

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, 2014 AND 2013

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

Table of Contents
Years Ended September 30, 2014 and 2013

	<u>Page No.</u>
I. INDEPENDENT AUDITORS' REPORT	1
II. MANAGEMENT'S DISCUSSION AND ANALYSIS	3
III. FINANCIAL STATEMENTS:	
Statements of Net Position	11
Statements of Revenues, Expenses and Changes in Net Position	12
Statements of Cash Flows	13
Notes to Financial Statements	14
IV. OTHER SUPPLEMENTARY INFORMATION:	
Combining Divisional Statement of Revenues, Expenses and Changes in Net Position	25
V. INDEPENDENT AUDITORS' REPORTS ON INTERNAL CONTROL AND ON COMPLIANCE	
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 <i>Government Auditing Standards</i>	26
Independent Auditors' Report on Compliance for Each Major Program; Report on Internal Control Over Compliance; and Report on the Schedule of Expenditures of Federal Awards Required by OMB Circular A-133	28
Schedule of Expenditures of Federal Awards	30
Schedule of Findings and Questioned Costs	31
Schedule of Prior Audit Findings and Questioned Costs	32

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, 2014 and 2013, 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, 2014 and 2013, 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.

Other Matters

Required Supplementary Information

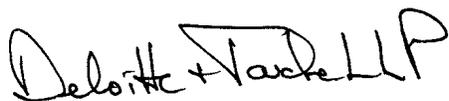
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 10 be presented to supplement the financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental 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 22, 2015, 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 to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financing 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.

A handwritten signature in black ink that reads "Deloitte + Touche LLP". The signature is written in a cursive, stylized font.

June 22, 2015

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

Management's Discussion and Analysis
Years Ended September 30, 2014 and 2013

I) INTRODUCTION

Our discussion and analysis of the financial performance of airport and seaport divisions of the RMI Ports Authority (Ports Authority) provides an overview of Ports Authority's financial activities presented in the audited financial statements for the fiscal year ending September 30, 2014. 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, 2014, Ports Authority had 71 full-time employees. Composition is as follows: 2 in Administration; 7 in Finance; 5 in Airport Administration/Operations/Tower; 7 in Seaport Administration/Operations; 12 in Maintenance; and 38 in Security. Out of the 38 Security Officers, 12 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 the 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.

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

III) FINANCIAL HIGHLIGHTS

- For fiscal period ending September 30, 2014, total net position was \$63,089,095, an increase of \$5,756,334 from prior fiscal year. The major contributor in the increase was mainly due to the increase of the capital assets and ongoing project RSA/Road Realignment Project, which is expected to finish in fiscal year 2015.

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

Management's Discussion and Analysis
Years Ended September 30, 2014 and 2013

- Total operating revenues increased by \$1.03 million or 29%. The Seaport Division is the major contributor for the increase in fiscal year 2014 by \$774,102 or 30%. The increase was due to the increase in number of vessels arrivals and movements.
- Total operating expenses, inclusive of depreciation, was \$6.6 million for fiscal year in 2014. It increased by 12% or \$709,720 compared to last year. The details including other expense accounts will be discussed on the Divisional Performance of this report.
- The Ports Authority incurred an operating loss of \$1.9 million for fiscal year 2014. This is a decrease in operating loss by 13% compared to last year. The decrease in the operating loss was caused by the increase in the operating revenues. RMIPA generated a positive operating income of \$1.5 million excluding Depreciation in FY 2014.
- The overall performance of the Ports Authority is good this fiscal year 2014.

IV. STATEMENTS OF NET POSITION

	<u>2014</u>	<u>2013</u>	<u>Change</u>	<u>%</u>	<u>2012</u>
Current assets	\$ 2,644,379	\$ 2,274,091	\$ 370,288	16	\$ 4,102,782
Non-current assets	1,700,000	1,700,000	-	-	295,000
Property, plant, and equipment, net	<u>62,524,771</u>	<u>57,006,664</u>	<u>5,518,107</u>	<u>10</u>	<u>50,432,872</u>
Total Assets	<u>\$ 66,869,150</u>	<u>\$ 60,980,755</u>	<u>\$ 5,888,395</u>	<u>10</u>	<u>\$ 54,830,654</u>
Current liabilities	\$ 2,896,275	\$2,454,443	\$441,832	18	\$ 3,916,189
Non-current liabilities	883,780	1,193,551	(309,771)	(26)	-
Net position	<u>63,089,095</u>	<u>57,332,761</u>	<u>5,756,334</u>	<u>10</u>	<u>50,914,465</u>
Total Liabilities and Net Position	<u>\$ 66,869,150</u>	<u>\$ 60,980,755</u>	<u>\$ 5,888,395</u>	<u>10</u>	<u>\$ 54,830,654</u>

