AIR MARSHALL ISLANDS, INC.

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

FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT

YEARS ENDED SEPTEMBER 30, 2017 AND 2016

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

Years Ended September 30, 2017 and 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 statements of net position as of September 30, 2017 and 2016, 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.

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, 2017 and 2016, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 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 30, 2018, 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 30, 2018

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 & 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 & cargo; and
- Build to be a modern and efficient airline.

KEY ACHIEVEMENTS IN 2017

- The highest total operating revenue recorded at $4,399,936 comparing to available 15 years of data, increase in total revenue of 7% when compared to 2016;
- The second lowest operating loss recorded at $158,392 comparing to available 15 years of data;
- The number of flights operated increased: there was an increase in aircraft operating hours of 28% compared to the prior year (highest utilization rate since FY07) and the Dornier fleet operated 62% more hours compared to prior fiscal year;
- The departure/arrival of passenger numbers was recorded at 20,935, an increase of 55% when compared to 2016, huge improvement in reliability of service and decrease in AOG (aircraft on ground);

- Airline Operations System: implemented effective December 1, 2016, known as Takeflite (TF). This allows AMI to E-Ticketing, Online booking, cargo/freight management, charter management, crew and pilot management and reporting of ad hoc and relevant information;

- The long outstanding MISSA balance was cleared in FY17 and a waiver received for complying with the terms of the post judgment agreement.

OVERVIEW

Presented herewith is AMI's annual discussion and analysis (MD&A) of the Company's financial performance for the financial year ended 30th September 2017, 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, 2017, AMI obtained a net surplus of $2.64 million. The change was primarily due to the RepMar subsidy of $2.48 million. Out of this funding, $1.69 million was used to facilitate AMI's operations and the balance was directly paid by Ministry of Finance; $0.3 million paid to MISSA for 2010 - 2012 outstanding obligations and $0.49 million paid to MIDB for loan outstanding from 2013.

Operating loss increased from $0.03 million in 2016 to $0.16 million in 2017, this was a result of an increase in repair and maintenance expenses from $0.68 million in 2016 to $0.99 million in 2017. AMI had invested in parts repairs and overhauls as a business strategy to reduce AOG and increase the reliability of service. The total operating expenses increased from $4.13 million in 2016 to $4.56 million in 2017.

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 and the severely corrosive maritime environment leading to disruption of flight schedules.

Net surplus caused total assets to exceed total liabilities by $5.82 million in 2017.

Capacity growth in passenger numbers of 42% compared to 2016, the increase was driven by an improvement in reliability of service and reduction in AOG downtimes.

FINANCIAL ANALYSIS OF AMI

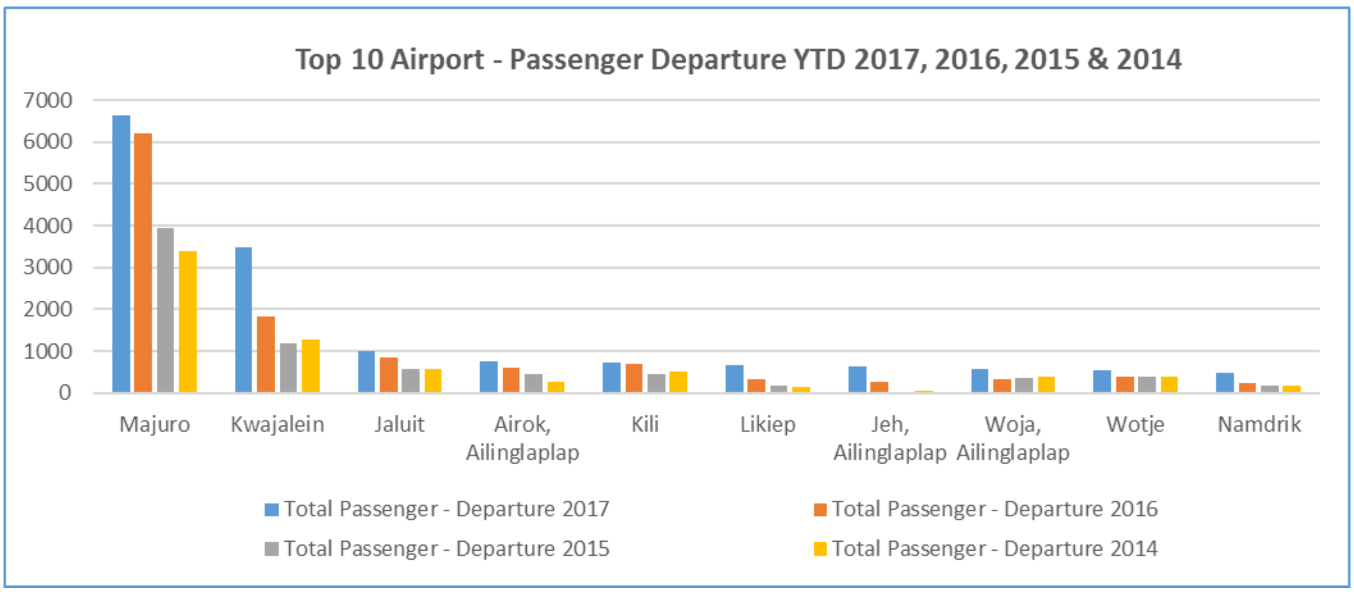
The table below provides a summary of AMI's net financial position, which is indicating that total assets increased while total liabilities decreased in 2017 over 2016 & 2015.

