

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

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**FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITORS' REPORT**

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**YEARS ENDED SEPTEMBER 30, 2018 AND 2017**

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

Years Ended September 30, 2018 and 2017  
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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, 2018 and 2017, and the related statements of revenues, expenses and changes in net position and of cash flows for the years then ended, and the related notes to the financial statements.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditors' Responsibility***

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

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

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

## ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Air Marshall Islands, Inc. as of September 30, 2018 and 2017, 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.

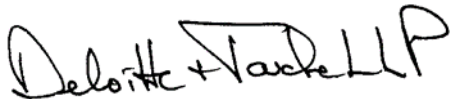
## ***Other Matters***

### *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 11 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 May 30, 2019, 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of AMI's 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.



May 30, 2019

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

Management's Discussion and Analysis  
Years Ended September 30, 2018 and 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 fulfills an essential role in the transportation infrastructure for the Nation. AMI currently operates a fleet of two Dornier 228 aircraft and a Dash 8 aircraft with a workforce of 75 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 2018**

- The number of flights operated increased by 3%: there was an increase in aircraft operating hours of 4% compared to the prior year and Dash fleet operated 23% more hours compared to prior fiscal year;
- The departure/arrival of passenger numbers was recorded at 23,940 resulting in an increase of 27% as compared to 2017, thus, a huge improvement in reliability of service;
- Major C-Check for Dash 8 completed at a total cost of \$1.9 million with a clean bill of health for the next 5 years;
- Implementation of Accounting Program called Abila MIP Fund Accounting at a cost of \$0.03 million such greatly automated the paper work previously done and is US Generally Accepted Accounting Principles. The Program encompasses the Accounts Receivable, Accounts Payable, General Ledger and Payroll Modules;
- AMI has planned programs for ongoing training of young Marshallese to become professional pilots and engineers in order to prepare the next generation for the nation's air transportation requirements. Pilot students currently in Fiji and United States are expected to arrive back on the Island end of January 2019; and
- FAA Flight Dispatcher training has been completed up to 80%.

**AIR MARSHALL ISLANDS, INC**  
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Management's Discussion and Analysis  
Years Ended September 30, 2018 and 2017

**OVERVIEW**

Presented herewith is AMI's annual discussion and analysis (MD&A) of the company's financial performance for the financial year ended 30<sup>th</sup> September 2018, to be read along with our financial statements and the accompanying notes to the financial statements in this report.

**FINANCIAL SUMMARY**

For the year ended September 30, 2018, AMI obtained a net surplus of \$753k. The change was primarily due to the RepMar subsidy of \$1.42 million. Out of the total funding received from RepMar, \$1.29 million was used in capital expenses (investment and repairs/overhauls of aircraft parts) and Community Service Obligations. The balance of \$0.13 million was directly paid by Ministry of Finance to MIDB for loan outstanding from 2013.

Operating loss increased from \$0.16 million in 2017 to \$0.57 million in 2018, which was the result of an increase in repair and depreciation expenses from \$1.16 million in 2017 to \$1.33 million in 2018 due to an ageing fleet. The Dash 8 aircraft was grounded effective July 2018 for a major C-Check and completed at a total cost of \$1.9 million. AMI has invested heavily in parts repairs and overhauls as a business strategy to reduce AOG and increase the reliability of service in the future. The total operating expenses increased from \$4.56 million in 2017 to \$4.93 million in 2018.

The Company continues to face operational difficulties and challenges due to AOG of the Dornier and Dash 8 as a result of poor conditions of the Outer Island airports and the severely corrosive maritime environment leading to disruption of the flight schedules.

Net surplus caused the total assets to exceed total liabilities by \$6.58 million in 2018.

Capacity growth in passenger numbers of 27% compared to 2017, the increase was driven by an improvement in reliability of service.

**FINANCIAL ANALYSIS OF AMI**

The table below provides a summary of AMI's net financial position, indicating that total assets increased while total liabilities decreased in 2018 over 2017 & 2016.

