RMI PORTS AUTHORITY

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

FINANCIAL STATEMENTS, ADDITIONAL INFORMATION AND INDEPENDENT AUDITOR'S REPORT

YEARS ENDED SEPTEMBER 30, 2021 AND 2020

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

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Years Ended September 30, 2021 and 2020

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INDEPENDENT AUDITOR'S 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, 2021 and 2020, 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.

Auditor's 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, 2021 and 2020, 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 work-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.

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

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The Other Supplementary Information on page 25 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 standards 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 30, 2022, 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 30, 2022

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, 2021. 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 for management, operations and maintenance of all airport and seaport facilities in Majuro, except for the fish based 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.

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 Auditor's Report on Internal Control and on Compliance.

III. FINANCIAL HIGHLIGHTS

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

- For fiscal year ended September 30, 2021, total net position was $55.3 million, a decrease of $3.6 million from $58.9 million or 6.2% from the prior fiscal year.

- Total operating revenues decreased by $0.4 million or 12.7%. The performance indicators will explain the decrease as discussed in the Revenue Performance Indicators and Analysis of Divisional Expenses section of this report.

- Total operating expenses, inclusive of depreciation and amortization, was $7.4 million in 2021, which increased by $0.2 million or 2.7% compared to 2020. The details will be discussed in the Revenue Performance Indicators and Analysis of Divisional Expenses section of this report.

III. FINANCIAL HIGHLIGHTS, CONTINUED

- The Authority incurred an increase in the net operating loss of $0.6 million or 16.7% from 2020 to 2021. The operating loss was $4.4 million in 2021 while the operating loss was $3.8 million in 2020. The major driver for the increase in the operating loss was the current pandemic (COVID19), 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 $3.6 million in 2021 comparable with a similar decrease in 2020.

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

	2021	2020	$ Change 2021-2020	% Change 2021-2020	2019
Assets:					
Current and other assets	$ 5,709,267	$ 5,385,110	$ 324,157	6.0%	$ 5,572,363
Capital assets	51,032,710	54,976,772	(3,944,062)	(7.2)%	58,430,742
Total assets	56,741,977	60,361,882	(3,619,905)	(6.0)%	64,003,105
Liabilities:					
Current and other liabilities	1,482,996	1,421,964	61,032	4.3%	1,432,236
Net position:					
Net investment in capital assets	51,032,710	54,976,772	(3,944,062)	(7.2)%	58,430,742
Unrestricted	4,226,271	3,963,146	263,125	6.6%	4,140,127
Total net position	$ 55,258,981	$ 58,939,918	$ (3,680,937)	(6.2)%	$ 62,570,869

The Authority's financial data for 2021 showed that total assets settled at $56.7 million, down from $60.3 million, a decrease of $3.6 million or 6%. This can be attributed to the following major drivers, namely:

1. Capital assets decreased by $3.9 million or 7.2% from $54.9 million in 2020 to $51 million in 2021, which was brought about by current year depreciation of $4.2 million offset by additions to depreciable capital assets and construction work-in-progress of $0.09 million and $0.12 million, respectively.

2. Current and other assets increased by $0.3 million or 6% from $5.4 million in 2020 to $5.7 million in 2021. Below are the major changes in the components of current and other assets:

   a) Cash account increased by $0.2 million or 10% from $2.2 million in prior year to $2.4 million in the current year. The increase in cash was due to net cash provided by noncapital and related financing activities of $0.6 million less $0.2 million in cash used for operating activities and $0.2 million in cash used for capital and related financing activities.

IV. STATEMENT OF NET POSITION, CONTINUED

b) Bank of Marshall Islands (BOMI) Time Certificate of Deposit (TCD) account increased by $0.1 million from $2.6 million in 2020 to $2.7 million in 2021. The increase is attributable to yearly interest earnings.

Total liabilities of $1.5 million in 2021 increased by $0.1 million (or 4.3%) from $1.4 million in 2020. This increase was primarily the result of the increase in payable to affiliates by $0.1 million or 22% from $0.6 million in 2020 to $0.7 million in 2021.

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 3.85 to 1. This indicates that the Authority has $3.85 worth of assets currently available for every $1 in liabilities owed. This benchmark decreased slightly from 2020 of 3.96 to 1 and 2019 of 4.14 to 1.

