AIR MARSHALL ISLANDS, INC.

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

FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT

YEAR ENDED SEPTEMBER 30, 2016

AIR MARSHALL ISLANDS, INC.
(A COMPONENT UNIT OF THE REPUBLIC OF THE MARSHALL ISLANDS)

Year Ended September 30, 2016
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INDEPENDENT AUDITORS' REPORT

Board of Directors
Air Marshall Islands, Inc.:

Report on the Financial Statements

We have audited the accompanying financial statements of Air Marshall Islands, Inc. (AMI), a component unit of the Republic of the Marshall Islands, which comprises the statement of net position as of September 30, 2016, 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.

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 audit. We conducted our audit 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.

Deloitte.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Air Marshall Islands, Inc. as of September 30, 2016, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis-of-Matter

Restatement

As discussed in note 8 to the financial statements, the 2015 financial statements have been restated to correct an error. 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 to 12 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 21, 2017, on our consideration of AMI'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 AMI's internal control over financial reporting and compliance.

Deloitte + Touche LLP

April 21, 2017

ABOUT AIR MARSHALL ISLANDS

Air Marshall Islands, Inc. (AMI) is the national airline and flag carrier of the Republic of the Marshall Islands. AMI's market consists of 24 Outer Island communities scattered over almost 700,000 square miles of the Pacific Ocean. The airline fulfils an essential role in the transportation infrastructure for the Nation.

AMI currently operates a fleet of two Dornier 228 aircrafts and a Dash 8 aircraft with a workforce of 67 employees and 24 Outer Island agents.

MISSION STATEMENT

- Provide domestic air services that are safe, reliable and commercially viable for the benefit of the travelling public and in support of industries such as tourism, that rely on air service for their success;
- Support growth of in-bound travel and export by carrying out activities in support of these objectives, including the provision of commercially viable regional services; and
- Provide medical evacuation, humanitarian relief, search and rescue, and related services when required.

STRATEGY

- Excel in reliability of service domestically;
- Contribute to tourism growth - flying with AMI part of tourism experience – "Selling happiness";
- Considerable reduction in accumulated losses that would restrict reliance on state subsidy;
- Strong financial base to take on additional mission including providing commercially viable regional service for passenger and cargo; and
- Build to be a modern and efficient airline.

KEY ACHIEVEMENTS IN 2016

- An unqualified opinion received from the auditors after 6 years;
- The lowest operating loss recorded at $27,788 comparing to available 15 years of data, decrease in operating loss of 97% when compared to 2015;
- The second highest total revenue recorded at $4,105,437 comparing to available 15 years of data, increase in total revenue of 64% when compared to 2015;
- The number of flights operated increased significantly over the prior fiscal year with the Dash 8 operating almost double the number of flights compared to the prior year (The highest utilization rate since 2007) and the Dornier fleet operating 39% more flights and 18% more flight days than in the prior fiscal year;
- The departure/arrival of passenger numbers was recorded at 13,474, an increase of 56% when compared to 2015, huge improvement in reliability of service; and
- Full operational website; www.airmarshallislands.net

OVERVIEW

Presented herewith is AMI's management's discussion and analysis (MD&A) of the company's financial performance for the financial year ended 30th September 2016, to be read along with our financial statements and the accompanying notes to our financial statements in this report.

FINANCIAL SUMMARY

As at September 30, 2016, AMI obtained a net surplus of $1.21 million. The change was primarily due to the RMI Government subsidy of $1.33 million. Of the total funding, $0.5 million was used in Community Service Obligations and the balance was directly paid by Ministry of Finance. $0.3 million was utilized to pay Marshall Islands Social Security Administration (MISSA) for 2010 - 2012 outstanding obligations and $0.53 million was utilized to pay loan outstanding from 2013 with the Marshall Islands Development Bank.

Operating loss decreased from $0.94 million in 2015 to $0.03 million in 2016, an improvement of $0.91 million, which was the result of increases in passenger, charter, cargo and other revenues that increased from $2.51 million in 2015 to $4.11 million in 2016, an increase of $1.60 million. The total operating expenses increased from $3.35 million in 2015 to $4.13 million in 2016.

The company continues to face operational difficulties and challenges due to AOG of the Dornier and the Dash 8 as a result of poor conditions of the Outer Island airports, lack of spare parts on shelves and this leading to disruption of the flight schedules.

Net surplus caused the total assets to exceed total liabilities by $3.18 million in 2016.

Capacity growth in passenger numbers of 56% compared to 2015, the increase was driven by introduction of an additional Dornier 228 into the fleet, in addition, an improvement in reliability of service and reduction in AOG downtimes.

FINANCIAL ANALYSIS OF AMI

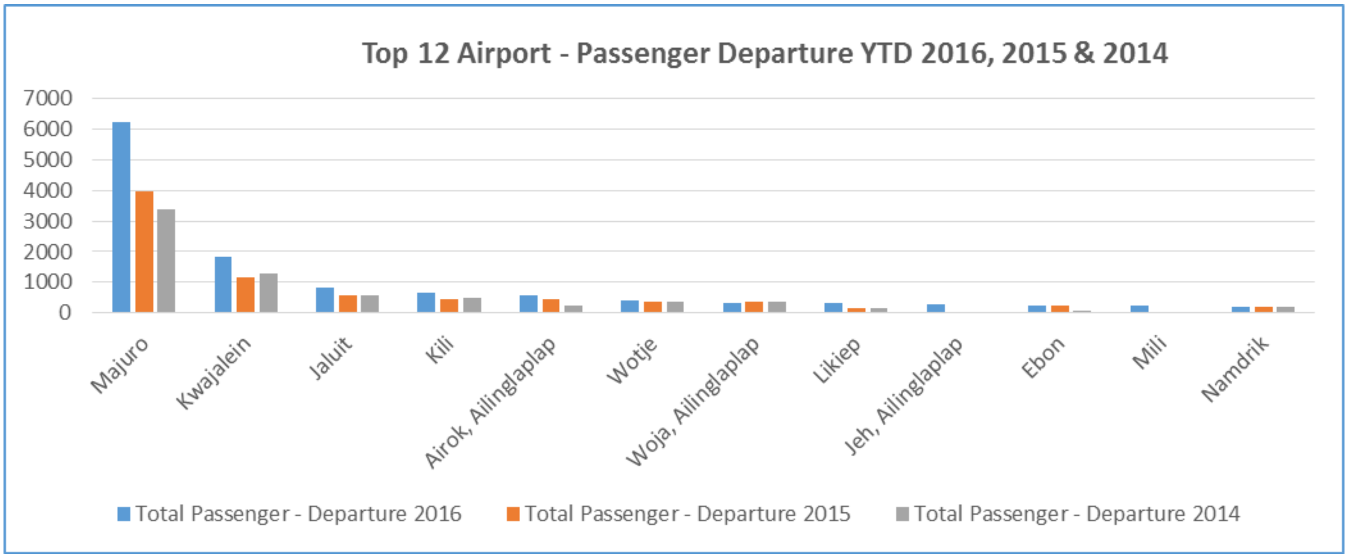
The table below provides a summary of AMI's net financial position, which is indicating that total net position increased in 2016 over 2015.

