

*Financial Statements, Required Supplementary
Information, Supplementary Information, and Reports on
Compliance and Internal Control*

RMI Ports Authority

(A Component Unit of the Republic of the Marshall Islands)

*Year ended September 30, 2022
with Report of Independent Auditors*



RMI Ports Authority
(A Component Unit of the Republic of the Marshall Islands)

Financial Statements, Required Supplementary Information, Supplementary
Information, and Reports on Compliance and Internal Control

Year ended September 30, 2022

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Report of Independent Auditors

The Board of Directors
RMI Ports Authority

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the business-type activities of RMI Ports Authority (the Authority), a component unit of the Republic of the Marshall Islands, as of and for the year ended September 30, 2022, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Authority as of September 30, 2022, and the changes in financial position, and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Authority and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Authority's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 15 be presented to supplement the financial statements. Such information is the responsibility of management and, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with GAAS, 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 basic financial statements, and other knowledge we obtained during our audit of the basic 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.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the basic financial statements as a whole. The supplementary information on page 36 is presented for purposes of additional analysis and is not a required part of the basic 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 basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic 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 September 26, 2024, 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 Authority's internal control over financial reporting and compliance.

Ernst + Young LLP

September 26, 2024

RMI Ports Authority
(A Component Unit of the Republic of the Marshall Islands)

Management's Discussion and Analysis

Year ended September 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, 2022. 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 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.

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.

RMI Ports Authority
(A Component Unit of the Republic of the Marshall Islands)

Management's Discussion and Analysis, continued

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 the fiscal year ended September 30, 2022, total net position was \$52.4 million, a significant decrease of \$3 million from \$55.3 million or 5.4% from prior fiscal year.
- Total operating revenues minimally decreased by \$11,872 or 0.4%. The performance indicators will explain the decrease as explained in this report (please refer to the Revenue Performance Indicators and the Divisional Revenues and Expenses sections of this report).
- Total operating expenses, inclusive of depreciation and amortization, were \$7.5 million for FY2022. It increased by \$106,411 or 1.4% compared to FY2021. The details will be discussed in the Divisional Revenues and Expenses section of this report.
- The Authority incurred an operating loss of \$4.5 million for FY2022. The amount exceeds the amount from last year's operating loss of \$4.4 million. The major drivers for the increase in operating loss were caused by the increase in operational cost streams driven through changes in the market.

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 million in FY2022 and a decrease by \$3.6 million in FY2021.

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Management's Discussion and Analysis, continued

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

	<u>2022</u>	<u>2021</u>	<u>\$ Change</u> <u>2022-2021</u>	<u>% Change</u> <u>2022-2021</u>	<u>2020</u>
Assets:					
Current and other assets	\$ 5,688,119	\$ 6,398,941	\$ (710,822)	(11.1)%	\$ 5,385,110
Capital assets	<u>49,849,524</u>	<u>51,887,790</u>	<u>(2,038,266)</u>	(3.9)%	<u>54,976,772</u>
Total assets	<u>55,537,643</u>	<u>58,286,731</u>	<u>(2,749,088)</u>	(4.7)%	<u>60,361,882</u>
Liabilities:					
Current and other liabilities	<u>2,609,015</u>	<u>2,338,076</u>	<u>270,939</u>	11.6%	<u>1,421,964</u>
Deferred inflows of resources:					
Lease revenues	<u>549,562</u>	<u>689,674</u>	<u>(140,112)</u>		<u>-</u>
Net position:					
Net investment in capital assets	48,627,096	51,032,710	(2,405,614)	(4.7)%	54,976,772
Unrestricted	<u>3,751,970</u>	<u>4,226,271</u>	<u>(474,301)</u>	(11.2)%	<u>3,963,146</u>
Total net position	<u>\$52,379,066</u>	<u>\$55,258,981</u>	<u>\$ (2,879,915)</u>	(5.2)%	<u>\$58,939,918</u>

The Authority's financial data for FY2022 showed that total assets settled at \$55.5 million, down from \$58.3 million, a decrease of \$2.8 million or 4.9%. This can be attributed to the following major drivers, namely:

1. Current and other assets decreased by \$710,822 or 11.1%. Below are the major changes in the components of current and other assets:
 - a) Cash account decreased by \$478,557 or 19.8% from \$2.4 million recorded in FY2021 to \$1.9 million for FY2022. This decrease was the result of cash used in capital and related financing activities of \$584,946 offset by cash provided by operating activities of \$106,389.
 - b) BOMI TCD Account increased by \$80,301 or 3% due to interest earned from the Certificate of Time Deposit.

RMI Ports Authority
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Management's Discussion and Analysis, continued

IV. STATEMENT OF NET POSITION, CONTINUED

- c) Net receivables decreased by \$295,361 or 23% from \$1.3 million recorded in FY2021 to \$1 million for FY2022. This decrease was due, in part, to the recognition of additional bad debts expense in FY2022 of \$123,982 together with increased collection efforts of prior year receivable amounts.
2. Capital assets decreased by \$2 million or 3.9% from \$51.9 million recorded in FY2021 to \$49.8 million for FY2022. This decrease was primarily the result of FY2022 depreciation charge of \$4.4 million offset by capital acquisitions of \$2.2 million.
3. Current and other liabilities increased by \$270,939 or 11.6%. Below are the major changes in the components of current and other liabilities:
 - a) Accounts payable and payable to affiliates increased by \$98,056 or 11.7% from \$841,211 recorded in FY2021 to \$939,267 for FY2022.
 - b) Contracts payable increased by \$162,142 or 77.8% from \$208,344 recorded in FY2021 to \$370,486 for FY2022 due to the greater number of Airport Improvement Program (AIP) projects in the pipeline for FY2022.
4. One of the financial indicators to measure the financial capacity to meet current obligation is the current or liquidity ratio. At the end of FY2022, the Authority had a liquidity ratio of \$3.16 to \$1. This could be interpreted as that the Authority has \$3.16 in its coffers for every dollar owed. This benchmark showed a slight decrease from the FY2021 liquidity ratio of \$3.85 to \$1.
5. Total net position decreased by \$3 million or 5.2% from \$55.3 million recorded in FY2021 to \$52.4 million for FY2022. This decrease was the result of expenses of \$7.7 million offset by revenues and contributions of \$4.7 million.

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.

RMI Ports Authority
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Management's Discussion and Analysis, continued

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

Summary Statements of Revenues, Expenses, and Changes in Net Position
Year ended September 30

	<u>2022</u>	<u>2021</u>	<u>\$ Change</u> <u>2022-2021</u>	<u>% Change</u> <u>2022-2021</u>	<u>2020</u>
Operating:					
Revenues	\$ 2,976,674	\$ 2,988,546	\$ (11,872)	(0.4)%	\$ 3,422,924
Expenses	<u>7,502,329</u>	<u>7,395,917</u>	<u>106,412</u>	1.4%	<u>7,200,893</u>
Operating loss	<u>(4,525,655)</u>	<u>(4,407,371)</u>	<u>(118,284)</u>	2.7%	<u>(3,777,969)</u>
Nonoperating:					
Revenues	167,873	627,506	(459,633)	(73.2)%	126,721
Expenses	<u>115,747</u>	<u>55,610</u>	<u>60,137</u>	108.1%	<u>76,658</u>
	<u>52,126</u>	<u>571,896</u>	<u>(519,770)</u>	(90.9)%	<u>50,063</u>
	(4,473,529)	(3,835,475)	(638,054)	16.6%	(3,727,906)
Capital contributions	<u>1,593,614</u>	<u>154,538</u>	<u>1,439,076</u>	931.2%	<u>96,955</u>
Change in net position	<u><u>\$ (2,879,915)</u></u>	<u><u>\$ (3,680,937)</u></u>	<u><u>\$ 801,022</u></u>	(21.8)%	<u><u>\$ (3,630,951)</u></u>

The Authority's operating revenues for FY2022 decreased minimally by \$11,872 or 0.4%. Below are the major changes in the components of operating revenues:

1. Airport Division revenues increased by \$129,384 or 20% from \$645,934 recorded in FY2021 to \$775,318 for FY2022.
2. Seaport Division revenues decreased by \$141,256 or 6% from \$2,342,612 recorded in FY2021 to \$2,201,356 for FY2022.

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Management's Discussion and Analysis, continued

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

The Authority's operating expenses for FY2022 increased by \$195,242 or 2.6%. Below are the major changes in the components of operating expenses:

1. Airport Division expenses decreased by \$30,220 or 0.5% from \$5,940,218 recorded in FY2021 to \$5,909,998 for FY2022.
2. Seaport Division expenses increased by \$136,631 or 9.4% from \$1,455,699 recorded in FY2021 to \$1,592,330 for FY2022.

