

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, 2016 AND 2015

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

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Years Ended September 30, 2016 and 2015

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INDEPENDENT AUDITORS' REPORT

Board of Directors
RMI Ports Authority:

Report on the Financial Statements

We have audited the accompanying financial statements of RMI Ports Authority (the Authority), a component unit of the Republic of the Marshall Islands, which comprise the statements of net position as of September 30, 2016 and 2015, 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, 2016 and 2015, and the changes in its net position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

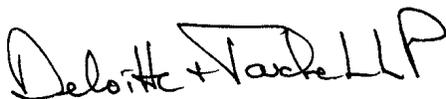
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 10 be presented to supplement the financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The Other Supplementary Information listed in the accompanying table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standard generally accepted in the United States of America. In our opinion, the Other Supplementary Information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 19, 2017, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over 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.



June 19, 2017

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

Management's Discussion and Analysis
Years Ended September 30, 2016 and 2015

I. INTRODUCTION

Our discussion and analysis of the financial performance of airport and seaport divisions of the RMI Ports Authority (Ports Authority) provides an overview of Ports Authority's financial activities presented in the audited financial statements for the fiscal year ending September 30, 2016. This discussion and analysis should be read in conjunction with the more detailed information contained within the accompanying audited financial statements.

Ports Authority is a component unit of the Republic of the Marshall Islands (RMI) and was established as a public corporation under RMI Public Law 2003-81, known as the RMI Ports Authority Act of 2003. The new Act supersedes the previous Acts of the Marshall Islands Airports Authority (MIAA) and the Marshall Islands Ports Authority (MIPA) and merges the two aforementioned authorities into one single ports authority.

A seven-member Board of Directors governs Ports Authority, all of whom are appointed by the Cabinet. One of the members is designated by the Cabinet as the Chairperson of the Board. Ports Authority is responsible for establishing, maintaining, managing and operating all airports and port facilities designated by the law and by the RMI Government. At the time of writing, Ports Authority has the overall responsibilities in management, operations and maintenance of all airport and seaport facilities in Majuro, except for the fish base facilities.

As of September 30, 2016, Ports Authority had 63 full-time employees. Composition is as follows: 3 in Administration; 6 in Finance; 4 in Airport Administration/Operations/Tower; 5 in Seaport Administration/Operations; 10 in Maintenance; and 35 in Security. Out of the 35 Security Officers, 12 are cross-trained and certified as airport firefighters.

II. OVERVIEW OF FINANCIAL STATEMENTS

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

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

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

III. FINANCIAL HIGHLIGHTS

- For fiscal period ending September 30, 2016, total net position was \$71.2 million, an increase of \$4.7 million from prior fiscal year. The major contributor in the increase was mainly due to the completed West Road Project and ongoing project RSA/Road Realignment Project. The expected date to finish in fiscal year 2016 is extended and expected to finish in June of fiscal year 2017 due to some pending works, which were delayed due to construction material issue.

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Management's Discussion and Analysis
Years Ended September 30, 2016 and 2015

III. FINANCIAL HIGHLIGHTS, CONTINUED

- Total operating revenues increased only by \$138,000 or 3%. 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).
- Total operating expenses, inclusive of depreciation, was \$6.8 million for fiscal year 2016. It increased by 12% or \$0.754 million compared to last fiscal year. The details will be discussed on the Revenue Performance Indicators and Divisional Expenses of this report.
- The Ports Authority incurred an operating loss of \$2.7 million for fiscal year 2016. This is an increase in operating loss by 30% compared to last fiscal year. The major increase in the operating loss was caused by the increase in the depreciation expense by 21% related to the completed West Road Project. However, RMIPA generated a positive operating income of \$1.3 million excluding depreciation in FY 2016.

It is to be noted that this road including East Road and Environmental Mitigation Revetment are to be transferred to the RMI Government this FY 2017 upon full completion and getting approval from the FAA who have funded the project. The RMIPA share on this project was 5% before FY 2013 and effective FY 2013, the share has increased to 10%.

- The overall performance of the Ports Authority was almost the same with that of fiscal year 2015.

IV. STATEMENTS OF NET POSITION

| | <u>2016</u> | <u>2015</u> | <u>Change</u> | <u>%</u> | <u>2014</u> |
|---|----------------------|----------------------|---------------------|----------|----------------------|
| Current and other assets | \$ 4,286,407 | \$ 4,032,369 | \$ 254,038 | 6 | \$ 4,344,379 |
| Capital assets | <u>69,337,644</u> | <u>64,615,520</u> | <u>4,722,124</u> | 7 | <u>62,524,771</u> |
| Total assets | <u>73,624,051</u> | <u>68,647,889</u> | <u>4,976,162</u> | 7 | <u>66,869,150</u> |
| Deferred outflows of resources | <u>851,723</u> | <u>1,135,631</u> | <u>(283,908)</u> | (25) | <u>-</u> |
| Total assets and deferred outflows of resources | \$ <u>74,475,774</u> | \$ <u>69,783,520</u> | \$ <u>4,692,254</u> | 7 | \$ <u>66,869,150</u> |
| Current and other liabilities | \$ 2,776,347 | \$ 2,307,968 | \$ 468,379 | 19 | \$ 2,589,941 |
| Long-term debt | 543,073 | 877,252 | (334,179) | (38) | 1,190,114 |
| Net position | <u>71,156,354</u> | <u>66,598,300</u> | <u>4,558,054</u> | 7 | <u>63,089,095</u> |
| Total liabilities and net position | \$ <u>74,475,774</u> | \$ <u>69,783,520</u> | \$ <u>4,692,254</u> | 7 | \$ <u>66,869,150</u> |

RMI PORTS AUTHORITY
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Management's Discussion and Analysis
Years Ended September 30, 2016 and 2015

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

| | <u>2016</u> | <u>2015</u> | <u>Change</u> | <u>%</u> | <u>2014</u> |
|---------------------------------------|---------------------|---------------------|---------------------|----------|---------------------|
| Operating revenues: | | | | | |
| Airport Division | \$ 1,145,305 | \$ 1,115,245 | \$ 30,060 | 3 | \$ 890,962 |
| Seaport Division | <u>3,027,334</u> | <u>2,919,928</u> | <u>107,406</u> | 4 | <u>3,293,497</u> |
| | \$ <u>4,172,639</u> | \$ <u>4,035,173</u> | \$ <u>137,466</u> | 3 | \$ <u>4,184,459</u> |
| Operating expenses: | | | | | |
| Airport Division | \$ 4,877,085 | \$ 4,232,224 | \$ 644,861 | 15 | \$ 4,307,136 |
| Seaport Division | <u>1,959,719</u> | <u>1,850,559</u> | <u>109,160</u> | 6 | <u>1,820,082</u> |
| | \$ <u>6,836,804</u> | \$ <u>6,082,783</u> | \$ <u>754,021</u> | 12 | \$ <u>6,127,218</u> |
| Non-operating revenues (Expenses): | | | | | |
| Airport Division | \$ (9,862) | \$ (19,307) | \$ 9,445 | (49) | \$ (27,065) |
| Seaport Division | <u>60,913</u> | <u>10,483</u> | <u>50,430</u> | 481 | <u>(26,597)</u> |
| | \$ <u>51,051</u> | \$ <u>(8,824)</u> | \$ <u>59,875</u> | (679) | \$ <u>(53,662)</u> |
| Capital contributions: | | | | | |
| Airport Division | \$ 7,091,808 | \$ 5,565,639 | \$ 1,526,169 | 27 | \$ 7,697,081 |
| Seaport Division | <u>79,360</u> | <u>-</u> | <u>79,360</u> | 100 | <u>55,674</u> |
| | \$ <u>7,171,168</u> | \$ <u>5,565,639</u> | \$ <u>1,605,529</u> | 29 | \$ <u>7,752,755</u> |
| Change in net position: | | | | | |
| Airport Division | \$ 3,350,166 | \$ 2,429,353 | \$ 920,813 | 38 | \$ 4,253,842 |
| Seaport Division | <u>1,207,888</u> | <u>1,079,852</u> | <u>128,036</u> | 12 | <u>1,502,492</u> |
| | \$ <u>4,558,054</u> | \$ <u>3,509,205</u> | \$ <u>1,048,849</u> | 30 | \$ <u>5,756,334</u> |

