RMI PORTS AUTHORITY

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

FINANCIAL STATEMENTS, ADDITIONAL INFORMATION AND INDEPENDENT AUDITORS' REPORT

YEARS ENDED SEPTEMBER 30, 2015 AND 2014

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

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Years Ended September 30, 2015 and 2014

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INDEPENDENT AUDITORS' REPORT

Board of Directors
RMI Ports Authority:

Report on the Financial Statements

We have audited the accompanying financial statements of RMI Ports Authority (the Authority), a component unit of the Republic of the Marshall Islands, which comprise the statements of net position as of September 30, 2015 and 2014, and the related statements of revenues, expenses and changes in net position and of cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of September 30, 2015 and 2014, and the changes in its net position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 30, 2016, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financing reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

Deloitte & Touche LLP

June 30, 2016

I) INTRODUCTION

Our discussion and analysis of the financial performance of airport and seaport divisions of the RMI Ports Authority (Ports Authority) provides an overview of Ports Authority's financial activities presented in the audited financial statements for the fiscal year ended September 30, 2015. This discussion and analysis should be read in conjunction with the more detailed information contained within the accompanying financial statements.

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

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

As of September 30, 2015, Ports Authority had 69 full-time employees. Composition is as follows: 2 in Administration; 7 in Finance; 4 in Airport Administration/Operations/Tower; 7 in Seaport Administration/Operations; 10 in Maintenance; and 39 in Security. Out of the 39 Security Officers, 11 are cross-trained and certified as airport firefighters.

II) OVERVIEW OF FINANCIAL STATEMENTS

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

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

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

III) FINANCIAL HIGHLIGHTS

- For fiscal year ended September 30, 2015, total net position was $66.6 million, an increase of $3.5 million from prior fiscal year. The major contributor in the increase was mainly due to the increase of the capital assets and ongoing project RSA/Road Realignment Project. The expected date to finish in fiscal year 2015 is extended to end of fiscal year 2016 due to insufficiency of funds to cover the cost of additional fill material dredged for the project. A request of amendment for AIP-13 was sent to FAA in December 2015 and approval was received in May 2016. The additional grant received is $1.5 million. As of September 30, 2015, Ports Authority has a $64.62 million investment in capital assets. Refer to Note 4 to the financial statements for more information concerning capital assets.

- Total operating revenues decreased by $0.5 million or 11%. The Seaport revenues dropped by $0.4 million or 11%. The performance indicators will explain the decrease and explained in this report (please refer to the Revenue Performance Indicators and Divisional Expenses of this report).

- Total operating expenses, inclusive of depreciation, was $6.1 million for fiscal year in 2015. It increased by less than 1% or $0.02 million compared to last fiscal year. The details will be discussed on the Revenue Performance Indicators and Divisional Expenses of this report.

- The Ports Authority incurred an operating loss of $2 million for fiscal year 2015. This is an decrease in operating loss by 5% compared to last fiscal year. The increase in the operating loss was caused by the decrease in the operating revenues as mentioned above. However, RMIPA generated a positive operating income of $1.3 million excluding depreciation in FY 2015.

- The overall performance of the Ports Authority dropped this fiscal year 2015 compared to last fiscal year.

IV. STATEMENTS OF NET POSITION

	2015	2014	Change	%	2013
Current assets	$ 2,332,369	$ 2,644,379	$ (312,010)	(12)	$ 2,274,091
Non-current assets	1,700,000	1,700,000	-	-	1,700,000
Property, plant, and equipment, net	64,615,520	62,524,771	2,090,749	3	57,006,664
Total assets	68,647,889	66,869,150	1,778,734	3	60,980,755
Deferred outflows of resources	1,135,631	-	1,135,631	100	-
Total assets and deferred outflows of resources	$ 69,783,520	$ 66,869,150	$ 2,914,370	4	$ 60,980,755
Current liabilities	$ 2,641,956	$ 2,896,275	$ (254,319)	(9)	$ 2,454,444
Non-current liabilities	543,264	883,780	(340,516)	(39)	1,193,551
Net position	66,598,300	63,089,095	3,509,205	6	57,332,761
Total liabilities and net position	$ 69,783,520	$ 66,869,150	$ 2,914,370	4	$ 60,980,755

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

	2015	2014	Change	%	2013
Operating Revenues:					
Airport Division	$ 1,170,827	$ 1,282,136	$ (111,309)	(9)	$ 1,024,596
Seaport Division	2,973,506	3,353,677	(380,171)	(11)	2,579,575
	$ 4,144,333	$ 4,635,813	$ (491,480)	(11)	$ 3,604,171
Operating Expenses:					
Airport Division	$ 4,287,806	$ 4,698,310	$ (411,468)	(9)	$ 4,238,237
Seaport Division	1,904,137	1,880,262	11,810	1	1,630,615
	$ 6,191,943	$ 6,578,572	$ (399,658)	(6)	$ 5,868,852

