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, 2018 AND 2017 (AS RESTATED)

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

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Years Ended September 30, 2018 and 2017

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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, 2018 and 2017, 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.

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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, 2018 and 2017, 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.

Emphasis-of-Matter

Restatement

As discussed in Note 10 to the financial statements, the 2017 financial statements have been restated to correct an error. Our opinion is not modified with respect to this matter.

Contingency

As disclosed in Note 8 to the financial statements, the Authority is currently negotiating with a customer to determine the ultimate collectibility of certain receivables. 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 4 through 15 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.

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Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 26, 2019, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

Deloitte & Touche LLP

June 26, 2019

I. INTRODUCTION

Our discussion and analysis of the financial performance of the 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, 2018. 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.

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, 2018, Ports Authority had 78 full-time employees. Composition is as follows: 4 in Administration; 7 in Finance; 4 in Airport Administration/Operations/Tower; 4 in Seaport Administration/Operations; 14 in Maintenance; 38 Security; and 7 in Ebeye. Out of the 38 Security Officers, 11 are cross-trained and certified as airport firefighters.

II. OVERVIEW OF FINANCIAL STATEMENTS

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

Ports 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

Subsequent to the issuance of the Ports Authority's 2017 financial statements, Ports Authority's management determined that prior year depreciation and accumulated depreciation were overstated by $153,857 and $362,900, respectively, and net position was understated by $209,043. As a result, the related depreciation and accumulated depreciation and net position have been restated from the amounts previously reported. Refer to Note 10 for the additional information on this restatement.

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

- For fiscal period ending September 30, 2018, total net position was $65.422 million, a significant decrease of $6.112 million from $71.534 million or 9% from prior fiscal year.

- Total operating revenues increased by $0.279 million or 7%. 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 and amortization, was $7.027 million for FY2018. It increased by $0.141 million or 2% compared to FY2017. The details will be discussed on the Revenue Performance Indicators and Divisional Expenses of this report.

- Ports Authority incurred an operating loss of $2.856 million for FY2018. The amount is slightly lower than the amount from last year's figure of $2.994 million. The major drivers in the decrease in the operating loss was caused by the slight increase in practically all revenue streams.

IV. STATEMENT OF NET POSITION

The Statement of Net Position presents the overall financial condition of Ports Authority at the end of September 30, 2018.

Summary of Statement of Net Position

	2018	2017 (As Restated)	Change	%	2016 (As Restated)
Current and other assets	$ 5,620,299	$ 5,208,469	$ 411,830	8	$ 4,286,407
Capital assets	60,650,732	67,704,806	(7,054,074)	(10)	69,546,687
Total assets	66,271,031	72,913,275	(6,642,244)	(9)	73,833,094
Deferred outflows of resources	283,907	567,816	(283,909)	(50)	851,723
Total assets and deferred outflows of resources	$ 66,554,938	$ 73,481,091	$ (6,926,153)	(9)	$ 74,684,817
Current and other liabilities	$ 1,132,583	$ 1,911,248	$ (778,665)	(41)	$ 2,776,347
Long-term debt	-	35,633	(35,633)	(100)	543,073
Net position	65,422,355	71,534,210	(6,111,855)	(9)	71,365,397
Total liabilities and net position	$ 66,554,938	$ 73,481,091	$ (6,926,153)	(9)	$ 74,684,817

Ports Authority's financial data for FY2018 showed that total assets settled at $66.271 million, down from $72.913 million, a decrease of $6.642 million or 9%. This can be attributed to the following major drivers, namely:

1. Current and other assets offset the decrease of total assets by an increase of $0.412 million or a favorable 8% from $5.208 million in FY2017 to $5.620 million in FY2018. Below are the major changes in the components of total assets:

    a) Cash account showed an increase by $0.909 million or 52% from $1.755 million recorded in prior year to $2.664 million for the current year. This was due to the continuous improvement in the collection of old outstanding accounts receivable from customers and affiliates.

    b) BOMI CTD Account increased from $0.650 million in FY2017 to current year's amount of $1.741 million or an increase of $1.091 million or 168%. This was due to the interest earned from the $1.700 million Certificate of Time Deposit, which was used as collateral for the loans from Bank of Marshall Islands (BOMI) and the transfer of $1.0 million CTD from Restricted to Unrestricted due to the full payment of the loan in FY2018.

    c) Receivables decreased to $1.907 million in current year from $2.512 million in prior year or a decrease of $0.605 million or 24%. This was brought about by the improvement in billing and collection efforts by the Finance Department.

    d) Due to the improvement in collection of receivables, the Allowance for Doubtful Accounts of $1.500 million from FY2017 slightly decreased to $1.464 million in FY2018 or $0.036 million reduction or 2% due to the write-off of long outstanding accounts per approval by the Board. There was no additional allowance provided during the current year.

    e) Prepaid expenses and other assets showed a slight decrease by $0.019 million or 21% due to the liquidation of various prepayments to vendors and suppliers.

2. The decrease of the capital assets, from $67.705 million to $60.651 million, was brought about by the significant provision of non-cash depreciation expense that reduced the Net Book Value amounting to $7.054 million or 10%. This was also the result of the adjustment made on the transfer of Roadways to the Ministry of Works, Infrastructure and Utilities.

3. Deferred Outflows of Resources of $0.284 million represents the remaining balance of the NDB-DME Relocation with the original amount of $1.136 million and such amount is amortized for a period of 4 years and the first annual amortization of $0.284 million was recorded in FY2016. This is the 3rd of the 4th annual amortizations of this account.

