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, 2017 AND 2016

RMI PORTS AUTHORITY
(A COMPONENT UNIT OF THE REPUBLIC OF THE MARSHALL ISLANDS)

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Years Ended September 30, 2017 and 2016

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INDEPENDENT AUDITORS' REPORT

Board of Directors
RMI Ports Authority:

Report on the Financial Statements

We have audited the accompanying financial statements of RMI Ports Authority (the Authority), a component unit of the Republic of the Marshall Islands, which comprise the statements of net position as of September 30, 2017 and 2016, and the related statements of revenues, expenses and changes in net position and of cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2017 and 2016, and the changes in its net position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Deloitte.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 14 be presented to supplement the 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 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 financial statements, and other knowledge we obtained during our audit of the 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.

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The Other Supplementary Information listed in the accompanying table of contents 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 standard generally accepted in the United States of America. In our opinion, the Other Supplementary Information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 27, 2018, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

Deloitte + Touche LLP

June 27, 2018

I. INTRODUCTION

Our discussion and analysis of the financial performance of Airport and Seaport Divisions of the RMI Ports Authority (Ports Authority) provides an overview of Ports Authority's financial activities presented in the audited financial statements for the fiscal year ending September 30, 2017. 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, 2017, Ports Authority had 65 full-time employees. Composition is as follows: 3 in Administration; 7 in Finance; 4 in Airport Administration/Operations/Tower; 3 in Seaport Administration/Operations; 13 in Maintenance; and 35 in Security. Out of the 35 Security Officers, 11 are cross-trained and certified as airport firefighters.

II. OVERVIEW OF FINANCIAL STATEMENTS

Ports Authority's financial reports and subsequent statements are prepared in accordance with the accounting principles generally accepted in the United States of America mandated by Governmental Accounting Standards Board (GASB).

RMIPA operates on the accrual basis of accounting wherein revenues are recognized when earned, not when received, and expenses are recorded when incurred, not when paid. Capital assets of more than $500 are capitalized and depreciated over their useful lives. More information can be found on the RMIPA Fixed Assets Policy.

This annual report consists of four parts: the MD&A, the Basic Financial Statements, Notes to the Financial Statements, and Independent Auditors' Reports on Internal Control and on Compliance.

III. FINANCIAL HIGHLIGHTS

The financial health can be evaluated by several factors such as ports facilities, strategic direction, financial status, tourism, economic activities, community service obligations and human resources. One important question is whether the Ports Authority is financially stable at the beginning of the year or at the end of the year.

- For fiscal year ending September 30, 2017, total net position was $71.171 million, an increase of $0.015 million or 0.021% from prior fiscal year.

III. FINANCIAL HIGHLIGHTS, CONTINUED

- Total operating revenues decreased by $0.281 million or 7%. The performance indicators will explain the decrease as explained in this report (please refer to the Revenue Performance Indicators and Divisional Expenses of this report).

- Total operating expenses, inclusive of depreciation, was $7.040 million for FY2017. It increased by $0.203 million or 3% compared to FY2016. The details will be discussed in the Revenue Performance Indicators and Divisional Expenses of this report.

- The Ports Authority incurred an operating loss of $3.148 million for the current year. The amount is slightly higher than the amount from last year's figure of $2.664 million. The major change in the operating loss was caused by the increase in depreciation expense by $0.116 million or 3%, which can be attributed to the reclassification to Roadways from Construction-In-Progress which had been depreciated in current year.

IV. STATEMENT OF NET POSITION

The Statement of Net Position presents the overall financial condition of the Ports Authority at the end of September 30, 2017.

Summary of Statement of Net Position

	2017	2016	Change	%	2015
Current and other assets	$ 5,208,469	$ 4,286,407	$ 922,062	22	$ 4,032,369
Capital assets	67,341,906	69,337,644	(1,995,738)	(3)	64,615,520
Total assets	72,550,375	73,624,051	(1,073,676)	(1)	68,647,889
Deferred outflows of resources	567,816	851,723	(283,907)	(33)	1,135,631
Total assets and deferred outflows of resources	$ 73,118,191	$ 74,475,774	$ (1,357,583)	(2)	$ 69,783,520
Current and other liabilities	$ 1,763,531	$ 2,776,347	$ (1,012,816)	(36)	$ 2,307,968
Long-term debt	183,350	543,073	(359,723)	(66)	877,252
Net position	71,171,310	71,156,354	14,956	0.02	66,598,300
Total liabilities and net position	$ 73,118,191	$ 74,475,774	$ (1,357,583)	(2)	$ 69,783,520

Ports Authority's financial data for FY2017 showed that Total Assets settled at $72.550 million, down from $73.624 million, a decrease of $1.074 million or 1%. This can be attributed to the following major drivers, namely:

1. Current and other assets helped tame the shrinkage of total assets by $0.922 million or a favorable 22%. Below are the major changes in the components of total assets, to wit:

   a) Cash account showed a strong finish at the closing bell which registered a substantial increment of $1.329 million or 312%. This was due to the receipt of GRMI Subsidy amounting to $1.099 million which was earmarked to finance the impending Delap and Uliga Docks Repair Project with a contract price of $2.332 million.

b) BOMI TCD Account delineated a modest increase from prior year's figure of $0.559 million to current year's amount of $0.650 million or an increase of $0.091 million or 16%. This was due to interest earned from the $1.700 million Certificate of Time Deposit which was used as collateral for the loans obtained from Bank of Marshall Islands (BOMI).

c) Receivables registered a significant drop which stood at $2.512 million from a prior year of $3.086 million or a substantial decrement of $0.574 million or 19%. This was brought by the improvement in billing and collection efforts by the Finance Department.

d) Corollary to the improvement in collection of receivables, the allowance for doubtful accounts of $1.500 million remains unchanged. No additional allowance was provided during the year in review.

e) Prepaid expenses and other assets showed a remarkable increase by $0.077 million or 519% due to advance payments made to suppliers.

2. The contraction of Capital assets, from $69.338 million to $67.342 million, accounted for the bulk due to the significant provision of non-cash expense that reduced the net book value amounting to $0.592 million or 0.8%.

3. Deferred outflows of resources of $0.568 million represent the remaining balance of the NDB-DME Relocation with the original amount of $1.136 million and such amount is amortized over a period of 4 years and the first annual amortization of $0.284 million was recorded in FY2016. This is the 2nd of the 4 annual amortizations of this account.

4. Total current liabilities of $1.911 million showed a substantial reduction from $3.136 million the year earlier. The drop represents a whopping $1.225 million or 39% which can be related to the following major changers, viz:

   a) The Due to RMI Government – General Fund took a considerable plunge owing to the reversal of $0.500 million contribution by Ports Authority to GRMI General Fund since such liability is not existent in GRMI books per confirmation from the Ministry of Finance.

   b) Contractor's Payable was down by $0.503 million compared to last year's number due to slowdown in construction of various Airport Improvement Projects and nearing its completion.

5. Bank loans for both current and non-current dropped substantially from $0.360 million, and $0.183 million, respectively, to $0.148 million and $0.036 million, respectively. It is worthy to note that the BOMI loan for Seaport of $1.000 million on October 12, 2012 with interest rate of 7.5% to mature on October 30, 2017 has a remaining balance of $0.020 million excluding interest as of September 30, 2017. On the other hand, the loan for Airport from BOMI amounting to $0.700 million on January 11, 2013 with an interest rate of 7% to mature on December 31, 2018 to help alleviate the cash requirements from capital improvement projects has an outstanding balance of $0.164 million excluding interest as of September 30, 2017.