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 $3.6 million from a net position of $58.9 million in 2020 to $55.3 million in 2021. 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

	2021	2020	$ Change 2021-2020	% Change 2021-2020	2019
Operating:					
Operating revenues	$ 2,988,546	$ 3,422,924	$ (434,378)	(12.7)%	$ 4,835,149
Operating expenses	7,395,917	7,200,893	195,024	2.7%	7,781,029
Operating loss	(4,407,371)	(3,777,969)	(629,402)	16.7%	(2,945,880)
Nonoperating:					
Nonoperating revenues	627,506	126,721	500,785	395.2%	80,941
Nonoperating expenses	(55,610)	(76,658)	21,048	(27.5)%	(64,320)
	571,896	50,063	521,833	1042.4%	16,621
	(3,835,475)	(3,727,906)	(107,569)	2.9%	(2,929,259)
Capital contributions	154,538	96,955	57,583	59.4%	77,773
Change in net position	$ (3,680,937)	$ (3,630,951)	$ (49,986)	1.4%	$ (2,851,486)

The Authority's operating revenues decreased by $0.4 million (or 12.7%) from $3.4 million in 2020 to $3 million in 2021. This can be attributed to the following major drivers, namely:

1. The decrease in aviation fees and screening fees revenue of $0.25 million (or 48%) and $0.07 million, respectively, (or 92%) to $0.26 million and $0.01 million, respectively, in 2021 compared with $0.51 million and $0.08 million, respectively, in 2020. This decline is attributed to COVID19 pandemic related revenue losses resulting from continued closure of the RMI border for incoming international flights.

2. The decrease in seaport fees revenue of $0.03 million (or 2%) to $2.19 million in 2021 compared with $2.22 million in 2020. This revenue stream for the Seaport Division was also affected by the COVID19 pandemic.

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

Operating expenses showed an unfavorable increase from $7.2 million in 2020 to $7.4 million in 2021, an increase of $0.2 million or 2.7%. The increase in operating expenses is attributed to the following:

1. The increase in loss from fraudulent activities of $0.5 million in 2021 is due to email phishing fraud associated with the impersonation of Authority vendors.

2. The decrease in professional fees of $0.15 million (or 77%) to $0.04 million in 2021 compared with $0.19 million in 2020. The ability of the Authority to utilize professional consultants was curtailed in 2021 due to the continued closure of the RMI border for incoming travelers.

Net nonoperating revenues increased from $0.05 million in 2020 to $0.57 million in 2021, an increase of $0.52 million or 1,042%. In 2021, the Authority was the recipient of a COVID19 grant from RepMar of $0.55 million to partially offset revenue losses impacted by the COVID19 pandemic and the continued closure of the RMI border.

The Authority received capital contributions 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 2021, the Authority recognized $0.2 million in capital contributions from the U.S. DOT whilst in 2020, capital contributions from the U.S. DOT amounted to $0.1 million. FAA funded projects were temporarily halted due to the impact of the COVID19 pandemic. Change in net position for 2021 amounted to negative $3.6 million compared to a similar amount in 2020. Net position at the end of 2021 amounted to $55.3 million compared to $58.9 million at the end of 2020. Overall, for the year ended September 30, 2021, total net position of $55.3 million is regarded by management as being strong and stable considering the discussion above.

VI. DIVISIONAL REVENUES AND EXPENSES

Airport and Seaport Combined Operating Revenues and Expenses
Years Ended September 30

	2021	2020	$ Change 2021-2020	% Change 2021-2020	2019
Operating revenues:					
Airport Division	$ 645,934	$ 948,337	$ (302,403)	(31.9)%	$ 1,566,935
Seaport Division	2,342,612	2,474,587	(131,975)	(5.3)%	3,268,214
Total operating revenues	2,988,546	3,422,924	(434,378)	(12.7)%	4,835,149
Operating expenses:					
Airport Division:					
Personnel	810,251	845,261	(35,010)	(4.1)%	763,623
Maintenance and operations	5,129,967	4,742,014	387,953	8.2%	4,985,599
Total Airport Division	5,940,218	5,587,275	352,943	6.3%	5,749,222
Seaport Division:					
Personnel	644,396	535,855	108,541	20.3%	664,270
Maintenance and operations	811,303	1,077,763	(266,460)	(24.7)%	1,367,537
Total Seaport Division	1,455,699	1,613,618	(157,919)	(9.8)%	2,031,807
Total operating expenses	7,395,917	7,200,893	195,024	2.7%	7,781,029
Operating loss	$ (4,407,371)	$ (3,777,969)	$ (629,402)	16.7%	$ (2,945,880)

Please see above in-depth analysis of Airport and Seaport Combined Operating Revenues and 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
Years Ended September 30

	2021	2020	Change 2021-2020	% Change 2021-2020	2019
UNITED AIRLINES	84	209	(125)	(59.8)%	417
OUR AIRLINE	2	71	(69)	(97.2)%	140
AIR MARSHALL ISLANDS	882	646	236	36.5%	817
ASIA PACIFIC AIRLINE	114	115	(1)	(0.9)%	129
	1,082	1,041	41	3.9%	1,503

Although there was an increase in the number of scheduled flights by 41 (or 3.9%) from 1,041 in 2020 to 1,082 in 2021, this did not result in an increase in revenues earned from Landing Charges - Scheduled, which instead decreased by $0.06 million or 34% from $0.17 million in 2020 to $0.11 million in 2021. A closer look indicated that the number of regular/scheduled flights, the Our Airlines flights being grounded and a reduction in United Airlines flights, decreased the number of touchdowns at the Amata Kabua International Airport (AKIA).