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

Management's Discussion and Analysis
Years Ended September 30, 2014 and 2013

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

	<u>2014</u>	<u>2013</u>	<u>Change</u>	<u>%</u>	<u>2012</u>
Operating Revenues:					
Airport Division	\$ 1,282,136	\$ 1,024,596	\$ 257,540	25	\$ 919,829
Seaport Division	<u>3,353,677</u>	<u>2,579,575</u>	<u>774,102</u>	30	<u>2,102,170</u>
	<u>\$ 4,635,813</u>	<u>\$ 3,604,171</u>	<u>\$ 1,031,642</u>	29	<u>\$ 3,021,999</u>
Operating Expenses:					
Airport Division	\$ 4,698,310	\$ 4,238,237	\$ 460,073	11	\$ 6,015,791
Seaport Division	<u>1,880,262</u>	<u>1,630,615</u>	<u>249,647</u>	15	<u>1,601,497</u>
	<u>\$ 6,578,572</u>	<u>\$ 5,868,852</u>	<u>\$ 709,720</u>	12	<u>\$ 7,617,288</u>
Non-Operating Revenues (Expenses):					
Airport Division	\$ (27,065)	\$ (25,502)	\$ (1,563)	6	\$ (223,839)
Seaport Division	<u>(26,597)</u>	<u>43,246</u>	<u>(69,843)</u>	(162)	<u>(161,211)</u>
	<u>\$ (53,662)</u>	<u>\$ 17,744</u>	<u>\$ (71,406)</u>	(402)	<u>\$ (385,050)</u>
Capital Contributions:					
Airport Division	\$ 7,697,081	\$ 8,665,233	\$ (968,152)	(11)	\$ 3,766,816
Seaport Division	<u>55,674</u>	<u>-</u>	<u>55,674</u>	100	<u>-</u>
	<u>\$ 7,752,755</u>	<u>\$ 8,665,233</u>	<u>\$ (912,478)</u>	(11)	<u>\$ 3,766,816</u>
Change in Net Position:					
Airport Division	\$ 4,253,843	\$ 5,426,090	\$ (1,172,247)	(22)	\$ (1,552,985)
Seaport Division	<u>1,502,491</u>	<u>992,206</u>	<u>510,285</u>	51	<u>339,462</u>
	<u>\$ 5,756,334</u>	<u>\$ 6,418,296</u>	<u>\$ (661,962)</u>	(10)	<u>\$ (1,213,523)</u>

VI. CAPITAL ASSETS

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Office Furniture, fixtures, and equipment \$	361,744	\$ 461,910	\$ 460,770
Transportation Equipment	2,209,145	2,193,200	2,144,270
Facilities	21,005,474	21,042,130	18,875,524
Equipment	1,320,357	1,412,184	1,031,605
Buildings	19,313,064	19,319,624	19,372,102
Runway Apron	26,157,818	26,157,818	26,157,818
Computer Software/Website	<u>63,173</u>	<u>-</u>	<u>-</u>
Totals	70,430,775	70,586,866	68,042,089
Less: Accumulated Depreciation	<u>(32,935,226)</u>	<u>(29,911,144)</u>	<u>(26,652,278)</u>
	37,495,549	40,675,722	41,389,811
Construction work-in-progress	<u>25,029,222</u>	<u>16,330,942</u>	<u>9,043,061</u>
	<u>\$ 62,524,771</u>	<u>\$ 57,006,664</u>	<u>\$ 50,432,872</u>

Please refer to Note 4 of the financial statements for additional information regarding RMIPA's capital assets

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

Management's Discussion and Analysis
Years Ended September 30, 2014 and 2013

VII. LONG-TERM DEBT

	<u>2014</u>	<u>2013</u>	<u>2012</u>
BOMI - Seaport	\$ 661,563	\$ 845,899	\$ 53,434
BOMI - Airport	<u>528,551</u>	<u>635,108</u>	<u>-</u>
	<u>\$ 1,190,114</u>	<u>\$ 1,481,007</u>	<u>\$ 53,434</u>

Please refer to Note 6 of the financial statements for additional information regarding the RMIPA's long-term debt.

VIII. REVENUE AND EXPENSE ANALYSIS

Airport and Seaport Combined Operating Revenues

	<u>2014</u>	<u>2013</u>	<u>Change</u>	<u>%</u>	<u>2012</u>
Operating Revenues:					
Airport Division	\$ 1,282,136	\$ 1,024,596	\$ 257,540	25	\$ 919,829
Seaport Division	<u>3,353,677</u>	<u>2,579,575</u>	<u>774,102</u>	<u>30</u>	<u>2,102,170</u>
	<u>\$ 4,635,813</u>	<u>\$ 3,604,171</u>	<u>\$ 1,031,642</u>	<u>29</u>	<u>\$ 3,021,999</u>

The Airport and Seaport Divisions have been experiencing an increasing revenue trend for the past three years. For the Airport, the major contributors are the departure fees and the special flights. For the Seaport, the number of arrivals and movements have increased in fiscal year 2014.

The Airport Division has generated more in the operating revenues this year compared to last fiscal year by 25% while the Seaport Division has generated 30% more this year compared to last fiscal year.

Airport and Seaport Combined Operating Expenses

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Airport			
Personnel expense	\$ 698,137	\$ 608,156	\$ 781,591
Maintenance and operations expense	<u>4,000,173</u>	<u>3,630,081</u>	<u>5,234,200</u>
	<u>4,698,310</u>	<u>4,238,237</u>	<u>6,015,791</u>
Seaport			
Personnel expense	509,067	507,209	509,373
Maintenance and operations expense	<u>1,371,195</u>	<u>1,123,406</u>	<u>1,092,124</u>
	<u>1,880,262</u>	<u>1,630,615</u>	<u>1,601,497</u>
Combined Operating Expenses	<u>\$ 6,578,572</u>	<u>\$ 5,868,852</u>	<u>\$ 7,617,288</u>