Below are the major changes in the components of operating expenses:

- a) Depreciation and amortization expense increased by \$185,254 or 4% from \$4.2 million for FY2021 to \$4.4 million for FY2022.
- b) Salaries and wages expense decreased by \$57,594 or 4% from \$1.45 million for FY2021 to \$1.4 million for FY2022.

The Authority's net non-operating revenues for FY2022 decreased by \$519,770 or 90.9% from \$571,896 for FY2021 to \$52,126 for FY2022. The major reason for the decrease is the reduction in contributions from RepMar with \$nil recorded in FY2022 compared to \$548,586 in FY2021. Contributions from RepMar represent subsidies provided to assist in the Authority's operations.

Finally, capital contributions for FY2022 increased by \$1.4 million or 931%. The major reason for the increase Airport Improvement Program grants from the U.S. Department of Transportation Federal Aviation Administration (FAA). These funds are considered capital contributions since they are given to the Authority without directly providing goods and/or services. Instead, they are provided to the Authority for the purpose of funding capital-related improvements.

Change in net position for FY2022 increased by \$801,023 or 21.8% from negative \$3.7 million for FY2021 to negative \$3 million for FY2022.

The substantial reduction in change in net position stalled the growth in net position at the end of year, which was pegged at \$52.4 million versus the recorded amount a year ago of \$55.3 million, a decrease of \$3 million or 5.2%.

Overall, for the fiscal year ending September 30, 2022, total net position of \$52.4 million is regarded as strong and stable considering the ups and downs as described above.

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Management's Discussion and Analysis, continued

VI. DIVISIONAL REVENUES AND EXPENSES

Please see below in-depth analysis of Airport and Seaport Combined Operating Revenues and Expenses on the Statement of Revenues and Expenses.

Summary Airport and Seaport Operating Revenues and Expenses
Year ended September 30

	<u>2022</u>	<u>2021</u>	\$ Change <u>2022-2021</u>	% Change <u>2022-2021</u>	<u>2020</u>
Operating revenues:					
Airport Division	\$ 775,318	\$ 645,934	\$ 129,384	20.0%	\$ 948,337
Seaport Division	<u>2,201,356</u>	<u>2,342,612</u>	<u>(141,256)</u>	(6.0)%	<u>2,474,587</u>
Total operating revenues	<u>2,976,674</u>	<u>2,988,546</u>	<u>(11,872)</u>	(0.4)%	<u>3,422,924</u>
Operating expenses:					
Airport Division	5,909,999	5,940,218	(30,219)	(0.5)%	5,587,275
Seaport Division	<u>1,592,330</u>	<u>1,455,699</u>	<u>136,631</u>	9.4%	<u>1,613,618</u>
Total operating expenses	<u>7,502,329</u>	<u>7,395,917</u>	<u>106,412</u>	1.4%	<u>7,200,893</u>
Operating loss	<u><u>\$(4,525,655)</u></u>	<u><u>\$(4,407,371)</u></u>	<u><u>\$(118,284)</u></u>	2.7%	<u><u>\$(3,777,969)</u></u>

VII. REVENUE PERFORMANCE INDICATORS AND ANALYSIS OF DIVISIONAL EXPENSES

AIRPORT REVENUE PERFORMANCE INDICATORS

Scheduled Flights - Traffic

Year ended September 30

	<u>2022</u>	<u>2021</u>	Change <u>2022-2021</u>	% Change <u>2022-2021</u>	<u>2020</u>
UNITED AIRLINES	164	84	80	95.2%	209
OUR AIRLINE	2	2	-	0.0%	71
AIR MARSHALL ISLANDS	1,080	882	198	22.4%	646
ASIA PACIFIC AIRLINES	<u>122</u>	<u>114</u>	<u>8</u>	7.0%	<u>115</u>
TOTAL	<u><u>1,368</u></u>	<u><u>1,082</u></u>	<u><u>286</u></u>	26.4%	<u><u>1,041</u></u>

RMI Ports Authority
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Management's Discussion and Analysis, continued

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

AIRPORT REVENUE PERFORMANCE INDICATORS, CONTINUED

The increase in number of scheduled flights of 286 or 26.4% from 1,082 to 1,368 for FY2022 registered a favorable increase in dollar amounts as total Landing Charges for Air Marshall Islands, United Airlines and Asia Pacific Airlines. The factor towards this change was the COVID19 pandemic border barriers being lifted and flights resuming operations normalizing flight traffic. Landing fees revenues increased by \$58,752 or 42.7% from \$137,513 recorded in FY2021 to \$196,265 for FY2022.

Departure - International
Year ended September 30

	<u>2022</u>	<u>2021</u>	Change <u>2022-2021</u>	% Change <u>2022-2021</u>	<u>2020</u>
ADULTS	1,768	1,787	(19)	(1.1)%	7,751
STUDENTS	<u>794</u>	<u>825</u>	<u>(31)</u>	<u>(3.8)%</u>	<u>1,454</u>
TOTAL	<u><u>2,562</u></u>	<u><u>2,612</u></u>	<u><u>(50)</u></u>	<u><u>(1.9)%</u></u>	<u><u>9,205</u></u>

Departure Fees - International registered a decrease of 50 or 1.9%. Due to border opening, the fluctuations are continuing to reach pre-COVID19 travel limits. Departure fees revenues increased marginally by \$3,881 or 6.6% from \$58,604 recorded in FY2021 to \$62,485 for FY2022.

Unscheduled/Special Flight Traffic
Year ended September 30

	<u>2022</u>	<u>2021</u>	Change <u>2022-2021</u>	% Change <u>2022-2021</u>	<u>2020</u>
NUMBER OF FLIGHTS (MTOW)					
0-45,000	85	53	32	60.4%	65
45,001-90,000	28	29	(1)	(3.4)%	42
Greater than 90001	<u>76</u>	<u>43</u>	<u>33</u>	<u>76.7%</u>	<u>34</u>
TOTAL	<u><u>189</u></u>	<u><u>125</u></u>	<u><u>64</u></u>	<u><u>51.2%</u></u>	<u><u>141</u></u>

RMI Ports Authority
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Management's Discussion and Analysis, continued

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

AIRPORT REVENUE PERFORMANCE INDICATORS, CONTINUED

Unscheduled/Special Flight Traffic
Year ended September 30

	<u>2022</u>	<u>2021</u>	<u>Change</u> <u>2022-2021</u>	<u>% Change</u> <u>2022-2021</u>	<u>2020</u>
% TO TOTAL					
0-45,000	45%	42%	3%	7.1%	46%
45,001-90,000	15%	23%	-8%	(34.8)%	30%
Greater than 90001	<u>40%</u>	<u>35%</u>	<u>5%</u>	14.3%	<u>24%</u>
TOTAL	<u>100%</u>	<u>100%</u>			<u>100%</u>

Ground handling fees revenues increased by \$16,870 or 44% from \$38,365 recorded in FY2021 to \$55,235 for FY2022.

SEAPORT REVENUE PERFORMANCE INDICATORS

Vessel Arrivals
Year ended September 30

	<u>2022</u>	<u>2021</u>	<u>Change</u> <u>2022-2021</u>	<u>% Change</u> <u>2022-2021</u>	<u>2020</u>
CARGO VESSELS	74	68	6	8.8%	48
FISHING VESSELS INTERNATIONAL	375	363	12	3.3%	395
FISHING VESSELS LOCAL	538	542	(4)	(0.7)%	538
FOREIGN TANKERS	14	19	(5)	(26.3)%	71
MILITARY SHIPS	2	2	-	0.0%	2
OTHER	<u>3</u>	<u>2</u>	<u>1</u>	50.0%	<u>2</u>
TOTAL	<u>1,006</u>	<u>996</u>	<u>10</u>	1.0%	<u>1,056</u>

Pilotage fees revenues remained steady at \$845,501 recorded in FY2021 to \$837,717 for FY2022, representing a marginal decrease of \$7,784 or 0.92%. In addition, vessel entry fees revenues remained steady at \$320,515 recorded in FY2021 to \$319,442 for FY2022, representing a marginal decrease of \$1,073 or 0.33%.

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Management's Discussion and Analysis, continued

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

SEAPORT REVENUE PERFORMANCE INDICATORS, CONTINUED

Wharfage Fees
Year ended September 30

	<u>2022</u>	<u>2021</u>	Change <u>2022-2021</u>	% Change <u>2022-2021</u>	<u>2020</u>
METRIC TONS	95,657	42,306	53,351	126.1%	36,699
REVENUE TONS:					
DOMESTIC	6,893	12,902	(6,009)	(46.6)%	8,016
INTERNATIONAL	149,496	145,155	4,341	3.0%	171,730

Wharfage fees revenues marginally increased by \$8,418 or 1.4% from \$579,645 recorded in FY2021 to \$588,063 for FY2022.