Departures - International
Years Ended September 30

	2021	2020	Change 2021-2020	% Change 2021-2020	2019
ADULTS	1,787	7,751	(5,964)	(76.9)%	15,789
STUDENTS	825	1,454	(629)	(43.3)%	5,042
	2,612	9,205	(6,593)	(71.6)%	20,831

Departure Fees - International revenues decreased by $0.13 million or 76% from $0.17 million in 2020 to $0.04 million in 2021. This was due to the decrease in United Airlines flights placing limits on the number of passengers travelling out.

Unscheduled/Special Flight Traffic
Years Ended September 30

	2021	2020	Change 2021-2020	% Change 2021-2020	2019
NUMBER OF FLIGHTS (MTOW)					
0 - 45000	53	65	(12)	(18.5)%	81
45001 - 90000	29	42	(13)	(31.0)%	15
90001 - UP	43	34	9	26.5%	80
	125	141	(16)	(11.3)%	176

	2021	2020	2019
% OF TOTAL			
0 - 45000	42%	46%	46%
45001 - 90000	23%	30%	9%
90001 - UP	34%	24%	45%

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

AIRPORT REVENUE PERFORMANCE INDICATORS, CONTINUED

Unscheduled/Special Flight Traffic decreased in 2020 by 16 flights from 141 flights in 2020 to 125 flights in 2021 whilst landing charges revenue remained stable at $0.022 million in 2020 and $0.023 million in 2021 due to the increase in flights above 90,000 MTOW. Unscheduled/Special flights are 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 for the purpose of safety of airspace flights within RMI airspace. 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.

SEAPORT REVENUE PERFORMANCE INDICATORS

Vessel Arrivals
Years Ended September 30

	2021	2020	Change 2021-2020	% Change 2021-2020	2019
CARGO VESSELS	68	48	20	41.7%	89
FISHING VESSELS - INT'L	363	395	(32)	(8.1)%	672
FISHING VESSELS - DOMESTIC	542	538	4	0.7%	608
FOREIGN TANKERS	19	71	(52)	(73.2)%	21
MILITARY SHIPS	2	2	-	0.0%	6
OTHERS	2	17	(15)	(88.2)%	4
	996	1,071	(75)	(7.0)%	1,400

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 International Fishing Vessel Entry Fees, which decreased by $0.005 million or 4% from $0.158 million in 2020 to $0.152 million in 2021. This can also be seen from the table above indicating the decrease in international vessel entry from 395 in 2020 to 363 in 2021 or the decrease of 32 fishing vessels for the given year. Foreign Entry Tankers showed a decrease from 71 tankers in 2020 to 19 tankers or 52% in 2021 or 52 tankers less than prior year. These operational results negatively impacted Seaport Division fee revenues, which decreased by $0.033 million or 2% from $2.221 million in 2020 to $2.188 million in 2021 due to the reduction in international fishing vessels and other vessels.

Vessel Movements
Years Ended September 30

2021	2020	Change 2021-2020	% Change 2021-2020	2019
1,098	1,193	(95)	(8.0)%	2,000

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 $0.56 million in 2021 from $0.6 million in 2020, a decrease of $0.04 million or 7.3%. Further, pilot boat usage fees decreased by $0.02 million or 7.6%, from $0.29 million in 2020 to $0.27 million in 2021.

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

SEAPORT REVENUE PERFORMANCE INDICATORS, CONTINUED

Wharfage Fees
Years Ended September 30

	2021	2020	Change 2021-2020	% Change 2021-2020	2019
METRIC TONS	42,306	39,699	2,607	6.6%	56,697
REVENUE TONS:					
DOMESTIC	12,902	8,016	4,886	61.0%	3,680
INTERNATIONAL	145,155	171,730	(26,575)	(15.5)%	127,837

Revenue tonnage for domestic vessels for 2021 remained consistent with 2020. Accordingly, wharfage fees too remained consistent at $0.59 million at the end of 2021 and 2020, respectively.

Bunkering Fees
Years Ended September 30

	2021	2020	Change 2021-2020	% Change 2021-2020	2019
FUEL (BARREL)	103,038	76,311	26,727	35.0%	78,424
WATER (GALLON)	505,800	477,197	28,603	6.0%	980,200

Revenues from bunkering fees - fuel increased as a direct result of the increase in bunkered fuel of 26,727 barrels or 35% from 76,311 barrels in 2020 to 103,038 barrels in 2021. Revenues from bunkering fees - water increased as a direct result of the increase in bunkered water of 28,603 gallons or 6% from 477,197 gallons in 2020 to 505,800 gallons in 2021. In terms of dollar value, fuel and water service fees increased by $0.009 million or 42% from $0.022 million in prior year to $0.031 million in the current year.

