MARSHALL ISLANDS SHIPPING CORPORATION

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

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

YEARS ENDED SEPTEMBER 30, 2019 AND 2018

MARSHALL ISLANDS SHIPPING CORPORATION
(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
Marshall Islands Shipping Corporation:

Report on the Financial Statements

We have audited the accompanying financial statements of Marshall Islands Shipping Corporation (MISC), a component unit of the Republic of the Marshall Islands (RepMar), which comprise 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 MISC 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 Matters

Payable to Affiliates

As discussed in Note 4 to the financial statements, MISC is currently negotiating with Tobolar Copra Processing Authority (TCPA) to determine the ultimate disposition of certain liabilities payable to MISC.

Going Concern

The accompanying financial statements have been prepared assuming that MISC will continue as a going concern. As discussed in Note 7 to the financial statements, MISC's recurring losses from operations raise substantial doubt about its ability to continue as a going concern. Management's plans concerning this matter are also discussed in Note 7 to the financial statements. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

COVID-19

As discussed in Note 8 to the financial statements, MISC determined that the COVID-19 pandemic may negatively impact its business, results of operations and net position. MISC is unable to reasonably estimate its ultimate financial impact.

Our opinion is not modified with respect to these matters.

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

Deloitte.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated July 21, 2020, on our consideration of MISC'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 MISC's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering MISC's internal control over financial reporting and compliance.

Deloitte + Touche LLP

July 21, 2020

Marshalls Islands Shipping Corporation (MISC) herewith presents a discussion and analysis of the company's financial performance for the financial year ended 30th September 2019. It is to be read in conjunction with the financial statements following this section.

FINANCIAL HIGHLIGHTS

MISC's net position at the end of the fiscal year 2019 was $8,347,910 compared to net position of $8,542,142 in 2018. The decrease in net position from 2018 to 2019 is a negative indicator of the results of operations and ongoing efforts by management to maintain expenses within operational revenues as well as nonoperational revenues in the form of RMI government subsidies and RMI government capital contributions of $7,207,861, which represent contributions for the purchase of a new ship and the transfer of three (3) ships - MV Aemman, MV Ribuuk Ae, and MV Kwajelein in 2018 and $724,400, which represents the final contribution for the purchase of one (1) new ship – MV Enen Kio in 2019.

MISC's total net operating revenues decreased by $293,584 (28%) from $1,061,576 in 2018 to $767,992 in 2019. The decrease in revenue for charter, fuel delivering and passengers is caused by the decrease in field trip services and no available landing craft for charter trips to the Outer Islands with MISC's current fleet of four (4) vessels with 36 field trips in 2019 compared to 67 field trips in 2018. MISC's passenger revenue decreased significantly by $13,275 (17%) from $77,476 in 2018 to $64,201 in 2019. Cargo revenues increased by $38,494 (7%) from $566,808 in 2018 to $605,302 in 2019. MISC's ship sales revenue increased by $78,650 (616%) from $12,760 in 2018 to $91,410 in 2019. Copra fee revenues increased by $21,127 (65%) from $32,296 in 2018 to $53,423 in 2019.

Total operating expenses increased by $463,635 (14%) from $3,236,245 in 2018 to $3,699,880 in 2019. MISC's leading operational expenses in 2018 and 2019 were personnel costs, depreciation, and petroleum, oil and lube (POL). Salaries, wages and benefits expense increased by $202,803 (16%) from $1,299,448 in 2018 to $1,502,251 in 2019. MISC managed to decrease POL expense by $435,445 (47%) from $932,848 in 2018 to $497,403 in 2019. Material and supplies decreased by $32,446 (15%) from $210,402 in 2018 to $177,956 in 2019. Unfortunately, travel and entertainment expense increased by $113,578 (89%) from $128,057 in 2018 to $241,635 in 2019. Drydock and repairs and maintenance expenses increased by $114,314 (50%) from $228,752 in 2018 to $343,066 in 2019. Finally, depreciation expense increased by $462,540 (516%) from $89,667 in 2018 to $552,207 in 2019.

