# 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, 2019 AND 2018

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

Table of Contents
Years Ended September 30, 2019 and 2018

Deloitte.

Deloitte & Touche LLP
361 South Marine Corps Drive
Tamuning, GU 96913-3973
USA

Tel: +1 (671) 646-3884
Fax: +1 (671) 649-4265

www.deloitte.com

# 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, 2019 and 2018, 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, 2019 and 2018, 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.

***Emphasis of Matters***

*Contingency*

As disclosed in Note 8 to the financial statements, the Authority is currently negotiating with a customer to determine the ultimate collectability of certain receivables. Our opinion is not modified with respect to this matter.

*COVID-19*

As discussed in Note 10 to the financial statements, the Authority determined that the travel restrictions caused by COVID-19 pandemic negatively impact its business, results of operations and net position. The Authority is unable to reasonably estimate its ultimate financial impact. Our opinion is not modified with respect to this matter.

**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 on page 28 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 July 6, 2020, 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

July 6, 2020

## I. INTRODUCTION

Our discussion and analysis of the financial performance of the Airport and Seaport Divisions of the RMI Ports Authority (Authority) provides an overview of the Authority's financial activities presented in the audited financial statements for the fiscal year ended September 30, 2019. This discussion and analysis should be read in conjunction with the more detailed information contained within the accompanying audited financial statements.

The Authority is a component unit of the Republic of the Marshall Islands (RepMar) 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 the 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, the Authority has the overall responsibilities in management, operations and maintenance of all airport and seaport facilities in Majuro, except for the fish base facilities.

On March 1, 2018, the Authority entered into an agreement with the Kwajalein Atoll Local Government (KALGOV) transferring duties and responsibilities of establishment, maintenance, and operation of the Ebeye Port from KALGOV to the Authority. Effective March 1, 2018, all Ebeye Port employees became employees of the Authority.

As of September 30, 2019, Ports Authority had 84 full-time employees. Composition is as follows: 4 in Administration; 7 in Finance; 5 in Airport Administration/Operations/Tower; 7 in Seaport Administration/Operations; 11 in Maintenance; 42 Security; and 8 in Ebeye. Out of the 42 Security Officers, 10 are cross-trained and certified as airport firefighters.

## II. OVERVIEW OF FINANCIAL STATEMENTS

The 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).

The Authority 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 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 Authority is financially stable at the beginning of the year or at the end of the year.

- For fiscal year ended September 30, 2019, total net position was $62.571 million, a significant decrease of $2.851 million from $65.422 million or 4% from prior fiscal year.

- Total operating revenues increased by $0.664 million or 16%. The performance indicators will explain the increase as explained in this report (please refer to the Revenue Performance Indicators and Divisional Expenses of this report).

## III. FINANCIAL HIGHLIGHTS, CONTINUED

- Total operating expenses, inclusive of depreciation and amortization, was $7.781 million for FY2019. It increased by $0.754 million or 11% compared to FY2018. The details will be discussed on the Revenue Performance Indicators and Divisional Expenses of this report.

- The Authority incurred an operating loss of $2.946 million for FY2019. The amount is slightly higher than the amount from last year's figure of $2.856 million. The major drivers in the increase in the operating loss was caused by the increase in practically all expense streams.

Management Discussion and Analysis (MD&A) for the year ended September 30, 2018 is set forth in the RMI Ports Authority's report on the audit of financial statements, which is dated June 26, 2019. The MD&A explains the major factors impacting the 2018 financial statements and can be obtained from the RMI Office of the Auditor-General website at www.rmioag.com.

## IV. STATEMENT OF NET POSITION

The Statement of Net Position presents the overall financial condition of Ports Authority at the end of September 30, 2019.

**Summary of Statement of Net Position**
As of September 30

| | 2019 | 2018 | $ Change 2019-2018 | % Change 2019-2018 | 2017 |
|---|---|---|---|---|---|
| Assets: | | | | | |
| Current and other assets | $ 5,572,363 | $ 5,620,299 | $ (47,936) | (0.9)% | $ 5,208,469 |
| Capital assets | 58,430,742 | 60,650,732 | (2,219,990) | (3.7)% | 67,704,806 |
| Total assets | 64,003,105 | 66,271,031 | (2,267,926) | (3.4)% | 72,913,275 |
| Deferred outflows | - | 283,907 | (283,907) | (100.0)% | 567,816 |
| Total assets and deferred outflows of resources | 64,003,105 | 66,554,938 | (2,551,833) | (3.8)% | 73,481,091 |
| Liabilities: | | | | | |
| Current and other liabilities | 1,432,236 | 1,108,265 | 323,971 | 29.2% | 1,763,531 |
| Long-term debt | - | 24,318 | (24,318) | (100.0)% | 183,350 |
| Total liabilities | 1,432,236 | 1,132,583 | 299,653 | 26.5% | 1,946,881 |
| Net position: | | | | | |
| Net investment in capital assets | 58,430,742 | 60,626,414 | (2,195,672) | (3.6)% | 67,521,456 |
| Unrestricted | 4,140,127 | 4,795,941 | (655,814) | (13.7)% | 4,012,754 |
| Total net position | $ 62,570,869 | $ 65,422,355 | $ (2,851,486) | (4.4)% | $ 71,534,210 |

## IV. STATEMENT OF NET POSITION, CONTINUED

The Authority's financial data for FY2019 showed that total assets settled at $64.003 million, down from $66.271 million, a decrease of $2.268 million or 3%. This can be attributed to the following major drivers, namely:

1. Current and other assets offset the decrease of total assets by a decrease of $0.048 million or an unfavorable 1% from $5.620 million in FY2018 to $5.572 million in FY2019. Below are the major changes in the components of total assets:

   a) Cash account showed a decrease by $0.251 million or 9% from $2.664 million recorded in prior year to $2.413 million in the current year. Refer to the statements of cash flows discussion for the details of the movement in cash.
   b) Bank of Marshall Islands (BOMI) Certificate of Time Deposit (CTD) account increased by $0.073 million from $1.741 million in FY2018 to $2.514 million in FY2019. This was mainly due to the release of $0.700 million CTD from noncurrent assets to current assets, after the Authority has paid off its loans from BOMI, to which the TCD was previously used as collateral.
   c) Receivables increased to $2.029 million in current year from $1.907 million in prior year or an increase of $0.123 million or 6%. However, there are noted subsequent collections in FY2020.
   d) Regardless of the increase in receivables, the Allowance for Doubtful Accounts of $1.464 million from FY2018 slightly decreased to $1.394 million in FY2019 or $0.070 million reduction or 5% due to collection of prior year outstanding receivables and subsequent collections in FY2020. There was no additional allowance provided during the current year.
   e) Prepaid expenses and other assets showed a decrease of $0.064 million or 88% due to the liquidation of various prepayments to vendors and suppliers.

2. The net decrease of the capital assets, from $60.651 million to $58.431 million, was brought about by the current year depreciation of $4.382 million offset by additions to depreciable capital assets and construction work-in-progress of $0.473 million and $1.689 million, respectively.

3. Total current liabilities of $1.432 million showed a substantial increase from $1.133 million in prior year. The increase represents a significant 26% or $0.300 million, which can be related to the following:

   a) Current portion of bank loans decreased by $0.024 million or 100% from $0.024 million due to the full payment of the seaport loan, which was originally at $1.0 million.
   b) Accounts payable also increased by $0.201 million or 826% from $0.024 million in FY2018 to $0.226 million in FY2019.
   c) Contractor's payable increased by $0.163 million compared to last year's balance of $0.005 million to current year's balance of $0.168 million. The increase pertains to recorded payable at yearend for the roofing and dock repair projects.