	2017	2016	2015
Assets:			
Current and other assets	$ 2,886,920	$ 1,525,161	$ 2,770,993
Capital assets	8,355,553	8,609,351	6,946,025
Total Assets	$ 11,242,473	$ 10,134,512	$ 9,717,018

	2017	2016	2015
Liabilities:			
Current and other liabilities	$ 4,659,957	$ 5,623,614	$ 5,880,289
Long-term debt	761,435	1,332,990	1,886,691
Total Liabilities	5,421,392	6,956,604	7,746,980
Net Position:			
Net investment in capital assets	8,355,553	8,609,351	6,946,025
Unrestricted	(2,534,472)	(5,431,443)	(4,975,987)
Total Net Position	5,821,081	3,177,908	1,970,038
	$ 11,242,473	$ 10,134,512	$ 9,717,018

The trend in total net position indicates that the Company is moving in the right direction as it's accumulated losses are decreasing and the assets are greater than the liabilities and this has been made possible by continued government support, decrease in aircraft downtimes and increase in reliability of service which has led to an increase in passenger numbers.

The trend in passenger numbers from 2014 to 2017, indicates a huge improvement *in delivery of essential public services to the Marshallese people and communities residing in the Outer Islands*.



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

Management's Discussion and Analysis
Years Ended September 30, 2017 and 2016

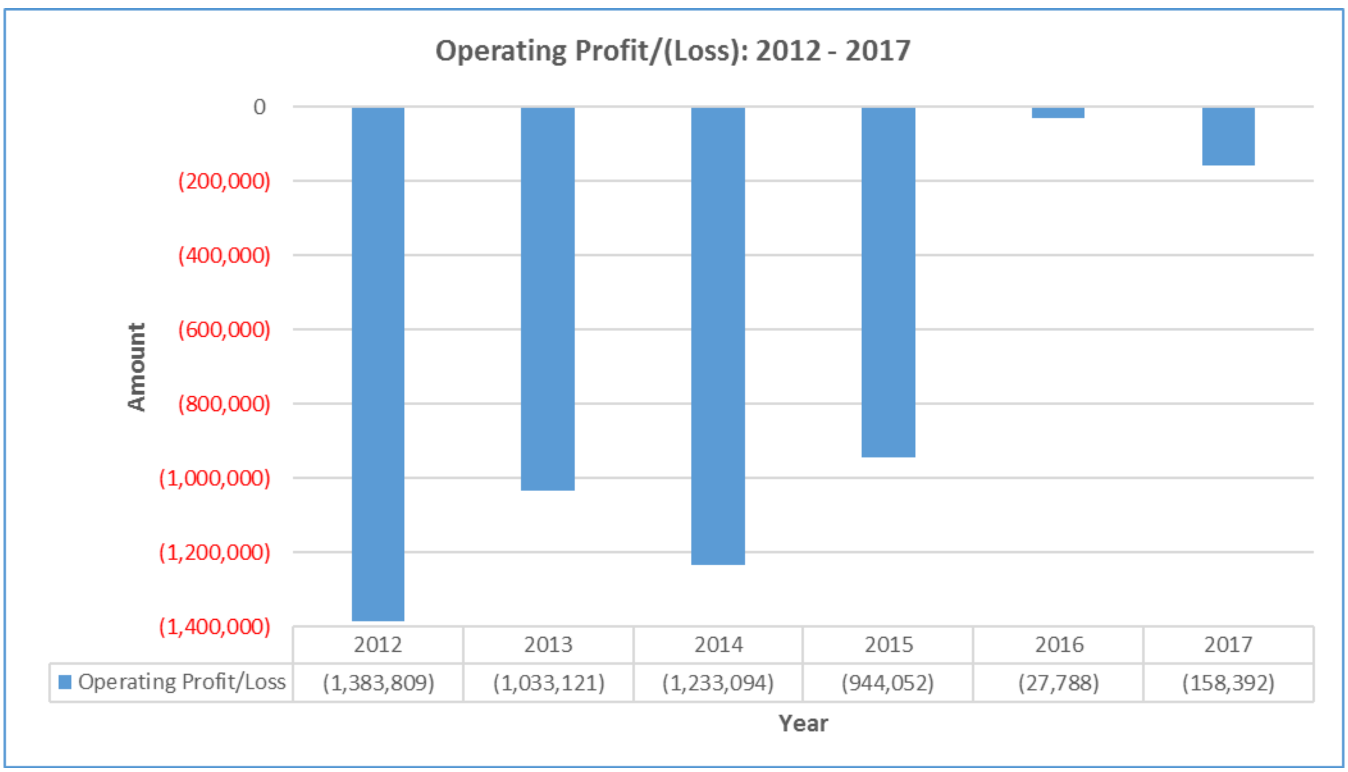
Presented herewith are AMI's Summary Statements of Revenues, Expenses and Changes in Net Position:

