

**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, 2019 AND 2018**

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

Years Ended September 30, 2019 and 2018  
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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, 2019 and 2018, 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, 2019 and 2018, 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.

## **Emphasis of Matter**

### *COVID-19*

As discussed in Note 8 to the financial statements, AMI determined that the COVID-19 pandemic may negatively impact its business, results of operations and net position. AMI is unable to reasonably estimate its ultimate financial impact. Our opinion is not modified with respect to this matter.

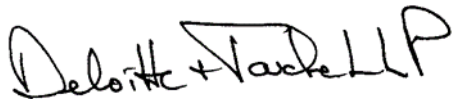
## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 to 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 June 2, 2020, 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.



June 2, 2020

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

Management's Discussion and Analysis  
Years Ended September 30, 2019 and 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 fulfills 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 72 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 2019**

- The number of flights operated were recorded at 2,317, which represents an increase of 0.6% as compared to 2018 figures;
- Ground handling revenue increased by 85% when compared to 2018 because of an increase in the ground handling rates effective May 1, 2019;
- There was an increase in aircraft operating hours of 0.8% compared to the prior year and the Dash fleet operated 38% more hours compared to prior fiscal year;
- The departure/arrival of passenger numbers were recorded at 24,040 resulting in an increase of 0.4% as compared to 2018, which reflects improvement in reliability of service;
- Major engine overhaul for Dash 8 is completed at a total cost of \$1.10 million at Standard Aero in Canada; and
- 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. Two pilot students are currently in Fiji and one pilot student from United States is back on the Island and has already started to fly for AMI.

**AIR MARSHALL ISLANDS, INC**  
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Management's Discussion and Analysis  
Years Ended September 30, 2019 and 2018

**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 2019, to be read along with our financial statements and the accompanying notes to our financial statements in this report.

**FINANCIAL SUMMARY**

For the year ended September 30, 2019, AMI's operations resulted in a net surplus of \$248k. The change was primarily due to the RepMar subsidy of \$942k. The total funding was used in operational expenses (investment and repairs/overhauls of aircraft parts) and Community Service Obligations.

Operating loss increased from \$570k in 2018 to \$675k in 2019. This was the result of the increase in depreciation and amortization expenses from \$1.33 million in 2018 to \$1.70 million in 2019 due to an ageing fleet. Dash 8 aircraft was grounded for a major engine overhaul and completed at a total cost of \$1.09 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 \$4.93 million in 2018 to \$5.58 million in 2019.

AMI 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 the flight schedules.

Net surplus caused the total assets to exceed total liabilities by \$6.82 million in 2019.

There was a capacity growth in passenger numbers of 0.6% compared to 2018 and the increase was driven by the improvement in reliability of service.

**DENGUE FEVER OUTBREAK**

A travel advisory was issued on August 6, 2019 in response to the State of Health Emergency declared by the RMI Government because of a dengue fever outbreak. The Ministry of Health & Human Services (MoHHS) made a considerable effort to protect the Outer Island communities from the introduction of Dengue.

The goal of the advisory was to halt dengue fever transmission to the outer atolls/islands because of the limited resources available in their local health centers. These health centers are not equipped, in any way, to manage severe dengue cases. Therefore, the MoHHS restricted all domestic travel from Majuro & Ebeye to the outer atolls/islands of the Marshall Islands.

The travel advisory was effective from August 23, 2019 until the end of December 2019 and greatly affected the operations of AMI as revenue dropped significantly for the months of August and December 2019.

**COVID-19 OUTBREAK**

The outbreak of COVID-19 is having an overwhelming effect on individuals, businesses and communities. As part of a comprehensive risk management strategy, AMI has prepared its contingency plan and actions required once the pandemic is announced in the RMI.

With the outbreak of dengue and COVID-19, future financial projections will be impacted.

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Management's Discussion and Analysis  
Years Ended September 30, 2019 and 2018