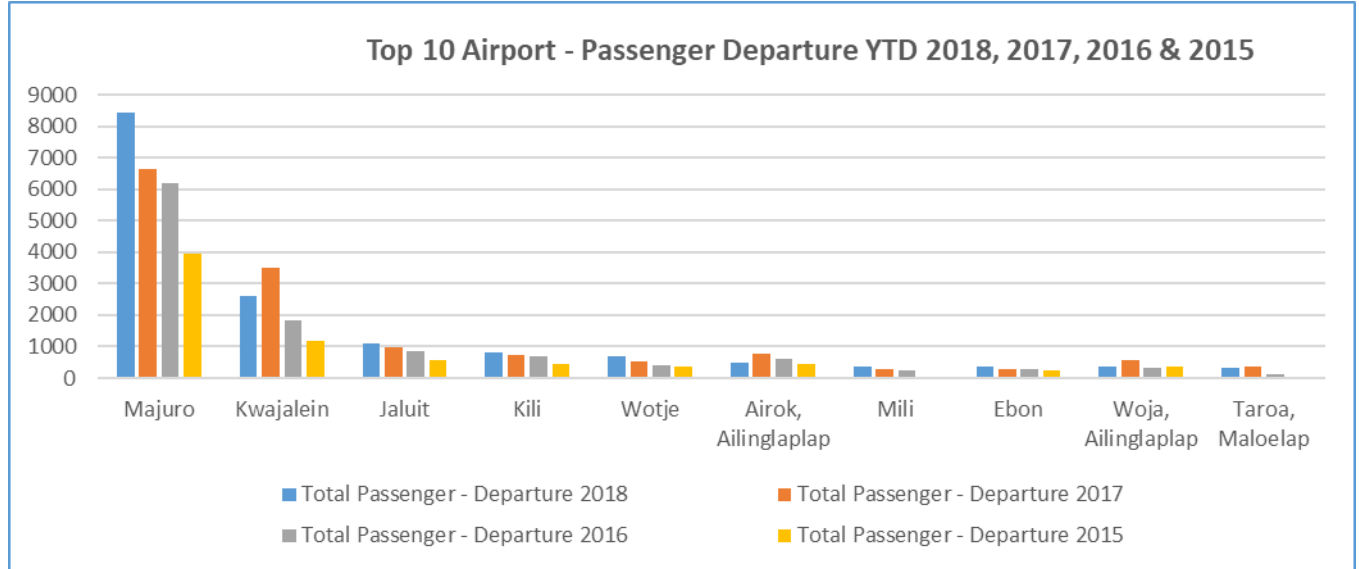
	<u>2018</u>	<u>2017</u>	<u>2016</u>
Assets:			
Current and other assets	\$ 3,404,570	\$ 2,886,920	\$ 1,525,161
Capital assets	<u>8,455,538</u>	<u>8,355,553</u>	<u>8,609,351</u>
Total Assets	<u>11,860,108</u>	<u>11,242,473</u>	<u>10,134,512</u>
Liabilities:			
Current and other liabilities	2,168,883	2,304,502	3,461,246
Long-term liabilities	<u>3,116,890</u>	<u>3,116,890</u>	<u>3,495,358</u>
Total Liabilities	<u>5,285,773</u>	<u>5,421,392</u>	<u>6,956,604</u>
Net Position:			
Net investment in capital assets	8,455,538	8,355,553	8,609,351
Unrestricted	<u>(1,881,203)</u>	<u>(2,534,472)</u>	<u>(5,431,443)</u>
Total Net Position	\$ <u>6,574,335</u>	\$ <u>5,821,081</u>	\$ <u>3,177,908</u>

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 Years Ended September 30, 2018 and 2017

The trend in total net positions indicate that the company is moving in the right direction as it's accumulated losses are decreasing and the assets are greater than the liabilities. 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 2015 to 2018, 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:

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Revenues:			
Net operating revenues	\$ 4,355,702	\$ 4,399,936	\$ 4,105,437
Non-operating revenues	<u>1,415,106</u>	<u>2,844,535</u>	<u>1,334,153</u>
Total revenues	<u>5,770,808</u>	<u>7,244,471</u>	<u>5,439,590</u>
Expenses:			
Operating expenses	4,926,471	4,558,328	4,133,225
Non-operating expenses	<u>91,083</u>	<u>42,970</u>	<u>98,495</u>
Total expenses	<u>5,017,554</u>	<u>4,601,298</u>	<u>4,231,720</u>
Change in net position	<u>\$ 753,254</u>	<u>\$ 2,643,173</u>	<u>\$ 1,207,870</u>

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

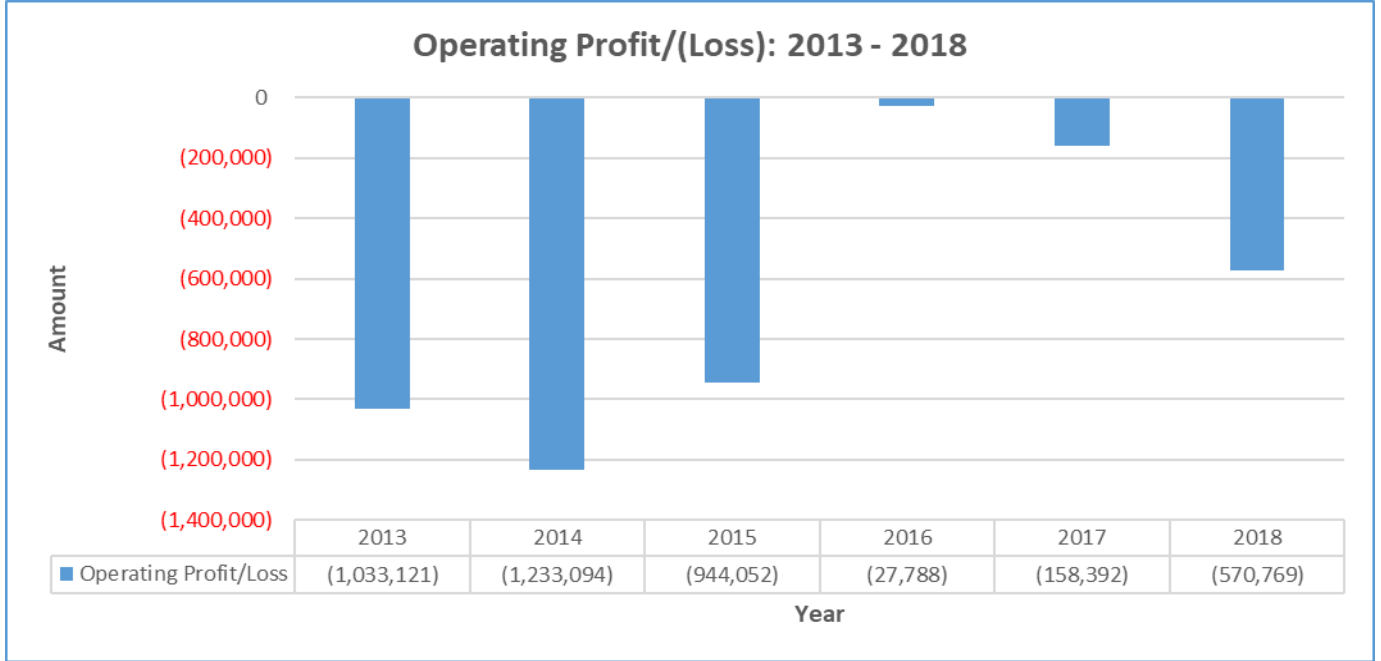
The change in net position is an overview of the company's financial situation. If the net position goes up the situation is good and vice-versa.