4. One of the financial indicators to measure the financial capacity to meet current obligations is the current or liquidity ratio. At the end of the current year, the Authority has a liquidity ratio of $3.89 to $1. This reveals that the Authority has $3.89 worth of assets currently available for every $1 owed. This benchmark improved from FY2018 and FY2017 of $4.34 to $1 and $1.84 to $1, respectively.

5. Total net position decreased to $62.571 million for the current year from $65.422 million in prior year.

## 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 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**
Years Ended September 30

| | 2019 | 2018 | $ Change 2019-2018 | % Change 2019-2018 | 2017 |
|---|---|---|---|---|---|
| Operating revenues: | | | | | |
| Airport Division | $ 1,566,935 | $ 1,246,942 | $ 319,993 | 25.7% | $ 1,244,108 |
| Seaport Division | 3,268,214 | 2,924,245 | 343,969 | 11.8% | 2,647,755 |
| Total operating revenues | 4,835,149 | 4,171,187 | 663,962 | 15.9% | 3,891,863 |
| Operating expenses: | | | | | |
| Airport Division | 5,749,222 | 5,152,415 | 596,807 | 11.6% | 4,922,329 |
| Seaport Division | 2,031,807 | 1,874,541 | 157,266 | 8.4% | 1,964,031 |
| Total operating expenses | 7,781,029 | 7,026,956 | 754,073 | 10.7% | 6,886,360 |
| Operating loss | (2,945,880) | (2,855,769) | (90,111) | 3.2% | (2,994,497) |
| Nonoperating revenues: | | | | | |
| Airport Division | 5,462 | 6,522 | (1,060) | (16.3)% | 260,606 |
| Seaport Division | 11,159 | 78,833 | (67,674) | (85.8)% | 330,834 |
| Total nonoperating revenues | 16,621 | 85,355 | (68,734) | (80.5)% | 591,440 |
| Loss before contributions | (2,929,259) | (2,770,414) | (158,845) | 5.7% | (2,403,057) |
| Capital contributions: | | | | | |
| Airport Division | 77,773 | 812,711 | (734,938) | (90.4)% | 1,423,382 |
| Seaport Division | - | - | - | | 1,148,488 |
| Total capital contributions | 77,773 | 812,711 | (734,938) | (90.4)% | 2,571,870 |
| Special item | - | (4,154,152) | 4,154,152 | (100.0)% | - |
| Change in net position | (2,851,486) | (6,111,855) | 3,260,369 | (53.3)% | 168,813 |
| Beginning net position | 65,422,355 | 71,534,210 | (6,111,855) | (8.5)% | 71,365,397 |
| Ending net position | $ 62,570,869 | $ 65,422,355 | $ (2,851,486) | (4.4)% | $ 71,534,210 |

The Authority's operating revenues for fiscal year 2019 showed a moderate increase of $0.664 million from $4.171 million to $4.835 million or 7%.

1. There were significant changes in Revenues for the Airport Division in the current year at $1.567 million compared with the previous year at $1.246 million. Revenue streams that showed significant gains were departure fees ($0.053m), screening fees ($0.034m), scheduled landing charges ($0.024m) and other income ($0.209m).

2. Revenue streams for the Seaport Division showed significant increases in wharfage fees ($0.074m), foreign vessel entry fees ($0.036m), dockage fees ($0.067m) and pilotage fees ($0.154m) and pilot boat usage fees ($0.061m). The increase was due to higher number of shipping vessels coming at the port in FY2019.

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

Operating expenses showed an unfavorable increase from $7.027 million to $7.781 million, an increase of $0.754 million or 11%. The increase in the operating expenses for both divisions accounted as follows:

1. Depreciation and amortization expense increased by $0.346 million or 8% from $4.319 million for FY2018 to $4.666 million for FY2019, of which $0.284 pertains to the amortization of deferred outflow of resources and $4.382 million pertains to the depreciation of depreciable capital assets.

2. Salaries and wages for both the Seaport and Airport Divisions showed an aggregate amount of $1.428 million for FY2019 and $1.347 million for FY2018 or an increase of $0.081 million. This was due to the increase in staffing requirements at the airport to comply with governing bodies and approved salary adjustment to all RMIPA staff.

3. The unfavorable increase on expenses was further caused by the following:

   a) Pilotage expenses showed also a moderate increase amounting to $0.068 million or 20% from $0.335 million in FY2018 to $0.402 million in FY2019.
   b) Utilities also registered an increase of $0.054 million or 23% from $0.241 million recorded in FY2018 to $0.295 million in the current year.
   c) Training and travel expenses also showed an increase from $0.129 million in FY2018 to $0.218 million in FY2019, an increase of $0.089 million or 69%.
   d) Gas, oil and fuel expenses showed also a moderate increase amounting to $0.017 million or 26% from $0.065 million in FY2018 to $0.082 million in FY2019.
   e) Repair and maintenance expenses also registered an increase of $0.071 million or 145% from $0.049 million recorded in FY2018 to $0.121 million in the current year.
   f) Professional fees showed a moderate increase of $0.009 million or 35% increase from $0.026 million to $0.035 million in FY2019.

Nonoperating revenues (expenses) showed a drop from $0.085 million in FY2018 to $0.080 million in FY2019, a decrease of $0.005 million or 6%. Furthermore, during FY2019, the Authority contributed $63,793 to Majuro Atoll Local Government (MALGOV).

The Authority receives capital contributions from two streams, namely the grant revenues from RepMar and the grant revenues from the U.S. Department of Transportation (DOT) pass thru Federal Aviation Administration. These funds are considered capital contributions since they are given to the Authority without directly providing goods and/or services. In the current year, grant revenues from the U.S. DOT decreased from $0.813 million to $0.077 million or a decrease of $0.735 million or 90%. As of September 30, 2019, only few Airport Improvement Projects was expended.

Change in net position for FY2019 showed a negative $2.851 million compared to $6.112 million in prior year or an increase of $3.260 million.

Net position at the end of the current year amounts to $62.571 million and $65.422 million in prior year. Overall, for fiscal period ended September 30, 2019, total net position of $62.571 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 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**
Years Ended September 30

| | 2019 | 2018 | $ Change 2019-2018 | % Change 2019-2018 | 2017 |
|---|---|---|---|---|---|
| Cash flows provided by (used for): | | | | | |
| Operating activities | $ 1,634,061 | $ 1,374,929 | $ 259,132 | 18.8% | $ 1,044,496 |
| Capital and related financing activities | (1,941,543) | (584,223) | (1,357,320) | 232.3% | 160,506 |
| Noncapital and related financing activities | 50,497 | 91,541 | (41,044) | (44.8)% | 14,000 |
| Investing activities | 5,878 | 27,107 | (21,229) | (78.3)% | 110,000 |
| Net change in cash | (251,107) | 909,354 | (1,160,461) | (127.6)% | 1,329,002 |
| Cash at beginning of year | 2,664,448 | 1,755,094 | 909,354 | 51.8% | 426,092 |
| Cash at end of year | $ 2,413,341 | $ 2,664,448 | $ (251,107) | (9.4)% | $ 1,755,094 |

Net change in cash position during the year showed a substantial reduction from $0.909 million in FY2018 to negative $0.251 million in FY2019 or a decrease of $1.160 million or 128%.

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 $4.591 million in FY2019 as compared to $4.033 million in FY2018, an increase of $0.557 million or more than 14%. Such cash was used to pay various suppliers for goods and services amounting to $1.517 million and $1.351 million in FY2019 and FY2018, respectively. In addition, it was also used to pay the employees for services rendered during FY2019 and FY2018 in the amount of $1.439 million and $1.308 million, respectively. The net cash provided by operating activities showed a modest increase of $0.259 million or 19% from $1.375 million in FY2018 to $1.634 million in FY2019.