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

Management's Discussion and Analysis
Years Ended September 30, 2014 and 2013

IX. REVENUE PERFORMANCE STATISTICS

AIRPORT DIVISION

SCHEDULED FLIGHTS - TRAFFIC

	<u>2014</u>	<u>2013</u>	<u>Change</u>	<u>%</u>	<u>2012</u>
United Airline	311	321	(10)	(3)	312
Our Airline	88	61	27	44	-
Air Marshall Island	299	413	(114)	(28)	345
Asia Pacific Airlines	<u>227</u>	<u>206</u>	<u>21</u>	<u>10</u>	<u>202</u>
	<u>925</u>	<u>1,001</u>	<u>(76)</u>	<u>(8)</u>	<u>859</u>

DEPARTURE FEES - INTERNATIONAL

	<u>2014</u>	<u>2013</u>	<u>Change</u>	<u>%</u>	<u>2012</u>
Adults	11,425	10,323	1,102	11	9,613
Students	4,977	4,425	552	12	3,061
Others	-	-	-	-	40
	<u>16,402</u>	<u>14,748</u>	<u>1,654</u>	<u>11</u>	<u>12,714</u>

UNSCHEDULED/SPECIAL FLIGHT TRAFFIC

	<u>2014</u>	<u>2013</u>	<u>Change</u>	<u>%</u>	<u>2012</u>
Number of Flights (MTOW)					
0-45000	120	73	47	64	81
45001-90000	23	14	9	64	34
90001-up	<u>201</u>	<u>142</u>	<u>59</u>	<u>42</u>	<u>145</u>
	<u>344</u>	<u>229</u>	<u>115</u>	<u>50</u>	<u>260</u>
% to Total	<u>2014</u>	<u>2013</u>	<u>2012</u>		
0-45000	34.88%	32%	31%		
45001-90000	.69%	6%	13%		
90001-up	58.43%	62%	56%		

In FY 2014, air traffic for unscheduled flights increased by 50% while scheduled flights decreased by 8%.

Departure fees increased by 11%.

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

Management's Discussion and Analysis
Years Ended September 30, 2014 and 2013

SEAPORT DIVISION

VESSELS ARRIVALS

	<u>2014</u>	<u>2013</u>	<u>Change</u>	<u>%</u>	<u>2012</u>
Cargo Vessels	125	119	6	5	56
Fishing Vessels - International	830	526	304	58	474
Fishing Vessels - Domestic	658	549	109	20	651
Foreign Tankers	19	20	(1)	(5)	16
Military ships	2	5	(3)	(60)	4
Others	<u>5</u>	<u>13</u>	<u>(8)</u>	<u>(62)</u>	<u>7</u>
	<u>1,639</u>	<u>1,232</u>	<u>407</u>	<u>33</u>	<u>1,208</u>

Vessels traffic during fiscal year 2014 has increased by 33% or by 407 vessels compared to last fiscal year 2013. International fishing vessels have increased significantly by 58% or by 304 vessels.

	<u>2014</u>	<u>2013</u>	<u>Change</u>	<u>%</u>	<u>2012</u>
MOVEMENTS	2,360	1,723	637	37	1,558

The movements also increased by 37% or by 637 in the fiscal year 2014.

WHARFAGE FEES

	<u>2014</u>	<u>2013</u>	<u>Change</u>	<u>%</u>
Metric Tons	54,721	66,298	(11,577)	(17)
Revenue Tons				
Domestic	8,099	9,501	(1,402)	(15)
International	<u>104,925</u>	<u>103,032</u>	<u>1,893</u>	<u>2</u>
	<u>167,745</u>	<u>178,831</u>	<u>(11,086)</u>	<u>(6)</u>

The wharfage, on the other hand, decreased by 6%. Domestic wharfage decreased by 15% while wharfage on petroleum decreased by 17%.

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

Management's Discussion and Analysis
Years Ended September 30, 2014 and 2013

VIII) BUDGET COMPARISONS (Current vs. Next)

	<u>FY 2015</u>	<u>FY 2014</u>	<u>Variance</u>	<u>%</u>
Operating Revenues:				
Airport Division	\$ 1,152,219	\$ 997,470	\$ 154,749	16
Seaport Division	<u>3,051,089</u>	<u>2,626,146</u>	<u>424,943</u>	16
	<u>\$ 4,203,308</u>	<u>\$ 3,623,616</u>	<u>\$ 579,692</u>	16
Operating Expenses:				
Airport Division	\$ 1,347,857	\$ 1,614,600	(266,743)	(17)
Seaport Division	<u>1,277,104</u>	<u>1,336,667</u>	<u>(59,563)</u>	(4)
	<u>\$ 2,624,961</u>	<u>\$ 2,951,267</u>	<u>\$ (326,306)</u>	(11)
Depreciation and amortization:				
Airport Division	\$ 2,969,516	\$ 4,463,890	\$ (1,494,374)	(33)
Seaport Division	<u>500,420</u>	<u>490,608</u>	<u>9,812</u>	2
	<u>\$ 3,469,936</u>	<u>\$ 4,954,498</u>	<u>\$ (1,484,562)</u>	(30)
Non-Operating Revenues (Expenses):				
Airport Division	\$ (17,965)	\$ (25,979)	\$ 8,014	(31)
Seaport Division	<u>46,080</u>	<u>49,538</u>	<u>(3,458)</u>	(7)
	<u>\$ 28,115</u>	<u>\$ 23,559</u>	<u>\$ 4,556</u>	19
Change in Net Position:				
Airport Division	\$ (3,183,119)	\$ (5,106,999)	\$ 1,923,880	(38)
Seaport Division	<u>1,319,645</u>	<u>848,409</u>	<u>471,236</u>	56
	<u>\$ (1,863,474)</u>	<u>\$ (4,258,590)</u>	<u>\$ 2,395,116</u>	(56)

