times
Average Age of Receivables	122 days	122 days
Net Profit Ratio - Airport	(169%)	48%
Net Profit Ratio – Seaport	16%	14%

VI) FINANCIAL RATIOS, CONTINUED

The current ratio in FY2012 is a bit low when compared to last year. This includes contracts payable of $2.4 million as of the end of FY2012. Of this amount, $1.5 million is for the RSA/Road Realignment Project including the delay claim $524,479 (net of 10% retention). The total amount of delay claim related to this project is $973,506 (net of $108,161, 10% retention fee). The first delay claim of $449,027 (net of $49,892, 10% retention fee) was paid in July 2012.

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 case of low turnover. Same with FY2011, the turnover and average age of receivables shows below average performance because it exceeded a 30 day normal collection cycle. This includes unpaid receivables from government agencies and ministries. The amount of government receivables as of September 30, 2012 is $998,549. The details of this will be discussed under ***Related Party Transactions*** of this report. The turnover ratio excluding the related party receivables would be 9 times, which is a 40 day collection cycle period. ***Same with last year, most of the unpaid receivables of the Ports Authority are from the governmental entities and agencies and were set-up as an additional allowance during the year.***

Though the Airport has increased its revenue, it still does not contribute positive income to the Ports Authority with its current operation in FY2012 because the amount of service and maintenance is higher compared to Seaport. Seaport, on the other hand, contributed a positive net income of $339,462 to the Ports Authority in FY2012.

VII) PER DIVISION

A. AIRPORT DIVISION

- Net assets greatly decreased by $1.6 million during FY2012 compared with an increase of $435,580 during FY2011. The adjustment in depreciation is the major contributor to the decrease. The useful life of Roadways was changed from 20 years to 15 years in FY2012, which was mentioned earlier in this report. However, as of September 30, 2012, total funds accrued and received to finance airport projects amounted to $3.8 million. As mentioned earlier, the contribution to the RMI General Fund was not paid because the Ports Authority paid for land leases, CIP projects for its Airport and Seaport, and the local matching. The grants received for its AIP projects during the FY2012 slightly decreased by $43,127.

- Operating revenues increased by $15,731 from $904,098 in FY2011 to $919,829 during FY2012. This was caused by the increase in the number of unscheduled flights.

- Operating expenses were higher in FY2012 than in FY2011 by 51% or $2.0 million. Significant contributor to this increase as mentioned earlier was the depreciation related to Roadways by $1.7 million.

- The Airport Division incurred a net operating loss before depreciation of $678,091 for FY2012. This is an increase in loss by 51% or $228,625 from FY2011.

VII) PER DIVISION, CONTINUED

A. AIRPORT DIVISION, CONTINUED

DIVISIONAL STATEMENT OF REVENUES AND EXPENSES

	2012	2011	Change $	Change %	2010
Operating revenues:					
Departure Fees – International	$ 238,215	$ 250,660	$ (12,445)	(5)	$ 241,195
Departure Fees - Domestic	11,136	14,632	(3,496)	(24)	12,670
Landing Charges - Scheduled	220,101	238,389	(18,288)	(8)	220,456
Landing Charges - Special	70,475	54,040	16,435	30	53,607
Concession and Lease Income	73,215	72,682	533	1	82,152
Aircraft Parking Charges	15,823	13,688	2,135	16	5,402
Runway Lights and NavAids	50,175	53,828	(3,653)	(7)	47,520
Special Overtime	52,659	41,643	11,016	26	42,686
Reserved Parking Space Fees	3,300	3,700	(400)	(11)	4,050
International Cargo - Service Fees	33,367	27,244	6,123	22	26,744
Utility Charges Reimbursed	76,605	68,888	7,717	11	47,517
Ground Handling - Transient	65,908	57,181	8,727	15	46,256
Other Operating Revenues	8,850	7,523	1,327	18	9,094
Total	$ 919,829	$ 904,098	$ 15,731	2	$ 839,349

The Airport Division has generated less in operating revenues this year compared to FY2011 by 2%.

UNSCHEDULED/SPECIAL FLIGHT MOVEMENTS

	2012	2011	# Change	% Change
Number of Flights (MTOW):				
0-45000	81	84	(3)	(4)
45001-90000	34	29	5	17
90001-up	145	128	17	13
Total	260	241	19	8
% to Total:				
0-45000	31%	35%		
45001-90000	13%	12%		
90001-up	56%	53%		

The revenue generated from landing charges from special flights increased only by $16,435 or 30% in terms of percentage when compared to FY2011. The increase in the number of special flights has also made the following accounts increase:

i) Special Overtime - $11,015
ii) Ground Handling Service Fees and Equipment - $8,727

It should be noted that U.S. military aircraft utilize the airport facilities for landings and are exempt from paying landing charges, but pay for ground handling charges. For FY2012, there were 32 military aircraft that landed at AKIA compared to 36 in FY2011.

VII) PER DIVISION, CONTINUED

A. AIRPORT DIVISION, CONTINUED

	2012	2011	Change $	Change %	2010
Operating expenses:					
Salaries and wages	$ 569,040	$ 599,444	$ (30,404)	(5)	$ 572,102
Gas, oil, and fuel expenses	29,816	34,674	(4,858)	(14)	23,303
Bad debts	33,266	90,610	(57,344)	(63)	-
Insurance expense	29,239	29,589	(350)	(1)	24,815
Repairs and maintenance	23,388	12,372	11,016	89	60,013
Utilities	389,506	208,619	180,887	87	194,733
Rent	257,931	257,931	-	-	254,140
Training and travel	192,595	35,237	157,358	447	-
Other operating expenses	73,139	85,088	(11,949)	(14)	179,495
Total	$ 1,597,920	$ 1,353,564	$ 244,356	18	$ 1,308,601
Loss before depreciation	$ (678,091)	$ (449,466)	$ (228,625)	51	(469,251)
Depreciation	(4,417,871)	(2,699,319)	(1,718,552)	64	(1,808,916)
Loss after depreciation	(5,095,962)	(3,148,785)	(1,947,177)	62	(2,278,167)
Add: non-operating revenues (expenses)	3,542,977	3,584,365	(41,388)	(1)	5,387,553
Net (loss) income	(1,552,985)	435,580	(1,988,565)	456	3,109,386
Beginning et assets	41,731,856	41,296,276	435,580	1	38,186,890
Ending net assets	$ 40,178,871	$ 41,731,856	$ (1,552,985)	(4)	$ 41,296,276

The operating loss during FY2012 is $678,091 before depreciation; this is 51% higher compared to FY2011.

As stated in the previous years, RMIPA still believes that drastic measures are needed to raise airport tariffs. Most of its expenses decreased in FY2012 except for depreciation (non-cash item), utilities, and training and travel.

i) Depreciation related to Roadways increased by $ 1,743,028. As mentioned earlier in this report, the increase was due to a change in the useful life estimate. **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. Depreciation lowers the Company's reported earnings and does not affect cash flows. ***This account does not affect the statement of cash flows, but the cost of acquiring and improving assets does.***

ii) Utilities increased by $180,887 due to unpaid expenses in previous years of $90,256 and the consumption and rate increased from $0.478 to $0.490 during FY2012.

iii) Training and travel increased by $157,358 in FY2012. The increase was due to the NIMS/ICS Course and AEP Re-write, which RMIPA paid a portion out of its funds during FY2012.