MISC's operating loss increased by $757,219 (35%) from an operating loss of $2,174,669 in 2018 to an operating loss of $2,931,888 in 2019. Although MISC has maintained its efforts to reduce some of the operating expenses, MISC will continue to operate at a loss ranging from $1.2M to $2.9M annually based on the tariff rate structure and current passenger rates that have been in place since the early 1980's. However, the range will slightly change due to an increase in the tariff rate structure approved on April 25, 2019.

MISC continues to depend heavily on subsidies from RepMar, which accounts for approximately 73% of MISC's source of total operating and non-operating revenues during 2019. The subsidy from RepMar to support the Shipping Vessel Repairs and Maintenance Act resumed in 2016. In 2017-2019, MISC also received a total of $1.90M for ship purchases. Without the approval of RepMar to allow management of MISC to increase its tariff rates, it is expected that MISC will always operate at a loss and its future sustainability will continue to be a burden on RepMar as a community service obligation.

FINANCIAL ANALYSIS OF MISC

The Statements of Net Position and the Statements of Revenues, Expenses and Changes in Net Position provide an indication of MISC's financial condition. MISC's net position reflects the difference between total assets and total liabilities. An increase in net position over time normally indicates an improvement in financial condition. As illustrated in the figures below, MISC's net position decreased for the year ended 30th September 2019.

A summary of MISC's Statements of Net Position is presented below:

Summary Statements of Net Position
As of September 30

	2019	2018	$ Change 2019-2018	% Change 2019-2018	2017
Assets:					
Current and other assets	$ 1,324,989	$ 1,067,008	$ 257,981	24.2%	$ 1,826,457
Capital assets	8,321,050	8,600,045	(278,995)	(3.2)%	261,227
Total assets	9,646,039	9,667,053	(21,014)	(0.2)%	2,087,684
Liabilities:					
Current and other liabilities	1,298,129	1,124,911	173,218	15.4%	649,887
Net position:					
Net investment in capital assets	8,037,550	7,936,045	101,505	1.3%	261,227
Restricted	377,708	399,752	(22,044)	(5.5)%	622,418
Unrestricted	(67,348)	206,345	(273,693)	(132.6)%	554,152
Total net position	$ 8,347,910	$ 8,542,142	$ (194,232)	(2.3)%	$ 1,437,797

Total assets increased from $2,087,684 in 2017 to $9,667,053 in 2018 and decreased to $9,646,039 in 2019. The increase in total assets by $7,579,369 (363%) from 2017 to 2018 is driven primarily by an increase in prepaid drydock expenses and capital contributions from RepMar represented by the transfer of three (3) ships. In 2019, total assets marginally decreased by $21,014 (0.2%) to $9,646,039. Capital asset acquisitions of $273,212 were offset by depreciation of $552,207. In addition, the Cabinet of RepMar authorized and approved the transfer of MV Tobolar in February 2019 from Tobolar Copra Processing Authority (TCPA) to MISC, including prepaid drydock expenditures, which resulted in an increase in assets of $457,124. Prepaid drydock costs from the transaction amounted to $353,903 as of September 30, 2019.

Net capital assets increased from $261,227 in 2017 to $8,600,045 in 2018 and decreased to $8,321,050 in 2019. In 2018, net capital assets increased by $8,338,818 (363%) with capital asset acquisitions of $8,537,337 offset by retirements/disposal of $116,451 and annual depreciation of $89,667. In 2019, net capital assets decreased by $278,995 (3.2%) with capital asset acquisitions of $522,768 offset by annual depreciation of $552,207. Capital asset acquisitions include the transfer of MV Tobolar with a net book value of $130,944.

Total liabilities increased by $475,024 (73%) from $649,887 in 2017 to $1,124,911 in 2018 and further increased by $173,218 (15.4%) to a total of $1,298,129 in 2019. In 2018, the significant increase in total liabilities is primarily driven by MISC's obligations due to RepMar's related parties, with RMI Ports Authority (RMIPA) being the highest. MISC rents warehouse and storage space from RMIPA but is not currently able to service the obligation due to cash flow constraints. MISC's total liabilities due to RepMar related parties were $219,654 in 2018, of which $122,971 was due to RMIPA followed by $67,560 due to Marshall Islands Social Security Administration (MISSA). In 2019, MISC's total liabilities due to RepMar's related parties increased by $573,743 (261%) from $219,654 in 2018 to $793,397 in 2019. This increase was primarily due to the payable to Tobolar Copra Processing Authority (TCPA), which amounted to $588,069 representing the liability associated with the transfer of the MV Tobolar ship and related prepaid drydock expenses in 2019. Due to RMIPA decreased by $31,370 (26%) to $91,601 while the payable to MISSA increased by $33,108 (49%) to $100,668.