2. Net cash used for capital and related financing activities stood at a negative $1.941 million for the current year, an increase of $1.357 million or 232% from $0.584 million in FY2018. The Authority paid $1.999 million and $0.025 million, respectively, for the acquisition and construction of capital assets and payment of principal and interest on loans.

3. Net cash inflows from noncapital and related financing activities amounting to $0.050 million while the net cash inflows from investing activities of $0.006 million pertains to interest collection on loans to Air Marshall Islands (AMI).

4. Generally, the Authority showed a very strong cash position at the end of FY2019 at $2.413 million, a decrease of $0.251 million or 9% in comparison to FY2018 figures of $2.664 million.

## VI. DIVISIONAL REVENUES AND EXPENSES

### Airport and Seaport Combined Operating Revenues

| | 2019 | 2018 | $ Change 2019-2018 | % Change 2019-2018 | 2017 |
|---|---|---|---|---|---|
| Operating revenues: | | | | | |
| Airport Division | $ 1,566,935 | $ 1,246,942 | $ 319,993 | 25.7% | $ 1,244,108 |
| Seaport Division | 3,268,214 | 2,924,245 | 343,969 | 11.8% | 2,647,755 |
| | $ 4,835,149 | $ 4,171,187 | $ 663,962 | 15.9% | $ 3,891,863 |

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

| | 2019 | 2018 | $ Change 2019-2018 | % Change 2019-2018 | 2017 |
|---|---|---|---|---|---|
| Airport: | | | | | |
| Personnel | $ 763,623 | $ 719,676 | $ 43,947 | 6.1% | $ 609,386 |
| Maintenance and operations | 4,985,599 | 4,432,739 | 552,860 | 12.5% | 4,312,943 |
| | 5,749,222 | 5,152,415 | 596,807 | 11.6% | 4,922,329 |
| Seaport: | | | | | |
| Personnel | $ 664,270 | $ 627,397 | $ 36,873 | 5.9% | $ 554,388 |
| Maintenance and operations | 1,367,537 | 1,247,144 | 120,393 | 9.7% | 1,409,643 |
| | 2,031,807 | 1,874,541 | 157,266 | 8.4% | 1,964,031 |
| | $ 7,781,029 | $ 7,026,956 | $ 754,073 | 10.7% | $ 6,886,360 |

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

## VII. REVENUE PERFORMANCE INDICATORS AND ANALYSIS OF DIVISIONAL EXPENSES

### AIRPORT REVENUE PERFORMANCE INDICATORS

SCHEDULED FLIGHTS - TRAFFIC

| | 2019 | 2018 | Change | % | 2017 |
|---|---|---|---|---|---|
| United Airlines | 417 | 388 | 29 | 7 | 315 |
| Our Airline | 140 | 106 | 34 | 32 | 93 |
| Air Marshall Islands | 817 | 873 | (56) | (6) | 789 |
| Asia Pacific Airlines | 129 | 119 | 10 | 8 | 123 |
| | 1,503 | 1,486 | 17 | 1 | 1,320 |

The increase in number of scheduled flights by 17 or 1% from 1,486 to 1,503 in FY2019 registered an increase in dollar amounts as total Landing Charges – Scheduled took a slight increment of $0.024 million or 10% from $0.246 in FY2018 to $0.270 million in FY2019. A closer look showed that the number of regular/scheduled flights from all the airlines sans Asia Pacific Airlines increased the number of touchdowns at the Amata Kabua International Airport (AKIA).

## VII. REVENUE PERFORMANCE INDICATORS AND ANALYSIS OF DIVISIONAL EXPENSES, CONTINUED

### AIRPORT REVENUE PERFORMANCE INDICATORS, CONTINUED

DEPARTURES - INTERNATIONAL

| | 2019 | 2018 | Change | % | 2017 |
|---|---|---|---|---|---|
| Adults | 15,789 | 13,875 | 1,914 | 14 | 13,582 |
| Students | 5,042 | 4,329 | 713 | 16 | 3,745 |
| | 20,831 | 18,204 | 2,627 | 14 | 17,327 |

Departure Fees – International increased by $0.051 million or 15%, compared with the figures recorded in prior year of $0.342 million. This was brought by the migration of both adults and students to the United States of America.

### UNSCHEDULED / SPECIAL FLIGHT TRAFFIC

| | 2019 | 2018 | Change | % | 2017 |
|---|---|---|---|---|---|
| Number of Flights (MTOW) | | | | | |
| 0-45000 | 81 | 83 | (2) | (57) | 53 |
| 45001-90000 | 15 | 26 | (11) | (42) | 10 |
| 90001-up | 80 | 149 | (69) | (46) | 128 |
| | 176 | 258 | (82) | (32) | 191 |

| % to Total | 2019 | 2018 | 2017 |
|---|---|---|---|
| 0-45000 | 46% | 32% | 28% |
| 45001-900006 | 9% | 10% | 5% |
| 90001-up | 45% | 58% | 67% |

Unscheduled/Special Flight Traffic decreased as the number of flights in FY2018 of 258 flights decreased in comparison to the 176 flights in FY2019. This is a modest reduction of 82 flights for the given year, which is equivalent to a decrease of revenues by $0.026 million or 37%, from $0.069 million in FY2018 to $0.044 million in FY2019. 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.

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

## VII. REVENUE PERFORMANCE INDICATORS AND ANALYSIS OF DIVISIONAL EXPENSES, CONTINUED

### SEAPORT REVENUE PERFORMANCE INDICATORS

VESSELS ARRIVALS

| | 2019 | 2018 | Change | % | 2017 |
|---|---|---|---|---|---|
| Cargo Vessels | 89 | 58 | 31 | 53 | 70 |
| Fishing Vessels - International | 672 | 583 | 89 | 15 | 633 |
| Fishing Vessels - Domestic | 608 | 769 | (161) | (21) | 511 |
| Foreign Tankers | 21 | 35 | (14) | (40) | 24 |
| Military Ships | 6 | 6 | - | - | 7 |
| Others | 4 | 4 | - | - | 10 |
| | 1,400 | 1,455 | (55) | 3 | 1,255 |

As discussed in the Statement of Revenues, Expenses, and Changes in Net Position, some line items on the Seaport Division's revenue streams registered a decrease specifically the Domestic Vessel Entry Fees which showed a decrease of $0.066 million or 26%, from $0.255 million in FY2018 to $0.188 million in FY2019. This can also be seen from the table above as it shows a decrease in transshipment of containers from 769 to 608 or a decrease of 161 fishing vessels for the given year. Foreign Entry Tankers showed a decrease from 35 tankers to 21 tankers or 40% or 14 tankers lesser from prior year. These favorable operation results had impacted the revenues of the Seaport as it shows $3.268 million in FY2019 versus $2.024 million in FY2018 or an increase in revenue streams of $0.664 million or 16% through cargo vessels and international fishing vessels.

MOVEMENTS

| 2019 | 2018 | Change | % | 2017 |
|---|---|---|---|---|
| 2,000 | 1,664 | 336 | 20 | 1,872 |

Both the pilotage fees and pilot boat usage fees increased due to the positive change in the arrival of the vessels. Pilotage fees increased to $0.901 million in FY2019 from $0.747 million in FY2018, an increase of $0.154 million or 21%. Further, pilot boat usage fees increased by $0.061 million or 15%, from $0.414 million in FY2018 to $0.475 million in FY2019.

WHARFAGE FEES

| | 2019 | 2018 | Change | % | 2017 |
|---|---|---|---|---|---|
| Metric tons | 56,697 | 51,610 | 5,087 | 10 | 38,594 |
| Revenue Ton | | | | | |
| Domestic | 3,680 | 4,702 | (1,022) | (22) | 9,524 |
| International | 127,837 | 165,465 | (37,628) | (23) | 111,938 |

Even with the decrease in revenue tonnage for domestic, wharfage fees showed a positive result at the end of the fiscal year with an increase of $0.074 million or 14% from $0.550 million in FY2018 to $0.625 million in FY2018.

