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, 2020 AND 2019

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

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Years Ended September 30, 2020 and 2019

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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, 2020 and 2019, and the related statements of revenues, expenses and changes in net position and of cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of September 30, 2020 and 2019, and the changes in its net position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Deloitte.

Emphasis of Matters

Contingencies

As disclosed in Note 3 to the financial statements, certain construction in progress is currently on hold due to insufficient funding. Management believes that continuation of the construction is dependent upon funding being made available.

As disclosed in Note 7 to the financial statements, there is a possibility that the Authority would be held liable for required distributions from the Authority to RepMar's General Fund.

COVID-19

As discussed in Note 9 to the financial statements, the Authority determined that the travel restrictions caused by COVID-19 pandemic negatively impact its business, results of operations and net position. The Authority is unable to reasonably estimate its ultimate financial impact.

Our opinion is not modified with respect to these matters.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 14 be presented to supplement the financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The Other Supplementary Information on page 29 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standard generally accepted in the United States of America. In our opinion, the Other Supplementary Information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 3, 2021, 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

November 3, 2021

I. INTRODUCTION

Our discussion and analysis of the financial performance of the Airport and Seaport Divisions of the RMI Ports Authority (the Authority) provides an overview of the Authority's financial activities presented in the audited financial statements for the fiscal year ended September 30, 2020. This discussion and analysis should be read in conjunction with the more detailed information contained within the accompanying audited financial statements.

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

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

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

As of September 30, 2020, the Authority had 84 full-time employees. Composition is as follows: 4 in Administration; 7 in Finance; 29 in Airport Administration/Firefighters/Operations/Tower; 27 in Seaport Administration/Security/Operations; 9 in Maintenance; and 8 in Ebeye.

II. OVERVIEW OF FINANCIAL STATEMENTS

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

The Authority operates on the accrual basis of accounting wherein revenues are recognized when earned, not when received, and expenses are recorded when incurred, not when paid. Capital assets of more than $500 are capitalized and depreciated over their useful lives.

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

III. FINANCIAL HIGHLIGHTS

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

III. FINANCIAL HIGHLIGHTS, CONTINUED

- For fiscal year ended September 30, 2020, total net position was $58.940 million, a decrease of $3.631 million from $62.571 million or 6% from prior fiscal year.

- Total operating revenues decreased by $1.412 million or 29%. The performance indicators will explain the decrease as discussed in the Revenue Performance Indicators and Divisional Expenses section of this report.

- Total operating expenses, inclusive of depreciation and amortization, was $7.201 million in 2020, which decreased by $0.580 million or 7% compared to 2019. The details will be discussed in the Revenue Performance Indicators and Divisional Expenses section of this report.

- The Authority incurred an increase in the net operating loss of $0.832 million or 28% from 2019 to 2020. The operating loss was $3.778 million in 2020 while the operating loss was $2.946 million in 2019. The major driver for the increase in the operating loss was the current pandemic (Covid-19), which affected both the Airport Division as well as the Seaport Division.

The Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Position provide an indication of the Authority's financial condition. The Authority's net position reflects the difference between total assets and total liabilities. An increase in net position over time normally indicates an improvement in financial condition. As illustrated in the figures below, the Authority's net position decreased by $3.631 million in 2020 compared to a decrease of $2.851 million in 2019.

IV. STATEMENT OF NET POSITION

A summary of the Authority's Statements of Net Position is presented below:

Summary Statements of Net Position
As of September 30

	2020	2019	$ Change 2020-2019	% Change 2020-2019	2018
Assets:					
Current and other assets	$ 5,385,110	$ 5,572,363	$ (187,253)	(3.4)%	$ 5,620,299
Capital assets	54,976,772	58,430,742	(3,453,970)	(5.9)%	60,650,732
Total assets	60,361,882	64,003,105	(3,641,223)	(5.7)%	66,271,031
Deferred outflows	-	-	-		283,907
Liabilities:					
Current and other liabilities	1,421,964	1,432,236	(10,272)	(0.7)%	1,132,583
Net position:					
Net investment in capital assets	54,976,772	58,430,742	(3,453,970)	(5.9)%	60,650,732
Unrestricted	3,963,146	4,140,127	(176,981)	(4.3)%	4,771,623
Total net position	$ 58,939,918	$ 62,570,869	$ (3,630,951)	(5.8)%	$ 65,422,355

IV. STATEMENT OF NET POSITION, CONTINUED

The Authority's financial data for 2020 showed that total assets settled at $60.362 million, down from $64.003 million, a decrease of $3.641 million or 6%. This can be attributed to the following major drivers, namely:

1. Current and other assets decreased by $0.187 million or 3% from $5.572 million in 2019 to $5.385 million in 2020. Below are the major changes in the components of current and other assets:

   a) Cash account showed a decrease by $0.216 million or 9% from $2.413 million recorded in prior year to $2.197 million in the current year. Refer to the statement of cash flows section of this report for the details of the movement in cash.

   b) Bank of Marshall Islands (BOMI) Certificate of Time Deposit (CTD) account increased by $0.076 million from $2.514 million in 2019 to $2.590 million in 2020. Increase is attributable to yearly interest earnings.

   c) Receivables decreased to $2.016 million in current year from $2.030 million in prior year or a decrease of $0.014 million or 1%. However, there are noted subsequent collections in 2021.

   d) Regardless of the decrease in receivables, the Allowance for Doubtful Accounts of $1.394 million in 2019 slightly increased by $0.046 million (or 3%) to $1.440 million in 2020. This increase is mainly attributed to the increase of receivables aged above 31 days.

   e) Prepaid expenses and other assets showed an increase of $0.013 million or 152% due to various prepayments to overseas vendors and suppliers for Airport and Seaport Division procurements.

2. The net decrease in capital assets, from $58.431 million in 2019 to $54,977 million in 2020, was brought about by the current year depreciation of $4.266 million, net of reductions of $31,636, offset by additions to depreciable capital assets and construction work-in-progress of $0.074 million (net of transfer from work-in-progress) and $0.769 million, respectively.

3. Total current liabilities of $1.422 million in 2020 showed a decrease of $0.01 million (or 1%) from $1.432 million in 2019, which is related to the following:

   a) Decrease in accounts payable by $0.117 million or 52% from $0.226 million in 2019 to $0.108 million in 2020.

   b) Increase in contractors payable by $0.082 million from the 2019 balance of $0.168 million to the 2020 balance of $0.250 million. The increase pertains to recorded retainage payable at year-end for the E-Vault Construction Management and Terminal Structural Analysis.

4. One of the financial indicators to measure the financial capacity to meet current obligations is the current or liquidity ratio. At the end of the current year, the Authority has a liquidity ratio of $3.79 to $1. This reveals that the Authority has $3.79 worth of assets currently available for every $1 in liabilities owed. This benchmark declined from 2019 and 2018 of $3.89 to $1 and $4.34 to $1, respectively.