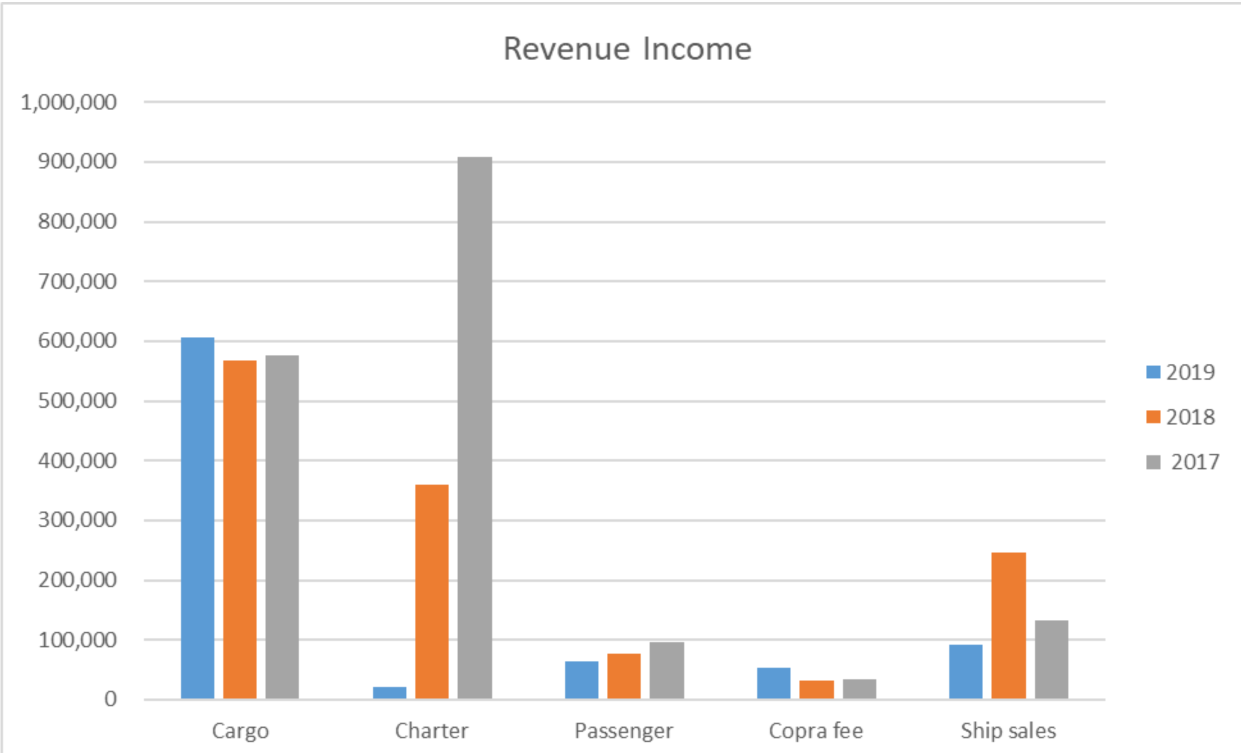
A summary of MISC's Statements of Revenues, Expenses and Changes in Net Position is presented below:

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

	2019	2018	$ Change 2019-2018	% Change 2019-2018	2017
Operating:					
Operating revenues	$ 767,992	$ 1,061,576	$ (293,584)	(27.7)%	$ 1,744,994
Operating expenses	3,699,880	3,236,245	463,635	14.3%	3,030,549
Operating loss	(2,931,888)	(2,174,669)	(757,219)	34.8%	(1,285,555)
Nonoperating:					
Nonoperating revenues	2,033,600	2,073,053	(39,453)	(1.9)%	1,894,720
Nonoperating expenses	20,344	1,900	18,444	970.7%	7,449
	2,013,256	2,071,153	(57,897)	(2.8)%	1,887,271
Capital contributions	724,400	7,207,861	(6,483,461)	(89.9)%	435,000
Change in net position	$ (194,232)	$ 7,104,345	$ (7,298,577)	(102.7)%	$ 1,036,716