VI. LONG-TERM DEBT

| | <u>2016</u> | <u>2015</u> | <u>2014</u> |
|----------------|-------------------|-------------------|---------------------|
| BOMI - Seaport | \$ 250,380 | \$ 414,306 | \$ 661,563 |
| BOMI - Airport | <u>292,693</u> | <u>462,946</u> | <u>528,551</u> |
| | \$ <u>543,073</u> | \$ <u>877,252</u> | \$ <u>1,190,114</u> |

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

VII. DIVISIONAL REVENUES AND EXPENSES

Airport and Seaport Combined Operating Revenues

| | <u>2016</u> | <u>2015</u> | <u>Change</u> | <u>%</u> | <u>2014</u> |
|---------------------|---------------------|---------------------|-------------------|----------|---------------------|
| Operating revenues: | | | | | |
| Airport Division | \$ 1,145,305 | \$ 1,115,245 | \$ 30,060 | 3 | \$ 890,962 |
| Seaport Division | <u>3,027,334</u> | <u>2,919,928</u> | <u>107,406</u> | 4 | <u>3,293,497</u> |
| | \$ <u>4,172,639</u> | \$ <u>4,035,173</u> | \$ <u>137,466</u> | 3 | \$ <u>4,307,136</u> |

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VII. DIVISIONAL REVENUES AND EXPENSES, CONTINUED

Airport and Seaport Combined Operating Expenses

| | <u>2016</u> | <u>2015</u> | <u>Change</u> | <u>%</u> | <u>2014</u> |
|-----------------------------|---------------------|---------------------|-------------------|-----------|---------------------|
| Airport: | | | | | |
| Personnel | \$ 577,040 | \$ 598,920 | \$ (21,880) | (4) | \$ 631,525 |
| Maintenance and operations | <u>4,300,045</u> | <u>3,633,304</u> | <u>666,741</u> | <u>18</u> | <u>3,675,611</u> |
| | <u>4,877,085</u> | <u>4,232,224</u> | <u>644,861</u> | <u>15</u> | <u>4,307,136</u> |
| Seaport: | | | | | |
| Personnel | 497,020 | 480,681 | 16,339 | 3 | 460,837 |
| Maintenance and operations | <u>1,462,699</u> | <u>1,369,878</u> | <u>92,821</u> | <u>7</u> | <u>1,359,245</u> |
| | <u>1,959,719</u> | <u>1,850,559</u> | <u>109,160</u> | <u>6</u> | <u>1,820,082</u> |
| Combined operating expenses | \$ <u>6,836,804</u> | \$ <u>6,082,783</u> | \$ <u>754,021</u> | <u>12</u> | \$ <u>6,127,218</u> |

VIII. REVENUE PERFORMANCE INDICATORS AND ANALYSIS OF DIVISIONAL EXPENSES

AIRPORT REVENUE PERFORMANCE INDICATORS

SCHEDULED FLIGHTS - TRAFFIC

| | <u>2016</u> | <u>2015</u> | <u>Change</u> | <u>%</u> | <u>2014</u> |
|-----------------------|--------------|--------------|---------------|-------------|-------------|
| United Airlines | 316 | 321 | (5) | (2) | 311 |
| Our Airline | 100 | 105 | (5) | (5) | 88 |
| Air Marshall Islands | 614 | 354 | 260 | 73 | 299 |
| Asia Pacific Airlines | <u>205</u> | <u>237</u> | <u>(32)</u> | <u>(14)</u> | <u>227</u> |
| | <u>1,235</u> | <u>1,017</u> | <u>218</u> | <u>21</u> | <u>925</u> |

DEPARTURE FEES - INTERNATIONAL

| | <u>2016</u> | <u>2015</u> | <u>Change</u> | <u>%</u> | <u>2014</u> |
|----------|---------------|---------------|---------------|--------------|---------------|
| Adults | 11,819 | 11,871 | (52) | (.4) | 11,425 |
| Students | 4,339 | 4,526 | (187) | (4) | 4,977 |
| Others | - | <u>2</u> | <u>(2)</u> | <u>(100)</u> | - |
| | <u>16,158</u> | <u>16,399</u> | <u>(241)</u> | <u>(1)</u> | <u>16,402</u> |

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Management's Discussion and Analysis
Years Ended September 30, 2016 and 2015

VIII. REVENUE PERFORMANCE INDICATORS AND ANALYSIS OF DIVISIONAL EXPENSES, CONTINUED

UNSCHEDULED/SPECIAL FLIGHT TRAFFIC

| | <u>2016</u> | <u>2015</u> | <u>Change</u> | <u>%</u> | <u>2014</u> |
|--------------------------|-------------|-------------|---------------|------------|-------------|
| Number of Flights (MTOW) | | | | | |
| 0-45000 | 100 | 89 | 11 | 12 | 120 |
| 45001-90000 | 21 | 10 | 11 | 110 | 23 |
| 90001-up | <u>160</u> | <u>170</u> | <u>(10)</u> | <u>(6)</u> | <u>201</u> |
| | <u>281</u> | <u>269</u> | <u>12</u> | <u>4</u> | <u>344</u> |
| | | | | | |
| % to Total | <u>2016</u> | <u>2015</u> | <u>2014</u> | | |
| 0-45000 | 36% | 33% | 35% | | |
| 45001-900006 | 7% | 4% | 7% | | |
| 90001-up | 57% | 63% | 58% | | |

Operating revenues for the Airport and Seaport increased by 3% and 4%, respectively, this fiscal year 2016 when compared to last fiscal year 2015.

The traffic and number of passengers are based on the departures as of September 30, 2016.