VII) PER DIVISION, CONTINUED

A. AIRPORT DIVISION, CONTINUED

RMIPA has improved control of its operating expenses in FY2012 when compared to FY2011. RMIPA is doing its best to further decrease operating expenses without sacrificing safety and security of its personnel and capital assets in order improve this "financial bleeding." This is becoming ever more important due to the expected increase in utilities and maintenance from 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.

ANALYSIS OF ACTUAL VERSUS BUDGET – FY2012

	Actual	Budget	$ Variance	% Variance
Operating revenues:				
Departure Fees - International	$ 238,215	$ 257,441	$ (19,226)	(7)
Departure Fees - Domestic	11,136	14,538	(3,402)	(23)
Landing Charges - Scheduled	220,101	226,717	(6,616)	(3)
Landing Charges - Special	70,475	66,375	4,100	6
Concession and Lease Income	73,215	73,865	(650)	(1)
Aircraft Parking Charges	15,823	20,640	(4,817)	(23)
Runway Lights and NavAids Fees	50,175	55,638	(5,463)	(10)
Special Overtime	52,659	35,226	17,433	49
Reserved Parking Space Fees	3,300	3,300	-	-
International Cargo Service Fees	33,367	54,032	(20,665)	(38)
Utility Charges Reimbursed	76,605	70,767	5,838	8
Ground Handling - Transient	65,908	60,830	5,078	8
Other Operating Revenues	8,850	7,784	1,066	14
Total	$ 919,829	$ 947,153	$ (27,324)	(3)

RMIPA did not meet the budget for revenues for FY2012 by $27,324 or 3%. The shortage is much lower when compared to FY2011. Tables below show the flight traffic and number of passengers during FY2012.

Departure Fees – International:

The budget was based on the FY2011 projected revenues as of September 30, 2011 plus a 15% increase.

Actual Number of Passengers:

	2012	2011	Inc (dec)	%	Fee	Amount
Adults	9,613	10,831	(1,218)	(11)	$ 20	$ (24,360)
Students	3,061	2,269	792	35	$ 15	11,880
Others	40	5	35	700	$ 1	35
Totals	12,714	13,105	(391)	(3)		$ (12,445)

Adult travelers decreased by 1,218 while students increased by 792 in FY2012.

VII) PER DIVISION, CONTINUED

A. AIRPORT DIVISION, CONTINUED

Departure Fees – Domestic:

The budget was based on FY2011 projected revenues as of September 30, 2011 plus a 15% increase. The total numbers of domestic passengers decreased by 1,748 during FY2012. Revenue generated totaled $11,136 which was not collected during FY2012. This is added to the Allowance for Doubtful Accounts in FY2012.

Scheduled/Commercial Flight Movements:

Actual Number of Flights (FY2012 and FY2011):

	2012	2011	Change	%	2010
United Airlines	312	417	(105)	(25)	364
AMI	345	491	(146)	(30)	241
APA (air cargo)	202	193	9	5	213
Totals	859	1,101	(242)	22	818

Continental/United Airlines decreased by 105 flights during FY2012 due to the reduction of a direct flight from Guam from eight to six flights. This was discussed in the report for FY2011. The decrease in the flight traffic resulted in a decrease in landing charges revenue of $18,288 during FY2012.

Air Marshall Islands (AMI) decreased 146 flights during FY2012. The revenue generated from AMI flights in FY2012 of $8,843 was likewise not collected and the same was added to receivables of AMI.

International Air Cargo: The budget was based on the average of FY2011 projections and approved budget in FY2011 plus a 15% increase. The budget in FY2011 was miscalculated, which was the basis for the FY2012 budget. Actual revenues generated totaled $33,367 during FY2012, which is higher by $6,123 when compared to FY2011.

	Actual	Budget	$ Variance	% Variance
Operating expenses:				
Salaries and wages	$ 569,040	$ 616,736	$ (47,696)	(8)
Gas, oil, and fuel expenses	29,816	30,000	(184)	(1)
Bad debts	33,266	-	33,266	100
Insurance expense	29,239	29,938	(699)	(2)
Professional fees	18,508	8,522	9,986	117
Repairs and maintenance	23,388	42,500	(19,112)	(45)
Supplies	5,039	4,177	862	21
Communications	18,251	10,683	7,568	71
Training and travel	192,595	31,170	161,425	518
Utilities	389,506	230,177	159,329	69
Rent	257,931	257,931	-	0
Other operating expenses	31,341	56,937	(25,596)	(45)
Total	$ 1,597,920	$ 1,318,771	$ 279,149	21

VII) PER DIVISION, CONTINUED

A. AIRPORT DIVISION, CONTINUED

The actual operating expenses excluding depreciation are higher than budget by $279,149 or 21%. The operating expenses that have a significant increase or are over the budget are:

Utilities:

The budget was based on the average of FY2011 approved budget plus a 5% increase. Actual utilities incurred in FY2012 amounted to $389,506, which is $180,887 or 87% higher when compared to FY2011. This includes prior year billings, which were paid in FY2012 totaling $90,256 and the rate increased from $0.478 to $0.490.

Training and travel:

The budget did not include the NIMS/ICS Training Course in FY2012. This includes the AEP Re-write, which amounted to $136,923 (inclusive of 10% tax). $66,187 was paid by RMIPA from operational funds and $70,736 was paid through grants. Other expenses incurred related to training were for hosting expenses, which amounted to $4,640.

B. SEAPORT DIVISION

- Net assets increased by $339,462 from $10.4 million in FY2011 to $10.7 million for FY2012. Operating revenues increased by $232,670 while operating expense including depreciation increased by $161,594 when compared to FY2011. Non-operating revenues and expenses decreased by $8,293 in FY2012. This resulted in a positive net income of $79,369 in FY2012.

- Operating revenues increased by 12% or $232,670. Pilotage and Pilot Boat Usage fees increased by $38,391 and 112,022, respectively. Likewise, Domestic Vessel Entry Fees, Boarding Party Fees, and Dockage Fees – International all increased during FY2012. However, Domestic Dockage Fees decreased since there was not many billings in FY2012. Vessel arrivals and movements increased by 76 vessels and 341 movements, respectively during FY2012.

- Operating expenses, including depreciation, also increased by 161,594 or 12% for the fiscal period ending September 30, 2012. Pilotage fees and Pilot Boat Expenses are among those that increased in FY2012.

- Seaport Division's operating income for the period ending September 30, 2012 increased by $71,076 or 17% when compared to FY2011's operating income.