6. One of the financial indicators to measure the financial capacity to meet current obligation is the current or liquidity ratio. At the end of the year in review, the Ports Authority has a liquidity ratio of $1.84 to $1. This benchmark could be interpreted that Ports Authority has $1.84 in its coffers for every dollar owed. This is a significant improvement vis-à-vis last year's benchmark which stood at $0.82 to $1.

7. Total Net Position at $71.171 million for the current year was far better than the $71.156 million recorded a year earlier by $0.015 million or 0.02%.

V. STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

The purpose of this statement is to present the revenues received and expenses paid by the Ports Authority, both for operating and non-operating, as well as any revenues, expenses, gains and losses, capital contributions and change in net position for a given period.

Summary of Statement of Revenues, Expenses and Changes in Net Position

	2017	2016	Change	%	2015
Operating revenues:					
Airport Division	$ 1,251,440	$ 1,145,305	$ 106,135	9	$ 1,115,245
Seaport Division	2,640,423	3,027,334	(386,911)	(13)	2,919,928
	$ 3,891,863	$ 4,172,639	$ (280,776)	(7)	$ 4,035,173
Operating expenses:					
Airport Division	$ 5,076,247	$ 4,877,085	$ 199,162	4	$ 4,232,224
Seaport Division	1,963,970	1,959,719	4,251	-	1,850,559
	$ 7,040,217	$ 6,836,804	$ 203,453	3	$ 6,082,783
Non-operating revenues (Expenses):					
Airport Division	$ 260,605	$ (9,862)	$ 270,467	2743	$ (19,307)
Seaport Division	330,835	60,913	269,922	443	10,483
	$ 591,440	$ 51,051	$ 540,389	1059	$ (8,824)
Capital contributions:					
Airport Division	$ 1,423,382	$ 7,091,808	$ (5,668,426)	(80)	$ 5,565,639
Seaport Division	1,148,488	79,360	1,069,128	1347	-
	$ 2,571,870	$ 7,171,168	$ (4,599,298)	(64)	$ 5,565,639
Change in net position:					
Airport Division	$ (2,140,820)	$ 3,350,166	$ (5,490,986)	(164)	$ 2,429,353
Seaport Division	2,155,776	1,207,888	947,888	78	1,079,852
	$ 14,956	$ 4,558,054	$ (4,543,098)	(100)	$ 3,509,205

The Ports Authority's operating revenues for fiscal year 2017 showed a substantial decrease of $0.281 million from $4.173 million to $3.892 million.

1. Revenues for Airport Division's showed some gains of $0.099 million from $1.145 million to $1.251 million. This can be attributed to the increase in Departure Fees-International by $0.027 million and Screening Fees by $0.058 million. However, said gains were partially eclipsed by the downward trend of various revenue streams.

2. All revenue streams for Seaport Division virtually took a plunge except for Dockage Fee-International and Domestic Vessel Entry Fees which both registered a minimal increase. Leading the pack in terms of dollar drop in revenue streams were Pilot Usage Fees ($0.121m), Pilotage Fees ($0.108m), Dockage Fees-Domestic ($0.048m), and Boarding Party Fee ($0.031m). The downward trend was brought by fewer shipping vessels coming to the port and the opening of the PII dock that took a slice of the pie on top of Prudent & Vigilant boats experiencing mechanical problems in FY2017.

Operating Expenses showed an unfavorable increase from $6.837 million to $7.040 million or a substantial increase of $0.203 million or 3%. Airport Division's operating expenses registered the most unfavorable increase amounting to $0.199 million. The increase in Operating Expenses for both division is accounted for as follows:

1. Depreciation Expense increased by $0.116 million or 3% vis-à-vis FY2016.

2. Pilotage Expenses was down by $0.053 million or 13% from $0.406 million to $0.353 million in FY2017. The same with Pilot Boat Expenses which registered a downward swing of $0.081 million or 24% from $0.338 million to $0.257 million in the current year.

3. The shrinkage of the aforementioned accounts was negated by the unfavorable increase of the following expenditures, viz:

   a) Salaries and Wages for both Seaport & Airport showed an aggregate amount of $1.164 million for FY2017 compared to $1.074 million for FY2016 or an increase of $0.090 million or 8 percentage points. This was due to the across the board increases for most employees and an upgrade of salaries of classified staff to a minimum wage as per GRMI law.

   b) Utilities also made its presence felt by registering a robust growth of $0.055 million or 22% from $0.248 million recorded earlier to $0.303 million for the current year.

   c) Training and Travel Expenses also took a wayward journey in FY2017 totaling $0.037 million or a 29% upward swing from $0.128 million to $0.166 million.

   d) Professional Fees showed its true colors by making a $0.017 million or a 95% increase from $0.017 million to $0.034 million for FY2017.

   e) Various Miscellaneous Expenses round up the expenditures that showed an upward swing amounting to $0.018 million from $0.098 million to $0.116 million.

Non-Operating Revenues (Expenses) showed a considerable turnaround due to the reversal of $0.500 million contribution by Ports Authority to GRMI General Fund but the recorded liability was reversed since this had not been existent in the GRMI books per confirmation made from the Ministry of Finance.

For Ports Authority, there are 2 mainstreams of Capital Contributions, namely the Grants Revenues from GRMI and the Grants Revenues from US Department of Transportation pass thru Federal Aviation Administration. These funds are considered Capital Contributions since they are given to the Ports Authority without directly providing goods and/or services.

1. For the year in review, Grants Revenues from the US plummeted tremendously from $7.092 million to $1.423 million or a decrease of $5.668 million or 80% due to the slowdown in the construction of Airport Improvement Projects and nearing its completion.

2. On the contrary, Grants Revenues from GRMI increased immensely from $0.079 million to $1.148 million due to the receipt of GRMI Subsidy amounting to $1.099 million which was earmarked to finance the impending Delap and Uliga Docks Repair Project with a contract price of $2.332 million.

Change in Net Position for FY2017 registered a lackluster performance as it only registers $0.015 million contra $4.558 million from prior year. The substantial reduction in change in net position amounting to $4.543 million or 100% stalled the growth in Net Position at End of Year which was pegged at $71.171 million versus the recorded amount a year ago of $71.156 million.

Overall, for fiscal period ending September 30, 2017, total net position of $71.171 million is regarded as strong and stable considering the ups and downs as described above.

VI. STATEMENT OF CASH FLOWS

The Statement of Cash Flows presents detailed information about cash receipts and cash payments of the Ports Authority. It helps users to assess the ability to generate future cash flows, the ability to meet obligations as they become due, and the need for external financing. It also shows how changes in Statement of Net Position and Statement of Revenues, Expenses and Changes in Net Position affect cash and breaks the analysis into operating, capital and noncapital related financing and investing activities.