	2016	(Restated) 2015
Assets:		
Current assets	$ 1,401,727	$ 596,111
Capital and other assets	8,732,785	9,120,907
Total Assets	$ 10,134,512	$ 9,717,018
Liabilities:		
Current liabilities	$ 3,461,246	3,682,682
Long-term liabilities	3,495,358	4,064,298
Total Liabilities	6,956,604	7,746,980
Net Position:		
Net investment in capital assets	8,609,351	6,946,025
Unrestricted	(5,431,443)	(4,975,987)
Total Net Position	3,177,908	1,970,038
	$ 10,134,512	$ 9,717,018

As discussed in note 8 to the accompanying financial statements, the 2015 financial statements have been restated for the correction of an error.

The trend in total net position indicates that the company is moving in the right direction as it accumulated losses are decreasing and the assets are greater than the liabilities. This has been made possible by continued government support and increase in reliability of service which has led to increase in passenger numbers.

The trend in passenger numbers from 2014 to 2016, indicates a huge improvement *in delivery of essential public services to the Marshallese people and communities residing in the outer islands*.

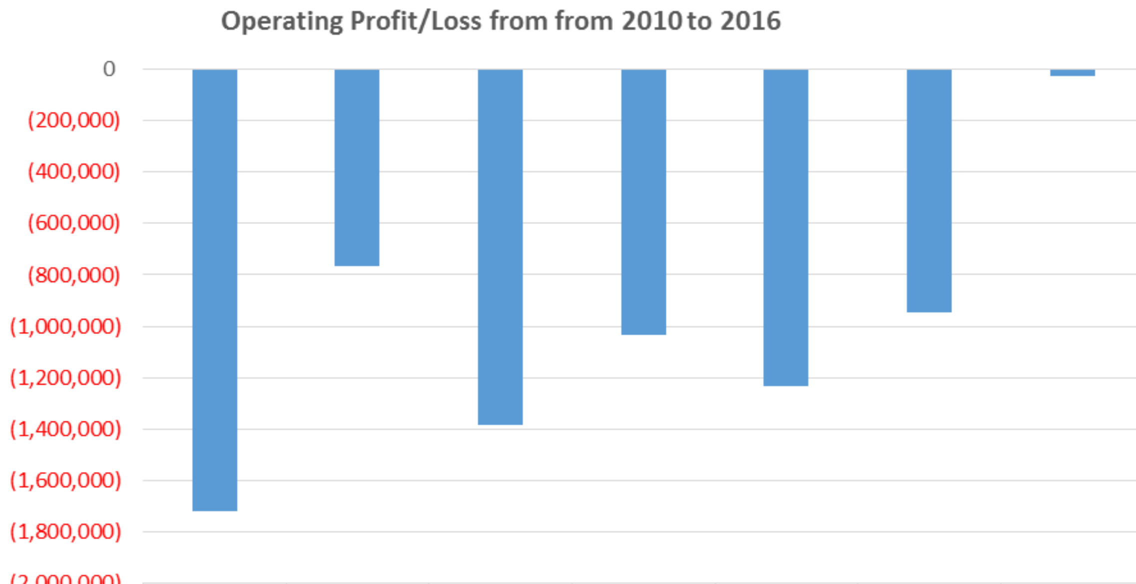


Presented herewith are AMI's Summary Statements of Revenues, Expenses and Changes in Net Position:

	2016	(Restated) 2015
Revenues:		
Net operating revenues	$ 4,105,437	$ 2,505,761
Non-operating revenues	1,334,153	1,916,903
Capital contributions	-	2,219,661
Total Revenues	5,439,590	6,642,325
Expenses:		
Operating expenses	4,133,225	3,449,813
Non-operating expenses	98,495	167,274
Total Expenses	4,231,720	3,617,087
Change in Net Position	$ 1,207,870	$ 3,025,238

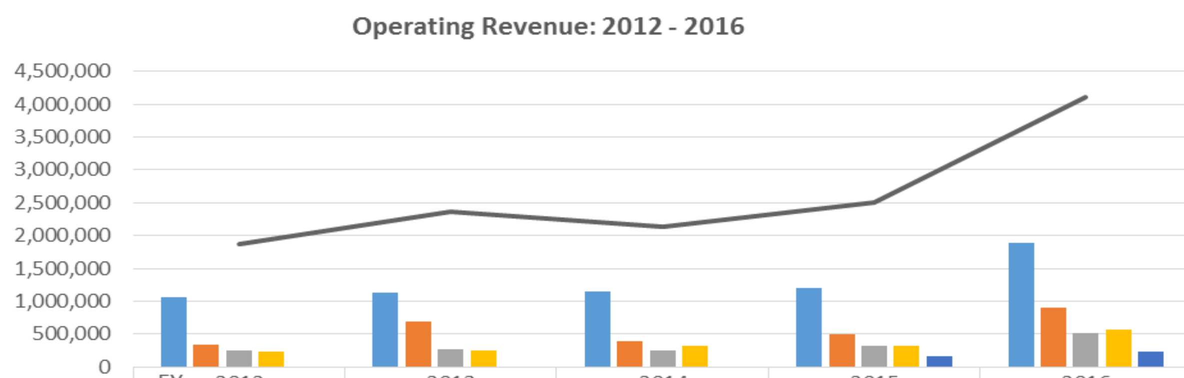
The above identifies the various revenue and expense items that contributed to AMI's positive change in net position. The change in net position is the snapshot of the company's financial situation in those years therefore, if it goes up the situation is good, or it is not so good if it goes down.

The below graph shows the operating loss of AMI from 2010 through to 2016.