VII) PER DIVISION, CONTINUED

B. SEAPORT DIVISION, CONTINUED

DIVISIONAL STATEMENT OF REVENUES AND EXPENSES

	2012	2011	Change $	Change %	2010
Operating revenues:					
Pilotage Fees	$ 568,906	$ 460,164	$ 108,742	24	$ 454,352
Pilot Boat Usage Fees	362,900	314,500	48,400	15	337,000
Wharfage Fees	419,962	477,309	(57,347)	(12)	412,861
Dockage Fees - International	195,170	154,002	41,168	27	153,275
Dockage Fees - Domestic	5,890	40,739	(34,849)	(86)	-
Concession and Lease Income	102,391	97,080	5,311	5	93,145
Anchorage Fees	47,584	28,054	19,530	70	20,277
Foreign Vessel Entry Fees	105,277	85,445	19,832	23	268,004
Domestic Entry Vessel Fees	155,800	134,640	21,160	16	-
Light Dues	21,810	34,980	(13,170)	(38)	41,850
Port Security Improvement Fees	27,250	7,700	19,550	254	-
Fuel and Water Service Fees	23,459	20,865	2,594	12	19,993
Boarding Party Fees	48,900	7,950	40,950	515	-
Disembarked and Change Crew	1,708	750	958	128	245
Other Operating Revenues	15,163	5,322	9,841	185	4,875
Total	$ 2,102,170	$ 1,869,500	$ 232,670	12	$ 1,805,877

	2012	2011	Change #	Change %	2010
Cargo Vessels	56	59	(3)	(5)	33
Fishing Vessels - International	474	477	(3)	(1)	601
Fishing Vessels - Domestic	651	573	78	14	743
Foreign Tankers	16	13	3	23	18
Military ships	4	6	(2)	(33)	3
Others	7	4	3	75	-
Total	1,208	1,132	76	7	1,398

Vessel traffic during FY2012 increased by 76 vessels or 7% compared to FY2011. Domestic fishing vessels increased by 78 from 573 in FY2011 to 651 in FY2012.

MOVEMENTS

Another contributor to the increase was an increase in the number of movements during FY2012. It increased by 341 movements from 1,217 in FY2011 to 1,558 in FY2012. This is 28% when compared to FY2011.

VII) PER DIVISION, CONTINUED

B. SEAPORT DIVISION, CONTINUED

Wharfage Fees:

	Revenue Tons			
	2012	2011	Change	% Change
Domestic	13,135	6,926	6,209	90
International Cargo	106,503	92,700	13,803	15

	Metric Tons			
	2012	2011	Change	% Change
Petroleum	39,299	61,786	(22,487)	(36)

Wharfage Fees decreased by $57,347 or 12% in FY2012. The decrease was due to a decrease of metric tons for Petroleum of 22,487 or 36%. There were unbilled Wharfage Fees in FY2012 of $36,528 that will be invoiced in FY 2013.

Domestic Dockage Fees decreased by $34,849 or 86% in FY2012. There were not many billings from domestic dockage during FY2012 and most of the outstanding receivables from the Seaport Division are related to this fee.

			Change		
	2012	2011	$	%	2010
Operating expenses:					
Salaries and wages	$ 459,374	$ 466,090	$ (6,716)	(1)	$ 430,595
Pilotage	265,084	226,693	38,391	17	187,530
Pilot Boat	186,447	74,425	112,022	151	183,750
Gas, Oil, and Fuel	10,938	15,757	(4,819)	(31)	16,623
Insurance expense	35,575	32,000	3,575	11	24,796
Bad debts	35,975	44,299	(8,324)	(19)	-
Repairs and maintenance	3,490	6,094	(2,604)	(43)	9,284
Utilities	35,542	17,841	17,701	99	25,036
Rent	36,249	84,007	(47,758)	(57)	27,303
Other operating expenses	96,404	68,970	27,434	40	90,800
Total	$ 1,165,078	$ 1,036,176	$ 128,902	12	$ 995,717

The Pilot Boat expenses increased by $112,022 during FY2012, which was due to the increase in fuel consumption and the chartering of boats when the Pilot Boat was not operational during the year. The net income generated by these capital assets in FY2012 is approximately $77,207. The total overhead costs incurred from maintaining the Pilot Boats totaled $285,693. This includes salaries and wages, insurance, and social benefits of Operators and Helpers, fuel, repairs, boat rental, property insurance, and depreciation expense for the two Pilot Boats.

VII) PER DIVISION, CONTINUED

B. SEAPORT DIVISION, CONTINUED

ANALYSIS OF ACTUAL VERSUS BUDGET – FY2012

	Actual	Budget	$ Variance	% Variance
Operating revenues:				
Pilotage Fees	$ 568,906	$ 564,392	$ 4,514	1
Pilot Boat Usage Fees	362,900	365,955	(3,055)	(1)
Reefer Plugs	-	300,000	(300,000)	(100)
Wharfage Fees	419,962	477,549	(57,587)	(12)
Dockage Fees - International	195,170	184,226	10,944	6
Dockage Fees - Domestic	5,890	40,068	(34,178)	(85)
Concession and Lease Income	102,391	97,861	4,530	5
Anchorage Fees	47,584	40,198	7,386	18
Foreign Vessel Entry Fees	105,277	248,297	(143,020)	(58)
Domestic Entry Vessel Fees	155,800	128,108	27,692	22
Light Dues	21,810	44,765	(22,955)	(51)
Port Security Improvement Fees	27,250	93,600	(66,350)	(71)
Fuel and Water Service Fees	23,459	21,348	2,111	10
Boarding Party Fees	48,900	175,500	(126,600)	(72)
Disembarked and Change Crew	1,708	2,371	(663)	(28)
Other Operating Revenues	15,163	5,433	9,730	179
Total	$ 2,102,170	$ 2,789,671	$ (687,501)	(25)

The Seaport Division did not meet its revenue budget projections in FY2012. The actual was lower than budget by $687,501 or 25%.

Reefer Plugs: This proposed project in FY2012 did not push through as the Board agreed and approved to defer the implementation of the project because MTSCO has already made their plan to reactivate the "old" reefer plug project.

Foreign Entry Vessel Fees: The budget was based on the average of FY2011 projected revenues and approved FY2011 budget plus a 15% increase. The foreign vessels entry fees budget in FY2011 was miscalculated, thus overstating the budget. However, the actual revenues are higher by $19,832 or 23% when compared to the actual per FY2011.

Boarding Party Fees: The budget was overstated in FY2012. The number of trips was overstated by 1,200 trips per year or 100 per month.

Port Security Improvement Fee: The budget was miscalculated in FY2012, which includes domestic vessels; thus, the budget was higher by $66,350 or 71%.

Wharfage Fees: The budget was based on the average of FY2011 projections and the approved FY2011 budget plus 15% increase. In FY2012, metric tons decreased by 37,058; thus, the actual is lower than budget by $57,587 or 12%.