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

	2015	2014	Change	%	2013
Non-Operating Revenues (Expenses):					
Airport Division	$ (19,307)	$ (27,065)	$ 7,758	(29)	$ (25,502)
Seaport Division	10,483	(26,597)	37,080	(139)	43,246
	$ (8,824)	$ (53,662)	$ 44,838	(84)	$ 17,744
Capital Contributions:					
Airport Division	$ 5,565,639	$ 7,697,081	$ (2,131,442)	(28)	$ 8,665,233
Seaport Division	-	55,674	(55,674)	100	-
	$ 5,565,639	$ 7,752,755	$ (2,187,116)	(28)	$ 8,665,233
Change in Net Position:					
Airport Division	$ 2,430,317	$ 4,253,843	$ (1,823,526)	(43)	$ 5,426,090
Seaport Division	1,091,917	1,502,491	(410,574)	(27)	992,206
	$ 3,522,234	$ 5,756,334	$ (2,234,100)	(39)	$ 6,418,296

VI. LONG-TERM DEBT

	2015	2014	2013
BOMI - Seaport	$ 462,946	$ 661,563	$ 845,899
BOMI - Airport	414,306	528,551	635,108
	$ 877,252	$ 1,190,114	$ 1,481,007

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

VII. DIVISIONAL REVENUES AND EXPENSES

Airport and Seaport Combined Operating Revenues

	2015	2014	Change	%	2013
Operating Revenues:					
Airport Division	$ 1,170,827	$ 1,282,136	$ (111,309)	(9)	$ 1,024,596
Seaport Division	2,973,506	3,353,677	(380,171)	(11)	2,579,575
	$ 4,144,333	$ 4,635,813	$ (491,480)	(11)	$ 3,604,171

Airport and Seaport Combined Operating Expenses

	2015	2014	2013
Airport:			
Personnel expense	$ 717,656	$ 698,137	$ 608,156
Maintenance and operations expense	3,570,150	4,000,173	3,630,081
	4,287,806	4,698,310	4,238,237
Seaport:			
Personnel expense	550,394	509,067	507,209
Maintenance and operations expense	1,353,743	1,371,195	1,123,406
	1,904,137	1,880,262	1,630,615
Combined Operating Expenses	$ 6,191,943	$ 6,578,572	$ 5,868,852

VIII. REVENUE PERFORMANCE INDICATORS AND ANALYSIS OF DIVISIONAL EXPENSES

Both operating revenues for the Airport and Seaport Divisions dropped this fiscal year 2015 by 9% and 11%, respectively.

For the Airport, the main contributor for the decrease is the number of special flights arrived in Majuro that went down by 75%. Aircrafts with maximum take-off weight of 0-45000 and 90001 and up decreased by 31% this fiscal year 2015.

AIRPORT REVENUE PERFORMANCE INDICATORS

SCHEDULED FLIGHTS - TRAFFIC

	2015	2014	Change	%	2013
United Airline	321	311	10	3	321
Our Airline	105	88	17	19	61
Air Marshall Island	354	299	55	18	413
Asia Pacific Airlines	237	227	10	4	206
	1,017	925	92	10	1,001

DEPARTURE FEES - INTERNATIONAL

	2015	2014	Change	%	2013
Adults	11,871	11,425	446	4	10,323
Students	4,526	4,977	(451)	(9)	4,425
Others	2	-	2	100	-
	16,399	16,402	(3)	-	14,748

UNSCHEDULED/SPECIAL FLIGHT TRAFFIC

	2015	2014	Change	%	2013
Number of Flights (MTOW)					
0-45000	89	120	(31)	(26)	73
45001-90000	10	23	(13)	(57)	14
90001-up	170	201	(31)	(15)	142
	269	344	(75)	(22)	229

% to Total	2015	2014	2013
0-45000	33%	35%	32%
45001-900006	4%	1%	6%
90001-up	63%	58%	62%

AIRPORT OPERATING EXPENSES

The following expenses increased in FY 2015:

Travel Expense increased due the following trips:

FAA Aerodome Certification in Palau in FY16	$ 12,811
ARFF Re-Certification in FY14	4,706
ARFF Re-Certification in FY16	2,364
Travel Advance in FY 09	700
ARFF Re-Certification in FY13	270
Total	$ 20,851

- The FAA Aerodome Certification in Palau is for FY 2016, but tickets were paid in September 2015 thus the payment was recorded on the same fiscal year; and
- Liquidation of the travel advances for the ARFF Re-Certification for the previous fiscal years were received only in fiscal year 2015 thus expenses were recorded on the same year.

Professional Fees increased due the following:

- Airport Condition Monitoring Systems for $30,303. This is included in the approved budget in fiscal year 2015, but under capital expenditures. The nature of these transactions are merely for training and monitoring thus classified as "Expense."; and
- ACIP for $23,101. This is related to administrative expense for contracting, reviewing, and negotiations of contracts. This is also included in the approved budget in fiscal year 2014, but under capital expenditures thus were reclassified to "Expense" from "CIP."

Fire Safety and Security Expense increased due to:

- This is related to firefighters' uniforms which was purchased ordered in June 2014. Items were only received in fiscal year 2015 thus expense was recorded on the same fiscal year.

