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, 2013 AND 2012

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

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Years Ended September 30, 2013 and 2012

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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, 2013 and 2012, 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, 2013 and 2012, 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.

As discussed in Note 8 to the financial statements, the Authority is currently negotiating with a related party to determine the ultimate collectability of a loan receivable from the related party. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 23 be presented to supplement the basic 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 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 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 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.

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements. 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 basic financial statements.

The Other Supplementary Information is the responsibility of the Authority's management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such 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 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 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 July 4, 2014, 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

July 4, 2014

I) INTRODUCTION

Our discussion and analysis of the financial performance of the airport and seaport divisions of the RMI Ports Authority (Ports Authority) provides an overview of Ports Authority's financial activities presented in the audited financial statements for the fiscal year ending September 30, 2013. This discussion and analysis should be read in conjunction with the more detailed information contained within the accompanying audited financial statements.

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

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

As of September 30, 2013, Ports Authority had 60 full-time employees. Composition is as follows: 4 in Administration; 6 in Finance; 4 in Airport Administration/Operations/Tower; 6 in Seaport Administration/Operations; 10 in Maintenance; and 30 in Security. Out of the 30 Security Officers, 12 are cross-trained and certified as airport firefighters.

II) FINANCIAL STATEMENTS OVERVIEW

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

III) FINANCIAL HIGHLIGHTS

- For fiscal period ending September 30, 2013, total net position was $57,332,761, an increase of $6,418,296 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.

- Total operating revenues increased by $582,172 or 19%. The Seaport Division is the major contributor for the increase in fiscal year 2013 by $477,405 or 23%. The increase was due to the increase in number of vessel arrivals and movements.

- Total operating expenses, inclusive of depreciation, was $5.8 million for fiscal year in 2013. It decreased by 23% or $1.8 million compared to last year. One of the major factors is the decrease in the depreciation expense. The details including other expense accounts will be discussed on the Divisional Performance of this report.

III. FINANCIAL HIGHLIGHTS, CONTINUED

- The Ports Authority incurred an operating loss of $2.3 million for fiscal year 2013. This is a decrease in operating loss by 51% or $2.3 million compared to last year. The decrease in the operating loss was caused by the decrease in the operating expenses mentioned above. As explained above, depreciation lowers the operating income, but it does not affect the cash flows. RMIPA generated positive cash flows from operating activities of $952,227 in fiscal year 2013.

- The overall performance of the Ports Authority is better when compared to last year based on the foregoing report above.

IV. STATEMENTS OF NET POSITION

	2013	2012	Change	%	2011
Current assets	$ 2,274,091	$ 4,102,782	$ (1,828,691)	(45)	$ 2,785,857
Non-current assets	1,700,000	295,000	1,405,000	476	403,656
Property, plant, and equipment, net	57,006,664	50,432,872	6,573,792	13	50,491,994
Total Assets	$ 60,980,755	$ 54,830,654	$ 6,150,101	11	$ 53,681,507
Current liabilities	$ 2,166,987	$ 3,862,755	$ (1,695,768)	(44)	$ 1,388,990
Non-current liabilities	1,481,007	53,434	1,427,573	2672	164,529
Net position	57,332,761	50,914,465	6,418,296	13	52,127,988
Total Liabilities and Net Position	$ 60,980,755	$ 54,830,654	$ 6,150,101	11	$ 53,681,507

Current assets decreased by 45% as seen in the above table. The grants accrued in fiscal year 2012 were received in fiscal year 2013. The non-current assets pertains to the $1.7 million loan from BOMI to pay for the AIP/CIP projects, which was secured by its time certificate of deposit (TCD) kept at the same bank. Non-current assets represent the restricted TCD.

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

	2013	2012	Change	%	2011
Operating Revenues:					
Airport Division	$ 1,024,596	$ 919,829	$ 104,767	11	$ 904,098
Seaport Division	2,579,575	2,102,170	477,405	23	1,869,500
	3,604,171	3,021,999	582,172	19	2,773,598
Operating Expenses:					
Airport Division	4,238,237	6,015,791	(1,777,554)	-30	4,052,883
Seaport Division	1,630,615	1,601,497	29,118	2	1,439,903
	5,868,852	7,617,288	(1,748,436)	-23	5,492,786
Non-Operating Revenues (Expenses):					
Airport Division	(25,502)	(223,839)	198,337	-89	(225,578)
Seaport Division	43,246	(161,211)	204,457	-127	(169,504)
	17,744	(385,050)	402,794	-105	(395,082)

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

Capital Contributions:					
Airport Division	8,665,233	3,766,816	4,898,417	129	3,809,943
Change in Net Position:					
Airport Division	5,426,090	(1,552,985)	6,979,075	-449	435,580
Seaport Division	992,206	339,462	652,744	192	260,093
	$ 6,418,296	$ (1,213,523)	$ 7,631,819	-629	$ 695,673

In fiscal year 2013, the Airport Division generated 28% of the total revenues for the Ports Authority. The Airport's revenue this year increased by 11% compared to last year 2012 and operating expenses decreased by 30%. Its operating loss this year is $3.2 million including depreciation. Its operating loss for FY 2013 without depreciation is $330,615 compared with $678,091 for FY 2012.

The capital contributions of Airport Division refer to its AIP projects that the Ports Authority administers.

This year, Seaport generated $2.6 million revenues; this gives the Ports Authority the 72% of the revenues for this year. Its expenses, however, increased too, but by $29,118 or by 2% only, when compared to last fiscal year.

VI. FINANCIAL RATIOS

	2013	2012
Current Ratio	.93:1	1.02:1
Receivable Turnover	3 times	3 times
Average Age of Receivables	124 days	122 days
Net Profit Ratio - Airport	(314%)	(169%)
Net Profit Ratio - Seaport	38%	16%

The current ratio of current assets against current liabilities is .93:1 for fiscal year 2013, which is relatively low when compared to last fiscal year. This happened if the current liabilities exceed current assets. If current liabilities exceed current assets then RMIPA may have problems meeting its short-term obligations.

Low values such as this, however, do not indicate a critical problem. If RMIPA has good long-term prospects, it may be able to borrow against its TCD to meet current obligations.

The turnover and average age of receivables above shows poor performance because it exceeded its 30 days normal collection cycle. This includes unpaid receivables from the government agencies and ministries. The amount of government receivables as of September 30, 2013 is $ 1.04 million including the loan given to Air Marshall Islands. The details of this will be discussed under ***Related Party Transactions*** of this report. The turnover ratio excluding the related party receivables would be 10 times, which is 37 days collection cycle period. ***Same with last year, most of the unpaid receivables of the Ports Authority are from the government entities and agencies and were set-up as additional allowance during the year.***

The Airport has increased its revenue, it still does not contribute positive income to the Ports Authority with its current operation in fiscal year 2013 because of the amount of service and maintenance is higher compared to Seaport. Seaport, on the other hand, contributed 38% profit to the Ports Authority in FY 2013.

VII. PER DIVISION

A. AIRPORT DIVISION

- Net position has greatly increased by $ 5.4 million in the fiscal period ending September 30, 2013 compared with the decrease by $ 1.6 million in the fiscal period ending September 30, 2012. The increase was due to the ongoing RSA/Road Realignment Project. The total local matchings paid by RMIPA for this project alone in fiscal year 2013 amounts to $ 621,441. The total payments made to contractors in fiscal year 2013 amounts to $ 10.3 million including local matchings by RMIPA.

- Operating revenues increased by 11% from $ 919,829 in fiscal year ending September 30, 2012 to $ 1,024,596 during the fiscal year ending September 30, 2013. This was caused by the increase in the number of scheduled flights particularly the Our Airlines, which started in December 2012. Another factor is the increase in the number of passengers during the year.

- Operating expenses was lower in FY 2013 than in FY 2012 by 30% or by $ 1.8 million. Significant contributor to this decrease as mentioned earlier was the depreciation expense by $ 1.5 million. The depreciation in FY 2012 includes adjustments in prior years particularly related to Runway Apron.

- The Airport Division incurred a net operating loss before depreciation amounting to $ 330,615 for FY 2013. This is a decrease in loss by 51% or $ 347,476 from prior fiscal year.

The Airport Division has generated more in the operating revenues this year compared to last fiscal year by 11%.