Management's Discussion and Analysis for the year ended September 30, 2017 is set for in the report on the audit of AMI's financial statements dated April 30, 2018. That Discussion and Analysis explains the major factors impacting the FY 2017 financial statements and may be obtained from the contact information below.

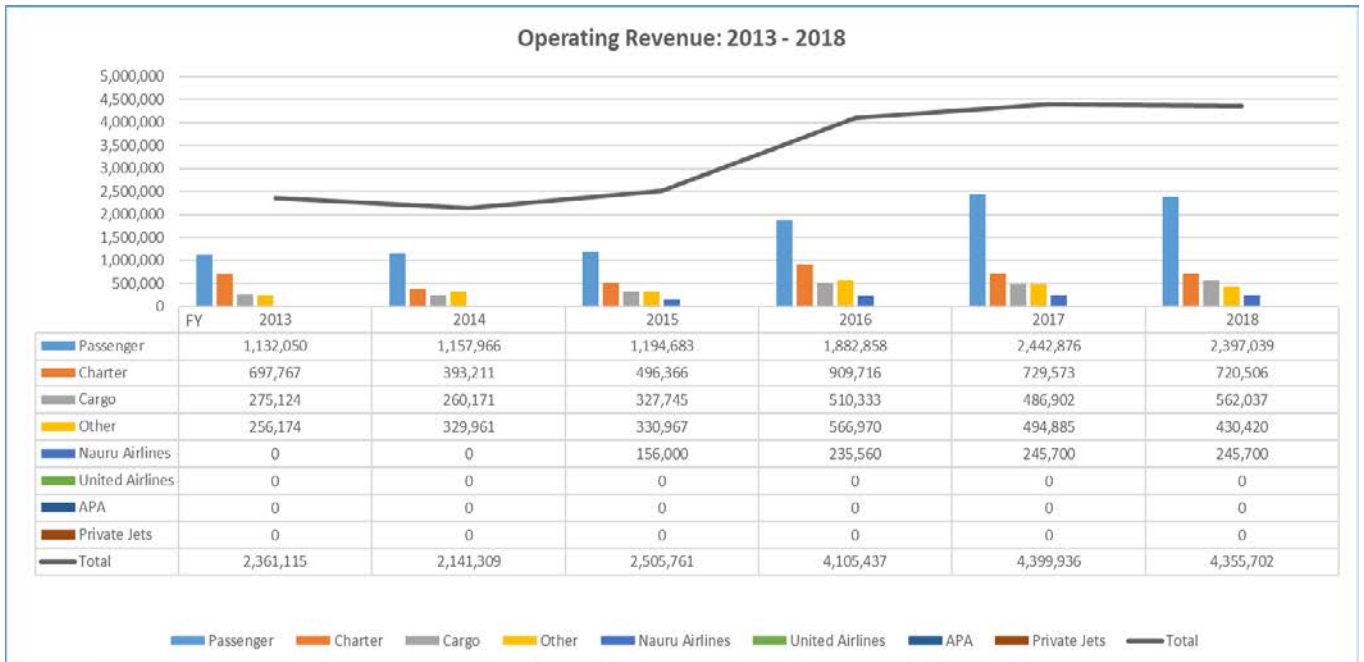
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Management's Discussion and Analysis  
 Years Ended September 30, 2018 and 2017

The below graph shows the operating loss of AMI from 2013 through to 2018.



The graph below shows the main components of AMI's operating revenues from 2013 through to 2018.



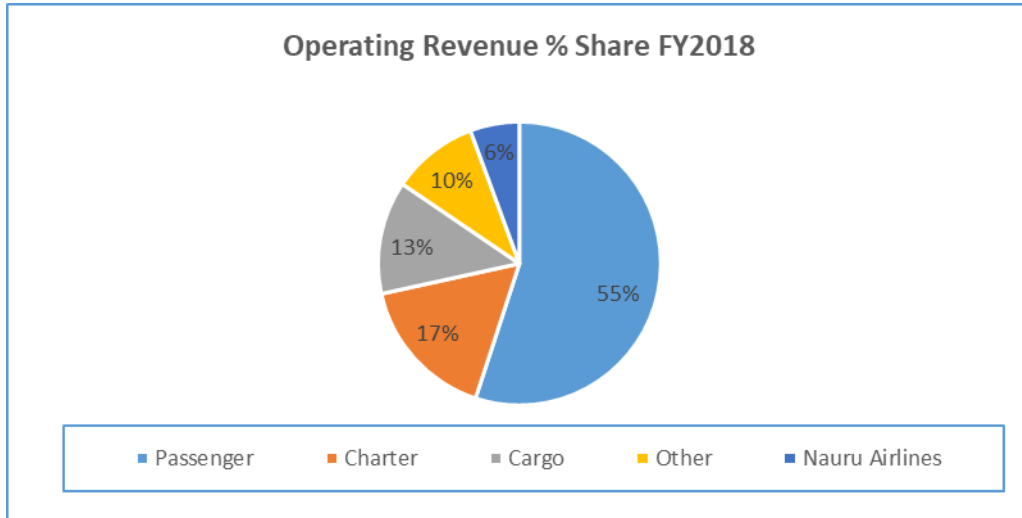
AMI's total operating revenues as indicated above have been on an upward trend. Revenues from passengers or ticket sells is the largest source which continued to rise since 2013 due to increase in passenger travel.