SEAPORT DIVISION

For the Seaport, the number of arrivals and movements decreased in fiscal year 2015 by 7% and 5%, respectively. The number of container ships drastically dropped by 32% when MELL shipping stopped its operation in the middle of the fiscal year 2015. Other main contributors are the climate change when Marshall Islands experienced the El Nino and the migration of tuna in the latter part of the fiscal year 2015.

SEAPORT REVENUE PERFORMANCE INDICATORS

VESSELS ARRIVALS

	2015	2014	Change	%	2013
Cargo Vessels	85	125	(40)	(32)	119
Fishing Vessels - International	792	830	(38)	(5)	526
Fishing Vessels - Domestic	622	658	(36)	(5)	549
Foreign Tankers	17	19	(2)	(11)	20
Military ships	1	2	(1)	(50)	5
Others	4	5	(1)	(20)	13
	1,521	1,639	(118)	(7)	1,232

	2015	2014	Change	%	2013
MOVEMENTS	2,282	2,360	(78)	(3)	1,723

WHARFAGE FEES

	2015	2014	Change	%
Metric Tons	50,288	54,721	(4,433)	(8)
Revenue Tons				
Domestic	8,708	8,099	609	8
International	107,832	104,925	2,907	3

The wharfage from Petroleum products decreased by 8%. The number of tankers that arrived in Majuro dropped by 11%, which explains the drop in fiscal year 2015.

BUNKERING FEES

	2015	2014	Change	%
Fuel (barrel)	$ 105,383	$ 178,712	$ (73,329)	(41)
Water (gallon)	1,179,800	1,824,910	(645,110)	(35)

Bunkering fees for fuel and water dropped by 41% and 35%, respectively, due to the decrease in the vessels arrivals in fiscal year 2015.

SEAPORT OPERATING EXPENSES

Repairs and Maintenance increased due to:

- The fees paid to Matt Holly amounting to $42,900 related to the repair of Channel Marker #11 was reclassified as "Expense" by the auditors due to the nature of the work done.

IX.) BUDGET COMPARISONS (Current vs. Next)

	FY 2016	FY 2015	Variance	%
Operating Revenues:				
Airport Division	$ 1,148,505	$ 1,152,219	$ (3,714)	(.3)
Seaport Division	3,076,015	3,051,088	24,927	1
	$ 4,224,520	$ 4,203,307	$ 21,213	1
Operating Expenses:				
Airport Division	$ 1,460,892	$ 1,349,856	$ 111,036	8
Seaport Division	1,305,745	1,277,106	28,639	2
	$ 2,766,637	$ 2,626,962	$ 139,675	5
Depreciation and amortization:				
Airport Division	$ 3,117,992	$ 2,969,516	$ 148,476	5
Seaport Division	525,441	500,420	25,021	5
	$ 3,643,433	$ 3,469,936	$ 173,497	5
Non-Operating Revenues (Expenses):				
Airport Division	$ (9,412)	$ (17,965)	8,553	(48)
Seaport Division	42,563	46,080	(3,517)	(8)
	$ 33,151	$ 28,115	$ 5,036	18
Change in Net Position:				
Airport Division	$(3,439,791)	$ (3,185,118)	$ (254,673)	8
Seaport Division	1,287,392	1,319,642	(32,250)	(2)
	$(2,152,399)	$ (1,865,476)	$ (286,923)	15

X) RELATED PARTY TRANSACTIONS

The receivables from government entities and agencies increased by $79,191 as of September 30, 2015. Please see the table below for details.

	As of September 30, 2015	As of September 30, 2014
AMI - Accounts Receivable	$ 471,638	$ 436,210
Directorate of Civil Aviation	33,261	29,441
Marshall Islands Shipping Corporation	185,824	150,970
Marshall Energy Company	-	50,320
Ministry of Public Works	16,231	16,231
Ministry of Transportation and Communication	128,882	128,882
Ministry of Finance	28,729	28,399
Other	71,085	16,006
	$ 935,650	$ 856,459

XI) CASHFLOW PROJECTION

The Ports Authority's general fund balance as of September 30, 2015 is $ 541,122. In the approved budget in FY 2016, the Ports Authority had projected to pay $1.20 million for its AIP matching. This amount, however, does not include yet the CIP projects and Capital Expenditures, which were projected at $1.40 million and $1.30 million, respectively. The total budget appropriations for AIP, CIP, and CAPEX is $2.7 million.

XI) CASHFLOW PROJECTION, CONTINUED

As of May 2016, the total amount already expended for its AIP Matching was $656,337. It is expected that all its AIP projects included in the approved budget will be finished in FY 2016.