	2017	2016	2015
Revenues:			
Net operating revenues	$ 4,399,936	$ 4,105,437	$ 2,505,761
Non-operating revenues	2,844,535	1,334,153	1,916,903
Capital contributions	-	-	2,219,661
Total Revenues	7,244,471	5,439,590	6,642,325
Expenses:			
Operating expenses	4,558,328	4,133,225	3,449,813
Non-operating expenses	42,970	98,495	167,274
Total Expenses	4,601,298	4,231,720	3,617,087
Change in Net Position:	$ 2,643,173	$ 1,207,870	$ 3,025,238

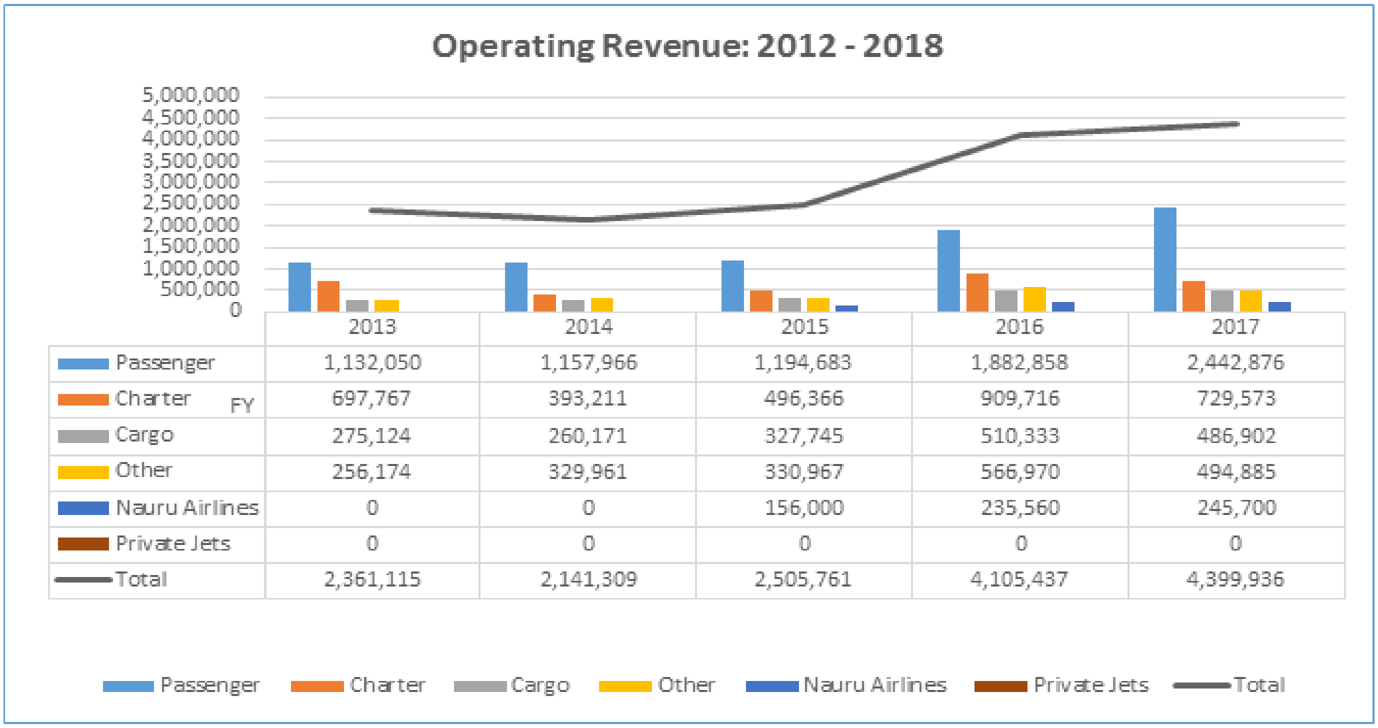
The above identifies the various revenue and expense items that contributed to AMI's change in net position.