IX) RELATED PARTY TRANSACTIONS

The receivables from government entities and agencies increased from \$748,602 as of September 30, 2013 to \$856,459 as of September 30, 2014. Please see the table below for details:

	As of Sep 30, 2014	As of Sep 30, 2013
AMI - Accounts Receivable	\$ 436,210	\$ 394,845
Directorate of Civil Aviation	29,441	27,166
Marshall Islands Shipping Corporation	150,970	116,456
Marshall Energy Company	50,320	19,058
Ministry of Public Works	16,231	16,343
Ministry of Transportation and Communication	128,882	128,882
Ministry of Finance	28,399	28,039
Other	<u>16,006</u>	<u>17,813</u>
	<u>\$ 856,459</u>	<u>\$ 748,602</u>

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

Management's Discussion and Analysis
Years Ended September 30, 2014 and 2013

X) CASHFLOW PROJECTION

The Ports Authority's general fund cash balance as of September 30, 2014 is \$ 656,785. In the approved budget in FY 2015, the Ports Authority had projected to pay \$1.13 million for its AIP matching. This amount, however, does not include yet the CIP projects and Capital Expenditures, which were projected at \$600,000 and \$191,234, respectively. The total budget appropriations for AIP, CIP, and CAPEX is \$1.9 million.

As of March 2015, the total amount already expended was \$495,483. It is expected that all its AIP projects included in the approved budget will finish in FY 2015.

The amount above does not include yet the amount of loans from BOMI, the details can be found on page 6 under "Long-Term Debt."

XI) EXTERNAL FACTORS AND ECONOMIC OUTLOOK

- Migratory nature of tuna and increases in the cost of fuel will have a negative effect in the fishing vessels traffic to Majuro.
- The Runway Safety Area/Road Realignment Project is expected to finish in fiscal year 2015. This will increase capital assets in fiscal year 2015.
- The operating cash shortfall incurred by the Airport Division will continue and will get worse unless measures are implemented to increase revenues or cost-cut the expenses without compromising the safety and security.
- As previously mentioned on 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 2014, the result will be a loss of port revenues of approximately \$ 285,675.***
- 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.
- The Authority has a loan receivable of \$237,702 (excluding interest) with AMI as described in Note 5. There is a possibility that the loan receivable may not be recoverable. But, management of the Authority is currently working on the alternative arrangements to ensure collection of this loan receivable. In addition to this loan, the Authority has a receivable from AMI of \$ 436,210 included in accounts receivable related to the landing charges, office rental, and electricity, as the Authority is currently subsidizing AMI for its lease and electricity. This amount has been included in the allowance for doubtful accounts. In the event this will no longer be recovered; this will be a possible loss on the part of RMIPA.

XII. ADDITIONAL FINANCIAL INFORMATION

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

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

Statements of Net Position
September 30, 2014 and 2013

<u>ASSETS</u>	<u>2014</u>	<u>2013</u>
Current assets:		
Cash	\$ 605,945	\$ 502,154
Time certificate of deposit	426,297	329,999
Receivables:		
Trade	504,786	475,330
Affiliates	856,459	748,602
Note receivable	237,702	237,702
Interest receivable	118,574	129,183
Grants receivable	1,119,333	672,247
Employees	23,707	18,678
	<u>2,860,561</u>	<u>2,281,742</u>
Less allowance for doubtful accounts	(1,297,614)	(856,694)
	<u>1,562,947</u>	<u>1,425,048</u>
Prepaid expenses and other assets	49,190	16,890
Total current assets	<u>2,644,379</u>	<u>2,274,091</u>
Restricted time certificate of deposit	1,700,000	1,700,000
Capital assets:		
Nondepreciable capital assets	25,029,222	16,330,942
Other capital assets, net of accumulated depreciation	37,495,549	40,675,722
	<u>\$ 66,869,150</u>	<u>\$ 60,980,755</u>
<u>LIABILITIES AND NET POSITION</u>		
Current liabilities:		
Current portion of note payable	\$ 306,334	\$ 287,456
Accounts payable	52,006	59,077
Contracts payable	1,372,860	881,118
Payable to affiliates	209,924	277,988
Due to RepMar	785,714	785,714
Other liabilities and accruals	169,437	163,090
Total current liabilities	<u>2,896,275</u>	<u>2,454,443</u>
Noncurrent portion of note payable	883,780	1,193,551
Total liabilities	<u>3,780,055</u>	<u>3,647,994</u>
Commitments and contingencies		
Net position:		
Net investment in capital assets	61,334,657	55,525,657
Unrestricted	1,754,438	1,807,104
Total net position	<u>63,089,095</u>	<u>57,332,761</u>
	<u>\$ 66,869,150</u>	<u>\$ 60,980,755</u>