VII) PER DIVISION, CONTINUED

B. SEAPORT DIVISION, CONTINUED

	Actual	Budget	$ Variance	% Variance
Operating expenses:				
Pilotage expenses	$ 265,084	$ 225,757	$ 39,327	17
Pilot boat expenses	186,447	182,978	3,469	2
Salaries and wages	459,374	462,468	(3,094)	(1)
Gas, oil, and fuel expenses	10,938	15,667	(4,729)	(30)
Bad debts	35,975	-	35,975	-
Insurance expense	35,575	30,962	4,613	15
Professional fees	16,106	8,522	7,584	89
Repairs and maintenance	3,490	21,721	(18,231)	(84)
Supplies	6,185	6,147	38	1
Communications	16,310	15,001	1,309	9
Training and travel	31,753	30,067	1,686	6
Utilities	35,542	38,548	(3,006)	(8)
Rent	36,249	36,249	(0)	-
Other operating expenses	26,050	25,149	901	4
Total	$ 1,165,078	$ 1,099,236	$ 65,842	6

Actual operating expenses, excluding depreciation, are higher than budget by $65,842 or 6%. The operating expenses that have significant increases or exceed the budget are:

Pilotage fees: This account has a counterpart revenue account. Actual Pilotage revenues increased by $108,742 or 24% when compared to FY2011. The increase was due to the increase in the number of movements in FY2012 by 341 movements or 28%.

Bad Debts: An additional allowance was set-up for uncollectible accounts from various customers and *Marshall Islands Shipping Corporation* during FY2012. The receivables from MISC related to Concession/Lease Income. The lease agreement was forwarded to MISC in October 2011 for their signature and confirmation, but is still pending to the time of writing this report. The amount of allowance set-up for MISC is $31,925. The Ports Authority, however, is now working on its way to recover the amount. Related parties receivables are discussed under the ***Related Party Transactions*** section of this report.

For FY2012, the Ports Authority's Seaport Division's operating income (after depreciation expense) of $500,673, which is short in budget by $739,854. The amount of depreciation per the approved budget in FY2012 is $449,908.

VIII) BUDGET COMPARISONS (Current vs. Next)

	2013	2012	$ Change	% Change
Operating revenues:				
Airport Division	$ 948,788	$ 947,153	$ 1,635	-
Seaport Division	2,182,883	2,789,671	(606,788)	(22)
	3,131,671	3,736,824	(605,153)	(16)
Operating expenses:				
Airport Division	1,427,850	1,318,771	109,079	8
Seaport Division	1,078,265	1,099,236	(20,971)	(2)
	2,506,115	2,418,007	88,108	4
Depreciation and Amortization:				
Airport Division	1,495,748	1,899,362	(403,614)	(21)
Seaport Division	354,303	449,908	(95,605)	(21)
	1,850,051	2,349,270	(499,219)	(21)
Non-operating revenues (expenses):				
Airport Division	(119,368)	(382,478)	263,110	(69)
Seaport Division	17,786	(367,297)	385,083	(105)
	(101,582)	(749,775)	648,193	(86)
Change in net Assets:				
Airport Division	(2,094,178)	(2,653,458)	559,280	(21)
Seaport Division	768,101	873,230	(105,129)	(12)
	$ (1,326,077)	$ (1,780,228)	$ 454,151	(26)

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 on the financial position of the Ports Authority.

OPERATING REVENUE BUDGET

The FY 2013 proposed budget shows that the Ports Authority will earn approximately $3.1 million in operating revenues. This is about 16% less than the FY2012 approved budget. For FY 2013 budget, the projected revenue fees are based on the revenues indicators of Airport and Seaport. Concession and Lease Income are based on the existing contracts. Some are based on the annual average of the last five audited fiscal years' performances and others are based on FY2012 projected year-end plus a 5% increase. About 70% of the total operating revenues will be generated by the Seaport Division.

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

OPERATING REVENUE BUDGET, CONTINUED

Airport operating revenues for FY2012 have been consistent since the Airport Authority was established in FY 2000. Total revenues for the airport have not exceeded the $1 million mark. However, Airport revenues increased by 2% in FY 2012 when compared to FY2011. This is the second time it happened since Seaport and Airport merged in 2003. With this, Ports Authority will push more and do its best to reach its target in FY2013. Though, it will be difficult 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 $598,431 in FY 2013, which 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.

OPERATING EXPENSES BUDGET

The FY2013 budget estimates that the Ports Authority will incur a little over $2.5 million in operating expenses. This figure excludes depreciation expense. The total estimated operating expense for FY2013 is approximately $88,000 more than FY2012's budget. The proposed increase was due to the anticipated increase in gasoline and fuel, electricity and legal fees when RMIPA starts to seek legal advice for its uncollected accounts.

The Airport Division's total expenses budget for FY 2013 is $1.4 million, which is an 8% increase from FY2012's approved budget. Despite the fact that airport is having problems in generating more revenues, maintaining an airport is more costly compared to a seaport. It is also noted that an increase in the cost of gasoline or fuel definitely has an adverse affect on operations. The biggest expenditures for the Airport Division for FY2013 are Salaries and Wages, Utilities, and Land Lease. It should be noted that while the airport is burdened with this land lease cost, other governmental 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 source, 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. In fact, the Ports Authority buys water from MWSC for its airport facilities and also for fire fighting trucks.

The Seaport Division's total expenses budget for FY2013 is $1.1 million, this is $21,000 lower than FY2012's approved budget. Like the airport, the biggest expenditures for the Seaport Division are Salaries and Wages, Pilotage Expense, and Pilot Boat. The ratio of the Pilotage expense for the Ports Authority and the Pilot is 60% and 40%, respectively net of the 10% allotted for Transportation and Communication. The 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.

As previously discussed in the report, the Ports Authority's main office building is in need of some painting work, both interior and exterior. This will start in FY2013 as proposed.

IX) RELATED PARTY TRANSACTIONS

The receivables from governmental entities and agencies increased from $813,301 as of September 2011 to $926,250 as of September 30, 2012. The details are shown below:

	As of Sept 30, 2012	As of Sept 30, 2011
AMI - Accounts Receivable	$ 355,901	$ 318,377
AMI - Notes Receivable (inclusive of interest)	271,523	242,659
BOMI	3,761	-
College of the Marshall Islands	231	231
Directorate of Civil Aviation	23,049	16,471
EPA	400	115
MEC	5,989	-
MIMRA	915	915
Ministry of Education	3,625	3,625
Ministry of Finance	27,832	27,919
Ministry of Health Services	890	3,913
Ministry of Internal Affairs	-	650
Ministry of Public Works	15,964	15,244
Ministry of R&D	126	126
Ministry of T&C	128,263	128,263
MISC	81,721	49,711
MIVA	90	90
Others - Local Government	980	-
Tobolar Copra Processing	4,992	4,992
	$ 926,252	$ 813,301

The nature of receivables with significant balances is as follows:

- Air Marshall Inc. – billings for utilizing the airport facilities, including landing charges, navigation aids, office space leases, electricity, and the loan acquired from the Ports Authority at 8% per annum payable in 30 months with a monthly installment of $11,560a month. AMI has paid only 5 monthly installments in September 2010 up to January 2011;
- Ministry of Transportation – billings for usage of dock facilities and various advances; most of the charges are very "old".
- MISC – billings for rental in arrears, wharfage fees, bunkering, and dockage fees;
- Directorate for Civil Aviation – billings for electric usage and office rental;
- Ministry of Finance – billings for dockage fees, bunkering fees, and security ID's

The Ports Authority has sent statement of accounts and letters to some of the governmental entities and agencies, but has not received responses. These accounts are forwarded to the RMIPA Board of Directors for review and discussion is ongoing if they are to be sent for legal for action or to be written off.