5. Total net position decreased to $58.940 million in the current year from $62.571 million in the prior year.

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

The purpose of this statement is to present the revenues received and expenses paid by the Authority, both for operating and non-operating, as well as any revenues, expenses, gains and losses, capital contributions and change in net position for a given period. The net position decreased by $3.631 million from a net position of $62.571 million in 2019 to $58.940 million in 2020. A summary of the Authority's Statements of Revenues, Expenses, and Changes in Net Position is presented below:

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

	2020	2019	$ Change 2020-2019	% Change 2020-2019	2018
Operating revenues:					
Airport Division	$ 948,337	$ 1,566,935	$ (618,598)	(39.5)%	$ 1,246,942
Seaport Division	2,474,587	3,268,214	(793,627)	(24.3)%	2,924,245
Total operating revenues	3,422,924	4,835,149	(1,412,225)	(29.2)%	4,171,187
Operating expenses:					
Airport Division	5,587,275	5,749,222	(161,947)	(2.8)%	5,152,415
Seaport Division	1,613,618	2,031,807	(418,189)	(20.6)%	1,874,541
Total operating expenses	7,200,893	7,781,029	(580,136)	(7.5)%	7,026,956
Operating loss	(3,777,969)	(2,945,880)	(832,089)	28.2%	(2,855,769)
Nonoperating revenues:					
Airport Division	88,443	5,878	82,565	1404.6%	15,197
Seaport Division	38,278	75,063	(36,785)	(49.0)%	79,584
	126,721	80,941	45,780	56.6%	94,781
Nonoperating expenses:					
Airport Division	-	416	(416)	(100.0)%	4,162,827
Seaport Division	76,658	63,904	12,754	20.0%	751
	76,658	64,320	12,338	19.2%	4,163,578
	(3,727,906)	(2,929,259)	(798,647)		(6,924,566)
Capital contributions	96,955	77,773	19,182	24.7%	812,711
Change in net position	$ (3,630,951)	$ (2,851,486)	$ (779,465)	27.3%	$ (6,111,855)

The Authority's operating revenues decreased by $1.412 million (or 29%) from $4.835 million in 2019 to $3.423 million in 2020. This can be attributed to the following major drivers, namely:

1. There was a decrease in Airport Division revenues of $0.619 million (or 39%) to $0.948 million in 2020 compared with $1.567 million in 2019. This decline is attributed to COVID-19 pandemic related revenue losses resulting from temporary closure of the RMI borders for incoming international flights.

2. Revenue streams for the Seaport Division were also affected by the pandemic and decreased by $0.794 million or 24%. Seaport Division revenues reported for 2020 stood at $2.475 million compared to $3.268 million in the prior year. The decrease was due to a reduction in the number of shipping vessels visiting RMI ports in 2020.

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

Operating expenses showed a favorable decrease from $7.781 million in 2019 to $7.201 million in 2020, a decrease of $0.580 million or 7%. The decrease in the operating expenses for both divisions accounted is as follows:

1. Depreciation and amortization expense decreased by $0.399 million or 9% from $4.666 million in 2019 to $4.266 million in 2020, which pertains to the depreciation of depreciable capital assets. The decrease was due to some assets being fully depreciated.

2. Salaries and wages for both the Seaport and Airport Divisions showed an aggregate amount of $1.381 million in 2020 and $1.428 million in 2019 or a decrease of $0.047 million or 3%. This was due to the decrease in overtime hours relative to a decrease in incoming and outgoing flights at the airport.

3. The favorable decrease in operating expenses was further caused by the net effect of the following:

    a) Pilotage expense decreased by $0.110 million or 27% from $0.402 million in 2019 to $0.292 million in 2020.

    b) Training and travel expense decreased from $0.218 million in 2019 to $0.081 million in 2020, a decrease of $0.137 million or 63%.

    c) Gas, oil and fuel expense decreased by $0.023 million or 28% from $0.082 million in 2019 to $0.059 million in 2020.

    d) Repair and maintenance expense decreased by $0.063 million or 53% from $0.121 million in 2019 to $0.057 million in 2020.

    e) Professional fees expense increased by $0.152 million or 431% from $0.035 million in 2019 to $0.188 million in 2020.

    f) Utilities expense increased by $0.076 million or 26% from $0.295 million in 2019 to $0.372 million in 2020.

Net nonoperating revenues increased from $0.017 million in 2019 to $0.050 million in 2020, an increase of $0.033 million or 201%. During September 30, 2020 and 2019, the Authority contributed $0.077 million and $0.064 million, respectively, to Majuro Atoll Local Government (MALGOV) under a 2-year agreement relating to anchorage fees.

The Authority receives capital contributions from two streams, namely grant revenues from RepMar and grant revenues from the U.S. Department of Transportation (DOT) Federal Aviation Administration (FAA). The majority of these funds are considered capital contributions for airport improvement projects. In 2020, capital contributions from the U.S. DOT increased from $0.078 million in 2019 to $0.097 million, an increase of $0.019 million or 25%. At September 30, 2020, the E-Vault Project is ongoing.

Change in net position for 2020 amounted to a negative $3.631 million compared to a negative $2.851 million in 2019, an increase of $0.780 million or 27%.

Net position at the end of 2020 amounted to $58.940 million compared to $62.571 million at the end of 2019. Overall, for fiscal period ended September 30, 2020, total net position of $58.940 million is regarded as strong and stable considering the ups and downs as described above.

VI. DIVISIONAL REVENUES AND EXPENSES

Airport and Seaport Combined Operating Revenues
Years Ended September 30

	2020	2019	$ Change 2020-2019	% Change 2020-2019	2018
Operating revenues:					
Airport Division	$ 948,337	$ 1,566,935	$ (618,598)	(39.5)%	$ 1,246,942
Seaport Division	2,474,587	3,268,214	(793,627)	(24.3)%	2,924,245
Total operating revenues	$ 3,422,924	$ 4,835,149	$ (1,412,225)	(29.2)%	$ 4,171,187

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
Years Ended September 30

	2020	2019	$ Change 2020-2019	% Change 2020-2019	2018
Airport:					
Personnel	$ 845,261	$ 763,623	$ 81,638	10.7%	$ 719,676
Maintenance and operations	4,742,014	4,985,599	(243,585)	(4.9)%	4,432,739
Total Airport	5,587,275	5,749,222	(161,947)	(2.8)%	5,152,415
Seaport:					
Personnel	535,855	664,270	(128,415)	(19.3)%	627,397
Maintenance and operations	1,077,763	1,367,537	(289,774)	(21.2)%	1,247,144
Total Seaport	1,613,618	2,031,807	(418,189)	(20.6)%	1,874,541
	$ 7,200,893	$ 7,781,029	$ (580,136)	(7.5)%	$ 7,026,956

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

	2020	**2019**	**CHANGE**	**%**	**2018**
UNITED AIRLINES	209	417	(208)	-50%	388
OUR AIRLINE	71	140	(69)	-49%	106
AIR MARSHALL ISLANDS	646	817	(171)	-21%	873
ASIA PACIFIC AIRLINES	115	129	(14)	-11%	119
TOTAL	**1,041**	**1,503**	**(462)**	**-31%**	**1,486**

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

The decrease in number of scheduled flights by 462 or 31% from 1,503 in 2019 to 1,041 in 2020 resulted in a decrease in revenues earned from Landing Charges - Scheduled, which decreased by $0.097 million or 36% from $0.270 million in 2019 to $0.173 million in 2020. A closer look indicated that the number of regular/scheduled flights, the Our Airlines flights being grounded and reduction in United Airlines, decreased the number of touchdowns at the Amata Kabua International Airport (AKIA).