4. Total current liabilities of $1.133 million showed a substantial decrease from $1.911 million in prior year. The decrease represents a significant 41% or $0.779 million, which can be related to the following:

    a) Bank loans, current portion decreased by $0.123 million or 84% from $0.148 million to $0.024 million due to the full payment of the seaport loan, which was originally at $1.0 million.

    b) Accounts payable also decreased by $0.008 million or 26% from $0.033 million in FY2017 to $0.024 million in FY2018.

    c) Contractor's payable decreased by $0.691 million compared to last year's balance of $0.696 million to current year's of $0.005 million due to decreased Airport Improvement Project federal expenditures in FY2018.

d) Bank loans for noncurrent substantially decreased from $0.036 million to nil in FY2018. BOMI loan for the Airport amounting to $0.700 million on January 11, 2013 with an interest rate of 7% to mature on December 31, 2018 to finance capital improvement projects has an outstanding balance of $0.024 million excluding interest as of September 30, 2018.

5. 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, Ports Authority has a liquidity ratio of $4.34 to $1. This reveals that Ports Authority has $4.34 worth of assets currently available for every $1 owed. This benchmark improved from FY2017 and 2016 of $1.84 to $1 and $0.82 to $1, respectively.

6. Total net position decreased to $65.422 million for the current year from $71.534 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 Ports Authority, both for operating and non-operating, as well as any revenues, expenses, gains and losses, capital contributions and change in net position for a given period.

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

	2018	2017 (As Restated)	Change	%	2016 (As Restated)
Operating revenues:					
Airport Division	$ 1,246,942	$ 1,244,108	$ 2,834	0	$ 1,145,305
Seaport Division	2,924,245	2,647,755	276,490	10	3,027,334
	$ 4,171,187	$ 3,891,863	$ 279,324	7	$ 4,172,639
Operating expenses:					
Airport Division	$ 5,152,415	$ 4,922,329	$ 230,086	5	$ 4,668,042
Seaport Division	1,874,541	1,964,031	(89,490)	(5)	1,959,719
	$ 7,026,956	$ 6,886,360	$ 140,596	2	$ 6,627,761
Non-operating revenues (Expenses):					
Airport Division	$ 6,522	$ 260,606	$ (254,084)	(97)	$ (9,862)
Seaport Division	78,833	330,834	(252,001)	(76)	60,913
	$ 85,355	$ 591,440	$ (506,085)	(86)	$ 51,051
Capital contributions:					
Airport Division	$ 812,711	$ 1,423,382	$ (610,671)	(43)	$ 7,091,808
Seaport Division	-	1,148,488	(1,148,488)	(100)	79,360
	$ 812,711	$ 2,571,870	$ (1,759,159)	(68)	$ 7,171,168
Special item	(4,154,152)	-	-	(100)	-
Change in net position:					
Airport Division	$ (7,244,718)	$ (1,994,298)	$ (5,250,420)	(263)	$ 3,559,209
Seaport Division	1,132,863	2,163,111	(1,030,248)	(48)	1,207,888
	$ (6,111,855)	$ 168,813	$ (6,280,668)	(3720)	$ 4,767,097

Ports Authority's operating revenues for fiscal year 2018 showed a moderate increase of $0.279 million from $3.892 million to $4.171 million or 7%.

1. There were no significant changes in Revenues for the Airport Division in the current year at $1.247 million compared with the previous year at $1.244 million. Revenue streams that showed significant gains were screening fees ($0.056m), aircraft parking charges ($0.038m) and scheduled landing charges ($0.023m) but these gains were partially offset by the decrease in reimbursed utility charges ($0.012m) and other income ($0.025m).

2. Revenue streams for the Seaport Division showed significant increases in wharfage fees ($0.078m), domestic vessel entry fees ($.096m) and other income ($0.128m). However, significant decreases in revenue streams were pilotage fees ($0.042m), pilot boat usage fees ($0.040m) and boarding party fee ($0.016m). The decrease was due to less shipping vessels coming at the port and Prudent & Vigilant boats had mechanical issues in FY2018.

Operating expenses showed an unfavorable increase from $6.886 million to $7.027 million or a moderate increase of $0.141 million or 2%. The increase in the operating expenses for both divisions accounted as follows:

1. Depreciation and amortization expense increased by $0.347 million or 9% from $3.973 million for FY2017 to $4.319 million for FY2018.

2. Salaries and wages for both the Seaport and Airport Divisions showed an aggregate amount of $1.347 million for FY2018 and $1.164 million for FY2017 or an increase of $0.183 million. This was due to the increase in staffing requirements at the airport to comply with governing bodies. This is also due to an increase in employee benefits and welfare by $0.025 million from $0.103 million in FY2017 to $0.128 million in FY2018.

3. The unfavorable increase on expenses was partially offset by the decrease of the following:

    a) Land lease showed a significant decrease from $0.291 million in FY2017 to $0.112 million in FY2018 as a result of the new land lease agreement effective October 1, 2017.

    b) Pilot boat expenses and pilotage expenses showed also a moderate decrease amounting to $0.096 million and $0.019 million, respectively. This is attributable to less shipping vessels coming at the port and less use of pilot boat rental from private individuals.

    c) Utilities also registered a decrease of $0.062 million or 20% from $0.303 million recorded in FY2017 to $0.241 million for the current year.

    d) Training and travel expenses also showed a decrease from $0.166 million in FY2017 to $0.129 million in FY2018 or a favorable drop of $0.037 million or 22%.

    e) Professional fees showed a moderate decrease of $0.008 million or 23% decrease from $0.034 million to $0.026 million for FY2018.

Nonoperating revenues (expenses) showed a considerable drop from $0.591 million in FY2017 to $0.085 million in FY2018, or a decrease of $0.506 million or 86%, due to the reversal of $0.500 million contribution by Ports Authority to GRMI General Fund in FY2017. The recorded liability was reversed in FY2017 since this was not existent in the GRMI books per confirmation made from the Ministry of Finance in the prior year.