VIII. CAPITAL ASSETS AND DEBT

Net capital assets decreased from $55 million in 2020 to $51 million in 2021. Capital asset acquisitions in 2021 of $0.2 million were offset by depreciation of $4.2 million. A summary of the Authority's capital assets as of September 30, 2021 compared with 2020 and 2019 is presented below:

	2021	2020	$ Change 2021-2020	% Change 2021-2020	2019
Runway apron upgrade	$ 36,159,648	$ 36,159,648	$ -	0.0%	$ 36,174,611
Roadway	26,720,033	26,720,033	-	0.0%	26,720,033
Facilities	26,164,840	26,164,840	-	0.0%	23,481,757
Buildings	13,823,713	13,819,313	4,400	0.0%	13,819,313
Other	3,947,941	3,932,430	15,511	0.4%	3,996,335
	106,816,175	106,796,264	19,911	0.0%	104,192,049
Accumulated depreciation	(57,319,945)	(53,162,062)	(4,157,883)	7.8%	(49,012,956)
	49,496,230	53,634,202	(4,137,972)	(7.7)%	55,179,093
Construction work in progress	1,536,480	1,342,570	193,910	14.4%	3,251,649
	$ 51,032,710	$ 54,976,772	$ (3,944,062)	(7.2)%	$ 58,430,742

VIII. CAPITAL ASSETS AND DEBT, CONTINUED

Capital asset acquisitions of $0.1 million primarily represent the acquisition of miscellaneous equipment in 2021. The Authority has a number of projects ongoing that are included in the $1.5 million construction work-in-progress as of September 30, 2021. 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.

IX. EXTERNAL FACTORS AND ECONOMIC OUTLOOK

- Migratory nature of tuna had a negative effect in the fishing vessels traffic to Majuro. In 2022, management has indicated to the Board of Directors its determination to engage in collection of revenue for outbound cargoes at the Airport for all transshipments of fish as well as all commercial cargoes.

- The operating cash shortfall incurred by the Airport Division will be expected to decline as the Board of Directors and management has taken measures to revise the current tariff charges. Although the Airport Division is incurring a shortfall in cash, it is being supported by the Seaport Division cashflow. The Board of Directors and management also have plans to invite new airlines from Fiji and Solomons Islands as well as other airlines to operate air services in the Marshall Islands to boost revenue as well as to improve the Tourism Sector in the Marshall Islands.

- As previously mentioned in the prior fiscal year's audit, a government policy was issued on 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, the Management is closely working with relevant parties to uplift this policy to be in favor of Ports Authority.

XII. ADDITIONAL FINANCIAL INFORMATION

Management Discussion and Analysis (MD&A) for the year ended September 30, 2020 is set forth in the RMI Ports Authority's report on the audit of financial statements, which is dated November 3, 2021. The MD&A explains the major factors impacting the 2020 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, 2021 and 2020

	2021	2020
ASSETS		
Current assets:		
Cash	$ 2,417,089	$ 2,197,190
Time certificate of deposit	2,667,813	2,589,697
Receivables:		
Trade	727,399	690,203
Affiliates	1,119,719	1,072,978
Interest receivable	58,284	57,480
Grants receivable	123,707	178,756
Employees	16,417	16,299
	2,045,526	2,015,716
Less allowance for doubtful accounts	(1,439,866)	(1,439,866)
	605,660	575,850
Prepaid expenses and other assets	18,705	22,373
Total current assets	5,709,267	5,385,110
Capital assets:		
Nondepreciable capital assets	1,536,480	1,342,570
Other capital assets, net of accumulated depreciation	49,496,230	53,634,202
	51,032,710	54,976,772
	$ 56,741,977	$ 60,361,882
LIABILITIES AND NET POSITION		
Current liabilities:		
Accounts payable	$ 64,655	$ 108,486
Contracts payable	208,344	249,933
Payable to affiliates	776,556	636,293
Due to RepMar	285,714	285,714
Other liabilities and accruals	147,727	141,538
Total liabilities	1,482,996	1,421,964
Commitments and contingencies		
Net position:		
Net investment in capital assets	51,032,710	54,976,772
Unrestricted	4,226,271	3,963,146
Total net position	55,258,981	58,939,918
	$ 56,741,977	$ 60,361,882