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, 2014 and 2013

	2014	2013
Operating revenues:		
Seaport fees	\$ 3,144,260	\$ 2,439,265
Aviation fees	860,300	747,014
Concession and lease income	205,048	210,791
Other	426,205	207,101
	4,635,813	3,604,171
Allowance for doubtful debts	(451,354)	(84,543)
Total operating revenues	4,184,459	3,519,628
Operating expenses:		
Depreciation	3,308,278	3,345,134
Salaries and wages	1,092,362	990,649
Pilotage	462,794	326,528
Utilities	373,923	364,170
Land lease	291,180	273,180
Pilot boat	193,546	146,344
Training and travel	83,483	91,235
Gas, oil, and fuel	71,331	51,284
Repairs and maintenance	70,031	25,106
Insurance	69,030	61,429
Communications	30,117	35,617
Professional fees	18,010	13,781
Supplies	12,099	7,293
Miscellaneous	51,034	52,559
Total operating expenses	6,127,218	5,784,309
Operating loss	(1,942,759)	(2,264,681)
Nonoperating revenues (expenses):		
(Loss) gain on disposal of capital assets	(41,145)	879
Interest income	85,689	119,990
Interest expense	(98,206)	(103,125)
Total nonoperating (expenses) revenues, net	(53,662)	17,744
Loss before capital contributions	(1,996,421)	(2,246,937)
Capital contributions:		
Contributions from U.S. government	7,691,881	8,635,647
Contributions from RepMar	60,874	29,586
Total capital contributions	7,752,755	8,665,233
Change in net position	5,756,334	6,418,296
Net position at beginning of year	57,332,761	50,914,465
Net position at end of year	\$ 63,089,095	\$ 57,332,761

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, 2014 and 2013

	2014	2013
Cash flows from operating activities:		
Cash received from customers	\$ 4,488,066	\$ 3,363,374
Cash payments to suppliers for goods and services	(1,846,921)	(1,418,662)
Cash payments to employees for services	(1,078,136)	(992,484)
Net cash provided by operating activities	1,563,009	952,228
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(8,376,088)	(11,491,434)
Proceeds from issuance of long-term debt	-	1,700,000
Principal paid on long-term debt	(290,893)	(272,427)
Interest paid on long-term debt	(98,206)	(103,125)
Proceeds from sale of capital assets	300	954
Capital contributions received	7,305,669	9,639,550
Net cash used for capital and related financing activities	(1,459,218)	(526,482)
Net change in cash	103,791	425,746
Cash at beginning of year	502,154	76,408
Cash at end of year	\$ 605,945	\$ 502,154
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	\$ (1,942,759)	\$ (2,264,681)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation	3,308,278	3,345,134
Bad debts	451,354	84,543
(Increase) decrease in assets:		
Receivables:		
Trade	(39,890)	(21,675)
Affiliates	(107,857)	(93,255)
Other	(5,029)	(3,046)
Prepaid expenses and other assets	(32,300)	28,543
Increase (decrease) in liabilities:		
Accounts payable	(7,071)	43,902
Payable to affiliates	(68,064)	(134,824)
Other liabilities and accruals	6,347	(32,413)
Net cash provided by operating activities	\$ 1,563,009	\$ 952,228

See accompanying notes to financial statements.

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

Notes to Financial Statements
September 30, 2014 and 2013

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

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

Notes to Financial Statements
September 30, 2014 and 2013

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

Basis of Accounting

Proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operation of the fund are included in the statements of net 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.

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

Notes to Financial Statements
September 30, 2014 and 2013

(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, 2014 and 2013, the carrying amount of cash and time certificates of deposit were \$2,732,242 and \$2,532,153, respectively, and the corresponding bank balances were \$2,937,654 and \$2,540,330, respectively. Of the bank balances, \$813,275 and \$502,389, respectively, were maintained in a financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance with the remaining balances maintained in a non-FDIC bank. As of September 30, 2014 and 2013, 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, 2014 and 2013, time certificates 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.

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

Notes to Financial Statements
September 30, 2014 and 2013

(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, 2014 and 2013, an accumulated vacation leave liability of \$91,466 and \$82,280, respectively, is included in other liabilities and accruals of the accompanying statements of net position.

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, deferred outflows of resources, 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. The Authority has no items that qualify for reporting in this category.

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, deferred inflows of resources, 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, 2014, the Authority implemented the following pronouncements:

- GASB Statement No. 66, *Technical Corrections - 2012*, which enhances the usefulness of financial reports by resolving conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting. The implementation of this statement did not have a material effect on the accompanying financial statements.
- GASB Statement No. 67, *Financial Reporting for Pension Plans*, which revises existing guidance for the financial reports of most pension plans. The implementation of this statement did not have a material effect on the accompanying financial statements.
- GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, which requires a state or local government guarantor that offers a nonexchange financial guarantee to another organization or government to recognize a liability on its financial statements when it is more likely than not that the guarantor will be required to make a payment to the obligation holders under the agreement. The implementation of this statement did not have a material effect on the accompanying financial statements.

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

Notes to Financial Statements
September 30, 2014 and 2013

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*, which revises and establishes new financial reporting requirements for most governments that provide their employees with pension benefits. The provisions in Statement 68 are effective for fiscal years beginning after June 15, 2014. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Authority.

In January 2013, GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations*, which improves accounting and financial reporting for state and local governments' combinations and disposals of government operations. Government combinations include mergers, acquisitions, and transfers of operations. A disposal of government operations can occur through a transfer to another government or a sale. The provisions in Statement 69 are effective for fiscal years beginning after December 15, 2013. Management has not yet determined the effect of implementation of this statement on the financial statements of the Authority.