	2010	2011	2012	2013	2014	2015	2016
Operating Profit/Loss	(1,718,503)	(763,739)	(1,383,809)	(1,033,121)	(1,233,094)	(944,052)	(27,788)

The graph below shows the main components of AMI's operating revenues from 2012 through to 2016.



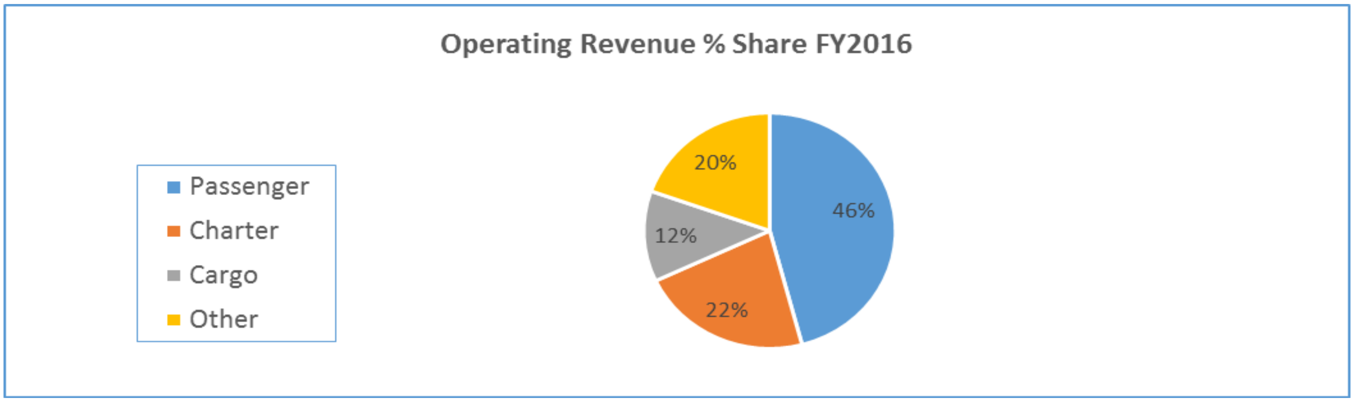
FY	2012	2013	2014	2015	2016
Passenger	1,054,260	1,132,050	1,157,966	1,194,683	1,882,858
Charter	337,526	697,767	393,211	496,366	909,716
Cargo	254,941	275,124	260,171	327,744	510,333
Other	231,692	256,174	329,961	330,968	566,970
Nauru Airlines	0	0	0	156,000	235,560
Total	1,878,419	2,361,115	2,141,309	2,505,761	4,105,437

Passenger Charter Cargo Other Nauru Airlines Total

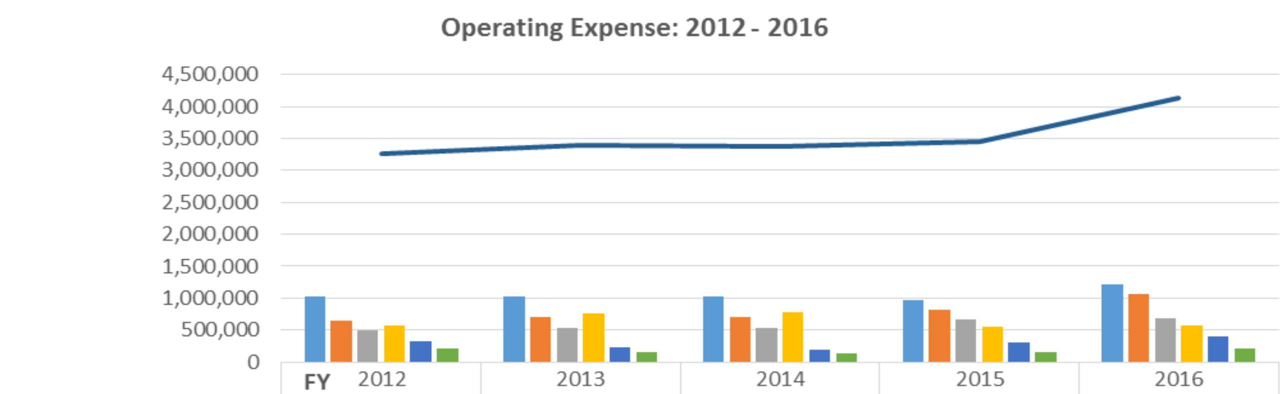
AMI's total operating revenues as indicated above have generally been on an up-and-down trend, with revenues from passengers, or from selling of air-tickets, was the largest source which continued to rise since 2012 due to increase passenger travel.

Charter is the second largest and it jumped 83 percent in 2016 simply because of the drought during the year which triggered the need for more charter flights.

Cargo went up in 2016 as compared to 2015, indicating a consistent trend over the years.



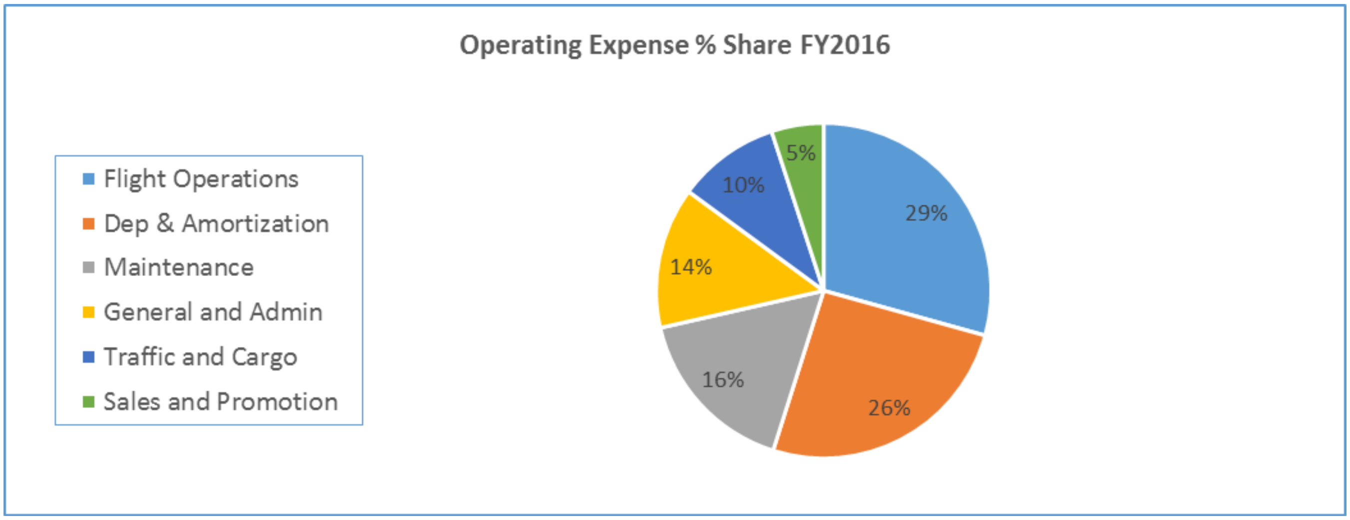
The above pie chart shows the distribution of each operating revenue source as a percentage of total operating revenues in which passenger was 46%, charter 22%, others 20%, and cargo/freight 12%.