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 2012 through 2017.



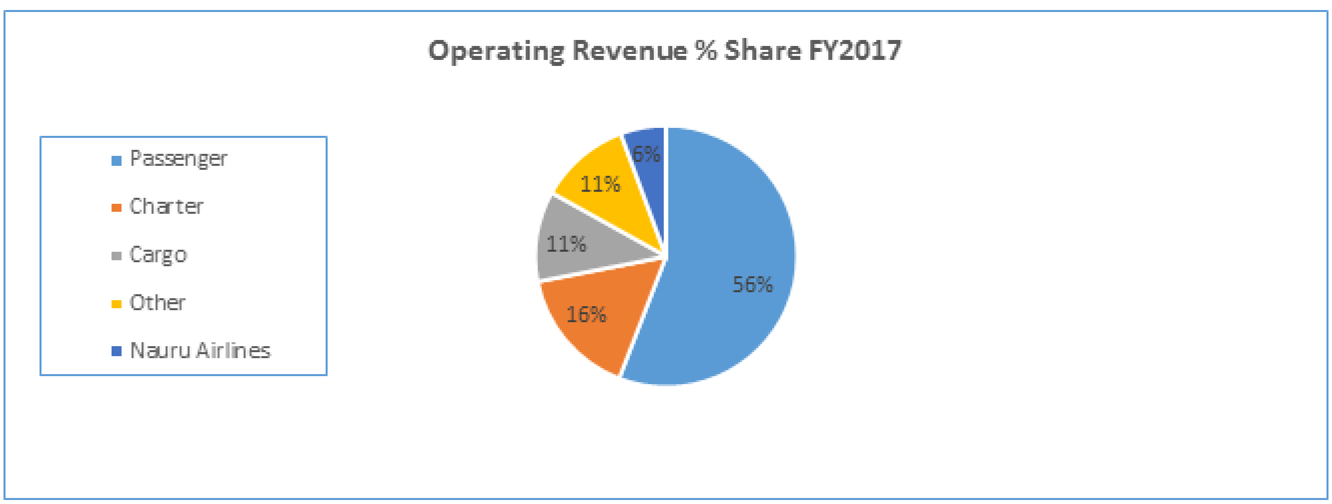
The graph below shows the main components of AMI's operating revenues from 2013 through 2017.



FY	2013	2014	2015	2016	2017
Passenger	1,132,050	1,157,966	1,194,683	1,882,858	2,442,876
Charter	697,767	393,211	496,366	909,716	729,573
Cargo	275,124	260,171	327,745	510,333	486,902
Other	256,174	329,961	330,967	566,970	494,885
Nauru Airlines	0	0	156,000	235,560	245,700
Private Jets	0	0	0	0	0
Total	2,361,115	2,141,309	2,505,761	4,105,437	4,399,936

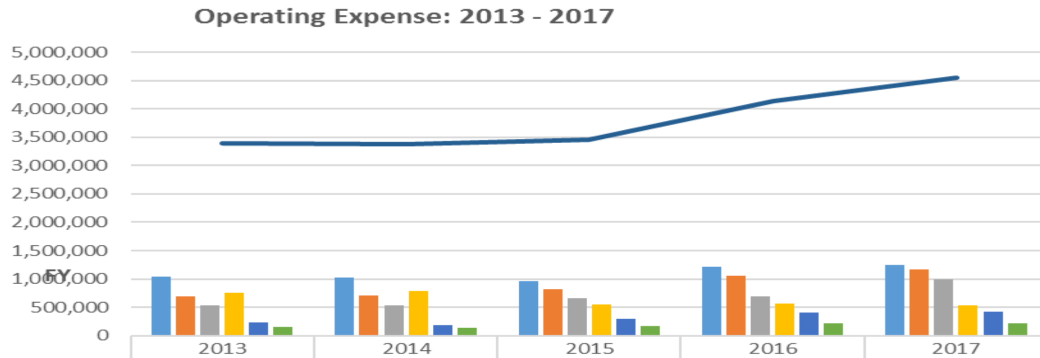
AMI's total operating revenues as indicated above have generally been on an upward trend, with revenues from passengers, or from selling of air-tickets, was the largest source which continued to rise since 2013 due to increase in passenger travel.