For Ports Authority, there are 2 mainstreams of capital contributions, namely the grant revenues from GRMI 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 Ports Authority without directly providing goods and/or services. For the current year, grant revenues from the U.S. DOT decreased from $1.423 million to $0.813 million or a decrease of $0.611 million or 43%. As of September 30, 2018, only few Airport Improvement Projects was expended.

A special item was recorded in FY2018 for the transfer of Roadways to the Ministry of Works, Infrastructure and Utilities amounting to $4.154 million.

Change in net position for FY2018 showed a negative $6.112 million compared to a positive $0.169 million in prior year or a decrease of $6.281 million.

Net position at the end of the current year amounts to $65.422 million and $71.534 million in prior year. Overall, for fiscal period ending September 30, 2018, total net position of $65.422 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

	2018	2017 (As Restated)	Change	%	2016 (As Restated)
Cash Provided by (used in):					
Operating Activities	$ 1,374,929	$ 1,044,496	$ 330,433	32	$ 1,452,396
Capital & Related Financing Activities	(584,223)	160,506	(744,729)	(464)	(1,601,353)
Noncapital & Related Financing Activities	91,541	14,000	77,541	554	-
Investing Activities	27,107	110,000	(82,893)	(75)	-
Net Change in Cash	909,354	1,329,002	(419,648)	(32)	(148,957)
Cash at Beginning of Year	1,755,094	426,092	1,329,002	312	575,049
Cash at End of Year	$ 2,664,448	$ 1,755,094	$ 909,354	52	$ 426,092

Net change in cash position during the year showed a substantial reduction from $1.329 million in FY2017 to $0.909 million in FY2018 or a decrease of $0.420 million or 32%.

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 $4.034 million in FY2018 as compared to $4.047 million in FY2017, a decrease of $0.013 million or less than 1%. Such cash was used to pay various suppliers for goods and services amounting to $1.351 million and $1.851 million in FY2018 and FY2017, respectively. In addition, it was also used to pay the employees for services rendered during FY2018 and FY2017 in the amount of $1.308 million and $1.152 million, respectively. The net cash provided by operating activities showed a modest increase of $0.330 million or 32% from $1.044 million in FY2017 to $1.375 million in FY2018.

2. Net cash used for capital and related financing activities stood at a negative $0.584 million for the current year, a significant decrease from a positive $0.161 million in FY2017 or a decrease of $0.745 million or 464%. Cash inflows from capital and related financing activities amounted to $1.829 million in FY2018 and $2.350 million in FY2017 were used for the acquisition and construction of capital assets and payment of principal ($0.159 million in FY2018 and $0.359 million in FY2017) and related interest ($0.009 million in FY2018 and $0.029 million in FY2017) for Seaport and Airport loans from BOMI.

3. Net cash inflows from noncapital (loans advanced to AMI) amounting to $0.092 million while the net cash inflows from investing activities of $0.027 million was payment by AMI for the interest on their loan.

4. Generally, Ports Authority showed a very strong cash position at the end of FY2018 at $2.664 million, an increase of $0.909 million or 52% in comparison to FY2017 figures of $1.755 million.

VI. DIVISIONAL REVENUES AND EXPENSES

Airport and Seaport Combined Operating Revenues

	2018	2017	Change	%	2016
Operating revenues:					
Airport Division	$ 1,246,942	$ 1,244,108	$ 2,834	0	$ 1,145,305
Seaport Division	2,924,245	2,647,755	276,490	10	3,027,334
	$ 4,171,187	$ 3,891,863	$ 279,324	7	$ 4,172,639

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

	2018	2017 (As Restated)	Change	%	2016 (As Restated)
Airport:					
Personnel	$ 719,676	$ 609,386	$ 110,290	18	$ 577,040
Maintenance and operations	4,432,739	4,312,943	119,796	3	4,091,002
	5,152,415	4,922,329	230,086	5	4,668,042
Seaport:					
Personnel	627,397	554,388	73,009	13	497,020
Maintenance and operations	1,247,144	1,409,643	(162,499)	(12)	1,462,699
	1,874,541	1,964,031	(89,490)	(5)	1,959,719
Combined operating expenses	$ 7,026,956	$ 6,886,360	$ 140,596	2	$ 6,627,761

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

	2018	2017	Change	%	2016
United Airlines	388	315	73	23	316
Our Airline	106	93	13	14	100
Air Marshall Islands	873	789	84	11	614
Asia Pacific Airlines	119	123	(4)	(3)	205
	1,486	1,320	166	13	1,235

The increase in numbers of 166 or 13% from 1,320 to 1,486 Regular/Scheduled Flights for FY2018 registered an increase in dollar amounts as total Landing Charges – Scheduled took a slight increment of $0.023 million or 10% from $0.223 in FY2017 to $0.246 million in FY2018. 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).

DEPARTURE FEES - INTERNATIONAL

	2018	2017	Change	%	2016
Adults	13,875	13,582	293	2	11,819
Students	4,329	3,745	584	16	4,339
	18,204	17,327	877	5	16,158

Departure Fees – International increased by $0.011 million or 3%, compared with the figures recorded in prior year of $0.331 million to the numbers for the current 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

	2018	2017	Change	%	2016
Number of Flights (MTOW)					
0-45000	83	53	30	57	100
45001-90000	26	10	16	160	21
90001-up	149	128	21	16	160
	258	191	67	35	281

% to Total	2018	2017	2016
0-45000	32%	28%	36%
45001-900006	10%	5%	7%
90001-up	58%	67%	57%

Unscheduled/Special Flight Traffic increased as the number of flights in FY2017 of 191 flights increased in comparison to the 258 flights in FY2018. This is a modest increment of 67 flights for the given year, which is equivalent to an increase of revenues by $0.010 million or 17%, from $0.059 million in FY2017 to $0.069 million for FY2018. 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.