DIVISIONAL STATEMENT OF REVENUES AND EXPENSES

AIRPORT'S OPERATING REVENUES:

	2013	2012	Change	%	2011
Operating Revenues:					
Departure Fees - International	$ 272,835	$ 238,215	$ 34,620	15	$ 250,660
Departure Fees - Domestic	8,918	11,136	(2,218)	(20)	14,632
Landing Charges - Scheduled	247,550	220,101	27,449	12	238,389
Landing Charges - Special	66,871	70,475	(3,604)	(5)	54,040
Concession and Lease Income	79,606	73,215	6,391	9	72,682
Aircraft Parking Charges	30,428	15,823	14,605	92	13,688
Runway Lights and NavAids Fees	54,450	50,175	4,275	9	53,828
Special Overtime	60,793	52,659	8,134	15	41,643
Reserved Parking Space Fees	3,300	3,300	-	0	3,700
International Cargo Service Fees	30,829	33,367	(2,538)	(8)	27,244
Utility Charges Reimbursed	78,854	76,605	2,249	3	68,888
Ground Handling - Transient	65,962	65,908	54	0	57,181
Other Operating Revenues	24,200	8,850	15,350	173	7,523
Total	$ 1,024,596	$ 919,829	$ 104,767	11	$ 904,098

VII. PER DIVISION, CONTINUED

A. AIRPORT DIVISION, CONTINUED

SCHEDULED FLIGHTS TRAFFIC

	2013	2012	Change	%	2011
United Airline	321	312	9	3	417
Our Airline	61	-	61	100	-
Air Marshall Island	413	345	68	20	491
Asia Pacific Airlines	206	202	4	2	193
	1,001	859	142	17	1,101

Scheduled flights traffic has increased by 17% in the fiscal year 2013 when compared to last fiscal year. Our Airline started its operation in Majuro in December 2012. AMI has increased its traffic by 20%, but revenues generated during the year are not collected which amounts to $ 10,969.

DEPARTURE FEES – INTERNATIONAL:

	2013	2012	Inc (Dec)	%	Fee	Amount
Adults	10,323	9,613	710	7	$ 20.00	$ 14,200
Students	4,425	3,061	1,364	45	15.00	20,460
Others	-	40	(40)	(100)	-	(40)
	14,748	12,714	2,034	16		$ 34,620

Both adults and students increased by 7% and 45%, respectively. Out of the 710 increase in the adult passengers above, 119 passengers were from Our Airlines.

The Aircraft Parking Charges went up in fiscal year 2013 by 92%; 58% of the amount or $ 17,399 was from Our Airlines.

The increase in the other operating revenues is the delayed charges from aircrafts, which increased by $12,390 in FY 2013. A total of $3,375 and $8,500 were generated from Our Airline and United Airline, respectively.

On the other hand, traffic from unscheduled flights went down by 12% in fiscal year 2013. Unscheduled flights are charged according to the maximum take-off weight of the aircrafts. Please see the details per table below:

UNSCHEDULED/SPECIAL FLIGHT TRAFFIC

	2013	2012	Change	%	2011
Number of Flights (MTOW):					
0-45000	73	81	-8	(10)	84
45001-90000	14	34	-20	(59)	29
90001-up	142	145	-3	(2)	128
Total	229	260	-31	(12)	241

A. AIRPORT DIVISION, CONTINUED

	2013	2012	Change	%	2011
% to Total:					
0-45000	32%	31%			35%
45001-90000	6%	13%			12%
90001-up	62%	56%			53%

AIRPORT'S OPERATING EXPENSES:

	2013	2012	Change	%	2011
Operating Expenses:					
Salaries and wages	$ 539,050	$ 569,040	$ (29,990)	(5)	$ 599,444
Gas, oil, and fuel expenses	38,429	29,817	8,612	29	34,674
Bad debts	49,688	33,266	16,422	49	90,610
Insurance expense	32,262	29,239	3,023	10	29,589
Repairs and maintenance	18,837	23,388	(4,551)	(19)	12,372
Utilities	330,966	389,506	(58,540)	(15)	208,619
Rent	236,931	257,931	(21,000)	(8)	257,931
Training and travel	51,830	192,595	(140,765)	(73)	35,237
Other operating expenses	57,218	73,138	(15,920)	(22)	85,088
Total	1,355,211	1,597,920	(242,709)	(15)	1,353,564
Loss before depreciation	(330,615)	(678,091)	347,476	(51)	(449,466)
Less: depreciation	2,883,026	4,417,871	(1,534,845)	(35)	2,699,319
Loss after depreciation	(3,213,641)	(5,095,962)	1,882,321	(37)	(3,148,785)
Add: Non-operating revenues and (expenses)	8,639,731	3,542,977	5,096,754	144	3,584,365
Net income (loss)	5,426,090	(1,552,985)	6,979,075	(449)	435,580
Net position, Beginning	40,178,871	41,731,856	(1,552,985)	(4)	41,296,276
Net position, Ending	$ 45,604,961	$ 40,178,871	$ 5,426,090	14	$ 41,731,856

Its operating loss in fiscal year ending September 30, 2013 is $ 330,615 before depreciation; this is 51% lower compared to last fiscal year.

As stated in the previous years, RMIPA still believes that drastic measures are needed to raise the airport tariffs. Most of its expenses decreased in FY 2013 except for Gas, Oil, and Fuel, Bad Debts, and Insurance expense.

i) Gas, Oil, and Fuel: The consumptions in the fuel in fiscal year 2013 actually went down except for the two fire trucks and airport operations pick-up, by 122 and 211 gallons, respectively. The airport operations pick-up was constantly being used when the inspection pick-up was down since January 2013. It was fixed in December 2013. Another reason is that the price of diesel went up by $ .20 per gallon in mid FY 2013.

ii) Bad Debts: Allowance in fiscal year 2013 went up due to the increase of landing for AMI, which is added to uncollectible during the year.

A. AIRPORT DIVISION, CONTINUED

iii) Insurance: Insurance for property went up in fiscal year 2013 due to the addition of ARFF Building, which was insured last quarter of the FY13.

Depreciation expense (a non-cash item), on the other hand, decreased by $1.5 million in FY 2013. The depreciation in FY 2012 includes adjustments in prior years. It is important to correct the depreciation in order to get the correct Net Book Value of the asset.

RMIPA needs to continue to control its operating expenses. RMIPA is still doing its best to further decrease the operating expenses without sacrificing the safety and security of its personnel and capital assets in order improve this "financial bleeding". This is becoming ever more important due to the expected increase in utilities and maintenance from the improvements the airport received from the AIP projects. These improvements, i.e. apron, ARFF building, and runway will require regular maintenance to maintain minimum safety standards.

ANALYSIS OF ACTUAL VERSUS BUDGET – FY 2013

RMIPA met and had exceeded the budget for the revenues for FY 2013 by $ 75,807 or by 8% in terms of percentage. This is the first time that it happened since it merged in 2003.

	Actual	Budget	Variance	% Variance
Operating revenues:				
Departure Fees - International	$ 272,835	$ 247,961	$ 24,874	10
Departure Fees - Domestic	8,918	11,483	(2,565)	(22)
Landing Charges - Scheduled	247,550	245,544	2,006	1
Landing Charges - Special	66,871	59,276	7,595	13
Concession and Lease Income	79,606	97,954	(18,348)	(19)
Aircraft Parking Charges	30,428	17,034	13,394	79
Runway Lights and NavAids Fees	54,450	52,164	2,286	4
Special Overtime	60,793	52,649	8,144	15
Reserved Parking Space Fees	3,300	3,300	-	0
International Cargo Service Fees	30,829	32,246	(1,417)	(4)
Utility Charges Reimbursed	78,854	73,001	5,853	8
Ground Handling - Transient	65,962	50,779	15,183	30
Other Operating Revenues	24,200	5,398	18,802	348
Total	$ 1,024,596	$ 948,789	$ 75,807	8

Departure Fees – International: The budget was based on the average of five years including projected year-end for FY 2012.

Actual No of Passengers (Actual versus Budget in FY 2013):

	Actual	Budget	Inc (Dec)	%	Fee	Amount
Adults	10,323	10,699	(376)	(4)	$ 20.00	$ (7,515)
Students	4,425	2,266	2,159	95	15.00	32,389
	14,748	12,965	1,783	14		$ 24,874

Student travelers increased by 2,159 while adults decreased by 376 in FY 2013.

A. AIRPORT DIVISION, CONTINUED

Unscheduled/Special Flight Movements: The budget was based on the average number of traffic for the past five years including the FY 2012 year-end projection.

Actual No of Flights (Actual versus Budget in FY 2013):

	Actual	Budget	Inc (Dec)	%
Number of Flights (MTOW):				
0-45000	73	80	(7)	(8)
45001-90000	14	29	(15)	(51)
90001-up	142	135	7	5
	229	244	(15)	(6)

Overall, the number of special flights in fiscal year 2013 is lower by 15 or by 6% when compared to the approved budget in FY 2013. Only aircrafts with maximum take-off weight of more than 90,000 is higher by 7 flights and the rest are lower than the approved budget.

The Aircraft Parking Fees: This is higher in FY 2013 79% when compared to the approved budget in FY 2013. The total revenues generated are $ 30,428, 57% of which is from Our Airline which totaled to $17,399.