Bunkering Fees
Year ended September 30

	<u>2022</u>	<u>2021</u>	Change <u>2022-2021</u>	% Change <u>2022-2021</u>	<u>2020</u>
FUEL (BARRELS)	137,394	103,038	34,356	33.3%	76,311
WATER (GALLONS)	311,000	505,800	(194,800)	(38.5)%	477,197

Revenues from bunkering fees - fuel increased as a direct result of the increase in bunkered fuel of 34,356 barrels or 33% from 103,038 barrels in FY2021 to 137,394 barrels in FY2022. Revenues from bunkering fees - water decreased as a direct result of the decrease in bunkered water of 194,800 gallons or 39% from 505,800 gallons in FY2021 to 311,000 gallons in FY2022. Overall, dockage fees revenues decreased by \$34,760 or 13.5% from \$256,752 recorded in FY2021 to \$221,992 for FY2022.

VIII. CAPITAL ASSETS AND DEBT

Net capital assets decreased from \$51.9 million in FY2021 to \$49.8 million in FY2022, a decrease of \$2 million. Capital asset acquisitions in FY2022 of \$2.4 million were offset by depreciation of \$4.3 million. A summary of the Authority's capital assets as of September 30, 2022 compared with FY2021 and FY2020 is presented below:

RMI Ports Authority
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Management's Discussion and Analysis, continued

VIII. CAPITAL ASSETS AND DEBT, CONTINUED

Summary Schedule of Capital Assets
As of September 30

	<u>2022</u>	<u>2021</u>	<u>\$ Change</u> <u>2022-2021</u>	<u>% Change</u> <u>2022-2021</u>	<u>2020</u>
Runway apron upgrade	\$ 36,159,648	\$ 36,159,648	\$ -	0.0%	\$ 36,159,648
Roadway	26,720,033	26,720,033	-	0.0%	26,720,033
Facilities	26,164,840	26,164,840	-	0.0%	26,164,840
Buildings	14,203,616	13,823,713	379,903	2.7%	13,819,313
Others	<u>4,944,167</u>	<u>3,947,941</u>	<u>996,226</u>	25.2%	<u>3,932,430</u>
	108,192,304	106,816,175	1,376,129	1.3%	106,796,264
Accumulated depreciation	<u>(61,665,074)</u>	<u>(57,319,945)</u>	<u>(4,345,129)</u>	7.6%	<u>(53,162,062)</u>
	<u>46,527,230</u>	<u>49,496,230</u>	<u>(2,969,000)</u>	(6.0)%	<u>53,634,202</u>
Lease assets	855,080	855,080	-	0.0%	-
Accumulated amortization	<u>(34,771)</u>	<u>-</u>	<u>(34,771)</u>		<u>-</u>
	<u>820,309</u>	<u>855,080</u>	<u>(34,771)</u>	(4.1)%	<u>-</u>
Construction Work in Progress	<u>2,501,985</u>	<u>1,536,480</u>	<u>965,505</u>	62.8%	<u>1,342,570</u>
	<u>\$ 49,849,524</u>	<u>\$ 51,887,790</u>	<u>\$ (2,038,266)</u>	(3.9)%	<u>\$ 54,976,772</u>

Capital asset acquisitions primarily represent the acquisition of Transportation equipment from grant and building major repairs at head office. The Authority has a number of projects ongoing that are included in the \$2.5 million construction work-in-progress as of September 30, 2022. 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. The Authority has incurred certain short-term remedial costs in order to address the engineering company's concerns. Management has commenced initial discussions with potential donor organizations in regard to the construction of a new terminal. In July 2024, the RMI Government and the Government of Japan signed and exchanged diplomatic notes for the Project for the Reconstruction of Amata Kabua International Airport Passenger Terminal (Detailed Design).

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.

RMI Ports Authority
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Management's Discussion and Analysis, continued

IX. EXTERNAL FACTORS AND ECONOMIC OUTLOOK

- § Migratory nature of tuna had a negative effect in the fishing vessels traffic to Majuro. In FY2022, the Authority's management has indicated to the Board of Directors its determination to engage in collection of revenue for outbound cargoes at the Airport for all transshipment of fish as well as all commercial cargoes.
- § The operating cash shortfall incurred by the Airport Division will be expected to decline as the Authority's management and Board of Directors 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's cashflow. The Authority's management and Board of Directors also has 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 the Authority to exempt certain port charges for vessels owned by the Koo's Fishing Company. This policy has an adverse effect on the Authority's financial performance. The Authority's management and Board of Directors reviewed this government policy and had informed the Cabinet of the adverse effect on the financial performance of the Authority and expressed their concern to the Cabinet in a letter dated August 8, 2012. Since this policy was implemented, the Authority's management is closely working with relevant parties to uplift this policy to be in favor of the Authority.

XII. ADDITIONAL FINANCIAL INFORMATION

Management Discussion and Analysis (MD&A) for the year ended September 30, 2021 is set forth in the Authority's report on the audit of financial statements for FY2021, which was dated November 30, 2022. The MD&A explains the major factors impacting the FY2021 financial statements and can be obtained from the RMI Office of the Auditor-General's 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's Executive Director, Mr. Thomas Maddison, at P.O. Box 109, Majuro, MH 96960 or visit our website at www.ports.mh.

RMI Ports Authority
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Statement of Net Position

September 30, 2022

Assets

Current assets:	
Cash	\$ 1,938,532
Time certificate of deposit	2,748,114
Receivables, net	
Trade	552,633
Leases	476,006
Affiliates	1,015,273
Accrued interest	62,340
Grants	38,364
Employees	<u>17,521</u>
	2,162,137
Less allowance for doubtful accounts	(1,281,573)
	<u>880,564</u>
Prepaid expenses and other assets	1,500
Total current assets	<u>5,568,710</u>
Receivables:	
Leases	119,409
Capital assets:	
Nondepreciable capital assets	2,501,985
Lease assets, net	820,309
Other capital assets, net of accumulated depreciation	<u>46,527,230</u>
Total noncurrent assets	<u>49,968,933</u>
Total assets	<u>\$ 55,537,643</u>

**Liabilities, Deferred Inflows of
Resources and Net Position**

Liabilities:	
Current liabilities:	
Accounts payable	\$ 83,538
Contracts payable	370,486
Payable to affiliates	855,729
Due to RepMar	285,714
Lease liabilities	5,822
Other liabilities and accruals	<u>161,606</u>
Total current liabilities	1,762,895
Lease liabilities, net of current portion	<u>846,120</u>
Total liabilities	<u>2,609,015</u>
Deferred inflows of resources:	
Lease revenues	<u>549,562</u>
Commitments and contingencies	
Net position:	
Net investment in capital assets	48,627,096
Unrestricted	<u>3,751,970</u>
Total net position	<u>52,379,066</u>
Total liabilities, deferred inflows or resources and net position	<u>\$ 55,537,643</u>

See accompanying notes.

RMI Ports Authority
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Statement of Revenues, Expenses and Changes in Net Position

Year ended September 30, 2022

Operating revenues:	
Seaport fees	\$ 2,115,386
Aviation fees	360,356
Concession and lease income	235,731
Special overtime charges	144,785
Cargo	99,598
Other	<u>144,800</u>
Total operating revenues	3,100,656
Bad debts expense	(<u>123,982</u>)
Net operating revenues	<u>2,976,674</u>
Operating expenses:	
Depreciation and amortization	4,379,900
Salaries and wages	1,397,053
Loss from fraudulent activity	438,793
Utilities	319,176
Pilotage	266,683
Pilot boat	156,215
Gas, oil and fuel	113,981
Repairs and maintenance	112,171
Insurance	54,784
Training and travel	46,725
Communications	41,726
Dues and subscriptions	30,633
Professional fees	25,452
Sitting fees	17,600
Supplies	15,681
Bank charges	10,420
Miscellaneous	<u>75,336</u>
Total operating expenses	<u>7,502,329</u>
Operating loss	(<u>4,525,655</u>)
Nonoperating revenues (expenses):	
Interest income	167,873
Interest expense	(<u>115,747</u>)
Total nonoperating expenses, net	<u>52,126</u>
Loss before capital contributions	(<u>4,473,529</u>)
Capital contributions from U.S. government	<u>1,593,614</u>
Change in net position	(<u>2,879,915</u>)
Net position at beginning of year	<u>55,258,981</u>
Net position at end of year	<u>\$ 52,379,066</u>

See accompanying notes.