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, 2021 and 2020

	2021	2020
Operating revenues:		
Seaport fees	$ 2,188,436	$ 2,221,859
Concession and lease income	283,155	262,349
Aviation fees	265,438	511,901
Special overtime carges	95,602	83,915
Cargo	50,773	47,073
Screening fee	6,177	75,291
Other	106,945	266,605
	2,996,526	3,468,993
Bad debts expense	(7,980)	(46,069)
Total operating revenues	2,988,546	3,422,924
Operating expenses:		
Depreciation and amortization	4,194,645	4,266,252
Salaries and wages	1,454,647	1,381,116
Loss from fraudulent activity	464,484	-
Utilities	356,928	372,167
Pilotage	250,261	292,125
Land lease	111,813	111,813
Repairs and maintenance	99,448	57,016
Pilot boat	80,560	111,922
Gas, oil and fuel	77,372	58,845
Insurance	57,386	58,043
Communications	39,436	40,067
Impairment loss	34,391	-
Dues and subscriptions	27,264	26,916
Professional fees	16,832	187,670
Representation	14,123	7,207
Sitting fees	11,800	13,600
Laundry and cleaning	11,382	11,872
Bank charges	10,298	31,095
Training and travel	9,880	81,238
Supplies	9,245	21,524
Capital outlays	7,957	8,998
Meetings	4,297	5,955
Taxes and licenses	3,675	11,471
Fire, safety and security	1,656	11,768
Freight and handling fees	1,000	3,229
Miscellaneous	45,137	28,984
Total operating expenses	7,395,917	7,200,893
Operating loss	(4,407,371)	(3,777,969)
Nonoperating revenues (expenses):		
Federal Aviation Administration grants	-	50,165
Contributions from RepMar	548,586	-
Interest income	78,920	76,556
Contributions to MALGOV	(55,610)	(76,658)
Total nonoperating revenues, net	571,896	50,063
Loss before capital contributions	(3,835,475)	(3,727,906)
Capital contributions from U.S. government	154,538	96,955
Change in net position	(3,680,937)	(3,630,951)
Net position at beginning of year	58,939,918	62,570,869
Net position at end of year	$ 55,258,981	$ 58,939,918

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, 2021 and 2020

	2021	2020
Cash flows from operating activities:		
Cash received from customers	$ 2,904,609	$ 3,624,176
Cash payments to suppliers for goods and services	(1,614,136)	(1,662,136)
Cash payments to employees for services	(1,446,574)	(1,371,705)
Net cash provided by (used for) operating activities	(156,101)	590,335
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(326,563)	(761,699)
FAA grants received	127,786	-
Net cash used for capital financing activities	(198,777)	(761,699)
Cash flows from noncapital and related financing activities:		
Contributions from RepMar	548,586	-
FAA grants received	81,801	-
Loan principal repayments from AMI	-	31,871
Contributions to MALGOV	(55,610)	(76,658)
Net cash provided by (used for) noncapital and related financing activities	574,777	(44,787)
Net change in cash	219,899	(216,151)
Cash at beginning of year	2,197,190	2,413,341
Cash at end of year	$ 2,417,089	$ 2,197,190
Reconciliation of operating loss to net cash provided by (used for) operating activities:		
Operating loss	$ (4,407,371)	$ (3,777,969)
Adjustments to reconcile operating loss to net cash provided by (used for) operating activities:		
Depreciation and amortization	4,194,645	4,266,252
Impairment loss	34,391	-
Bad debts expense	7,980	46,069
(Increase) decrease in assets:		
Receivables:		
Trade	(45,176)	187,875
Affiliates	(46,741)	(32,692)
Other	(118)	6,787
Prepaid expenses and other assets	3,668	(13,496)
Increase (decrease) in liabilities:		
Accounts payable	(43,831)	(117,258)
Payable to affiliates	140,263	22,200
Other liabilities and accruals	6,189	2,567
Net cash provided by (used for) operating activities	$ (156,101)	$ 590,335

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. The Governmental Accounting Standards Board (GASB) is the recognized standard-setting body for establishing governmental accounting and financial reporting principles.

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: 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. The Authority has no restricted net position as of September 30, 2021 and 2020.

- 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, 2021 and 2020, the carrying amount of cash and time certificates of deposit were $5,084,902 and $4,786,887, respectively, and the corresponding bank balances were $5,141,981 and $4,793,189, respectively. Of the bank balances, $2,130,849 and $1,952,858, respectively, were maintained in a financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance with $3,011,132 and $2,840,331, respectively, being maintained in a financial institution not subject to depository insurance. As of September 30, 2021 and 2020, bank deposits in the amount of $250,000 were FDIC insured. Accordingly, deposits in excess of FDIC insurance coverage 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. The Authority has no items that qualify for reporting in this category.

Deferred Inflows of Resources

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element 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 non-vesting accumulating rights to receive sick benefits. As of September 30, 2021 and 2020, an accumulated vacation leave liability of $80,044 and $78,610, 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.