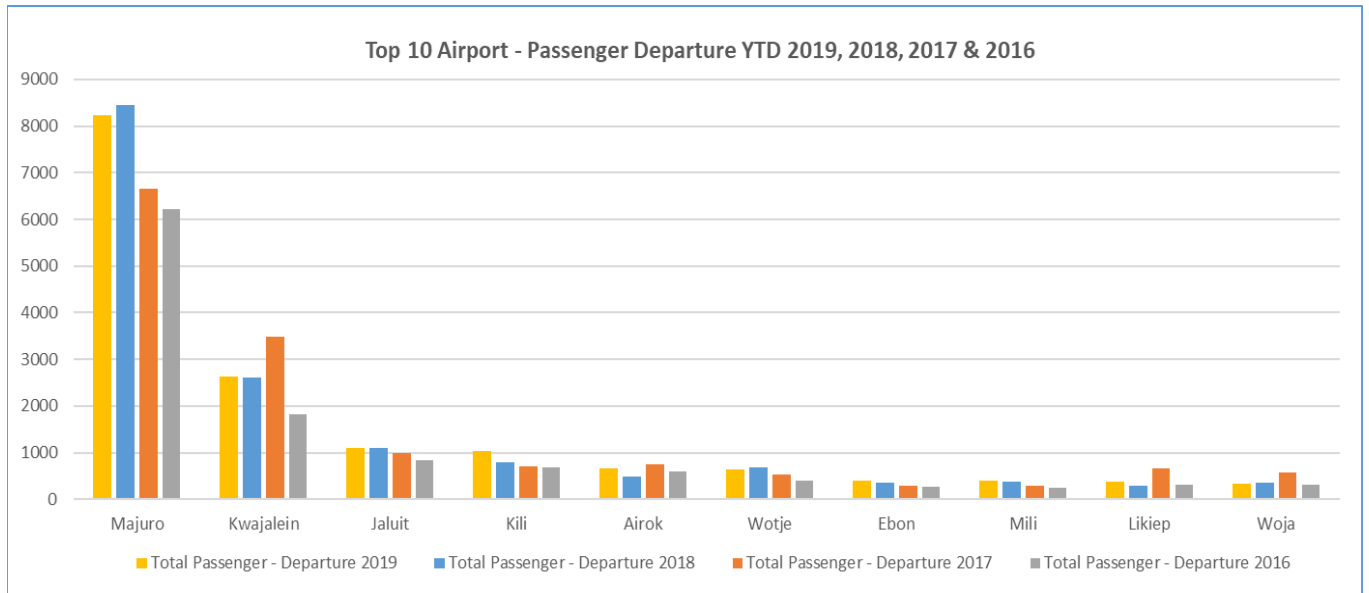
**FINANCIAL ANALYSIS OF AMI**

The table below provides a summary of AMI's net financial position, which is indicating that total assets increased while total liabilities decreased in 2019 over 2018 and 2017.

	<u>2019</u>	<u>2018</u>	<u>2017</u>
<b>Assets:</b>			
Current and other assets	\$ 1,718,212	\$ 3,404,570	\$ 2,886,920
Capital assets	<u>10,272,984</u>	<u>8,455,538</u>	<u>8,355,553</u>
<b>Total Assets</b>	<u>11,991,196</u>	<u>11,860,108</u>	<u>11,242,473</u>
<b>Liabilities:</b>			
Current and other liabilities	2,052,111	2,168,883	2,304,502
Long-term liabilities	<u>3,116,890</u>	<u>3,116,890</u>	<u>3,116,890</u>
<b>Total Liabilities</b>	<u>5,169,001</u>	<u>5,285,773</u>	<u>5,421,392</u>
<b>Net Position:</b>			
Net investment in capital assets	9,972,192	8,055,167	7,773,801
Unrestricted	<u>(3,149,997)</u>	<u>(1,480,832)</u>	<u>(1,952,720)</u>
<b>Total Net Position</b>	\$ <u>6,822,195</u>	\$ <u>6,574,335</u>	\$ <u>5,821,081</u>

The trend in total net position indicates that the company is moving in the right direction as 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 increase in passenger numbers.

The trend in passenger numbers from 2016 to 2019, indicates a huge improvement in delivery of essential public services to the Marshallese people and communities residing in the Outer Islands.



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Management's Discussion and Analysis  
Years Ended September 30, 2019 and 2018

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

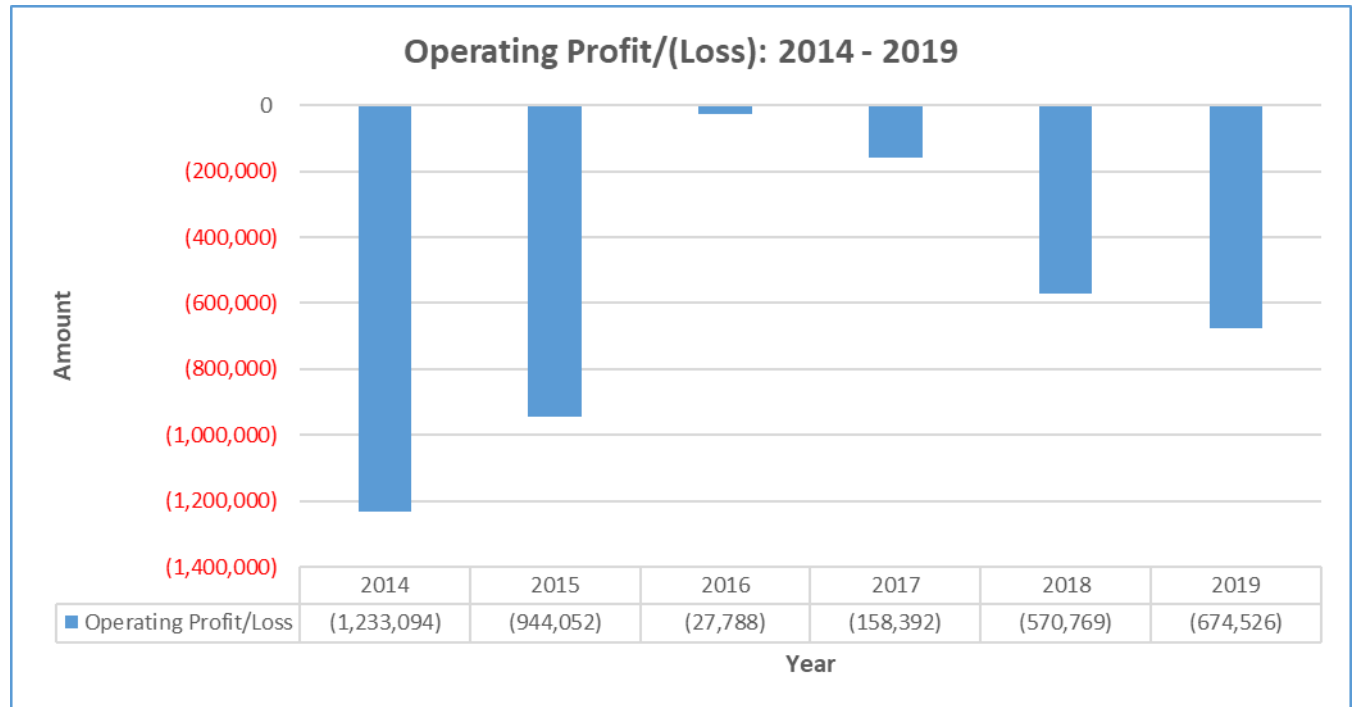
	<u>2019</u>	<u>2018</u>	<u>2017</u>
Revenues:			
Net operating revenues	\$ 4,905,222	\$ 4,355,702	\$ 4,399,936
Non-operating revenues	<u>942,400</u>	<u>1,415,106</u>	<u>2,844,535</u>
Total Revenues	<u>5,847,622</u>	<u>5,770,808</u>	<u>7,244,471</u>
Expenses:			
Operating expenses	5,579,748	4,926,471	4,558,328
Non-operating expenses	<u>20,014</u>	<u>91,083</u>	<u>42,970</u>
Total Expenses	<u>5,599,762</u>	<u>5,017,554</u>	<u>4,601,298</u>
Change in Net Position	\$ <u>247,860</u>	\$ <u>753,254</u>	\$ <u>2,643,173</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 the snapshot of the company's financial situation in those years. Therefore, if it goes up the situation is good and vice-versa.