RMI Ports Authority
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Statement of Cash Flows

Year ended September 30, 2022

Cash flows from operating activities:	
Cash received from customers	\$ 3,135,256
Cash payments to suppliers for goods and services	(1,598,616)
Cash payments to employees for services	(1,430,251)
Net cash provided by operating activities	<u>106,389</u>
Cash flows from capital and related financing activities:	
Acquisition and construction of capital assets	(2,179,492)
FAA grants received	1,678,957
Principal paid on lease liabilities	(3,138)
Interest paid on lease liabilities	(81,273)
Net cash used in capital and related financing activities	<u>(584,946)</u>
Net change in cash	(478,557)
Cash at beginning of year	<u>2,417,089</u>
Cash at end of year	\$ <u><u>1,938,532</u></u>
Reconciliation of operating loss to net cash provided by operating activities:	
Operating loss	\$ (4,525,655)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation and amortization	4,379,900
Bad debts	123,982
Changes in assets and liabilities:	
Receivables:	
Trade	35,732
Leases	177,775
Affiliates	(38,795)
Employees	(1,104)
Prepaid expenses and other assets	17,205
Accounts payable	18,883
Payable to affiliates	79,173
Deferred inflow of resources - lease revenue	(140,112)
Other liabilities and accruals	(20,595)
Net cash provided by operating activities	\$ <u><u>106,389</u></u>

See accompanying notes.

RMI Ports Authority
(A Component Unit of the Republic of the Marshall Islands)

Notes to Financial Statements

Year ended September 30, 2022

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. In 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. 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.

RMI Ports Authority
(A Component Unit of the Republic of the Marshall Islands)

Notes to Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

To conform to these requirements, net position is presented in the following 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, 2022.
- 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.

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.

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 demand and savings accounts. Deposits maintained in time certificates of deposit with original maturity dates greater than ninety days are separately classified. As of September 30, 2022, the carrying amount of cash and time certificates of deposit was \$4,686,646 and the corresponding bank balance was \$4,806,586. Of the bank balance amount, \$1,637,376, was maintained in a financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance. The remaining amount of \$3,169,210 was maintained in a financial institution not subject to depository insurance.

RMI Ports Authority
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Notes to Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

Cash and Time Certificates of Deposit, continued

As of September 30, 2022, 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 income. Bad debts are written off against the allowance on the specific identification method.

Construction Work-in-Progress

Construction work-in-progress represents the accumulated costs of unfinished capital projects. These costs are capitalized as property, plant and equipment upon completion of each project.

Property, Plant and Equipment

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

	<u>Estimated Useful Lives</u>
Runway apron upgrade	15 years
Roadways	6 - 30 years
Facilities	5 - 50 years
Buildings	3 - 34 years
Vehicles	5 - 20 years
Office furniture, fixtures and equipment	2 - 5 years
Equipment	2 - 5 years

RMI Ports Authority
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Notes to Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

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.

Leases

The Authority is a party as lessee for various noncancellable long-term land leases. The Authority determines if an arrangement is a lease or contains a lease at inception of a contract. A contract is determined to be or contain a lease if the contract conveys the right to control the use of identified property, land, or equipment in exchange for consideration. Leases result in the recognition of right-to-use lease assets and lease liabilities on the statement of net position. Lease assets represent the right to use an underlying asset for the lease term and lease liabilities represent the obligation to make lease payments arising from the lease, measured on a discounted basis.

The Authority is also a party as lessor for various long-term leases of certain spaces at the Amata Kabua International Airport, container yards and warehouse spaces located at the Port of Majuro. The Authority recognizes lease receivables and deferred inflow of resources at the commencement of the lease term, with exceptions for certain short-term leases. As lessor, the assets underlying the lease are not derecognized. The lease receivables are measured at the present value of the lease payments expected to be received during the lease term. The deferred inflow of resources is measured at the value of the lease receivables in addition to any payments received at or before the commence of the lease term that relate to future periods.

Deferred Inflows of Resources

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (addition to net position) until then. As of September 30, 2022, the Authority has recorded deferred inflow of resources for lease revenues.

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, 2022, an accumulated vacation leave liability of \$38,120, is included within the accompanying statement of net position as other liabilities and accruals.

RMI Ports Authority
(A Component Unit of the Republic of the Marshall Islands)

Notes to Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

Taxes

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

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.

Recently Adopted Accounting Pronouncements

In 2020, GASB issued Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, which postponed 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, the Authority's management has elected to postpone implementation of these statements.

During the year ended September 30, 2022, the Authority implemented the following pronouncements:

- GASB Statement No. 87, *Leases*, which increases the usefulness of financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-of-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. Limited exceptions to the single approach guidance are provided for short-term leases, financed purchases, leases of assets that are classified as investments, and certain regulated leases. As a result, the Authority has recognized leases receivable and related deferred inflows of resources, as lessor, in the initial amount of \$689,674. The Authority has also recognized right-of-use leased assets and related lease liabilities, as lessee, in the initial amount of \$855,080.

RMI Ports Authority
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Notes to Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

Recently Adopted Accounting Pronouncements, continued

- GASB Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*, which enhances the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and simplifies accounting for interest cost incurred before the end of a construction period. The implementation of this statement did not have a material effect on the accompanying financial statements.
- GASB Statement No. 92, *Omnibus 2020*, which enhances comparability in accounting and financial reporting and improves the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. The implementation of this statement did not have a material effect on the accompanying financial statements.
- GASB 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*, which increases consistency and comparability related to the reporting of fiduciary component units; mitigates costs associated with the reporting of certain pension plans and other postemployment benefit (OPEB) plans as fiduciary component units; and enhances 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. The implementation of this statement did not have a material effect on the accompanying financial statements.
- GASB Statement No. 98, *The Annual Comprehensive Financial Report*, which establishes the term annual comprehensive financial report and its acronym ACFR. That new term and acronym replace instances of comprehensive annual financial report and its acronym in generally accepted accounting principles for state and local governments. The implementation of this statement did not have a material effect on the accompanying financial statements.

RMI Ports Authority
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Notes to Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

Recently Adopted Accounting Pronouncements, continued

- GASB Statement No. 99, *Omnibus 2022*, which provides clarification guidance on several of its recent statements that addresses different accounting and financial reporting issues identified during implementation of the new standards and during the GASB's review of recent pronouncements. GASB Statement No. 99:
 - 1) Amends guidance in GASB Statement No. 24, *Accounting and Financial Reporting for Certain Grants and Other Financial Assistance*, requiring that the accounting and financial reporting of Supplemental Nutrition Assistance Program (SNAP) transactions should follow the provisions of GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, as amended. These provisions were effective upon issuance and implementation did not have a material effect on the accompanying financial statements.
 - 2) Requires disclosures related to nonmonetary transactions, in the notes to financial statements, of the measurement attribute(s) applied to the assets transferred rather than the basis of accounting for those assets. These provisions were effective upon issuance and implementation did not have a material effect on the accompanying financial statements.
 - 3) Provides guidance on accounting for pledges of future revenues when resources are not received by the pledging government. The guidance addresses the process of blending a component unit created to issue debt on behalf of a primary government when that component unit is required to be presented as a blended component unit. This guidance was effective upon issuance and implementation did not have a material effect on the accompanying financial statements.
 - 4) Provides clarification of provisions in GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as amended, related to the focus of the government-wide financial statements. This guidance was effective upon issuance and implementation did not have a material effect on the accompanying financial statements.
 - 5) Provides terminology updates related to certain provisions of GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and terminology used in GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. These updates were effective upon issuance and implementation did not have a material effect on the accompanying financial statements.

RMI Ports Authority
(A Component Unit of the Republic of the Marshall Islands)

Notes to Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

Recently Adopted Accounting Pronouncements, continued

- 6) GASB Statement No. 93, *Replacement of Interbank Offered Rates*, which amended GASB Statement No. 53 to address transition away from the London Interbank Offered Rate (LIBOR). GASB Statement No. 99 extends the period during which the LIBOR is considered an appropriate benchmark interest rate to when LIBOR ceases to be determined using methodology in place as of December 31, 2021. This guidance was effective upon issuance and implementation did not have a material effect on the accompanying financial statements.

Upcoming Accounting Pronouncements

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 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.

RMI Ports Authority
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Notes to Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

Upcoming Accounting Pronouncements, continued

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.

In April 2022, GASB issued Statement No. 99, *Omnibus 2022*. This Statement contains guidance whose effective dates are in future periods. Management is evaluating the effect that this Statement, upon implementation, will have on the financial statements. GASB Statement No. 99:

- 1) Modifies guidance in GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, to bring all guarantees under the same financial reporting requirements and disclosures effective for fiscal year ending September 30, 2024.
- 2) Provides guidance on classification and reporting of derivative instruments within the scope of GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, effective for fiscal year ending September 30, 2024.
- 3) Provides clarification of provisions in GASB Statement No. 87 related to the determination of the lease term, classification of a lease as a short-term lease, recognition and measurement of a lease liability and a lease asset, and identification of lease incentives effective for fiscal year ending September 30, 2023.
- 4) Provides clarification of provisions in GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, related to (a) the determination of the public-private and public-public partnership (PPP) term and (b) recognition and measurement of installment payments and the transfer of the underlying PPP asset. Effective for fiscal year ending September 30, 2023.