## VII. REVENUE PERFORMANCE INDICATORS AND ANALYSIS OF DIVISIONAL EXPENSES, CONTINUED

### SEAPORT REVENUE PERFORMANCE INDICATORS, CONTINUED

BUNKERING FEES

| | 2019 | 2018 | Change | % | 2017 |
|---|---|---|---|---|---|
| Fuel (barrel) | 78,424 | 65,824 | 12,600 | 19 | 60,535 |
| Water (gallon) | 980,200 | 948,000 | 32,200 | 3 | 846,830 |

Bunkering fees - fuel showed an increase of 12,600 barrels or 19% from 65,824 barrels in FY2018 to 78,424 barrels in FY2019. Bunkering fees - water registered a 3% increase or 32,200 gallons of water, increasing from 948,000 gallons in FY2018 to 980,200 gallons in FY2019. In terms of dollar value, fuel and water service fees increased by $0.008 million or 35% from $0.021 million in prior year to $0.029 million in the current year.

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

## VIII. ACTUAL VS. BUDGET COMPARISON

| | Actual 2019 | Budget 2019 | Variance | % Change |
|---|---|---|---|---|
| Operating revenues: | | | | |
| Airport Division | $ 1,566,935 | $ 1,262,594 | $ 304,341 | 24.1% |
| Seaport Division | 3,268,214 | 2,797,737 | 470,477 | 16.8% |
| | $ 4,835,149 | $ 4,060,331 | $ 774,818 | 19.1% |
| Depreciation and amortization: | | | | |
| Airport Division | $ 4,178,957 | $ 3,916,172 | $ 262,785 | 6.7% |
| Seaport Division | 486,611 | 494,907 | (8,296) | (1.7)% |
| | $ 4,665,568 | $ 4,411,079 | $ 254,489 | 5.8% |
| Other operating expenses: | | | | |
| Airport Division | $ 1,570,265 | $ 1,899,729 | $ (329,464) | (17.3)% |
| Seaport Division | 1,545,196 | 1,724,232 | (179,036) | (10.4)% |
| | $ 3,115,461 | $ 3,623,961 | $ (508,500) | (14.0)% |
| Nonoperating revenues (expenses): | | | | |
| Airport Division | $ 5,462 | $ 3,894 | $ 1,568 | 40.3% |
| Seaport Division | 11,159 | 81,390 | (70,231) | (86.3)% |
| | $ 16,621 | $ 85,284 | $ (68,663) | (80.5)% |
| Capital contributions: | | | | |
| Airport Division | $ 77,773 | $ - | $ 77,773 | |
| Seaport Division | - | - | - | |
| | $ 77,773 | $ - | $ 77,773 | |
| Change in Net Position: | | | | |
| Airport Division | $ (4,099,052) | $ (4,549,413) | $ 450,361 | (9.9)% |
| Seaport Division | 1,247,566 | 659,988 | 587,578 | 89.0% |
| | $ (2,851,486) | $ (3,889,425) | $ 1,037,939 | (26.7)% |

## VIII. ACTUAL VS. BUDGET COMPARISON, CONTINUED

The Change in Net Position in FY2019 registered an unfavorable variance of negative $1.046 million or negative 26% compared to the actual negative $2.851 million vis-à-vis the budgeted negative $3.889 million. This was brought by the following:

1. Total operating revenues for Airport Division revealed a positive variance of $0.304 million or 24%, from a budgeted $1.263 million to an actual amount of $1.567 million. This is due to other income of $0.215 million.

2. Seaport Division's operating revenues showed an increase of $0.470 million or 17%. This increase had been driven by the increase in cargo and international fishing vessels.

3. Both Airport and Seaport Divisions showed favorable operating expenses (excluding depreciation and amortization expense) for FY2019 compared to the projected amount on the same year. A total of $0.509 million or favorable 14% decrease from an actual of $3.115 million contra projected $3.624 million on the same year.

4. Actual amount of depreciation and amortization showed a slight difference against the budget.

5. The Non-Operating Revenues (Expenses) resulted to an unfavorable $0.005 million or 6% from a projected $0.085 million to an actual $0.080 million.

6. There were no budgeted capital contributions and contributions to MALGOV in FY2019.

7. The Change in Net Position for both Airport and Seaport Divisions for FY2019 showed an unfavorable amount of $2.851 million which was a complete turnaround from a budgeted amount of negative $3.889 million or a difference of $1.038 million or an unfavorable negative 26 percentage change. However, the Seaport Division continuously had a strong and stable Net Position with a 90% increase compared to the projected $0.660 million to the actual $1.248 million in FY2019. Airport Division decreased by $0.450 million or 10%, from a budgeted of $4.549 million to an actual of $4.099 million.

## XI. 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 had a significant impact on the financial statements when the road was 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 on prior 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.

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

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

## XI. EXTERNAL FACTORS AND ECONOMIC OUTLOOK, CONTINUED

### COVID-19 Outbreak

The outbreak of COVID-19 is having an overwhelming effect on individuals, businesses and communities. As part of a comprehensive risk management strategy, the Authority has prepared its contingency plan and actions in place as the operations are being affected by the pandemic.

Furthermore, the Authority's experienced reduction in revenue from seaport and airport divisions has tightened the expenditures and construction work in progress. On an estimate, the Authority is losing approximately 50% of revenue on a monthly basis. However, projected cash flow over the next 12 months does not flag the going concern.

## X. ADDITIONAL FINANCIAL INFORMATION

This report is designed to provide the Authority's customers and other interested parties with an overview of the 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, Mr. James PC Bing, II 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, 2019 and 2018

| | 2019 | 2018 |
|---|---|---|
| ASSETS AND DEFERRED OUTFLOWS OF RESOURCES | | |
| Current assets: | | |
| Cash | $ 2,413,341 | $ 2,664,448 |
| Time certificate of deposit | 2,514,014 | 1,740,791 |
| Receivables: | | |
| Trade | 878,078 | 713,283 |
| Affiliates | 1,040,286 | 961,170 |
| Note receivable | 31,871 | 146,161 |
| Interest receivable | 56,607 | 54,767 |
| Grants receivable | - | 4,635 |
| Employees | 23,086 | 27,113 |
| | 2,029,928 | 1,907,129 |
| Less allowance for doubtful accounts | (1,393,797) | (1,464,473) |
| | 636,131 | 442,656 |
| Prepaid expenses and other assets | 8,877 | 72,404 |
| Total current assets | 5,572,363 | 4,920,299 |
| Restricted time certificate of deposit | - | 700,000 |
| Capital assets: | | |
| Nondepreciable capital assets | 3,251,649 | 1,563,061 |
| Other capital assets, net of accumulated depreciation | 55,179,093 | 59,087,671 |
| Total assets | 64,003,105 | 66,271,031 |
| Deferred outflows of resources | - | 283,907 |
| | $ 64,003,105 | $ 66,554,938 |
| LIABILITIES AND NET POSITION | | |
| Current liabilities: | | |
| Note payable | $ - | $ 24,318 |
| Accounts payable | 225,744 | 24,346 |
| Contracts payable | 167,714 | 5,150 |
| Payable to affiliates | 614,093 | 509,510 |
| Due to RepMar | 285,714 | 285,714 |
| Other liabilities and accruals | 138,971 | 283,545 |
| Total liabilities | 1,432,236 | 1,132,583 |
| Commitments and contingencies | | |
| Net position: | | |
| Net investment in capital assets | 58,430,742 | 60,626,414 |
| Unrestricted | 4,140,127 | 4,795,941 |
| Total net position | 62,570,869 | 65,422,355 |
| | $ 64,003,105 | $ 66,554,938 |