The other operating revenues: This is higher by 348% in FY 2013 when compared to the approved budget; the increase was due to the delayed charges that increased by $12,390 in FY 2013. A total of $3,375 and $8,500 were generated from Our Airline and United Airline, respectively.

Concession and lease income, however, is lower than the approved budget in fiscal year 2013 by $ 18,348 or 19%. The monthly lease of United Airlines increased from $ 1.30 to $ 1.55 per square foot, which should take effect in December 2012. But, the renewal of the lease took a while due to some issues in the space. It was resolved and signed by United Airlines and RMIPA in June 2013. The monthly lease is $ 3,571.20 for the total of 2,304 square feet. But, as of this moment only 1,804 square feet is being occupied and used by United Airlines. The equipment parking area of 500 square feet is still under repair.

	Actual	Budget	Change	%
Operating expenses:				
Salaries and wages	$ 539,050	$ 564,098	$ (25,048)	(4)
Gas, oil, and fuel expenses	38,429	25,799	12,630	49
Bad debts	49,688	60,666	(10,978)	(18)
Insurance expense	32,262	33,320	(1,058)	(3)
Professional fees	(2,196)	14,461	(16,657)	(115)
Repairs and maintenance	18,837	17,041	1,796	11
Supplies	1,322	4,548	(3,226)	(71)
Communications	20,460	12,214	8,246	68
Training and travel	51,830	61,695	(9,865)	(16)
Utilities	330,967	322,988	7,979	2
Rent	236,931	257,931	(21,000)	(8)
Other operating expenses	37,632	53,091	(15,459)	(29)
Total	$ 1,355,212	$ 1,427,852	$ (72,640)	(5)
Less: Depreciation	$ 2,883,026	$ 1,495,748	$ 1,387,278	93

The actual operating expenses excluding depreciation are lower than the budget by $ 72,640 or 5% in terms of percentage. The only operating expenses that have increased or over the budget are:

<u>Gas, Oil, and Fuel:</u> The budget was based on the FY 2012 year-end projection plus 40% increase. It exceeded the approved budget in FY 2013 due to the following reasons:

- The budget in FY 2013 did not include the gasoline for the generator at the Terminal and ARFF Building, which normally consumed 1,000 gallons, which cost around $ 4,500.00;
- The basis for the projection for the airport staff bus is the FY 2012 year-end projection plus 40%, but was miscalculated at 613 gallons. There was an error in calculating the total consumptions in FY 2012 and included only 613 gallons instead of 1,463 gallons, which is the actual in FY 2012;
- The actual consumptions for the two fire trucks are higher by 99 gallons of diesel. The increase was actually due to the increase in the flight activities at AKIA; and
- The cost of diesel went up by $ 0.20 per gallon.

<u>Communications:</u>

The basis of the budget was the average of five years including the FY 2012 year-end projection. The FY 2012 year-end projection was understated thus the budget was short. The basis of the communications should have been the FY 2012 year-end projection plus 3% and not on the average basis. The actuals in FY 2011 and FY 2012 is $ 17,836 and $ 18,251, respectively. Telephone particularly the fax is being used when communicating with the customers at the Airport.

B. SEAPORT DIVISION

- Net position has greatly increased by $ 992,206 million in the fiscal period ending September 30, 2013 compared with the $ 339,462 in the fiscal period ending September 30, 2012. The increase was due to the increase in the vessels arrivals especially the cargo vessels during the fiscal year 2013.

- Operating revenues increased by 23% or by $ 477,405. Pilotage, Wharfage, Foreign Vessel Entry Fees, International Dockage Fees have increased significantly during fiscal year 2013. The vessels arrivals and movements increased by 24 vessels and 165 movements, respectively during the fiscal year ending September 30, 2013.

- Operating expenses excluding depreciation increased very slightly by $ 3,429 or .3% for fiscal period ending September 30, 2013. Pilotage fees and Training and Travel are among those that increased in FY 2013.

- Seaport Division's operating income before depreciation for the period ending September 30, 2013 increased by $ 473,976 or 51% when compared to last fiscal year's operating income.

A. SEAPORT DIVISION, CONTINUED

DIVISIONAL STATEMENT OF REVENUES AND EXPENSES

	2013	2012	Change	%	2011
Operating revenues:					
Pilotage Fees	$ 736,950	$ 568,906	$ 168,044	30	$ 460,164
Pilot Boat Usage Fees	395,700	362,900	32,800	9	314,500
Wharfage Fees	524,630	419,962	104,667	25	477,309
Dockage Fees - International	236,336	195,170	41,166	21	154,002
Dockage Fees - Domestic	(600)	5,890	(6,490)	(110)	40,739
Concession and Lease Income	131,185	102,391	28,794	28	97,080
Anchorage Fees	57,887	47,584	10,303	22	28,054
Foreign Vessel Entry Fees	185,157	105,277	79,880	76	85,445
Domestic Entry Vessel Fees	157,676	155,800	1,876	1	-
Light Dues	36,600	21,810	14,790	68	34,980
Port Security Improvement Fees	32,800	27,250	5,550	20	-
Fuel and Water Service Fees	23,636	23,459	177	1	20,865
Boarding Party Fees	51,975	48,900	3,075	6	-
Disembarked and Change Crew	518	1,708	(1,190)	(70)	750
Other Operating Revenues	9,125	15,163	(6,038)	(40)	155,612
Total	$ 2,579,575	$ 2,102,170	$ 477,405	23	$ 1,869,500

VESSELLS ARRIVALS

	2013	2012	Change	%	2011
Cargo Vessels	119	56	63	113	59
Fishing Vessels - International	526	474	52	11	477
Fishing Vessels - Domestic	549	651	(102)	(16)	573
Foreign Tankers	20	16	4	25	13
Military ships	5	4	1	25	6
Others	13	7	6	86	4
Total	1,232	1,208	24	2	1,132

Vessels traffic during fiscal year 2013 has increased by 24 vessels or 2% compared to last fiscal year 2012. Cargo vessels have increased significantly by 63 vessels or 113%.

Another contributor to the increase was the increase in the number of movements during fiscal year 2013. It increased by 165 movements from 1,558 in FY 2012 to 1,723 in FY 2013. This is an 11% increase when compared to last fiscal year.

A. SEAPORT DIVISION, CONTINUED

Wharfage Fees increased by $ 104,667 or by 25% in FY 2013. The increase was due to an increase of metric tons for Petroleum of 26,999 or 69%.

WHARFAGE FEES

	Metric Tons				
	2013	2012	Change	%	2011
Petroleum	66,298	39,299	26,999	69	61,788

	2013	2012	Change	%	2011
Operating expenses:					
Salaries and wages	$ 451,599	$ 459,373	$ (7,774)	-2	$ 466,090
Pilotage	326,528	265,084	61,444	23	226,693
Pilot Boat	146,344	186,447	(40,103)	-22	74,425
Gas, Oil, and Fuel	12,855	10,938	1,917	18	-
Insurance expense	29,167	35,575	(6,408)	-18	32,001
Bad debts	34,855	35,975	(1,121)	-3	44,299
Repairs and maintenance	6,269	3,490	2,780	80	6,094
Training & travel	39,405	31,753	7,652	24	15,677
Utilities	33,204	35,543	(2,339)	-7	17,841
Rent	36,249	36,249	-	0	84,007
Other operating expenses	52,032	64,652	(12,620)	-20	69,050
Total	1,168,507	1,165,078	3,429	0.3	1,036,176
Income before depreciation	1,411,068	937,092	473,976	51	833,324
Less: Depreciation	462,108	436,419	25,689	6	403,727

The operating expenses are slightly higher by 0.3% when compared to last fiscal year 2012. The two accounts that have increased significantly are:

Pilotage expenses – this expense account will increase as the revenue increases. This account is the total sum of the 10% pilotage training fund and the 40% due to the Pilot. The actual pilotage expense incurred is $ 326,528 or 23% higher when compared to last fiscal year 2012; and

Travel and training – the actual expense incurred is $ 39,405; this is 24% higher when compared to last fiscal year 2012. This includes travel requested by the Minister, which amounted to $ 8,901. The budget under the Minister's travel under Seaport is $ 3,000 thus the actual exceeded by $ 5,901. This includes additional staff to attend the Annual MSC meeting and one staff to assist the Minister in Palau.

Please take note that the approved budget for the fiscal year 2013 is $ 51,529 including the local training, workshops, seminars, and conferences of $ 6,300.