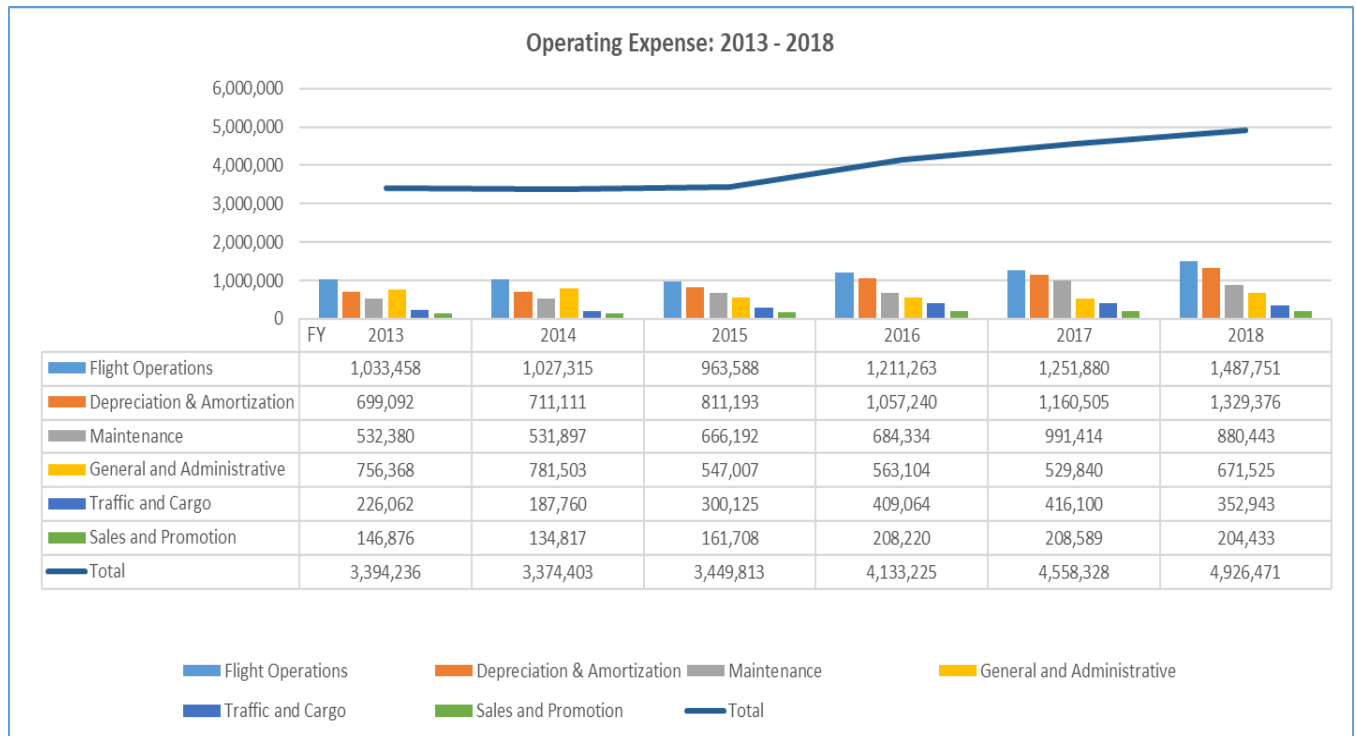
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Management’s Discussion and Analysis  
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Charter is the second largest that has decreased by 1% in 2018.