Charter is the second largest and it decreased in 2017 by 20% because in 2016 RMI had a drought which triggered the need for more charter flights.



The above pie chart shows the distribution of each operating revenue source as a percentage of total operating revenues in which passenger was 56%, charter 16%, others 11%, and cargo/freight 11% and Nauru Airlines 6%.

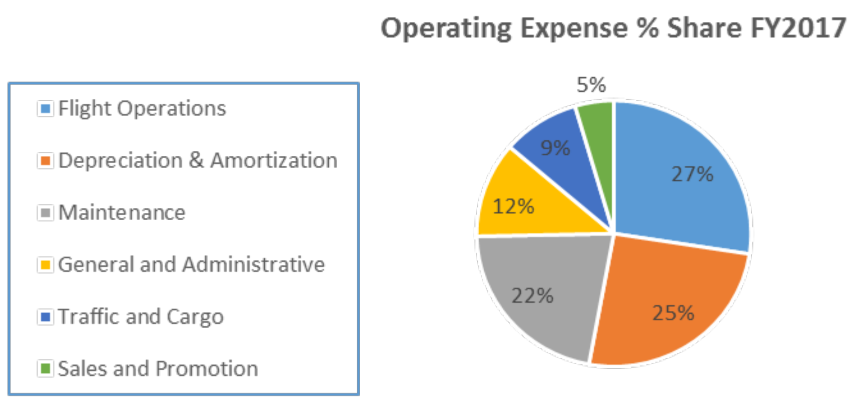
The graph below shows the main components of AMI's operating expenses from 2013 through 2017.



	2013	2014	2015	2016	2017
Flight Operations	1,033,458	1,027,315	963,588	1,211,263	1,251,880
Depreciation & Amortization	699,092	711,111	811,193	1,057,240	1,160,505
Maintenance	532,380	531,897	666,192	684,334	991,414
General and Administrative	756,368	781,503	547,007	563,104	529,840
Traffic and Cargo	226,062	187,760	300,125	409,064	416,100
Sales and Promotion	146,876	134,817	161,708	208,220	208,589
Total	3,394,236	3,374,403	3,449,813	4,133,225	4,558,328

Flight Operations | Depreciation & Amortization | Maintenance | General and Administrative | 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 2017 period.



The above pie chart shows major component percentage shares of AMI's total operating expenses in 2017, indicating flight operation with the largest share of 27%, followed by depreciation and amortization 25%, maintenance 22%, general administration 12%, traffic and cargo servicing 9%; 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 2017, the Cabinet provided to AMI the following subsidies, for the following purposes below:

	Amount
For Subsidy:	
1. Operations	$ 1,686,400
2. MISSA arrear payment	300,000
3. MIDB loan payment	493,153
Grand Total	$ 2,479,553

As indicated above, the government provided a total subsidy allocation of $2,479,553 for AMI to meet some of its ongoing major financial obligations such as MISSA arrears ($300,000), MIDB loan payment ($493,153) and operations ($1,686,400) in 2017.

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, between MISSA, the government, and AMI back in 2013, the 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, and the arrears has been 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) and from impacts of 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 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 government approval, in order to pay the loan off, and procuring additional spare parts to ensure schedule reliability for the Dornier aircraft.

CAPITAL ASSET AND DEBT

AMI's net capital activities for 2017 decreased by $253,798 but the total assets of the business increased by $906,707. For additional information concerning capital assets, please refer to note 4 of the 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, and the loan's collateral government started making payments in 2014 of $191,092, a payment of $943,373 was made in 2015, a payment of $538,153 in 2016 and a payment of $493,153 in 2017. For more information concerning debt, please refer to note 5 to the financial statements.

CASH FLOW

AMI received from its customers $4,300,274 in 2017 and $4,089,139 in 2016, in cash, respectively.

During the year ended September 30, 2017, the Company turned around and paid its vendors for goods and services and payroll for its employees in the amount $2,107,562 and $1,479,823, respectively, leaving a cash surplus from operations of $712,889, whereas in 2016 AMI had a cash surplus of $662,095. Additionally, the operating subsidies from the government in 2017 assisted in operations continuing "business as usual".

Management's Discussion and Analysis for the year ended September 30, 2016 is set for in the report on the audit of AMI's financial statements dated April 21, 2017. That Discussion and Analysis explains the major factors impacting the FY 2016 financial statements and may be obtained from the contact information below.

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 a gallon, but today it is near $3.55 a 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 $0.16 million and $0.03 million in 2017 and 2016, respectively, the annual subsidies and contributions from the central government has been essential in sustaining the airline's services. It will be VERY important for Government contributions to continue for the Company in the short to medium-terms until the country's economic condition improves through increased tourism and other economic growth activities. 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, reduction of AOG and etc.; the need for serious action on such will be more important.