Management's Discussion and Analysis for the year ended September 30, 2018 is set forth in AMI's report on the audit of financial statements, which is dated May 30, 2019. That Management Discussion and Analysis explains the major factors impacting the 2018 financial statements and may be obtained from the contact information below.

The below graph shows the operating loss of AMI from 2014 through to 2019.

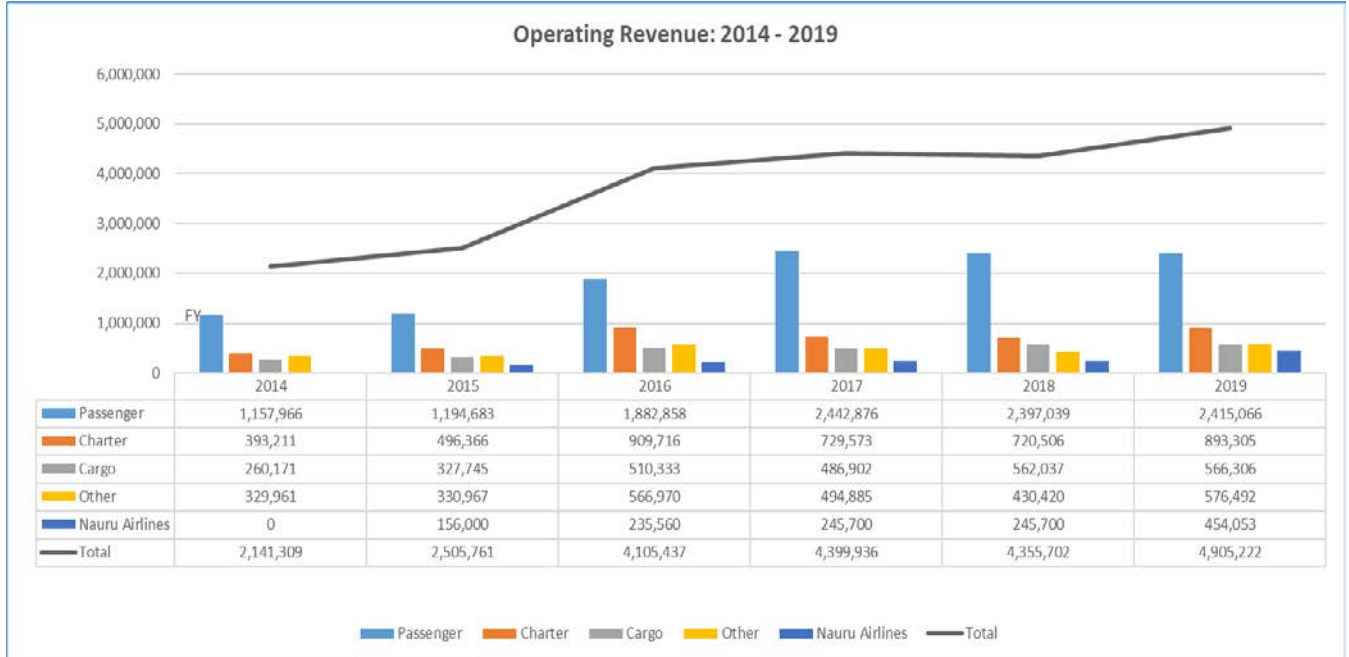




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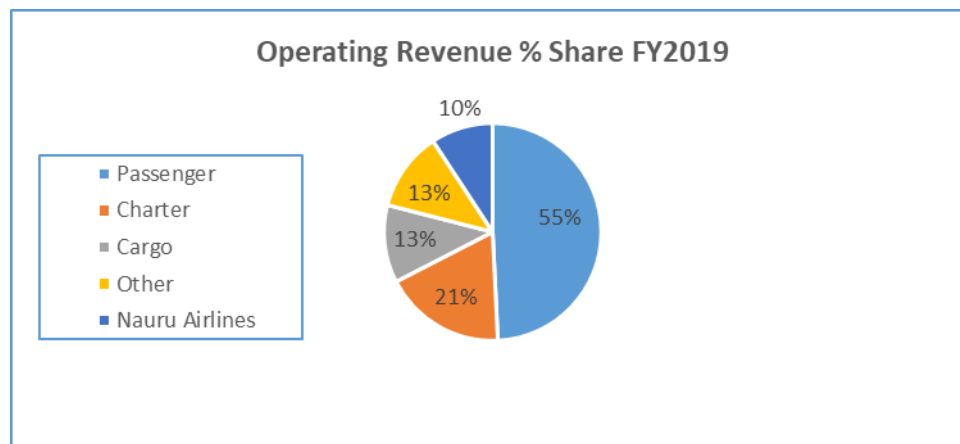
Management’s Discussion and Analysis  