IX) RELATED PARTY TRANSACTIONS, CONTINUED

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

The Ministry of Foreign Affairs (Ministry), and the Directorate of Civil Aviation (DCA) have been provided with a VIP Lounge and office space facility, respectively, at the airport but neither payment 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.

Please also note that, Ports Authority is paying landlease rental for the following governmental entities:

- Marshall Islands Shipping Corporation (at Uliga Dock)
- 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 $240 per month for space rental. Aside from DCA the Ministry of Communications (at the Uliga Dock) is occupying space facilities for $240 per month.

The Ports Authority's general fund balance as of September 30, 2012 is $63,760. With the ongoing AIP projects and RMIPA-funded projects that will be carried forward to the next fiscal year, RMI Ports Authority is going to apply for a loan in order to cover the possible cash shortfall in FY2013. The biggest expenditure at the start of FY2013 would be the Channel Markers 5 & 6 Projects, which amounted to $896,109.

It is also to be noted that AIP local matching will increase in FY2013 from 5% to 10%. The Ports Authority will expend approximately $1.3 million for the RSA Project alone in FY2013. As of September 30, 2012, the balance of unpaid AIP local matching is $409,113. This does not yet include CIP projects and other capital expenditures, maintenance and upkeep that will be funded by RMIPA. In FY2013, the Ports Authority is planning to improve its facilities particularly on the Seaport side since it is the one who generates more revenues for the Ports.

With the foregoing above, it is likely that RMIPA will seek a financial subsidy from the RMI Government for its local matching and land leases.

X) CASHFLOW PROJECTION

As of September 30, 2012, the ending balance of the Ports Authority's General Operating Fund kept at the Bank of Guam-Majuro Branch was $63,760. The beginning balance of FY2012 was $129,102. Taking over payment of the matching grants for its development projects and other capital improvement projects are 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 for various AIP and CIP Projects. The Ports Authority's TCD accounts earned net interest, after deducting interest expense, of $88,722 in FY2012.

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 as of September 30, 2012.

The table below shows that since FY2004, the Ports Authority has executed approximately $68.0 million of capital projects. The Ports Authority has already disbursed nearly $52.0 million to consultants and contractors, leaving a balance of about $16.0 million still to be paid out. Approximately $49.0 million of the disbursements are grant funds received from U.S. federal grant programs, mostly from the FAA's Airport Improvement Program. Ports Authority has started to pay for the local matching in FY2011 for its FAA-AIP Projects. In addition, AIP matching will increase from 5% to 10% for new grants effective FY2012.

	Project Costs	Disbursements	U.S. Grants	RMI Finance	Ports Authority
Runway Overlay	$ 16,390,934	$ 16,390,934	$ 15,600,749	$ 790,185	$ -
Apron/Taxiway	9,792,211	9,792,211	9,253,166	473,305	65,740
ARFF Building and Facilities	16,210,130	16,031,924	15,137,274	212,393	682,257
ARFF Vehicles and Accessories	1,634,801	1,634,801	1,573,670	61,131	-
Road Realignment	20,654,953	5,083,849	4,782,134	-	301,715
Airport Master Plan	1,131,685	1,121,385	1,033,644	-	87,741
Data Management System	234,000	215,473	161,554	-	53,919
NDB/DME	1,576,436	1,300,958	1,243,094	-	57,864
FAA-GIS	277,978	194,925	180,975	-	13,950
Totals	$ 67,903,128	$ 51,766,460	$ 48,966,260	$ 1,537,014	$ 1,263,186

XI) U.S. FEDERAL GRANTS PROJECTS, CONTINUED

Please see table below the details of the matching funds for FY2012:

FAA-AIP Projects	FAA	RMIPA	REPMAR
AIP-07 (CM &Design)	$ 445,178	$ 23,431	$ -
AIP-08	95,058	5,002	-
AIP-09	1,630,406	85,811	-
AIP-10	1,625,032	85,527	-
AIP-11	156,800	8,252	-
AIP-12	25,473	1,312	-
AIP-13	237,148	26,350	-
Totals	$ 4,215,095	$ 235,685	$ -

The following are the AIP Grants awarded by the FAA to the Ports Authority since FY2004. 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.
- Project No. 3-68-0001-09, Road Realignment Project/RSA, for $8.0 million.
- Project No. 3-68-0001-10, Additional Funding for Road Realignment Project/RSA, for $3.0 million.
- Project No. 3-68-0001-11, FAA-GIS Project, for $500,000.
- Project No. 3-68-0001-12, Airport Security Fence Project, for $200,000.

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.
- Project No. 3-68-0001-07, Construct ARFF Building – Phase II, grant amendment of $2.1 million.

The following is a new grant which was approved on September 21, 2012:

- Project No. 3-68-0001-13, Additional Funding for Road Realignment Project/RSA, for $12.0 million.

The local matching for the new grant mentioned is 10% thus FAA share would decrease from 95% to 90%. The local matching for RMIPA for this newly issued grant would total $1.3 million effective FY2013.

XI) U.S. FEDERAL GRANTS PROJECTS, CONTINUED

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

The Authority did not incur any new long-term debt in FY2012. For additional information concerning debt, please refer to note 6 in the financial statements.

Management's Discussion and Analysis for the year ended September 30, 2011 is set forth in the Ports Authority's report on the audit of financial statements, which is dated September 20, 2012. That Discussion and Analysis explains the major factors impacting the 2011 financial statements and can be obtained from the Ports Authority's General Manager via the contact information below.

XII) ECONOMIC AND EXTERNAL FACTORS

These are some events that happened or might happen during FY2013and beyond:

Depreciation expense will increase in 2013 due to investment on existing facilities such as the Road Realignment/RSA Project, NDB/DME Project, and the facilities like the Airport Security Fence.

Maintenance cost is also anticipated to increase due to the existing facilities, transportation equipment 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.

Increase of AIP matching from 5% to 10% for the new grants effective FY2013.

The ongoing construction of its road realignment and runway safety area projects in FY2012. These will make a lot of improvements in the Marshall Islands.

The delay in the construction of the existing RSA/Road Realignment will have a big impact on the financial operation of RMIPA.

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 unlikely 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). As mentioned above, RMIPA will pay 10% for its AIP matchings effective FY2012. ***Please take note, as mentioned before the local matching will increase from 5% to 10% for the new grants. And in September 20, 2012, a new grant was issued, which is the AIP-13. With this new grant, the local matching that RMIPA is paying will become 10%. This will take effect in October 2012.***

XII) ECONOMIC AND EXTERNAL FACTORS, CONTINUED

The ongoing construction of the Channel Markers. RMIPA is funding this project and will likely to pay approximately $ 0.9 million starting October 2012.

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.