New Accounting Standards

In 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.

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

During the year ended September 30, 2021, the Authority implemented the following pronouncements:

- GASB Statement No. 84, *Fiduciary Activities*, which improves guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported.

- GASB Statement No. 90, *Majority Equity Interests - An Amendment of GASB Statements No. 14 and 61*, which improves 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.

- GASB Statement No. 93, *Replacement of Interbank Offered Rates*, which establishes accounting and reporting requirements related to the replacement of Interbank Offered Rates such as the London Interbank Offered Rate (LIBOR) for hedging derivative instruments. The provision removing LIBOR as an appropriate benchmark interest rate for the evaluation of the effectiveness of derivative instruments is effective for the year ending September 30, 2022.

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

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 the 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 the fiscal year ending September 30, 2022.

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 the fiscal year ending September 30, 2023.

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

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. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. 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 are effective for the fiscal year ending 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 the 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 the fiscal year ending September 30, 2023.

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. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. GASB Statement No. 97 will be effective for the fiscal year ending September 30, 2022.

(2) Summary of Significant Accounting Policies, Continued

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, 2021 and 2020, is as follows:

	October 1, 2020	Additions	Transfers	Reductions	September 30, 2021
Facilities	$ 26,164,840	$ -	$ -	$ -	$ 26,164,840
Buildings	13,819,313	4,400	-	-	13,823,713
Equipment	765,606	48,044	-	(71,153)	742,497
Vehicles	2,427,718	21,895	-	-	2,449,613
Office furniture, fixtures and equipment	739,106	16,725	-	-	755,831
Roadway	26,720,033	-	-	-	26,720,033
Runway apron upgrade	36,159,648	-	-	-	36,159,648
	106,796,264	91,064	-	(71,153)	106,816,175
Less accumulated depreciation	(53,162,062)	(4,194,645)	-	36,762	(57,319,945)
	53,634,202	(4,103,581)	-	(34,391)	49,496,230
Construction work-in-progress	1,342,570	193,910	-	-	1,536,480
	$ 54,976,772	$ (3,909,671)	$ -	$ (34,391)	$ 51,032,710

	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

As of September 30, 2021 and 2020, construction work-in-progress includes certain capitalized costs associated with the new Majuro Airport Terminal and the Port Master Plan of $309,684 and $401,900, respectively. Construction of these projects is currently on hold due to insufficient funding. Management believes that continuation of these projects is dependent upon funding being made available by a grantor.

(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 $73,894 and $49,316 to the plan participant accounts during the years ended September 30, 2021 and 2020, respectively, and total plan assets were $396,480 and $314,754 as of September 30, 2021 and 2020, 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. A summary of related party transactions for the years ended September 30, 2021 and 2020 and related receivable and payable balances as of September 30, 2021 and 2020, is as follows:

	2021			
	Revenues	Expenses	Receivables	Payables
RepMar	$ 2,681	$ 35,638	$ 231,087	$ 590,393
Air Marshall Islands, Inc.	57,590	24,053	762,876	525
Marshalls Energy Company, Inc.	106,744	349,592	12,118	101,055
Marshall Islands Shipping Corporation	46,641	-	100,975	-
Marshall Islands Social Security Administration	-	-	-	70,581
Marshall Islands National Telecommunications Authority	152	39,332	1,494	10,236
Tobolar Copra Processing Authority	9,952	-	7,512	-
Other	22,759	86,508	3,657	3,766
	$ 246,519	$ 535,123	$ 1,119,719	$ 776,556

	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

The above receivables from affiliates are uncollateralized, interest free and have no set repayment terms. As of September 30, 2021 and 2020, the allowance for doubtful accounts provided for related parties aggregated $1,105,674 and $1,054,431, respectively.

During the year ended September 30, 2021, the Authority received a cash operating subsidy from RepMar of $548,586.

(5) Related Party Transactions, Continued

During the year ended September 30, 2020, the Authority purchased fuel from a local company of $86,965 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 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, 2021 and 2020, the Authority compensated a qualified pilot, who is an Authority employee, for pilotage services of $47,527 and $46,880, respectively.

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.

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, 2021 and 2020, 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. The Authority is currently negotiating with RepMar for forgiveness of the foregoing liabilities and adjustment, if any, will be recorded prospectively.

(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, 2021 and 2020 amounted to $47,054 and $45,400, 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 years ended September 30, 2021 and 2020 amounted to $27,558 for each respective year. 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,	
2022	$ 178,667
2023	130,758
2024	123,801
2025	101,075
2026	38,388
2027 - 2031	163,149
Total	$ 735,838

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, 2021, the Authority has been awarded a total of $107,099,730 of grant awards from the United States Department of Transportation. As of September 30, 2021, $25,276,287 has not been received and expended for various capital projects.