 Years Ended September 30, 2019 and 2018

The graph below shows the main components of AMI’s operating revenues from 2014 through to 2019.



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, as the largest source. It continued to rise since 2014 due to increase in passenger travel.

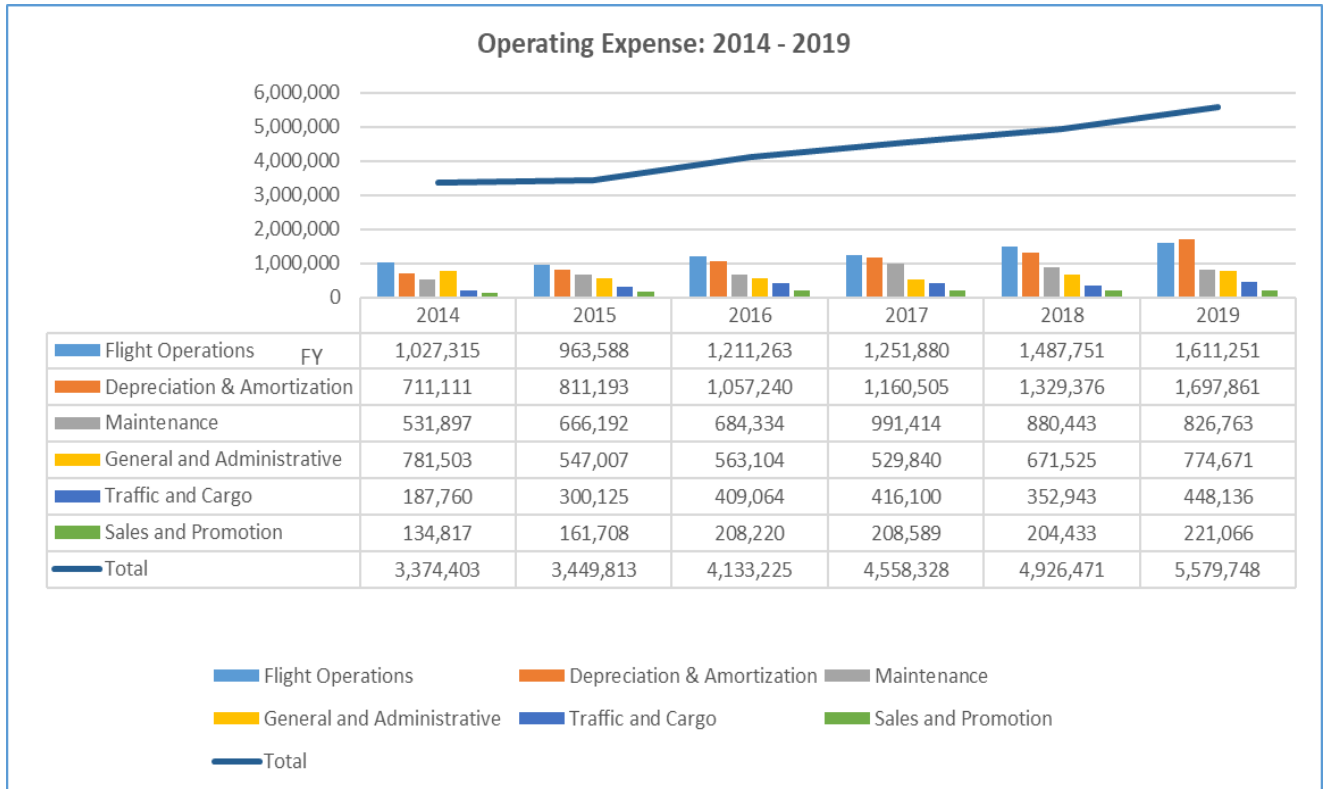
Charter revenue is the second largest and it increased in 2019 by 24% when compared to 2018. Ground handling revenue also increased by 85% when compared to 2018, following a revision in the ground handling rates effective May 1, 2019.