The Ports Authority intends to secure a $2.0 million loan with the Bank of Marshall Islands to cover the expected cash shortfall in FY2013. The timed deposit account kept at the same financial institution will be used to collateralize the loan. The term of the loan would be 6 years.

The Authority has a loan receivable of $271,523 with AMI as described in note 5. There is a possibility that the loan receivable may not be recoverable. Management of the Authority is currently discussing alternative arrangements to ensure collection of this receivable. In addition to this loan, the Authority has a receivable from AMI of $355,900 included in accounts receivable related to the landing charges, office rental, and electricity, as the Authority is current subsidizing AMI for its lease and electricity. This amount has been included in the allowance for doubtful accounts. In the event, this will no longer be recovered this will be a possible loss on the part of RMIPA.

XIII) ADDITIONAL FINANCIAL INFORMATION

This discussion and analysis is designed to provide the Ports Authority's customers and other interested parties with an overview of the 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, 2012 and 2011

ASSETS	2012	2011
Current assets:		
Cash	$ 76,408	$ 138,171
Time certificates of deposit	1,637,973	1,530,334
Receivables:		
Trade	328,407	307,933
Affiliates	654,728	570,642
Note receivable, current portion	128,667	128,667
Interest receivable	106,219	87,551
Grants receivable	1,646,564	526,042
Other	155,618	216,100
	3,020,203	1,836,935
Less allowance for doubtful accounts	(772,151)	(759,354)
	2,248,052	1,077,581
Prepaid expenses and other assets	31,314	39,771
Total current assets	3,993,747	2,785,857
Restricted time certificates of deposit	295,000	295,000
Note receivable, net of current portion	109,035	108,656
Property, plant and equipment, net	41,389,811	46,827,514
Construction work-in-progress	9,043,061	3,664,480
	$ 54,830,654	$ 53,681,507
LIABILITIES AND NET ASSETS		
Current liabilities:		
Current portion of note payable	$ 53,434	$ 110,599
Accounts payable	147,486	34,724
Contracts payable	2,453,551	617,002
Payable to affiliates	198,125	289,670
Due to RepMar	785,714	285,714
Other liabilities and accruals	277,879	161,880
Total current liabilities	3,916,189	1,499,589
Noncurrent portion of note payable	-	53,930
Total liabilities	3,916,189	1,553,519
Commitments and contingencies		
Net assets:		
Invested in capital assets, net of related debt	50,379,438	50,327,465
Unrestricted	535,027	1,800,523
Total net assets	50,914,465	52,127,988
	$ 54,830,654	$ 53,681,507

See accompanying notes to financial statements.

RMI PORTS AUTHORITY

Statements of Revenues, Expenses and Changes in Net Assets
Years Ended September 30, 2012 and 2011

	2012	2011
Operating revenues:		
Seaport fees	$ 1,984,616	$ 1,767,098
Aviation fees	671,834	724,062
Concession and lease income	175,606	169,761
Other	189,943	112,677
	3,021,999	2,773,598
Allowance for doubtful debts	(69,241)	(134,909)
Total operating revenues	2,952,758	2,638,689
Operating expenses:		
Depreciation	4,854,290	3,103,046
Salaries and wages	1,028,414	1,065,534
Utilities	425,048	226,460
Rent	294,180	341,938
Pilotage	265,084	226,693
Training and travel	224,348	50,914
Pilot boat	186,447	74,425
Insurance	64,814	61,589
Gas, oil, and fuel	40,754	50,431
Professional fees	34,614	23,211
Communications	34,561	29,617
Repairs and maintenance	26,878	18,466
Supplies	11,224	10,868
Miscellaneous	57,391	74,685
Total operating expenses	7,548,047	5,357,877
Operating loss	(4,595,289)	(2,719,188)
Nonoperating revenues (expenses):		
(Loss) gain on disposal of capital assets	(2,302)	2,100
Interest income	126,307	120,783
Contributions to RepMar	(500,000)	(500,000)
Interest expense	(9,055)	(17,965)
Total nonoperating expenses, net	(385,050)	(395,082)
Loss before capital contributions	(4,980,339)	(3,114,270)
Capital contributions:		
Contributions from U.S. government	3,766,816	3,809,943
Change in net assets	(1,213,523)	695,673
Net assets at beginning of year	52,127,988	51,432,315
Net assets at end of year	$ 50,914,465	$ 52,127,988

See accompanying notes to financial statements.

RMI PORTS AUTHORITY

Statements of Cash Flows
Years Ended September 30, 2012 and 2011

	2012	2011
Cash flows from operating activities:		
Cash received from customers	$ 2,921,477	$ 2,732,688
Cash payments to suppliers for goods and services	(1,489,023)	(1,158,678)
Cash payments to employees for services	(1,059,061)	(1,050,565)
Net cash provided by operating activities	373,393	523,445
Cash flows from noncapital financing activities:		
Payments to RepMar	-	(214,286)
Net loan advanced to Air Marshall Islands, Inc.	(379)	(34,296)
Net cash used for noncapital financing activities	(379)	(248,582)
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(2,960,921)	(4,863,927)
Principal paid on long-term debt	(111,095)	(85,850)
Interest paid on long-term debt	(9,055)	(17,965)
Proceeds from sale of capital assets	-	66,516
Capital contributions received	2,646,294	4,188,574
Net cash used for capital and related financing activities	(434,777)	(712,652)
Cash flows from investing activities:		
Withdrawal from time certificates of deposit	-	298,980
Interest income received	-	37,988
Net cash provided by investing activities	-	336,968
Net change in cash	(61,763)	(100,821)
Cash at beginning of year	138,171	238,992
Cash at end of year	$ 76,408	$ 138,171
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	$ (4,595,289)	$ (2,719,188)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation	4,854,290	3,103,046
Bad debts	69,241	134,909
(Increase) decrease in assets:		
Receivables:		
Trade	(76,918)	(26,910)
Affiliates	(84,086)	(14,000)
Other	60,482	14,280
Prepaid expenses and other assets	8,457	(5,965)
Increase (decrease) in liabilities:		
Accounts payable	112,762	(16,530)
Payable to affiliates	(91,545)	9,796
Other liabilities and accruals	115,999	44,007
Net cash provided by operating activities	$ 373,393	$ 523,445
Summary of noncash financing activities:		
Construction work-in-progress	$ 1,836,549	$ 346,484
Contracts payable	(1,836,549)	(346,484)
	$ -	$ -

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, 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.

Change in Accounting Estimate

During the year ended September 30, 2012, the Authority changed the estimated useful lives of Runways from 20 years to 15 years, which affected depreciation expense and accumulated depreciation. The Authority recorded depreciation expense of $3,330,376 for Runways in the year ended September 30, 2012, of which $1,586,521 related to the effect of changing the useful lives of the Roadways.