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

XII) EXTERNAL FACTORS AND ECONOMIC OUTLOOK

- Migratory nature of tuna has a negative effect in the fishing vessels traffic to Majuro.
- The Runway Safety Area/Road Realignment Project is expected to finish in fiscal year 2016.
- The operating cash shortfall incurred by the Airport Division will continue and will get worse unless measures are implemented to increase revenues or cost-cut the expenses without compromising the safety and security.
- As previously mentioned on the last fiscal year's audit, a Government policy was issued in May 17, 2012, which directed RMIPA to exempt certain port charges for vessels owned by Koo's Fishing Company. ***This policy has an adverse effect on RMIPA's financial performance. In FY 2012-FY 2015, the result will be a loss of port revenues of approximately $ 345,000.***

  The RMIPA Board of Directors and Management had reviewed this Government Policy and had informed the Cabinet of the adverse effect on the financial performance of the Authority. The RMIPA expressed their concern to the Cabinet in a letter dated August 8, 2012.
- The Authority has a loan receivable of $237,702 (excluding interest of $88,994) with AMI as described in Note 5. There is a possibility that the loan receivable may not be recovered. But, management of the Authority is currently working on the alternative arrangements to ensure collection of this loan receivable. In addition to this loan, the Authority has a receivable from AMI of $471,638. This is an accounts receivable related to the landing charges, office rental, and electricity, as the Authority is currently subsidizing AMI for its lease and electricity. This amount has been included in the allowance for doubtful accounts. In the event this will no longer be recovered, this will be a possible loss on the part of RMIPA.

XIII. ADDITIONAL FINANCIAL INFORMATION

Management's Discussion and Analysis for the year ended September 30, 2014 is set forth in the Port Authority's report on the audit of financial statements, which is dated June 22, 2015. That Discussion and Analysis explains the major factors impacting the 2014 financial statements and can be obtained from the RMI Office of the Auditor-General website at www.rmiorg.com.

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

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

Statements of Net Position
September 30, 2015 and 2014

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	2015	2014
Current assets:		
Cash	$ 575,049	$ 605,945
Time certificate of deposit	490,259	426,297
Receivables:		
Trade	550,456	504,786
Affiliates	935,650	856,459
Note receivable	237,702	237,702
Interest receivable	131,676	118,574
Grants receivable	774,997	1,119,333
Employees	27,328	23,707
	2,657,809	2,860,561
Less allowance for doubtful accounts	(1,406,773)	(1,297,614)
	1,251,036	1,562,947
Prepaid expenses and other assets	16,025	49,190
Total current assets	2,332,369	2,644,379
Restricted time certificate of deposit	1,700,000	1,700,000
Capital assets:		
Nondepreciable capital assets	30,299,515	25,029,222
Other capital assets, net of accumulated depreciation	34,316,005	37,495,549
Total assets	68,647,889	66,869,150
Deferred outflows of resources	1,135,631	-
	$ 69,783,520	$ 66,869,150
LIABILITIES AND NET POSITION		
Current liabilities:		
Current portion of note payable	$ 333,988	$ 306,334
Accounts payable	42,265	52,006
Contracts payable	975,549	1,372,860
Payable to affiliates	289,441	209,924
Due to RepMar	785,714	785,714
Other liabilities and accruals	214,999	169,437
Total current liabilities	2,641,956	2,896,275
Noncurrent portion of note payable	543,264	883,780
Total liabilities	3,185,220	3,780,055
Commitments and contingencies		
Net position:		
Net investment in capital assets	63,738,268	61,334,657
Unrestricted	2,860,032	1,754,438
Total net position	66,598,300	63,089,095
	$ 69,783,520	$ 66,869,150

See accompanying notes to financial statements.

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

Statements of Revenues, Expenses and Changes in Net Position
Years Ended September 30, 2015 and 2014

	2015	2014
Operating revenues:		
Seaport fees	$ 2,832,876	$ 3,144,260
Aviation fees	823,648	860,300
Concession and lease income	204,775	205,048
Other	283,034	426,205
	4,144,333	4,635,813
Allowance for doubtful debts	(109,160)	(451,354)
Total operating revenues	4,035,173	4,184,459
Operating expenses:		
Depreciation	3,311,404	3,308,278
Salaries and wages	1,079,601	1,092,362
Pilotage	401,703	462,794
Land lease	291,180	291,180
Utilities	259,603	373,923
Pilot boat	192,281	193,546
Training and travel	131,542	83,483
Repairs and maintenance	89,967	70,031
Insurance	67,505	69,030
Gas, oil, and fuel	55,787	71,331
Professional fees	49,194	18,010
Communications	33,479	30,117
Supplies	9,791	12,099
Miscellaneous	109,746	51,034
Total operating expenses	6,082,783	6,127,218
Operating loss	(2,047,610)	(1,942,759)
Nonoperating revenues (expenses):		
Loss on disposal of capital assets	(9,650)	(41,145)
Interest income	77,064	85,689
Interest expense	(76,238)	(98,206)
Total nonoperating expenses, net	(8,824)	(53,662)
Loss before capital contributions	(2,056,434)	(1,996,421)
Capital contributions:		
Contributions from U.S. government	5,565,639	7,691,881
Contributions from RepMar	-	60,874
Total capital contributions	5,565,639	7,752,755
Change in net position	3,509,205	5,756,334
Net position at beginning of year	63,089,095	57,332,761
Net position at end of year	$ 66,598,300	$ 63,089,095

See accompanying notes to financial statements.