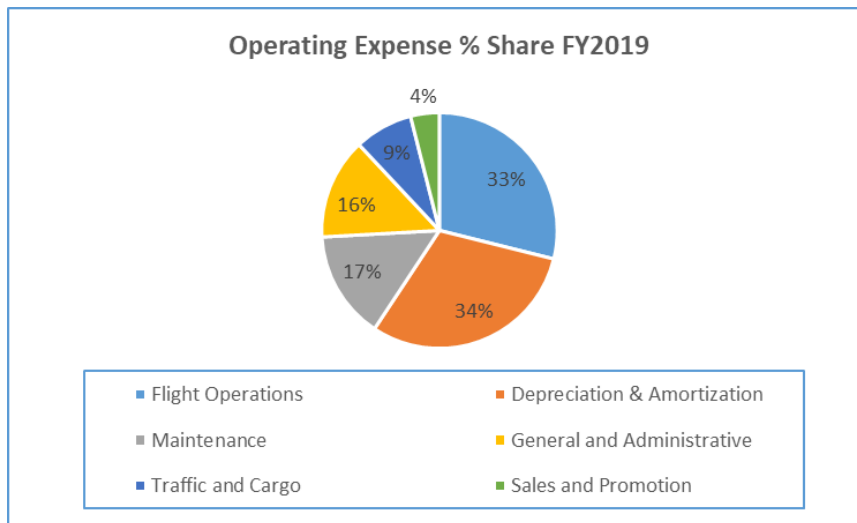
The above pie chart shows the distribution of each operating revenue source as a percentage of total operating revenues in which passenger at 55%, charter at 21%, others at 13%, cargo/freight at 13% and Nauru Airlines (ground handling) at 10%.

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Management’s Discussion and Analysis  
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The above diagram shows AMI’s individual operating expenses with depreciation and amortization being the largest expense followed by flight operations, maintenance, general and administrative, traffic and cargo and sales and promotion during the 2019 period.



The above pie chart shows the composition of AMI’s total operating expenses in 2019, indicating depreciation and amortization with the largest share of 34%, followed by flight operation of 33%, maintenance of 17%, general and administrative of 16%, traffic and cargo servicing of 9%; and sales and promotion of 4%.

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Management's Discussion and Analysis  
Years Ended September 30, 2019 and 2018

Depreciation expense represents the largest share of operating expenses because of the capitalization of the Dash 8 c-check expense when the aircraft returned from Australia in December 2018, as well as the purchase and installation of a Dash 8 engine in Canada in March 2019.

Salaries and fuel expenses contributed mostly to flight operations expenses.

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

	<u>2019</u>	<u>2018</u>	<u>2017</u>
<b>For Subsidy:</b>			
1. Subsidy (CSO)	\$ 942,400	\$ 1,289,600	\$ 1,686,400
2. MIDB loan payments	-	125,506	493,153
3. Social security payments	-	-	<u>300,000</u>
<b>Grand Total</b>	<b>\$ <u>942,400</u></b>	<b>\$ <u>1,415,106</u></b>	<b>\$ <u>2,479,553</u></b>

As indicated above, the government provided a total 2019 subsidy allocation of \$942k for AMI which was used for operational expenses (investment and repairs/overhauls of parts and engines) and Community Service Obligations.

The Dash 8 has not been making enough revenues due to low utilization resulting from lack of MEL (minimum equipment list) and from impacts of the bad outer island airport runways. This continues to cause breakdown of the aircraft, thus, preventing it from generating the income it needs in order to pay off AMI's loan and help support operations. The Dash 8 aircraft was grounded for a major engine overhaul and the cost of which was partially funded by AMI's cash flow and partially through the government subsidy.

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. It is pleasing to note that AMI will finish paying off the loan in the year 2020 given the consistent biweekly payments.

### **CAPITAL ASSET AND DEBT**

AMI's net capital activities for 2019 increased by \$1.82 million and the total assets of the business increased by \$131K. For additional information concerning capital assets please refer to note 3 to the financial statements.

AMI incurred substantial long-term debt when AMI obtained a \$2.5 million loan from MIDB in May 2013. The loan was used to pay the remaining cost of the Dash 8 D-check in Cairns Australia. AMI was able to pay-off the loan to MIDB, with the government subsidy in 2017 and 2018 of \$493,153 and \$125,506, respectively. For additional information concerning debt please refer to the notes to the financial statements.

### **CASH FLOW**

AMI received \$4,814,225 and \$ 4,418,673 from customers in 2019 and 2018, respectively.

During the year ended September 30, 2019, the Company paid its vendors \$2,057,816 for goods and services and payroll of \$1,896,315 for employees. AMI noted a cash surplus from operations of \$860,094 in 2019, an increase from \$831,199 in 2018. Additionally, the operating subsidies from the government in 2019 assisted in operations continuing "business as usual".

Management's Discussion and Analysis for the year ended September 30, 2018 is set forth in the report on the audit of AMI's financial statements dated May 30, 2019. That Discussion and Analysis explains the major factors impacting the 2018 financial statements and may be obtained from the contact information below.

**AIR MARSHALL ISLANDS, INC**  
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Management's Discussion and Analysis  
Years Ended September 30, 2019 and 2018

**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, representing 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 \$3.54 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 effectively increased the cost of operation for the Company by at least 15% per year.