FY	2012	2013	2014	2015	2016
Flight Operations	1,026,507	1,033,458	1,027,315	963,588	1,211,263
Dep & Amortization	638,773	699,092	711,111	811,193	1,057,240
Maintenance	491,061	532,380	531,897	666,192	684,334
General and Admin	579,068	756,368	781,503	547,007	563,104
Traffic and Cargo	319,226	226,062	187,760	300,125	409,064
Sales and Promotion	207,593	146,876	134,817	161,708	208,220
Total	3,262,228	3,394,236	3,374,403	3,449,813	4,133,225

Flight Operations   Dep & Amortization   Maintenance   General and Admin
Traffic and Cargo   Sales and Promotion   Total

The above diagram shows the AMI's individual operating expenses with flight operation being the largest expense followed by depreciation and amortization, maintenance, general and administration, traffic and cargo and sales and promotion during the 2016 period.



The above pie chart shows major component percentage shares of AMI's total operating expenses in 2016, indicating flight operation with the largest share of 29%, followed by depreciation and amortization 26%, maintenance 16%, general administration 14%, traffic and cargo servicing 10%; and sales & promotion 5%.

Fuel is an expense that comes under flight operation and being the second largest cost after personnel, therefore the reason flight operation represents the largest share of operating expenses.

During 2016, the Cabinet provided to AMI the following subsidies, for the following purposes below:

	Amount	Date
For Subsidy:		
1. MISSA arrear payment	$ 75,000	10/16/15
2. Subsidy	124,000	11/03/15
3. Subsidy	100,000	12/03/15
4. MISSA arrear payment	75,000	01/19/16
5. Subsidy	24,000	02/04/16
6. Subsidy	125,000	04/25/16
7. MISSA arrear payment	75,000	04/27/16
8. MISSA arrear payment	75,000	07/12/16
9. Subsidy	123,000	08/09/16
10. MIDB loan payment	538,153	09/30/16
Grand Total	$ 1,334,153	

As indicated above, the RMI government provided a total subsidy allocation of $1,334,153 for AMI to meet some of its ongoing major financial obligations such as MISSA arrears ($300,000), MIDB loan payment ($538,153), and Community Service Obligation ($496,000) in 2016, compared to $4,136,564 contribution in 2015.

The MISSA payment is part of the $1.4 million owed by AMI to MISSA for past due contributions of employees to the social security program, and as agreed to between MISSA, the RMI government, and AMI back in 2013, the RMI government is to allocate and to provide $300,000 on an annual basis (or $75,000 per quarter) direct payment to MISSA on behalf of AMI, until the arrears are all paid in full.

The Dash 8 has not been making money due to low utilization (averaging less than 25 percent per year since arrival from Australia) resulting from lack of an MEL (minimum equipment list) or lack of spare parts on shelves due to lack of money, and resulting from impacts from the bad outer island airport runways, which continue to cause breakdown of the aircraft thus effectively preventing it from generating the income it needs in order to pay off its own loan, and helps support the operation.

The RMI government guaranteed the MIDB loan and started paying it off on behalf of AMI in 2014 with the understanding that as soon as things get better for the company emanating from the foregoing discussion, the company will then start making payments towards the loan. Or the company will have to only turn around and sell the Dash 8, with RMI government approval, in order to pay the loan off, and procuring additional spare parts to ensure schedule reliability for the Dornier aircraft.

CAPITAL ASSETS AND DEBT

AMI's net capital assets for 2016 increased by $1,663,326 as a result of receiving the new Dornier 228 aircraft purchased from Nepal.

Every year, AMI spends an average of $250,000 on Rotables spare parts for its two aircraft, although this could be way more depending on the need, but in 2016 the company spent $391,657 which was more than the $310,738 spent on the same during 2015.

For additional information on AMI's capital assets, please refer to note 4 to the accompanying financial statements.

AMI incurred substantial long-term debt when AMI obtained a $2.5 million loan from MIDB in May 2013, to pay down the remaining cost of the Dash 8 D-check in Cairns Australia. Based on the letter of guarantee collateralizing the loan, the RMI government started making payments in 2014 of $191,092, a payment of $943,373 was made in 2015 and a payment of $538,153 in 2016.

For additional information on AMI's long-term debt, please refer to note 5 to the accompanying financial statements.

CASH FLOWS

AMI received cash from its customers of $4,089,139 in 2016 and $2,501,868 in 2015.

During the year ended September 30, 2016, the company turned around and paid its vendors for goods and services and payroll for its employees in the amount $2,080,779 and $1,346,265 respectively, leaving a cash surplus from operations of $662,095, whereas in 2015 AMI had a cash surplus from operations of $147,574. Additionally, the operating subsidies from the government in 2016 assisted in operations continuing "business as usual".

CURRENT ECONOMIC OUTLOOK

Being a small open and highly susceptible economy to world events, coupled with being highly dependent on funding from the US Government through the compact and federal funding which represents up to 60% or more of annual government budget of $150 million, which is almost on a same bar with the nominal GDP, the Marshall Islands would continue to be exposed towards external shocks, economic calamities, and risks, such as the 2008 and 2009 global energy crisis that sent ripple effects throughout the world economy as cost of fuel and everything else skyrocketed to new unprecedented heights, and had immediate adverse impact on the local economy.

Prior to the energy crisis, cost of jet fuel used to be around $2.00 per gallon, but today it is near $3.20 per gallon, and with today's situation around the globe coupled with the demand for the fuel, the world price for fuel is not going back to the pre-crisis level. Therefore, the increase in fuel cost since the crisis has effectively increased the cost of operation for the company by at least 15% per year.