RMI Ports Authority
(A Component Unit of the Republic of the Marshall Islands)

Notes to Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

Upcoming Accounting Pronouncements, continued

- 5) Provides clarification of provisions in GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*, related to the subscription-based information technology arrangement (SBITA) term, classification of a SBITA as a short-term SBITA, and recognition and measurement of a subscription liability. Effective for fiscal year ending September 30, 2023.
- 6) Modifies accounting and reporting guidance in GASB Statement No. 53 related to termination of hedge. Guidance is effective for fiscal year ending September 30, 2023.

In June 2022, GASB issued Statement No. 100, *Accounting Changes and Error Corrections - An Amendment of GASB Statement No. 62*. This Statement enhances accounting and financial reporting requirements for accounting changes and error corrections and requires that (a) changes in accounting principles and error corrections be reported retroactively by restating prior periods, (b) changes to or within the financial reporting entity be reported by adjusting beginning balances of the current period, and (c) changes in accounting estimates be reported prospectively by recognizing the change in the current period. Requirements applicable to changes in accounting principles apply to the implementation of a new pronouncement if there is no specific transition guidance in the new pronouncement. The Statement also requires that aggregate amounts of adjustments to, and restatements of, beginning net position, fund balance, or fund net position, as applicable, be displayed by reporting unit in the financial statements. Management is evaluating the effect that this Statement, upon implementation, will have on the financial statements. GASB Statement No. 100 will be effective for fiscal year ending September 30, 2024.

In June 2022, GASB issued Statement No. 101, *Compensated Absences*. The primary objective of the Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. This Statement requires that liabilities for compensated absences be recognized for leave that has not been used and leave that has been used but not yet paid, provided the services have occurred, the leave accumulates, and the leave is more likely than not to be used for time off or otherwise paid in cash or noncash means. In estimating the leave that is more likely than not to be used or otherwise paid or settled, a government should consider relevant factors such as employment policies related to compensated absences and historical information about the use or payment of compensated absences. Leave that is more likely than not to be settled through conversion to defined benefit postemployment benefits should not be included in a liability for compensated absences. Management is evaluating the effect that this Statement, upon implementation, will have on the financial statements. GASB Statement No. 101 will be effective for fiscal year ending September 30, 2025.

RMI Ports Authority
(A Component Unit of the Republic of the Marshall Islands)

Notes to Financial Statements, continued

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. Capital Assets

Capital asset activities for the year ended September 30, 2022, is as follows:

	<u>October 1, 2021</u>	<u>Additions</u>	<u>Transfers and Disposals</u>	<u>September 30, 2022</u>
Lease assets:				
Right-to-use assets	\$ 855,080	\$ ---	\$ ---	\$ 855,080
Less accumulated amortization	<u>---</u>	<u>(34,771)</u>	<u>---</u>	<u>(34,771)</u>
	<u>855,080</u>	<u>(34,771)</u>	<u>---</u>	<u>820,309</u>
Nondepreciable capital assets:				
Construction work-in-progress	<u>1,536,480</u>	<u>1,808,069</u>	<u>(842,564)</u>	<u>2,501,985</u>
Depreciable capital assets:				
Runway apron upgrade	36,159,648	---	---	36,159,648
Roadway	26,720,033	---	---	26,720,033
Facilities	26,164,840	---	---	26,164,840
Buildings	13,823,713	379,903	---	14,203,616
Vehicles	2,449,613	898,502	---	3,348,115
Office furniture, fixtures & equipment	755,831	72,874	---	828,705
Equipment	<u>742,497</u>	<u>24,850</u>	<u>---</u>	<u>767,347</u>
	106,816,175	1,376,129	---	108,192,304
Less accumulated depreciation	<u>(57,319,945)</u>	<u>(4,345,129)</u>	<u>---</u>	<u>(61,665,074)</u>
	<u>49,496,230</u>	<u>(2,969,000)</u>	<u>---</u>	<u>46,527,230</u>
	<u>\$ 51,887,790</u>	<u>\$(1,195,702)</u>	<u>\$(842,564)</u>	<u>\$ 49,849,524</u>

As of September 30, 2022, 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.

RMI Ports Authority
(A Component Unit of the Republic of the Marshall Islands)

Notes to Financial Statements, continued

4. Leases

As Lessor

The Authority is a lessor for non-cancelable leases for various long-term leases of certain spaces at the Amata Kabua International Airport, container yards and warehouse spaces located at the Port of Majuro. The terms of the agreements range from 2 to 10 years generally at fixed monthly payments with no variable payments or escalation clauses. In accordance with GASB Statement No. 87, *Leases*, the Authority recognizes a lease receivable and a deferred inflow of resources at commencement of the lease term. As of September 30, 2022, lease receivables and deferred inflow of resources associated with the Authority's leases totaled \$595,415 and \$549,562, respectively.

Future minimum payments that are included in the measurement of the lease receivable as of September 30, 2022, are as follows:

Year ending September 30,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2023	\$119,409	\$ 73,243	\$ 192,652
2024	137,660	55,949	193,609
2025	88,753	39,948	128,701
2026	94,830	27,969	122,799
2027	34,766	18,022	52,788
2028 - 2032	<u>119,997</u>	<u>36,754</u>	<u>156,751</u>
	<u>\$595,415</u>	<u>\$ 251,885</u>	<u>\$ 847,300</u>

As Lessee

The Authority has entered into leases for certain use of land. The terms of the agreements range from 20 to 25 years generally at fixed quarterly payments with no variable payments or escalation clauses. The calculated interest rates used were 13.5%.

The following is a summary of principal and interest requirements to maturity for the lease liabilities as of September 30, 2022:

Year ending September 30,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2023	\$ 5,822	\$ 114,687	\$ 120,509
2024	6,136	113,924	120,060
2025	7,009	113,053	120,062
2026	8,003	112,057	120,060
2027	9,139	110,922	120,061
2028 - 2032	69,260	531,042	600,302
2033 - 2037	134,523	465,779	600,302
2038 - 2042	254,884	339,234	594,118
2043 - 2047	<u>357,166</u>	<u>118,041</u>	<u>475,207</u>
	<u>\$851,942</u>	<u>\$2,018,739</u>	<u>\$2,870,681</u>

RMI Ports Authority
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Notes to Financial Statements, continued

5. Employee Retirement Plan

The Authority provides a defined contribution retirement savings plan (the Plan) for the benefit of eligible employees. An employee is eligible to become a member of the Plan following the completion of the three months continuous employment. Plan participants may contribute a minimum of \$10 of their salaries to be matched by the Authority up to 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 \$39,999 to the plan participant accounts during the year ended September 30, 2022, and total plan assets were \$309,373 as of September 30, 2022.

6. Related Party Transactions

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

The Authority utilizes services from certain affiliated entities at the same terms and conditions as those provided to third parties. A summary of related party transactions for the year ended September 30, 2022 and related receivable and payable balances as of September 30, 2022, is as follows:

	<u>Receivables</u>	<u>Revenues</u>	<u>Payables</u>	<u>Expenses</u>
RepMar	\$ 93,491	\$ 34,755	\$678,682	\$138,221
Air Marshall Islands, Inc.	820,223	59,747	4,375	6,234
Marshalls Energy Company, Inc.	39,717	144,298	88,172	314,564
Marshall Islands Shipping Corporation	56,203	41,636	---	---
Marshall Islands Social Security Administration	---	---	78,314	266
Marshall Islands National Telecommunications Authority	1,250	328	4,690	41,619
Tobolar Copra Processing Authority	---	20,611	---	---
Other	<u>4,389</u>	<u>18,799</u>	<u>1,496</u>	<u>37,655</u>
	<u>\$1,015,273</u>	<u>\$320,174</u>	<u>\$855,729</u>	<u>\$538,559</u>

RMI Ports Authority
(A Component Unit of the Republic of the Marshall Islands)

Notes to Financial Statements, continued

6. Related Party Transactions, continued

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 the 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 year ended September 30, 2022, the Authority compensated a qualified pilot, who is an Authority's employee, for pilotage services amounting to \$64,794.

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. 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.

The Authority is under a lease agreement with the Marshall Islands Shipping Corporation to lease out warehouse space. The current lease terms, which commenced on August 1, 2020 and expires on July 31, 2025, require a minimum lease payment of \$2,297 paid monthly.