(6) Commitments, Continued

Other

In 2012, the Authority's Board of Directors directed management to issue and/or approve bunkering, dock usage, and other services or clearances for Koo's fishing vessels without pilotage. The Board will continue to work with the Minister of Transportation, 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, 2021 and 2020, the Authority provided cash contributions to MalGov of $55,610 and $76,658, respectively, in accordance with the agreement.

(7) Contingencies

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 occur as a result of this matter.

U.S. Federal Grants

The Authority participates in a number of federally assisted grant programs under the U.S. Department of Transportation Federal Aviation Administration. These programs are subject to financial and compliance audits to ascertain if Federal laws and guidelines have been followed. The Authority's management believes that liabilities, if any, for reimbursement which may arise as a result of these audits will not be material to the financial position of the Authority.

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 March 11, 2020, the World Health Organization declared the novel strain of coronavirus (COVID-19) a global pandemic and recommended containment and mitigation measures worldwide. RepMar's Ministry of Health and Human Services (MHHS) issued travel advisories and restrictions in response to the declaration and the RepMar Cabinet closed the border suspending all incoming passenger travel via air and sea and issued certain restrictions to container vessels arriving at the Marshall Islands. These travel restrictions negatively impacted revenue of the Authority 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. On September 8, 2022, the RepMar Cabinet eased travel restrictions and reopened the border to international travel.

(10) Loss from Fraudulent Activities

Commencing in 2021, the Authority was subject to an email phishing fraud scheme associated with the impersonation of Authority vendors. During the year ended September 30, 2021, the Authority incurred losses from these fraudulent activities of $464,484. Subsequently in 2022, the Authority incurred additional losses from these fraudulent activities of $438,792 before the scheme was discovered.

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, 2021

	Airport Division	Seaport Division	Total
Operating revenues:			
Seaport fees	$ -	$ 2,188,436	$ 2,188,436
Concession and lease income	129,811	153,344	283,155
Aviation fees	265,438	-	265,438
Special overtime charges	95,602	-	95,602
Cargo	50,364	409	50,773
Screening fee	6,177	-	6,177
Other	102,532	4,413	106,945
	649,924	2,346,602	2,996,526
Bad debts expense	(3,990)	(3,990)	(7,980)
Total operating revenues	645,934	2,342,612	2,988,546
Operating expenses:			
Depreciation and amortization	3,912,189	282,456	4,194,645
Salaries and wages	810,251	644,396	1,454,647
Loss on fraudulent activity	464,484	-	464,484
Utilities	310,211	46,717	356,928
Pilotage	-	250,261	250,261
Land lease	80,199	31,614	111,813
Repairs and maintenance	60,858	38,590	99,448
Pilot boat	-	80,560	80,560
Gas, oil, and fuel	64,598	12,774	77,372
Insurance	43,953	13,433	57,386
Communications	19,905	19,531	39,436
Impairment loss	34,391	-	34,391
Dues and subscriptions	26,126	1,138	27,264
Professional fees	8,416	8,416	16,832
Representation	10,540	3,583	14,123
Sitting fees	5,900	5,900	11,800
Laundry and cleaning	10,914	468	11,382
Bank charges	10,000	298	10,298
Training and travel	4,230	5,650	9,880
Supplies	8,039	1,206	9,245
Capital outlays	6,077	1,880	7,957
Meetings	2,713	1,584	4,297
Taxes and licenses	3,025	650	3,675
Fire, safety and security	1,528	128	1,656
Freight and handling fees	777	223	1,000
Miscellaneous	40,894	4,243	45,137
Total operating expenses	5,940,218	1,455,699	7,395,917
Operating income (loss)	(5,294,284)	886,913	(4,407,371)
Nonoperating revenues (expenses):			
Contributions from RepMar	274,293	274,293	548,586
Interest income	39,460	39,460	78,920
Contributions to MALGOV	-	(55,610)	(55,610)
Total nonoperating revenues, net	313,753	258,143	571,896
Income (loss) before capital contributions	(4,980,531)	1,145,056	(3,835,475)
Capital contributions from U.S. government	154,538	-	154,538
Change in net position	(4,825,993)	1,145,056	(3,680,937)
Net position at beginning of year	38,067,418	20,872,500	58,939,918
Net position at end of year	$ 33,241,425	$ 22,017,556	$ 55,258,981

See accompanying independent auditor's report.

Deloitte.

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INDEPENDENT AUDITOR'S 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, 2021, 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 30, 2022.

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 Responses as items 2021-01 and 2021-02, 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Deloitte.