Summary of Statement of Cash Flows

	2017	2016	Change	%	2015
Cash Provided by (used in):					
Operating Activities	$ 1,044,496	$ 1,452,396	$ (407,900)	(28)	$ 1,392,975
Capital & Related Financing Activities	160,506	(1,601,353)	1,761,859	110	(1,423,872)
Noncapital & Related Financing Activities	14,000	-	14,000	100	-
Investing Activities	110,000	-	110,000	100	-
Net Change in Cash	1,329,002	(148,957)	1,477,959	992	(30,897)
Cash at Beginning of Year	426,092	575,049	(148,957)	(26)	605,946
Cash at End of Year	$ 1,755,094	$ 426,092	$ 1,329,002	312	$ 575,049

Net change in cash position during the year showed a remarkable turnaround from a negative $0.149 million in FY2016 to a positive $1.329 million in FY2017, an increase of $1.478 million or 992%.

1. Cash inflows from operating activities were primarily from customers, e.g., airlines, shipping vessels, lessees, special/unscheduled flights, private businesses, government offices, and other related party entities with an aggregate amount of $4.047 million in FY2017 as compared to $4.026 million in FY2016. These moneys were used to pay various suppliers for goods and services amounting to $1.851 million and $1.479 million in FY2017 and FY2016, respectively. In addition, it was also used to pay employees for services rendered during FY2017 and FY2016 in the amount of $1.152 million and $1.095 million, respectively. The net cash provided by operating activities was a shortfall of $0.408 million from $1.452 million in FY2016 to $1.044 million in FY2017.

2. Net cash used for capital and related financing activities stood at $0.161 million for the current year, a gigantic leap from a negative $1.601 million in FY2016 or an increase of $1.762 million or a 110% turnaround. Cash inflows from capital and related financing activities amounted to $2.899 million in FY2017 and $7.019 million in FY2016 were used for the acquisition and construction of capital assets ($2.350 million in FY2017 and $8.231 million in FY2016) and payment of principal and related interest ($0.389 million in FY2017 and $0.389 million in FY2016) for Seaport and Airport loans from BOMI.

3. Net cash inflows from noncapital (GRMI thru NTC) amounting to $0.014 million was used for staff recertification as part of their professional development.

4. Net cash inflows from investing activities of $0.110 million was payment by AMI for the interest on their loan. Please take note that the Ports Authority previously booked this as a reduction in the Loan Receivable balance but later reclassified this as a reduction in Interest Receivable.

5. Generally, Ports Authority showed a very solid and strong cash position at the end of FY2017 at $1.755 million an increase of $1.329 million or 312% in comparison to FY2016 figures of $0.426 million.

VII. DIVISIONAL REVENUES AND EXPENSES

Airport and Seaport Combined Operating Revenues

	2017	2016	Change	%	2015
Operating revenues:					
Airport Division	$ 1,251,440	$ 1,145,305	$ 106,135	9	$1,115,245
Seaport Division	2,640,423	3,027,334	(386,911)	(13)	2,919,928
	$ 3,891,863	$ 4,172,639	$ (280,776)	(7)	$ 4,035,173

Please see above in-depth analysis of Airport and Seaport Combined Operating Revenues on Statement of Revenues, Expenses and Changes in Net Position.

Airport and Seaport Combined Operating Expenses

	2017	2016	Change	%	2015
Airport:					
Personnel	$ 609,385	$ 577,007	$ 32,378	6	$ 598,920
Maintenance and operations	4,466,862	4,300,078	166,784	4	3,633,304
	5,076,247	4,877,085	199,162	4	4,232,224
Seaport:					
Personnel	554,387	497,054	57,333	12	480,681
Maintenance and operations	1,409,583	1,462,665	(53,082)	(4)	1,369,878
	1,963,970	1,959,719	4,251	-	1,850,559
Combined operating expenses	$ 7,040,217	$ 6,836,804	$ 203,413	3	$ 6,082,783

Please see above in-depth analysis of Airport and Seaport Combined Operating Expenses on Statement of Revenues, Expenses and Changes in Net Position.

VIII. REVENUE PERFORMANCE INDICATORS AND ANALYSIS OF DIVISIONAL EXPENSES

AIRPORT REVENUE PERFORMANCE INDICATORS

SCHEDULED FLIGHTS - TRAFFIC

	2017	2016	Change	%	2015
United Airlines	315	316	(1)	(-)	321
Our Airline	93	100	(7)	(7)	105
Air Marshall Islands	789	614	175	29	354
Asia Pacific Airlines	123	205	(82)	(40)	237
	1,320	1,235	85	7	1,017

The increase in numbers of 85 or 7% from 1,235 to 1,320 Regular/Scheduled Flights for FY2017 failed to translate an increase in dollar amounts as total Landing Charges – Scheduled took a slight dive of $0.010 million or negative 5% from $0.229 in FY2016 to $0.219 million in FY2017. A closer look showed that the number of regular/scheduled flights from all the airlines sans Air Marshall Islands reduced the number of touchdowns at the Amata Kabua International Airport (AKIA).

DEPARTURE FEES - INTERNATIONAL

	2017	2016	Change	%	2015
Adults	13,582	11,819	1,763	5	11,871
Students	3,745	4,339	(594)	(14)	4,526
Others	-	-	-	-	2
	17,327	16,158	1,169	7	16,399

Departure Fees – International registered a modest increase of $0.027 million or 9% compared with the figures recorded earlier of $0.318 million to the numbers for the current year of $0.345 million. This was brought by the migration of islanders for a greener pasture in the land of the milk and honey. On the contrary, there was a modest reduction in the students' category by 594 or 14% from 4,339 in FY2016 to 3,745 in FY2017.

UNSCHEDULED/SPECIAL FLIGHT TRAFFIC

	2017	2016	Change	%	2015
Number of Flights (MTOW)					
0-45000	53	100	(47)	(47)	89
45001-90000	10	21	(11)	(52)	10
90001-up	128	160	(32)	(20)	170
	191	281	(90)	(32)	269

% to Total	2017	2016	2015
0-45000	28%	36%	33%
45001-900006	5%	7%	4%
90001-up	67%	57%	63%

Unscheduled/Special Flight Traffic took a major plunge as the number of flights in FY2017 of 191 flights paled in comparison to the 281 flights in FY2016. This is a major reduction of 90 flights for the given year which translated into a $0.016 million or a 21% modest reduction in revenues from $0.075 to $0.059 million for FY2017. Unscheduled/Special Flights should be taken seriously by all personnel concerned by attending to all the unscheduled/special flights regardless of time and giving paramount importance on the services provided. In addition, there should be a collaboration among the tower people, marshallers, ARFF, boarding party and the collector to entice these stakeholders to do more flights here.

Please see discussion of Airport Expenditures in the Statement of Revenues, Expenses and Changes in Net Position.

SEAPORT REVENUE PERFORMANCE INDICATORS

VESSELS ARRIVALS

	2017	2016	Change	%	2015
Cargo Vessels	70	63	7	11	85
Fishing Vessels - International	633	843	(210)	(25)	792
Fishing Vessels - Domestic	511	501	10	2	622
Foreign Tankers	24	16	8	50	17
Military Ships	7	7	-	-	1
Others	10	40	(30)	(75)	4
	1,255	1,470	(215)	(15)	1,521

As discussed in the Statement of Revenues, Expenses, and Changes in Net Position, all revenue streams in dollar amounts for Seaport Division virtually plummeted sans Domestic Vessel Entry Fees. This can also be gleaned from the table above as it shows a reduction of 215 vessels for the year round. The measly increases in number for Cargo, Fishing Vessels – Domestic and Foreign Tankers paled in comparison with the huge reduction in number of Fishing Vessels – International. This scenario has tremendously impacted the earning capacities of the Seaport as it only shows $2.900 million versus $2.532 million in FY2017 or a drop in revenue streams of $0.368 million or 13%.