Due to AMI's operating losses of \$0.67 million and \$0.57 million in 2019 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 increased tourism and other economic growth activities. Furthermore, serious action is needed regarding the aging of the Dornier 228 and Dash 8 aircrafts, improvement of airport runways, adequate spare parts provisioning and reduction of AOG.

**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 much visible change in operations if the following challenges and predicaments of the airline continue to exist:

1. Deteriorated and dilapidated airport runways and ramps in the outer islands that continue to cause great and costly damage to aircraft;
2. Insufficient spare parts for aircrafts'; and
3. Deteriorating hangar at the Majuro airport. The need to house everyone under one roof will increase efficiency and economy throughout the whole Company. Currently, the offices are spread out as 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 incurred.

**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.

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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 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 work in progress and would be achieved.

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

**KEY ACHIEVEMENTS SUBSEQUENT TO FY2019**

**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.
- 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 assists 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 30<sup>th</sup> September 2019, 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.**  
**(A Component Unit of the Republic of the Marshall Islands)**

Statements of Net Position  
September 30, 2019 and 2018

	2019	2018
<u>ASSETS</u>		
Current assets:		
Cash	\$ 164,179	\$ 1,591,644
Receivables:		
Trade	208,705	116,645
Employees	44,372	63,203
Affiliates	184,671	129,282
Other	118,461	37,855
	556,209	346,985
Less allowance for doubtful receivables	(194,386)	(111,980)
Receivables, net	361,823	235,005
Expendable parts (net of allowance for obsolescence of \$198,909 at September 30, 2019 and 2018)	827,125	596,727
Prepaid expenses and deposits	89,020	186,067
Total current assets	1,442,147	2,609,443
Capital assets, net of accumulated depreciation and amortization	10,272,984	8,455,538
Long-term deposits	276,065	795,127
Total noncurrent assets	10,549,049	9,250,665
	\$ 11,991,196	\$ 11,860,108
<u>LIABILITIES AND NET POSITION</u>		
Current liabilities:		
Current portion of long-term debt	\$ 330,216	\$ 543,916
Accounts payable	172,179	102,709
Social security taxes payable	74,551	75,668
Withholding taxes payable	568,236	540,179
Air traffic liability	102,037	146,822
Accrued expenses	137,973	108,692
Payable to affiliates	666,919	650,897
Total current liabilities	2,052,111	2,168,883
Noncurrent liabilities:		
Advances from RepMar	3,116,890	3,116,890
Total liabilities	5,169,001	5,285,773
Commitments and contingencies		
Net position:		
Net investment in capital assets	9,972,192	8,055,167
Unrestricted	(3,149,997)	(1,480,832)
Total net position	6,822,195	6,574,335
	\$ 11,991,196	\$ 11,860,108

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, 2019 and 2018

	2019	2018
Operating revenues:		
Passenger	\$ 2,415,066	\$ 2,397,039
Charter	893,305	720,506
Cargo	566,306	562,037
Ground handling	454,053	245,700
Flight diversion	245,302	113,970
Fuel surcharge	226,344	222,922
Other	187,252	139,671
Bad debt expense	(82,406)	(46,143)
Total operating revenues	4,905,222	4,355,702
Operating expenses:		
Depreciation and amortization	1,697,861	1,329,376
Flight operations	1,611,251	1,487,751
Maintenance	826,763	880,443
General and administrative	774,671	671,525
Aircraft and traffic servicing	448,136	352,943
Promotion and sales	221,066	204,433
Total operating expenses	5,579,748	4,926,471
Operating loss	(674,526)	(570,769)
Nonoperating revenues (expenses):		
RepMar subsidy	942,400	1,415,106
Interest expense	(20,014)	(91,083)
Total nonoperating revenues (expenses), net	922,386	1,324,023
Change in net position	247,860	753,254
Net position at beginning of year	6,574,335	5,821,081
Net position at end of year	\$ 6,822,195	\$ 6,574,335

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, 2019 and 2018

	2019	2018
Cash flows from operating activities:		
Cash received from customers	\$ 4,814,225	\$ 4,418,673
Cash payments to suppliers for goods and services	(2,057,816)	(2,048,104)
Cash payments to employees for services	(1,896,315)	(1,539,370)
Net cash provided by operating activities	860,094	831,199
Cash flows from noncapital financing activities:		
Operating subsidy received from RepMar	942,400	1,289,600
Cash flows from capital and related financing activities:		
Acquisition of property and equipment	(2,996,245)	(2,042,499)
Principal repayments of long-term debt	(213,700)	(147,416)
Interest paid on long-term debt	(20,014)	(91,083)
Net cash used for capital and related financing activities	(3,229,959)	(2,280,998)
Net change in cash	(1,427,465)	(160,199)
Cash at beginning of year	1,591,644	1,751,843
Cash at end of year	\$ 164,179	\$ 1,591,644
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	\$ (674,526)	\$ (570,769)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation and amortization	1,697,861	1,329,376
Bad debt expense	82,406	46,143
(Increase) decrease in assets:		
Receivables:		
Trade	(92,060)	(27,524)
Employees	18,831	(29,451)
Affiliates	(55,389)	15,359
Other	(80,606)	(37,855)
Expendable parts	(230,398)	17,335
Prepaid expenses and deposits	97,047	(48,718)
Increase (decrease) in liabilities:		
Accounts payable	69,470	43,922
Social security taxes payable	(1,117)	773
Withholding taxes payable	28,057	(12,596)
Air traffic liability	(44,785)	58,444
Accrued expenses	29,281	(23,378)
Payable to affiliates	16,022	70,138
Net cash provided by operating activities	\$ 860,094	\$ 831,199
Summary disclosure of noncash activities:		
Debt service payments made directly by RepMar:		
RepMar subsidy	\$ -	\$ 125,506
Long-term debt	-	(125,506)
	\$ -	\$ -