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, 2022, 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.

RMI Ports Authority
(A Component Unit of the Republic of the Marshall Islands)

Notes to Financial Statements, continued

7. 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.

8. Commitments and Contingencies

Commitments

Gross Receipts Fee and Short-Term Leases

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 from gross receipts fee under this lease for the year ended September 30, 2022 and amounted to \$58,338.

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, 2024.

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

Year ending <u>September 30,</u>	
2023	\$ 72,260
2024	66,027
2025	58,228
2026	47,636
2027	47,636
2028 - 2031	<u>190,542</u>
Total	<u>\$482,329</u>

RMI Ports Authority
(A Component Unit of the Republic of the Marshall Islands)

Notes to Financial Statements, continued

8. Commitments and Contingencies, continued

Commitments, continued

U.S. Federal Grants

As of September 30, 2022, 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, 2022, \$23,470,434 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.

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 potential donor organizations in regard to the construction of a new terminal; however, discussions are on hold until the global COVID-19 pandemic dissipates, and RMI travel restrictions are eased to allow for dialogue to resume with potential donor organizations. Management believes that continuation of the terminal construction is dependent upon funding being made available by potential donor organizations. 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's 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.

RMI Ports Authority
(A Component Unit of the Republic of the Marshall Islands)

Notes to Financial Statements, continued

8. Commitments and Contingencies, continued

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.

9. Loss from Fraudulent Activities

In 2021, the Authority was subject to an email phishing fraud scheme associated with the impersonation of the Authority's major vendors/contractors and the Authority incurred losses from these fraudulent activities of \$464,484. During the year ended September 30, 2022, the Authority incurred additional losses from these fraudulent activities of \$438,793 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, 2022

	<u>Airport Division</u>	<u>Seaport Division</u>	<u>Total</u>
Operating revenues:			
Seaport fees	\$ 3,690	\$ 2,111,696	\$ 2,115,386
Aviation fees	360,144	212	360,356
Concession and lease income	93,784	141,947	235,731
Special overtime charges	144,785	---	144,785
Cargo	95,405	4,193	99,598
Other	<u>139,501</u>	<u>5,299</u>	<u>144,800</u>
Total operating revenues	837,309	2,263,347	3,100,656
Bad debts expense	(61,991)	(61,991)	(123,982)
Net operating revenues	<u>775,318</u>	<u>2,201,356</u>	<u>2,976,674</u>
Operating expenses:			
Depreciation and amortization	3,984,370	395,530	4,379,900
Salaries and wages	824,279	572,774	1,397,053
Loss from fraudulent activity	438,793	---	438,793
Utilities	296,651	22,525	319,176
Pilotage	---	266,683	266,683
Pilot boat	---	156,215	156,215
Gas, oil and fuel	91,848	22,133	113,981
Repairs and maintenance	94,646	17,525	112,171
Insurance	18,843	35,941	54,784
Training and travel	10,523	36,202	46,725
Communications	27,193	14,533	41,726
Dues and subscriptions	28,560	2,073	30,633
Professional fees	12,726	12,726	25,452
Sitting fees	8,800	8,800	17,600
Supplies	13,425	2,256	15,681
Bank charges	5,965	4,455	10,420
Miscellaneous	<u>53,377</u>	<u>21,959</u>	<u>75,336</u>
Total operating expenses	<u>5,909,999</u>	<u>1,592,330</u>	<u>7,502,329</u>
Operating income (loss)	(5,134,681)	609,026	(4,525,655)
Nonoperating revenues (expenses):			
Interest income	83,937	83,936	167,873
Interest expense	(82,902)	(32,845)	(115,747)
Total nonoperating revenues, net	<u>1,035</u>	<u>51,091</u>	<u>52,126</u>
Income (loss) before capital contributions	(5,133,646)	660,117	(4,473,529)
Capital contributions from U.S. Government	<u>1,593,614</u>	---	<u>1,593,614</u>
Change in net position	(3,540,032)	660,117	(2,879,915)
Net position at beginning of year	<u>33,241,425</u>	<u>22,017,556</u>	<u>55,258,981</u>
Net position at end of year	\$ <u>29,701,393</u>	\$ <u>22,677,673</u>	\$ <u>52,379,066</u>

Report of Independent Auditors 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*

The Board of Directors
RMI Ports Authority

We have audited, 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 (*Government Auditing Standards*), the financial statements of the business-type activities of RMI Ports Authority (the Authority), which comprise the statement of net position as of September 30, 2022, 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 September 26, 2024.

Report on 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 Authority's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified certain deficiencies in internal control, described in the accompanying Schedule of Findings and Questioned Costs as items 2022-001 and 2022-002 that we consider to be material weaknesses.

Report on 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*.

The Authority's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the Authority's response to the findings identified in our audit and described in the accompanying Schedule of Findings and Questioned Costs. 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 the response.

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.

Ernst + Young LLP

September 26, 2024

Report of Independent Auditors on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

The Board of Directors
RMI Ports Authority

Report of Independent Auditors on Compliance for the Sole Major Federal Program

Opinion on the Sole Major Federal Program

We have audited RMI Ports Authority's (the Authority's) compliance with the types of compliance requirements identified as subject to audit in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could have a direct and material effect on the Authority's sole major federal program for the year ended September 30, 2022. The Authority's sole major federal program is identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

In our opinion, the Authority complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on the sole major federal program for the year ended September 30, 2022.

Basis for Opinion on the Sole Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*); and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Authority and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion on compliance for the sole major federal program. Our audit does not provide a legal determination of the Authority's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the Authority's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Authority's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Authority's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

- exercise professional judgment and maintain professional skepticism throughout the audit.
- identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the Authority's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- obtain an understanding of the Authority's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2022-003 and 2022-004. Our opinion on the sole major federal program is not modified with respect to this matter.

Government Auditing Standards requires the auditor to perform limited procedures on the Authority's response to the noncompliance findings identified in our compliance audit and described in the accompanying Schedule of Findings and Questioned Costs. The Authority's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The Authority is responsible for preparing a corrective action plan to address each audit finding included in our auditor's report. The Authority's corrective action plan was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on it.

Report on Internal Control Over Compliance

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

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations during our audit, we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we did identify certain deficiencies in internal control over compliance, described in the accompanying Schedule of Findings and Questioned Costs as items 2022-003 and 2022-004, that we consider to be significant deficiencies.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

Government Auditing Standards requires the auditor to perform limited procedures on the Authority's response to the internal control over compliance findings identified in our compliance audit described in the accompanying Schedule of Findings and Questioned Costs. The Authority's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The Authority is responsible for preparing a corrective action plan to address each audit finding included in our auditor's report. The Authority's corrective action plan was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on it.

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

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

We have audited the financial statements of the business-type activities of the Authority as of and for the year ended September 30, 2022, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements. We issued our report thereon dated September 26, 2024, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic 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 basic 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 basic financial statements, or to the basic financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Ernst + Young LLP

September 26, 2024

RMI Ports Authority
(A Component Unit of the Republic of the Marshall Islands)

Schedule of Expenditures of Federal Awards

Year ended September 30, 2022

Assistance Listing Number	Pass-Through Entity Identifying Numbers	Federal Grantor/ Pass-Through Grantor/ Program or Cluster Title	Federal Expenditures
		<u>U.S. Department of Transportation</u>	
		Direct Program:	
20.106		Airport Improvement Program	\$ 1,591,977
		Total Expenditures of Federal Awards	\$ <u>1,591,977</u>

RMI Ports Authority
(A Component Unit of the Republic of the Marshall Islands)

Notes to Schedule of Expenditures of Federal Awards

Year ended September 30, 2022

1. Scope of Audit

The RMI Ports Authority (the Authority) was created under Public Law No. 2003-81 and is a component unit of the Republic of the Marshall Islands (RepMar). Only the transactions of the Authority are included within the scope of the Single Audit.

2. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal award activity of the Authority under programs of the federal government for the year ended September 30, 2022. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Authority, it is not intended to and does not present the net position, changes in net position or cash flows of the Authority.

3. Summary of Significant Accounting Policies

Basis of Accounting

Expenditures reported on the Schedule are reported on the accrual basis of accounting, consistent with the manner in which the Authority maintains its accounting records. All expenses and capital outlays are reported as expenditures. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available. The Authority has not elected to use the 10-percent de-minimis indirect cost rate allowed under the Uniform Guidance.

RMI Ports Authority
(A Component Unit of the Republic of the Marshall Islands)

Schedule of Findings and Questioned Costs

Year ended September 30, 2022

Section I - Summary of Auditor's Results

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP

Unmodified

Internal control over financial reporting:

Material weakness(es) identified?