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

Statements of Cash Flows
Years Ended September 30, 2015 and 2014

	2015	2014
Cash flows from operating activities:		
Cash received from customers	$ 4,019,471	$ 4,488,066
Cash payments to suppliers for goods and services	(1,529,688)	(1,846,921)
Cash payments to employees for services	(1,096,808)	(1,078,136)
Net cash provided by operating activities	1,392,975	1,563,009
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(6,945,857)	(8,376,088)
Principal paid on long-term debt	(312,862)	(290,893)
Interest paid on long-term debt	(76,238)	(98,206)
Proceeds from sale of capital assets	1,110	300
Capital contributions received	5,909,975	7,305,669
Net cash used for capital and related financing activities	(1,423,872)	(1,459,218)
Net change in cash	(30,897)	103,791
Cash at beginning of year	605,945	502,154
Cash at end of year	$ 575,048	$ 605,945
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	$ (2,047,610)	$ (1,942,759)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation	3,311,404	3,308,278
Bad debts	109,160	451,354
(Increase) decrease in assets:		
Receivables:		
Trade	(45,672)	(39,890)
Affiliates	(79,191)	(107,857)
Other	(3,621)	(5,029)
Prepaid expenses and other assets	33,165	(32,300)
Increase (decrease) in liabilities:		
Accounts payable	(9,742)	(7,071)
Payable to affiliates	79,517	(68,064)
Other liabilities and accruals	45,565	6,347
Net cash provided by operating activities	$ 1,392,975	$ 1,563,009

See accompanying notes to financial statements.

(1) Organization

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

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

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

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

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

(2) Summary of Significant Accounting Policies

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

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

(2) Summary of Significant Accounting Policies, Continued

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

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

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

Estimates

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

Basis of Accounting

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

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

Cash and Time Certificates of Deposit

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

(2) Summary of Significant Accounting Policies, Continued

Cash and Time Certificates of Deposit, Continued

For purposes of the statements of net position and of cash flows, cash is defined as cash on hand and cash held in bank accounts. Deposits maintained in time certificates of deposit with original maturity dates greater than ninety days are separately classified. As of September 30, 2015 and 2014, the carrying amount of cash and time certificates of deposit were $2,765,308 and $2,732,242, respectively, and the corresponding bank balances were $2,802,307 and $2,937,654, respectively. Of the bank balances, $602,704 and $813,275, respectively, were maintained in a financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance with the remaining balances maintained in a non-FDIC bank. As of September 30, 2015 and 2014, bank deposits in the amount of $250,000 were FDIC insured. Accordingly, these deposits are exposed to custodial credit risk. The Authority does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized. As of September 30, 2015 and 2014, time certificates of deposit of $1,700,000 collateralized notes payable (see note 6).

Receivables

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

Property, Plant and Equipment

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

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

Taxes

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

(2) Summary of Significant Accounting Policies, Continued

Compensated Absences

Vested or accumulated vacation leave is recorded as an expense and liability as the benefits accrue to employees. No liability is recorded for nonvesting accumulating rights to receive sick benefits. As of September 30, 2015 and 2014, an accumulated vacation leave liability of $82,098 and $91,466, respectively, is included in the accompanying statements of net position within other liabilities and accruals.

Deferred Outflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (deduction of net position) until then. As of September 30, 2015, the Authority recognized deferred outflows of resources of $1,135,631 as the result of the transfer of asset ownership by the Authority to the Federal Aviation Admission (FAA). The Authority will continue to benefit from the asset in future periods.

Deferred Inflows of Resources

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

New Accounting Standards

During fiscal year 2015, the following pronouncements were implemented:

- GASB S*tatement* No. 68, *Accounting and Financial Reporting for Pensions,* which revises and establishes new financial reporting requirements for most governments that provide their employees with pension benefits. The implementation of this statement did not have a material effect on the accompanying financial statements.

- GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*, which improves accounting and financial reporting for state and local governments' combinations and disposals of government operations. Government combinations include mergers, acquisitions, and transfers of operations. A disposal of government operations can occur through a transfer to another government or a sale. The implementation of this statement did not have a material effect on the accompanying financial statements.

(2 Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

- GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of* GASB Statement No. 68, which addresses an issue regarding application of the transition provisions of Statement No. 68*, Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. The implementation of this statement did not have a material effect on the accompanying financial statements.

In February 2015, GASB issued Statement No. 72, *Fair Value Measurement and Application,* which addresses accounting and financial reporting issues related to fair value measurements and requires entities to expand their fair value disclosures by determining major categories of debt and equity securities within the fair value hierarchy on the basis of the nature and risk of the investment. The provisions in Statement No. 72 are effective for fiscal years beginning after June 15, 2015. Management believes that the implementation of this statement only requires additional disclosures to be made about fair value measurements, the level of fair value hierarchy, and valuation techniques and will not have a material effect on the financial statements of the Authority.

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

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

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

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

In June 2015, GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, which eliminates two of the four categories of authoritative GAAP that exist under the existing hierarchy prescribed by Statement No. 55. The two categories that will remain under the new standard are (1) GASB Statements and (2) GASB technical bulletins and implementation guides in addition to AICPA guidance that the GASB clears. The provisions in Statement No. 76 are effective for fiscal years beginning after June 15, 2015. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Authority.