Major movements for the Airport revenues:

- The number of domestic passengers increased by 26%;
- The number of international passengers decreased by 1%;
- Concession and lease income increased by 15%. This was due to the new five lease contracts secured in FY 2016 at the Amata Kabua International Airport;
- Aircraft parking charges decreased by 50%. The major cause for the decrease was related to special flights;
- Traffic from regular/scheduled flights increased by 21%;
- Runway lights decreased by 12%;
- Inbound cargoes increased by 20%; and
- Traffic from unscheduled/special flights increased by 4%.

Major movements for the Airport expenses:

- Depreciation expense increased by 20%. This was due to the depreciation booked in FY 2016 for the road that was completed in Sep 30, 2014 but not booked in FY 2015 because it was the intention of the RMIPA management to transfer this asset to the Government, but did not materialize yet in FY 2016. However, management is pursuing this in FY 2017;
- Repairs and maintenance increased by 48%. The major causes of the increase were:
 - i) The Airport contracted with PII to do a general cleaning of all the air conditioning units, which amounted to \$3,500;
 - ii) Additional parts for the rescue 4 and 5 purchased during the fiscal year 2016. The actual cost was \$8,660, exceeded the budget by \$1,660;
 - iii) Batteries for the Rescue 4 and 5, \$2,611; and
 - iv) Repair costs of the Inspection Pick-Up, \$1,610.

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VIII. REVENUE PERFORMANCE INDICATORS AND ANALYSIS OF DIVISIONAL EXPENSES, CONTINUED

SEAPORT DIVISION

Major movements for the Seaport revenues:

- The Domestic dockage fees increased by \$48,000. 50% of billed were collected in FY 2016;
- Concession and lease income increased by \$26,305. This was due to the adjustments made for Shipping lease for the period April 2011 to May 2016 after the lease was signed;
- More Pilot Boats usage for fiscal year 2016 by 2%;
- Bunkering fees decreased by 20%; and
- Domestic entry vessel fees decreased by 20%.

Major movements for the Seaport expenses:

- Pilot boat expenses increased by 76%. The major causes for the increase were:
 - i) Boat rentals went up by 180% when the Pilot Boat "Prudent" was down and the other Pilot Boat "Harbor Control" is damaged during fiscal year 2016; and
 - ii) Repairs and parts increased by 218% to repair Prudent.

SEAPORT REVENUE PERFORMANCE INDICATORS

VESSELS ARRIVALS

| | <u>2016</u> | <u>2015</u> | <u>Change</u> | <u>%</u> | <u>2014</u> |
|---------------------------------|--------------|--------------|---------------|------------|--------------|
| Cargo Vessels | 63 | 85 | (22) | (26) | 125 |
| Fishing Vessels - International | 843 | 792 | 51 | 6 | 830 |
| Fishing Vessels - Domestic | 501 | 622 | (121) | (19) | 658 |
| Foreign Tankers | 16 | 17 | (1) | (6) | 19 |
| Military Ships | 7 | 1 | 6 | 600 | 2 |
| Others | 40 | 4 | 36 | 900 | 5 |
| | <u>1,470</u> | <u>1,521</u> | <u>(51)</u> | <u>(3)</u> | <u>1,639</u> |

| | <u>2016</u> | <u>2015</u> | <u>Change</u> | <u>%</u> | <u>2014</u> |
|------------------|-------------|-------------|---------------|----------|-------------|
| <u>MOVEMENTS</u> | 2,379 | 2,282 | 97 | 4 | 2,360 |

WHARFAGE FEES

| | <u>2016</u> | <u>2015</u> | <u>Change</u> | <u>%</u> | <u>2014</u> |
|---------------|-------------|-------------|---------------|----------|-------------|
| Metric tons | 47,063 | 50,288 | (3,225) | (6) | 54,721 |
| Revenue Tons | | | | | |
| Domestic | 5,174 | 8,708 | (3,534) | (41) | 8,099 |
| International | 116,292 | 107,832 | 8,460 | 8 | 104,925 |

BUNKERING FEES

| | <u>2016</u> | <u>2015</u> | <u>Change</u> | <u>%</u> | <u>2014</u> |
|----------------|-------------|-------------|---------------|----------|-------------|
| Fuel (barrel) | 80,872 | 105,383 | (24,511) | (23) | 178,712 |
| Water (gallon) | 1,152,387 | 1,179,800 | (27,413) | (2) | 1,824,910 |

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IX. BUDGET COMPARISONS (Current vs. Next)

| | <u>FY 2017</u> | <u>FY 2016</u> | <u>Variance</u> | <u>%</u> |
|--|-----------------------|-----------------------|---------------------|----------|
| Operating revenues: | | | | |
| Airport Division | \$ 1,183,036 | \$ 1,148,305 | \$ 34,731 | 3 |
| Seaport Division | <u>2,927,859</u> | <u>3,027,334</u> | <u>(99,475)</u> | (3) |
| | <u>\$ 4,110,895</u> | <u>\$ 4,175,639</u> | <u>\$ (64,744)</u> | (16) |
| Operating expenses: | | | | |
| Airport Division | \$ 1,409,945 | \$ 1,628,852 | \$ (218,907) | (13) |
| Seaport Division | <u>1,377,587</u> | <u>1,481,261</u> | <u>(103,674)</u> | (7) |
| | <u>\$ 2,787,532</u> | <u>\$ 3,110,113</u> | <u>\$ (322,581)</u> | (10) |
| Depreciation and amortization: | | | | |
| Airport Division | \$ 3,120,993 | \$ 3,248,233 | \$ (127,240) | (4) |
| Seaport Division | <u>525,441</u> | <u>478,458</u> | <u>46,983</u> | 10 |
| | <u>\$ 3,646,434</u> | <u>\$ 3,726,691</u> | <u>\$ (80,257)</u> | (2) |
| Non-operating revenues (expenses): | | | | |
| Airport Division | \$ (29) | \$ (9,862) | (9,833) | (100) |
| Seaport Division | <u>42,001</u> | <u>60,913</u> | <u>18,912</u> | 31 |
| | <u>\$ 41,972</u> | <u>\$ 51,051</u> | <u>\$ 9,079</u> | 18 |
| Change in net position before capital contributions: | | | | |
| Airport Division | \$ (3,347,931) | \$ (3,741,642) | \$ (393,711) | (11) |
| Seaport Division | <u>1,066,832</u> | <u>1,128,528</u> | <u>61,696</u> | 5 |
| | <u>\$ (2,281,099)</u> | <u>\$ (2,613,114)</u> | <u>\$ (332,015)</u> | (13) |

X. CASHFLOW PROJECTION

The Ports Authority's general fund balance as of September 30, 2016 is \$426,092. In the approved budget in FY 2017, the Ports Authority had projected to pay \$.5 million for its AIP matching. This amount, however, does not include yet the CIP projects and Capital Expenditures amounted to \$2.05 million. The total budget appropriations for AIP, CIP, and CAPEX is \$2.5 million. The RMI Government has approved \$1.4 million as a subsidy to pay for its Seaport Capital Improvement Project in FY 2017. It is projected, however, that a cash deficit of \$.5 million should all the projects and capital expenditures materialize in fiscal year 2017.

The amount above does not include yet the amount of loans from BOMI, the details can be found on page 5 under "Long-Term Debt."