In November 2013, GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*, which addresses an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. The provisions in Statement 71 are effective for fiscal years beginning after June 15, 2014. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Authority.

(3) Risk Management

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Authority has elected to purchase commercial insurance from independent third parties for the risks of loss to which it is exposed with the exception of its dock facilities or operations (note 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.

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

Notes to Financial Statements
September 30, 2014 and 2013

(4) Property, Plant and Equipment

Capital asset activity for the years ended September 30, 2014 and 2013, is as follows:

	October 1, 2013	Additions	Transfers	Reductions	September 30, 2014
Facilities	\$ 21,042,130	\$ -	\$ -	\$ (36,656)	\$ 21,005,474
Buildings	19,319,624	-	3,079	(9,639)	19,313,064
Equipment	1,412,184	1,137	-	(92,964)	1,320,357
Vehicles	2,193,200	84,618	-	(68,673)	2,209,145
Office furniture, fixtures and equipment	461,910	20,743	59,973	(117,709)	424,917
Runway apron upgrade	<u>26,157,818</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>26,157,818</u>
	70,586,866	106,498	63,052	(325,641)	70,430,775
Less accumulated depreciation	<u>(29,911,144)</u>	<u>(3,308,278)</u>	<u>-</u>	<u>284,196</u>	<u>(32,935,226)</u>
	40,675,722	(3,201,780)	63,052	(41,445)	37,495,549
Construction work-in-progress	<u>16,330,942</u>	<u>8,761,332</u>	<u>(63,052)</u>	<u>-</u>	<u>25,029,222</u>
	<u>\$ 57,006,664</u>	<u>\$ 5,559,552</u>	<u>\$ -</u>	<u>\$ (41,445)</u>	<u>\$ 62,524,771</u>

	October 1, 2012	Additions	Transfers	Reductions	September 30, 2013
Facilities	\$ 18,875,524	\$ -	\$ 2,166,606	\$ -	\$ 21,042,130
Buildings	19,372,102	95,082	(145,871)	(1,689)	19,319,624
Equipment	1,031,605	13,385	401,261	(34,067)	1,412,184
Vehicles	2,144,270	71,335	-	(22,405)	2,193,200
Office furniture, fixtures and equipment	460,770	29,322	-	(28,182)	461,910
Runway apron upgrade	<u>26,157,818</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>26,157,818</u>
	68,042,089	209,124	2,421,996	(86,343)	70,586,866
Less accumulated depreciation	<u>(26,652,278)</u>	<u>(3,345,134)</u>	<u>-</u>	<u>86,268</u>	<u>(29,911,144)</u>
	41,389,811	(3,136,010)	2,421,996	(75)	40,675,722
Construction work-in-progress	<u>9,043,061</u>	<u>9,709,877</u>	<u>(2,421,996)</u>	<u>-</u>	<u>16,330,942</u>
	<u>\$ 50,432,872</u>	<u>\$ 6,573,867</u>	<u>\$ -</u>	<u>\$ (75)</u>	<u>\$ 57,006,664</u>

(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.

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

Notes to Financial Statements
September 30, 2014 and 2013

(5) Related Party Transactions, Continued

A summary of related party transactions for the years ended September 30, 2014 and 2013 and related receivable and payable balances as of September 30, 2014 and 2013, is as follows:

	2014			
	<u>Revenues</u>	<u>Expenses</u>	<u>Receivables</u>	<u>Payables</u>
Air Marshall Islands, Inc.	\$ 68,749	\$ 68,749	\$ 436,210	\$ -
Bank of the Marshall Islands	35,880	98,206	-	-
Directorate of Civil Aviation	2,275	2,275	29,441	-
Majuro Atoll Waste Company	-	6,221	-	509
Majuro Water and Sewer Company, Inc.	-	182	-	-
Marshalls Energy Company, Inc.	-	373,740	50,320	67,656
Marshall Islands Postal Services Authority	1,800	-	-	-
Marshall Islands Shipping Corporation	46,811	34,855	150,970	-
Marshall Islands Visitors Authority	960	-	1,190	-
Marshall Islands Marine Resources Authority	-	-	915	-
Ministry of Education	-	-	3,625	-
Ministry of Health Services	255	-	4,378	-
Ministry of Internal Affairs	-	-	650	-
Ministry of Public Works	245	-	16,231	-
Ministry of Resources and Development	-	-	126	-
Marshall Islands Social Security Administration	-	89,737	-	44,882
Marshall Islands National Telecommunications Authority	130	28,603	130	-
Ministry of Finance	225	292,297	28,399	12,043
Ministry of Transportation and Communication	1,200	-	128,882	84,834
Tobolar Copra Processing Authority	-	-	4,992	-
Other	495	-	-	-
	<u>\$ 123,145</u>	<u>\$ 896,659</u>	<u>\$ 856,459</u>	<u>\$ 209,924</u>

	2013			
	<u>Revenues</u>	<u>Expenses</u>	<u>Receivables</u>	<u>Payables</u>
Air Marshall Islands, Inc.	\$ 67,334	\$ 45,571	\$ 394,845	\$ -
Directorate of Civil Aviation	4,117	4,117	27,166	-
Marshall Islands National Telecommunications Authority	121	34,548	-	793
Marshall Islands Shipping Corporation	34,735	34,855	116,456	-
Marshall Islands Social Security Administration	-	78,053	-	-
Marshalls Energy Company, Inc.	-	364,002	19,058	58,836
Ministry of Public Works	-	-	16,343	-
Ministry of Transportation and Communication	-	-	28,882	34,638
Ministry of Finance	330	249,033	28,039	182,559
Other	4,319	567	17,813	1,162
	<u>\$ 110,956</u>	<u>\$ 810,746</u>	<u>\$ 748,602</u>	<u>\$ 277,988</u>