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 of cash flows, cash is defined as cash on hand and cash held in bank 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, 2012 and 2011, the carrying amount of cash and time certificates of deposit were $2,009,381 and $1,963,505, respectively, and the corresponding bank balances were $2,038,032 and $1,970,311, respectively. Of the bank balance amounts, $73,778 and $141,030, respectively, are maintained in a 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, 2012 and 2011, time certificates of deposit of $295,000 collateralized a note payable (see note 6). As of September 30, 2012 and 2011, bank deposits in the amount of $73,778 and $141,030, 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 governmental entities, 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. Accounts deemed uncollectible are written off against the allowance using the specific identification method.

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. Individual items with a cost of $500 or greater are capitalized. The estimated useful lives of these assets are as follows:

Facilities	5 - 50 years
Buildings	3 - 34 years
Equipment	2 - 5 years
Vehicles	5 - 20 years
Office furniture, fixtures and equipment	2 - 5 years
Runway upgrade	15 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, 2012 and 2011, an accumulated vacation leave liability of $84,270 and $81,834, respectively, is included in other liabilities and accruals of the accompanying statements of net assets.

New Accounting Standards

During the year ended September 30, 2012, the Authority implemented the following pronouncements:

- GASB 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 the frequency and timing of measurements for actuarial valuations first used to report funded status information in OPEB plan financial statements. The implementation of this pronouncement did not have a material effect on the accompanying financial statements.

- GASB Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions* (an amendment of GASB Statement No. 53), which will improve financial reporting by state and local governments by clarifying the circumstances in which hedge accounting continues to be applied when a swap counterparty, or a swap counterparty's credit support provider, is replaced. The implementation of this pronouncement did not have a material effect on the accompanying financial statements.

In December 2010, GASB issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements,* which addresses how to account for and report service concession arrangements (SCAs), a type of public-private or public-public partnership that state and local governments are increasingly entering into. The provisions of this statement are effective for periods beginning after December 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Authority.

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In December 2010, GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus*, which is designed to improve financial reporting for governmental entities by amending the requirements of Statements No. 14, *The Financial Reporting Entity,* and No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments,* to better meet user needs and address reporting entity issues that have come to light since those Statements were issued in 1991 and 1999, respectively. The provisions of this statement are effective for periods beginning after June 15, 2012. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Authority.

In December 2010, GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which is intended to enhance the usefulness of its Codification by incorporating guidance that previously could only be found in certain FASB and American Institute of Certified Public Accountants (AICPA) pronouncements. The provisions of this statement are effective for periods beginning after December 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 July 2011, GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which establishes guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position. The provisions of this statement are effective for periods beginning after December 15, 2011. Management has not yet determined the effect of implementation of this statement on the financial statements of the Authority.

In April 2012, GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which clarifies the appropriate reporting of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. The provisions of this statement are effective for periods beginning after December 15, 2012. Management has not yet determined the effect of implementation of this statement on the financial statements of the Authority.

In April 2012, GASB issued Statement No. 66, *Technical Corrections - 2012*, which enhances the usefulness of financial reports by resolving conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting. The provisions of this statement are effective for periods beginning after December 15, 2012. Management has not yet determined the effect of implementation of this statement on the financial statements of the Authority.

In June 2012, GASB issued Statement No. 67, *Financial Reporting for Pension Plans,* which revises existing guidance for the financial reports of most pension plans, and Statement No. 68, *Accounting and Financial Reporting for Pensions*, which revises and establishes new financial reporting requirements for most governments that provide their employees with pension benefits. The provisions in Statement 67 are effective for financial statements for periods beginning after June 15, 2013. The provisions in Statement 68 are effective for fiscal years beginning after June 15, 2014. Management has not yet determined the effect of implementation of these statements 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 8). 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, 2012 and 2011.

(4) Property, Plant and Equipment

Capital asset activity for the years ended September 30, 2012 and 2011, is as follows:

	October 1, 2011	Additions	Transfers	Reductions	September 30, 2012
Facilities	$ 19,902,794	$ -	$ (1,027,270)	$ -	$ 18,875,524
Buildings	19,234,441	301,200	(64,306)	(99,233)	19,372,102
Equipment	952,583	54,525	100,752	(76,255)	1,031,605
Vehicles	2,097,574	46,696	-	-	2,144,270
Office furniture, fixtures and equipment	453,478	7,292	-	-	460,770
Runway upgrade	26,157,818	-	-	-	26,157,818
	68,798,688	409,713	(990,824)	(175,488)	68,042,089
Less accumulated depreciation	(21,971,174)	(4,854,290)	-	173,186	(26,652,278)
	46,827,514	(4,444,577)	(990,824)	(2,302)	41,389,811
Construction work-in-progress	3,664,480	4,387,757	990,824	-	9,043,061
	$ 50,491,994	$ (56,820)	$ -	$ (2,302)	$ 50,432,872

	October 1, 2010	Additions	Transfers	Reductions	September 30, 2011
Facilities	$ 19,774,233	$ 101,912	$ 26,649	$ -	$ 19,902,794
Buildings	19,035,293	199,148	-	-	19,234,441
Equipment	2,747,112	3,683	(1,606,396)	(191,816)	952,583
Vehicles	162,010	83,668	1,893,391	(41,495)	2,097,574
Office furniture, fixtures and equipment	480,291	67,665	-	(94,478)	453,478
Runway upgrade	25,716,310	441,508	-	-	26,157,818
	67,915,249	897,584	313,644	(327,789)	68,798,688
Less accumulated depreciation	(19,131,501)	(3,103,046)	-	263,373	(21,971,174)
	48,783,748	(2,205,462)	313,644	(64,416)	46,827,514
Construction work-in-progress	358,265	3,619,859	(313,644)	-	3,664,480
	$ 49,142,013	$ 1,414,397	$ -	$ (64,416)	$ 50,491,994

(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.

A summary of related party transactions for the years ended September 30, 2012 and 2011 and related receivable and payable balances as of September 30, 2012 and 2011, are as follows:

	2012			
	Revenues	Expenses	Receivables	Payables
Air Marshall Islands, Inc.	$ 55,412	$ -	$ 355,901	$ -
Directorate of Civil Aviation	6,578	-	23,049	-
Marshall Islands National Telecommunications Authority	118	29,626	-	-
Marshall Islands Shipping Corporation	48,154	-	81,721	-
Marshall Islands Social Security Administration	-	89,579	-	-
Marshalls Energy Company, Inc.	94,225	367,863	5,989	62,533
Ministry of Public Works	720	-	15,964	-
Ministry of Transportation and Communication	-	-	128,263	134,725
RMI Finance	500	-	27,831	-
Other	1,565	4,262	16,010	867
	$ 207,272	$ 491,330	$ 654,728	$ 198,125

	2011			
	Revenues	Expenses	Receivables	Payables
Air Marshall Islands, Inc.	$ 27,740	$ -	$ 318,377	$ -
Directorate of Civil Aviation	4,969	-	16,471	-
Marshall Islands National Telecommunications Authority	-	28,944	-	-
Marshall Islands Shipping Corporation	40,714	-	49,711	-
Marshall Islands Social Security Administration	-	125,600	-	34,587
Marshalls Energy Company, Inc.	121,344	226,460	-	-
Ministry of Public Works	-	-	15,244	-
Ministry of Transportation and Communication	-	37,217	128,263	37,217
RepMar	-	341,938	-	-
RMI Finance	-	18,933	27,919	216,959
Other	2,095	6,591	14,657	907
	$ 196,862	$ 785,683	$ 570,642	$ 289,670

During the year ended September 30, 1998, the Authority advanced cash, at an interest rate of 10%, to Tobolar Copra Processing Plant, Inc., a component unit of RepMar. Unpaid accrued interest of $36,659, which was fully allowed for as of September 31, 2011, was written off during 2012.