B. SEAPORT DIVISION, CONTINUED

ANALYSIS OF ACTUAL VERSUS BUDGET – FY 2013

OPERATING REVENUES:

	Actual	Budget	Change	%
Operating revenues:				
Pilotage Fees	$ 736,950	$ 542,000	$ 194,950	36
Pilot Boat Usage Fees	395,700	351,015	44,685	13
Wharfage Fees	524,630	426,274	98,356	23
Dockage Fees - International	236,336	169,559	66,777	39
Dockage Fees - Domestic	(600)	13,545	(14,145)	-104
Concession and Lease Income	131,185	109,564	21,621	20
Anchorage Fees	57,887	42,912	14,975	35
Foreign Vessel Entry Fees	185,157	180,812	4,345	2
Domestic Entry Vessel Fees	157,676	157,635	41	0
Light Dues	36,600	25,900	10,700	41
Port Security Improvement Fees	32,800	43,750	(10,950)	-25
Fuel and Water Service Fees	23,636	21,561	2,075	10
Boarding Party Fees	51,975	87,000	(35,025)	-40
Disembarked and Change Crew	518	2,018	(1,500)	-74
Other Operating Revenues	9,125	9,339	(214)	-2
Total	$ 2,579,575	$ 2,182,884	$ 396,691	18

The Seaport Division actual operating revenues have exceeded the projected revenues for fiscal year 2013 by $ 396,691 or 18%.

Below are the significant ones that go below the approved budget for fiscal year 2013:

Domestic Dockage Fees: There were no billings or invoices issued during the fiscal year. Most of the outstanding receivables from the Seaport are related to this fee. Most of them are already included in the Allowance for Doubtful Accounts. The Board did not approve the writing-off of the receivables thus RMIPA will continue to bill customers for dockage and pursue collections for the outstanding receivables.

Port Security Improvement Fee: The budget was overstated in FY 2013 due to overstatement of projection in fiscal year 2012, which was the basis for the budget in FY 2013. The budget was based on FY 2012 year-end projection plus 5%.

Boarding Party Fees: The budget was overstated in FY 2013 due to overstatement of projection in fiscal year 2012, which was the basis for the budget in FY 2013. The budget was based on FY 2012 year-end projection plus 5%.

OPERATING EXPENSES:

	Actual	Budget	Change	%
Operating expenses:				
Pilotage expenses	$ 326,528	$ 195,120	$ 131,408	67
Pilot boat expenses	146,344	172,820	(26,476)	-15
Salaries and wages	451,599	404,938	46,661	12
Gas, oil, and fuel expenses	12,855	19,188	(6,333)	-33
Bad debts	34,855	50,061	(15,206)	-30
Insurance expense	29,167	33,331	(4,164)	-12
Professional fees	15,977	13,400	2,577	19
Repairs and maintenance	6,269	17,041	(10,772)	-63
Supplies	5,971	9,071	(3,100)	-34
Communications	15,157	14,887	270	2
Training and travel	39,405	51,529	(12,124)	-24
Utilities	33,204	29,098	4,106	14
Rent	36,249	36,249	-	-
Other operating expenses	14,927	31,532	(16,605)	-53
Total	1,168,507	1,078,265	90,242	8
Less: Depreciation	462,108	354,303	107,805	30

The actual operating expenses excluding depreciation are higher than the budget by $ 90,242 or 8% in terms of percentage. The operating expenses that have significant increase or over the budget are:

The Pilotage fees: This account has a counterpart revenue account. The actual Pilotage revenues had increased by $168,044 or 30% when compared to last fiscal year. The increase was due to the increase in the number of movements in FY 2013 by 165 movements or 11%.

Salaries and wages: This expense went over the budget by $46,661 when RMIPA hired five additional security personnel at Fish Base Facility. As you may already be aware of, the Government of the RMI has instructed the RMI Ports Authority (RMIPA) to place port security officers at the Fish Base Facility currently operated by MIFV. In performing their duties, the RMIPA port security officers shall enforce security requirements at the Fish Base Facility in accordance with the approved Port Security Plan, to include but not limited to, controlling access at the main gate, monitoring and/or temporarily detaining persons whom the security guards suspect of committing illegal activities, searching vehicles/persons and temporarily confiscating any goods or merchandise suspected to be smuggled into the country through the Fish Base Facility, etc.

For the fiscal year ending September 30, 2013, the Ports Authority's Seaport Division earned an operating income including depreciation expense of $ 948,960 which is higher than budget by 26%.

VIII. BUDGET COMPARISONS (Current vs. Next)

	Actual	Budget	Change	%
Operating revenues:				
Airport Division	$ 997,470	$ 948,788	$ 48,682	5
Seaport Division	2,640,040	2,182,883	457,157	21
	3,637,510	3,131,671	505,839	16

Operating expenses:				
Airport Division	1,592,299	1,427,852	164,447	12
Seaport Division	817,251	1,078,265	(261,014)	(24)
	2,409,550	2,506,117	(96,567)	(4)
Depreciation and amortization:				
Airport Division	4,463,890	1,495,748	2,968,142	198
Seaport Division	490,608	354,303	136,305	38
	4,954,498	1,850,051	3,104,447	168
Non-operating revenues (expenses):				
Airport Division	(25,979)	(119,368)	93,389	(78)
Seaport Division	(38,548)	17,786	(56,334)	(317)
	(64,527)	(101,582)	37,055	(36)
Change in Net Position:				
Airport Division	(5,084,698)	(2,094,180)	(2,990,518)	143
Seaport Division	1,293,633	768,101	525,532	68
	$ (3,791,065)	$ (1,326,079)	$ (2,464,986)	186

The Board of Directors for the Ports Authority meets every year to review and deliberate on the Ports Authority's annual budget as proposed by the management. The operating budget for each fiscal year is prepared based on consultations with the Ports Authority's managers. The budget amounts, in most cases, are based on an annual average of the last two audited fiscal years' performances, which provide a "realistic" prediction of how the Ports Authority will perform in the new or upcoming fiscal year.

Once the Board approves the budget, it is rarely changed or revised, unless unusual or unforeseen events occur during the fiscal period. Some of these events may have a significant impact to the financial position of the Ports Authority.

OPERATING REVENUE BUDGET

The FY 2014 proposed budget shows that the Ports Authority will earn approximately $ 3.6 million in operating revenues, inclusive of non-operating income and expenses. This is about 18% more than the FY 2013 approved budget. For FY 2014 budget, the projected revenue fees are based on the revenues indicators of Airport and Seaport same as FY 2013 budget. Concession and Lease Income are based on the existing contracts. Some are based on the annual average of the last four audited fiscal years' performances and FY 2013 year-end projection and others are based on FY 2013 projected year-end plus 5% increase. About 73% of the total operating revenues will be generated by the Seaport Division.

Airport operating revenues for FY 2013 have reached the $ 1.0 million mark. This is the first time it happened since the Airport Authority was established in FY 2000; the Airport revenues increased by 11% in fiscal year 2013 when compared to the last fiscal year 2012. This is the third time it happened since Seaport and Airport merged in 2003. With this, Ports Authority will push more and do its best to meet its target budget in fiscal year 2014. Though, it will be difficult since the AKIA is presently not earning enough revenue to pay for its operating expenses. In spite of the proposed target revenues, airport might incur possible cash deficit of $ 620,808 in fiscal year 2014; this, will again be subsidized by the Seaport operation. This is critical with the multi-million dollar projects or infrastructures being built at AKIA. The airport must be financially sustainable to pay for its own operating costs, which includes maintaining its high value assets or facilities.

OPERATING EXPENSES BUDGET

The FY 2014 budget estimates the Ports Authority will incur a little over $ 2.4 million in operating expenses. This figure excludes depreciation expenses. This, however, is lower by $ 96,567 or 4% when compared to the last fiscal year budget.

The Airport Division's total expenses budget for FY 2014 is $ 1.6 million, this is 12% increase from FY 2013's approved budget. Despite the fact that airport is having problems in generating more revenues, maintaining an airport is more compared to the seaport. It is also noted that cost of gasoline or fuel has an adverse effect in the operation. RMIPA still foresees that the biggest expenditures for the Airport Division for FY 2014 are Salaries and wages, Utilities, and Land Lease. It should be noted that while the airport is burdened with this land lease cost, other government entities are commercially benefiting from it. As previously mentioned on the previous audit reports, the runway catches and stores rainwater which is sold by the Majuro Water & Sewer Company (MWSC). The MWSC profits from this water while the Ports Authority pays for the land areas where the runway catchments are situated on. The RMIPA does not receive any compensation from the MWSC for this water. In fact, the Ports Authority buys water from MWSC for its airport facilities and also for the fire fighting trucks.

The Seaport Division's total expenses budget for FY 2014 is $ 817,251, this is lower by $ 261,014 compared to FY 2013's approved budget. For FY 2014 budget, it was proposed to make use of the self-piloting where in 100% of the Pilotage Revenue will be retained by RMIPA. Self-piloting will significantly reduce the use of the Pilot Boat to transfer pilots to/from the pilot station. This will have a direct impact on the fee RMIPA charges for the Pilot Boat. Thus, Pilotage expense is zero for FY 2014 budget.