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

(3) Risk Management

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

(4) Property, Plant and Equipment

Capital asset activity for the years ended September 30, 2015 and 2014, is as follows:

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

	October 1, 2013	Additions	Transfers	Reductions	September 30, 2014
Facilities	$ 21,042,130	$ -	$ -	$ (36,656)	$ 21,005,474
Buildings	19,319,624	-	3,079	(9,639)	19,313,064
Equipment	1,412,184	1,137	-	(92,964)	1,320,357
Vehicles	2,193,200	84,618	-	(68,673)	2,209,145
Office furniture, fixtures and equipment	461,910	20,743	59,973	(117,709)	424,917
Runway apron upgrade	26,157,818	-	-	-	26,157,818
	70,586,866	106,498	63,052	(325,641)	70,430,775
Less accumulated depreciation	(29,911,144)	(3,308,278)	-	284,196	(32,935,226)
	40,675,722	(3,201,780)	63,052	(41,445)	37,495,549
Construction work-in-progress	16,330,942	8,761,332	(63,052)	-	25,029,222
	$ 57,006,664	$ 5,559,552	$ -	$ (41,445)	$ 62,524,771

In September 2015, the Authority transferred ownership of Non-Directional Beacon assets to the FAA amounting to $1,135,631. The amount forms part of the Authority's deferred outflows of resources.

(5) Related Party Transactions

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

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

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

(5) Related Party Transactions, Continued

A summary of related party transactions for the years ended September 30, 2015 and 2014 and related receivable and payable balances as of September 30, 2015 and 2014, is as follows:

	2015			
	Revenues	Expenses	Receivables	Payables
Air Marshall Islands, Inc.	$ 63,671	$ 63,671	$ 471,638	$ -
Directorate of Civil Aviation	3,820	3,820	33,261	-
Majuro Atoll Waste Company	-	5,098	-	639
Majuro Water and Sewer Company, Inc.	-	912	-	67
Marshalls Energy Company, Inc.	106,561	258,961	-	9,582
Marshall Islands Postal Services Authority	2,405	-	1,145	-
Marshall Islands Shipping Corporation	54,766	54,766	185,824	-
Marshall Islands Visitors Authority	1,560	-	2,750	-
Marshall Islands Marine Resources Authority	1,335	1,335	1,575	-
Ministry of Education	-	-	3,625	-
Ministry of Health Services	-	-	4,378	-
Ministry of Internal Affairs	-	-	650	-
Ministry of Public Works	-	-	16,231	-
Ministry of Resources and Development	-	-	126	-
Marshall Islands Social Security Administration	-	85,286	-	46,560
Marshall Islands National Telecommunications Authority	-	32,150	130	2,693
Ministry of Finance	330		28,729	82,486
Ministry of Transportation and Communication	465	291,180	128,882	147,414
Tobolar Copra Processing Authority	11,631	-	4,992	-
Other	74,414	76,238	51,714	-
	$ 320,958	$ 873,147	$ 935,650	$ 289,441

	2014			
	Revenues	Expenses	Receivables	Payables
Air Marshall Islands, Inc.	$ 68,749	$ 68,749	$ 436,210	$ -
Directorate of Civil Aviation	2,275	2,275	29,441	-
Majuro Atoll Waste Company	-	6,221	-	509
Majuro Water and Sewer Company, Inc.	-	182	-	-
Marshalls Energy Company, Inc.	-	373,740	50,320	67,656
Marshall Islands Postal Services Authority	1,800	-	-	-
Marshall Islands Shipping Corporation	46,811	34,855	150,970	-
Marshall Islands Visitors Authority	960	-	1,190	-
Marshall Islands Marine Resources Authority	-	-	915	-
Ministry of Education	-	-	3,625	-
Ministry of Health Services	255	-	4,378	-
Ministry of Internal Affairs	-	-	650	-
Ministry of Public Works	245	-	16,231	-
Ministry of Resources and Development	-	-	126	-
Marshall Islands Social Security Administration	-	89,737	-	44,882
Marshall Islands National Telecommunications Authority	130	28,603	130	-
Ministry of Finance	225	292,297	28,399	12,043
Ministry of Transportation and Communication	1,200	-	128,882	84,834
Tobolar Copra Processing Authority	-	-	4,992	-
Other	36,375	98,206	-	-
	$ 159,025	$ 994,865	$ 856,459	$ 209,924

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

(5) Related Party Transactions, Continued

On August 30, 2010, the Authority entered into a loan agreement with Air Marshall Islands, Inc. (AMI) in the amount of $313,385 whereby the Authority provided funding to AMI for operational purposes. Outstanding advances are $237,702 at September 30, 2015 and 2014. The loan bears interest fixed at 8% per annum and is payable in 30 monthly installments of $11,560 beginning September 30, 2010. AMI has been in delinquent since February 2011. Outstanding accrued interest is $88,994 and $70,603 at September 30, 2015 and 2014, respectively, which is included in interest receivable in the accompanying statements of net position. The allowance for doubtful accounts provided for related parties, which includes an allowance for the note and related interest receivable, aggregated $1,206,117 and $1,113,125 as of September 30, 2015 and 2014, respectively.