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, 2019 and 2018

| | 2019 | 2018 |
|---|---|---|
| Operating revenues: | | |
| Seaport fees | $ 3,027,713 | $ 2,665,606 |
| Aviation fees | 897,440 | 867,253 |
| Concession and lease income | 278,387 | 234,689 |
| Screening fee | 149,112 | 114,659 |
| Special overtime carges | 84,672 | 94,306 |
| Cargo | 51,277 | 46,136 |
| Other | 275,872 | 146,427 |
| | 4,764,473 | 4,169,076 |
| Recovery of bad debts | 70,676 | 2,111 |
| Total operating revenues | 4,835,149 | 4,171,187 |
| Operating expenses: | | |
| Depreciation and amortization | 4,665,568 | 4,319,268 |
| Salaries and wages | 1,427,893 | 1,347,073 |
| Pilotage | 402,437 | 334,666 |
| Utilities | 295,300 | 241,027 |
| Training and travel | 218,342 | 129,105 |
| Pilot boat | 156,715 | 161,563 |
| Land lease | 111,813 | 111,813 |
| Repairs and maintenance | 120,564 | 49,306 |
| Gas, oil, and fuel | 82,150 | 65,095 |
| Insurance | 56,943 | 72,118 |
| Professional fees | 35,336 | 26,095 |
| Communications | 32,626 | 33,401 |
| Bank charges | 21,286 | 20,641 |
| Supplies | 18,088 | 18,778 |
| Freight and handling fees | 15,203 | 1,362 |
| Fire, safety and security | 14,286 | 1,165 |
| Dues and subscriptions | 14,236 | 17,066 |
| Sitting fees | 13,600 | 20,800 |
| Laundry and cleaning | 13,354 | 11,637 |
| Taxes and licenses | 13,002 | 335 |
| Capital outlays | 11,273 | 16,328 |
| Representation | 10,474 | 9,042 |
| Meetings | 9,498 | 8,967 |
| Miscellaneous | 21,042 | 10,305 |
| Total operating expenses | 7,781,029 | 7,026,956 |
| Operating loss | (2,945,880) | (2,855,769) |
| Nonoperating revenues (expenses): | | |
| Gain on disposal of capital assets | - | 1,786 |
| Interest income | 80,941 | 92,909 |
| Interest expense | (527) | (9,340) |
| Contributions to MALGOV | (63,793) | - |
| Total nonoperating revenues (expenses), net | 16,621 | 85,355 |
| Loss before capital contributions | (2,929,259) | (2,770,414) |
| Capital contributions from U.S. government | 77,773 | 812,711 |
| Special item | - | (4,154,152) |
| Change in net position | (2,851,486) | (6,111,855) |
| Net position at beginning of year | 65,422,355 | 71,534,210 |
| Net position at end of year | $ 62,570,869 | $ 65,422,355 |

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, 2019 and 2018

| | 2019 | 2018 |
|---|---|---|
| Cash flows from operating activities: | | |
| Cash received from customers | $ 4,591,238 | $ 4,033,995 |
| Cash payments to suppliers for goods and services | (1,517,713) | (1,351,142) |
| Cash payments to employees for services | (1,439,464) | (1,307,924) |
| Net cash provided by operating activities | 1,634,061 | 1,374,929 |
| Cash flows from capital and related financing activities: | | |
| Acquisition and construction of capital assets | (1,999,106) | (1,828,741) |
| Principal paid on long-term debt | (24,318) | (159,032) |
| Interest paid on long-term debt | (527) | (9,340) |
| Proceeds from sale of capital assets | - | 4,501 |
| Capital contributions received | 82,408 | 1,408,389 |
| Net cash used for capital and related financing activities | (1,941,543) | (584,223) |
| Cash flows from noncapital and related financing activities: | | |
| Loan advanced to AMI | 114,290 | 91,541 |
| Contributions to MALGOV | (63,793) | - |
| Net cash provided by noncapital and related financing activities | 50,497 | 91,541 |
| Cash flows from investing activities: | | |
| Interest received | 5,878 | 27,107 |
| Net change in cash | (251,107) | 909,354 |
| Cash at beginning of year | 2,664,448 | 1,755,094 |
| Cash at end of year | $ 2,413,341 | $ 2,664,448 |
| Reconciliation of operating loss to net cash provided by operating activities: | | |
| Operating loss | $ (2,945,880) | $ (2,855,769) |
| Adjustments to reconcile operating loss to net cash provided by operating activities: | | |
| Depreciation and amortization | 4,665,568 | 4,319,268 |
| Recovery of bad debts | (70,676) | (2,111) |
| (Increase) decrease in assets: | | |
| Receivables: | | |
| Trade | (164,795) | (157,607) |
| Affiliates | (79,116) | 20,415 |
| Other | 4,026 | (3,940) |
| Prepaid expenses and other assets | 63,527 | 19,350 |
| Increase (decrease) in liabilities: | | |
| Accounts payable | 201,398 | (8,464) |
| Payable to affiliates | 104,583 | 10,118 |
| Other liabilities and accruals | (144,574) | 33,669 |
| Net cash provided by operating activities | $ 1,634,061 | $ 1,374,929 |
| Summary disclosure of noncash activities: | | |
| Other capital assets, net of accumulated depreciation | $ - | $ 4,154,152 |
| Special item | - | (4,154,152) |
| | $ - | $ - |

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, which 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 1, 2018, the Authority entered into an agreement with the Kwajalein Atoll Local Government (KALGOV) transferring duties and responsibilities of establishment, maintenance, and operation of the Ebeye Port from KALGOV to the Authority. Effective March 1, 2018, all Ebeye Port employees became employees of the Authority.

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 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.

To conform to these requirements, 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.

- Restricted: Nonexpendable net position subject to externally imposed stipulations that require the Authority to maintain such permanently. As of September 30, 2019 and 2018, the Authority does not have nonexpendable restricted net position.

- Restricted: Expendable net position whose use by the Authority is subject to externally imposed stipulations that can be fulfilled by actions of the Authority pursuant to those stipulations or that expire with the passage of time. As of September 30, 2019 and 2018, the Authority does not have expendable restricted net position.

- 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.

(2) Summary of Significant Accounting Policies, Continued

When both restricted and unrestricted resources are available for use for the same purpose, it is the Authority's policy to use unrestricted resources first, then restricted resources as they are needed.

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.

Revenue Recognition

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. Such deposits are not covered by depository insurance and are either uncollateralized or collateralized with securities held by the pledging financial institution or held by the pledging financial institution but not in the depositor-government's name. The Authority does not have a deposit policy for custodial credit risk.

For purposes of the statements of net 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, 2019 and 2018, the carrying amount of cash and time certificates of deposit were $4,927,355 and $5,105,239, respectively, and the corresponding bank balances were $4,981,082 and $5,126,217, respectively. Of the bank balances, $2,309,926 and $2,622,647, respectively, were maintained in a financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance with $2,671,156 and $2,503,570, respectively, being maintained in a financial institution not subject to depository insurance. As of September 30, 2019 and 2018, 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, 2018, time certificates of deposit of $700,000 collateralized notes payable.

(2) Summary of Significant Accounting Policies, Continued

Receivables

All receivables are due from government agencies, businesses and individuals located within the Republic of the Marshall Islands and are interest free and uncollateralized. The allowance for uncollectible 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 collectability of these accounts and prior collection experience. Management determines the adequacy of the allowance for uncollectible accounts based upon review of the aged accounts receivable. The allowance is established through a provision for bad debts charged to expense. Bad debts are written off against the allowance on 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 |

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. In 2015, the Authority transferred ownership of $1,135,632 of Non-Directional Beacon assets to the Federal Aviation Admission (FAA). The amount forms part of the Authority's deferred outflows of resources. As of September 30, 2019 and 2018, the Authority recognized deferred outflows of resources of $0 and $283,907, respectively, as the result of the transfer of asset ownership by the Authority to 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.