(5) Related Party Transactions, Continued

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 provided funding to AMI for operational purposes. Outstanding advances are $237,701 and $237,323 at September 30, 2012 and 2011, respectively. The loan bears interest fixed at 8% and is payable in 30 monthly installments of $11,560 beginning September 30, 2010. AMI has been in arrears of the required payments since February 2011 (see note 8). Outstanding accrued interests are $33,821 and $15,378 at September 30, 2012 and 2011, respectively, and are included in interest receivable of the accompanying statements of net assets.

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, 2012 and 2011, the Authority compensated qualified pilots, who were employees and directors of the Authority, for pilotage services of $265,084 and $226,693, 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 18, 2011, the Authority entered into an amended MOU to reimburse the Ministry of Finance an additional $54,126 for certain lease payments made by RepMar to various landowners on certain lands controlled or occupied by the Authority. This amount covered periods from 2007 to the first quarter of 2011. The revised annual lease payment of $294,180 is payable in four equal quarterly installments of $73,545 commencing February 18, 2011. As of September 30, 2012, $73,545 remained unpaid, and was included in other liabilities and accruals.

During the years ended September 30, 2012 and 2011, the Cabinet of RepMar approved the distribution from the Authority to RepMar's General Fund of $500,000 in accordance with Public Law 2011-58 and 2010-43, respectively. As of September 30, 2012 and 2011, the Authority was liable to RepMar in the amount of $785,714 and $285,714, respectively, pertaining to this authorized distribution.

(6) Note Payable

On April 6, 2010, the Authority obtained a $295,000 bank loan, which bears interest fixed at 8.5% per annum and is 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 were used to purchase a pilot boat.

For the year ending September 30, 2013, debt service requirements relating to this bank loan is $53,454 for principal, $1,336 for interest for a total of $54,770.

Changes in notes payable for the years ended September 30, 2012 and 2011, are as follows:

2012				
Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
$ 164,529	$ -	$ (111,095)	$ 53,434	$ 53,434

2011				
Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
$ 250,379	$ -	$ (85,850)	$ 164,529	$ 110,599

(7) Commitments

Leases

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

The Authority is under an amended lease agreement with a stevedoring company for the container yard located at the Port of Majuro, currently expiring on December 31, 2020. The terms of the amended lease requires a minimum lease payment of $19,194 per annum paid quarterly, 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, 2012 and 2011 amounted to $19,194 and $19,361, respectively.

The Authority is under a five-year lease agreement with a shipping company to lease out warehouse space, expiring on July 31, 2014. The terms of the lease require a minimum monthly payment of $2,905.

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

Year ending September 30,	
2013	$ 117,000
2014	78,600
2015	34,000
2016	32,100
2017	27,100
2018 - 2022	101,900
2023 - 2025	17,800
Total	$ 408,500

(7) Commitments, Continued

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

U.S. Federal Grants

As of September 30, 2012, the Authority has been awarded a total of $67,975,830 grant awards from the United States Department of Transportion. As of September 30, 2012, $18,204,343 has not been received and expended for various capital projects.

Others

In November 2012, the Authority's Board of Directors has directed management to issue and/or approve bunkering, dock usage, and other services or clearances for Koo's fishing vessels without pilotage. The Board will continue to work with the Minister of Transportation and Communication and the RepMar Cabinet to get a resolution on the matter.

(8) Contingencies

The Authority does not maintain insurance coverage on its dock facilities or operations. In the event of an accident, the Authority may incur losses 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.

At September 30, 2012, outstanding principal and interest totaling $271,522 are due on loan to AMI (see note 5). AMI has defaulted on the required payment terms; however, the Authority has not provided any allowance for the outstanding balances as management of the Authority is currently discussing alternative arrangements to ensure collection of this receivable. Additionally, outstanding affiliate receivable of $355,901 from AMI at September 30, 2012 is related to charges for office and warehouse space rentals and electricity charges, as the Authority is current partially subsidizing AMI's operations. This amount has been included in the allowance for doubtful accounts.

(9) Subsequent Events

Subsequent to September 30, 2012, two loans were obtained to finance various capital improvement projects. On October 12, 2012, the Authority borrowed $1,000,000 for a five year term at an interest rate of 7.5% per annum. On January 14, 2013, the Authority also borrowed $700,000 for a six year term at an interest rate of 7% per annum. Time certificates of deposits are used as collateral for both loans.

RMI PORTS AUTHORITY

Combining Divisional Statement of Revenues, Expenses and Changes in Net Assets Information
Year Ended September 30, 2012

	Airport Division	Seaport Division	Total
Operating revenues:			
Seaport fees	$ -	$ 1,984,616	$ 1,984,616
Aviation fees	671,834	-	671,834
Concession and lease income	73,215	102,391	175,606
Other	174,780	15,163	189,943
	919,829	2,102,170	3,021,999
Bad debt expense	(33,266)	(35,975)	(69,241)
Total operating revenues	886,563	2,066,195	2,952,758
Operating expenses:			
Depreciation	4,417,871	436,419	4,854,290
Salaries and wages	569,040	459,374	1,028,414
Utilities	389,506	35,542	425,048
Rent	257,931	36,249	294,180
Pilotage	-	265,084	265,084
Training and travel	192,595	31,753	224,348
Pilot Boat	-	186,447	186,447
Insurance	29,239	35,575	64,814
Gas, oil, and fuel	29,816	10,938	40,754
Professional fees	18,508	16,106	34,614
Communications	18,251	16,310	34,561
Repairs and maintenance	23,388	3,490	26,878
Supplies	5,039	6,185	11,224
Miscellaneous	31,341	26,050	57,391
Total operating expenses	5,982,525	1,565,522	7,548,047
Operating (loss) income	(5,095,962)	500,673	(4,595,289)
Nonoperating revenues (expenses):			
Loss on disposal of capital assets	(2,302)	-	(2,302)
Interest income	28,485	97,822	126,307
Contributions to RepMar	(250,000)	(250,000)	(500,000)
Interest expense	(22)	(9,033)	(9,055)
Total nonoperating expenses, net	(223,839)	(161,211)	(385,050)
(Income) loss before capital contributions	(5,319,801)	339,462	(4,980,339)
Capital contributions:			
Contributions from U.S. government	3,766,816	-	3,766,816
Change in net assets	(1,552,985)	339,462	(1,213,523)
Net assets at beginning of year	41,731,856	10,396,132	52,127,988
Net assets at end of year	$ 40,178,871	$ 10,735,594	$ 50,914,465

See accompanying independent auditor's report.