SEAPORT REVENUE PERFORMANCE INDICATORS

VESSELS ARRIVALS

	2018	2017	Change	%	2016
Cargo Vessels	58	70	(12)	(17)	63
Fishing Vessels - International	583	633	(50)	(8)	843
Fishing Vessels - Domestic	769	511	258	50	501
Foreign Tankers	35	24	11	46	16
Military Ships	6	7	(1)	(14)	7
Others	4	10	(6)	(60)	40
	1,455	1,255	200	16	1,470

As discussed in the Statement of Revenues, Expenses, and Changes in Net Position, some line items on the Seaport Division's revenue streams registered an increase specifically the Domestic Vessel Entry Fees which showed an increase of $0.096 million or 61%, from $0.158 million in Fy2017 to $0.254 million in FY2018. This can also be seen from the table above as it shows an increase in transshipment of containers from 511 to 769 or an increase of 258 fishing vessels for the given year. Foreign Entry Tankers showed an increase from 24 tankers to 35 tankers or 46% or 11 tankers more from prior year. These favorable operation results had impacted the revenues of the Seaport as it shows $2.665 million in FY2018 versus $2.532 million in FY2017 or an increase in revenue streams of $0.133 million or 5%.

MOVEMENTS

	2018	2017	Change	%	2016
	1,664	1,872	(208)	(11)	2,379

Both the pilotage fees and pilot boat usage fees decreased due to the decline in the arrival of the vessels. Pilotage fees decreased to $0.747 million in FY2018 from $0.788 million in FY2017, a drop of $0.041 million or 5%. Further, pilot boat usage fees decreased by $0.0.40 million or 9%, from $0.454 million in FY2017 to $0.414 million in FY2018.

WHARFAGE FEES

	2018	2017	Change	%	2016
Metric tons	51,610	38,594	13,016	34	47,063
Revenue Tons					
Domestic	4,702	9,524	(4,822)	(51)	5,174
International	165,465	111,938	53,527	48	116,292

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 $0.078 million or 17% from $0.472 million in FY2017 to $0.550 million in FY2018.

BUNKERING FEES

	2018	2017	Change	%	2016
Fuel (barrel)	65,824	60,535	5,289	9	80,872
Water (gallon)	948,000	846,830	101,170	12	1152,387

Bunkering fees - fuel showed an increase of 5,289 barrels or 9% from 60,535 barrels in FY2017 to 65,824 barrels in FY2018. Bunkering fees - water registered a 12% increase or 101,170 gallons of water, increasing from 846,830 gallons for FY2017 to 948,000 gallons for FY2018. In terms of dollar value, fuel and water service fees increased by $0.008 million or 62% from $0.013 million in prior year to $0.021 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 FY2018	Budget FY2018	Variance	%
Operating Revenues:				
Airport Division	$ 1,246,942	$ 1,329,627	$ (82,685)	(6)
Seaport Division	2,924,245	2,912,086	12,159	-
	$ 4,171,187	$ 4,241,713	$ (70,526)	(2)
Depreciation and Amortization:				
Airport Division	$ 3,824,238	$ 3,120,933	$ 703,305	23
Seaport Division	495,030	551,923	(56,893)	(10)
	$ 4,319,268	$ 3,672,856	$ 646,412	18

VIII. ACTUAL VS. BUDGET COMPARISON, CONTINUED

	Actual FY2018	Budget FY2018	Variance	%
Other Operating Expenses:				
Airport Division	$ 1,328,177	$ 1,600,096	$ (271,919)	(17)
Seaport Division	1,379,511	1,437,773	(58,262)	(4)
	$ 2,707,688	$ 3,037,869	$ (330,181)	(11)
Non-Operating Revenues (Expenses):				
Airport Division	$ 6,522	$ -	$ 6,522	100
Seaport Division	78,833	71,350	7,483	10
	$ 85,355	$ 71,350	$ 14,005	20
Capital Contributions:				
Airport Division	$ 812,711	$ -	$ 812,711	100
Seaport Division	-	-	-	-
	$ 812,711	$ -	$ 812,711	100
Special item:				
Airport Division	$ (4,154,152)	$ -	$ (4,154,152)	100
Seaport Division	-	-	-	-
	$ (4,154,152)	$ -	$ (4,154,152)	100
Change in Net Position:				
Airport Division	$ (7,240,392)	$ (3,391,402)	$ (3,848,990)	(113)
Seaport Division	1,128,537	993,740	134,797	14
	$ (6,111,855)	$ (2,397,662)	$ (3,714,192)	(155)

The Change in Net Position for FY2018 registered an unfavorable variance of negative $3.714 million or negative 155% compared to the actual negative $6.112 million vis-à-vis the budgeted negative $2.398 million. This was brought by the following:

1. Total operating revenues for Airport Division revealed a negative variance of $0.083 million or 6%, from a budgeted $1.330 million to an actual amount of $1.247 million. This is due to budgeted other income at $0.109 million but actual amount was a negative $0.065 million or a total variance of negative $0.174 million.

2. Seaport Division's operating revenues showed an actual amount approximately with the budgeted amount of $2.912 million.

3. Both Airport and Seaport Divisions showed favorable operating expenses (excluding depreciation and amortization expense) for FY2018 compared to the projected amount on the same year. A total of $0.330 million or favorable 11% decrease from an actual of $2.708 million contra projected $3.038 million on the same year.

4. Actual amount of depreciation and amortization showed a very significant difference for the Airport Division due to the adjustments made to correct the actual amount of depreciation for the Roadways. Total budget for this line item of $3.673 million paled in comparison with the actual amount of $4.319 million or a considerable difference of $0.646 million or 18%.

5. The Non-Operating Revenues (Expenses) resulted to a favorable $0.014 million or 20% from a projected $0.071 million to an actual $0.085 million.