Other expenses that RMIPA foresee in FY 2014 are:

- The replacement of fire fighting gears as they are all worn out and needs to be changed for the safety of airport firefighters;
- Provision to pay 100% of the Anchorage Fee to MalGov;
- Maintenance of website and other facilities like the docks and runway;
- Property insurance due to inclusion of the ARFF Building;
- NIMS/ICS training course for the Airport and Seaport; and
- Travel related to board meetings, DOI, and ADB.

IX. RELATED PARTY TRANSACTIONS

The receivables from government entities and agencies increased from $ 655,347 as of September 2012 to $ 748,602 as of September 30, 2013. The details are shown below:

	As of Sept 30, 2013	As of Sept 30, 2012
AMI - Accounts Receivable	$ 394,845	$ 355,901
Directorate of Civil Aviation	27,166	23,049
Marshall Islands Shipping Corporation	116,456	81,721
Marshall Energy Company	19,058	5,989
Ministry of Public Works	16,343	15,964
Ministry of Transportation and Communication	128,882	128,882
Ministry of Finance	28,039	27,831
Other	17,813	16,010
	$ 748,602	$ 655,347

The nature of the receivables with significant balances is as follows:

- Air Marshall Inc. – billings for utilizing the airport facilities, including landing charges, navigation aids, office space leases, electricity;

- Ministry of Transportation and Communication – billings for usage of dock facilities and various advances; most of the charges are very "old".

- Marshall Islands Shipping Corporation – billings for rental in arrears, wharfage fees, bunkering, and dockage fees;

- Marshall Energy Company – wharfage fees on petroleum;

- Ministry of Public Works – dockage fees, wharfage, and bunkering fees;

- Directorate for Civil Aviation – billings for electric usage and office rental; and

- Ministry of Finance – billings for dockage fees, bunkering fees, and security ID's

The Ports Authority has tried sending statement of accounts and letters to some of the government agencies and through receivable confirmation but others did not respond. These accounts are forwarded to the RMIPA Board of Directors for review and determination on further action such as referring accounts for legal or to write them off.

In addition to the above, Ports Authority is also providing services to these government entities and agencies that are not quantified and, as such, not included in abovementioned receivables, like use of office space, parking space provision, landlease, and electricity usage.

The Ministry of Foreign Affairs (Ministry), and the Directorate of Civil Aviation (DCA) have been provided with VIP Lounge and office space facility, respectively, at the airport but neither payments nor compensation have been received for the use of these facilities. In addition to the VIP Lounge, parking space has been made available for free and Ports Authority is paying the landlease rental and electricity usage for the VIP Lounge.

Please also note that, Ports Authority is paying landlease rental for the following government entities:

- Marshall Islands Shipping Corporation (at Uliga Dock); and;
- Majuro Water & Sewer Company (MWSC) (at the Airport);
- Marshall Energy Company (at the airport); and
- National Telecommunications Authority (at the Airport).

The above entities are commercially benefitting at the expense of the Ports Authority, with no offset or reimbursement to the Ports Authority. The following bullet points explain the situation and other discrepancies in the Ports Authority's land leases:

- Ports Authority is paying the lease for airport land used for the water catchment that MWSC commercially gain from. The water catchment system on the runway uses approximately 30 acres of airport land. At $ 3,000.00 per acre, that equates to $ 90,000 per year of lease payment that the RMIPA is paying for which the MWSC commercially gains from.

- It should be noted that the runway water catchment supplies more than 223 million gallons of rainwater annually to Majuro's main water reservoirs near the airport.

- Exxon Mobil leased area at the airport is being paid twice to the RMI: one by Exxon Mobil and the other by RMIPA. The lease payment is $ 3,000 a year.

- Approximately 0.2867 hectares (0.7085 acres) of lease is being paid for the Delap Dock that is actually located in the lagoon waters.

- Approximately 0.1970 hectares (0.4868 acres) east of the Delap container yard is within the MEC complex.

- There is also a portion of land that is apparently covered under both ground lease agreements, which suggests that the ground lease for this section of land is being leased or paid twice.

In total (both airport and seaport), there's **32.2423 acres** of land that the Ports Authority either is paying for the commercial benefit of other government organizations, is double charged for, or should not be paying at all (i.e. area is on water). This equates to **$96,726.90 annual lease payments** that the Ports Authority should be reimbursed for.

There is a possibility that land lease rental for the land occupied by Air Marshall Islands (AMI) hangar and the ARFF Station at the airport will also be paid by Ports Authority in the future. Landowners for these "wetos" or land areas have demanded payment/compensation from the Government, although an existing lease is in place. The existing airport lease has not been amended to reflect these "increases" in airport land area.

For the space facilities being provided to DCA, at the Ports Authority's head office and at the airport, Ports Authority is losing $240 per month for space rental. Aside from DCA, the Ministry of Transportation & Communications (at the Uliga Dock) is occupying space facilities, which costs $ 240 per month, too.

X. CASHFLOW PROJECTION

The Ports Authority's general fund balance as of September 30, 2013 is $ 497,934.95. In October 2012 and January 2013, the Authority obtained a $1.0 million, 7.5% interest and a $ 700,000, 7% interest bank loan, respectively. These are payable in 60 and 71 months, respectively. The loans are collateralized by a time certificate of deposit. The proceeds of the loan were used to cover the cash shortfall for its ongoing AIP and RMIPA-funded projects.

The $ 250,000 bank loan obtained last FY 2010 related to the procurement of Pilot Boat was fully paid in August 2013.

RMIPA is expending 10% for its AIP projects in fiscal year 2013. The total amount expended in local matchings in fiscal year 2013 for the AIP projects is $ 647,149. Out of this amount, approximately $ 621,441 was expended for the RSA/Road Realignment Project. In FY 2014 budget, approximately $1.8 million is going to be expended for the existing AIP projects. This does not include yet the CIP projects and other capital expenditures, maintenance and upkeep that will be funded by RMIPA. Last FY 2013, the Ports Authority had planned to improve its facilities particularly on the Seaport side since it is the one which generates more revenues to the Ports, but it never happened thus the same will be included in this year's budget.

The Ports Authority's Time Certificate of Deposit balance as of September 30, 2013 is $ 2.03 million. Please take note that $ 1.7 million was used as collateral for the two loans in October 2012 and January 2013 amounting to $ 1.0 million and $ 700,000, respectively. The TCD earned a net interest, after deducting interest expense, of $ 42,606 in FY 2013.

XI. U.S. FEDERAL GRANTS PROJECTS

Projects funded by the U.S Federal Grants with corresponding local matching funds are shown below. The project cost and disbursement amounts below include cost for A&E services, CM services, construction, and administrative expenses as of September 30, 2013.

The table below shows that since FY 2004, the Ports Authority has executed nearly $ 69.0 million worth of capital projects. The Ports Authority has already disbursed $ 61.0 million to consultants and contractors, leaving a balance of about $ 8.0 million still to be paid out. Approximately $ 58.0 million of the disbursements are grant funds received from U.S. federal grant programs, mostly from the FAA's Airport Improvement Program. Ports Authority has started to pay for the local matchings in fiscal year 2011 for its FAA-AIP Projects. In addition, AIP matchings increased from 5% to 10% for the new grants in FY 2013.

	Project Costs	Disbursements	U.S. Grants	RMI Finance	Ports Authority
Runway Overlay	$ 16,390,934	$ 16,390,934	$ 15,600,749	$ 790,184	$ -
Apron/Taxiway	9,792,211	9,792,211	9,253,166	473,305	65,740
ARFF Building and Facilities	16,210,310	16,210,310	15,311,863	212,393	686,053
ARFF Vehicles and Accessories	1,634,801	1,634,801	1,573,670	61,131	-
Road Realignment	21,576,615	13,952,543	13,069,336	-	883,207
Airport Master Plan	1,131,685	1,121,385	1,033,644	-	87,741
Data Management System	234,000	215,473	161,554	-	53,919
NDB/DME	1,603,512	1,429,903	1,364,957	-	64,945
FAA-GIS	412,752	298,214	280,780	-	17,434
Totals	$ 68,986,820	$ 61,045,774	$ 57,649,719	$ 1,537,013	$ 1,859,039

Please see table below the details of the matching funds for fiscal year 2013:

FAA - AIP Projects	FAA	RMIPA	REPMAR
AIP-07 (CM & Design)	$ 351,704	$ 18,511	$ -
AIP-09	4,201,013	221,106	-
AIP-10	2,503,254	131,750	-
AIP-11	102,192	5,379	-
AIP-12	34,535	1,818	-
AIP-13	2,417,266	268,585	-
Totals	$ 9,609,964	$ 647,149	$ -

The following are the AIP Grants awarded by the FAA to the Ports Authority since FY 2004. The amounts showing below are the original amounts of the grants when issued/awarded.