The Statements of Revenue, Expenses and Changes in Net Position identify the various revenue and expense items that contributed to the change in net position. MISC's total net operating revenues decreased by $683,418 (39%) to a total of $1,061,576 in 2018 compared to $1,744,994 in 2017. In 2019, net operating revenues further decreased by $293,584 (28%) to a total of $767,992. With the State of Drought Disaster Declaration issued by RepMar in June and July 2113, ongoing relief efforts resulted in the increase in MISC chartering revenue in 2016 and 2017. Charter revenue increased due to the delivery of goods and materials to rebuild houses that were damaged from heavy rough waves in 2017. Total trips decreased by 7 (9%) trips to 74 trips in 2017 compared to 67 trips in 2018. In 2019, total trips further decreased by 31 (46%) to 36 trips compared to 2018. Charter revenue decreased by $339,427, (94%) a total of $20,461 in 2019 compared to a total of $359,888 in 2018 with only 2 charter trip services provided given the absence of available landing craft with MV Majuro transferred to the Ministry of Public Works, Infrastructure and Utilities (MWIU) in January 2018.

The graph below presents the major components of MISC's operating revenues from 2017 through to 2019:



Total operating expenses increased by $205,696 (7%) from $3,030,549 in 2017 to $3,236,245 in 2018. In 2019, the total operating expenses further increased by $463,635 (14%) to $3,699,880. For 2019, the top five components of operating expenses were: (1) Salaries, Wages and Benefits, (2) Depreciation (3) Petroleum, Oil and Lube (POL), (4) Drydock and Repairs and Maintenance Expense, and (5) Travel and Entertainment.

Salaries, wages and benefits remain as the leading operational expense and increased by $64,854 (5%) from $1.23M in 2017 to $1.30M in 2018 and continue to increase by $202,803 (16%) to $1.50M in 2019. The Cabinet decision to transfer the MV Majuro to the MWIU is not expected to impact salaries, wages and benefits as the crew will remain with MISC.

Depreciation expense further increased by $28,327 (46%) from $61,340 in 2017 to $89,667 in 2018 and further increased by $462,540 (516%) to $552,207 in 2019. This increase was the result of depreciation from the transfer of three (3) ships - MV Aemman, MV Ribuuk Ae, and MV Kwajelein from the RMI government in September 2018 and the transfer of MV Tobolar from TCPA in February 2019.

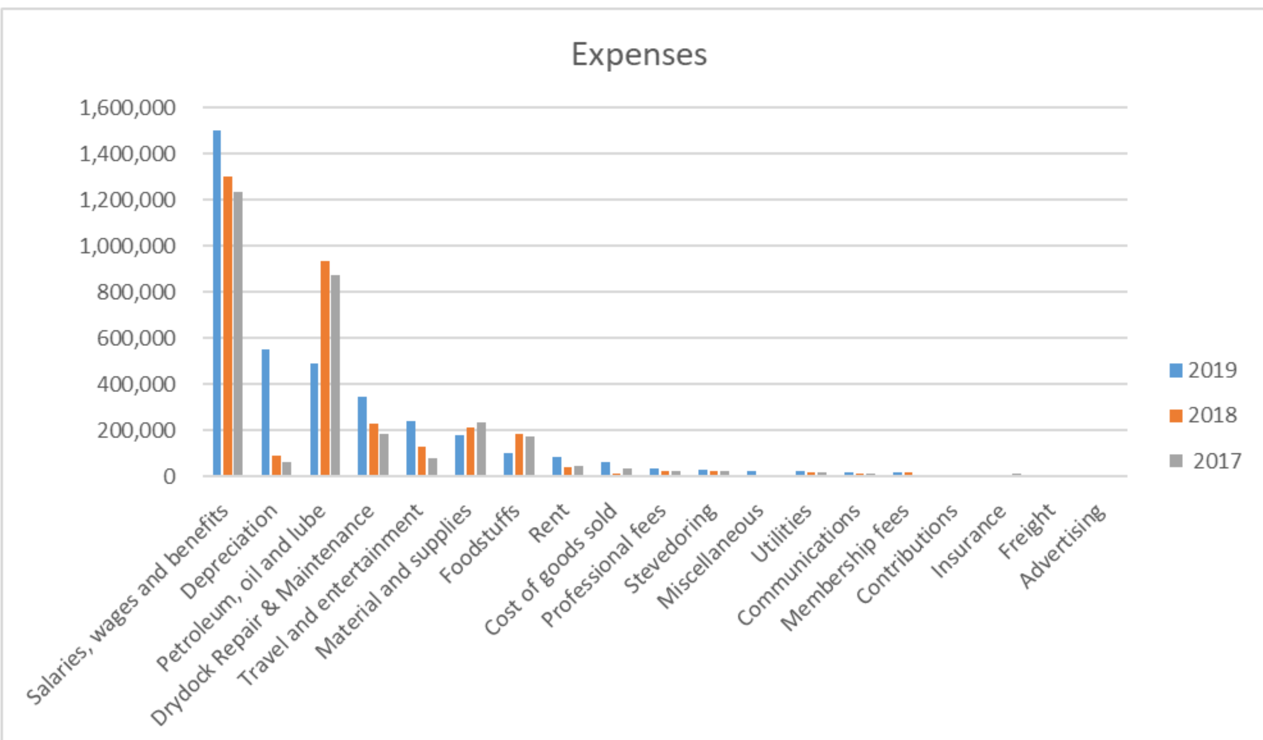
POL expenses increased by $59,236 (7%) from $873,612 in 2017 to $932,848 in 2018 and decreased by $435,445 (47%) to $497,403 in 2019. This decrease was the result of the decrease in the frequency of trips in 2019.