DEPARTURES - INTERNATIONAL

	2020	2019	CHANGE	%	2018
ADULTS	7,751	15,789	(8,038)	-51%	13,875
STUDENTS	1,454	5,042	(3,588)	-71%	4,329
TOTAL	**9,205**	**20,831**	**(11,626)**	**-59%**	**18,204**

Departure Fees - International revenues decreased by $0.216 million or 55% from $0.393 million in 2019 to $0.177 million in 2020. This was due to a decrease in United Airlines flights placing limits on the number of passengers travelling out.

UNSCHEDULED/SPECIAL FLIGHT TRAFFIC

	2020	2019	CHANGE	%	2018
NUMBER OF FLIGHTS (MTOW)					
0-45000	65	81	(16)	-20%	83
45001-90000	42	15	27	180%	26
90001-UP	34	80	(46)	-58%	149
TOTAL	**141**	**176**	**(35)**	**-20%**	**258**

% TO TOTAL	**2020**	**2019**	**2018**
0-45000	46%	46%	32%
45001-90000	30%	9%	10%
90001-UP	24%	45%	58%
TOTAL	**100%**	**100%**	**100%**

Unscheduled/Special Flight Traffic decreased in 2020 by 35 flights from 176 flights in 2019 to 141 flights in 2020 resulting in an equivalent decrease in landing charges revenue of $0.021 million or 50%, from $0.044 million in 2019 to $0.023 million in 2020. 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 to the services provided. In addition, there should be a collaboration among the tower people, Marshallese, ARFF, boarding party and the collector to entice these stakeholders to do more flights.

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

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

SEAPORT REVENUE PERFORMANCE INDICATORS

VESSELS ARRIVALS

	2020	2019	CHANGE	%	2018
CARGO VESSELS	48	89	(41)	-46%	58
FISHING VESSELS - INTERNATIONAL	395	672	(277)	-41%	583
FISHING VESSELS - DOMESTIC	538	608	(70)	-12%	769
FOREIGN TANKERS	14	21	(7)	-33%	35
MILITARY SHIPS	2	6	(4)	-67%	6
OTHERS	17	4	13	325%	4
TOTAL	**1,014**	**1,400**	**(386)**	**-28%**	**1,455**

As reported in the Statement of Revenues, Expenses, and Changes in Net Position, certain revenue items on the Seaport Division's revenue streams registered a decrease specifically the Domestic Vessel Entry Fees which showed a decrease of $0.022 million or 12%, from $0.188 million in 2019 to $0.167 million in 2020. This can also be seen from the table above indicating a decrease in transshipment of containers from 608 in 2019 to 538 in 2020 or a decrease of 70 fishing vessels for the given year. Foreign Entry Tankers showed a decrease from 21 tankers in 2019 to 14 tankers or 33% in 2020 or 7 tankers less than prior year. These operational results negatively impacted Seaport Division fee revenues, which decreased by $0.806 million or 27% from $3.027 million in 2019 to $2.222 million in 2020 due to the reduction in cargo vessels and international fishing vessels.

VESSEL MOVEMENTS

2020	2019	CHANGE	%	2018
1,193	2,000	-807	-40%	1,664

Both the pilotage fees and pilot boat usage fees decreased due to the limitation on the arrival of vessels due to the COVID-19 pandemic. Pilotage fees decreased to $0.604 million in 2020 from $0.901 million in 2019, a decrease of $0.296 million or 33%. Further, pilot boat usage fees decreased by $0.183 million or 38%, from $0.475 million in 2019 to $0.292 million in 2020.

WHARFAGE FEES

	2020	2019	CHANGE	%	2018
METRIC TONS	39,699	56,697	(16,998)	-30%	51,610
REVENUE TONS					
DOMESTIC	8,016	3,680	4,336	118%	4,702
INTERNATIONAL	171,730	127,837	43,893	34%	165,465

With the decrease in revenue tonnage for domestic vessels, wharfage fees also reported a modest reduction at the end of 2020 with a decrease of $0.037 million or 6% from $0.625 million in 2019 to $0.588 million in 2020.

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

BUNKERING FEES

	2020	2019	CHANGE	%	2018
FUEL (BARREL)	76,311	78,424	(2,113)	-3%	65,824
WATER (GALLON)	477,197	980,200	(503,003)	-51%	948,000

Revenues from bunkering fees - fuel decreased as a direct result of a decrease in bunkered fuel of 2,113 barrels or 3% from 78,424 barrels in 2019 to 76,311 barrels in 2020. Revenues from bunkering fees - water decreased as a direct result of a decrease in bunkered water of 503,303 gallons or 51% from 980,200 gallons in 2019 to 477,197 gallons in 2020. In terms of dollar value, fuel and water service fees decreased by $0.006 million or 23% from $0.029 million in prior year to $0.022 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. STATEMENT OF CASH FLOWS

The Statement of Cash Flows presents detailed information about cash receipts and cash payments of the 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. A summary of the Authority's Statements of Cash Flows is presented below:

Summary Statements of Cash Flows
As of September 30

	2020	2019	$ Change 2020-2019	% Change 2020-2019	2018
Cash Provided By (Used In):					
Operating Activities	$ 590,335	$ 1,634,061	$ (1,043,726)	(63.9)%	$ 1,374,929
Capital & Related Financing Activities	(761,699)	(1,941,543)	1,179,844	(60.8)%	(584,223)
Noncapital & Related Financing Activities	(44,787)	50,497	(95,284)	(188.7)%	91,541
Investing Activities	-	5,878	(5,878)	(100.0)%	27,107
Net Change in Cash	(216,151)	(251,107)	34,956	(13.9)%	909,354
Cash - Beginning of Year	2,413,341	2,664,448	(251,107)	(9.4)%	1,755,094
Cash - End of Year	$ 2,197,190	$ 2,413,341	$ (216,151)	(9.0)%	$ 2,664,448

VIII. STATEMENT OF CASH FLOWS, CONTINUED

Net change in cash during the year showed a reduction from negative $0.251 million in 2019 to negative $0.216 million in 2020 or a positive increase of $0.035 million or 14%.

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 $3.624 million in 2020 as compared to $4.591 million in 2019, a decrease of $0.967 million or 21%. Such cash was used to pay various suppliers for goods and services amounting to $1.662 million in 2020 and $1.518 million in 2019 as well as to pay employees for services rendered during 2020 and 2019 in the amount of $1.372 million and $1.439 million, respectively. As a result, net cash provided by operating activities decreased by $1.044 million or 64% from $1.634 million in 2019 to $0.590 million in 2020.

2. Net cash used for capital and related financing activities amounted to $0.762 million in 2020, a decrease of $1.180 million or 61% from $1.942 million in 2019.

3. The Authority reported a cash position at the end of 2020 of $2.197 million, a decrease of $0.216 million or 9% in comparison to $2.413 million at the end of 2019.