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, 2019 and 2018, an accumulated vacation leave liability of $71,673 and $75,257, respectively, is included within the accompanying statements of net position as other liabilities and accruals.

(2) Summary of Significant Accounting Policies, Continued

Taxes

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

New Accounting Standards

During the year ended September 30, 2019, the following pronouncements were implemented:

- GASB 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.
- GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, which improves the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements.

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

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.

In June 2018, GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, which requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. The provisions in Statement No. 89 are effective for fiscal years beginning after December 15, 2019. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In August 2018, GASB issued Statement No. 90, *Majority Equity Interests - an Amendment of GASB Statements No. 14 and No. 61*, which improves the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and the relevance of financial statement information for certain component units. The provisions in Statement No. 90 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 May 2019, GASB issued Statement No. 91, *Conduit Debt Obligations*, which clarifies the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures. The provisions in Statement No. 91 are effective for fiscal years beginning after December 15, 2020. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In May 2020, GASB issued Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, which postpones the effective dates of GASB Statement No. 84, 89, 90 and 91 by one year and GASB Statement No. 87 by 18 months; however, earlier application of the provisions addressed in GASB Statement No. 95 is encouraged and is permitted to the extent specified in each pronouncement as originally issued. Management has yet to ascertain whether implementation of these statements will be postponed as provided in GASB Statement No. 95.

### Reclassifications

Certain balances in the 2018 presentation has been reclassified to conform to the 2019 presentation. These reclassifications had no impact on operating loss, net position or cash flows as previously reported.

### Estimates

The preparation of financial statements in accordance 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.

## (3) Property, Plant and Equipment

Capital asset activities for the years ended September 30, 2019 and 2018, is as follows:

| | October 1, 2018 | Additions | Transfers | Reductions | September 30, 2019 |
|---|---|---|---|---|---|
| Facilities | $ 23,481,757 | $ - | $ - | $ - | $ 23,481,757 |
| Buildings | 13,641,661 | 177,652 | - | - | 13,819,313 |
| Equipment | 649,626 | 113,309 | - | (18,753) | 744,182 |
| Vehicles | 2,257,538 | 171,370 | - | (23,350) | 2,405,558 |
| Office furniture, fixtures and equipment | 903,435 | 10,752 | - | (67,592) | 846,595 |
| Roadway | 26,720,033 | - | - | - | 26,720,033 |
| Runway apron upgrade | 36,174,611 | - | - | - | 36,174,611 |
| | 103,828,661 | 473,083 | - | (109,695) | 104,192,049 |
| Less accumulated depreciation | (44,740,990) | (4,381,661) | - | 109,695 | (49,012,956) |
| | 59,087,671 | (3,908,578) | - | - | 55,179,093 |
| Construction work-in-progress | 1,563,061 | 1,688,588 | - | - | 3,251,649 |
| | $ 60,650,732 | $ (2,219,990) | $ - | $ - | $ 58,430,742 |

## (3) Property, Plant and Equipment, Continued

| | October 1, 2017 | Additions | Transfers | Reductions | September 30, 2018 |
|---|---|---|---|---|---|
| Facilities | $ 23,481,757 | $ - | $ - | $ - | $ 23,481,757 |
| Buildings | 13,641,661 | - | - | - | 13,641,661 |
| Equipment | 756,504 | 32,435 | - | (139,313) | 649,626 |
| Vehicles | 2,246,788 | 68,885 | - | (58,135) | 2,257,538 |
| Office furniture, fixtures and equipment | 952,754 | 15,641 | - | (64,960) | 903,435 |
| Roadway | 32,186,089 | - | 303,600 | (5,769,656) | 26,720,033 |
| Runway apron upgrade | 26,157,818 | - | 10,016,793 | - | 36,174,611 |
| | 99,423,371 | 116,961 | 10,320,393 | (6,032,064) | 103,828,661 |
| Less accumulated depreciation | (42,580,825) | (4,035,359) | - | 1,875,194 | (44,740,990) |
| | 56,842,546 | (3,918,398) | 10,320,393 | (4,156,870) | 59,087,671 |
| Construction work-in-progress | 10,862,260 | 1,021,194 | (10,320,393) | - | 1,563,061 |
| | $ 67,704,806 | $ (2,897,204) | $ - | $ (4,156,870) | $ 60,650,732 |

As of September 30, 2019 and 2018, construction in progress includes certain capitalized costs of $309,684 and $293,684, respectively, associated with the RMIPA Majuro Airport Terminal. Construction of the RMIPA Majuro Airport Terminal is currently on hold due to insufficient funding. Management believes that continuation of the terminal construction is dependent upon funding being made available by a grantor.

As of September 30, 2019 and 2018, construction in progress includes certain capitalized costs of $401,900 associated with the Authority's Port Master Plan. Continuation of the project is currently on hold due to insufficient funding. Management believes that continuation of the project is dependent upon funding being made available by a grantor.

As of September 30, 2019 and 2018, construction in progress funded by a federal grant includes certain capitalized costs of $293,407 associated with the Authority's E-Vault. Continuation of the project is currently on hold and management believes that the project will continue as intended.

During the year ended September 30, 2018, the Authority transferred roadway to the primary government of $4,154,152, which is presented as a special item in the accompanying financial statements.

## (4) Long-term Debt

Long-term debt at September 30, 2019 and 2018 is as follows:

| | 2019 | 2018 |
|---|---|---|
| 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. | - | 24,318 |
| | $ - | $ 24,318 |

## (4) Long-term Debt, Continued

Changes in notes payable for the years ended September 30, 2019 and 2018, are as follows:

| 2019 | | | | |
|---|---|---|---|---|
| Beginning Balance | Additions | Reductions | Ending Balance | Due Within One Year |
| $ 24,318 | $ - | $ (24,318) | $ - | $ - |

| 2018 | | | | |
|---|---|---|---|---|
| Beginning Balance | Additions | Reductions | Ending Balance | Due Within One Year |
| $ 183,350 | $ - | $ (159,032) | $ 24,318 | $ 24,318 |

## (5) Employee 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 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 $30,510 and $33,475 to the plan participant accounts during the years ended September 30, 2019 and 2018, respectively, and total plan assets were $261,929 and $245,855 as of September 30, 2019 and 2018, respectively.

## (6) Related Party Transactions

The Authority was created by the Nitijela of RepMar and is thus considered a component unit of RepMar. Accordingly, the Authority is affiliated with all RepMar-owned and affiliated entities. The Authority's services are provided to RepMar and all RepMar-owned and affiliated entities. Services are extended to these entities at more favorable terms and conditions than those afforded to third parties. The Authority utilizes services from certain affiliated entities at the same terms and conditions as those provided to third parties. A summary of related party transactions for the years ended September 30, 2019 and 2018 and related receivable and payable balances as of September 30, 2019 and 2018, is as follows:

| | 2019 | | | |
|---|---|---|---|---|
| | Revenues | Expenses | Receivables | Payables |
| RepMar | $ 1,409 | $ 150,968 | $ 179,557 | $ 438,805 |
| Air Marshall Islands, Inc. | 61,887 | 1,856 | 685,222 | 44,750 |
| Marshalls Energy Company, Inc. | 118,323 | 288,200 | 31,920 | 65,510 |
| Marshall Islands Shipping Corporation | 50,009 | - | 126,016 | - |
| Marshall Islands Social Security Administration | - | - | - | 63,828 |
| Marshall Islands National Telecommunications Authority | 470 | 32,665 | 1,365 | - |
| Tobolar Copra Processing Authority | 10,699 | - | 7,512 | - |
| Other | 20,944 | 177,005 | 8,694 | 1,200 |
| | $ 263,741 | $ 650,694 | $ 1,040,286 | $ 614,093 |