6. There was no budgeted capital contributions and special item made in FY2018.

7. The Change in Net Position for both Airport and Seaport Divisions for FY2018 showed an unfavorable amount of $6.112 million which was a complete turnaround from a budgeted amount of negative $2.398 million or a difference of $3.714 million or an unfavorable negative 155 percentage change. However, the Seaport Division continuously had a strong and stable Net Position with a 14% increase compared to the projected $0.994 million to the actual $1.128 million in FY2018. Airport Division decreased by $3.848 million or 113%, from a budgeted of $3.391 million to an actual of $7.240 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. In FY 2012-FY 2017, the result will be a loss of port revenues of approximately $400,000.***

  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.

X. ADDITIONAL FINANCIAL INFORMATION

Management Discussion and Analysis for the year ended September 30, 2017 is set forth in the RMI Ports Authority's report on the audit of financial statements, which is dated June 27, 2018. The MD&A explains the major factors impacting the 2017 financial statements and can be obtained from the RMI Office of the Auditor-General website at www.rmioag.com.

This report is designed to provide the Ports Authority's customers and other interested parties with an overview of the Ports Authority's financial condition, results of operations and changes in net position. Should the reader have questions regarding the information included in this report or wish to request additional financial information, please contact the RMI Ports Authority Executive Director, 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, 2018 and 2017

	2018	2017 (As Restated)
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
Current assets:		
Cash	$ 2,664,448	$ 1,755,094
Time certificate of deposit	1,740,791	649,757
Receivables:		
Trade	713,283	589,162
Affiliates	961,170	981,585
Note receivable	146,161	237,702
Interest receivable	54,767	79,999
Grants receivable	4,635	600,313
Employees	27,113	23,173
	1,907,129	2,511,934
Less allowance for doubtful accounts	(1,464,473)	(1,500,070)
	442,656	1,011,864
Prepaid expenses and other assets	72,404	91,754
Total current assets	4,920,299	3,508,469
Restricted time certificate of deposit	700,000	1,700,000
Capital assets:		
Nondepreciable capital assets	1,563,061	10,862,260
Other capital assets, net of accumulated depreciation	59,087,671	56,842,546
Total assets	66,271,031	72,913,275
Deferred outflows of resources	283,907	567,816
	$ 66,554,938	$ 73,481,091
LIABILITIES AND NET POSITION		
Current liabilities:		
Current portion of notes payable	$ 24,318	$ 147,717
Accounts payable	24,346	32,810
Contracts payable	5,150	695,739
Payable to affiliates	509,510	499,392
Due to RepMar	285,714	285,714
Other liabilities and accruals	283,545	249,876
Total current liabilities	1,132,583	1,911,248
Noncurrent portion of notes payable	-	35,633
Total liabilities	1,132,583	1,946,881
Commitments and contingencies		
Net position:		
Net investment in capital assets	60,626,414	67,521,456
Unrestricted	4,795,941	4,012,754
Total net position	65,422,355	71,534,210
	$ 66,554,938	$ 73,481,091

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, 2018 and 2017

	2018	2017 (As Restated)
Operating revenues:		
Seaport fees	$ 2,665,606	$ 2,532,722
Aviation fees	867,253	774,517
Concession and lease income	234,689	221,376
Screening fee	114,659	58,202
Special overtime carges	94,306	89,108
Cargo	46,136	40,700
Other	146,427	175,238
	4,169,076	3,891,863
Recovery of bad debts	2,111	-
Total operating revenues	4,171,187	3,891,863
Operating expenses:		
Depreciation and amortization	4,319,268	3,972,500
Salaries and wages	1,347,073	1,163,772
Pilotage	334,666	353,194
Utilities	241,027	303,001
Pilot boat	161,563	257,488
Training and travel	129,105	165,778
Land lease	111,813	291,180
Insurance	72,118	75,144
Gas, oil, and fuel	65,095	60,710
Repairs and maintenance	49,306	41,469
Communications	33,401	40,084
Professional fees	26,095	34,014
Sitting fees	20,800	14,400
Bank charges	20,641	21,179
Supplies	18,778	11,549
Dues and subscriptions	17,066	4,352
Capital outlays	16,328	12,587
Laundry and cleaning	11,637	9,608
Printing and advertising	5,486	10,421
Miscellaneous	25,690	43,930
Total operating expenses	7,026,956	6,886,360
Operating loss	(2,855,769)	(2,994,497)
Nonoperating revenues (expenses):		
Other nonoperating revenue	-	514,000
Gain (loss) on disposal of capital assets	1,786	(56)
Interest income	92,909	106,873
Interest expense	(9,340)	(29,377)
Total nonoperating revenues, net	85,355	591,440
Loss before capital contributions	(2,770,414)	(2,403,057)
Capital contributions:		
Contributions from U.S. government	812,711	1,423,382
Contributions from RepMar	-	1,148,488
Total capital contributions	812,711	2,571,870
Special item	(4,154,152)	-
Change in net position	(6,111,855)	168,813
Net position at beginning of year	71,534,210	71,365,397
Net position at end of year	$ 65,422,355	$ 71,534,210