IX. BUDGET VS. ACTUAL OPERATIONAL COMPARISON

	Budget 2020	Actual 2020	$ Change Budget-Actual	% Change Budget-Actual
Operating revenues:				
Airport Division	$ 1,161,330	$ 948,337	$ (212,993)	(18.3)%
Seaport Division	3,283,282	2,474,587	(808,695)	(24.6)%
Total operating revenues	4,444,612	3,422,924	(1,021,688)	(23.0)%
Operating expenses:				
Airport Division:				
Depreciation and amortization	4,040,221	3,929,886	110,335	2.7%
Other operating expenses	1,223,525	1,657,389	(433,864)	(35.5)%
Seaport Division:				
Depreciation and amortization	712,980	336,366	376,614	52.8%
Other operating expenses	1,835,287	1,277,252	558,035	30.4%
Total operating expenses	7,812,013	7,200,893	611,120	7.8%
Operating loss	(3,367,401)	(3,777,969)	(410,568)	(12.2)%
Nonoperating revenues (expenses):				
Airport Division	(3,894)	88,443	92,337	(2371.3)%
Seaport Division	81,390	(38,380)	(119,770)	(147.2)%
Total nonoperating revenue (expenses)	77,496	50,063	(27,433)	(35.4)%
Capital contributions:				
Airport Division	-	96,955	96,955	
Seaport Division	-	-	-	
Total capital contributions	-	96,955	96,955	
Change in net position	$ (3,289,905)	$ (3,630,951)	$ (341,046)	(9.4)%

IX. BUDGET VS ACTUAL COMPARISON, CONTINUED

The budgeted change in net position in 2020 registered an unfavorable variance of negative $0.341 million or negative 9% compared to the actual negative $3.631 million vis-à-vis the budgeted negative $3.290 million. This was brought by the following:

1. Total operating revenues for Airport Division revealed a negative variance of $0.213 million or 18%, from a budgeted $1.161 million to an actual amount of $0.948 million. This is due to loss of revenue from the limited incoming international flights impacting RMI due to the COVID-19 pandemic.

2. Seaport Division operating revenues showed a decrease of $0.809 million or 25%. This decrease had been driven by the decrease in entry of cargo and international fishing vessels due to the COVID-19 pandemic.

3. Total operating expenses (excluding depreciation and amortization expense) for 2020 is lower by $0.124 million (or 3%) compared to the budgeted 2020 amount.

4. Actual amount of depreciation and amortization showed a favorable $0.487 million difference against the budget. The decrease was due to some assets being fully depreciated.

5. Non-Operating Revenues (Expenses) resulted in an unfavorable $0.027 million or 35% from a projected $0.077 million to an actual $0.050 million.

6. There were no budgeted capital contributions in 2020.

7. The Change in Net Position for both Airport and Seaport Divisions for 2020 showed an unfavorable amount of $3.631 million from the budgeted amount of negative $3.290 million or a difference of $0.341 million or an unfavorable negative 10 percentage change. However, the Seaport Division continuously had a strong and stable Net Position with a 0.7% increase compared to the projected $0.816 million to the actual $0.823 million in 2020. Airport Division decreased by $0.347 million or 8%, from a budgeted $4.106 million to an actual $4.453 million.

X. CAPITAL ASSETS AND DEBT

Net capital assets decreased from $58.431 million in 2019 to $54.977 million in 2020. Capital asset acquisitions in 2020 of $0.7 million were offset by depreciation of $4.15 million. A summary of the Authority's capital assets at September 30, 2020 compared with 2019 and 2018 is presented below:

	2020	2019	$ Change 2020-2019	% Change 2020-2019	2018
Runway apron upgrade	$ 36,159,648	$ 36,174,611	$ (14,963)	(0.0)%	$ 36,174,611
Roadway	26,720,033	26,720,033	-	0.0%	26,720,033
Facilities	26,164,840	23,481,757	2,683,083	11.4%	23,481,757
Buildings	13,819,313	13,819,313	-	0.0%	13,641,661
Other	3,932,430	3,996,335	(63,905)	(1.6)%	3,810,599
	106,796,264	104,192,049	2,604,215	2.5%	103,828,661
Accumulated depreciation	(53,162,062)	(49,012,956)	(4,149,106)	8.5%	(44,740,990)
	53,634,202	55,179,093	(1,544,891)	(2.8)%	59,087,671
Construction work in progress	1,342,570	3,251,649	(1,909,079)	(58.7)%	1,563,061
	$ 54,976,772	$ 58,430,742	$ (3,453,970)	(5.9)%	$ 60,650,732

X. CAPITAL ASSETS AND DEBT, CONTINUED

Capital asset acquisitions of $0.7 million primarily represents construction work-in-progress associated with the Uliga/Delap Dock repair project, which was completed in 2020. The Authority has a number of projects ongoing that are included in the $1.3 million construction work-in-progress at September 30, 2020. These include $0.3 million capitalized costs associated with the new Majuro Airport Terminal, $0.4 million capitalized costs associated with the Authority's Port Master Plan, and $0.6 million capitalized costs associated with the Authority's E-Vault. The Majuro Airport Terminal and Port Master Plan projects are currently on hold until funding is made available by a grantor. The Authority continues to operate the existing Majuro Airport Terminal, which was constructed in 1971. A structural analysis of the building was performed by an engineering company who concluded that the present condition is a potential life safety issue and poses an immediate danger to the general public and others who utilize the facility. Management has commenced initial discussions with donor organizations in regard to the construction of a new terminal; however, discussions are on hold until the global COVID19 pandemic dissipates, and RMI travel restrictions are eased to allow for dialogue to resume with potential donor organizations.

Refer to note 3 of the accompanying financial statements for additional information relating to capital assets. At this time, the Authority has no long-term debt.

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 in the prior fiscal year's audit, a Government policy was issued in May 17, 2012, which directed RMIPA to exempt certain port charges for vessels owned by Koo's Fishing Company. This policy has an adverse effect on RMIPA's financial performance.

  Ports Authority Board of Directors and Management reviewed this Government Policy and had informed the Cabinet of the adverse effect on the financial performance of the 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.

XII. ADDITIONAL FINANCIAL INFORMATION

Management Discussion and Analysis (MD&A) for the year ended September 30, 2019 is set forth in the RMI Ports Authority's report on the audit of financial statements, which is dated July 6, 2020. The MD&A explains the major factors impacting the 2019 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 Authority's customers and other interested parties with an overview of the Authority's financial condition, results of operations and changes in net position. Should the reader have questions regarding the information included in this report or wish to request additional financial information, please contact the RMI Ports Authority Executive Director, Mr. James PC Bing, II at P.O. Box 109, Majuro, MH 96960 or visit our website at **www.rmipa.com**.

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

Statements of Net Position
September 30, 2020 and 2019

	2020	2019
ASSETS		
Current assets:		
Cash	$ 2,197,190	$ 2,413,341
Time certificate of deposit	2,589,697	2,514,014
Receivables:		
Trade	690,203	878,078
Affiliates	1,072,978	1,040,286
Note receivable	-	31,871
Interest receivable	57,480	56,607
Grants receivable	178,756	-
Employees	16,299	23,086
	2,015,716	2,029,928
Less allowance for doubtful accounts	(1,439,866)	(1,393,797)
	575,850	636,131
Prepaid expenses and other assets	22,373	8,877
Total current assets	5,385,110	5,572,363
Capital assets:		
Nondepreciable capital assets	1,342,570	3,251,649
Other capital assets, net of accumulated depreciation	53,634,202	55,179,093
	54,976,772	58,430,742
	$ 60,361,882	$ 64,003,105
LIABILITIES AND NET POSITION		
Current liabilities:		
Accounts payable	$ 108,486	$ 225,744
Contracts payable	249,933	167,714
Payable to affiliates	636,293	614,093
Due to RepMar	285,714	285,714
Other liabilities and accruals	141,538	138,971
Total liabilities	1,421,964	1,432,236
Commitments and contingencies		
Net position:		
Net investment in capital assets	54,976,772	58,430,742
Unrestricted	3,963,146	4,140,127
Total net position	58,939,918	62,570,869
	$ 60,361,882	$ 64,003,105