In accordance with established tariffs, the Authority imposes compulsory pilotage fees on all commercial vessels arriving at port facilities in Majuro that are one-hundred gross tonnage and over. In order to provide this service, the Authority utilizes the services of qualified pilots. Since the inception of compulsory pilotage, the majority of qualified pilots are employees of the Authority and other RepMar Ministries and Agencies. Pilots retain forty (40) percent of compensation and the Authority retains sixty (60) percent. Ten (10) percent of the compensation collected by the Authority shall be remitted to the Ministry of Transportation and Communication. It is the intention of the Authority to train pilots in accordance with the pilotage regulations. During the years ended September 30, 2015 and 2014, the Authority compensated qualified pilots, who were employees and directors of the Authority, for pilotage services of $183,317 and $238,130, respectively.

On April 1, 2007, the Authority entered into a memorandum of understanding (MOU) with RepMar's Ministry of Finance to transfer the responsibility of lease payments to the Authority for parcels of land under the Authority's jurisdiction based on ground leases executed by RepMar. Under the MOU, the Authority shall pay the Ministry of Finance an annual lease payment of $281,444, payable in four equal quarterly installments of $70,361 (see note 7). On February 18, 2011, the Authority entered into an amended MOU to reimburse the Ministry of Finance an additional $54,126 for certain lease payments made by RepMar to various landowners on certain lands controlled or occupied by the Authority. This amount covered periods from 2007 to the first quarter of 2011. The revised annual lease payment of $294,180 is payable in four equal quarterly installments of $73,545, commencing February 18, 2011. As of September 30, 2014, the amount was fully paid.

Public Laws No. 2011-58 and No. 2010-43 authorized annual $500,000 distributions from the Authority to RepMar's General Fund for fiscal years 2011 and 2012. As of September 30, 2015 and 2014, the Authority was liable to RepMar in the amount of $785,714 pertaining to these authorized distributions. The Authority is currently negotiating with RepMar for forgiveness of the foregoing liabilities and any adjustment will be recorded prospectively.

The Authority is also liable to RepMar for $134,724 pertaining to electric bills dating back to 2004. The Authority's liability to RepMar amounting to $134,724 was written-off in 2014.

(6) Long-term Debt

Long-term debt at September 30, 2015 and 2014 is as follows:

	2015	2014
Loan with bank in the original amount of $1,000,000, dated October 12, 2012, interest at 7.5% per annum, with principal and interest payable in monthly installments of $20,125 through October 30, 2017, collateralized by a time certificate of deposit. Loan proceeds were used to finance various capital improvement projects.	$ 462,946	$ 661,563
Loan with bank in the original amount of $700,000, dated January 11, 2013, interest at 7% per annum, with principal and interest payable in monthly installments of $12,300 through December 31, 2018, collateralized by a time certificate of deposit. Loan proceeds were used to finance various capital improvement projects.	414,306	528,551
	$ 877,252	$ 1,190,114

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

Year ending September 30,	Principal	Interest	Total
2016	$ 333,988	$ 55,112	$ 389,100
2017	359,723	29,377	389,100
2018	157,422	8,853	166,275
2019	26,119	445	26,564
	$ 877,252	$ 93,787	$ 971,039

Changes in notes payable for the years ended September 30, 2015 and 2014, are as follows:

2015				
Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
$ 1,190,114	$ -	$ (312,862)	$ 877,252	$ 333,988

2014				
Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
$ 1,481,007	$ -	$ (290,893)	$ 1,190,114	$ 306,334

(7) Commitments

Leases

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

The Authority is under an amended lease agreement with a stevedoring company for the container yard located at the Port of Majuro, currently expiring on December 31, 2020. The terms of the amended lease requires a minimum lease payment of $19,194 per annum paid quarterly, plus a gross receipts fee equal to 1.5% of total operating revenues. Additional rental income under this lease for the years ended September 30, 2015 and 2014 amounted to $36,903 and $37,512, respectively.

The Authority is under a lease agreement with a shipping company to lease out warehouse space. The current terms of the lease require a minimum monthly payment of $2,905.

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

Year ending September 30,	
2016	$ 98,900
2017	43,900
2018	40,000
2019	37,500
2020	27,100
2021 - 2024	38,400
Total	$ 285,800

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

U.S. Federal Grants

As of September 30, 2014, the Authority has been awarded a total of $79,125,830 of grant awards from the United States Department of Transportation. As of September 30, 2015, $8,158,410 has not been received and expended for various capital projects.

Others

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

(8) Contingencies

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

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

(9) Retirement plan

The Authority provides a retirement savings 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. Contributions under plan are at the discretion of the Authority. The Authority contributed $34,112 and $24,455 to the plan for the year ended September 30, 2015 and 2014.