With operating losses of $0.03 million and $0.94 million in 2016 and 2015, respectively, the annual subsidies and contributions from the central government to sustain the service and help keep the airline afloat will continue to be VERY important for the company in the short to medium-terms. Furthermore, with aging Dornier 228 and the Dash 8 aircraft which were built more than 20 years ago, coupled with the need for better airport runways and adequate spare parts provisioning to ensure schedule reliability, etc., the need for serious action on such will be more important than ever before.

ROLE OF BOARD AND MANAGEMNET

AMI management and board can only do so much in terms of streamlining operations and reining in costs and improving performance, but this will not create a much visible change on operation if the following challenges and predicaments to the airline, continue to exist:

1. Deteriorated and dilapidated airport runways and ramps in the outer islands that continue to cause great and costly damages to the aircrafts;

2. Insufficient spare parts for the aircrafts; and

3. Deteriorating Hangar at the Majuro airport, which is urgently needed to house everyone under one roof, to increase efficiency and economy throughout the whole company which because the offices are so spread out as the Main Office is in Uliga while Maintenance and Spare Parts departments are at the hangar and Flight Operations and Traffic at the main terminal, hindering and efficient communication and timely response to problems between departments whenever they occur.

WAY FORWARD AND FUTURE SUSTAINABILITY

AMI presented a new strategic Business Plan (BP) which was developed by the company as a compass for the period 2016 - 2018 to chart the company's future operating course.

In short, the BP's mission statement is:

1. Provide domestic air services that are safe, reliable and commercially viable for the benefit of the travelling public and in support of industries such as tourism, that rely on air service for their success.

2. Support growth of in-bound travel and export by carrying out activities in support of these objectives, including the provision of commercially viable regional services.

3. Provide medical evacuation, humanitarian relief, search & rescue and related services when required.

In order to achieve the above, the BP's *6 Rs* has been altered to **3 Rs** (three goals) as AMI relies on RMI subsidy funding, the 3 Rs must be implemented and these goals are:

Goal 1: "Repair" of outer island airstrips;

Goal 2: "Reverse" our loss making; and

Goal 3: "Renew" our operation.

We strongly believe that implementation of these three goals through adequate support of the Cabinet and the Board would enable AMI, in spite of all abovementioned challenges, to achieve each individual goal and once achieved the 4th R – **Restrict reliance on state subsidy** can be implemented.

AMI strongly believes the goals; "**Rebuild" our financial base** and "**Restore" our service reliability** is work in progress and would be achieved.

Therefore, achievement of success will depend very much on an unabated and continuous government support to the national airline (AMI) over the next few years.

KEY ACHIEVEMENTS SUBSEQUENT TO FY2016

- ***Goal 3: "Renew" our operation;*** one of the objectives was to invest in an Airline Management Software which has been implemented effective December 1, 2016, system known as Takeflite (TF). TF is a cloud based business re-engineering tool for airline operations and business teams. That will allow AMI to E-Ticketing, Online booking via our website, cargo/freight management, charter management, crew and pilot management and reporting of relevant information.

- **Goal 2: "Reverse" our loss making:** objectives as per below;

    - fly regional to Tarawa, Kiribati with Dash 8, AMI is finalizing the paperwork to fly effective end of April, 2017;

    - payment to statutory institutions such as MISSA, AMI received a letter dated October 10, 2016 where MISSA has approved to waive 90% of penalties amounting $160,127 as per the second Post Judgement Agreement No. 2015-204. AMI is ensuring that statutory payments are made on time to avoid penalties and interest.

- o AMI is working very closely with suppliers in restoring supplier confidence and trying to negotiate 30-day trial credit terms which eases the cash flow and assist in AOG situations.

ADDITIONAL FINANCIAL AND OTHER INFORMATION

This MD&A was designed to provide AMI's customers and other stakeholders with an overview of the company's operations and financial condition as at 30th September 2016, and its vision for future sustainability. Should the readers have questions regarding the information provided in this report, or wish to request for additional financial information, kindly contact the AMI's General Manager & CEO at P.O. Box 1319, Majuro, Marshall Islands, MH 96960; Telephone (692) 625-3731; Fax (692) 625-3730; Email Address: gm@airmarshallislands.net

AIR MARSHALL ISLANDS, INC.
(A Component Unit of the Republic of the Marshall Islands)

Statement of Net Position
September 30, 2016

ASSETS

Current assets:		
Cash	$	556,573
Receivables:		
Trade		524,615
Employees		176,489
Affiliates		153,606
		854,710
Less allowance for doubtful receivables		(642,474)
Receivables, net		212,236
Expendable parts (net of allowance for obsolescence of $146,973)		576,168
Prepaid expenses and deposits		56,750
Total current assets		1,401,727
Capital assets:		
Depreciable capital assets, net of accumulated depreciation and amortization		8,609,351
Long-term deposit on acquisition of rotable parts		123,434
		8,732,785
	$	10,134,512

LIABILITIES AND NET POSITION

Current liabilities:		
Current portion of long-term debt	$	954,522
Accounts payable		92,110
Social security taxes payable		831,577
Withholding taxes payable		551,300
Air traffic liability		198,599
Accrued expenses		308,495
Payable to affiliates		524,643
Total current liabilities		3,461,246
Noncurrent liabilities:		
Advances from RepMar		3,116,890
Long-term debt, net of current portion		378,468
Total noncurrent liabilities		3,495,358
Total liabilities		6,956,604
Commitments and contingencies		
Net position:		
Net investment in capital assets		8,609,351
Unrestricted		(5,431,443)
Total net position		3,177,908
	$	10,134,512

See accompanying notes to financial statements.

AIR MARSHALL ISLANDS, INC.
(A Component Unit of the Republic of the Marshall Islands)

Statement of Revenues, Expenses and Changes in Net Position
Year Ended September 30, 2016

Operating revenues:		
Passenger	$	1,882,858
Cargo		510,333
Charter		909,716
Other		802,530
Total operating revenues		4,105,437
Operating expenses:		
Flight operations		1,211,263
Depreciation and amortization		1,057,240
Maintenance		684,334
General and administrative		563,104
Aircraft and traffic servicing		409,064
Promotion and sales		208,220
Total operating expenses		4,133,225
Operating loss		(27,788)
Nonoperating revenues (expenses):		
RepMar subsidy		1,334,153
Interest expense		(98,495)
Total nonoperating revenues, net		1,235,658
Change in net position		1,207,870
Net position at beginning of year, as restated (Note 8)		1,970,038
Net position at end of year	$	3,177,908

See accompanying notes to financial statements.