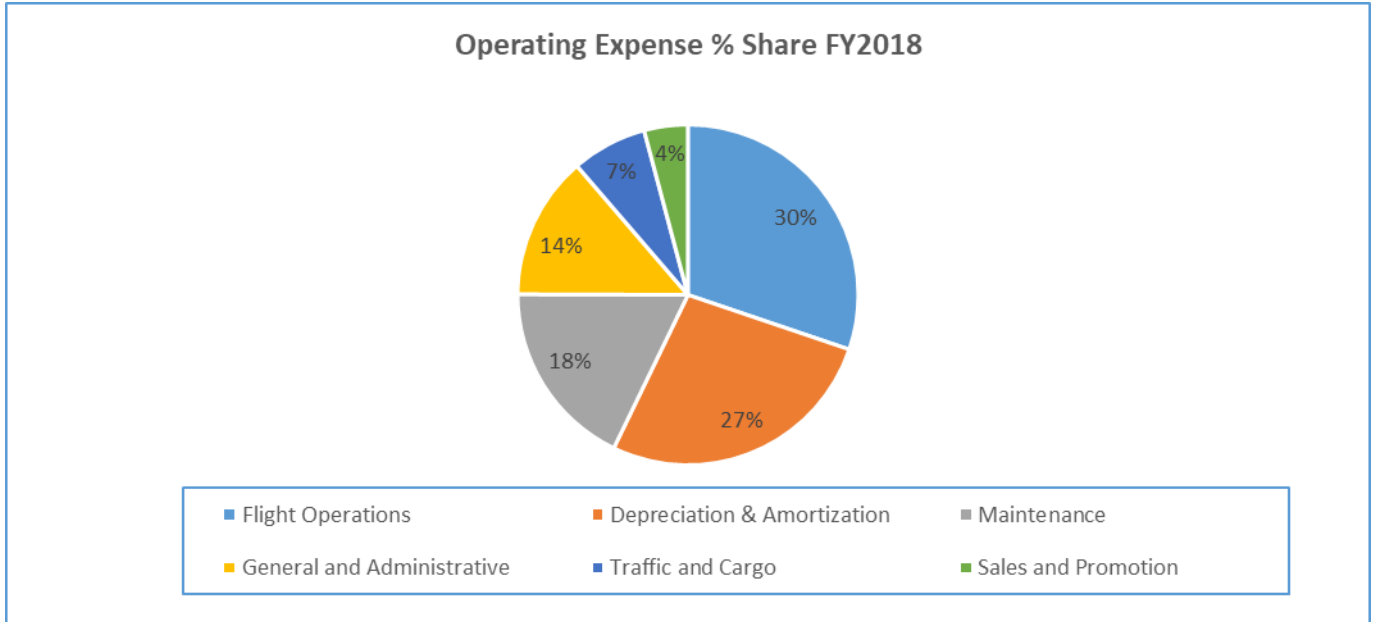
The above pie chart shows the distribution of each operating revenue source as a percentage of total operating revenues in which passenger was 55%, charter 17%, cargo/freight 13%, others 10%, and Nauru Airlines 6%.



The above diagram shows 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 2018 period.

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The above pie chart shows major component percentage shares of AMI's total operating expenses in 2018, indicating flight operation with the largest share of 30%, followed by depreciation and amortization 27%, maintenance 18%, general administration 14%, traffic and cargo servicing 7%; and sales & promotion 4%.

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.

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

	<u>2018</u>	<u>2017</u>	2016
<b>For Subsidy:</b>			
1. Subsidy (CSO)	\$ 1,289,600	\$ 1,686,400	\$ 496,000
2. MIDB Loan payments	125,506	493,153	538,153
3. Social security payments	<u>-</u>	<u>300,000</u>	<u>300,000</u>
<b>Grand Total</b>	\$ <u>1,415,106</u>	\$ <u>2,479,553</u>	\$ <u>1,334,153</u>

As indicated above, the government provided a total subsidy allocation of \$1,415,106 for AMI to meet some of its ongoing major financial obligations such as MIDB loan payment \$125,506. \$1.3 million was used in capital expenses (investment and repairs/overhauls of parts) and Community Service Obligations in 2018.

The Dash 8 has not been generating enough revenue due to low utilization (averaging at 28% percent in FY2018 since returning from Australia from the D-Check) resulting from lack of MEL (minimum equipment list) and from impacts of the outer island airport runways. This continues to cause breakdown on the aircraft, thus, preventing it from generating the income it needs in order to pay off its own loan and helps support the operation. The Dash 8 aircraft was grounded again for a major C-Check at the end of the financial year 2018, the cost of which, was taken out of AMI's cashflow.

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The government guaranteed the MIDB loan and started paying it off on behalf of AMI in 2014. Once operations are enhanced, AMI will start making payments towards the loan. However, if the Company's operations do not get better, alternative measures will be to sell the Dash 8 with the approval by the Government and procuring spare parts for the Dornier aircraft to ensure schedule reliability. It is noted that AMI will finish paying off the loan in the year 2019 given the consistent biweekly payments.

#### **CAPITAL ASSET AND DEBT**

AMI's net capital activities for 2018 increased by \$99,985 and the total assets of the business increased by \$617,635. Please refer to Note 4 to the financial statements for additional discussion on AMI's capital assets.

AMI incurred substantial long-term debt when the Company obtained a \$2.5 million loan from MIDB in May 2013. The loan was used to pay down the remaining cost of the Dash 8 D-check in Cairns Australia. Furthermore, loan's collateral government made payments in 2016, 2017 and 2018 of \$538,153, \$493,153 and \$125,506, respectively. Please refer to Note 5 to the financial statements for additional discussion on AMI's long-term debt.

#### **CASH FLOW**

AMI received \$4,300,274 and \$4,418,673 from customers in 2017 and 2018, respectively.

During the year ended September 30, 2018, the company paid its vendors \$2 million for goods and services and payroll of \$1.5 million for employees. AMI noted a cash surplus of \$831,199 in 2018, an increase from \$712,889 in 2017. Additionally, the operating subsidies from the government assisted in operations continuing "business as usual".

#### **CURRENT ECONOMIC OUTLOOK**

Being a small, open and highly susceptible economy to world events and dependent on funding from the U.S Government through the compact and federal funding, representing up to 60% or more of annual government budget of \$150 million, the Marshall Islands would continue to be exposed to external shocks, economic calamities, and risks, such as the 2008 and 2009 global energy crisis. The local economy were immediately impacted by the increase of fuel prices along with various events.

Prior to the energy crisis, cost of jet fuel used to be around \$2 a gallon, but today it is near \$3.79 a gallon. Today's situation around the globe and following the demand for 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 increased the cost of operation for the company by at least 15% per year.