MOVEMENTS

2017	2016	Change	%	2015
1,872	2,379	(507)	(21)	2,282

Corollary to the decline in the arrival of the vessels, both the Pilotage Fees and Pilot Boat Usage Fees took a major slump. Pilotage Fees settled at $0.788 million in FY2017 down from $0.896 million in FY2016, a substantial drop of $0.108 million or 12.01%. In the same light, Pilot Boat Usage Fees followed suit with the decline of $0.120 million, from $0.574 to $0.454 million in FY2017 or a negative change of 21 percentage points.

WHARFAGE FEES

	2017	2016	Change	%	2015
Metric tons	38,594	47,063	(8,469)	(18)	50,288
Revenue Tons					
Domestic	9,524	5,174	4,350	84	8,708
International	111,938	116,292	(4,354)	(4)	107,832

The slowdown in economic activities within the Pacific Rim had a tremendous ripple effect in the economy of the Marshall Islands. This is depicted in the drop of tonnage, volume and measurement for all International containers for the year in review. On the contrary, Domestic containers showed an encouraging growth in the current year. However, in terms of dollar amount, the Wharfage Fees plummeted by $0.025 million or 5% from $0.497 to $0.472 million.

BUNKERING FEES

	2017	2016	Change	%	2015
Fuel (barrel)	60,535	80,872	(20,337)	(25)	105,383
Water (gallon)	846,830	1,152,387	(305,557)	(27)	1,179,800

Again, since there was a slowdown in traffic of international containers, Bunkering Fees is not one to be left out as shown above. Bunkering Fees - Fuel showed a decrease of 20,337 barrels or 25% from 80,872 barrels in FY2016 to 60,535 barrels in FY2017. Bunkering Fee - Water registered practically the same percentage points with the Bunkering Fees – Fuel which stood at 27% or 305,557 gallons of water a drop from 1,152,387 gallons to 846,830 gallons for FY2017. In terms of dollar value, Fuel and Water Service Fees drop from $0.018 to $0.013 million or an unfavorable change of $0.005 million or 28%.

Please see discussion above for the Seaport Expenditures in the Statement of Revenues, Expenses and Changes in Net Position.

IX. ACTUAL VS. BUDGET COMPARISON

	Actual FY2017	Budget FY2017	Variance	%
Operating Revenues:				
Airport Division	$ 1,251,440	$ 1,160,419	$ 91,021	8
Seaport Division	2,640,423	2,897,181	(256,758)	(9)
	$ 3,891,863	$ 4,057,600	$ (165,737)	(4)
Operating Expenses:				
Airport Division	$ 1,458,468	$ 1,383,377	$ 75,091	5
Seaport Division	1,455,392	1,318,596	136,796	10
	$ 2,913,860	$ 2,701,973	$ 211,887	8
Depreciation and Amortization:				
Airport Division	$ 3,617,779	$ 3,120,993	$ 496,786	15.9
Seaport Division	508,578	525,441	(16,863)	(3)
	$ 4,126,357	$ 3,646,434	$ 479,923	13.2
Non-Operating Revenues (Expenses):				
Airport Division	$ 260,605	$ (29)	$ 260,634	8987
Seaport Division	330,835	42,001	288,834	688
	$ 591,440	$ 41,972	$ 549,468	1309
Capital Contributions:				
Airport Division	$ 1,423,382	$ -	$ 1,423,382	100
Seaport Division	1,148,488	-	1,148,488	100
	$ 2,571,870	$ -	$ 2,571,870	100
Change in Net Position:				
Airport Division	$ (2,140,820)	$ (3,343,980)	$ 1,203,160	(36)
Seaport Division	2,155,776	1,095,145	1,060,631	97
	$ 14,956	$ (2,248,835)	$ 2,263,791	101

The Change in Net Position for FY2017 registered a favorable variance of $2.264 million or 101% increment compared to the actual $0.015 vis-à-vis the budgeted negative $2.249 million. This was brought by the following:

1. There was an increase in Operating Revenues for the Airport Division due to the increase in Other Income specifically the Screening Fees which registered a 100% increase from nil to $0.089 million. This was the main reason why the actual versus the budgeted amount showed a favorable variance of $0.091 million for FY2017.

2. On the other hand, Seaport Division's projected revenue of $2.897 million paled in comparison to the actual amount of $2.640 million. Again, this was due to the slowdown in traffic of shipping vessels.

3. Both Airport and Seaport Divisions went above board in actual Operating Expenses for FY2017 compared to the projected amount on the same year. A total of $0.211 million or 8% unfavorable increase from $2.914 million contra $2.702 million on the same year.

4. Actual amount of Depreciation and Amortization came very close in relation to the Budgeted amount as the difference is practically negligible.

5. The enormous growth in Non-Operating Revenues (Expenses) resulted from the reversal of Ports Authority's contribution to the GRMI General Fund amounting to $0.500 million in the current year.

6. There was no budgeted Capital Contribution made in FY2017.

7. The Change in Net Position for both Airport and Seaport Divisions for FY2017 showed a favorable amount of $0.015 million. This was a complete turnaround from a budgeted amount of negative $2.249 million. It is worthy to note that Seaport's Division continuously enjoying the privilege of a strong and stable Net Position while the Airport's Division is practically lingering at the lowest ebb.

X. EXTERNAL FACTORS AND ECONOMIC OUTLOOK

- Migratory nature of tuna has a negative effect in the fishing vessels traffic to Majuro.

- The Runway Safety Area/Road Realignment Project including the Environmental Mitigation Revetment Project is expected to finish in fiscal year 2018. The completion will have a significant impact on the financial statements when the road is transferred to the RMI Government.

- The operating cash shortfall incurred by the Airport Division will continue and will get worse unless measures are implemented to increase revenues, invite new airline/s to operate in Majuro with the cooperation of the Government to improve tourism; or cost-cut the expenses without compromising the safety and security.

- As previously mentioned in the last fiscal year's audit, a Government policy was issued in May 17, 2012, which directed RMIPA to exempt certain port charges for vessels owned by Koo's Fishing Company. This policy has an adverse effect on RMIPA's financial performance. In FY 2012-FY 2017, the result will be a loss of port revenues of approximately $400,000.

  The RMIPA Board of Directors and Management had reviewed this Government Policy and had informed the Cabinet of the adverse effect on the financial performance of the Authority. The RMIPA expressed their concern to the Cabinet in a letter dated August 8, 2012.

  Since this was implemented, no update yet as of the time of writing this report if this policy will be lifted in favor of the RMI Ports Authority.

- The Ports Authority has a loan receivable of $237,702 (excluding interest of $11,910) from Air Marshall Islands as described in Note 5. AMI paid a total of $110,000 in FY2017 and the Ports Authority booked it as a reduction of the Loan Receivable balance but later on was reclassified and was recorded as a reduction of Interest Receivable.