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 FY2017

- ***Goal 3: "Renew" our operation;***
    - One of the objectives was to invest in an Accounting Software which has been implemented effective January 2018, software known as Abila MIP Fund Accounting.
- **Goal 2: "Reverse" our loss making:** objectives as per below;
    - AMI is working to invest in parts such as repairs and overhauls so that it reduces the AOG and this will result in a steady stream of revenues.

KEY ACHIEVEMENTS SUBSEQUENT TO FY2012, CONTINUED

- 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 2017, 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

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

Statements of Net Position
September 30, 2017 and 2016

ASSETS	2017	2016
Current assets:		
Cash	$ 1,751,843	$ 556,573
Receivables:		
Trade	89,121	524,615
Employees	33,752	176,489
Affiliates	144,641	153,606
	267,514	854,710
Less allowance for doubtful receivables	(65,837)	(642,474)
Receivables, net	201,677	212,236
Expendable parts (net of allowance for obsolescence of $148,865 and $146,973 at September 30, 2017 and 2016, respectively)	614,062	576,168
Prepaid expenses and deposits	137,349	56,750
Total current assets	2,704,931	1,401,727
Capital assets:		
Depreciable capital assets, net of accumulated depreciation and amortization	8,355,553	8,609,351
Long-term deposits	181,989	123,434
	8,537,542	8,732,785
	$ 11,242,473	$ 10,134,512
LIABILITIES AND NET POSITION		
Current liabilities:		
Current portion of long-term debt	$ 761,435	$ 954,522
Accounts payable	58,787	92,110
Social security taxes payable	74,895	831,577
Withholding taxes payable	552,775	551,300
Air traffic liability	88,378	198,599
Accrued expenses	187,473	308,495
Payable to affiliates	580,759	524,643
Total current liabilities	2,304,502	3,461,246
Noncurrent liabilities:		
Advances from RepMar	3,116,890	3,116,890
Long-term debt, net of current portion	-	378,468
Total noncurrent liabilities	3,116,890	3,495,358
Total liabilities	5,421,392	6,956,604
Commitments and contingencies		
Net position:		
Net investment in capital assets	8,355,553	8,609,351
Unrestricted	(2,534,472)	(5,431,443)
Total net position	5,821,081	3,177,908
	$ 11,242,473	$ 10,134,512

See accompanying notes to financial statements.

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

Statements of Revenues, Expenses and Changes in Net Position
Years Ended September 30, 2017 and 2016

	2017	2016
Operating revenues:		
Passenger	$ 2,442,876	$ 1,882,858
Charter	729,573	909,716
Cargo	486,902	510,333
Ground handling	245,700	235,560
Fuel surcharge	202,889	158,532
Flight diversion	185,413	242,081
Other	106,583	166,357
Total operating revenues	4,399,936	4,105,437
Operating expenses:		
Flight operations	1,251,880	1,211,263
Depreciation and amortization	1,160,505	1,057,240
Maintenance	991,414	684,334
General and administrative	529,840	563,104
Aircraft and traffic servicing	416,100	409,064
Promotion and sales	208,589	208,220
Total operating expenses	4,558,328	4,133,225
Operating loss	(158,392)	(27,788)
Nonoperating revenues (expenses):		
RepMar subsidy	2,479,553	1,334,153
Other nonoperating revenue	364,982	-
Interest expense	(42,970)	(98,495)
Total nonoperating revenues (expenses), net	2,801,565	1,235,658
Change in net position	2,643,173	1,207,870
Net position at beginning of year	3,177,908	1,970,038
Net position at end of year	$ 5,821,081	$ 3,177,908

See accompanying notes to financial statements.