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, 2020 and 2019

	2020	2019
Operating revenues:		
Seaport fees	$ 2,221,859	$ 3,027,713
Aviation fees	511,901	897,440
Concession and lease income	262,349	278,387
Special overtime carges	83,915	84,672
Screening fee	75,291	149,112
Cargo	47,073	51,277
Other	266,605	275,872
	3,468,993	4,764,473
Bad debts recovery (expense)	(46,069)	70,676
Total operating revenues	3,422,924	4,835,149
Operating expenses:		
Depreciation and amortization	4,266,252	4,665,568
Salaries and wages	1,381,116	1,427,893
Utilities	372,167	295,300
Pilotage	292,125	402,437
Professional fees	187,670	35,336
Pilot boat	111,922	156,715
Land lease	111,813	111,813
Training and travel	81,238	218,342
Gas, oil and fuel	58,845	82,150
Insurance	58,043	56,943
Repairs and maintenance	57,016	120,564
Communications	40,067	32,626
Bank charges	31,095	21,286
Dues and subscriptions	26,916	14,236
Supplies	21,524	18,088
Sitting fees	13,600	13,600
Laundry and cleaning	11,872	13,354
Fire, safety and security	11,768	14,286
Taxes and licenses	11,471	13,002
Capital outlays	8,998	11,273
Representation	7,207	10,474
Meetings	5,955	9,498
Freight and handling fees	3,229	15,203
Miscellaneous	28,984	21,042
Total operating expenses	7,200,893	7,781,029
Operating loss	(3,777,969)	(2,945,880)
Nonoperating revenues (expenses):		
Federal Aviation Administration grants	50,165	-
Interest income	76,556	80,414
Contributions to MALGOV	(76,658)	(63,793)
Total nonoperating revenues, net	50,063	16,621
Loss before capital contributions	(3,727,906)	(2,929,259)
Capital contributions from U.S. government	96,955	77,773
Change in net position	(3,630,951)	(2,851,486)
Net position at beginning of year	62,570,869	65,422,355
Net position at end of year	$ 58,939,918	$ 62,570,869

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, 2020 and 2019

	2020	2019
Cash flows from operating activities:		
Cash received from customers	$ 3,624,176	$ 4,591,238
Cash payments to suppliers for goods and services	(1,662,136)	(1,517,713)
Cash payments to employees for services	(1,371,705)	(1,439,464)
Net cash provided by operating activities	590,335	1,634,061
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(761,699)	(1,999,106)
Principal paid on long-term debt	-	(24,318)
Interest paid on long-term debt	-	(527)
Capital contributions received	-	82,408
Net cash used for capital and related financing activities	(761,699)	(1,941,543)
Cash flows from noncapital and related financing activities:		
Loan principal repayments from AMI	31,871	114,290
Contributions to MALGOV	(76,658)	(63,793)
Net cash provided by (used for) noncapital and related financing activitie	(44,787)	50,497
Cash flows from investing activities:		
Interest received	-	5,878
Net change in cash	(216,151)	(251,107)
Cash at beginning of year	2,413,341	2,664,448
Cash at end of year	$ 2,197,190	$ 2,413,341
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	$ (3,777,969)	$ (2,945,880)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation and amortization	4,266,252	4,665,568
Bad debts expense (recovery)	46,069	(70,676)
(Increase) decrease in assets:		
Receivables:		
Trade	187,875	(164,795)
Affiliates	(32,692)	(79,116)
Other	6,787	4,026
Prepaid expenses and other assets	(13,496)	63,527
Increase (decrease) in liabilities:		
Accounts payable	(117,258)	201,398
Payable to affiliates	22,200	104,583
Other liabilities and accruals	2,567	(144,574)
Net cash provided by operating activities	$ 590,335	$ 1,634,061

See accompanying notes to financial statements.

(1) Organization

The RMI Ports Authority (the Authority), a component unit of the Republic of the Marshall Islands (RepMar), was created under Public Law No. 2003-81, which integrated the Marshall Islands Airport Authority (MIAA) with the Marshall Islands Ports Authority (MIPA) into a single Ports Authority and transferred all assets and liabilities of the former MIAA and MIPA to the Authority, effective June 4, 2004. The Authority's principal line of business is the operation and maintenance of commercial port facilities in the Marshall Islands. Services are currently provided to passengers and carriers, commercial and private, arriving and departing at the Amata Kabua International Airport and all vessels, both commercial and private, arriving at port facilities in Majuro. On March 1, 2018, the Authority entered into an agreement with the Kwajalein Atoll Local Government (KALGOV) transferring duties and responsibilities of establishment, maintenance, and operation of the Ebeye Port from KALGOV to the Authority. Effective March 1, 2018, all Ebeye Port employees became employees of the Authority.

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

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

(2) Summary of Significant Accounting Policies

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

GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as amended by GASB Statement No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus*, GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, and GASB Statement No. 61, *The Financial Reporting Entity: Omnibus - an amendment of GASB Statements No. 14 and 34,* establish financial reporting standards for governmental entities, which require that management's discussion and analysis of the financial activities be included with the basic financial statements and notes and modifies certain other financial statement disclosure requirements.

To conform to these requirements, equity is presented in the following net position categories:

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

- Restricted: Expendable net position whose use by the Authority is subject to externally imposed stipulations that can be fulfilled by actions of the Authority pursuant to those stipulations or that expire with the passage of time. As of September 30, 2020 and 2019, the Authority has no restricted net position.

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

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

(2) Summary of Significant Accounting Policies, Continued

Basis of Accounting

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

Revenue Recognition

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

Cash and Time Certificates of Deposit

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

For purposes of the statements of net position and of cash flows, cash is defined as cash on hand and cash held in bank accounts. Deposits maintained in time certificates of deposit with original maturity dates greater than ninety days are separately classified. As of September 30, 2020 and 2019, the carrying amount of cash and time certificates of deposit were \$4,786,887 and \$4,927,355, respectively, and the corresponding bank balances were \$4,793,189 and \$4,981,082, respectively. Of the bank balances, \$1,952,858 and \$2,309,926, respectively, were maintained in a financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance with \$2,840,331 and \$2,671,156, respectively, being maintained in a financial institution not subject to depository insurance. As of September 30, 2020 and 2019, 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.

Receivables

All receivables are due from government agencies, businesses and individuals located within the Republic of the Marshall Islands and are interest free and uncollateralized. The allowance for uncollectible accounts is stated at an amount which management believes will be adequate to absorb possible losses on accounts receivable that may become uncollectible based on evaluations of the collectability of these accounts and prior collection experience. Management determines the adequacy of the allowance for uncollectible accounts based upon review of the aged accounts receivable. The allowance is established through a provision for bad debts charged to expense. Bad debts are written off against the allowance on the specific identification method.