XI. ADDITIONAL FINANCIAL INFORMATION

Management Discussion and Analysis for the year ended September 30, 2016 is set forth in the Port Authority's report on the audit of financial statements, which is dated June 19, 2017. The MD&A explains the major factors impacting the 2016 financial statements and can be obtained from the RMI Office of the Auditor-General website at www.rmiorg.com.

This report is designed to provide the Ports Authority's customers and other interested parties with an overview of the Ports Authority's financial condition, results of operations and changes in net position. 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, Capt. Josephius Tiobech at P.O. Box 109, Majuro, MH 96960 or visit our website at **www.rmipa.com**.

RMI PORTS AUTHORITY
(A COMPONENT UNIT OF THE REPUBLIC OF THE MARSHALL ISLANDS)

Statements of Net Position
September 30, 2017 and 2016

	2017	2016
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
Current assets:		
Cash	$ 1,755,094	$ 426,092
Time certificate of deposit	649,757	559,147
Receivables:		
Trade	589,162	697,602
Affiliates	981,585	1,028,657
Note receivable	237,702	237,702
Interest receivable	79,999	173,736
Grants receivable	600,313	927,506
Employees	23,173	21,218
	2,511,934	3,086,421
Less allowance for doubtful accounts	(1,500,070)	(1,500,070)
	1,011,864	1,586,351
Prepaid expenses and other assets	91,754	14,817
Total current assets	3,508,469	2,586,407
Restricted time certificate of deposit	1,700,000	1,700,000
Capital assets:		
Nondepreciable capital assets	10,862,260	31,474,657
Other capital assets, net of accumulated depreciation	56,479,646	37,862,987
Total assets	72,550,375	73,624,051
Deferred outflows of resources	567,816	851,723
	$ 73,118,191	$ 74,475,774
LIABILITIES AND NET POSITION		
Current liabilities:		
Current portion of notes payable	$ 147,717	$ 359,813
Accounts payable	32,810	27,850
Contracts payable	695,739	1,198,428
Payable to affiliates	499,392	569,966
Due to RepMar	285,714	785,714
Other liabilities and accruals	249,876	194,389
Total current liabilities	1,911,248	3,136,160
Noncurrent portion of notes payable	35,633	183,260
Total liabilities	1,946,881	3,319,420
Commitments and contingencies		
Net position:		
Net investment in capital assets	67,158,556	68,794,571
Unrestricted	4,012,754	2,361,783
Total net position	71,171,310	71,156,354
	$ 73,118,191	$ 74,475,774

See accompanying notes to financial statements.

RMI PORTS AUTHORITY
(A COMPONENT UNIT OF THE REPUBLIC OF THE MARSHALL ISLANDS)

Statements of Revenues, Expenses and Changes in Net Position
Years Ended September 30, 2017 and 2016

	2017	2016
Operating revenues:		
Seaport fees	$ 2,532,722	$ 2,900,263
Aviation fees	774,517	804,741
Concession and lease income	221,376	243,702
Other	363,248	317,230
	3,891,863	4,265,936
Bad debts expense	-	(93,297)
Total operating revenues	3,891,863	4,172,639
Operating expenses:		
Depreciation and amortization	4,126,357	4,010,599
Salaries and wages	1,163,772	1,074,060
Pilotage	353,194	406,008
Pilot boat	257,488	338,344
Land lease	291,180	291,180
Utilities	303,001	248,093
Training and travel	165,778	128,338
Insurance	75,144	71,427
Gas, oil, and fuel	60,710	55,141
Repairs and maintenance	41,469	51,197
Communications	40,084	32,559
Professional fees	34,014	17,465
Supplies	11,549	14,505
Miscellaneous	116,477	97,888
Total operating expenses	7,040,217	6,836,804
Operating loss	(3,148,354)	(2,664,165)
Nonoperating revenues (expenses):		
Other nonoperating revenue	514,000	-
Loss on disposal of capital assets	(56)	(4,975)
Interest income	106,873	110,948
Interest expense	(29,377)	(54,922)
Total nonoperating revenues, net	591,440	51,051
Loss before capital contributions	(2,556,914)	(2,613,114)
Capital contributions:		
Contributions from U.S. government	1,423,382	7,091,808
Contributions from RepMar	1,148,488	79,360
Total capital contributions	2,571,870	7,171,168
Change in net position	14,956	4,558,054
Net position at beginning of year	71,156,354	66,598,300
Net position at end of year	$ 71,171,310	$ 71,156,354

See accompanying notes to financial statements.

RMI PORTS AUTHORITY
(A COMPONENT UNIT OF THE REPUBLIC OF THE MARSHALL ISLANDS)

Statements of Cash Flows
Years Ended September 30, 2017 and 2016

	2017	2016
Cash flows from operating activities:		
Cash received from customers	$ 4,047,375	$ 4,025,783
Cash payments to suppliers for goods and services	(1,851,344)	(1,478,717)
Cash payments to employees for services	(1,151,535)	(1,094,670)
Net cash provided by operating activities	1,044,496	1,452,396
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(2,350,457)	(8,231,412)
Principal paid on long-term debt	(359,723)	(334,179)
Interest paid on long-term debt	(29,377)	(54,922)
Proceeds from sale of capital assets	1,000	501
Capital contributions received	2,899,063	7,018,659
Net cash provided by (used for) capital and related financing activities	160,506	(1,601,353)
Cash flows from noncapital and related financing activities:		
Contributions received	14,000	-
Cash flows from investing activities:		
Interest received	110,000	-
Net change in cash	1,329,002	(148,957)
Cash at beginning of year	426,092	575,049
Cash at end of year	$ 1,755,094	$ 426,092
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	$ (3,148,354)	$ (2,664,165)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation and amortization	4,126,357	4,010,599
Bad debts	-	93,297
(Increase) decrease in assets:		
Receivables:		
Trade	108,440	(147,146)
Affiliates	47,072	(93,007)
Other	(1,955)	6,110
Prepaid expenses and other assets	(76,937)	1,208
Increase (decrease) in liabilities:		
Accounts payable	4,960	(14,415)
Payable to affiliates	(70,574)	280,525
Other liabilities and accruals	55,487	(20,610)
Net cash provided by operating activities	$ 1,044,496	$ 1,452,396
Summary disclosure of noncash activities:		
Other nonoperating revenue	$ 500,000	$ -
Due to RepMar	(500,000)	-
	$ -	$ -

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 MIAA and MIPA 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, the Nitijela of RepMar passed Public Law No. 1999-86, which 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 (GAAP), as applicable to governmental entities, specifically proprietary funds.

GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as amended by GASB Statement No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus*, GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, and GASB Statement No. 61, *The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and No. 34,* 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.

(2) Summary of Significant Accounting Policies, Continued

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

- Net investment in capital assets – capital assets, net of accumulated depreciation and related debt, plus construction or improvement of those assets.

- Unrestricted – net position that is not subject to externally imposed stipulations. Unrestricted net position 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 GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and deferred outflows of resources, liabilities and deferred inflows of resources, 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 deferred outflows of resources, and liabilities and deferred inflows of resources associated with the operation of the fund are included in the statements of net position. Proprietary fund operating statements present increases and decreases in net position. 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.