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

Statements of Cash Flows
Years Ended September 30, 2017 and 2016

	2017	2016
Cash flows from operating activities:		
Cash received from customers	$ 4,300,274	$ 4,089,139
Cash payments to suppliers for goods and services	(2,107,562)	(2,080,779)
Cash payments to employees for services	(1,479,823)	(1,346,265)
Net cash provided by operating activities	712,889	662,095
Cash flows from noncapital financing activities:		
Operating subsidy received from RepMar	1,686,400	496,000
Cash flows from capital and related financing activities:		
Acquisition of property and equipment	(965,262)	(620,566)
Principal repayments of long-term debt	(78,402)	(75,000)
Interest paid	(160,355)	(652)
Net cash used for capital and related financing activities	(1,204,019)	(696,218)
Net change in cash	1,195,270	461,877
Cash at beginning of year	556,573	94,696
Cash at end of year	$ 1,751,843	$ 556,573
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	$ (158,392)	$ (27,788)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation and amortization	1,160,505	1,057,240
(Increase) decrease in assets:		
Receivables:		
Trade	9,400	(56,568)
Employees	(7,806)	20,068
Affiliates	8,965	(87,987)
Expendable parts	(37,894)	(205,508)
Prepaid expenses and deposits	(80,599)	(62,296)
Increase (decrease) in liabilities:		
Accounts payable	(33,323)	(125,165)
Social security taxes payable	(91,700)	5,036
Withholding taxes payable	1,475	8,977
Air traffic liability	(110,221)	108,189
Accrued expenses	(3,637)	22,042
Payable to affiliates	56,116	5,855
Net cash provided by operating activities	$ 712,889	$ 662,095
Summary disclosure of noncash activities:		
RepMar subsidy	$ 793,153	$ 838,153
Long-term debt	(493,153)	(458,701)
Social security taxes payable	(300,000)	(300,000)
Interest expense	-	(79,452)
	$ -	$ -
Allowance for doubtful receivables	$ 576,637	$ -
Trade receivables	(426,094)	-
Employee receivables	(150,543)	-
	$ -	$ -
Other nonoperating revenue	$ 364,982	$ -
Social security taxes payable	(364,982)	-
	$ -	$ -
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, 2017, 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 (GAAP), as applicable to governmental entities, specifically proprietary funds.

GASB Statement No. 34, *Basic Financial Statements - and Management’s Discussion and Analysis - for State and Local Governments*, as amended by GASB Statement No. 37, *Basic Financial Statements - and Management’s Discussion and Analysis - for State and Local Governments: Omnibus*, GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, and GASB Statement No. 61, *The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and 34*, establish financial reporting standards for governmental entities, which require that management’s discussion and analysis of the financial activities be included with the basic financial statements and notes and modifies certain other financial statement disclosure requirements.

To conform to these requirements, equity is presented in the following net position categories:

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

- 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, 2017 and 2016, the carrying amounts of cash were $1,751,843 and $556,573, respectively, and the corresponding bank balances were $1,771,094 and $608,599, respectively. As of September 30, 2017 and 2016, bank balances in the amount of $1,756,993 and $595,271, respectively, are maintained in a financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2017 and 2016, bank deposits in the amount of $250,000 were FDIC insured. As of September 30, 2017 and 2016, bank deposits of $14,101 and $13,328, respectively, 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, 2017 and 2016, the accumulated vacation leave liability amounted to $46,326 and $53,578, respectively, and is included within the statements 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 GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and deferred outflows of resources, liabilities and deferred inflows of resources, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

New Accounting Standards

During the year ended September 30, 2017, AMI implemented the following pronouncements:

- GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, which aligns the reporting requirements for pensions and pension plans not covered in GASB Statements 67 and 68 with the reporting requirements in Statement 68.

- GASB 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).

- GASB Statement No. 77, *Tax Abatement Disclosures*, which requires governments that enter into tax abatement agreements to disclose certain information about the agreements.

- GASB 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*.

- GASB 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.

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

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

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

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.

In November 2016, GASB issued Statement No. 83, *Certain Asset Retirement Obligations*, which addresses accounting and financial reporting for certain asset retirement obligations (AROs) associated with the retirement of a tangible capital asset. The provisions in Statement No. 83 are effective for fiscal years beginning after June 15, 2018. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*, which establishes criteria for identifying fiduciary activities of all state and local governments. The provisions in Statement No. 84 are effective for fiscal years beginning after December 15, 2018. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In March 2017, GASB issued Statement No. 85, *Omnibus 2017*, which address practice issues that have been identified during implementation and application of certain GASB Statements including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits). The provisions in Statement No. 85 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 May 2017, GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*, which improves consistency in accounting and financial reporting for in-substance defeasance of debt. The provisions in Statement No. 86 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 June 2017, GASB issued Statement No. 87, *Leases*, which establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The provisions in Statement No. 87 are effective for fiscal years beginning after December 15, 2019. Management has yet to determine whether 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 years ended September 30, 2017 and 2016 were as follows:

	October 1, 2016	Additions	Transfers	September 30, 2017
Aircraft and improvements	$ 20,812,043	$ 469,433	$ -	$ 21,281,476
Rotable spare parts	6,605,553	344,896	-	6,950,449
Plant and equipment	764,843	51,670	-	816,513
Office furniture and equipment	750,362	15,708	-	766,070
Motor vehicles	280,002	-	-	280,002
Computer software	-	25,000	-	25,000
Building improvements	17,880	-	-	17,880
	29,230,683	906,707	-	30,137,390
Less accumulated depreciation and amortization	(20,621,332)	(1,160,505)	-	(21,781,837)
	$ 8,609,351	$ (253,798)	$ -	$ 8,355,553