(2) Summary of Significant Accounting Policies, Continued

Property, Plant and Equipment

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

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

Deferred Outflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (deduction of net position) until then. In 2015, the Authority transferred ownership of $1,135,632 of Non-Directional Beacon assets to the Federal Aviation Administration (FAA) and determined that this transfer qualified for reporting in this category. During the year ended September 30, 2019, the Authority recognized amortization expense of $282,907 associated with this deferred outflow. As of September 30, 2019, this deferred outflow was fully amortized. The Authority has no other items that qualify for reporting in this category.

Deferred Inflows of Resources

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

Compensated Absences

Vested or accumulated vacation leave is recorded as an expense and liability as the benefits accrue to employees. No liability is recorded for nonvesting accumulating rights to receive sick benefits. As of September 30, 2020 and 2019, an accumulated vacation leave liability of $78,610 and $71,673, respectively, is included within the accompanying statements of net position as other liabilities and accruals.

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

New Accounting Standards

During the year ended September 30, 2020, GASB issued Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, which postpones the effective dates of GASB Statement No. 84, 89, 90, 91, 92 and 93 by one year and GASB Statement No. 87 by 18 months; however, earlier application of the provisions addressed in GASB Statement No. 95 is encouraged and is permitted to the extent specified in each pronouncement as originally issued. In accordance with GASB Statement No. 95, management has elected to postpone implementation of these statements.

In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*. This Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The requirements of this Statement will enhance consistency and comparability by (1) establishing specific criteria for identifying activities that should be reported as fiduciary activities and (2) clarifying whether and how business-type activities should report their fiduciary activities. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 84 will be effective for fiscal year ending September 30, 2021.

In June 2017, GASB issued Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and as inflows of resources or outflows of resources recognized based on the payment provisions of the contract. Management believes that this statement, upon implementation, will have a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 87 will be effective for fiscal year ending September 30, 2022.

In June 2018, GASB issued Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 89 will be effective for fiscal year ending September 30, 2022.

In March 2018, GASB issued Statement No. 90, *Majority Equity Interests - An Amendment of GASB Statements No. 14 and 61*. The primary objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 90 will be effective for fiscal year ending September 30, 2021.

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In May 2019, GASB issued Statement No. 91, *Conduit Debt Obligations*. The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 91 will be effective for fiscal year ending September 30, 2023.

In January 2020, GASB issued statement No. 92, *Omnibus 2020*. The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics and includes specific provisions about the effective date of Statement No. 87, *Leases*, and Implementation Guide No. 2019-3, *Leases*, for interim financial reports, the terminology used to refer to derivative instruments and the applicability of certain requirements of Statement No. 84, *Fiduciary Activities*, to postemployment benefits. The requirements related to the effective date of GASB Statement No. 87 and Implementation Guide 2019-3, reissuance recoveries and terminology used to refer to derivative instruments are effective upon issuance. In accordance with GASB Statement No. 95, the remaining requirements of GASB Statement No. 92 is effective for the fiscal year ending September 30, 2022.

In March 2020, GASB issued Statement No. 93, *Replacement of Interbank Offered Rates*. The primary objective of this statement is to address those and other accounting and financial reporting implications of the replacement of an IBOR. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. Except for paragraphs 11b, 13, and 14, GASB Statement No. 93 will be effective for fiscal year ending September 30, 2021. The requirement in paragraphs 11b, 13, and 14 are effective for fiscal year September 30, 2022.

In March 2020, GASB issued Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. The primary objective of this statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements. This statement also provides guidance for accounting and financial reporting for availability payment arrangements. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. GASB Statement No. 94 will be effective for fiscal year ending September 30, 2023.

In May 2020, GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements*. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset - an intangible asset - and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. GASB Statement No. 96 will be effective for fiscal year ending September 30, 2023.

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In June 2020, GASB issued Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans - an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32.* The primary objectives of this Statement are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans. GASB Statement No. 97 will be effective for fiscal year ending September 30, 2022.

Estimates

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

(3) Property, Plant and Equipment

Capital asset activities for the years ended September 30, 2020 and 2019, is as follows:

	October 1, 2019	Additions	Transfers	Reductions	September 30, 2020
Facilities	$ 23,481,757	$ 2,683,083	$ -	$ -	$ 26,164,840
Buildings	13,819,313	-	-	-	13,819,313
Equipment	744,182	21,424	-	-	765,606
Vehicles	2,405,558	22,160	-	-	2,427,718
Office furniture, fixtures and equipment	846,595	9,657	-	(117,146)	739,106
Roadway	26,720,033	-	-	-	26,720,033
Runway apron upgrade	36,174,611	16,673	-	(31,636)	36,159,648
	104,192,049	2,752,997	-	(148,782)	106,796,264
Less accumulated depreciation	(49,012,956)	(4,266,252)	-	117,146	(53,162,062)
	55,179,093	(1,513,255)	-	(31,636)	53,634,202
Construction work-in-progress	3,251,649	769,435	(2,678,514)	-	1,342,570
	$ 58,430,742	$ (743,820)	$ (2,678,514)	$ (31,636)	$ 54,976,772

(3) Property, Plant and Equipment, Continued

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

As of September 30, 2020 and 2019, construction work-in-progress includes certain capitalized costs of $309,684 associated with the new Majuro Airport Terminal. Construction of the new terminal is currently on hold due to insufficient funding. Management believes that continuation of the terminal construction is dependent upon funding being made available by a grantor.

As of September 30, 2020 and 2019, construction work-in-progress includes certain capitalized costs of $401,900 associated with the Authority's Port Master Plan. Continuation of the project is currently on hold due to insufficient funding. Management believes that continuation of the project is dependent upon funding being made available by a grantor.

As of September 30, 2020 and 2019, construction work-in-progress funded by a federal grant includes certain capitalized costs of $630,987 and $502,396, respectively, associated with the Authority's E-Vault. The construction work and relocation of the E-Vault is ongoing as of September 30, 2020.

(4) Employee Retirement Plan

The Authority provides a defined contribution retirement savings plan (the Plan) for the benefit of eligible employees. An employee is eligible to become a member of the Plan following the completion of the three months continuous employment. Plan participants may contribute a minimum of $10 of their salaries to be matched by the Authority up to 10% 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 $49,316 and $30,510 to the plan participant accounts during the years ended September 30, 2020 and 2019, respectively, and total plan assets were $314,754 and $261,929 as of September 30, 2020 and 2019, respectively.

(5) Related Party Transactions

The Authority was created by the Nitijela of RepMar and is thus considered a component unit of RepMar. Accordingly, the Authority is affiliated with all RepMar-owned and affiliated entities. The Authority's services are provided to RepMar and all RepMar-owned and affiliated entities. Services are extended to these entities at more favorable terms and conditions than those afforded to third parties. The Authority utilizes services from certain affiliated entities at the same terms and conditions as those provided to third parties.

(5) Related Party Transactions, Continued

A summary of related party transactions for the years ended September 30, 2020 and 2019 and related receivable and payable balances as of September 30, 2020 and 2019, is as follows:

	2020			
	Revenues	Expenses	Receivables	Payables
RepMar	$ 80,290	$ 33,192	$ 223,215	$ 546,279
Air Marshall Islands, Inc.	48,077	1,824	697,515	-
Marshalls Energy Company, Inc.	100,273	367,967	-	26,345
Marshall Islands Shipping Corporation	73,718	-	134,414	-
Marshall Islands Social Security Administration	-	-	-	56,208
Marshall Islands National Telecommunications Authority	415	39,621	1,494	-
Tobolar Copra Processing Authority	541	-	7,512	-
Other	18,193	112,482	8,828	7,461
	$ 321,507	$ 555,086	$ 1,072,978	$ 636,293

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

The above receivables from affiliates are uncollateralized, interest free and have no set repayment terms. As of September 30, 2020 and 2019, the allowance for doubtful accounts provided for related parties aggregated $1,054,431 and $1,015,120, respectively.