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, 2015

	Airport Division	Seaport Division	Total
Operating revenues:			
Seaport fees	$ -	$ 2,832,876	$ 2,832,876
Aviation fees	823,648	-	823,648
Concession and lease income	81,460	123,315	204,775
Other	265,719	17,315	283,034
	1,170,827	2,973,506	4,144,333
Bad debt expense	(55,582)	(53,578)	(109,160)
Total operating revenues	1,115,245	2,919,928	4,035,173
Operating expenses:			
Depreciation	2,843,760	467,644	3,311,404
Salaries and wages	598,920	480,681	1,079,601
Utilities	221,741	37,862	259,603
Land lease	254,931	36,249	291,180
Pilotage	-	401,703	401,703
Training and travel	82,582	48,960	131,542
Pilot boat	-	192,281	192,281
Insurance	39,614	27,891	67,505
Gas, oil, and fuel	35,587	20,200	55,787
Professional fees	36,333	12,861	49,194
Communications	21,353	12,126	33,479
Repairs and maintenance	23,853	66,114	89,967
Supplies	3,793	5,998	9,791
Miscellaneous	69,757	39,989	109,746
Total operating expenses	4,232,224	1,850,559	6,082,783
Operating (loss) income	(3,116,979)	1,069,369	(2,047,610)
Nonoperating revenues (expenses):			
Loss on disposal of capital assets	(4,343)	(5,307)	(9,650)
Interest income	18,391	58,673	77,064
Interest expense	(33,355)	(42,883)	(76,238)
Total nonoperating (expenses) income, net	(19,307)	10,483	(8,824)
(Income) loss before capital contributions	(3,136,286)	1,079,852	(2,056,434)
Capital contributions:			
Contributions from U.S. government	5,565,639	-	5,565,639
Total capital contributions	5,565,639	-	5,565,639
Change in net position	2,429,353	1,079,852	3,509,205
Net position at beginning of year	49,858,803	13,230,292	63,089,095
Net position at end of year	$ 52,288,156	$ 14,310,144	$ 66,598,300

See accompanying independent auditor's report.

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

Board of Directors
RMI Ports Authority:

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of RMI Ports Authority (the Authority), which comprise the statement of net position as of September 30, 2015, and the related statements of revenues, expenses and changes in net position and of cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated June 30, 2016.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Deloitte + Touche LLP

June 30, 2016

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY OMB CIRCULAR A-133

Board of Directors
RMI Ports Authority:

Report on Compliance for the Major Federal Program

We have audited RMI Ports Authority's (the Authority's) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on the Authority's major federal program for the year ended September 30, 2015. The Authority's major federal program is identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the Authority's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on the Major Federal Program

In our opinion, the Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended September 30, 2015.

Report on Internal Control Over Compliance

Management of the Authority is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Authority's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by OMB A-133

We have audited the financial statements of the Authority as of and for the year ended September 30, 2015, and have issued our report thereon dated June 30, 2016, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the financial statements as a whole.

Deloitte + Touche LLP

June 30, 2016

RMI PORTS AUTHORITY

Schedule of Expenditures of Federal Awards
Year Ended September 30, 2015

Program Title	Grant Number	Program or Award Amount	Balance October 1, 2014	Cash Receipts FY15	Expenditures/ Adjustments FY15	Excess of Authorization Over Program Expenditures
Funds received in a direct capacity:						
<u>U.S. Department of Transportation:</u>						
<u>CFDA # 20.106</u>						
<u>Airport Improvement Program</u>						
Improve Runway Safety Area (Relocate Service Road) - Phase II	Project #3-68-0001-10	3,450,000	73,806	(204,387)	130,581	-
FAA-GIS	Project #3-68-0001-11	500,000	-	(105,470)	132,649	27,179
Airport Security Perimeter Fence	Project #3-68-0001-12	200,000	44,229	(78,477)	34,248	-
Improve Runway Safety Area (Relocate Service Road) - Phase III	Project #3-68-0001-13	12,000,000	896,236	(3,448,379)	2,720,283	168,140
Airport Security Perimeter Fence (Phase II)	Project #3-68-0001-14	2,000,000	105,062	(354,703)	351,344	101,703
Environmental Mitigation (Construct Revetment)	Project #3-68-0001-15	7,500,000	-	(1,718,559)	2,196,534	477,975
Total U.S. Department of Transportation		$ 25,650,000	$ 1,119,333	$ (5,909,975)	$ 5,565,639	$ 774,997

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

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

Schedule of Findings and Questioned Costs
Year Ended September 30, 2015

PART I - SUMMARY OF AUDITORS' RESULTS SECTION

Financial Statements

1.	Type of auditors' report issued:	Unmodified
	Internal control over financial reporting:	
2.	Material weakness(es) identified?	No
3.	Significant deficiency(ies) identified?	None reported
4.	Noncompliance material to financial statements noted?	No

Federal Awards

	Internal control over major federal programs:	
5.	Material weakness(es) identified?	No
6.	Significant deficiency(ies) identified?	None reported
7.	Type of auditors' report issued on compliance for major federal programs:	Unmodified
8.	Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133?	No
9.	Identification of major federal programs:	

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

10.	Dollar threshold used to distinguish between Type A and Type B Programs:	$300,000
11.	Auditee qualified as low-risk auditee?	No

PART II- FINANCIAL STATEMENT FINDINGS SECTION

No matters were reported.

PART III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS SECTION

No matters were reported.

Schedule of Prior Audit Findings and Questioned Costs
Year Ended September 30, 2015

There are no unresolved prior audit findings and questioned costs.