	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, 2017 and 2016, is as follows:

	2017	2016
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.	$ 235,086	$ 237,701
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.	526,349	1,095,289
	$ 761,435	$ 1,332,990

Future repayment commitments are as follows:

Year Ending September 30	Principal	Interest	Total
2018	$ 761,435	$ 64,157	$ 825,592

Changes in long-term liabilities for the year ended September 30, 2017, were as follows:

	Balance October 1, 2016	Additions	Reductions	Balance September 30, 2017	Due Within One Year
Notes payable:					
RMIPA	$ 237,701	$ -	$ (2,615)	$ 235,086	$ 235,086
MIDB	1,095,289	-	(568,940)	526,349	526,349
	$ 1,332,990	$ -	$ (571,555)	$ 761,435	$ 761,435

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.

During the years ended September 30, 2017 and 2016, AMI received cash operating subsidies from RepMar of $1,686,400 and $496,000, respectively, as well as non-cash operating subsidies of $793,153 and $838,153, respectively. Non-cash operating subsidies represent payments made by RepMar on behalf of AMI for debt settlement of a loan payable to MIDB of $493,153 and $538,153, respectively, and payment of delinquent contributions to MISSA of $300,000 and $300,000, respectively.

A summary of related party transactions as and for the years ended September 30, 2017 and 2016, is as follows:

	2017			
	Receivables	Revenues	Payables	Expenses
RepMar	$ 103,080	$ 827,366	$ 623	$ 5,738
RMIPA	525	-	575,109	53,494
Marshall Islands National Telecommunications Authority	2,505	3,131	-	37,918
Marshalls Energy Company, Inc.	67	666	2,798	32,756
Other	38,464	48,183	2,229	54,213
	144,641	$ 879,346	$ 580,759	$ 184,119
Less allowance for doubtful receivables	(46,734)			
	$ 97,907			

	2016			
	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			

(6) Related Party Transactions, Continued

A summary of advances from RepMar as of September 30, 2017 and 2016, follows:

	2017	2016
Advances in accordance with Cabinet Minute C.M. 150 (2002), no interest and due in May 2008.	$ 2,000,000	$ 2,000,000
Transfer of note payable to a bank for payable to an affiliate as a result of the bank seizing TCD collateral belonging to MIDB, terms and interest rate are currently under negotiation.	988,574	988,574
Funding assistance in accordance with Cabinet Minute C.M. 118 (2007), no interest, on a reimbursable basis.	128,316	128,316
	$ 3,116,890	$ 3,116,890

AMI does not expect that RepMar will pursue collection of the above advances prior to September 30, 2018. Accordingly, such have been presented as long-term liabilities within the accompanying financial statements.

At September 30, 2017 and 2016, AMI is liable to the Marshall Islands Social Security Administration (MISSA) for certain delinquent employee and employer contributions in the amount of $74,895 and $831,577, respectively, 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 (see Note 8). During the years ended September 30, 2017 and 2016, RepMar made payments to MISSA on behalf of AMI of $300,000 associated with this court judgment. 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. On October 10, 2016, MISSA waived $160,127 of penalties in relation to this court judgment.

At September 30, 2017 and 2016, AMI is liable for $552,775 and $551,300, respectively, of payroll taxes, excluding related penalties and interest. Management plans to enter into an agreement with RepMar to reconcile reciprocal accounts receivable and liability balances, and offset such balances in lieu of cash payments.

(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, 2017 and 2016, AMI has not been repaid the pre-delivery payments and has recorded a provision for uncollectible advances of $2,100,000.

(7) Commitments and Contingencies, Continued

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 years ended September 30, 2017 and 2016, AMI incurred losses from operations of $158,392 and $27,788, respectively. For the years ended September 30, 2017 and 2016, AMI received cash and non-cash operating subsidies of $2,479,553 and $1,334,153, respectively, 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) Subsequent Event

On October 10, 2017, MISSA waived $376,697 of penalties in relation to a judgment entered by the High Court on November 30, 2012. During the year ended September 30, 2017, AMI recognized other non-operating revenue that resulted from this waiver.

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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 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 Air Marshall Islands, Inc. (AMI), which comprise the statement of net position as of September 30, 2017, 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 30, 2018.

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 2017-001.

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 30, 2018

Finding No. 2017-001

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: 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 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 through 2016.

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.

Unresolved Prior Years' Findings
Year Ended September 30, 2017

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