Due to AMI's operating losses of \$0.16 million and \$0.57 million in 2017 and 2018, respectively, the annual subsidies and contributions from the central government has been essential in sustaining the airline's services. Continued Government contributions to the Company is important in the short to medium-terms until the countries' economic condition improves through the increase in tourism and other economic growth activities. Furthermore, serious action is needed in regards to the aging of the Dornier 228 and Dash 8 aircraft, improvement on airport runways, adequate spare parts provisioning and the reduction of AOG.

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**ROLE OF BOARD AND MANAGEMENT**

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

1. Deteriorated and dilapidated airport runways and ramps in the outer islands that continue to cause damages to the aircrafts;
2. Insufficient spare parts for the aircrafts; and
3. Deteriorating Hangar at the Majuro airport. The need to house everyone under one roof will increase efficiency for the Company. Currently, the offices are spread out where the Main Office is in Uliga, Maintenance and Spare Parts departments are located at the hangar and Flight Operations and Traffic at the main terminal. This structure causes inefficient communication and untimely responses to problems between departments when occurred.

**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 2019 - 2021 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 to achieve each individual goal and once achieved the 4<sup>th</sup> R – **Restrict reliance on state subsidy** can be implemented.

AMI strongly believes the goals; **"Rebuild" our financial base** and **"Restore" our service reliability** is still a 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.

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**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 resulting in a steady stream of revenues.
  - 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 of 30<sup>th</sup> September 2018, 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](mailto:gm@airmarshallislands.net)

**AIR MARSHALL ISLANDS, INC.**  
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Statements of Net Position  
September 30, 2018 and 2017

<u>ASSETS</u>	<u>2018</u>	<u>2017</u>
Current assets:		
Cash	\$ <u>1,591,644</u>	\$ <u>1,751,843</u>
Receivables:		
Trade	116,645	89,121
Employees	63,203	33,752
Affiliates	129,282	144,641
Other	<u>37,855</u>	<u>-</u>
	346,985	267,514
Less allowance for doubtful receivables	<u>(111,980)</u>	<u>(65,837)</u>
Receivables, net	<u>235,005</u>	<u>201,677</u>
Expendable parts (net of allowance for obsolescence of \$198,909 and \$148,865 at September 30, 2018 and 2017, respectively)	<u>596,727</u>	<u>614,062</u>
Prepaid expenses and deposits	<u>186,067</u>	<u>137,349</u>
Total current assets	<u>2,609,443</u>	<u>2,704,931</u>
Capital assets, net of accumulated depreciation and amortization	8,455,538	8,355,553
Long-term deposits	<u>795,127</u>	<u>181,989</u>
Total noncurrent assets	<u>9,250,665</u>	<u>8,537,542</u>
	\$ <u>11,860,108</u>	\$ <u>11,242,473</u>
<u>LIABILITIES AND NET POSITION</u>		
Current liabilities:		
Current portion of long-term debt	\$ 543,916	\$ 816,838
Accounts payable	102,709	58,787
Social security taxes payable	75,668	74,895
Withholding taxes payable	540,179	552,775
Air traffic liability	146,822	88,378
Accrued expenses	108,692	132,070
Payable to affiliates	<u>650,897</u>	<u>580,759</u>
Total current liabilities	2,168,883	2,304,502
Noncurrent liabilities:		
Advances from RepMar	<u>3,116,890</u>	<u>3,116,890</u>
Total liabilities	<u>5,285,773</u>	<u>5,421,392</u>
Commitments and contingencies		
Net position:		
Net investment in capital assets	8,455,538	8,355,553
Unrestricted	<u>(1,881,203)</u>	<u>(2,534,472)</u>
Total net position	<u>6,574,335</u>	<u>5,821,081</u>
	\$ <u>11,860,108</u>	\$ <u>11,242,473</u>

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, 2018 and 2017

	2018	2017
Operating revenues:		
Passenger	\$ 2,397,039	\$ 2,442,876
Charter	720,506	729,573
Cargo	562,037	486,902
Ground handling	245,700	245,700
Fuel surcharge	222,922	202,889
Flight diversion	113,970	185,413
Other	139,671	106,583
Bad debt expense	(46,143)	-
Total operating revenues	4,355,702	4,399,936
Operating expenses:		
Flight operations	1,487,751	1,251,880
Depreciation and amortization	1,329,376	1,160,505
Maintenance	880,443	991,414
General and administrative	671,525	529,840
Aircraft and traffic servicing	352,943	416,100
Promotion and sales	204,433	208,589
Total operating expenses	4,926,471	4,558,328
Operating loss	(570,769)	(158,392)
Nonoperating revenues (expenses):		
RepMar subsidy	1,415,106	2,479,553
Other nonoperating revenue	-	364,982
Interest expense	(91,083)	(42,970)
Total nonoperating revenues (expenses), net	1,324,023	2,801,565
Change in net position	753,254	2,643,173
Net position at beginning of year	5,821,081	3,177,908
Net position at end of year	\$ 6,574,335	\$ 5,821,081

See accompanying notes to financial statements.