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, 2019 and 2018

(1) Organization

Air Marshall Islands, Inc. (AMI) was granted a corporate charter by the Cabinet of the Republic of the Marshall Islands (RepMar) on October 12, 1989. AMI is engaged in the scheduled domestic air transportation of passengers and cargo amongst the various islands and atolls that comprise the Marshall Islands. AMI currently operates a fleet of two Dornier Do228 aircraft and a single de Havilland Canada Dash 8 (DHC-8) Series 100 aircraft. AMI is governed by a seven-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.
- Restricted - net position whose use by AMI is subject to externally imposed stipulations that can be fulfilled by actions of AMI pursuant to those stipulations or that expire by the passage of time. AMI has no restricted net position at September 30, 2019 and 2018.
- 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, 2019 and 2018

(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, 2019 and 2018, the carrying amounts of cash were \$164,179 and \$1,591,644, respectively, and the corresponding bank balances were \$223,521 and \$1,600,074, respectively. As of September 30, 2019 and 2018, bank balances in the amount of \$218,153 and \$1,589,439, respectively, are maintained in a financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance whereas bank deposits of \$5,368 and \$10,635, respectively, are maintained in financial institutions not subject to depository insurance. As of September 30, 2019 and 2018, bank deposits in the amount of \$218,153 and \$250,000, respectively, were FDIC insured. 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.

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.

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

Notes to Financial Statements  
September 30, 2019 and 2018

(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

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, 2019 and 2018, the accumulated vacation leave liability amounted to \$85,123 and \$56,466, 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.

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

Notes to Financial Statements  
September 30, 2019 and 2018

(2) Summary of Significant Accounting Policies, Continued

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.

New Accounting Standards

During the year ended September 30, 2019, AMI implemented the following pronouncements:

- GASB 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.
- GASB 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 implementation of these statements did not have a material effect on the accompanying 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 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.**  
**(A COMPONENT UNIT OF THE REPUBLIC OF THE MARSHALL ISLANDS)**

Notes to Financial Statements  
September 30, 2019 and 2018

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In May 2019, GASB issued Statement No. 91, *Conduit Debt Obligations*, which clarifies the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures. The provisions in Statement No. 91 are effective for fiscal years beginning after December 15, 2020. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In May 2020, GASB issued Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, which postpones the effective dates of GASB Statement No. 84, 89, 90 and 91 by one year and GASB Statement No. 87 by 18 months; however, earlier application of the provisions addressed in GASB Statement No. 95 is encouraged and is permitted to the extent specified in each pronouncement as originally issued. Management has yet to ascertain whether implementation of these statements will be postponed as provided in GASB Statement No. 95.

Estimates

The preparation of financial statements in accordance 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.

(3) Property and Equipment

Capital asset activities for the years ended September 30, 2019 and 2018 were as follows:

	October 1, <u>2018</u>	<u>Additions</u>	<u>Transfers</u>	September 30, <u>2019</u>
Aircraft and improvements	\$ 17,812,512	\$ 2,863,354	\$ -	\$ 20,675,866
Rotable spare parts	7,561,485	527,100	-	8,088,585
Plant and equipment	865,807	36,634	-	902,441
Office furniture and equipment	782,501	25,371	-	807,872
Motor vehicles	321,568	62,848	(57,676)	326,740
Computer software	79,998	-	-	79,998
Building improvements	<u>17,880</u>	<u>-</u>	<u>-</u>	<u>17,880</u>
	27,441,751	3,515,307	(57,676)	30,899,382
Less accumulated depreciation and amortization	<u>(18,986,213)</u>	<u>(1,697,861)</u>	<u>57,676</u>	<u>(20,626,398)</u>
	<u>\$ 8,455,538</u>	<u>\$ 1,817,446</u>	<u>\$ -</u>	<u>\$ 10,272,984</u>

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

Notes to Financial Statements  
September 30, 2019 and 2018

(3) Property and Equipment, Continued

	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>

(4) Long-Term Debt

A schedule of AMI's long-term debt as of September 30, 2019 and 2018, is as follows:

	<u>2019</u>	<u>2018</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.	\$ 29,424	\$ 143,545
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>300,792</u>	<u>400,371</u>
	\$ <u>330,216</u>	\$ <u>543,916</u>

At September 30, 2019 and 2018, the total principal balance of AMI's long-term debt is classified as current liabilities within the accompanying financial statements as AMI is currently in default of its loan payments due to RMIPA and MIDB.