Cash and Time Certificates of Deposit

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

(2) Summary of Significant Accounting Policies, Continued

Cash and Time Certificates of Deposit, Continued

For purposes of the statements of net position 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. As of September 30, 2017 and 2016, the carrying amount of cash and time certificates of deposit were $4,104,851 and $2,685,239, respectively, and the corresponding bank balances were $4,156,683 and $2,700,470, respectively. Of the bank balances, $1,806,926 and $441,323, respectively, were maintained in a financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance with $2,349,757 and $2,259,147, respectively, being maintained in a financial institution not subject to depository insurance. As of September 30, 2017 and 2016, 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. As of September 30, 2017 and 2016, a time certificate of deposit of $1,700,000 collateralized notes payable (see note 6).

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. Individual items with a cost of $500 or greater are capitalized. 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, which 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 apron upgrade	15 years

Taxes

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

(2) Summary of Significant Accounting Policies, Continued

Compensated Absences

Vested or accumulated vacation leave is recorded as an expense and liability as the benefits accrue to employees. No liability is recorded for nonvesting accumulating rights to receive sick benefits. As of September 30, 2017 and 2016, an accumulated vacation leave liability of $62,630 and $68,784, respectively, is included within the accompanying statements of net position as other liabilities and accruals.

Deferred Outflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (deduction of net position) until then. As of September 30, 2017 and 2016, the Authority recognized deferred outflows of resources of $567,816 and $851,723, respectively, as the result of the transfer of asset ownership by the Authority to the Federal Aviation Admission (FAA). The Authority will continue to benefit from the asset in future periods.

Deferred Inflows of Resources

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (addition to net position) until then. The Authority has no items that qualify for reporting in this category.

New Accounting Standards

During the year ended September 30, 2017, the following pronouncements were implemented:

- GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, which aligns the reporting requirements for pensions and pension plans not covered in GASB Statements 67 and 68 with the reporting requirements in Statement 68.

- GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, as amended*, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, and addresses financial reporting requirements for governments whose employees are provided with postemployment benefits other than pensions (other postemployment benefits or OPEB).

- GASB Statement No. 77, *Tax Abatement Disclosures*, which requires governments that enter into tax abatement agreements to disclose certain information about the agreements.

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

- GASB Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, which addresses a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*.

- GASB Statement No. 80, *Blending Requirements for Certain Component Units - an amendment of GASB Statement No. 14*, which improves financial reporting by clarifying the financial statement presentation requirements for certain component units.

- GASB Statement No. 82, *Pension Issues - an amendment of GASB Statements No. 67, No. 68, and No. 73*, which addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

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

In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, and provides guidance on reporting by governments that provide OPEB to their employees and for governments that finance OPEB for employees of other governments. The provisions in Statement No. 75 are effective for fiscal years beginning after June 15, 2017. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In March 2016, GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements,* which improves accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The provisions in Statement No. 81 are effective for fiscal years beginning after December 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In November 2016, GASB issued Statement No. 83, *Certain Asset Retirement Obligations*, which addresses accounting and financial reporting for certain asset retirement obligations (AROs) associated with the retirement of a tangible capital asset. The provisions in Statement No. 83 are effective for fiscal years beginning after June 15, 2018. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*, which establishes criteria for identifying fiduciary activities of all state and local governments. The provisions in Statement No. 84 are effective for fiscal years beginning after December 15, 2018. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In March 2017, GASB issued Statement No. 85, *Omnibus 2017*, which address practice issues that have been identified during implementation and application of certain GASB Statements including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits). The provisions in Statement No. 85 are effective for fiscal years beginning after June 15, 2017. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In May 2017, GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*, which improves consistency in accounting and financial reporting for in-substance defeasance of debt. The provisions in Statement No. 86 are effective for fiscal years beginning after June 15, 2017. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In June 2017, GASB issued Statement No. 87, *Leases*, which establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The provisions in Statement No. 87 are effective for fiscal years beginning after December 15, 2019. Management has yet to determine whether the implementation of this statement will have a material effect on the financial statements.

(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 for the past three years.

(4) Property, Plant and Equipment

Capital asset activity for the years ended September 30, 2017 and 2016, is as follows:

	October 1, 2016	Additions	Transfers	Reductions	September 30, 2017
Facilities	$ 21,150,539	$ -	$ 2,331,218	$ -	$ 23,481,757
Buildings	13,556,174	-	85,487	-	13,641,661
Equipment	938,835	-	-	(182,331)	756,504
Vehicles	2,260,517	22,348	-	(36,077)	2,246,788
Office furniture, fixtures and equipment	519,333	14,549	545,542	(126,670)	952,754
Roadway	11,571,137	-	19,461,021	-	31,032,158
Runway apron upgrade	26,157,818	-	-	-	26,157,818
	76,154,353	36,897	22,423,268	(345,078)	98,269,440
Less accumulated depreciation	(38,291,366)	(3,842,450)	-	344,022	(41,789,794)
	37,862,987	(3,805,553)	22,423,268	(1,056)	56,479,646
Construction work-in-progress	31,474,657	1,810,871	(22,423,268)	-	10,862,260
	$ 69,337,644	$ (1,994,682)	$ -	$ (1,056)	$ 67,341,906

	October 1, 2015	Additions	Transfers	Reductions	September 30, 2016
Facilities	$ 21,034,314	$ -	$ 116,225	$ -	$ 21,150,539
Buildings	19,330,436	-	(5,774,262)	-	13,556,174
Equipment	1,010,152	901	-	(72,218)	938,835
Vehicles	2,224,931	123,320	2,987	(90,721)	2,260,517
Office furniture, fixtures and equipment	457,234	-	80,404	(18,305)	519,333
Roadway	-	-	11,571,137	-	11,571,137
Runway apron upgrade	26,157,818	-	-	-	26,157,818
	70,214,885	124,221	5,996,491	(181,244)	76,154,353
Less accumulated depreciation	(35,898,880)	(3,726,691)	1,158,437	175,768	(38,291,366)
	34,316,005	(3,602,470)	7,154,928	(5,476)	37,862,987
Construction work-in-progress	30,299,515	8,330,070	(7,154,928)	-	31,474,657
	$ 64,615,520	$ 4,727,600	$ -	$ (5,476)	$ 69,337,644

In September 2015, the Authority transferred ownership of $1,135,632 of Non-Directional Beacon assets to the FAA. The amount forms part of the Authority's deferred outflows of resources.