 X **Yes** **No**

Significant deficiency(ies) identified?

 Yes X **None reported**

Noncompliance material to financial statements noted?

 Yes X **No**

Federal Awards

Internal control over major federal programs:

Material weakness(es) identified?

 Yes X **No**

Significant deficiency(ies) identified?

 X **Yes** **None reported**

Type of auditor's report issued on compliance for the sole major federal program

Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?

 X **Yes** **No**

Identification of the sole major federal program:

Assistance Listing Number

Name of Federal Program

(ALN)

20.106

Airport Improvement Program

Dollar threshold used to distinguish between Type A and Type B programs:

\$750,000

Auditee qualified as low-risk auditee?

 Yes X **No**

RMI Ports Authority
(A Component Unit of the Republic of the Marshall Islands)

Schedule of Findings and Questioned Costs, continued

Section II - Financial Statement Findings

<u>Finding Numbers</u>	<u>Requirement</u>
2022-001	Timely Financial Reporting
2022-002	Manual Journal Entries

Section III - Federal Award Findings and Questioned Costs

<u>Finding Numbers</u>	<u>ALN No.</u>	<u>Requirement</u>	<u>Questioned Costs</u>
2022-003	20.106	Equipment and Real Property Management	\$ ---
2022-004	20.106	Reporting	\$ ---

RMI Ports Authority
(A Component Unit of the Republic of the Marshall Islands)

Schedule of Findings and Questioned Costs, continued

Finding No. 2022-001

Area: Timely Financial Reporting

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

Condition: The Authority did not finalize closing year ended September 30, 2022 financial information (trial balance, subsidiary and general ledgers) until May 5, 2023. Further, although the Authority has an established set of policies and procedures regarding preparation and review of reports, accurate and timely preparation and review of reconciliations and reports were not performed. During the year ended September 30, 2022, various accounting records did not appear to have been processed and timely updated as evidenced by the following:

1. The Schedule of Expenditures of Federal Awards was not timely reconciled resulting in multiple versions being provided during the audit.
2. Examination of bank reconciliations indicated that the reconciling items did not appear to be properly monitored and investigated.
3. Tests of accounts receivable revealed uncollectible amounts, totaling \$123,982, which were not included in management's estimate for the allowance for doubtful accounts.
4. Grant revenue (GL Account # 40450) was understated for the year ended September 30, 2022. An audit adjustment of \$749,718 was proposed to correct this misstatement.
5. Grants receivable (GL Account # 10204) was overstated as of September 30, 2022. An audit adjustment of \$251,240 was proposed to correct this misstatement.
6. Construction work-in-progress (GL Account #s 103099, 103099V, 103099Y and 103101B) were understated as of September 30, 2022. Audit adjustments aggregating \$1,063,579 were proposed to correct these misstatements.
7. Contractor's payable (GL Account # 20102) was understated as of September 30, 2022. An audit adjustment of \$123,649 was proposed to correct this misstatement.
8. Depreciation expense (GL Account # 60250) was understated for the year ended September 30, 2022. Audit adjustments aggregating \$813,622 were proposed to correct these misstatements, including the related accumulated depreciation.

RMI Ports Authority
(A Component Unit of the Republic of the Marshall Islands)

Schedule of Findings and Questioned Costs, continued

Finding No. 2022-001, continued

Area: Timely Financial Reporting

Cause: The Authority lacks strict implementation of internal control policies and procedures over timely year-end closing processes and over timely reviews and reconciliations of significant general ledger accounts.

Effect: An inability to meet established reporting deadlines as a result from the condition above.

Identified as a Repeat Finding: 2021-001

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

Views of Responsible Officials and Corrective Action Plan: The Authority agrees with the finding and provides details in its Corrective Action Plan.

RMI Ports Authority
(A Component Unit of the Republic of the Marshall Islands)

Schedule of Findings and Questioned Costs, continued

Finding No. 2022-002

Area: Manual Journal Entries

Criteria: All journal entries are required to have proper and adequate supporting documentation. Proper and adequate documentation consist of source documents, supportive calculations, and/or other items necessary to substantiate the accuracy and appropriateness of a journal entry.

Condition: For the year ended September 30, 2022, we noted the following internal control weaknesses related to manual journal entries prepared:

- a. Management has access to post manual journal entries directly into the general ledger without approval. Consequently, these entries do not follow the same review and approval process expected for all journal entries.
- b. Majority of the manual journal entries were not supported by supporting calculations and/or related attachments and those entries included vague or general descriptions.

Cause: The Authority lacks internal control policies and procedures in place to ensure that manual journal entries are properly prepared, supported, approved and monitored. Furthermore, system controls are not in place to ensure proper segregation of duties related to the preparation and posting of journal entries.

Effect: Financial statement amounts may be misstated and/or not properly supported. Failure to implement effective processes and procedures could increase the risks of fraud and mismanagement of funds.

Recommendation: We recommend the Authority's management reconsider access to posting journal entries directly into the general ledger to help establish proper segregation of duties. Additionally, all journal entries posted should be appropriately reviewed and approved. Lastly, we also recommend the Authority's management that a journal book or an electronic filing system should be maintained so that a copy of each manual journal entry in the series is filed together with appropriate supporting documentation and the related approval for the manual journal entry.

Views of Responsible Officials and Corrective Action Plan: The Authority agrees with the finding and provides details in its Corrective Action Plan.

RMI Ports Authority
(A Component Unit of the Republic of the Marshall Islands)

Schedule of Findings and Questioned Costs, continued

Finding No. 2022-003

Federal Agency:	U.S Department of Transportation
Assistance Listing Program:	20.106 Airport Improvement Program
Federal Award No.:	3-68-0001-023-2020
Area:	Equipment and Real Property Management
Questioned Costs:	\$0

Criteria: In accordance with applicable equipment and real property management requirements, the Authority must comply with the following:

- Under 2 CFR section 200.313(d)(1), property records must be maintained that include a description of the property, a serial number or other identification number, the source of funding for the property (including the federal award identification number), who holds title, the acquisition date, cost of the property, percentage of federal participation in the project costs for the federal award under which the property was acquired, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sales price of the property.
- Under 2 CFR section 200.313(d)(2), a physical inventory of the property must be taken and the results reconciled with the property records at least once every two years.
- Under 2 CFR section 200.313(d)(2), a control system must be developed to ensure adequate safeguards to prevent loss, damage, or theft of the property. Any loss, damage, or theft must be investigated.

Conditions:

1. For 1 (or 100%) item tested, the Authority included description of the property, which is generic or limited (i.e., TO CAPITALISE THE NEW FIRE TRUCK) and related property records did not include serial number or identification number, federal award identification number, percentage of federal participation in the project costs for the federal award under which the property was acquired, and the location, use and condition of the property.
2. The Authority did not perform required physical inventory and reconciliation for all equipment and real properties acquired from Federal funds.
3. Furthermore, there is no control system to ensure adequate safeguards to prevent loss, damage, or theft of all equipment and real properties acquired from Federal funds.

RMI Ports Authority
(A Component Unit of the Republic of the Marshall Islands)

Schedule of Findings and Questioned Costs, continued

Finding No. 2022-003, continued

Federal Agency:	U.S Department of Transportation
Assistance Listing Program:	20.106 Airport Improvement Program
Federal Award No.:	3-68-0001-023-2020
Area:	Equipment and Real Property Management
Questioned Costs:	\$0

Cause: The Authority lacks internal control policies and procedures over compliance with applicable equipment and real property management requirements.

Effect: The Authority is exposed to the risk of possible unauthorized use, misappropriation, and disposition of property without being noticed due to the lack of internal controls and proper supporting accounting records. No questioned costs are reported as we are unable to determine the quantitative impact to the program.

Recommendation: We recommend the Authority's responsible personnel establish internal control policies and procedures requiring property records contain the required information and perform required physical inventory and reconciliation for all equipment and real properties acquired from Federal funds at least once every two years in accordance with applicable equipment and real property management requirements.

Views of Responsible Officials and Corrective Action Plan: The Authority agrees with the finding and provides details in its Corrective Action Plan.

RMI Ports Authority
(A Component Unit of the Republic of the Marshall Islands)

Schedule of Findings and Questioned Costs, continued

Finding No. 2022-004

Federal Agency:	U.S Department of Transportation
Assistance Listing Program:	20.106 Airport Improvement Program
Federal Award No(s).:	3-68-0001-018-2017 3-68-0001-020-2019 3-68-0001-022-2020 3-68-0001-023-2020 3-68-0001-024-2020 3-68-0001-025-2022
Area:	Reporting
Questioned Costs:	\$0

Criteria: In accordance with applicable reporting requirements and with grant terms and conditions, the Authority is responsible for submitting a signed/dated SF-270 (non-construction projects) or SF-271 or equivalent (construction projects) and SF-425 annually, due 90 days after the end of each federal fiscal year in which the grants are open (due December 31 of each year).