## (6) Related Party Transactions, Continued

| | 2018 | | | |
|---|---|---|---|---|
| | Revenues | Expenses | Receivables | Payables |
| RepMar | $ 476 | $ 145,976 | $ 177,636 | $ 375,406 |
| Air Marshall Islands, Inc. | 64,850 | 1,484 | 603,818 | 44,050 |
| Marshalls Energy Company, Inc. | 133,882 | 240,462 | 15,945 | 5,037 |
| Marshall Islands Shipping Corporation | 56,034 | - | 151,101 | - |
| Marshall Islands Social Security Administration | - | - | - | 74,673 |
| Marshall Islands National Telecommunications Authority | 346 | 33,132 | 1,494 | 2,566 |
| Tobolar Copra Processing Authority | 18,676 | - | 7,452 | - |
| Other | 8,415 | 218,559 | 3,724 | 7,778 |
| | $ 282,679 | $ 639,613 | $ 961,170 | $ 509,510 |

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

During the years ended September 30, 2019 and 2018, the Authority purchased fuel from a local company of $143,043 and $154,528, respectively, owned by a Board member.

In 2010, the Authority entered into a $313,385 loan with Air Marshall Islands, Inc. (AMI) whereby the Authority provided funding to AMI for operational purposes. Outstanding advances amount to $31,871 and $147,161 as of September 30, 2019 and 2018, respectively. 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. The allowance for doubtful accounts provided for related parties aggregated $1,015,120 and $953,743 as of September 30, 2019 and 2018, 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, Communication and Information Technology. It is the intention of the Authority to train pilots in accordance with the pilotage regulations. During the years ended September 30, 2019 and 2018, the Authority compensated qualified pilots, who were employees and directors of the Authority, for pilotage services of $70,495 and $130,162, respectively.

In 2007, the Authority entered into a memorandum of understanding (MOU) with RepMar's Ministry of Finance, Banking and Postal Service 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, Banking and Postal Service an annual lease payment of $281,444, payable in four equal quarterly installments of $70,361 (see note 7). In 2011, the Authority entered into an amended MOU to reimburse the Ministry of Finance, Banking and Postal Service an additional $54,126 for 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. In 2017, the Authority entered into an amended MOU to pay the Ministry of Finance, Banking and Postal Service a reduction of $182,367 for certain lease payments made by RepMar to various landowners on certain lands controlled or occupied by the Authority. The revised annual lease payment of $111,813 is payable in four equal quarterly installments of $27,953, commencing October 2017.

(6) Related Party Transactions, Continued

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, 2019 and 2018, the Authority was liable to RepMar for $285,714 pertaining to these authorized distributions. The Authority is currently negotiating with RepMar for forgiveness of the foregoing liabilities and adjustment, if any, will be recorded prospectively.

In 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, Infrastructures and Utilities with cost of $5,769,656 and accumulated depreciation of $1,615,503.

(7) Commitments

Leases

The Authority is the lessor of certain space at the Amata Kabua International Airport. The leases have two-year term or greater expiring on varying dates through December 31, 2025.

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, 2019 and 2018 amounted to $60,037 and $59,620, 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 year ended September 30, 2019 amounted to $27,558. The current lease terms require a minimum monthly $2,297 payment.

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

| Year ending September 30, | |
|---|---|
| 2020 | $ 236,548 |
| 2021 | 168,918 |
| 2022 | 65,500 |
| 2023 | 7,862 |
| 2024 | 7,862 |
| 2025 | 1,966 |
| Total | $ 488,656 |

Effective 2007, RepMar's Ministry of Finance, Banking and Postal Service 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, 2019, the Authority has been awarded a total of $82,802,059 of grant awards from the United States Department of Transportation. As of September 30, 2019, $1,363,163 has not been received and expended for various capital projects.

(7) Commitments, Continued

Other

In 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 to achieve a resolution of this matter.

On February 11, 2019, the Authority entered into a two year agreement with Majuro Atoll Local Government (MalGov) whereby anchorage fees collected by the Authority will be allocated to MalGov for the purpose of performing certain services on areas outside of the jurisdiction of the Federal Aviation Administration. During the year ended September 30, 2019, the Authority provided cash contribution to MalGov of $63,793 in accordance with the agreement.

(8) Contingencies

At September 30, 2019, outstanding receivables due from Air Marshall Islands, Inc. (AMI) recorded by the Authority of $685,222 remain uncollected. The Authority is currently negotiating with AMI insofar as collection on this amount. Management is of the opinion that collection efforts will be favorable and thus no allowance for uncollectible accounts is considered necessary.

In the ordinary course of business, a claim has been filed against the Authority. Management does not believe that the plaintiff will prevail and the ultimate outcome is currently not determinable. Therefore, no provision has been recorded in the accompanying financial statements for losses, if any, that may result.

(9) 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. 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.

(10) Subsequent Event

On January 30, 2020, the World Health Organization (WHO) declared the current novel coronavirus (COVID-19) outbreak a Public Health Emergency of International Concern (PHEIC). Since January 24, 2020, RepMar's Ministry of Health and Human Services (MHHS) has been issuing travel advisories and restrictions, subject to regular review, in response to the declaration of PHEIC. The succeeding travel advisories suspended all incoming passenger travel via air and sea from the affected countries and issued certain restrictions to container vessels arriving at the Marshall Islands. On March 8, 2020, MHHS issued another travel advisory that totally suspended all international travelers coming into the Marshall Islands via air travel, which has not been lifted as of July 6, 2020. These travel restrictions negatively impact the Authority's revenues and the Authority may become dependent upon the future financial support of RepMar. However, the effect of the pandemic on RepMar is also uncertain and future available funding to RepMar component units may be limited. Due to the uncertainty of events, the Authority is unable to reasonably estimate its ultimate financial impact.

**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, 2019

| | Airport Division | Seaport Division | Total |
|---|---|---|---|
| Operating revenues: | | | |
| Seaport fees | $ - | $ 3,027,713 | $ 3,027,713 |
| Aviation fees | 897,440 | - | 897,440 |
| Concession and lease income | 134,913 | 143,474 | 278,387 |
| Screening fee | 149,112 | - | 149,112 |
| Special overtime charges | 84,672 | - | 84,672 |
| Cargo | 50,722 | 555 | 51,277 |
| Other | 214,738 | 61,134 | 275,872 |
| | 1,531,597 | 3,232,876 | 4,764,473 |
| Bad debts recovery | 35,338 | 35,338 | 70,676 |
| Total operating revenues | 1,566,935 | 3,268,214 | 4,835,149 |
| Operating expenses: | | | |
| Depreciation and amortization | 4,178,957 | 486,611 | 4,665,568 |
| Salaries and wages | 763,623 | 664,270 | 1,427,893 |
| Pilotage | - | 402,437 | 402,437 |
| Utilities | 263,564 | 31,736 | 295,300 |
| Training and travel | 123,470 | 94,872 | 218,342 |
| Pilot boat | - | 156,715 | 156,715 |
| Repairs and maintenance | 104,350 | 16,214 | 120,564 |
| Land lease | 80,200 | 31,613 | 111,813 |
| Gas, oil, and fuel | 58,183 | 23,967 | 82,150 |
| Insurance | 25,148 | 31,795 | 56,943 |
| Professional fees | 17,668 | 17,668 | 35,336 |
| Communications | 19,378 | 13,248 | 32,626 |
| Bank charges | 19,246 | 2,040 | 21,286 |
| Supplies | 9,626 | 8,462 | 18,088 |
| Freight and handling fees | 13,685 | 1,518 | 15,203 |
| Fire, safety and security | 7,768 | 6,518 | 14,286 |
| Dues and subscriptions | 11,393 | 2,843 | 14,236 |
| Sitting fees | 6,800 | 6,800 | 13,600 |
| Laundry and cleaning | 11,156 | 2,198 | 13,354 |
| Taxes and licenses | 7,074 | 5,928 | 13,002 |
| Capital outlays | 5,714 | 5,559 | 11,273 |
| Representation | 5,639 | 4,835 | 10,474 |
| Meetings | 4,022 | 5,476 | 9,498 |
| Miscellaneous | 12,558 | 8,484 | 21,042 |
| Total operating expenses | 5,749,222 | 2,031,807 | 7,781,029 |
| Operating (loss) income | (4,182,287) | 1,236,407 | (2,945,880) |
| Nonoperating revenues (expenses): | | | |
| Interest income | 5,878 | 75,063 | 80,941 |
| Interest expense | (416) | (111) | (527) |
| Contributions to MALGOV | - | (63,793) | (63,793) |
| Total nonoperating revenues, net | 5,462 | 11,159 | 16,621 |
| Income (loss) before capital contributions | (4,176,825) | 1,247,566 | (2,929,259) |
| Capital contributions from U.S. government | 77,773 | - | 77,773 |
| Change in net position | (4,099,052) | 1,247,566 | (2,851,486) |
| Net position at beginning of year | 46,620,010 | 18,802,345 | 65,422,355 |
| Net position at end of year | $ 42,520,958 | $ 20,049,911 | $ 62,570,869 |