With the establishment of the Shipping Vessel Repairs and Maintenance Act in 2011, an annual subsidy is granted by RepMar for proper and timely dry docking, repairs and maintenance to be undertaken by MISC. This is to ensure the good and operable conditions of the shipping fleet and for the safety and reliability of sea transportation services for the RMI outer island community. Drydock expense increased by $45,275 (25%) from $183,477 in 2017 (for MV Kwajelein) to $228,752 in 2018 (MV Ribuuk Ae) and further increased by $114,314 (50%) to $343,066 in 2019 (MV Aemman and MV Tobolar).

Travel and Entertainment increased by $50,853 (66%) from $77,204 in 2017 to $128,057 in 2018 and further increased by $113,578 (89%) to total $241,635 in 2019. This is in relation to purchase of new shipping fleet (MV Enen Kio) and 5 months of drydocking provided for MV Aemman in 2019, which was longer compared to drydock repair and maintenance for MV Ribuuk Ae in 2018 and MV Kwajelein in 2017, which only took 3 months for both drydocking.

Ship sales services provide MISC an alternative source of income to subsidize its operations. Cost of goods sold (COGS) decreased by $24,906 (70%) to $10,614 in 2018. The decrease in COGS for 2018 is attributed primarily to the private vendors taking over the merchant services on the vessels through a claimed decision by the Cabinet to privatize such services. As such services were a major source of revenue for MISC, the Board had decided in 2018 to investigate whether there was a Cabinet Minute (CM) authorizing such services to be privatized and, if not, then return such to MISC. Since the office of the clerk of Cabinet had confirmed that there had not been any CM in this regard, merchandise or sales services are expected to return in 2019, but through a transitional or phase out period. Accordingly, the merchant on the three vessels, namely the MV Aemman, MV Kwajelein, and MV Ribuuk Ae, shall be notified. In 2019, MISC operated the ship sales services and COGS increased by $52,237 (492%) to $62,851.

The following graphic shows the major components of MISC's operating expenses from 2017 through to 2019:



The operating loss before nonoperating revenues (i.e. RepMar subsidy) increased by $889,114 (69%) from $1,285,555 in 2017 to $2,174,669 in 2018 and by $757,319 (35%) from $2,174,669 in 2018 to $2,931,888 in 2019. In 2018, the operating loss increased with the drydocking of MV Ribuuk Ae in Solomon Islands. In 2019, even though MISC was able to control and decrease some of the operating expenses for some areas, the operating loss increased due to travel costs associated with the purchase of MV Enen Kio, the drydocking of MV Aemman in Fiji, and the drydocking expense recognized due to the transfer of MV Tobolar from TCPA to MISC in February 2019.