XII. EXTERNAL FACTORS AND ECONOMIC OUTLOOK

- Migratory nature of tuna has a negative effect in the fishing vessels traffic to Majuro.
- The Runway Safety Area/Road Realignment Project including the Environmental Mitigation Revetment Project was expected to finish in fiscal year 2016. However, due to material issues, it was extended and expected to finish before the end of the fiscal year 2017. The completion will have a significant impact on the financial statements when the road is transferred to the RMI Government.

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

Management's Discussion and Analysis
Years Ended September 30, 2016 and 2015

XII. EXTERNAL FACTORS AND ECONOMIC OUTLOOK

- 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 the last fiscal year's audit, a Government policy was issued in May 17, 2012, which directed RMIPA to exempt certain port charges for vessels owned by Koo's Fishing Company. ***This policy has an adverse effect on RMIPA's financial performance. In FY 2012-FY 2016, the result will be a loss of port revenues of approximately \$400,000.***

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

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

- The Authority has a loan receivable of \$237,702 (excluding interest of \$107,385) from Air Marshall Islands as described in Note 5. In December 9, 2016, AMI has started paying its loan as agreed during the meeting between the RMIPA Director, Comptroller, and Airport Manager and AMI General Manager and CFO held at the RMIPA conference room. The payment is \$5,000 bi-weekly and as of May 12, 2017, the total payments collected is \$60,000.

XIII. ADDITIONAL FINANCIAL INFORMATION

Management's Discussion and Analysis for the year ended September 30, 2015 is set forth in the Port Authority's report on the audit of financial statements, which is dated June 30, 2016. That Discussion and Analysis explains the major factors impacting the 2015 financial statements and can be obtained from the RMI Office of the Auditor-General website at www.rmiorg.com.

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

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

Statements of Net Position
September 30, 2016 and 2015

| | 2016 | 2015 |
|---|---------------|---------------|
| <u>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</u> | | |
| Current assets: | | |
| Cash | \$ 426,092 | \$ 575,049 |
| Time certificate of deposit | 559,147 | 490,259 |
| Receivables: | | |
| Trade | 697,602 | 550,456 |
| Affiliates | 1,028,657 | 935,650 |
| Note receivable | 237,702 | 237,702 |
| Interest receivable | 173,736 | 131,676 |
| Grants receivable | 927,506 | 774,997 |
| Employees | 21,218 | 27,328 |
| | 3,086,421 | 2,657,809 |
| Less allowance for doubtful accounts | (1,500,070) | (1,406,773) |
| | 1,586,351 | 1,251,036 |
| Prepaid expenses and other assets | 14,817 | 16,025 |
| Total current assets | 2,586,407 | 2,332,369 |
| Restricted time certificate of deposit | 1,700,000 | 1,700,000 |
| Capital assets: | | |
| Nondepreciable capital assets | 31,474,657 | 30,299,515 |
| Other capital assets, net of accumulated depreciation | 37,862,987 | 34,316,005 |
| Total assets | 73,624,051 | 68,647,889 |
| Deferred outflows of resources | 851,723 | 1,135,631 |
| | \$ 74,475,774 | \$ 69,783,520 |
| <u>LIABILITIES AND NET POSITION</u> | | |
| Current liabilities: | | |
| Current portion of notes payable | \$ 359,813 | \$ 333,988 |
| Accounts payable | 27,850 | 42,265 |
| Contracts payable | 1,198,428 | 975,549 |
| Payable to affiliates | 569,966 | 289,441 |
| Due to RepMar | 785,714 | 785,714 |
| Other liabilities and accruals | 194,389 | 214,999 |
| Total current liabilities | 3,136,160 | 2,641,956 |
| Noncurrent portion of notes payable | 183,260 | 543,264 |
| Total liabilities | 3,319,420 | 3,185,220 |
| Commitments and contingencies | | |
| Net position: | | |
| Net investment in capital assets | 68,794,571 | 63,738,268 |
| Unrestricted | 2,361,783 | 2,860,032 |
| Total net position | 71,156,354 | 66,598,300 |
| | \$ 74,475,774 | \$ 69,783,520 |

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, 2016 and 2015

| | 2016 | 2015 |
|---|---------------|---------------|
| Operating revenues: | | |
| Seaport fees | \$ 2,900,263 | \$ 2,832,876 |
| Aviation fees | 804,741 | 823,648 |
| Concession and lease income | 243,702 | 204,775 |
| Other | 317,230 | 283,034 |
| | 4,265,936 | 4,144,333 |
| Allowance for doubtful debts | (93,297) | (109,160) |
| Total operating revenues | 4,172,639 | 4,035,173 |
| Operating expenses: | | |
| Depreciation and amortization | 4,010,599 | 3,311,404 |
| Salaries and wages | 1,074,060 | 1,079,601 |
| Pilotage | 406,008 | 401,703 |
| Pilot boat | 338,344 | 192,281 |
| Land lease | 291,180 | 291,180 |
| Utilities | 248,093 | 259,603 |
| Training and travel | 128,338 | 131,542 |
| Insurance | 71,427 | 67,505 |
| Gas, oil, and fuel | 55,141 | 55,787 |
| Repairs and maintenance | 51,197 | 89,967 |
| Communications | 32,559 | 33,479 |
| Professional fees | 17,465 | 49,194 |
| Supplies | 14,505 | 9,791 |
| Miscellaneous | 97,888 | 109,746 |
| Total operating expenses | 6,836,804 | 6,082,783 |
| Operating loss | (2,664,165) | (2,047,610) |
| Nonoperating revenues (expenses): | | |
| Loss on disposal of capital assets | (4,975) | (9,650) |
| Interest income | 110,948 | 77,064 |
| Interest expense | (54,922) | (76,238) |
| Total nonoperating revenues (expenses), net | 51,051 | (8,824) |
| Loss before capital contributions | (2,613,114) | (2,056,434) |
| Capital contributions: | | |
| Contributions from U.S. government | 7,091,808 | 5,565,639 |
| Contributions from RepMar | 79,360 | - |
| Total capital contributions | 7,171,168 | 5,565,639 |
| Change in net position | 4,558,054 | 3,509,205 |
| Net position at beginning of year | 66,598,300 | 63,089,095 |
| Net position at end of year | \$ 71,156,354 | \$ 66,598,300 |