AIR MARSHALL ISLANDS, INC.
(A Component Unit of the Republic of the Marshall Islands)

Statement of Cash Flows
Year Ended September 30, 2016

Cash flows from operating activities:		
Cash received from customers	$	4,089,139
Cash payments to suppliers for goods and services		(2,080,779)
Cash payments to employees for services		(1,346,265)
Net cash provided by operating activities		662,095
Cash flows from noncapital financing activities:		
Operating subsidy received from RepMar		496,000
Cash flows from capital and related financing activities:		
Acquisition of property and equipment		(620,566)
Principal repayments of long-term debt		(75,000)
Interest paid		(652)
Net cash used for capital and related financing activities		(696,218)
Net change in cash		461,877
Cash at beginning of year		94,696
Cash at end of year	$	556,573
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	$	(27,788)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation and amortization		1,057,240
(Increase) decrease in assets:		
Receivables:		
Trade		(56,568)
Employees		20,068
Affiliates		(87,987)
Expendable parts		(205,508)
Prepaid expenses and deposits		(62,296)
Increase (decrease) in liabilities:		
Accounts payable		(125,165)
Social security taxes payable		5,036
Withholding taxes payable		8,977
Air traffic liability		108,189
Accrued expenses		22,042
Payable to affiliates		5,855
Net cash provided by operating activities	$	662,095
Summary disclosure of noncash activities:		
RepMar subsidy	$	838,153
Long-term debt		(458,701)
Social security taxes payable		(300,000)
Interest expense		(79,452)
	$	-
Depreciable capital asset	$	2,487,824
Long-term deposits		(2,100,000)
Nondepreciable capital assets		(387,824)
	$	-

See accompanying notes to financial statements.

(1) Organization

Air Marshall Islands, Inc. (AMI) was incorporated on October 12, 1989 to provide regular scheduled domestic and international passenger, charter and cargo service within and from the Marshall Islands. As of September 30, 2016, AMI operated a fleet of two Dornier Do228 aircraft and a single de Havilland Canada Dash 8 (DHC-8) Series 100 aircraft. During AMI's initial operating year, the Government of the Republic of Marshall Islands (RepMar) contributed equity capital (including amounts resulting from the merger with Airline of the Marshall Islands, Inc.) amounting to $1,284,722. AMI is governed by a six-member Board of Directors appointed by the Cabinet of RepMar.

AMI'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 AMI conform to accounting principles generally accepted in the United States of America, as applicable to governmental entities, specifically proprietary funds.

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

To conform to the requirements of GASB 34, 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.

Basis of Accounting

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

Cash

Custodial credit risk is the risk that in the event of a bank failure, AMI'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. AMI does not have a deposit policy for custodial credit risk.

(2) Summary of Significant Accounting Policies, Continued

Cash, Continued

For purposes of the statements of net position and cash flows, cash is defined as cash on hand and cash held in demand and savings accounts. As of September 30, 2016, the carrying amounts of cash was $556,573 and the corresponding bank balance was $608,599. Of the bank balances, $592,271 is maintained in a financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2016, bank deposits in the amount of $250,000 were FDIC insured. Bank deposits of $16,328 are maintained in financial institutions not subject to depository insurance. AMI does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized. Accordingly, these deposits are exposed to custodial credit risk.

Receivables

Receivables from providing passenger, charter and cargo services are based on contracted prices, which are both interest free and uncollateralized and are primarily due from government agencies, businesses and individuals located within the Republic of the Marshall Islands. The allowance for doubtful receivables is stated at an amount which management believes will be adequate to absorb possible losses on receivables that may become uncollectible based on evaluations of the collectability of these receivables and prior collection experience. The allowance is established through a provision for losses on receivables charged to expense.

Expendable Parts

Flight equipment expendable parts are carried at the lower of average cost or net realizable value. An allowance for obsolescence is provided for flight equipment expendable parts to allocate the costs of these assets, less estimated residual value, over the useful lives of the related aircraft and engines.

Property and Equipment

Flight equipment and other property with a cost that equals or exceeds $2,500 are capitalized, as well as major additions, betterments and renewals. Such assets are stated at cost. Aircraft maintenance and repairs are charged to operations as they are incurred. Depreciation of property and equipment and amortization of leasehold equipment are calculated on the straight-line method based on the estimated useful lives of the respective assets.

The estimated useful lives of these assets are as follows:

	Estimated Useful Lives
Aircraft and improvements	10 – 15 years
Rotable spare parts	5 – 10 years
Plant and equipment	5 years
Office furniture and equipment	5 – 7 years
Motor vehicles	3 years
Building improvements	20 years

(2) Summary of Significant Accounting Policies, Continued

Property and Equipment, Continued

Modifications that significantly enhance the operating performance and/or extend the useful lives of property and equipment are capitalized and amortized over the remaining life of the asset. Costs associated with aircraft modifications that enhance the usefulness of the aircraft are capitalized and depreciated over the estimated remaining useful life of the aircraft or modification, whichever is lower.

Deferred Outflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (deduction of net position) until then. AMI has no items that qualify for reporting in this category.

Compensated Absences

Vested or accumulated vacation leave is recorded as an expense and liability as the benefits accrue to employees. No liability is recorded for non-vesting accumulating rights to receive sick pay benefits. As of September 30, 2016, the accumulated vacation leave liability amounted to $53,578 and is included within the statement of net position as accrued expenses.

Deferred Inflows of Resources

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

Revenue Recognition

AMI considers passenger and related charter and cargo revenues, and costs directly related to such revenues to be operating revenues and expenses. Revenues and expenses related to financing and other activities are reflected as non-operating.

Passenger revenue is recognized either when the transportation is provided or when unused tickets expire. The value of passenger tickets for future travel is included as air traffic liability. Charter and cargo revenues are recognized when the transportation is provided. Other components of other operating revenue are recognized as revenue when the related goods and services are provided.

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 revenue tax of 3% on revenues. Pursuant to the Income Tax Act of 1989, as amended, revenue from domestic flights and operations of any government-owned corporation providing air transportation services are exempt from gross revenue tax. Accordingly, AMI is exempt from this tax relating to gross revenue.