- Project No. 3-68-0001-03, Acquire two (2) 1,500-gallon Aircraft Rescue and Fire Fighting (ARFF) vehicles with protective clothing, for $1.5 million;
- Project No. 3-68-0001-04, Construct ARFF Building – Phase I (Design), for $1.0 million;
- Project No. 3-68-0001-05, Rehabilitate Runway 7/25 – Phase I, for $10.0 million;
- Project No. 3-68-0001-06, Rehabilitate Runway 7/25 – Phase II, for $13.0 million;
- Project No. 3-68-0001-07; Construct ARFF Building – Phase II, for $13.0 million; Modify Service Road – Phase I (Design), for $1.0 million;
- Project No. 3-68-0001-08; Develop Airport Master Plan (Planning), for $999,995;
- Project No. 3-68-0001-09, Road Realignment Project/RSA, for $ 8.0 million;
- Project No. 3-68-0001-10, Additional Funding for Road Realignment Project/RSA, for $ 3.0 million.
- Project No. 3-68-0001-11, FAA-GIS Project, for $ 500,000;
- Project No. 3-68-0001-12, Airport Security Fence Project, for $ 200,000; and
- Project No. 3-68-0001-13, Additional Funding Installment for Road Realignment/RSA, for $ 12,000,000.00.

The following AIP grants were increased through Grant Amendments as detailed below. The increases are additional grant funds issued to the Ports Authority on top of the original grant amount.

- Project No. 3-68-0001-03; acquire two (2) 1,500-gallon Aircraft Rescue and Fire Fighting (ARFF) vehicles - grant amendment of $51,772 issued on 30 April 2009.

- Project No. 3-68-0001-04, Construct ARFF Building – grant amendment of $124,063 issued on 13 February 2009.

- Project No. 3-68-0001-05, Rehabilitate Runway 7/25 – grant amendment of $1.5 million issued on 08 September 2009.

- Project No. 3-68-0001-07, Construct ARFF Building – Phase II, grant amendment of $ 2.1 million.

The following is a new grant which was approved on September 21, 2013:

- Project No. 3-68-0001-14, Install Perimeter Fencing - Phase II, for $ 2,000,000.00 approved on September 20, 2013

The local matching for the new grant mentioned is 10% thus the local matchings for RMIPA for this newly issued grant would total to $ 200,000.

For additional information concerning Port Authority's capital assets, please refer to Note 4 to the accompanying financial statements.

Management's Discussion and Analysis for the year ended September 30, 2012 is set forth in the Ports Authority's report on the audit of financial statements, which is dated June 28, 2013. That Discussion and Analysis explains the major factors impacting the 2012 financial statements and can be obtained from the Ports Authority's Executive Director via the contact information below.

XII. ECONOMIC AND EXTERNAL FACTORS

These are some events that happened or might happen during the fiscal period September 30, 2013 and beyond:

- Depreciation expense will increase in 2014 due to investment on existing facilities such as the Road Realignment/RSA Project, NDB/DME Project, and Airport Security Fence.

- Maintenance cost is also anticipated to increase due to the existing facilities, transportation equipment and ARFF building at the Airport.

- Migratory nature of tuna and increases in price of fuel will have a positive effect in fishing vessels traffic to Majuro.

- The ongoing construction of its road realignment and runway safety area projects, which started in fiscal year 2012, will make a lot of improvements in the Marshall Islands.

- The delay in the construction of the existing RSA/Road Realignment will have a big impact on the financial operation of RMIPA.

- When all of the U.S.FAA-AIP Projects at the airport are completed, maintenance and utilities costs will increase, yet the airport's revenues and tariffs remain constant. This will significantly increase the cash deficit that the airport incurs each year if measures to either increase revenues or decrease expenses, or both, are not implemented.

- The operating cash shortfall incurred by the Airport Division will continue and will get worse unless measures are implemented to increase revenues or decrease revenues, or both.

- 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 Koos Fishing Company. ***This policy has an adverse effect on RMIPA's financial performance. In FY 2012 and FY 2013, the result will be an annual loss of port revenues of approximately $ 101,175 and $ 101,700, respectively.***

  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) with AMI as described in Note 5. There is a possibility that the loan receivable may not be recoverable. But, management of the Authority is currently discussing alternative arrangements to ensure collection of this loan receivable. In addition to this loan, the Authority has a receivable from AMI of $ 394,845 included in 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

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, 2013 and 2012

ASSETS	2013	2012
Current assets:		
Cash	$ 502,154	$ 76,408
Time certificate of deposit	329,999	1,637,973
Receivables:		
Trade	475,330	453,656
Affiliates	748,602	655,347
Note receivable	237,702	237,702
Interest receivable	129,183	106,219
Grants receivable	672,247	1,646,564
Employees	18,678	15,631
	2,281,742	3,115,119
Less allowance for doubtful accounts	(856,694)	(772,151)
	1,425,048	2,342,968
Prepaid expenses and other assets	16,890	45,433
Total current assets	2,274,091	4,102,782
Restricted time certificate of deposit	1,700,000	295,000
Capital assets:		
Nondepreciable capital assets	16,330,942	9,043,061
Other capital assets, net of accumulated depreciation	40,675,722	41,389,811
	$ 60,980,755	$ 54,830,654
LIABILITIES AND NET POSITION		
Current liabilities:		
Current portion of note payable	$ 287,456	$ 53,434
Accounts payable	59,077	15,175
Contracts payable	881,118	2,453,551
Payable to affiliates	277,988	412,812
Due to RepMar	785,714	785,714
Other liabilities and accruals	163,090	195,503
Total current liabilities	2,454,443	3,916,189
Noncurrent portion of note payable	1,193,551	-
Total liabilities	3,647,994	3,916,189
Commitments and contingencies		
Net position:		
Net investment in capital assets	55,525,657	50,379,438
Unrestricted	1,807,104	535,027
Total net position	57,332,761	50,914,465
	$ 60,980,755	$ 54,830,654

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, 2013 and 2012

	2013	2012
Operating revenues:		
Seaport fees	$ 2,439,265	$ 1,984,616
Aviation fees	747,014	671,834
Concession and lease income	210,791	175,606
Other	207,101	189,943
	3,604,171	3,021,999
Allowance for doubtful debts	(84,543)	(69,241)
Total operating revenues	3,519,628	2,952,758
Operating expenses:		
Depreciation	3,345,134	4,854,290
Salaries and wages	990,649	1,028,414
Utilities	364,170	425,048
Pilotage	326,528	265,084
Land lease	273,180	294,180
Pilot boat	146,344	186,447
Training and travel	91,235	224,348
Insurance	61,429	64,814
Gas, oil, and fuel	51,284	40,754
Communications	35,617	34,561
Repairs and maintenance	25,106	26,878
Professional fees	13,781	34,614
Supplies	7,293	11,224
Miscellaneous	52,559	57,391
Total operating expenses	5,784,309	7,548,047
Operating loss	(2,264,681)	(4,595,289)
Nonoperating revenues (expenses):		
Gain (loss) on disposal of capital assets	879	(2,302)
Interest income	119,990	126,307
Contributions to RepMar	-	(500,000)
Interest expense	(103,125)	(9,055)
Total nonoperating revenues (expenses), net	17,744	(385,050)
Loss before capital contributions	(2,246,937)	(4,980,339)
Capital contributions:		
Contributions from U.S. government	8,635,647	3,766,816
Contributions from RepMar	29,586	-
Total capital contributions	8,665,233	3,766,816
Change in net position	6,418,296	(1,213,523)
Net position at beginning of year	50,914,465	52,127,988
Net position at end of year	$ 57,332,761	$ 50,914,465

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, 2013 and 2012

	2013	2012
Cash flows from operating activities:		
Cash received from customers	$ 3,363,374	$ 2,860,995
Cash payments to suppliers for goods and services	(1,418,662)	(1,433,775)
Cash payments to employees for services	(992,484)	(1,053,827)
Net cash provided by operating activities	952,228	373,393
Cash flows from noncapital financing activities:		
Net loan advanced to Air Marshall Islands, Inc.	-	(379)
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(11,491,434)	(2,960,921)
Proceeds from issuance of long-term debt	1,700,000	-
Principal paid on long-term debt	(272,427)	(111,095)
Interest paid on long-term debt	(103,125)	(9,055)
Proceeds from sale of capital assets	954	-
Capital contributions received	9,639,550	2,646,294
Net cash used for capital and related financing activities	(526,482)	(434,777)
Net change in cash	425,746	(61,763)
Cash at beginning of year	76,408	138,171
Cash at end of year	$ 502,154	$ 76,408
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	$ (2,264,681)	$ (4,595,289)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation	3,345,134	4,854,290
Bad debts	84,543	69,241
(Increase) decrease in assets:		
Receivables:		
Trade	(21,675)	(76,918)
Affiliates	(93,255)	(84,086)
Other	(3,046)	60,482
Prepaid expenses and other assets	28,543	8,457
Increase (decrease) in liabilities:		
Accounts payable	43,902	112,762
Payable to affiliates	(134,824)	(91,545)
Other liabilities and accruals	(32,413)	115,999
Net cash provided by operating activities	$ 952,228	$ 373,393
Summary of noncash financing activities:		
Construction work-in-progress	$ -	$ 1,836,549
Contracts payable	-	(1,836,549)
	$ -	$ -

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 Marshall Islands Airport Authority and Marshall Islands Ports Authority 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.