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, 2018 and 2017

	2018	2017 (As Restated)
Cash flows from operating activities:		
Cash received from customers	$ 4,033,995	$ 4,047,375
Cash payments to suppliers for goods and services	(1,351,142)	(1,851,344)
Cash payments to employees for services	(1,307,924)	(1,151,535)
Net cash provided by operating activities	1,374,929	1,044,496
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(1,828,741)	(2,350,457)
Principal paid on long-term debt	(159,032)	(359,723)
Interest paid on long-term debt	(9,340)	(29,377)
Proceeds from sale of capital assets	4,501	1,000
Capital contributions received	1,408,389	2,899,063
Net cash provided by (used for) capital and related financing activities	(584,223)	160,506
Cash flows from noncapital and related financing activities:		
Loans advanced to AMI	91,541	-
Contributions received	-	14,000
Net cash provided by noncapital and related financing activities	91,541	14,000
Cash flows from investing activities:		
Interest received	27,107	110,000
Net change in cash	909,354	1,329,002
Cash at beginning of year	1,755,094	426,092
Cash at end of year	$ 2,664,448	$ 1,755,094
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	$ (2,855,769)	$ (2,994,497)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation and amortization	4,319,268	3,972,500
Recovery of bad debts	(2,111)	-
(Increase) decrease in assets:		
Receivables:		
Trade	(157,607)	108,440
Affiliates	20,415	47,072
Other	(3,940)	(1,955)
Prepaid expenses and other assets	19,350	(76,937)
Increase (decrease) in liabilities:		
Accounts payable	(8,464)	4,960
Payable to affiliates	10,118	(70,574)
Other liabilities and accruals	33,669	55,487
Net cash provided by operating activities	$ 1,374,929	$ 1,044,496
Summary disclosure of noncash activities:		
Other nonoperating revenue	$ -	$ 500,000
Due to RepMar	-	(500,000)
	-	-
Other capital assets, net of accumulated depreciation	$ 4,154,152	$ -
Contributions to RepMar	(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. 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.

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 No. 34,* establish financial reporting standards for governmental entities, which require that management's discussion and analysis of the financial activities be included with the basic financial statements and notes and modifies certain other financial statement disclosure requirements.

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

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

- Unrestricted – net position that is not subject to externally imposed stipulations. Unrestricted net position may be designated for specific purposes by action of management or the Board of Directors or may otherwise be limited by contractual agreements with outside parties.

Estimates

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

Basis of Accounting

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

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

(2) Summary of Significant Accounting Policies, Continued

Cash and Time Certificates of Deposit

Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned. 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, 2018 and 2017, the carrying amount of cash and time certificates of deposit were $5,105,239 and $4,104,851, respectively, and the corresponding bank balances were $5,126,217 and $4,156,683, respectively. Of the bank balances, $2,622,647 and $1,806,926, respectively, were maintained in a financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance with $2,503,570 and $2,349,757, respectively, being maintained in a financial institution not subject to depository insurance. As of September 30, 2018 and 2017, 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 and 2017, time certificates of deposit of $700,000 and $1,700,000, respectively, collateralized notes payable (see note 6).

Receivables

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

Property, Plant and Equipment

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

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

Taxes

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

(2) Summary of Significant Accounting Policies, Continued

Compensated Absences

Vested or accumulated vacation leave is recorded as an expense and liability as the benefits accrue to employees. No liability is recorded for nonvesting accumulating rights to receive sick benefits. As of September 30, 2018 and 2017, an accumulated vacation leave liability of $75,257 and $62,630, respectively, is included within the accompanying statements of net position as other liabilities and accruals.

Deferred Outflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (deduction of net position) until then. In September 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, 2018 and 2017, the Authority recognized deferred outflows of resources of $283,907 and $567,816, 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.

Reclassifications

Certain balances in the 2017 presentation has been reclassified to conform to the 2018 presentation. These reclassifications had no impact on operating loss, net position or cash flows as previously reported.

New Accounting Standards

During the year ended September 30, 2018, the following pronouncements were implemented:

- GASB 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.

- GASB 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.

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

- GASB Statement No. 85, *Omnibus 2017*, which address practice issues that have been identified during implementation and application of certain GASB Statements including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits).

- GASB Statement No. 86, *Certain Debt Extinguishment Issues*, which improves consistency in accounting and financial reporting for in-substance defeasance of debt.

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

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

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

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 April 2018, GASB issued 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 provisions in Statement No. 88 are effective for fiscal years beginning after June 15, 2018. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In 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.

(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 activities for the years ended September 30, 2018 and 2017, is as follows:

	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

	October 1, 2016	Additions	Transfers	Reductions	September 30, 2017
Facilities	$ 21,150,539	$ -	$ 2,331,218	$ -	$ 23,481,757
Buildings	13,556,174	-	85,487	-	13,641,661
Equipment	938,835	-	-	(182,331)	756,504
Vehicles	2,260,517	22,348	-	(36,077)	2,246,788
Office furniture, fixtures and equipment	519,333	14,549	545,542	(126,670)	952,754
Roadway	12,725,068	-	19,461,021	-	32,186,089
Runway apron upgrade	26,157,818	-	-	-	26,157,818
	77,308,284	36,897	22,423,268	(345,078)	99,423,371
Less accumulated depreciation	(39,236,254)	(3,688,593)	-	344,022	(42,580,825)
	38,072,030	(3,651,696)	22,423,268	(1,056)	56,842,546
Construction work-in-progress	31,474,657	1,810,871	(22,423,268)	-	10,862,260
	$ 69,546,687	$ (1,840,825)	$ -	$ (1,056)	$ 67,704,806

(4) Property, Plant and Equipment, Continued

Subsequent to the issuance of the Authority's 2017 financial statements, the Authority's management determined that capital assets and related accumulated depreciation were understated by $1,153,931. This determination has been reflected in the above capital assets activities movement schedule, effective October 1, 2016.

As of September 30, 2018 and 2017, construction in progress includes certain capitalized costs of $293,684 and $265,836, 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 RepMar.

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

(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, 2018 and 2017 and related receivable and payable balances as of September 30, 2018 and 2017, is as follows:

	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

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

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

(5) Related Party Transactions, Continued

On August 30, 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 $147,161 and $237,702 as of September 30, 2018 and 2017, 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. Outstanding accrued interest is $0 and $11,910 at September 30, 2018 and 2017, 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 $953,743 and $1,217,520 as of September 30, 2018 and 2017, 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, 2018 and 2017, the Authority compensated qualified pilots, who were employees and directors of the Authority, for pilotage services of $130,162 and $160,761, 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 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 October 2017, the Authority entered into an amended MOU to pay the Ministry of Finance 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.