(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, 2017 and 2016 and related receivable and payable balances as of September 30, 2017 and 2016, is as follows:

	2017			
	Revenues	Expenses	Receivables	Payables
RepMar	$ 2,795	$ 320,733	$ 158,547	$ 378,311
Air Marshall Islands, Inc.	69,286	550	575,109	29,950
Marshalls Energy Company, Inc.	93,242	301,575	-	22,970
Marshall Islands Shipping Corporation	44,957	-	204,628	-
Marshall Islands Social Security Administration	-	-	-	51,890
Marshall Islands National Telecommunications Authority	-	39,382	1,494	8,023
Tobolar Copra Processing Authority	20,774	-	6,612	-
Other	7,073	254,253	35,195	8,248
	$ 238,127	$ 916,493	$ 981,585	$ 499,392

	2016			
	Revenues	Expenses	Receivables	Payables
RepMar	$ 3,300	$ 327,547	$ 218,387	$ 523,615
Air Marshall Islands, Inc.	68,368	52,277	521,615	-
Marshalls Energy Company, Inc.	107,229	237,140	-	-
Marshall Islands Shipping Corporation	82,332	82,332	268,156	-
Marshall Islands Social Security Administration	-	85,008	-	45,357
Marshall Islands National Telecommunications Authority	115	29,969	244	-
Tobolar Copra Processing Authority	4,860	-	9,852	-
Other	5,954	6,769	10,403	994
	$ 272,158	$ 821,042	$ 1,028,657	$ 569,966

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 $237,702 at September 30, 2017 and 2016. The loan bears interest fixed at 8% per annum and is payable in 30 monthly installments of $11,560 beginning September 30, 2010. AMI has been delinquent since February 2011. Outstanding accrued interest is $11,910 and $107,385 at September 30, 2017 and 2016, respectively, which is included in interest receivable in the accompanying statements of net position. The allowance for doubtful accounts provided for related parties, which includes an allowance for the note and related interest receivable, aggregated $1,217,520 and $1,360,055 as of September 30, 2017 and 2016, respectively.

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 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, 2017 and 2016, the Authority compensated qualified pilots, who were employees and directors of the Authority, for pilotage services of $160,761 and $188,042, respectively.

(5) Related Party Transactions, Continued

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.

Public Laws No. 2011-58 and No. 2010-43 authorized annual $500,000 distributions from the Authority to RepMar's General Fund for fiscal years 2011 and 2012. As of September 30, 2017 and 2016, the Authority was liable to RepMar in the amount of $285,714 and $785,714, respectively, pertaining to these authorized distributions. During the year ended September 30, 2017, the Authority recorded $500,000 adjustment to Due to RepMar and is included in other nonoperating revenue in the accompanying statements of revenues, expenses, and changes in net position. The Authority is currently negotiating with RepMar for forgiveness of the foregoing liabilities and adjustment, if any, will be recorded prospectively.

(6) Long-term Debt

Long-term debt at September 30, 2017 and 2016 is as follows:

	2017	2016
Bank loan in the original amount of $1,000,000, dated October 12, 2012, interest at 7.5% per annum, with principal and interest payable in monthly installments of $20,125 through October 30, 2017, collateralized by a time certificate of deposit. Loan proceeds were used to finance various capital improvement projects.	$ 19,838	$ 250,380
Bank loan in the original amount of $700,000, dated January 11, 2013, interest at 7% per annum, with principal and interest payable in monthly installments of $12,300 through December 31, 2018, collateralized by a time certificate of deposit. Loan proceeds were used to finance various capital improvement projects.	163,512	292,693
	$ 183,350	$ 543,073

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

Year ending September 30,	Principal	Interest	Total
2018	$ 147,717	$ 8,517	$ 156,234
2019	35,633	445	36,078
	$ 183,350	$ 8,962	$ 192,312

(6) Long-term Debt, Continued

Changes in notes payable for the years ended September 30, 2017 and 2016, are as follows:

2017				
Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
$ 543,073	$ -	$ (359,723)	$ 183,350	$ 147,717

2016				
Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
$ 877,252	$ -	$ (334,179)	$ 543,073	$ 359,813

(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, 2017 and 2016 amounted to $40,009 and $35,966, respectively.

The Authority is under a lease agreement with the Marshall Islands Shipping Corporation to lease out warehouse space. Additional rental income under this lease for the years ended September 30, 2017 and 2016 amounted to $0 and $30,272, respectively4. The current lease terms require a minimum monthly $2,557 payment.

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

Year ending September 30,	
2018	$ 213,100
2019	159,700
2020	129,500
2021	61,200
2022	14,400
2023 - 2025	17,800
Total	$ 595,700

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

U.S. Federal Grants

As of September 30, 2017, the Authority has been awarded a total of $81,634,630 of grant awards from the United States Department of Transportation. As of September 30, 2017, $1,428,915 has not been received and expended for various capital projects.

Others

In November 2012, the Authority's Board of Directors 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 achieve a resolution of this 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.

(9) Retirement plan

The Authority provides a defined contribution retirement savings plan (the Plan) for the benefit of eligible employees. An employee is eligible to become a member of the Plan following the completion of the three months continuous employment. Plan participants may contribute a minimum of $10 of their salaries to be matched 100% by the Authority up to 5% of base salaries. Withdrawal from the Plan occurs upon termination of employment, death, or financial hardship. Plan assets are held in a trust fund administered by a trustee in accordance with the trust agreement. Contributions under the plan are at the discretion of the Authority and management has the authority to establish or amend Plan provisions and contribution requirements. The Authority contributed $38,493 and $35,083 to the plan participant accounts during the years ended September 30, 2017 and 2016, respectively, and total plan assets were $178,265 and $110,714 as of September 30, 2017 and 2016, respectively.

(10) Subsequent Event

On November 24, 2017, the Cabinet approved the transfer of re-aligned road at the west side of the airport from the Authority to the Ministry of Works, Infrastructure and Utilities.

RMI PORTS AUTHORITY

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

Combining Divisional Statement of Revenues, Expenses and Changes in Net Position

Year Ended September 30, 2017

	Airport Division	Seaport Division	Total
Operating revenues:			
Seaport fees	$ -	$ 2,532,722	$ 2,532,722
Aviation fees	774,517	-	774,517
Concession and lease income	122,168	99,208	221,376
Other	354,755	8,493	363,248
	1,251,440	2,640,423	3,891,863
Operating expenses:			
Depreciation	3,333,872	508,578	3,842,450
Salaries and wages	609,385	554,387	1,163,772
Pilotage	-	353,194	353,194
Pilot boat	-	257,488	257,488
Land lease	254,931	36,249	291,180
Amortization of deferred outflow of resources	283,907	-	283,907
Utilities	260,661	42,340	303,001
Training and travel	116,355	49,423	165,778
Insurance	30,674	44,470	75,144
Gas, oil, and fuel	38,686	22,024	60,710
Repairs and maintenance	25,413	16,056	41,469
Communications	25,672	14,412	40,084
Professional fees	19,714	14,300	34,014
Supplies	3,549	8,000	11,549
Miscellaneous	73,428	43,049	116,477
Total operating expenses	5,076,247	1,963,970	7,040,217
Operating (loss) income	(3,824,807)	676,453	(3,148,354)
Nonoperating revenues (expenses):			
Other nonoperating revenue	264,000	250,000	514,000
Loss on disposal of capital assets	500	(556)	(56)
Interest income	14,525	92,348	106,873
Interest expense	(18,420)	(10,957)	(29,377)
Total nonoperating revenues, net	260,605	330,835	591,440
Income (loss) before capital contributions	(3,564,202)	1,007,288	(2,556,914)
Capital contributions:			
Contributions from U.S. government	1,423,382	-	1,423,382
Contributions from RepMar	-	1,148,488	1,148,488
Total capital contributions	1,423,382	1,148,488	2,571,870
Change in net position	(2,140,820)	2,155,776	14,956
Net position at beginning of year	55,638,322	15,518,032	71,156,354
Net position at end of year	$ 53,497,502	$ 17,673,808	$ 71,171,310

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Directors
RMI Ports Authority:

We have audited, 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, the financial statements of RMI Ports Authority (the Authority), which comprise the statement of net position as of September 30, 2017, and the related statements of revenues, expenses and changes in net position and of cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated June 27, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Questioned Costs as item 2017-001 that we consider to be material weaknesses.