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

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

Notes to Financial Statements
September 30, 2014 and 2013

(5) Related Party Transactions, Continued

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, 2014 and 2013. 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 in delinquent since February 2011. Outstanding accrued interest is \$70,603 and \$52,212 at September 30, 2014 and 2013, 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 \$1,113,125 and \$725,422 as of September 30, 2014 and 2013, 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, 2014 and 2013, the Authority compensated qualified pilots, who were employees and directors of the Authority, for pilotage services of \$238,130 and \$157,286, respectively.

On April 1, 2007, the Authority entered into a memorandum of understanding (MOU) with RepMar's Ministry of Finance to transfer the responsibility of lease payments to the Authority for parcels of land under the Authority's jurisdiction based on ground leases executed by RepMar. Under the MOU, the Authority shall pay the Ministry of Finance an annual lease payment of \$281,444, payable in four equal quarterly installments of \$70,361 (see note 7). On February 18, 2011, the Authority entered into an amended MOU to reimburse the Ministry of Finance an additional \$54,126 for certain lease payments made by RepMar to various landowners on certain lands controlled or occupied by the Authority. This amount covered periods from 2007 to the first quarter of 2011. The revised annual lease payment of \$294,180 is payable in four equal quarterly installments of \$73,545, commencing February 18, 2011. As of September 30, 2014, the amount was fully paid.

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, 2014 and 2013, the Authority was liable to RepMar in the amount of \$785,714 pertaining to these authorized distributions. The Authority is currently negotiating with RepMar for forgiveness of the foregoing liabilities and any adjustment will be recorded prospectively.

The Authority is also liable to RepMar for \$134,724 pertaining to electric bills dating back to 2004. The Authority's liability to RepMar amounting to \$134,724 was written-off in 2014.

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

Notes to Financial Statements
September 30, 2014 and 2013

(6) Long-term Debt

Long-term debt at September 30, 2014 and 2013 is as follows:

	<u>2014</u>	<u>2013</u>
Loan with bank 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.	\$ 661,563	\$ 845,899
Loan with bank 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.	<u>528,551</u>	<u>635,108</u>
	<u>\$ 1,190,114</u>	<u>\$ 1,481,007</u>

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

<u>Year ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 306,334	\$ 82,766	\$ 389,100
2016	333,653	55,447	389,100
2017	359,723	29,377	389,100
2018	159,032	8,518	167,550
2019	<u>31,372</u>	<u>445</u>	<u>31,817</u>
	<u>\$ 1,190,114</u>	<u>\$ 176,553</u>	<u>\$ 1,366,667</u>

Changes in notes payable for the years ended September 30, 2014 and 2013, are as follows:

2014				
<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
\$ <u>1,481,007</u>	\$ <u> -</u>	\$ <u>(290,893)</u>	\$ <u>1,190,114</u>	\$ <u>306,334</u>
2013				
<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
\$ <u>53,434</u>	\$ <u>1,700,000</u>	\$ <u>(272,427)</u>	\$ <u>1,481,007</u>	\$ <u>287,456</u>

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

Notes to Financial Statements
September 30, 2014 and 2013

(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, 2014 and 2013 amounted to \$37,512 and \$39,419, respectively.

The Authority is under a lease agreement with a shipping company to lease out warehouse space. The current terms of the lease require a minimum monthly payment of \$2,905.

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

<u>Year ending</u> <u>September 30,</u>	
2015	\$ 176,100
2016	101,000
2017	45,900
2018	42,000
2019	39,200
2020 - 2025	<u>65,500</u>
Total	\$ <u>469,700</u>

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

U.S. Federal Grants

As of September 30, 2014, the Authority has been awarded a total of \$79,125,830 of grant awards from the United States Department of Transportation. As of September 30, 2014, \$14,068,385 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 the matter.

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

Notes to Financial Statements
September 30, 2014 and 2013

(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 retirement savings 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. Contributions under plan are at the discretion of the Authority. The Authority contributed \$24,455 to the plan for the year ended September 30, 2014.