(2) Summary of Significant Accounting Policies, Continued

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 deferred outflows of resources, liabilities and deferred inflows of resources, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

New Accounting Standards

During the year ended September 30, 2016, AMI implemented the following pronouncements:

- GASB Statement No. 72, *Fair Value Measurement and Application*, which addresses accounting and financial reporting issues related to fair value measurements and requires entities to expand their fair value disclosures by determining major categories of debt and equity securities within the fair value hierarchy on the basis of the nature and risk of the investment. The implementation of this statement did not have a material effect on the accompanying financial statements.

- GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, which eliminates two of the four categories of authoritative GAAP that exist under the existing hierarchy prescribed by Statement No. 55. The two categories that will remain under the new standard are (1) GASB Statements and (2) GASB technical bulletins and implementation guides in addition to AICPA guidance that the GASB clears. The implementation of this statement did not have a material effect on the accompanying financial statements.

- GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*, addresses for certain external investment pools and their participants the accounting and financial reporting implications that result from changes in the regulatory provisions referenced by previous accounting and financial reporting standards. Those provisions were based on the Investment Company Act of 1940, Rule 2a7. Rule 2a7 contains the Securities and Exchange Commission's regulations that apply to money market funds and were significantly amended in 2014. The implementation of this statement did not have a material effect on the accompanying financial statements.

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

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

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

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

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

In December 2015, GASB issued Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, which addresses a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The provisions in Statement No. 78 are effective for fiscal years beginning after December 15, 2015. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In January 2016, GASB issued Statement No. 80, *Blending Requirements for Certain Component Units - an amendment of GASB Statement No. 14*, which improves financial reporting by clarifying the financial statement presentation requirements for certain component units. The provisions in Statement No. 80 are effective for fiscal years beginning after June 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In March 2016, GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*, which improves accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The provisions in Statement No. 81 are effective for fiscal years beginning after December 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In March 2016, GASB issued Statement No. 82, *Pension Issues - an amendment of GASB Statements No. 67, No. 68, and No. 73*, which addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The provisions in Statement No. 82 are effective for fiscal years beginning after June 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

(3) Risk Management

AMI 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. AMI has elected to purchase commercial insurance from independent third parties for the risks of loss to which it is exposed. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years.

(4) Property and Equipment

Capital asset activities for the year ended September 30, 2016 were as follows:

	October 1, 2015	Additions	Transfers	September 30, 2016
Aircraft and improvements	$ 18,159,415	$ 164,804	$ 2,487,824	$ 20,812,043
Rotable spare parts	6,213,896	391,657	-	6,605,553
Plant and equipment	740,978	23,865	-	764,843
Office furniture and equipment	726,122	24,240	-	750,362
Motor vehicles	264,002	16,000	-	280,002
Building improvements	17,880	-	-	17,880
	26,122,293	620,566	2,487,824	29,230,683
Less accumulated depreciation and amortization	(19,564,092)	(1,057,240)	-	(20,621,332)
	6,558,201	(436,674)	2,487,824	8,609,351
Construction in progress	387,824	-	(387,824)	-
	$ 6,946,025	$ (436,674)	$ 2,100,000	$ 8,609,351

(5) Long-Term Debt

A schedule of AMI's long-term debt as of September 30, 2016 is as follows:

Note payable to RMI Ports Authority (RMIPA), due on March 30, 2013, interest at 8% per annum, payable in monthly installments of $11,560, including interest. This note is uncollateralized.	$ 237,701

(5) Long-Term Debt, Continued

Note payable to Marshall Islands Development Bank (MIDB), due on May 30, 2018, interest at 6.5% per annum, payable in monthly installments of $51,100, including interest. The loan is collateralized by the Dash 8 aircraft and a letter of guarantee from RepMar.	1,095,289
	$ 1,332,990

Future repayment commitments are as follows:

Year Ending September 30	Principal	Interest	Total
2017	$ 954,522	$ 217,000	$ 1,171,522
2018	378,468	8,756	387,224
	$ 1,332,990	$ 225,756	$ 1,558,746

Changes in long-term liabilities for the year ended September 30, 2016, were as follows:

	Balance October 1, 2015	Additions	Reductions	Balance September 30, 2016	Due Within One Year
Notes payable:					
RMIPA	$ 237,701	$ -	$ -	$ 237,701	$ 237,701
MIDB	1,628,990	-	(533,701)	1,095,289	716,821
	$ 1,866,691	$ -	$ (533,701)	$ 1,332,990	$ 954,522

(6) Related Party Transactions

AMI is a component unit of RepMar and is therefore affiliated with all RepMar-owned and affiliated entities, including the Marshall Islands Development Bank (MIDB) and the RMI Ports Authority (RMIPA). AMI's airline service is provided to RepMar and all RepMar-owned and affiliated entities. Services are extended to these entities at the same terms and conditions provided to third parties.

AMI utilizes services from certain affiliated entities at substantially the same terms and conditions as those incurred from third parties with the exception of services provided by RMIPA, a component unit of RepMar. Specifically, AMI utilizes RMIPA’s airport facilities at the Amata Kabua International Airport, including landing rights, for which no fees or charges are levied by RMIPA.

During the year ended September 30, 2016, AMI received cash operating subsidies from RepMar of $496,000 as well as non-cash operating subsidies of $838,153. Non-cash operating subsidies represent payments made by RepMar on behalf of AMI for debt settlement on loan payable to MIDB of $538,153 and delinquent contributions to MISSA of $300,000.

(6) Related Party Transactions, Continued

A summary of related party transactions as and for the year ended September 30, 2016 is as follows:

	Receivables	Revenues	Payables	Expenses
RepMar	$ 128,118	$ 714,744	$ -	$ 9,594
RMIPA	-	1,775	521,615	49,977
Marshall Islands National Telecommunications Authority	-	3,630	-	33,768
Marshalls Energy Company, Inc.	-	648	2,916	35,258
Other	25,488	-	112	-
	153,606	$ 720,797	$ 524,643	$ 128,597
Less allowance for doubtful receivables	(117,183)			
	$ 36,423			

A summary of advances from RepMar as of September 30, 2016 follows:

Advances in accordance with Cabinet Minute C.M. 150 (2002), no interest and due in May 2008.	$ 2,000,000
Transfer of note payable to bank to payable to affiliate as a result of bank seizing the TCD collateral belonging to MIDB, terms and interest rate are currently under negotiation.	988,574
Funding assistance in accordance with Cabinet Minute C.M. 118 (2007), no interest and on reimbursable basis.	128,316
	$ 3,116,890

AMI does not expect that RepMar will pursue collection of the above advances prior to September 30, 2017. Accordingly, such have been presented as long-term liabilities within the accompanying financial statements.