During the years ended September 30, 2020 and 2019, the Authority purchased fuel from a local company of $86,965 and $143,043, respectively, owned by a Board member.

In 2010, the Authority entered into a $313,385 loan with Air Marshall Islands, Inc. (AMI) whereby the Authority provided funding to AMI for operational purposes. As of September 30, 2019, outstanding advances amounted to $31,871. The loan bears interest fixed at 8% per annum and is payable in 30 monthly installments of $11,560 beginning September 30, 2010. The loan was repaid in full during the year ended September 30, 2020.

In accordance with established tariffs, the Authority imposes compulsory pilotage fees on all commercial vessels arriving at port facilities in Majuro that are one-hundred gross tonnage and over. In order to provide this service, the Authority utilizes the services of qualified pilots. Since the inception of compulsory pilotage, the majority of qualified pilots are employees of the Authority and other RepMar Ministries and Agencies. Pilots retain forty (40) percent of compensation and the Authority retains sixty (60) percent. Ten (10) percent of the compensation collected by the Authority shall be remitted to the Ministry of Transportation, Communication and Information Technology. It is the intention of the Authority to train pilots in accordance with the pilotage regulations. During the years ended September 30, 2020 and 2019, the Authority compensated qualified pilots, who were employees and directors of the Authority, for pilotage services of $46,880 and $70,495, respectively.

(5) Related Party Transactions, Continued

In 2007, the Authority entered into a memorandum of understanding (MOU) with RepMar's Ministry of Finance, Banking and Postal Services to transfer the responsibility of lease payments to the Authority for parcels of land under the Authority's jurisdiction based on ground leases executed by RepMar. Under the MOU, the Authority shall pay the Ministry of Finance, Banking and Postal Services an annual lease payment of $281,444, payable in four equal quarterly installments of $70,361 (see note 6). In 2011, the Authority entered into an amended MOU to reimburse the Ministry of Finance, Banking and Postal Services an additional $54,126 for lease payments made by RepMar to various landowners on certain lands controlled or occupied by the Authority. This amount covered periods from 2007 to the first quarter of 2011. The revised annual lease payment of $294,180 is payable in four equal quarterly installments of $73,545, commencing February 18, 2011. In 2017, the Authority entered into an amended MOU to pay the Ministry of Finance, Banking and Postal Services a reduction of $182,367 for certain lease payments made by RepMar to various landowners on certain lands controlled or occupied by the Authority. The revised annual lease payment of $111,813 is payable in four equal quarterly installments of $27,953, commencing October 2017.

(6) Commitments

Leases

The Authority is the lessor of certain space at the Amata Kabua International Airport. The leases have two-year term or greater expiring on varying dates through December 31, 2030.

The Authority was under a lease agreement with a stevedoring company for the container yard located at the Port of Majuro that expired on December 31, 2020 and which required payment of $19,194 per annum paid quarterly, plus a gross receipts fee equal to 1.5% of total operating revenues. The Authority amended the lease agreement, which commenced on January 1, 2021 and expires on December 30, 2030. The terms of the amended lease require a minimum lease payment of $38,388 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, 2020 and 2019 amounted to $45,400 and $60,037, respectively.

The Authority is under a lease agreement with the Marshall Islands Shipping Corporation to lease out warehouse space. Additional rental income under this lease for the year ended September 30, 2020 amounted to $27,558. The current lease terms require a minimum monthly $2,297 payment.

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

Year ending September 30,	
2021	$ 226,980
2022	159,157
2023	77,648
2024	77,648
2025	66,199
2026 - 2030	191,940
2031	9,597
Total	$ 809,169

(6) Commitments, Continued

Leases, Continued

Effective 2007, RepMar's Ministry of Finance, Banking and Postal Services 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, 2020, the Authority has been awarded a total of $85,690,947 of grant awards from the United States Department of Transportation. As of September 30, 2020, $4,038,259 has not been received and expended for various capital projects.

Other

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

On February 11, 2019, the Authority entered into a two-year agreement with Majuro Atoll Local Government (MalGov) whereby anchorage fees collected by the Authority will be allocated to MalGov for the purpose of performing certain services on areas outside of the jurisdiction of the Federal Aviation Administration. During the years ended September 30, 2020 and 2019, the Authority provided cash contributions to MalGov of $76,658 and $63,793, respectively, in accordance with the agreement.

(7) Contingencies

Distributions

Public Laws No. 2010-43, No. 2011-58 and No. 2019-111 authorized annual $500,000 distributions from the Authority to RepMar's General Fund for fiscal years 2011, 2012 and 2020, of which payments of $214,286 were made in 2011. As of September 30, 2020 and 2019, the Authority was liable to RepMar for $285,714 pertaining to these authorized distributions. Management is of the opinion that no further payments will be required associated with these public laws. The Authority is currently negotiating with RepMar for forgiveness of the foregoing liabilities and adjustment, if any, will be recorded prospectively.

Airport Terminal

The Authority currently operates the existing Majuro Airport Terminal, which was constructed in 1971. A structural analysis of the building was performed by an engineering company who concluded that the present condition is a potential life safety issue and poses an immediate danger to the general public and others who utilize the facility. Management has commenced initial discussions with donor organizations in regard to the construction of a new terminal; however, construction is currently on hold due to insufficient funding. Management believes that continuation of the terminal construction is dependent upon funding being made available by a grantor. No provision has been recorded in the accompanying financial statements for losses, if any, that may result as a result of this matter.

(7) Contingencies, Continued

Litigation

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

(8) Risk Management

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

(9) COVID-19 Pandemic

On January 30, 2020, the World Health Organization (WHO) declared the current novel coronavirus (COVID-19) outbreak a Public Health Emergency of International Concern (PHEIC). Since January 24, 2020, RepMar's Ministry of Health and Human Services (MHHS) has been issuing travel advisories and restrictions, subject to regular review, in response to the declaration of PHEIC. The succeeding travel advisories suspended all incoming passenger travel via air and sea from the affected countries and issued certain restrictions to container vessels arriving at the Marshall Islands. On March 8, 2020, MHHS issued another travel advisory that totally suspended all international travelers coming into the Marshall Islands via air travel, which has not been lifted as of November 3, 2021. These travel restrictions negatively impact the Authority's revenues and the Authority may become dependent upon the financial support of RepMar. However, the effect of the pandemic on RepMar is also uncertain and future available funding to RepMar component units may be limited. Due to the uncertainty of events, the Authority is unable to reasonably estimate its ultimate financial impact.