A summary of changes in long-term debt for the year ended September 30, 2019, were as follows:

	Balance October 1, <u>2018</u>	<u>Additions</u>	<u>Reductions</u>	Balance September <u>30, 2019</u>	Due Within <u>One Year</u>
Notes payable:					
RMIPA	\$ 143,545	\$ -	\$ (114,121)	\$ 29,424	\$ 29,424
MIDB	<u>400,371</u>	<u>-</u>	<u>(99,579)</u>	<u>300,792</u>	<u>300,792</u>
	\$ <u>543,916</u>	\$ <u>-</u>	\$ <u>(213,700)</u>	\$ <u>330,216</u>	\$ <u>330,216</u>

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

Notes to Financial Statements  
September 30, 2019 and 2018

(4) Long-Term Debt, Continued

A summary of changes in long-term debt for the year ended September 30, 2018, were as follows:

	Balance October 1, <u>2017</u>	<u>Additions</u>	<u>Reductions</u>	Balance September 30, 2018	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>

(5) 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.

(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, 2019 and 2018, AMI received cash operating subsidies from RepMar of \$942,400 and \$1,289,600, respectively. During the year ended September 30, 2018, AMI also received non-cash operating subsidies of \$125,506, which represent payments made by RepMar on behalf of AMI for debt settlement of a loan payable to MIDB.

A summary of related party transactions as and for the years ended September 30, 2019 and 2018, is as follows:

	<u>2019</u>			
	<u>Receivables</u>	<u>Revenues</u>	<u>Payables</u>	<u>Expenses</u>
RepMar	\$ 158,410	\$ 1,044,422	\$ 20,250	\$ 49,431
RMIPA	-	130	634,591	57,833
Marshall Islands National Telecommunications Authority	-	4,470	6,933	42,247
Marshall's Energy Company, Inc.	-	1,844	4,167	34,132
Other	<u>26,261</u>	<u>18,298</u>	<u>978</u>	<u>2,198</u>
	184,671	\$ <u>1,069,164</u>	\$ <u>666,919</u>	\$ <u>185,841</u>
Less allowance for doubtful receivables	<u>(50,890)</u>			
	<u>\$ 133,781</u>			

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

Notes to Financial Statements  
September 30, 2019 and 2018

(6) Related Party Transactions, Continued

	2018			
	Receivables	Revenues	Payables	Expenses
RepMar	\$ 112,626	\$ 874,100	\$ 61,176	\$ 85,552
RMIPA	975	1,725	583,851	29,809
Marshall Islands National Telecommunications Authority	1,118	4,238	-	40,454
Marshalls Energy Company, Inc.	20	1,244	2,490	33,441
Other	<u>14,543</u>	<u>64,432</u>	<u>3,379</u>	<u>2,957</u>
	129,282	\$ <u>945,739</u>	\$ <u>650,897</u>	\$ <u>192,213</u>
Less allowance for doubtful receivables	<u>(47,908)</u>			
	<u>\$ 81,374</u>			

A summary of advances from RepMar as of September 30, 2019 and 2018, is as follows:

	2019	2018
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, 2020. Accordingly, such have been presented as long-term liabilities within the accompanying financial statements.

At September 30, 2019 and 2018, AMI is liable for \$568,236 and \$540,179, 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.



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

Notes to Financial Statements  
September 30, 2019 and 2018

(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, 2019 and 2018, 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, 2019 and 2018, AMI incurred losses from operations of \$674,526 and \$570,769, respectively. For the years ended September 30, 2019 and 2018, AMI received cash and non-cash operating subsidies of \$942,400 and \$1,415,106, 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.

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, 2019, AMI has an outstanding liability to RMIPA of \$634,591, which is under dispute and is anticipated by management to be settled in favor of AMI. At September 30, 2019, 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.

(8) Subsequent Events

On August 6, 2019, the RMI Government issued a travel advisory, in response to a declared State of Health Emergency, due to a dengue fever outbreak. The advisory temporarily restricted travel from and to outer islands that has negatively impacted AMI passenger revenues from August to December 2019.

On March 11, 2020, the World Health Organization declared the novel strain of coronavirus (COVID-19) a global pandemic and recommended containment and mitigation measures worldwide. As of June 2, 2020, there have been no confirmed cases of COVID-19 in the Marshall Islands. AMI has determined that should the pandemic reached the Marshall Islands, it may negatively impact AMI's business, results of operations, and financial position and AMI would become dependent upon the financial support of RepMar. However, the effect of the pandemic to RepMar is also uncertain and future available funding to component units may be limited. Therefore, while AMI expects this matter to negatively impact its business, results of operations, and financial position, the related financial impact cannot be reasonably estimated at this time.

**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, 2019, 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 June 2, 2020.

### **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**

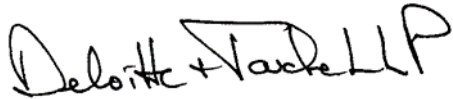
As part of obtaining reasonable assurance about whether AMI's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect 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 2019-001.

## 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 + Touche LLP". The signature is written in a cursive, stylized font.

June 2, 2020

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

Schedule of Findings and Responses  
Year Ended September 30, 2019

Finding No. 2019-001

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 \$568,236, including amounts relating to 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 2018.

Auditee Response and Corrective Action Plan: Management 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, 2019

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