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, 2018 and 2017, the Authority was liable to RepMar in the amount of $285,714 pertaining to these authorized distributions. During the year ended September 30, 2017, the Authority recorded $500,000 adjustment to Due to RepMar and is included in other nonoperating revenue in the accompanying statements of revenues, expenses, and changes in net position. The Authority is currently negotiating with RepMar for forgiveness of the foregoing liabilities and adjustment, if any, will be recorded prospectively.

On November 24, 2017, the Cabinet approved the transfer of re-aligned road at the west side of the airport from the Authority to the Ministry of Works, Infrastructures and Utilities with cost of $5,769,656 and accumulated depreciation of $1,615,503.

(6) Long-term Debt

Long-term debt at September 30, 2018 and 2017 is as follows:

	2018	2017
Bank loan in the original amount of $1,000,000, dated October 12, 2012, interest at 7.5% per annum, with principal and interest payable in monthly installments of $20,125 through October 30, 2017, collateralized by a time certificate of deposit. Loan proceeds were used to finance various capital improvement projects.	$ -	$ 19,838
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	163,512
	$ 24,318	$ 183,350

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

Year ending September 30,	Principal	Interest	Total
2019	$ 24,318	$ 445	$24,763

Changes in notes payable for the years ended September 30, 2018 and 2017, are as follows:

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

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

(7) Commitments

Leases

The Authority is the lessor of office, restaurant, bar and warehouse space at the Amata Kabua International Airport. Fourteen 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, 2018 and 2017 amounted to $59,620 and $40,009, respectively.

(7) Commitments, Continued

Leases, Continued

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, 2018 amounted to $29,898. 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,	
2019	177,100
2020	119,300
2021	61,200
2022	14,400
2023	7,900
2024 - 2025	9,900
Total	$ 389,800

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, 2018, the Authority has been awarded a total of $81,802,059 of grant awards from the United States Department of Transportation. As of September 30, 2018, $731,741 has not been received and expended for various capital projects.

Other

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

(8) Contingencies

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

At September 30, 2018, outstanding receivables due from Air Marshall Islands, Inc. (AMI) recorded by the Authority of $603,818 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.

(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 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 $33,475 and $38,493 to the plan participant accounts during the years ended September 30, 2018 and 2017, respectively, and total plan assets were $245,855 and $178,265 as of September 30, 2018 and 2017, respectively.

(10) Restatement

Subsequent to the issuance of the Authority's 2017 financial statements, the Authority's management determined that prior year depreciation and accumulated depreciation were overstated by $153,857 and $362,900, respectively, and net position was understated by $209,043. As a result of this determination, the related depreciation, accumulated depreciation and net position have been restated from the amounts previously reported as follows:

	As Previously Reported	As Restated
At September 30, 2017:		
Capital assets:		
Other capital assets, net of accumulated depreciation	$ 56,479,646	$ 56,842,546
Total assets	$ 72,550,375	$ 72,913,275
Net position:		
Net investment in capital assets	$ 67,158,556	$ 67,521,456
Total net position	$ 71,171,310	$ 71,534,210
Year ended September 30, 2017:		
Operating expenses:		
Depreciation and amortization	$ 4,126,357	$ 3,972,500
Total operating expenses	$ 7,040,217	$ 6,886,360
Operating loss	$ (3,148,354)	$ (2,994,497)
Loss before capital contributions	$ (2,556,914)	$ (2,403,057)
Change in net position	$ 14,956	$ 168,813
Net position at beginning of year	$ 71,156,354	$ 71,365,397
Net position at end of year	$ 71,171,310	$ 71,534,210

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, 2018

	Airport Division	Seaport Division	Total
Operating revenues:			
Seaport fees	$ -	$ 2,665,606	$ 2,665,606
Aviation fees	867,253	-	867,253
Concession and lease income	118,640	116,049	234,689
Screening fee	114,659	-	114,659
Special overtime charges	94,306	-	94,306
Cargo	45,641	495	46,136
Other	5,387	141,040	146,427
	1,245,886	2,923,190	4,169,076
Bad debts recovery	1,056	1,055	2,111
Total operating revenues	1,246,942	2,924,245	4,171,187
Operating expenses:			
Depreciation and amortization	3,824,238	495,030	4,319,268
Salaries and wages	719,676	627,397	1,347,073
Pilotage	-	334,666	334,666
Utilities	205,297	35,730	241,027
Pilot boat	-	161,563	161,563
Training and travel	92,122	36,983	129,105
Land lease	80,200	31,613	111,813
Insurance	28,727	43,391	72,118
Gas, oil, and fuel	44,398	20,697	65,095
Repairs and maintenance	37,516	11,790	49,306
Communications	20,799	12,602	33,401
Professional fees	13,095	13,000	26,095
Supplies	11,101	7,677	18,778
Miscellaneous	75,246	42,402	117,648
Total operating expenses	5,152,415	1,874,541	7,026,956
Operating (loss) income	(3,905,473)	1,049,704	(2,855,769)
Nonoperating revenues (expenses):			
Gain (loss) on disposal of capital assets	(86)	1,872	1,786
Interest income	15,197	77,712	92,909
Interest expense	(8,589)	(751)	(9,340)
Total nonoperating revenues, net	6,522	78,833	85,355
Income (loss) before capital contributions	(3,898,951)	1,128,537	(2,770,414)
Capital contributions:			
Contributions from U.S. government	812,711	-	812,711
Contributions to RepMar	(4,154,152)	-	(4,154,152)
Total capital contributions	(3,341,441)	-	(3,341,441)
Change in net position	(7,240,392)	1,128,537	(6,111,855)
Net position at beginning of year	53,860,402	17,673,808	71,534,210
Net position at end of year	$ 46,620,010	$ 18,802,345	$ 65,422,355

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

Board of Directors
RMI Ports Authority:

We have audited, in accordance with 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, 2018, 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 26, 2019. Our report includes an emphasis-of-matter paragraphs regarding a restatement to correct an error and an uncertainty.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Questioned Costs as item 2018-001 that we consider to be significant deficiencies.