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, 2016 and 2015

| | 2016 | 2015 |
|---|----------------|----------------|
| Cash flows from operating activities: | | |
| Cash received from customers | \$ 4,025,783 | \$ 4,019,471 |
| Cash payments to suppliers for goods and services | (1,478,717) | (1,529,688) |
| Cash payments to employees for services | (1,094,670) | (1,096,808) |
| Net cash provided by operating activities | 1,452,396 | 1,392,975 |
| Cash flows from capital and related financing activities: | | |
| Acquisition and construction of capital assets | (8,231,412) | (6,945,857) |
| Principal paid on long-term debt | (334,179) | (312,862) |
| Interest paid on long-term debt | (54,922) | (76,238) |
| Proceeds from sale of capital assets | 501 | 1,110 |
| Capital contributions received | 7,018,659 | 5,909,975 |
| Net cash used for capital and related financing activities | (1,601,353) | (1,423,872) |
| Net change in cash | (148,957) | (30,897) |
| Cash at beginning of year | 575,049 | 605,946 |
| Cash at end of year | \$ 426,092 | \$ 575,049 |
| Reconciliation of operating loss to net cash provided by operating activities: | | |
| Operating loss | \$ (2,664,165) | \$ (2,047,610) |
| Adjustments to reconcile operating loss to net cash provided by operating activities: | | |
| Depreciation and amortization | 4,010,599 | 3,311,404 |
| Bad debts | 93,297 | 109,160 |
| (Increase) decrease in assets: | | |
| Receivables: | | |
| Trade | (147,146) | (45,672) |
| Affiliates | (93,007) | (79,191) |
| Other | 6,110 | (3,621) |
| Prepaid expenses and other assets | 1,208 | 33,165 |
| Increase (decrease) in liabilities: | | |
| Accounts payable | (14,415) | (9,742) |
| Payable to affiliates | 280,525 | 79,517 |
| Other liabilities and accruals | (20,610) | 45,565 |
| Net cash provided by operating activities | \$ 1,452,396 | \$ 1,392,975 |

See accompanying notes to financial statements.

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

Notes to Financial Statements
September 30, 2016 and 2015

(1) Organization

The RMI Ports Authority (the Authority), a component unit of the Republic of the Marshall Islands (RepMar), was created under Public Law No. 2003-81. This legislation repealed Public Law No. 1999-86 and Public Law No. 1999-88 and integrated the Marshall Islands Airport Authority (MIAA) with the Marshall Islands Ports Authority (MIPA) into a single Ports Authority and transferred all assets and liabilities of the former MIAA and MIPA to the Authority, effective June 4, 2004. The Authority's principal line of business is the operation and maintenance of commercial port facilities in the Marshall Islands. Services are currently provided to passengers and carriers, commercial and private, arriving and departing at the Amata Kabua International Airport and all vessels, both commercial and private, arriving at port facilities in Majuro.

On March 23, 1999, the Nitijela of RepMar passed Public Law No. 1999-86, which established MIAA as a corporation. Under Public Law No. 1999-86, RepMar was required to transfer all items of property that RepMar owned and controlled that were used exclusively for the operations of publicly owned airports within the Republic. An appraisal of property acquired as of October 1, 1999 was conducted and, in accordance with Public Law No. 1999-86, the appraised amount, net of accumulated depreciation, was transferred in the amount of \$5,273,333. This amount represented the net book value of the Amata Kabua International Airport facilities and equipment, being the only RepMar-owned and controlled airport facility within the Republic of the Marshall Islands.

On February 19, 1994, the Nitijela of RepMar passed Public Law No. 1994-90, which established MIPA as a corporation. Under Public Law No. 1994-90, RepMar was required to transfer all items of property that RepMar owned and controlled that were used exclusively for the operations of public ports within the Republic. An appraisal of property acquired as of September 30, 1996 was conducted and, in accordance with Public Law No. 1994-90, the appraised amount, net of accumulated depreciation, was transferred in the amount of \$8,344,972. This amount represented the net book value of the Majuro port facilities, being the only RepMar-owned and controlled facilities within the Republic of the Marshall Islands.

The Authority is governed by a seven-member Board of Directors appointed by the Cabinet of RepMar.

The Authority's financial statements are incorporated into the financial statements of RepMar as a component unit.

(2) Summary of Significant Accounting Policies

The accounting policies of the Authority conform to accounting principles generally accepted in the United States of America (GAAP), as applicable to governmental entities, specifically proprietary funds.

GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, which was subsequently amended by Statement No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus*, and modified by Statement No. 38, *Certain Financial Statement Note Disclosures*, establish financial reporting standards for governmental entities, which require that management's discussion and analysis of the financial activities be included with the basic financial statements and notes and modifies certain other financial statement disclosure requirements.

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

Notes to Financial Statements
September 30, 2016 and 2015

(2) Summary of Significant Accounting Policies, Continued

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

- Net investment in capital assets – capital assets, net of accumulated depreciation and related debt, plus construction or improvement of those assets.
- Unrestricted – net position that is not subject to externally imposed stipulations. Unrestricted net position may be designated for specific purposes by action of management or the Board of Directors or may otherwise be limited by contractual agreements with outside parties.

Estimates

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

Basis of Accounting

Proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and deferred outflows of resources, and liabilities and deferred inflows of resources associated with the operation of the fund are included in the statements of net position. Proprietary fund operating statements present increases and decreases in net position. The accrual basis of accounting is utilized by proprietary funds. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

The Authority's revenues are derived primarily from providing various services to major shipping and airline customers under an approved tariff rate schedule and are reported as operating revenues. Capital grants, financing or investing related transactions are reported as non-operating revenues. Revenue is recognized on the accrual basis and is recorded upon billing when services have been completed. All expenses related to operating the Authority are reported as operating expenses. Interest income or federal program revenues are the primary components of non-operating expenses and revenues.

Cash and Time Certificates of Deposit

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

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

Notes to Financial Statements
September 30, 2016 and 2015

(2) Summary of Significant Accounting Policies, Continued

Cash and Time Certificates of Deposit, Continued

For purposes of the statements of net position and of cash flows, cash is defined as cash on hand and cash held in bank accounts. Deposits maintained in time certificates of deposit with original maturity dates greater than ninety days are separately classified. As of September 30, 2016 and 2015, the carrying amount of cash and time certificates of deposit were \$2,685,239 and \$2,765,308, respectively, and the corresponding bank balances were \$2,700,470 and \$2,802,307, respectively. Of the bank balances, \$441,323 and \$602,704, respectively, were maintained in a financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance with \$2,259,147 and \$2,199,603, respectively, being maintained in a financial institution not subject to depository insurance. As of September 30, 2016 and 2015, 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, 2016 and 2015, a time certificate of deposit of \$1,700,000 collateralized notes payable (see note 6).

Receivables

All receivables are uncollateralized and are due from governmental entities, businesses and individuals located within the Republic of the Marshall Islands. The allowance for doubtful accounts is stated at an amount which management believes will be adequate to absorb possible losses on accounts receivable that may become uncollectible based on evaluations of the collectibility of these accounts and prior collection experience. The allowance is established through a provision for bad debts charged to expense. Accounts deemed uncollectible are written off against the allowance using the specific identification method.

Property, Plant and Equipment

Property, plant and equipment are stated at cost. Individual items with a cost of \$500 or greater are capitalized. Contributed fixed assets are stated at their estimated fair value at the date of transfer from RepMar. Depreciation of property, plant and equipment is calculated using the straight-line method based on the estimated useful lives of the respective assets, which are as follows:

| | |
|--|--------------|
| Facilities | 5 - 50 years |
| Buildings | 3 - 34 years |
| Equipment | 2 - 5 years |
| Vehicles | 5 - 20 years |
| Office furniture, fixtures and equipment | 2 - 5 years |
| Runway apron upgrade | 15 years |

Taxes

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

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

Notes to Financial Statements
September 30, 2016 and 2015

(2) Summary of Significant Accounting Policies, Continued

Compensated Absences

Vested or accumulated vacation leave is recorded as an expense and liability as the benefits accrue to employees. No liability is recorded for nonvesting accumulating rights to receive sick benefits. As of September 30, 2016 and 2015, an accumulated vacation leave liability of \$68,784 and \$82,098, respectively, is included within the accompanying statements of net position as other liabilities and accruals.