At September 30, 2016, AMI is liable to the Marshall Islands Social Security Administration (MISSA) for certain delinquent employee and employer contributions in the amount of $831,577, which includes related penalties and interest. On December 28, 2010, AMI entered into a promissory note with MISSA in the amount of $1,059,068 associated with these delinquent contributions. The note bears interest at 12% per annum with monthly payments of $15,000 commencing January 10, 2011. In addition, a $50,000 payment is due on or before January 31, 2011 and another on or before April 30, 2011. On September 23, 2011, MISSA filed suit against AMI for defaulting on the above promissory note. On November 30, 2012, the High Court entered judgment against AMI in favor of MISSA for $1,411,985, inclusive of penalties relating to delinquent contributions. On December 3, 2015, the High Court entered an additional judgment in favor of MISSA against AMI for $367,836 (inclusive of penalties, court costs and attorney's fees) for non-payment of delinquent employee and employer contributions. During the year ended September 30, 2016, RepMar made payments to MISSA on behalf of AMI of $300,000 associated with this court judgment.

(6) Related Party Transactions, Continued

At September 30, 2016, AMI is liable for payroll taxes in the amount of $551,300 excluding related penalties and interest. Management plans to enter into an agreement with RepMar to reconcile reciprocal accounts receivable and liability balances, offsetting such balances in lieu of cash payment for settlement.

(7) Commitments and Contingencies

On May 15, 2000, AMI cancelled a purchase agreement to acquire two Dornier 328 aircraft at a total cost of $28,045,780. AMI made pre-delivery payments totaling $2,100,000. In October 2000, AMI sued the aircraft manufacturer for repayment of the pre-delivery payments and for other claims. On August 17, 2001, a court awarded damages in favor of AMI in the amount of $4,065,000, plus pre-judgment interest in the amount of $115,411. On April 2, 2002, the aircraft manufacturer filed for bankruptcy protection. The ultimate outcome of collection of this judgment is uncertain. As of September 30, 2016, AMI has not been repaid the pre-delivery payments and has recorded a provision for uncollectible advances of $2,100,000.

Management does not believe that AMI is liable for certain billings approximating $160,000 for attorney fees for services which were not authorized by AMI's Board of Directors. The billings are not recorded by AMI and the ultimate resolution of this matter is uncertain.

During the year ended September 30, 2016, AMI incurred loss from operations of $27,788. For the year ended September 30, 2016, AMI received cash and non-cash operating subsidies of $1,334,153 from the Nitijela of RepMar. Although RepMar has provided funding in the past, AMI does not have a formal agreement with RepMar to provide future funding. Management of AMI believes that the continuation of AMI's operations is dependent upon the future financial support of RepMar and/or significant improvements in operations, to be achieved through significant reductions in operating expenses.

(8) Restatement

Subsequent to the issuance of AMI's 2015 financial statements, AMI's management determined that expendable parts inventory was overstated by $98,549. As a result of this determination, beginning net position has been restated from the amount previously reported of $2,068,587 to $1,970,038.

(9) Subsequent Event

On October 10, 2016, MISSA waived penalties amounting to $160,127 with the condition that AMI will file and pay on time its current quarters. Failure on the part of AMI to meet this condition will consequentially give the legal right to MISSA to cancel this waiver and re-impose the same amount of penalty. This is in relation to judgment entered by the High Court on December 3, 2015.

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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*

Chairman
Board of Directors
Air Marshall Islands, Inc.:

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Air Marshall Islands, Inc. (AMI), which comprise the statement of net position as of September 30, 2016, and the 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 April 21, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered AMI'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 AMI's internal control. Accordingly, we do not express an opinion on the effectiveness of AMI'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 this limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

Deloitte.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether AMI's financial statements are free from 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Responses as item 2016-001.

AMI's Responses to Findings

AMI's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. AMI's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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 result of that testing, and not to provide an opinion on the effectiveness of the AMI'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 AMI's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Deloitte & Touche LLP

April 21, 2017

AIR MARSHALL ISLANDS, INC.
(A COMPONENT UNIT OF THE REPUBLIC OF THE MARSHALL ISLANDS)

Schedule of Findings and Responses
Year Ended September 30, 2016

Finding No. 2016-001

Local Noncompliance

Criteria: 48 MIRC Chapter 1, Income Tax Act of 1989, Section 105, states that the employer shall once every four (4) weeks or thirteen times per year, pay taxes withheld under Section 104 under Chapter 1. The employer shall, along with the taxes, within two (2) weeks following the preceding four (4) week period make a full, true and correct return showing all wages and salaries paid by the employer to the employees during the preceding four (4) week period and showing the tax due and withheld thereon as provided in Section 104 of the Chapter.

Condition: AMI filed and paid income taxes withheld for the year ended September 30, 2016 in a manner inconsistent with the criteria. Specifically, withholding taxes in the amount of $84,358 for the year ended September 30, 2016 were not timely remitted. In addition, income taxes withheld in the amount of $542,323 for PPE 1/20/09 through 9/30/15 have not been paid.

Cause: The cause of the above condition is the lack of policies and procedures to monitor timely filing of returns and payment of withheld income taxes.

Effect: The effect of the above condition is noncompliance with RepMar Income Tax Act of 1989, as amended.

Recommendation: We recommend that management establish policies and procedures to comply with the RepMar Income Tax Act of 1989, as amended.

Prior Year Status: Recommendation concerning management establish policies and procedures to comply with the RepMar Income Tax Act of 1989, as amended, was reported as a finding in the audit of AMI for fiscal years 2014 and 2015.

Auditee Response and Corrective Action Plan: Air Marshall Islands agrees with the finding and recommendation; however, the non-compliance was not due lack of policies and procedures but a result of cash flow issues faced during the respective periods highlighted.

The corrective action plan is to work closely with the Division of Revenue and Taxation on a mutual agreement and ensure that AMI files the withholding taxes as per RepMar Income Tax Act of 1989, the payroll supervisor has been reiterated on the requirement.

AIR MARSHALL ISLANDS, INC.

Unresolved Prior Years' Findings
Year Ended September 30, 2016

The status of unresolved prior year findings is disclosed within the Schedule of Findings and Responses section of this report.