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, 2014

	Airport Division	Seaport Division	Total
Operating revenues:			
Seaport fees	\$ -	\$ 3,144,260	\$ 3,144,260
Aviation fees	860,300	-	860,300
Concession and lease income	81,134	123,914	205,048
Other	<u>340,702</u>	<u>85,503</u>	<u>426,205</u>
	1,282,136	3,353,677	4,635,813
Bad debt expense	<u>(391,174)</u>	<u>(60,180)</u>	<u>(451,354)</u>
Total operating revenues	<u>890,962</u>	<u>3,293,497</u>	<u>4,184,459</u>
Operating expenses:			
Depreciation	2,832,397	475,881	3,308,278
Salaries and wages	631,525	460,837	1,092,362
Utilities	347,549	26,374	373,923
Land lease	254,931	36,249	291,180
Pilotage	-	462,794	462,794
Training and travel	54,706	28,777	83,483
Pilot boat	-	193,546	193,546
Insurance	40,933	28,097	69,030
Gas, oil, and fuel	50,158	21,173	71,331
Professional fees	9,423	8,587	18,010
Communications	15,757	14,360	30,117
Repairs and maintenance	36,727	33,304	70,031
Supplies	6,330	5,769	12,099
Miscellaneous	<u>26,700</u>	<u>24,334</u>	<u>51,034</u>
Total operating expenses	<u>4,307,136</u>	<u>1,820,082</u>	<u>6,127,218</u>
Operating (loss) income	<u>(3,416,174)</u>	<u>1,473,415</u>	<u>(1,942,759)</u>
Nonoperating revenues (expenses):			
Loss on disposal of capital assets	(4,413)	(36,732)	(41,145)
Interest income	18,390	67,299	85,689
Interest expense	<u>(41,042)</u>	<u>(57,164)</u>	<u>(98,206)</u>
Total nonoperating expenses, net	<u>(27,065)</u>	<u>(26,597)</u>	<u>(53,662)</u>
(Income) loss before capital contributions	(3,443,239)	1,446,818	(1,996,421)
Capital contributions:			
Contributions from U.S. government	7,697,081	-	7,697,081
Contributions from RepMar	<u>-</u>	<u>55,674</u>	<u>55,674</u>
Total capital contributions	<u>7,697,081</u>	<u>55,674</u>	<u>7,752,755</u>
Change in net position	4,253,842	1,502,492	5,756,334
Net position at beginning of year	<u>45,604,961</u>	<u>11,727,800</u>	<u>57,332,761</u>
Net position at end of year	<u>\$ 49,858,803</u>	<u>\$ 13,230,292</u>	<u>\$ 63,089,095</u>

See accompanying independent auditor's report.

**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, 2014, 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 22, 2015.

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.

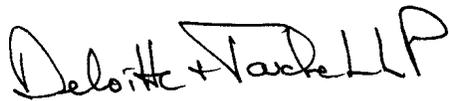
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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*.

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.

A handwritten signature in black ink that reads "Deloitte + Touche LLP". The signature is written in a cursive, stylized font.

June 22, 2015

**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 OMB CIRCULAR A-133**

Board of Directors
RMI Ports Authority:

Report on Compliance for Each Major Federal Program

We have audited RMI Ports Authority's (the Authority's) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on the Authority's major federal program for the year ended September 30, 2014. 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 the requirements of laws, regulations, contracts, and grants 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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, 2014.

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 OMB Circular A-133, 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.

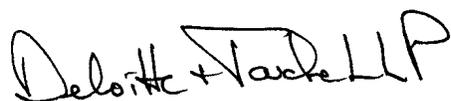
A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement 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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by OMB A-133

We have audited the financial statements of the Authority as of and for the year ended September 30, 2014, and have issued our report thereon dated June 22, 2015, 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 OMB Circular A-133 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.



June 22, 2015

RMI PORTS AUTHORITY

Schedule of Expenditures of Federal Awards
Year Ended September 30, 2014

Program Title	Grant Number	Program or Award Amount	Balance October 1, 2013	Cash Receipts FY14	Expenditures/ Adjustments FY14	Excess of Authorization Over Program Expenditures
Funds received in a direct capacity:						
<u>U.S. Department of Transportation:</u>						
<u>CFDA # 20.106</u>						
<u>Airport Improvement Program</u>						
Improve Runway Safety Area (Relocate Service Road) - Phase I	Project #3-68-0001-09	\$ 9,200,000	\$ -	\$ (1,200,000)	\$ 1,200,000	\$ -
Improve Runway Safety Area (Relocate Service Road) - Phase II	Project #3-68-0001-10	3,450,000	-	(245,613)	319,419	73,806
FAA-GIS	Project #3-68-0001-11	500,000	21,391	(86,513)	65,122	-
Airport Security Perimeter Fence	Project #3-68-0001-12	200,000	12,221	(79,863)	111,871	44,229
Improve Runway Safety Area (Relocate Service Road) - Phase III	Project #3-68-0001-13	12,000,000	638,635	(5,549,751)	5,807,352	896,236
Airport Security Perimeter Fence (Phase II)	Project #3-68-0001-14	2,000,000	-	(83,055)	188,117	105,062
Total U.S. Department of Transportation		<u>\$ 27,350,000</u>	<u>\$ 672,247</u>	<u>\$ (7,244,795)</u>	<u>\$ 7,691,881</u>	<u>\$ 1,119,333</u>

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

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

Schedule of Findings and Questioned Costs
Year Ended September 30, 2014

PART I - SUMMARY OF AUDITORS' RESULTS SECTION

Financial Statements

- | | |
|--|---------------|
| 1. Type of auditors' report issued: | Unmodified |
| Internal control over financial reporting: | |
| 2. Material weakness(es) identified? | No |
| 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? | None reported |
| 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 section 510(a) of OMB Circular A-133? | No |
| 9. Identification of major federal programs: | |

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
20.106	Airport Improvement Program

- | | |
|--|-----------|
| 10. Dollar threshold used to distinguish between Type A and Type B Programs: | \$300,000 |
| 11. Auditee qualified as low-risk auditee? | No |

PART II- FINANCIAL STATEMENT FINDINGS SECTION

No matters were reported.

PART III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS SECTION

No matters were reported.

**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, 2014

There are no unresolved prior audit findings and questioned costs.