Deferred Outflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (deduction of net position) until then. As of September 30, 2016 and 2015, the Authority recognized deferred outflows of resources of \$851,723 and \$1,135,631, respectively, as the result of the transfer of asset ownership by the Authority to the Federal Aviation Administration (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, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (addition to net position) until then. The Authority has no items that qualify for reporting in this category.

New Accounting Standards

During the year ended September 30, 2016, the following pronouncements were implemented:

- GASB Statement No. 72, *Fair Value Measurement and Application*, which addresses accounting and financial reporting issues related to fair value measurements and requires entities to expand their fair value disclosures by determining major categories of debt and equity securities within the fair value hierarchy on the basis of the nature and risk of the investment.
- GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, which eliminates two of the four categories of authoritative GAAP that exist under the existing hierarchy prescribed by Statement No. 55. The two categories that will remain under the new standard are (1) GASB Statements and (2) GASB technical bulletins and implementation guides in addition to AICPA guidance that the GASB clears.
- GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*, addresses for certain external investment pools and their participants the accounting and financial reporting implications that result from changes in the regulatory provisions referenced by previous accounting and financial reporting standards. Those provisions were based on the Investment Company Act of 1940, Rule 2a7. Rule 2a7 contains the Securities and Exchange Commission's regulations that apply to money market funds and were significantly amended in 2014.

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

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

Notes to Financial Statements
September 30, 2016 and 2015

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In June 2015, GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statements No. 67 and No. 68*, which aligns the reporting requirements for pensions and pension plans not covered in GASB Statements No. 67 and No. 68 with the reporting requirements in Statement No. 68. The provisions in Statement No. 73 are effective for fiscal years beginning after June 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In June 2015, GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, as amended*, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, and addresses financial reporting requirements for governments whose employees are provided with postemployment benefits other than pensions (other postemployment benefits or OPEB). The provisions in Statement No. 74 are effective for fiscal years beginning after June 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

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

In August 2015, GASB issued Statement No. 77, *Tax Abatement Disclosures*, which requires governments that enter into tax abatement agreements to disclose certain information about the agreements. The provisions in Statement No. 77 are effective for fiscal years beginning after December 15, 2015. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In December 2015, GASB issued Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, which addresses a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The provisions in Statement No. 78 are effective for fiscal years beginning after December 15, 2015. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In January 2016, GASB issued Statement No. 80, *Blending Requirements for Certain Component Units - an amendment of GASB Statement No. 14*, which improves financial reporting by clarifying the financial statement presentation requirements for certain component units. The provisions in Statement No. 80 are effective for fiscal years beginning after June 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

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

Notes to Financial Statements
September 30, 2016 and 2015

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

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

In March 2016, GASB issued Statement No. 82, *Pension Issues - an amendment of GASB Statements No. 67, No. 68, and No. 73*, which addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The provisions in Statement No. 82 are effective for fiscal years beginning after June 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

(3) Risk Management

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Authority has elected to purchase commercial insurance from independent third parties for the risks of loss to which it is exposed with the exception of its dock facilities or operations (note 8). Settled claims have not exceeded this commercial coverage in any of the past three years. For other risks of loss to which it is exposed, the Authority has elected not to purchase commercial insurance. Instead, the Authority believes it is more economical to manage its risks internally. Claims expenses and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported. No material losses have resulted from the Authority's risk management activities for the past three years.

(4) Property, Plant and Equipment

Capital asset activity for the years ended September 30, 2016 and 2015, is as follows:

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

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

Notes to Financial Statements
September 30, 2016 and 2015

(4) Property, Plant and Equipment, Continued

| | October <u>1, 2014</u> | <u>Additions</u> | <u>Transfers</u> | <u>Reductions</u> | September <u>30, 2015</u> |
|--|---------------------------|---------------------|-----------------------|--------------------|------------------------------|
| Facilities | \$ 21,005,474 | \$ - | \$ 28,840 | \$ - | \$ 21,034,314 |
| Buildings | 19,313,064 | - | 17,372 | - | 19,330,436 |
| Equipment | 1,320,357 | 874 | - | (311,079) | 1,010,152 |
| Vehicles | 2,209,145 | 60,527 | - | (44,741) | 2,224,931 |
| Office furniture, fixtures and equipment | 424,917 | 35,007 | - | (2,690) | 457,234 |
| Runway apron upgrade | <u>26,157,818</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>26,157,818</u> |
| | 70,430,775 | 96,408 | 46,212 | (358,510) | 70,214,885 |
| Less accumulated depreciation | <u>(32,935,226)</u> | <u>(3,311,404)</u> | <u>-</u> | <u>347,750</u> | <u>(35,898,880)</u> |
| | 37,495,549 | (3,214,996) | 46,212 | (10,760) | 34,316,005 |
| Construction work-in-progress | <u>25,029,222</u> | <u>6,508,319</u> | <u>(1,181,844)</u> | <u>(56,182)</u> | <u>30,299,515</u> |
| | <u>\$ 62,524,771</u> | <u>\$ 3,293,323</u> | <u>\$ (1,135,632)</u> | <u>\$ (66,942)</u> | <u>\$ 64,615,520</u> |

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

(5) Related Party Transactions

The Authority was created by the Nitijela of RepMar under Public Law No. 2003-81 and is thus considered a component unit of RepMar. Accordingly, the Authority is affiliated with all RepMar-owned and affiliated entities.

The Authority's services are provided to RepMar and all RepMar-owned and affiliated entities. Services are extended to these entities at more favorable terms and conditions than those afforded to third parties.

The Authority utilizes services from certain affiliated entities at the same terms and conditions as those provided to third parties.