(2) Summary of Significant Accounting Policies, Continued

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.

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 and liabilities 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.

Change in Accounting Estimate

During the year ended September 30, 2012, the Authority changed the estimated useful life of Runway apron upgrade from 20 years to 15 years, which impacted depreciation expense and accumulated depreciation. For the year ended September 30, 2012, the Authority recorded depreciation expense of $3,330,376 for Runway apron upgrade, of which $1,586,521 resulted from the effect of a change in an accounting estimate.

Basis of Accounting

Proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities 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 total 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.

(2) Summary of Significant Accounting Policies, Continued

Basis of Accounting, Continued

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.

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, 2013 and 2012, the carrying amount of cash and time certificates of deposit were $2,532,153 and $2,009,381, respectively, and the corresponding bank balances were $2,540,330 and $2,038,032, respectively. Of the bank balances, $502,389 and $73,778, respectively, were maintained in a financial institution located in Majuro subject to Federal Deposit Insurance Corporation (FDIC) insurance with the remaining balances maintained in a non-FDIC bank. As of September 30, 2013 and 2012, time certificates of deposit of $1,700,000 and $295,000 collateralized notes payable (see note 6). As of September 30, 2013 and 2012, bank deposits of $250,000 and $73,778, respectively, were FDIC insured. Accordingly, these deposits are exposed to custodial credit risk. The Authority does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized.

Receivables

All receivables are 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.

(2) Summary of Significant Accounting Policies, Continued

Property, Plant and Equipment

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

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

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.

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, 2013 and 2012, an accumulated vacation leave liability of $82,280 and $84,270, respectively, is included in other liabilities and accruals of the accompanying statements of net position.

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. The Authority has no items that qualify for reporting in this category.

Deferred Inflows of Resources

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, 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.

Reclassifications

Certain balances in the 2012 presentation have been reclassified to conform to the 2013 presentation.

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards

During the year ended September 30, 2013, the Authority implemented the following pronouncements:

- GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements, which* addressed how to account for and report service concession arrangements (SCAs), a type of public-private or public-public partnership that state and local governments are increasingly entering into. The implementation of this statement did not have a material effect on the accompanying financial statements.

- GASB Statement No. 61, *The Financial Reporting Entity: Omnibus*, which improved financial reporting for governmental entities by amending the requirements of Statements No. 14, *The Financial Reporting Entity*, and No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments,* to better meet user needs and address reporting entity issues that have come to light since those Statements were issued in 1991 and 1999, respectively. The implementation of this statement did not have a material effect on the accompanying financial statements.

- GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which enhanced the usefulness of its Codification by incorporating guidance that previously could only be found in certain Financial Accounting Standards Board (FASB) and American Institute of Certified Public Accountants (AICPA) pronouncements issued on or before November 30, 1989, which does not conflict or contradict GASB pronouncements. GASB Statement No. 62 superseded GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*. The implementation of this statement did not have a material effect on the accompanying financial statements.

- GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which established guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position, and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which clarifies the appropriate reporting of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. These Statements amend the net asset reporting requirements in Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. With the implementation of GASB Statement No. 63 and Statement No. 65, the Statement of Net Assets was renamed the Statement of Net Position. In addition, the Statement of Net Position includes two new classifications separate from assets and liabilities. Amounts reported as deferred outflows of resources are reported in a separate section following assets. Likewise, amounts reported as deferred inflows of resources are reported in a separate section following liabilities.

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In April 2012, GASB issued Statement No. 66, *Technical Corrections - 2012*, which enhances the usefulness of financial reports by resolving conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting. The provisions of this statement are effective for periods beginning after December 15, 2012. Management has not yet determined the effect of implementation of this statement on the financial statements of the Authority.

In June 2012, GASB issued Statement No. 67, *Financial Reporting for Pension Plans*, which revises existing guidance for the financial reports of most pension plans, and Statement 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 provisions in Statement 67 are effective for financial statements for periods beginning after June 15, 2013. The provisions in Statement 68 are effective for fiscal years beginning after June 15, 2014. Management has not yet determined the effect of implementation of these statements on the financial statements of the Authority.

In January 2013, GASB issued 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 provisions in Statement 69 are effective for fiscal years beginning after December 15, 2013. Management has not yet determined the effect of implementation of this statement on the financial statements of the Authority.

In April 2013, GASB issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, which requires a state or local government guarantor that offers a nonexchange financial guarantee to another organization or government to recognize a liability on its financial statements when it is more likely than not that the guarantor will be required to make a payment to the obligation holders under the agreement. The provisions in Statement 70 are effective for fiscal years beginning after June 15, 2013. Management has not yet determined the effect of implementation of this statement 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 during the years ended September 30, 2013 and 2012.

(4) Property, Plant and Equipment

Capital asset activity for the years ended September 30, 2013 and 2012, is as follows:

	October 1, 2012	Additions	Transfers	Reductions	September 30, 2013
Facilities	$ 18,875,524	$ -	$ 2,166,606	$ -	$ 21,042,130
Buildings	19,372,102	95,082	(145,871)	(1,689)	19,319,624
Equipment	1,031,605	13,385	401,261	(34,067)	1,412,184
Vehicles	2,144,270	71,335	-	(22,405)	2,193,200
Office furniture, fixtures and equipment	460,770	29,322	-	(28,182)	461,910
Runway apron upgrade	26,157,818	-	-	-	26,157,818
	68,042,089	209,124	2,421,996	(86,343)	70,586,866
Less accumulated depreciation	(26,652,278)	(3,345,134)	-	86,268	(29,911,144)
	41,389,811	(3,136,010)	2,421,996	(75)	40,675,722
Construction work-in-progress	9,043,061	9,709,877	(2,421,996)	-	16,330,942
	$ 50,432,872	$ 6,573,867	$ -	$ (75)	$ 57,006,664

	October 1, 2011	Additions	Transfers	Reductions	September 30, 2012
Facilities	$ 19,902,794	$ -	$ (1,027,270)	$ -	$ 18,875,524
Buildings	19,234,441	301,200	(64,306)	(99,233)	19,372,102
Equipment	952,583	54,525	100,752	(76,255)	1,031,605
Vehicles	2,097,574	46,696	-	-	2,144,270
Office furniture, fixtures and equipment	453,478	7,292	-	-	460,770
Runway apron upgrade	26,157,818	-	-	-	26,157,818
	68,798,688	409,713	(990,824)	(175,488)	68,042,089
Less accumulated depreciation	(21,971,174)	(4,854,290)	-	173,186	(26,652,278)
	46,827,514	(4,444,577)	(990,824)	(2,302)	41,389,811
Construction work-in-progress	3,664,480	4,387,757	990,824	-	9,043,061
	$ 50,491,994	$ (56,820)	$ -	$ (2,302)	$ 50,432,872

(5) Related Party Transactions

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

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

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

A summary of related party transactions for the years ended September 30, 2013 and 2012 and related receivable and payable balances as of September 30, 2013 and 2012, is as follows:

(5) Related Party Transactions, Continued

	2013			
	Revenues	Expenses	Receivables	Payables
Air Marshall Islands, Inc.	$ 67,334	$ 45,571	$ 394,845	$ -
Directorate of Civil Aviation	4,117	4,117	27,166	-
Marshall Islands National Telecommunications Authority	121	34,548	-	793
Marshall Islands Shipping Corporation	34,735	34,855	116,456	-
Marshall Islands Social Security Administration	-	78,053	-	-
Marshalls Energy Company, Inc.	-	364,002	19,058	58,836
Ministry of Public Works	-	-	16,343	-
Ministry of Transportation and Communication	-	-	28,882	34,638
Ministry of Finance	330	249,033	28,039	182,559
Other	4,319	567	17,813	1,162
	$ 110,956	$ 810,746	$ 748,602	$ 277,988

	2012			
	Revenues	Expenses	Receivables	Payables
Air Marshall Islands, Inc.	$ 55,412	$ -	$ 355,901	$ -
Directorate of Civil Aviation	6,578	-	23,049	-
Marshall Islands National Telecommunications Authority	118	29,626	-	4,409
Marshall Islands Shipping Corporation	48,154	-	81,721	-
Marshall Islands Social Security Administration	-	89,579	-	-
Marshalls Energy Company, Inc.	94,225	367,863	5,989	62,533
Ministry of Public Works	720	-	15,964	-
Ministry of Transportation and Communication	-	-	128,882	83,371
Ministry of Finance	500	-	27,831	261,313
Other	1,565	4,262	16,010	1,186
	$ 207,272	$ 491,330	$ 655,347	$ 412,812

During the year ended September 30, 1998, the Authority advanced cash, at an interest rate of 10%, to Tobolar Copra Processing Plant, Inc., a component unit of RepMar. Unpaid accrued interest of $36,659, which was fully provided for as of September 30, 2011, was written off during 2012.