See accompanying independent auditor's report.

Deloitte.

Deloitte & Touche LLP
361 South Marine Corps Drive
Tamuning, GU 96913-3973
USA

Tel: +1 (671) 646-3884
Fax: +1 (671) 649-4265

www.deloitte.com

# 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 the 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, 2019, 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 July 6, 2020.

## 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.

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 items 2019-02 and 2019-03, which we consider to be material weaknesses.

## 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Responses as item 2019-01.

Deloitte.

### 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

July 6, 2020

Finding No. 2019-01
Area: Local Noncompliance

Criteria: RepMar's Procurement Code states the following:

(a) Section 124 - unless otherwise authorized by law, all Government contracts shall be awarded by competitive sealed bidding.

(b) Section 127 - procurement of goods and services not exceeding $25,000 may be made in accordance with small purchase procedures promulgated by RepMar’s Policy Office. Small purchase procedures are those relatively simple and informal methods for securing services, supplies, or other property that do not cost more than $25,000. RepMar’s Ministry of Finance has previously declared that if small purchase procedures are used, price or rate quotations shall be obtained from an adequate number of qualified sources.

(c) Section 126.7 - award shall be made to the responsible offeror whose proposal is determined in writing to be the most advantageous to the Government taking into consideration price and the evaluation factors set forth in the Request for Proposals. No other factors or criteria shall be used in the evaluation. The contract file shall contain the basis on which the award is made.

(d) Section 128 - a contract may be awarded for supply, service, or construction item without completion when it is determined in writing that there is only one source for the required supply, service, or construction item.

Condition: The following purchases and transactions were not adequately documented to evidence compliance with the RMI procurement code:

1) Building improvements of $177,652
2) Other operating expenses of $63,247
3) Vehicle parts of $54,950
4) Construction in progress of $47,321
5) Equipment of $28,750

Cause: The cause of the above condition is a lack of adequate internal control policies and procedures requiring documentation of compliance with RepMar's Procurement Code.

Effect: The effect of the above condition is noncompliance with RepMar's Procurement Code.

Recommendation: We recommend that management establish adequate internal control policies and procedures requiring compliance with RepMar's Procurement Code

Auditee Response and Corrective Action Plan: Management agrees with the findings, with the exception as explained in the following:

1. Building improvement was done at the airport. This work was awarded to the contractor as it required immediate action. The Board of RMIPA were notified with the necessary repairs and wall fell off due to poor structure and caused hazard. Therefore, we took immediate action to resolve this issue.

Finding No. 2019-01, Continued
Area: Local Noncompliance

Auditee Response and Corrective Action Plan, Continued:

2. Operating expense which were executed with limited options available for the procurement of tires for the fire truck. As part of the regulatory requirement, the fire truck should be fully operational. Furthermore, only one supplier was identified with the specification of the tires and availability. Further to this, United Airline is a stand-alone / monopoly service provider in RMI. Therefore, RMIPA did not have alternative options available but to secure the airline tickets from them as and when required.

3. Purchase of outboard engine for the pilot boat was done was urgency. Pilotage fee is a major source of revenue stream.

4. Payment to PRZYM consulting resulted from the airport structural analysis and independent technical report required since there are requirements and knowledge for this kind of service. This is ongoing project for the new terminal.

5. The procurement for the CCTV was done due to the upcoming IKO and TSA audit. This was the concern raised previously and was not addressed. These audits are important as reports are given to FAA. This purchase was done from a local vendor as the material required were available.

Finding No.: 2019-02
Area: Timely Financial Reporting

Criteria: Timely financial reporting should be facilitated by internal control conducive to the preparation and independent review of reconciliations of significant general ledger accounts.

Condition: The Authority did not close fiscal year September 30, 2019 financial information (trial balance and subsidiary ledgers) until March 17, 2020.

Cause: The cause of the above condition is the lack of timely closing of the year-end financial statements with review and reconciliation of significant general ledger accounts.

Effect: The trial balance and subsidiary ledgers were not provided in a timely manner.

Recommendation: We recommend that the Authority implement internal control procedures to facilitate timely general ledger reconciliation processes.

Auditee Response and Corrective Action Plan: Management notes the concern raised by auditors. RMIPA Comptroller position had been vacant from November 15th, 2019. We hope that we are able to secure a suitable replacement once that inbound travel ban/restriction has been uplifted by the RMI Government.

Finding No.: 2019-03
Area: Reconciliation of Daily Cash Reports and Airline Manifests

Criteria: Reconciliation of daily sales report (DSR) and airline manifests should be performed as a fundamental internal control in safeguarding the Authority's cash collections.

Condition: We noted that the Authority does not implement strict internal controls over the reconciliation of the daily DSR and airline manifests. Furthermore, in our testing of revenues, we noted below as a result of the lack of daily reconciliation.

a. In 16 sample days tested, we noted variances between the daily sales reports and manifests. Student and children passengers are exempted from domestic departure fees or a discount of $5 for international flights. The Authority only ticks the manifest if the passenger is a student/child for domestic flights and no documentation for international flights. Further, documentation or proof of collection discount/exemption could not be provided for verification.

b. In 3 sample days tested, we noted no collection of domestic departure fees despite the confirmed flight schedules from the airline and from the Aerodrome Flight Information System (AFIS). This could possibly indicate a collection shortage.

Cause: The cause of the above condition is due to ineffective internal controls over the reconciliation of DSR and airline manifests.

Effect: The effect of the above condition is the possible understatement of revenues and cash.

Recommendation: We recommend management implement internal control procedures over:

a. Documentation of collection discount and/or exemption and safekeeping of documents (including copies of the identification cards, etc.) as evidence of such; and

b. Daily submission, review and reconciliation of DSR against airline manifest and other reports, such as the RetailEdge reports and AFIS reports. Formal documentation should be prepared that such review occurred. Variances, if any, should be timely resolved or monitored.

Auditee Response and Corrective Action Plan: Management agrees with the finding and recommendation; however, the non-compliance was due to lack of policy and procedures. The corrective action plan is to closely work international airlines and domestic to include the departure fee in ticket price.

Furthermore, management is strengthening its current policy and procedures. This is part of the attempt by management to strengthen the internal control system and putting in place more necessary stringent rules and procedures to safeguard against potential misstatements and irregularities.

Unresolved Prior Year's Findings
Year Ended September 30, 2019

There are no unresolved audit findings from prior year audits of the Authority.