A summary of related party transactions for the years ended September 30, 2016 and 2015 and related receivable and payable balances as of September 30, 2016 and 2015, is as follows:

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

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

Notes to Financial Statements
September 30, 2016 and 2015

(5) Related Party Transactions, Continued

| | 2015 | | | |
|--|-------------------|-------------------|-------------------|-------------------|
| | Revenues | Expenses | Receivables | Payables |
| RepMar | \$ 4,615 | \$ 295,000 | \$ 215,882 | \$ 229,900 |
| Air Marshall Islands, Inc. | 63,671 | 63,671 | 471,638 | - |
| Marshall's Energy Company, Inc. | 106,561 | 258,961 | - | 9,582 |
| Marshall Islands Shipping Corporation | 54,766 | 54,766 | 185,824 | - |
| Marshall Islands Social Security Administration | - | 85,286 | - | 46,560 |
| Marshall Islands National Telecommunications Authority | - | 32,150 | 130 | 2,693 |
| Tobolar Copra Processing Authority | 11,631 | - | 4,992 | - |
| Other | <u>79,714</u> | <u>83,583</u> | <u>57,184</u> | <u>706</u> |
| | <u>\$ 320,958</u> | <u>\$ 873,147</u> | <u>\$ 935,650</u> | <u>\$ 289,441</u> |

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

On August 30, 2010, the Authority entered into a loan agreement with Air Marshall Islands, Inc. (AMI) in the amount of \$313,385 whereby the Authority provided funding to AMI for operational purposes. Outstanding advances are \$237,702 at September 30, 2016 and 2015. The loan bears interest fixed at 8% per annum and is payable in 30 monthly installments of \$11,560 beginning September 30, 2010. AMI has been in delinquent since February 2011. Outstanding accrued interest is \$107,385 and \$88,994 at September 30, 2016 and 2015, respectively, which is included in interest receivable in the accompanying statements of net position. The allowance for doubtful accounts provided for related parties, which includes an allowance for the note and related interest receivable, aggregated \$1,360,055 and \$1,206,117 as of September 30, 2016 and 2015, respectively.

In accordance with established tariffs, the Authority imposes compulsory pilotage fees on all commercial vessels arriving at port facilities in Majuro that are one-hundred gross tonnage and over. In order to provide this service, the Authority utilizes the services of qualified pilots. Since the inception of compulsory pilotage, the majority of qualified pilots are employees of the Authority and other RepMar Ministries and Agencies. Pilots retain forty (40) percent of compensation and the Authority retains sixty (60) percent. Ten (10) percent of the compensation collected by the Authority shall be remitted to the Ministry of Transportation and Communication. It is the intention of the Authority to train pilots in accordance with the pilotage regulations. During the years ended September 30, 2016 and 2015, the Authority compensated qualified pilots, who were employees and directors of the Authority, for pilotage services of \$188,042 and \$183,317, respectively.

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

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

Notes to Financial Statements
September 30, 2016 and 2015

(5) 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, 2016 and 2015, the Authority was liable to RepMar in the amount of \$785,714 pertaining to these authorized distributions. The Authority is currently negotiating with RepMar for forgiveness of the foregoing liabilities and adjustment, if any, will be recorded prospectively.

(6) Long-term Debt

Long-term debt at September 30, 2016 and 2015 is as follows:

| | <u>2016</u> | <u>2015</u> |
|--|-------------------|-------------------|
| Bank loan in the original amount of \$1,000,000, dated October 12, 2012, interest at 7.5% per annum, with principal and interest payable in monthly installments of \$20,125 through October 30, 2017, collateralized by a time certificate of deposit. Loan proceeds were used to finance various capital improvement projects. | \$ 250,380 | \$ 462,946 |
| 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. | <u>292,693</u> | <u>414,306</u> |
| | <u>\$ 543,073</u> | <u>\$ 877,252</u> |

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

| <u>Year ending September 30,</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|----------------------------------|-------------------|------------------|-------------------|
| 2017 | \$ 359,813 | \$ 29,377 | \$ 389,190 |
| 2018 | 157,757 | 8,518 | 166,275 |
| 2019 | <u>25,503</u> | <u>445</u> | <u>25,948</u> |
| | <u>\$ 543,073</u> | <u>\$ 38,340</u> | <u>\$ 581,413</u> |

Changes in notes payable for the years ended September 30, 2016 and 2015, are as follows:

| 2016 | | | | |
|--------------------------|------------------|---------------------|-----------------------|----------------------------|
| <u>Beginning Balance</u> | <u>Additions</u> | <u>Reductions</u> | <u>Ending Balance</u> | <u>Due Within One Year</u> |
| \$ <u>877,252</u> | \$ <u>-</u> | \$ <u>(334,179)</u> | \$ <u>543,073</u> | \$ <u>359,813</u> |
| 2015 | | | | |
| <u>Beginning Balance</u> | <u>Additions</u> | <u>Reductions</u> | <u>Ending Balance</u> | <u>Due Within One Year</u> |
| \$ <u>1,190,114</u> | \$ <u>-</u> | \$ <u>(312,862)</u> | \$ <u>877,252</u> | \$ <u>333,988</u> |

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

Notes to Financial Statements
September 30, 2016 and 2015

(7) Commitments

Leases

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

The Authority is under an amended lease agreement with a stevedoring company for the container yard located at the Port of Majuro, currently expiring on December 31, 2020. The terms of the amended lease requires a minimum lease payment of \$19,194 per annum paid quarterly, plus a gross receipts fee equal to 1.5% of total operating revenues. Additional rental income under this lease for the years ended September 30, 2016 and 2015 amounted to \$35,966 and \$36,903, respectively.

The Authority is under a lease agreement with a shipping company to lease out warehouse space. Additional rental income under this lease for the year-ended September 30, 2016 amounted to \$30,272. The current lease terms require a minimum monthly \$2,557 payment.

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

| <u>Year ending</u> <u>September 30,</u> | |
|--|-------------------|
| 2017 | \$ 152,500 |
| 2018 | 107,800 |
| 2019 | 75,100 |
| 2020 | 52,600 |
| 2021 | 12,700 |
| 2022 - 2025 | <u>25,700</u> |
| Total | \$ <u>426,400</u> |

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

U.S. Federal Grants

As of September 30, 2016, the Authority has been awarded a total of \$79,275,830 of grant awards from the United States Department of Transportation. As of September 30, 2016, \$8,308,410 has not been received and expended for various capital projects.

Others

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

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

Notes to Financial Statements
September 30, 2016 and 2015

(8) Contingencies

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

The Authority is a party to several legal proceedings arising from its operations; however, no provision for any liability has been made in the accompanying financial statements because management believes that no unfavorable outcome is likely to occur.

(9) Retirement plan

The Authority provides a defined contribution retirement savings plan (the Plan) for the benefit of eligible employees. An employee is eligible to become a member of the Plan following the completion of the three months continuous employment. Plan participants may contribute a minimum of \$10 of their salaries to be matched 100% by the Authority up to 5% of base salaries. Withdrawal from the Plan occurs upon termination of employment, death, or financial hardship. Plan assets are held in a trust fund administered by a trustee in accordance with the trust agreement. Contributions under the plan are at the discretion of the Authority and management has the authority to establish or amend Plan provisions and contribution requirements. The Authority contributed \$35,083 and \$34,112 to the plan participant accounts during the years ended September 30, 2016 and 2015, respectively, and total plan assets were \$110,714 and \$79,782 as of September 30, 2016 and 2015, respectively.