**AIR MARSHALL ISLANDS, INC.**  
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Statements of Cash Flows  
Years Ended September 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities:		
Cash received from customers	\$ 4,418,673	\$ 4,300,274
Cash payments to suppliers for goods and services	(2,048,104)	(2,107,562)
Cash payments to employees for services	<u>(1,539,370)</u>	<u>(1,479,823)</u>
Net cash provided by operating activities	<u>831,199</u>	<u>712,889</u>
Cash flows from noncapital financing activities:		
Operating subsidy received from RepMar	<u>1,289,600</u>	<u>1,686,400</u>
Cash flows from capital and related financing activities:		
Acquisition of property and equipment	(2,042,499)	(965,262)
Principal repayments of long-term debt	(147,416)	(22,999)
Interest paid on long-term debt	<u>(91,083)</u>	<u>(215,758)</u>
Net cash used for capital and related financing activities	<u>(2,280,998)</u>	<u>(1,204,019)</u>
Net change in cash	(160,199)	1,195,270
Cash at beginning of year	<u>1,751,843</u>	<u>556,573</u>
Cash at end of year	\$ <u>1,591,644</u>	\$ <u>1,751,843</u>
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	\$ (570,769)	\$ (158,392)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation and amortization	1,329,376	1,160,505
Bad debt expense	46,143	-
(Increase) decrease in assets:		
Receivables:		
Trade	(27,524)	9,400
Employees	(29,451)	(7,806)
Affiliates	15,359	8,965
Other	(37,855)	-
Expendable parts	17,335	(37,894)
Prepaid expenses and deposits	(48,718)	(80,599)
Increase (decrease) in liabilities:		
Accounts payable	43,922	(33,323)
Social security taxes payable	773	(91,700)
Withholding taxes payable	(12,596)	1,475
Air traffic liability	58,444	(110,221)
Accrued expenses	(23,378)	(3,637)
Payable to affiliates	<u>70,138</u>	<u>56,116</u>
Net cash provided by operating activities	\$ <u>831,199</u>	\$ <u>712,889</u>
Summary disclosure of noncash activities:		
Debt service payments made directly by RepMar:		
RepMar subsidy	\$ 125,506	\$ 493,153
Long-term debt	<u>(125,506)</u>	<u>(493,153)</u>
	\$ -	\$ -
Social security payments made directly by RepMar:		
RepMar subsidy	\$ -	\$ 300,000
Social security taxes payable	<u>-</u>	<u>(300,000)</u>
	\$ -	\$ -
Forgiveness of social security penalties and interest:		
Other nonoperating revenue	\$ -	\$ 364,982
Social security taxes payable	<u>-</u>	<u>(364,982)</u>
	\$ -	\$ -

See accompanying notes to financial statements.



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

Notes to Financial Statements  
September 30, 2018 and 2017

(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.

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

Notes to Financial Statements  
September 30, 2018 and 2017

(2) Summary of Significant Accounting Policies, Continued

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.

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, 2018 and 2017, the carrying amounts of cash were \$1,591,644 and \$1,751,843, respectively, and the corresponding bank balances were \$1,600,074 and \$1,771,094, respectively. As of September 30, 2018 and 2017, bank balances in the amount of \$1,589,439 and \$1,756,993, respectively, are maintained in a financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2018 and 2017, bank deposits in the amount of \$250,000 were FDIC insured. As of September 30, 2018 and 2017, bank deposits of \$10,635 and \$14,101, 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.

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

Notes to Financial Statements  
September 30, 2018 and 2017

(2) Summary of Significant Accounting Policies, Continued

Property and Equipment, Continued

The estimated useful lives of these assets are as follows:

	<u>Estimated Useful Lives</u>
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

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, 2018 and 2017, the accumulated vacation leave liability amounted to \$56,466 and \$46,326, 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.

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

Notes to Financial Statements  
September 30, 2018 and 2017

(2) Summary of Significant Accounting Policies, Continued

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.

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.

Reclassifications

Certain balances in the 2017 presentation has been reclassified to conform to the 2018 presentation. These reclassifications had no impact on operating loss, net position or cash flows as previously reported.

New Accounting Standards

During the year ended September 30, 2018, AMI implemented the following pronouncements:

- GASB 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.
- GASB 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.

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

Notes to Financial Statements  
September 30, 2018 and 2017

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

- GASB 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).
- GASB Statement No. 86, *Certain Debt Extinguishment Issues*, which improves consistency in accounting and financial reporting for in-substance defeasance of debt.

The implementation of these statements did not have a material effect on the accompanying 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 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.

In April 2018, GASB issued Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, which improves the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. The provisions in Statement No. 88 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 June 2018, GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, which requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. The provisions in Statement No. 89 are effective for fiscal years beginning after December 15, 2019. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In August 2018, GASB issued Statement No. 90, *Majority Equity Interests – an Amendment of GASB Statements No. 14 and No. 61*, which improves the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and the relevance of financial statement information for certain component units. The provisions in Statement No. 90 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.

**AIR MARSHALL ISLANDS, INC.**  
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Notes to Financial Statements  
September 30, 2018 and 2017

(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, 2018 and 2017 were as follows:

	October 1, <u>2017</u>	<u>Additions</u>	<u>Transfers</u>	September 30, <u>2018</u>
Aircraft and improvements	\$ 17,156,476	\$ 656,036	\$ -	\$ 17,812,512
Rotable spare parts	6,950,449	611,036	-	7,561,485
Plant and equipment	816,513	49,294	-	865,807
Office furniture and equipment	766,070	16,431	-	782,501
Motor vehicles	280,002	41,566	-	321,568
Computer software	25,000	54,998	-	79,998
Building improvements	<u>17,880</u>	<u>-</u>	<u>-</u>	<u>17,880</u>
	26,012,390	1,429,361	-	27,441,751
Less accumulated depreciation and amortization	<u>(17,656,837)</u>	<u>(1,329,376)</u>	<u>-</u>	<u>(18,986,213)</u>
	<u>\$ 8,355,553</u>	<u>\$ 99,985</u>	<u>\$ -</u>	<u>\$ 8,455,538</u>
	October 1, <u>2016</u>	<u>Additions</u>	<u>Transfers</u>	September 30, <u>2017</u>
Aircraft and improvements	\$ 16,687,043	\$ 469,433	\$ -	\$ 17,156,476
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	<u>17,880</u>	<u>-</u>	<u>-</u>	<u>17,880</u>
	25,105,683	906,707	-	26,012,390
Less accumulated depreciation and amortization	<u>(16,496,332)</u>	<u>(1,160,505)</u>	<u>-</u>	<u>(17,656,837)</u>
	<u>\$ 8,609,351</u>	<u>\$ (253,798)</u>	<u>\$ -</u>	<u>\$ 8,355,553</u>