Deloitte.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The Authority's Response to Findings

The Authority's response to the findings identified in our audit is described in the accompanying corrective action plan. The Authority's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express not opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Deloitte + Touche LLP

June 27, 2018

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE

Board of Directors
RMI Ports Authority:

Report on Compliance for the Major Federal Program

We have audited RMI Ports Authority's (the Authority's) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the Authority's major federal program for the year ended September 30, 2017. The Authority's major federal program is identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the Authority's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the Authority's compliance.

Opinion on the Major Federal Program

In our opinion, the Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended September 30, 2017.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying Schedule of Findings and Questioned Costs as item 2017-001. Our opinion on the major federal program is not modified with respect to these matters.

The Authority's response to the noncompliance findings identified in our audit is described in the accompanying corrective action plan. The Authority's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of the Authority is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Authority's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we did identify certain deficiencies in internal control over compliance, described in the accompanying Schedule of Findings and Questioned Costs as item 2017-001, that we consider to be significant deficiencies.

The Authority's response to the internal control over compliance findings identified in our audit is described in the corrective action plan. Example Entity's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Deloitte.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the Authority as of and for the year ended September 30, 2017, and have issued our report thereon dated June 27, 2018, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the Uniform Guidance 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 Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the financial statements as a whole.

Deloitte + Touche LLP

June 27, 2018

RMI PORTS AUTHORITY

Schedule of Expenditures of Federal Awards
Year Ended September 30, 2017

Program Title	Grant Number	Program or Award Amount	Balance October 1, 2016	Cash Receipts FY17	Expenditures/ Adjustments FY17	Excess of Authorization Over Program Expenditures
Funds received in a direct capacity:						
U.S. Department of Transportation:						
CFDA # 20.106						
Airport Improvement Program						
FAA-GIS	AIP 3-68-0001-11	$ 500,000	$ 7,821	$ (7,821)	$ -	$ -
Improve Runway Safety Area (Relocate Service Road) - Phase III	AIP 3-68-0001-13	12,000,000	322,800	(422,796)	-	(99,996)
Airport Security Perimeter Fence (Phase II)	AIP 3-68-0001-14	2,000,000	496,607	(35,354)	51,071	512,324
Environmental Mitigation (Construct Revetment)	AIP 3-68-0001-15	7,500,000	100,278	(1,134,666)	958,307	(76,081)
Prepare SMS Manual and Implementation Plan	AIP 3-68-0001-16	150,000	-	(149,040)	149,040	-
E-Vault (Technical Assistance)	AIP 3-68-0001-17	300,000	-	(898)	264,964	264,066
Total U.S. Department of Transportation		$ 22,450,000	$ 927,506	$ (1,750,575)	$ 1,423,382	$ 600,313

The Schedule of Expenditures of Federal Awards is presented on the accrual basis of accounting.

The Authority does not elect to use the de minimis indirect cost rate allowed under the Uniform Guidance.
.
The above expenditures reconcile to the underlying basic financial statements as follows:
Construction work-in-progress (included within additions of $1,810,871).

RMI PORTS AUTHORITY
(A COMPONENT UNIT OF THE REPUBLIC OF THE MARSHALL ISLANDS)

Schedule of Findings and Questioned Costs
Year Ended September 30, 2017

PART I - SUMMARY OF AUDITORS' RESULTS SECTION

Financial Statements

1.	Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP:	Unmodified
	Internal control over financial reporting:	
2.	Material weakness(es) identified?	Yes
3.	Significant deficiency(ies) identified?	None reported
4.	Noncompliance material to financial statements noted?	No
	Federal Awards	
	Internal control over major federal programs:	
5.	Material weakness(es) identified?	No
6.	Significant deficiency(ies) identified?	Yes
7.	Type of auditors' report issued on compliance for major federal programs:	Unmodified
8.	Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	Yes
9.	Identification of major federal programs:	

CFDA Number	Name of Federal Program or Cluster
20.106	Airport Improvement Program

10.	Dollar threshold used to distinguish between Type A and Type B Programs:	$750,000
11.	Auditee qualified as low-risk auditee?	No

PART II- FINANCIAL STATEMENT FINDINGS SECTION

Reference Number	Finding
2017-001	Capital Assets

PART III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS SECTION

Reference Number	Finding	Questioned Costs
2017-001	Equipment and Real Property Management	$ -

Finding No.:	2017-001
Federal Agency:	Department of Transportation
CFDA Program:	20.106 Airport Improvement Programs
Area:	Equipment and Real Property Management
Area:	Capital Assets
Questioned Costs:	$0

Criteria:

In accordance with the applicable equipment management requirements, property records must be maintained that include a description of the property, a serial number or other identification number, the source of funding for the property, who holds title, the acquisition date, and cost of the property, percentage of Federal participation in the project costs for the Federal award under the property was acquired, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sale price of the property.

Condition:

1. Fixed asset records did not meet the criteria above and were not effectively maintained since updated records were not available until May 2018.

2. Property records show incomplete description of serial number or other identification number.

3. Fixed assets disposals have not been recorded and reconciled to inventory records as of September 30, 2017.

4. As the fixed assets records are not effectively maintained, it does not appear that the Authority has effectively developed means to adequately safeguard fixed assets from loss, damage, theft, or to reasonably investigate such occurrences.

Cause:

The lack of internal control policies and procedures satisfy compliance with federal property rules and regulations. Moreover, internal control policies and procedures requiring periodic and timely performance and independent review of fixed assets reconciliations and related general ledger accounts are lacking.

Effect:

The effect of the above conditions is noncompliance with applicable equipment management requirements and possible misstatement of fixed assets and related accounts.

Finding No.:	2017-001, Continued
Federal Agency:	Department of Transportation
CFDA Program:	20.106 Airport Improvement Programs
Area:	Equipment and Real Property Management
Area:	Capital Assets
Questioned Costs:	$0

Recommendation:

The Authority should perform an inventory of fixed assets as a basis for recording all assets in the financial statement, complete such inventory in accordance with applicable property rules and regulations. Furthermore, we recommend that the Authority develop adequate internal control policies and procedures requiring periodic and timely performance and independent review of fixed assets reconciliation and related general ledger accounts.

Auditee Response and Corrective Action Plan: The Authority describes corrective action plan in the Corrective Action Plan.

RMI PORTS AUTHORITY

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FINDING NUMBER	PLANNED CORRECTIVE ACTION	ANTICIPATED COMPLETION DATE	RESPONSIBLE CONTACT PERSON
2017-001	The RMI Ports Authority agrees with the auditor's finding and will implement corrective measures and appropriate policies and procedures as needed to protect its assets and property.	September 30, 2018	Comptroller, Wilfredo Cristobal

PREPARED BY:

WILFREDO D. CRISTOBAL
COMPTROLLER

APPROVED BY:

JOSEPHIUS TIOBECH
DIRECTOR

RMI PORTS AUTHORITY
(A COMPONENT UNIT OF THE REPUBLIC OF THE MARSHALL ISLANDS)

Schedule of Prior Audit Findings and Questioned Costs
Year Ended September 30, 2017

There are no unresolved prior audit findings and questioned costs.