Deloitte.

Compliance and Other Matters

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

The Authority's Response to Findings

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

Purpose of this Report

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

Deloitte & Touche LLP

June 26, 2019

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

Board of Directors
RMI Ports Authority:

Report on Compliance for the Major Federal Program

We have audited RMI Ports Authority's (the Authority's) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the Authority's major federal program for the year ended September 30, 2018. The Authority's major federal program is identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on the Major Federal Program

In our opinion, the Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended September 30, 2018.

Deloitte.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying Schedule of Findings and Questioned Costs as item 2018-001. Our opinion on the major federal program is not modified with respect to these matters.

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

Report on Internal Control Over Compliance

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we did identify certain deficiencies in internal control over compliance, described in the accompanying Schedule of Findings and Questioned Costs as item 2018-001, that we consider to be significant deficiencies.

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

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

Deloitte.

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

We have audited the financial statements of the Authority as of and for the year ended September 30, 2018, and have issued our report thereon dated June 26, 2019, which contained an unmodified opinion on those financial statements and which report included an emphasis-of-matter paragraph regarding a restatement to correct an error and an uncertainty. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the financial statements as a whole.

Deloitte + Touche LLP

June 26, 2019

RMI PORTS AUTHORITY

Schedule of Expenditures of Federal Awards
Year Ended September 30, 2018

Program Title	Grant Number	Program or Award Amount	Balance October 1, 2017	Cash Receipts FY18	Expenditures/ Adjustments FY18	Excess of Authorization Over Program Expenditures
Funds received in a direct capacity:						
U.S. Department of Transportation:						
CFDA # 20.106						
Airport Improvement Program						
Improve Runway Safety Area (Relocate Service Road) - Phase III	AIP 3-68-0001-13	$ 13,558,800	$ (99,996)	$ -	$ -	$ (99,996)
Airport Security Perimeter Fence (Phase II)	AIP 3-68-0001-14	2,000,000	512,324	(41,952)	-	470,372
Environmental Mitigation (Construct Revetment)	AIP 3-68-0001-15	7,580,639	(76,081)	(926,116)	631,821	(370,376)
E-Vault (Technical Assistance)	AIP 3-68-0001-17	300,000	264,066	(264,066)	-	-
Design Electrical Vault	AIP 3-68-0001-18	500,000	-	(176,255)	180,890	4,635
Total U.S. Department of Transportation		$ 23,939,439	$ 600,313	$ (1,408,389)	$ 812,711	$ 4,635

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

The Authority does not elect to use the de minimis indirect cost rate allowed under the Uniform Guidance.
.
The above expenditures reconcile to the underlying basic financial statements as follows:
Construction work-in-progress (included within additions of $1,021,194).

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

Schedule of Findings and Questioned Costs
Year Ended September 30, 2018

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?	Yes
4.	Noncompliance material to financial statements noted?	No
	Federal Awards	
	Internal control over major federal programs:	
5.	Material weakness(es) identified?	No
6.	Significant deficiency(ies) identified?	Yes
7.	Type of auditors' report issued on compliance for major federal programs:	Unmodified
8.	Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	Yes
9.	Identification of major federal programs:	

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

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

PART II- FINANCIAL STATEMENT FINDINGS SECTION

Reference Number	Finding
2018-001	Capital Assets

PART III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS SECTION

Reference Number	Finding	Questioned Costs
2018-001	Equipment and Real Property Management	$ -

Finding No.:	2018-001
Federal Agency:	U.S. Department of Transportation
CFDA Program:	20.106 Airport Improvement Programs
Area:	Equipment and Real Property Management
Area:	Capital Assets
Questioned Costs:	$0

Criteria:

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

Condition:

1. Fixed asset records did not meet the criteria above and were not effectively maintained since updated records the were not available until May 2019. No questioned cost will be reported as this has no quantitative impact on the program as all federal owned property tested was located.

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

Cause:

The lack of internal control policies and procedures satisfy compliance with federal property rules and regulations.

Effect:

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

Identification as a Repeat Finding: Finding 2017-001

Recommendation:

The Authority should update the fixed asset register based on the inventory of fixed assets in accordance with applicable property rules and regulations.

Views of Auditee and Planned Corrective Actions:

The Authority describes corrective action in the Corrective Action Plan

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CORRECTIVE ACTION PLAN
2 CFR § 200.511(c)
Year Ended September 30, 2018

FINDING NUMBER	PLANNED CORRECTIVE ACTION	ANTICIPATED COMPLETION DATE	RESPONSIBLE CONTACT PERSON
2018-001	The RMI Ports Authority agrees with the auditor's finding and will implement corrective measures and appropriate policies and procedures as needed to protect its assets and property.	September 30, 2019	Deputy Director, Anram Kemem Badges & IT Manager, Stanley Myazoe, Jr.

PREPARED BY:

WILFREDO D. CRISTOBAL
COMPTROLLER

CONCURRED BY:

ANRAM KEMEM
DEPUTY DIRECTOR

STANLYE MYAZOE, JR.
BADGES & IT MANAGER

APPROVED BY:

JAMES P.C. BING, II
DIRECTOR

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SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS

Year Ended September 30, 2018

Questioned Costs

There are no questioned costs reported as of September 30, 2018.

Summary Schedule of Prior Audit Findings

Finding No.	Status
2017-001	Not corrected. Refer to the planned corrective actions in the Corrective Action Plan for Finding 2018-001.