Subsequent to the issuance of AMI's 2016 financial statements, AMI's management determined that capital assets and related accumulated depreciation were overstated by \$4,125,000 due to the inclusion of the Dornier 228-212 (V7-9206). This determination has been reflected in the above capital asset activities movement schedule, effective October 1, 2016.

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

Notes to Financial Statements  
September 30, 2018 and 2017

(5) Long-Term Debt

A schedule of AMI's long-term debt as of September 30, 2018 and 2017, is as follows:

	<u>2018</u>	<u>2017</u>
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.	\$ 143,545	\$ 235,086
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.	<u>400,371</u>	<u>581,752</u>
	<u>\$ 543,916</u>	<u>\$ 816,838</u>

Future repayment commitments are as follows:

Year Ending September 30	Principal	Interest	Total
2019	\$ <u>543,916</u>	\$ <u>      -</u>	\$ <u>543,916</u>

Changes in long-term liabilities for the year ended September 30, 2018, were as follows:

	Balance October 1, <u>2017</u>	<u>Additions</u>	<u>Reductions</u>	Balance September <u>30, 2018</u>	Due Within <u>One Year</u>
Notes payable:					
RMIPA	\$ 235,086	\$ -	\$ (91,541)	\$ 143,545	\$ 143,545
MIDB	<u>581,752</u>	<u>      -</u>	<u>(181,381)</u>	<u>400,371</u>	<u>400,371</u>
	<u>\$ 816,838</u>	<u>\$      -</u>	<u>\$ (272,922)</u>	<u>\$ 543,916</u>	<u>\$ 543,916</u>

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

	Balance October 1, <u>2016</u>	<u>Additions</u>	<u>Reductions</u>	Balance September <u>30, 2017</u>	Due Within <u>One Year</u>
Notes payable:					
RMIPA	\$ 237,701	\$ -	\$ (2,615)	\$ 235,086	\$ 235,086
MIDB	<u>1,095,289</u>	<u>      -</u>	<u>(513,537)</u>	<u>581,752</u>	<u>581,752</u>
	<u>\$ 1,332,990</u>	<u>\$      -</u>	<u>\$ (516,152)</u>	<u>\$ 816,838</u>	<u>\$ 816,838</u>





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

Notes to Financial Statements  
September 30, 2018 and 2017

(6) Related Party Transactions, Continued

A summary of advances from RepMar as of September 30, 2018 and 2017, follows:

	<u>2018</u>	<u>2017</u>
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.	<u>128,316</u>	<u>128,316</u>
	<u>\$ 3,116,890</u>	<u>\$ 3,116,890</u>

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, 2018 and 2017, AMI is liable for \$540,179 and \$552,775, 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

Commitments

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, 2018 and 2017, AMI has not been repaid the pre-delivery payments and has recorded a provision for uncollectible advances of \$2,100,000.

Going Concern

During the years ended September 30, 2018 and 2017, AMI incurred losses from operations of \$570,769 and \$158,392, respectively. For the years ended September 30, 2018 and 2017, AMI received cash and non-cash operating subsidies of \$1,415,106 and \$2,479,553, 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.

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

Notes to Financial Statements  
September 30, 2018 and 2017

(7) Commitments and Contingencies, Continued

Contingencies

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.

At September 30, 2018, AMI has an outstanding liability to RMIPA of \$583,851, which is under dispute and is anticipated by management to be settled in favor of AMI. At September 30, 2018, the financial statements do not include any adjustments that might result from the outcome of this uncertainty. Management is currently negotiating the settlement of the charges with RMIPA.

**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, 2018, 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 May 30, 2019.

### **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.

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.

### **Compliance and Other Matters**

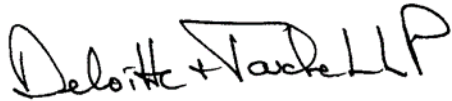
As part of obtaining reasonable assurance about whether AMI's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect 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 2018-001.

## 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.

A handwritten signature in black ink that reads "Deloitte + Tatchell LLP". The signature is written in a cursive, stylized font.

May 30, 2019

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

Schedule of Findings and Responses  
Year Ended September 30, 2018

Finding No. 2018-001

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 \$540,179 for prior year pay periods (PPE 1/20/09 through 9/30/15) have yet to be remitted; however, current year income taxes withheld were remitted in accordance with the above criteria.

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 2017.

Auditee Response and Corrective Action Plan: Air Marshall Islands agrees with the finding and recommendation; however, the non-compliance was due to lack of policies and procedures but a result of cash flow issues 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 requirements.

**AIR MARSHALL ISLANDS, INC.**

Unresolved Prior Years' Findings  
Year Ended September 30, 2018

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