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

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, 2013 and 2012. The loan bears interest fixed at 8% and is payable in 30 monthly installments of $11,560 beginning September 30, 2010. AMI has been in delinquent since February 2011 (see note 8). Outstanding accrued interest is $52,212 and $33,821 at September 30, 2013 and 2012, respectively, which is included in interest receivable in the accompanying statements of net position.

(5) 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 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, 2013 and 2012, the Authority compensated qualified pilots, who were employees and directors of the Authority, for pilotage services of $157,286 and $106,268, 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, 2012, $73,545 remained unpaid, and was included in other liabilities and accruals.

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, 2013 and 2012, the Authority was liable to RepMar in the amount of $785,714 pertaining to these authorized distributions. In addition, the Authority is liable to RepMar for $134,724 pertaining to electric bills dating back to 2004. The Authority is currently negotiating with RepMar for forgiveness of the foregoing liabilities.

(6) Notes Payable

On April 6, 2010, the Authority obtained a $295,000 bank loan, which bears interest fixed at 8.5% per annum and is payable in monthly installments of $9,330 for 34 months beginning April 30, 2010 with a final payment of $7,994 on March 28, 2013. The note is collateralized by a time certificate of deposit. The proceeds of the loan were used to purchase a pilot boat. This loan was paid in full on August 30, 2013.

On October 12, 2012, the Authority obtained a $1,000,000 bank loan, which bears interest fixed at 7.5% per annum and is payable in monthly installments of $20,125 for 59 months beginning November 30, 2012 with a final payment of $19,949 on October 30, 2017. The note is collateralized by a time certificate of deposit. The proceeds of the loan were used to finance various capital improvement projects.

(6) Note Payable, Continued

On January 11, 2013, the Authority obtained a $700,000 bank loan, which bears interest fixed at 7.0% per annum and is payable in monthly installments of $12,300 for 70 months beginning February 28, 2013 with a final payment of $11,478 on December 31, 2018. The note is collateralized by a time certificate of deposit. The proceeds of the loan were used to finance various capital improvement projects.

Changes in notes payable for the years ended September 30, 2013 and 2012, are as follows:

2013				
Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
$ 53,434	$ 1,700,000	$ (272,427)	$ 1,481,007	$ 287,456

2012				
Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
$ 164,529	$ -	$ (111,095)	$ 53,434	$ 53,434

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

Year ending September 30,	Principal	Interest	Total
2014	$ 287,456	$ 101,644	$ 389,100
2015	309,772	79,328	389,100
2016	333,653	55,447	389,100
2017	359,723	29,377	389,100
2018	159,032	8,517	167,549
2019	39,371	445	31,816
	$ 1,481,007	$ 274,758	$ 1,755,765

(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, 2013 and 2012 amounted to $39,419 and $27,332, respectively.

The Authority is under a five-year lease agreement with a shipping company to lease out warehouse space, expiring on July 31, 2014. The terms of the lease require a minimum monthly payment of $2,905.

(7) Commitments, Continued

Leases, Continued

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

Year ending September 30,	
2014	$ 136,100
2015	89,100
2016	79,400
2017	34,200
2018	27,100
2019 - 2023	82,700
2024 - 2025	9,900
Total	$ 458,500

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, 2013, the Authority has been awarded a total of $69,975,830 grant awards from the United States Department of Transportation. As of September 30, 2013, $11,490,933 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.

At September 30, 2013, outstanding principal and interest totaling $289,914 is due on loan to AMI (see note 5). AMI has defaulted on required payment terms; however, the Authority has not provided an allowance as management is discussing alternative arrangements to obtain collection. Additionally, outstanding affiliate receivables of $394,845 from AMI at September 30, 2013 is related to charges for office and warehouse space rentals and electricity charges, as the Authority is current partially subsidizing AMI's operations. This amount has been included in the allowance for doubtful accounts.

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, 2013

	Airport Division	Seaport Division	Total
Operating revenues:			
Seaport fees	$ -	$ 2,439,265	$ 2,439,265
Aviation fees	747,014	-	747,014
Concession and lease income	79,606	131,185	210,791
Other	197,976	9,125	207,101
	1,024,596	2,579,575	3,604,171
Bad debt expense	(49,688)	(34,855)	(84,543)
Total operating revenues	974,908	2,544,720	3,519,628
Operating expenses:			
Depreciation	2,883,026	462,108	3,345,134
Salaries and wages	539,050	451,599	990,649
Utilities	330,966	33,204	364,170
Land lease	236,931	36,249	273,180
Pilotage	-	326,528	326,528
Training and travel	51,830	39,405	91,235
Pilot Boat	-	146,344	146,344
Insurance	32,262	29,167	61,429
Gas, oil, and fuel	38,429	12,855	51,284
Professional fees	(2,196)	15,977	13,781
Communications	20,460	15,157	35,617
Repairs and maintenance	18,837	6,269	25,106
Supplies	1,322	5,971	7,293
Miscellaneous	37,632	14,927	52,559
Total operating expenses	4,188,549	1,595,760	5,784,309
Operating (loss) income	(3,213,641)	948,960	(2,264,681)
Nonoperating revenues (expenses):			
Loss on disposal of capital assets	167	712	879
Interest income	18,391	101,599	119,990
Interest expense	(44,060)	(59,065)	(103,125)
Total nonoperating expenses, net	(25,502)	43,246	17,744
(Income) loss before capital contributions	(3,239,143)	992,206	(2,246,937)
Capital contributions:			
Contributions from U.S. government	8,635,647	-	8,635,647
Contributions from RepMar	29,586	-	29,586
Total capital contributions	8,665,233	-	8,665,233
Change in net position	5,426,090	992,206	6,418,296
Net position at beginning of year	40,178,871	10,735,594	50,914,465
Net position at end of year	$ 45,604,961	$ 11,727,800	$ 57,332,761

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 the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of RMI Ports Authority (the Authority), which comprise the statement of net position as of September 30, 2013, 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 July 4, 2014.

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

July 4, 2014

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

Board of Directors
RMI Ports Authority:

Report on Compliance for Each Major Federal Program

We have audited RMI Ports Authority's (the Authority's) compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on its major federal program for the year ended September 30, 2013. 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 program.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the Authority's one 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 one 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 one major federal program for the year ended September 30, 2013.

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 its one major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for its one 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, 2013, and have issued our report thereon dated July 4, 2014, 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

July 4, 2014

RMI PORTS AUTHORITY

Schedule of Expenditures of Federal Awards
Year Ended September 30, 2013

Program Title	Grant Number	Program or Award Amount	Balance October 1, 2012	Cash Receipts FY13	Expenditures/ Adjustments FY13	Excess of Authorization Over Program Expenditures
Funds received in a direct capacity:						
U.S. Department of Transportation:						
CFDA # 20.106						
Airport Improvement Program						
Construct ARFF Building Phase II and Modify Service Road Design Phase I	Project #3-68-0001-07	$ 16,100,000	$ 158,366	$ (351,704)	$ 193,338	$ -
Conduct Airport Master Plan Study	Project #3-68-0001-08	995,995	-	-	-	-
Improve Runway Safety Area (Relocate Service Road) - Phase I	Project #3-68-0001-09	8,000,000	104,417	(4,201,013)	4,096,596	-
Improve Runway Safety Area (Relocate Service Road) - Phase II	Project #3-68-0001-10	3,000,000	1,128,286	(2,503,254)	1,374,968	-
FAA-GIS	Project #3-68-0001-11	500,000	-	(102,192)	123,583	21,391
Airport Security Perimeter Fence	Project #3-68-0001-12	200,000	18,348	(34,535)	28,408	12,221
Improve Runway Safety Area (Relocate Service Road) - Phase III	Project #3-68-0001-13	12,000,000	237,148	(2,417,266)	2,818,753	638,635
Total U.S. Department of Transportation		$ 40,795,995	$ 1,646,565	$ (9,609,964)	$ 8,635,646	$ 672,247

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, 2013

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 programs:	
5.	Material weakness(es) identified?	No
6.	Significant deficiency(ies) identified?	None reported
7.	Type of auditors' report issued on compliance for major 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 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 reportable.

PART III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS SECTION

No matters were reportable.

Schedule of Prior Audit Findings and Questioned Costs
Year Ended September 30, 2013

There are no unresolved prior audit findings and questioned costs as of September 30, 2013.