Condition: For the year ended September 30, 2022, the Authority was not able to provide and submit the required annual SF-425 report for the grants open as of and for the year ended September 30, 2022, having a due date of December 31, 2022.

Cause: The Authority lacks internal control policies and procedures over submission of required reports and monitoring report deadlines to ensure compliance with reporting requirements.

Effect: The Authority is in noncompliance with applicable reporting requirements and no questioned costs are reported as we are unable to determine the quantitative impact to the program. In addition, the Authority could be subject to penalties or sanctions from the Federal Aviation Administration.

Recommendation: We recommend the Authority's responsible personnel establish internal control policies and procedures requiring monitoring of required reports and corresponding filing dates, including review of extensions, and ensure timely review and submission of required reports.

Views of Responsible Officials and Corrective Action Plan: The Authority agrees with the finding and provides details in its Corrective Action Plan.

RMI Ports Authority
(A Component Unit of the Republic of the Marshall Islands)

Corrective Action Plan

Year ended September 30, 2022



Republic of the Marshall Islands

PORTS AUTHORITY

Amata Kabua Blvd., Delap Dock
P.O. Box 109, Majuro, MH 96960
Website: rmipa.com

SUMMARY OF AUDIT FINDINGS:
September 30, 2022

Fiscal Year	Program	Finding Number	Finding Title/ Cause & Effect	Recommendation	Corrective Action Plan	Questioned Cost	Remarks
FY 2022	N/A	#2022-01	<p>Timely Financial Reporting <u>Cause:</u> The Authority lacks strict implementation of internal control policies and procedures over timely year-end closing processes and over timely reviews and reconciliations of significant general ledger accounts <u>Effect:</u> An inability to meet established reporting deadlines as a result from the condition above.</p>	<p>The Authority's management to strictly implement internal control policies and procedures to facilitate timely and accurate general ledger reconciliation processes. Furthermore, the Authority's management should examine personnel staffing requirements and qualifications associated with the Authority's accounting function.</p>	<p>1. Management confirms to establish internal control measures and procedures to allow timeliness of reporting and compliance of GAAP. 2. Management will work with the CFO to coordinate with the finance staff to provide timely & accurate reporting, as well as properly training the finance staff</p>	\$ -	<p>Not yet corrected. The same condition was repeated in finding#2021-01</p>

RMI Ports Authority
(A Component Unit of the Republic of the Marshall Islands)

Corrective Action Plan, continued



Republic of the Marshall Islands

PORTS AUTHORITY

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SUMMARY OF AUDIT FINDINGS:
September 30, 2022

Fiscal Year	Program	Finding Number	Finding Title/ Cause & Effect	Recommendation	Corrective Action Plan	Questioned Cost	Remarks
FY 2022	N/A	#2022-02	<p>Manual Journal Entries Cause: The Authority lacks internal control policies and procedures in place to ensure that manual journal entries are properly prepared, supported, approved and monitored. Furthermore, system controls are not in place to ensure proper segregation of duties related to the preparation and posting of journal entries.</p> <p>Effect: Financial statement amounts may be misstated and/or not properly supported. Failure to implement effective processes and procedures could increase the risks of fraud and mismanagement of funds.</p>	<p>The Authority's management reconsider access to posting journal entries directly into the general ledger to help establish proper segregation of duties. Additionally, all journal entries posted should be appropriately reviewed and approved. Lastly, we also recommend the Authority's management that a journal book or an electronic filing system should be maintained so that a copy of each manual journal entry in the series is filed together with appropriate supporting documentation and the related approval for the manual journal entry.</p>	<p>Management will establish proper segregation of duties within the finance staff and make sure the journal entries posted with proper attachments or documentation as well as appropriately reviewed and approved by the Exec. Director & CFO</p>	\$ -	Journal entries will be properly monitored & authorized by management

RMI Ports Authority
(A Component Unit of the Republic of the Marshall Islands)

Corrective Action Plan, continued



Republic of the Marshall Islands

PORTS AUTHORITY

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P.O. Box 109, Majuro, MH 96960
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SUMMARY OF AUDIT FINDINGS:
September 30, 2022

Fiscal Year	Program	Finding Number	Finding Title/ Cause & Effect	Recommendation	Corrective Action Plan	Questioned Cost	Remarks
FY 2022	Grant	#2022-03	<p>Equipment and Real Property Management Cause:</p> <p>The Authority lacks internal control policies and procedures over compliance with applicable equipment and real property management requirements.</p> <p><u>Effect:</u> The Authority is exposed to the risk of possible unauthorized use, misappropriation, and disposition of property without being noticed due to the lack of internal controls and proper supporting accounting records. No questioned costs are reported as we are unable to determine the quantitative impact to the program.</p>	<p>The Authority's responsible personnel establish internal control policies and procedures requiring property records contain the required information and perform required physical inventory and reconciliation for all equipment and real properties acquired from Federal funds at least once every two years in accordance with applicable equipment and real property management requirements.</p>	<p>Management will assign personnel responsible for the monitoring of all Federal funded equipments and establish an internal control policies and procedure to properly perform the required physical inventory & reconciliation of all equipment and real properties acquired from Federal funds at least every year.</p>	\$ -	<p>Year end inventory will be established to properly monitor all Federal Funded equipments & real properties</p>

RMI Ports Authority
(A Component Unit of the Republic of the Marshall Islands)

Corrective Action Plan, continued



Republic of the Marshall Islands


PORTS AUTHORITY

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SUMMARY OF AUDIT FINDINGS:
September 30, 2022

Fiscal Year	Program	Finding Number	Finding Title/ Cause & Effect	Recommendation	Corrective Action Plan	Questioned Cost	Remarks
FY 2022	Grant	#2022-04	<p>Reporting <u>Cause:</u> The Authority lacks internal control policies and procedures over submission of required reports and monitoring report deadlines to ensure compliance with reporting requirements. <u>Effect:</u> The Authority is in noncompliance with applicable reporting requirements and no questioned costs are reported as we are unable to determine the quantitative impact to the program. In addition, the Authority could be subject to penalties or sanctions from the Federal Aviation Administration.</p>	The Authority's responsible personnel establish internal control policies and procedures requiring monitoring of required reports and corresponding filing dates including review of extensions, and ensure timely review and submission of required reports.	1. Management will delegate temporarily to the CFO to oversee the reporting requirements with the Federal funded projects until the Deputy Director will be filled in. 2. Management will establish internal policies and procedure to properly & systematically administer the reporting requirements of Federal Aviation Administration.	\$ -	Reporting was done electronically but no signed copy scanned on file. No proper turnover from previous CFO



 AMELIA B. TIMON
 Chief Financial Officer


 Thomas Maddison
 Executive Director

RMI Ports Authority
(A Component Unit of the Republic of the Marshall Islands)

Summary Schedule of Prior Year Audit Findings

Year ended September 30, 2022

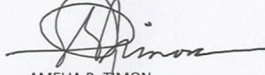
 Republic of the Marshall Islands Amata Kabua Blvd., Delap Dock P.O. Box 109, Majuro, MH 96960 Website: rmpa.com							
PORTS AUTHORITY							
SUMMARY OF PRIOR YEAR AUDIT FINDINGS:							
September 30, 2021							
Fiscal Year	Program	Finding Number	Finding Title/ Cause & Effect	Recommendation	Corrective Action Plan	Questioned Cost	Remarks
FY 2021	N/A	#2021-01	Timely Financial Reporting <u>Cause:</u> 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 stated evidences.	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	1. Management will conduct trainings internally and externally to train personnel staffing on the accounting procedures in transaction reporting and timeliness of reporting.	\$ -	Not yet corrected. The same condition was repeated in finding#2022-01
			<u>Effect:</u> The trial balance and general ledger account reconciliations were not timely provided for audit purposes that resulted in additional audit costs.		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.		

RMI Ports Authority
(A Component Unit of the Republic of the Marshall Islands)

Summary Schedule of Prior Year Audit Findings, continued

Fiscal Year	Program	Finding Number	Finding Title/ Cause & Effect	Recommendation	Corrective Action Plan	Questioned Cost	Remarks
FY 2021	N/A	#2021-02	Fraudulent Payments 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.	The Authority should establish internal control policies and procedures over changes in vendor information and payment details, including independent verification of new bank details.	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.	\$ -	Internal Control policies were diligently followed as well as bank counterchecking online
			Effect: The effect of the above condition is financial loss incurred by 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.		

There were no other findings in prior years.


 AMELIA B. TIMON
 Chief Financial Officer


 Thomas Maddison
 Executive Director