RMI PORTS AUTHORITY

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

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

Year Ended September 30, 2020

	Airport Division	Seaport Division	Total
Operating revenues:			
Seaport fees	$ -	$ 2,221,859	$ 2,221,859
Aviation fees	511,901	-	511,901
Concession and lease income	119,087	143,262	262,349
Special overtime charges	83,915	-	83,915
Screening fee	75,291	-	75,291
Cargo	44,941	2,132	47,073
Other	136,236	130,369	266,605
	971,371	2,497,622	3,468,993
Bad debts recovery	(23,034)	(23,035)	(46,069)
Total operating revenues	948,337	2,474,587	3,422,924
Operating expenses:			
Depreciation and amortization	3,929,886	336,366	4,266,252
Salaries and wages	845,261	535,855	1,381,116
Utilities	339,574	32,593	372,167
Pilotage	-	292,125	292,125
Professional fees	65,106	122,564	187,670
Pilot boat	-	111,922	111,922
Land lease	80,200	31,613	111,813
Training and travel	47,101	34,137	81,238
Gas, oil, and fuel	36,004	22,841	58,845
Insurance	40,465	17,578	58,043
Repairs and maintenance	41,047	15,969	57,016
Communications	24,649	15,418	40,067
Bank charges	29,498	1,597	31,095
Dues and subscriptions	23,536	3,380	26,916
Supplies	19,141	2,383	21,524
Sitting fees	7,000	6,600	13,600
Laundry and cleaning	11,082	790	11,872
Fire, safety and security	11,033	735	11,768
Taxes and licenses	6,813	4,658	11,471
Capital outlays	6,043	2,955	8,998
Representation	3,449	3,758	7,207
Meetings	2,919	3,036	5,955
Freight and handling fees	2,976	253	3,229
Miscellaneous	14,492	14,492	28,984
Total operating expenses	5,587,275	1,613,618	7,200,893
Operating income (loss)	(4,638,938)	860,969	(3,777,969)
Nonoperating revenues (expenses):			
Federal Aviation Administration grants	50,165	-	50,165
Interest income	38,278	38,278	76,556
Contributions to MALGOV	-	(76,658)	(76,658)
Total nonoperating revenues, net	88,443	(38,380)	50,063
Income (loss) before capital contributions	(4,550,495)	822,589	(3,727,906)
Capital contributions from U.S. government	96,955	-	96,955
Change in net position	(4,453,540)	822,589	(3,630,951)
Net position at beginning of year	42,520,958	20,049,911	62,570,869
Net position at end of year	$ 38,067,418	$ 20,872,500	$ 58,939,918

See accompanying independent auditor's report.

Deloitte.

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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, 2020, 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 November 3, 2021.

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) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Questioned Costs as item 2020-02, which we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Responses as item 2020-01.

Deloitte.

The Authority's Response to Findings

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

Purpose of this Report

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

Deloitte & Touche LLP

November 3, 2021

Finding No. 2020-01
Area: Local Noncompliance

Criteria: RepMar's Procurement Code states the following:

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

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

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

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

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

1) Construction work-in-progress of $128,591

   The Authority awarded the contract to the only vendor who submitted a proposal. However, evidence that the Authority had reached out to a number of qualified vendors to obtain sealed bid is not adequately documented.

2) Professional fees of $103,486

Description	Amount
a. AKIA Terminal Building Electrical System Code Inspection and Remediation	$ 33,514
b. AKIA Terminal Structural Inspection and Testing-Phase II	23,415
c. Construction Management Services for the E-vault Relocation at AKIA	46,557
	$ 103,486

   For letters a and b, the Authority awarded the contract to the consultant on the basis of an urgent need to assess the terminal structure’s safety. However, this matter is not adequately documented in the procurement files. For letter c, the Authority awarded the contract to the only vendor who submitted a proposal. However, evidence that the Authority had reached out to a number of qualified vendors to obtain sealed bids is not adequately documented.

Finding No. 2020-01, Continued
Area: Local Noncompliance

3) Pilot boat expenses of $32,170

   The Authority awarded the contract to the vendor on the basis of economic and practical benefits to the Authority. However, this matter is not adequately documented in the procurement files.

4) Gas, oil and fuel expenses of $1,276

   The Authority awarded the contract to the vendor on the basis of economic and practical benefits to the Authority. However, this matter is not adequately documented in the procurement files.

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

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

Recommendation: We recommend that management establish adequate internal control policies and procedures requiring compliance with RepMar's Procurement Code. We recommend management complete documentation of procurement process, from requesting of proposals from a number of qualified vendors, evaluation of submitted bids to documentation of rationale for vendor selected. Specifically, if there are limited bids received, management should document the matter and perform additional procedures to document compliance with the competitive sealed bidding requirement of the code, if applicable.

Auditee Response and Corrective Action Plan: Management agrees with the findings and recommendations, with some comments as follow:

1. The RMIPA is one of the most critical SOEs in Marshall Islands. The services rendered by the RMIPA should not only match the international requirements but be provided in the fastest and most appropriate manner. However, due to time constraints, PII was the only contractor who submitted bid for the construction work-in-progress. The bid was then evaluated and contract was awarded to PII. Management believes that procurement code was followed in adequate manner and required documentation was performed. Management believes that this transaction has not resulted to any financial misstatement, however, if the audit firm intends to recommend further paperwork in addition to what RMIPA follows, the recommendation is deemed acceptable.

2. It is agreed that the items above $25,000.00 require competitive bidding. However, the procurement for AKIA Terminal Structural Analysis was conducted based on an incident that occurred at the Airport causing significant injuries to personnel. This in turn led the Head of Department of RMIPA to move ahead with the procurement under Section 129 (Emergency Procurement), whereby the board presentation was made by the contractor and contract was handed over further. The contractor Pryzm was chosen since they were on island, and the only firm that was able to carry out the analysis at that point in time. Furthermore, it is believed that the airport terminal has reached its estimated life and the structural analysis was urgently needed. There is an email complaint that served as evidence that this procurement was badly needed for the safety of the public.

Finding No.: 2020-02
Area: Reconciliation of Daily Cash Reports and Airline Manifests

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

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

a. In twenty-two sample days tested, we noted variances between the daily sales reports and manifests caused by following:

    - Student and children passengers are exempted from domestic departure fees or a discount of $5 for international flights. The Authority only ticks the manifest if the passenger is a student/child for domestic flights and no documentation for international flights. Further, documentation or proof of collection discount/exemption could not be provided for verification.

    - Some manifests do not show number of passengers actually flown and no verification of information from airline is performed by the Authority.

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

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

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

Recommendation: We recommend management implement internal control procedures over:

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

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

Auditee Response and Corrective Action Plan: Management agrees with the findings and recommendations, with some comments as follow:

1. The RMIPA staff (collector) is the one who physically sees the passengers and determines who are children and who are adults. RMIPA Finance is able to verify this with the passenger weights documented in the manifest, which is provided by the Airline. Furthermore, departure fees receipts for AMI flights are checked by the security on point who stops passengers who did not pay departure fees. Currently, RMIPA is securing signature from AMI personnel to verify number of students and adults flown.

Finding No.: 2020-02
Area: Reconciliation of Daily Cash Reports and Airline Manifests

Auditee Response and Corrective Action Plan, Continued:

2. United Airlines used to submit passenger manifest at the end of each month. However, currently, the manifest is provided on day-to-day basis with the confirmed passengers information. This is expected to resolve this finding and will enable management to reconcile and review collection on a daily basis.

3. AMI is usually scheduling last-minute flights, whereby RMIPA personnel is not notified timely, which results to RMIPA missing collection of departure fees

Unresolved Prior Year's Findings
Year Ended September 30, 2020

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