The Authority's Response to Findings

The Authority's response to the findings identified in our audit is described in the accompanying Schedule of Findings and Responses. The Authority's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no 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 30, 2022

Finding No. 2021-01
Area: Timely Financial Reporting

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

Condition: The Authority did not finalize closing fiscal year September 30, 2021 financial information (trial balance, subsidiary and general ledger) until August 4, 2022. Further, the Authority does not have an established set of policies, procedures and controls in place to timely prepare and review reconciliations and reports. During the year ended September 30, 2021, various accounting records did not appear to have been processed and timely updated as evidenced by the following:

1. Interest income (GL Acct # 40310) recorded a debit balance of $36,844. An audit adjustment of $115,764 was proposed to correct this debit balance and record interest income.

2. Anchorage fee revenue (GL Acct # 40450) recorded a debit balance of $9,312. An audit adjustment of $55,610 was proposed to correct this debit balance and record anchorage fees.

3. Grant revenue (GL Acct # 40570) recorded a debit balance of $147,898. Audit adjustments of $302,436 were proposed to correct this debit balance and record grant revenue of $154,538 and a related grant receivable of $123,707.

4. Fraudulent wire transfers totaling $464,484 occurred through an email account compromise during the year ended September 30, 2021, which were recorded as a reduction of the allowance for doubtful debts account. An audit adjustment was proposed to correct this recordation and to recognize a loss from fraudulent activity.

5. Electricity expense for the months of August and September 2021 and communications expense for the months of June to September 2021 were not recognized during the year ended September 30, 2021. Audit adjustments of $111,291 were proposed to correct these misstatements.

6. Construction work-in-progress (GL Acct # 103099) was understated. Audit adjustments of $225,711 were proposed to correct this misstatement.

7. Capital assets were not considered for impairment based on significant declines in service utility. An audit adjustment was proposed to recognize a $34,391 impairment loss associated with a CFDA # 20.106 federally funded runway sweeper that was acquired in February 2019 and, based on an attorney letter, was not working by the end of 2019.

8. Accrued vacation leave (GL Acct # 21001) and accrued payroll (GL Acct # 21002-1) were overstated. Audits adjustments of $109,986 were proposed to correct these misstatements.

Cause: The lack of timely year-end closing and the absence of timely review and reconciliation of significant general ledger accounts appears to be the cause of the above condition.

Effect: The trial balance and general ledger account reconciliations were not timely provided for audit purposes that resulted in additional audit costs.

Finding No. 2021-01, Continued
Area: Timely Financial Reporting

Recommendation: We recommend management establish internal control policies and procedures to facilitate timely and accurate general ledger reconciliation processes. Furthermore, the Authority management should examine personnel staffing requirements and qualifications associated with the Authority's accounting function.

Auditee Response and Corrective Action Plan: Management agrees with the finding and recommendation, with some comments as follows:

1. Management will conduct trainings internally and externally to train personnel staffing on the accounting procedures in transaction reporting and timeliness of reporting.

2. Management provided confirmation that there was mechanical default with the Financial Management Information System in duration of the fiscal year that delayed the reconciliation of certain the GL in a timely manner. The system was rectified by the FMIS support team.

3. Management confirms to establish internal control measures and procedures to allow timeliness of reporting and compliance of GAAP.

Finding No. 2021-02
Area: Fraudulent Payments

Criteria: Internal control procedures should be in place to verify changes in payment mediums established during contract negotiation phase. Signatures, bank accounts and individuals involved during the contract negotiation phase should be strictly reconfirmed for changes.

Condition: During the year ended September 30, 2021, the Authority incurred a $464,484 loss due to an individual email compromise phishing scam that occurred from August 2021 to November 2021. Total disbursements made under this phishing scam amounted to $1,157,942 over six different transactions. The Authority was subsequently able to recover $254,666 upon discovering the fraudulent activity, resulting in an overall loss to the Authority of $903,276.

Cause: The cause of the above condition was the lack of established internal control policies and procedures requiring independent verification of changes in vendor contractual arrangements.

Effect: The effect of the above condition is financial loss incurred by the Authority.

Recommendation: We recommend the Authority establish internal control policies and procedures over changes in vendor information and payment details, including independent verification of new bank details.

Auditee Response and Corrective Action Plan: Management agrees with the finding and recommendation, with some comments as follows:

1. Management has developed internal control measures to take pro-active actions on reducing the risk of becoming victims of vendor email compromising or any other fraudulent activity that forms risk toward the Authority.

2. Management has established monthly and quarterly meetings with the vendors and to confirm every payment with the vendor as soon as its processed and for any vendor information changed, a virtual call is made with the vendor recorded to ascertain the changes to any information.

3. Management also intends to work with the Banks to establish a secondary checking system with the international banks for new vendors to authenticate that the vendors are legitimate to trade with.

Unresolved Prior Year's Findings
Year Ended September 30, 2021

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