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, 2016

| | Airport Division | Seaport Division | Total |
|---|----------------------|----------------------|----------------------|
| Operating revenues: | | | |
| Seaport fees | \$ - | \$ 2,900,263 | \$ 2,900,263 |
| Aviation fees | 804,741 | - | 804,741 |
| Concession and lease income | 94,082 | 149,620 | 243,702 |
| Other | <u>293,130</u> | <u>24,100</u> | <u>317,230</u> |
| | 1,191,953 | 3,073,983 | 4,265,936 |
| Bad debt expense | <u>(46,648)</u> | <u>(46,649)</u> | <u>(93,297)</u> |
| Total operating revenues | <u>1,145,305</u> | <u>3,027,334</u> | <u>4,172,639</u> |
| Operating expenses: | | | |
| Depreciation | 3,248,233 | 478,458 | 3,726,691 |
| Salaries and wages | 577,040 | 497,020 | 1,074,060 |
| Pilotage | - | 406,008 | 406,008 |
| Pilot boat | - | 338,344 | 338,344 |
| Land lease | 254,931 | 36,249 | 291,180 |
| Amortization of deferred outflow of resources | 283,908 | - | 283,908 |
| Utilities | 220,784 | 27,309 | 248,093 |
| Training and travel | 85,097 | 43,241 | 128,338 |
| Insurance | 41,864 | 29,563 | 71,427 |
| Gas, oil, and fuel | 32,181 | 22,960 | 55,141 |
| Repairs and maintenance | 35,229 | 15,968 | 51,197 |
| Communications | 20,822 | 11,737 | 32,559 |
| Professional fees | 11,676 | 5,789 | 17,465 |
| Supplies | 4,131 | 10,374 | 14,505 |
| Miscellaneous | <u>61,189</u> | <u>36,699</u> | <u>97,888</u> |
| Total operating expenses | <u>4,877,085</u> | <u>1,959,719</u> | <u>6,836,804</u> |
| Operating (loss) income | <u>(3,731,780)</u> | <u>1,067,615</u> | <u>(2,664,165)</u> |
| Nonoperating revenues (expenses): | | | |
| Loss on disposal of capital assets | (620) | (4,355) | (4,975) |
| Interest income | 18,391 | 92,557 | 110,948 |
| Interest expense | <u>(27,633)</u> | <u>(27,289)</u> | <u>(54,922)</u> |
| Total nonoperating revenues (expenses), net | <u>(9,862)</u> | <u>60,913</u> | <u>51,051</u> |
| Income (loss) before capital contributions | <u>(3,741,642)</u> | <u>1,128,528</u> | <u>(2,613,114)</u> |
| Capital contributions: | | | |
| Contributions from U.S. government | 7,091,808 | - | 7,091,808 |
| Contributions from RepMar | <u>-</u> | <u>79,360</u> | <u>79,360</u> |
| Total capital contributions | <u>7,091,808</u> | <u>79,360</u> | <u>7,171,168</u> |
| Change in net position | 3,350,166 | 1,207,888 | 4,558,054 |
| Net position at beginning of year | <u>52,288,156</u> | <u>14,310,144</u> | <u>66,598,300</u> |
| Net position at end of year | <u>\$ 55,638,322</u> | <u>\$ 15,518,032</u> | <u>\$ 71,156,354</u> |

See accompanying independent auditor's report.

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

Board of Directors
RMI Ports Authority:

We have audited, in accordance with 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, 2016, and the related statements of revenues, expenses and changes in net position and of cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated June 19, 2017.

Internal Control Over Financial Reporting

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

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

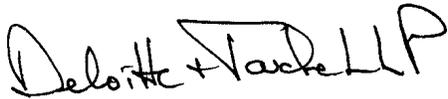
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not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

Compliance and Other Matters

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

Purpose of this Report

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

A handwritten signature in black ink that reads "Deloitte + Tardie LLP". The signature is written in a cursive, flowing style.

June 19, 2017

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

Board of Directors
RMI Ports Authority:

Report on Compliance for the Major Federal Program

We have audited RMI Ports Authority's (the Authority's) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Authority's major federal programs for the year ended September 30, 2016. The Authority's major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on the Major Federal Program

In our opinion, the Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended September 30, 2016.

Report on Internal Control Over Compliance

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

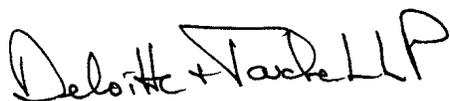
A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement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

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

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

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

We have audited the financial statements of the Authority as of and for the year ended September 30, 2016, and have issued our report thereon dated June 19, 2017, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the financial statements as a whole.



June 19, 2017

RMI PORTS AUTHORITY

Schedule of Expenditures of Federal Awards
Year Ended September 30, 2016

| Program Title | Grant Number | Program or Award Amount | Balance October 1, 2015 | Cash Receipts FY16 | Expenditures/ Adjustments FY16 | Excess of Authorization Over Program Expenditures |
|--|-----------------------|-------------------------------|-------------------------------|--------------------------|--------------------------------------|--|
| Funds received in a direct capacity: | | | | | | |
| <u>U.S. Department of Transportation:</u> | | | | | | |
| <u>CFDA # 20.106</u> | | | | | | |
| <u>Airport Improvement Program</u> | | | | | | |
| FAA-GIS | Project #3-68-0001-11 | 500,000 | 27,179 | (41,204) | 21,846 | 7,821 |
| Improve Runway Safety Area (Relocate Service Road) - Phase III | Project #3-68-0001-13 | 12,000,000 | 168,140 | (1,590,181) | 1,744,841 | 322,800 |
| Airport Security Perimeter Fence (Phase II) | Project #3-68-0001-14 | 2,000,000 | 101,703 | (1,375,229) | 1,770,133 | 496,607 |
| Environmental Mitigation (Construct Revetment) | Project #3-68-0001-15 | 7,500,000 | 477,975 | (3,931,725) | 3,554,028 | 100,278 |
| Prepare SMS Manual and Implementation Plan | Project #3-68-0001-16 | 150,000 | - | (960) | 960 | - |
| Total U.S. Department of Transportation | | <u>\$ 22,150,000</u> | <u>\$ 774,997</u> | <u>\$ (6,939,299)</u> | <u>\$ 7,091,808</u> | <u>\$ 927,506</u> |

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

The Authority does not elect to use the de minimis indirect cost rate allowed under the Uniform Guidance.

The above expenditures reconcile to the underlying basic financial statements as follows:
Construction work-in-progress (included within additions of \$8,330,070).

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

Schedule of Findings and Questioned Costs
Year Ended September 30, 2016

PART I - SUMMARY OF AUDITORS' RESULTS SECTION

Financial Statements

- | | |
|---|---------------|
| 1. Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP: | Unmodified |
| Internal control over financial reporting: | |
| 2. Material weakness(es) identified? | No |
| 3. Significant deficiency(ies) identified? | None reported |
| 4. Noncompliance material to financial statements noted? | No |

Federal Awards

Internal control over major federal programs:

- | | |
|---|---------------|
| 5. Material weakness(es) identified? | No |
| 6. Significant deficiency(ies) identified? | None reported |
| 7. Type of auditors' report issued on compliance for major federal programs: | Unmodified |
| 8. Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? | No |
| 9. Identification of major federal programs: | |

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

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

PART II- FINANCIAL STATEMENT FINDINGS SECTION

No matters were reported.

PART III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS SECTION

No matters were reported.

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

Schedule of Prior Audit Findings and Questioned Costs
Year Ended September 30, 2016

There are no unresolved prior audit findings and questioned costs.