Total subsidies, for operations and for repairs and maintenance were $2,033,600 in 2019 compared to $2,005,427 in 2018 and $1,894,720 in 2017. In 2017, 2018 and 2019, MISC was the recipient of subsidies associated with the Shipping Vessel Repairs and Maintenance Act. The subsidy to support the Shipping Vessel Repairs and Maintenance Act fluctuates annually based on the repairs and maintenance schedule and costing developed with the technical assistance of the Japan International Cooperation Agency (JICA) and has taken into account major repairs that will need to be completed and the inclusion of two additional vessels to the MISC fleet. In 2017, an additional $250,000 was appropriated on top of the initial appropriation amounting to $1,700,000, as a down-payment to secure the purchase for the ship purchase. Only $435,000 was used for the negotiations of said vessel. Additional of $99,200 was appropriated in November 2017 to fund vessel delivery costs. The new vessel (MV Enen Kio) arrived in November 2019.

The operating subsidy received from RepMar in 2019 increased by $137,293 (9%) to $1,587,200, drydock fund decreased by $9,920 (2%) to $446,400, and ship purchase decreased by $50,600 (7%) to a total $724,400. With its current fare rate since 1980 and no available landing craft for charter, MISC is not able to achieve full cost recovery to cover its operational costs and maintain adequate major and ongoing repairs and maintenance without financial support from RepMar. The future financial sustainability and conditions of the MISC shipping fleet will continue to depend on sufficient financial support from RepMar.

Management's Discussion and Analysis for the year ended September 30, 2018 is set forth in MISC's report on the audit of financial statements, which is dated April 29, 2019. That Management's Discussion and Analysis explains the major factors impacting 2018 financial statements and can be obtained from MISC's General Manager via the contact information below.

CAPITAL ASSETS AND DEBT

Net capital assets decreased from $8,600,045 in 2018 to $8,321,050 in 2019. Capital asset acquisition of $273,212 was offset by depreciation of $552,207.

A summary of MISC's capital assets at September 30, 2019 compared with 2018 and 2017 is presented below:

	2019	2018	$ Change 2019-2018	% Change 2019-2018	2017
Vessels	$ 6,792,253	$ 6,521,980	$ 270,273	4.1%	$ 89,119
Vehicles	457,070	423,472	33,598	7.9%	306,723
Equipment	387,023	269,342	117,681	43.7%	360,843
Motor boats	221,229	177,374	43,855	24.7%	115,098
	7,857,575	7,392,168	465,407	6.3%	871,783
Accumulated depreciation	(1,437,025)	(692,623)	(744,402)	107.5%	(610,556)
	6,420,550	6,699,545	(278,995)	(4.2)%	261,227
CWIP	1,900,500	1,900,500	-	0.0%	-
	$ 8,321,050	$ 8,600,045	$ (278,995)	(3.2)%	$ 261,227

Refer to note 4 to the accompanying financial statements for additional information relating to capital assets.

CASH FLOW

Net cash used for operating activities for 2019 was $2.4M compared to net cash used for operating activities of $2.1M in 2018 and $1.2M in 2017. The cash provided by operational activities was absorbed entirely by MISC's operational costs. Additionally, injection of cash flow from the RepMar subsidies were received in the amount of $2.7M, $2.7M and $2.3M during 2019, 2018, and 2017, respectively. In 2017, RepMar subsidies were utilized by MISC to cover its operational expenses in the amount of $1.43M; and for repairs and maintenance expenses in the amount of $0.45M; and for new ship purchase in $0.43M. The repair and maintenance subsidy amounts are determined by a schedule developed in January 2011 under the JICA Preparatory Study for the "Project for Improvement of Domestic Shipping Services in the Marshall Islands". In 2018, the RepMar subsidies were utilized by MISC to cover operational expenses in the amount of $1.55M; and for repairs and maintenance expenses in the amount of $0.45M; and for New Ship negotiation expenses in the amount of $0.77M. In 2019, the RepMar subsidies were utilized by MISC to cover operational expenses in the amount of $1.59M; and for drydocking repairs and maintenance expenses in the same amount of $0.44M; and for New Ship negotiation travel expenses in the amount of $0.72M.

FUTURE OUTLOOK ON SUSTAINABILITY

MISC plays an important role in the lives of people living in the outer islands. The regular fieldtrip services are essential to transfer people and basic needs from the capital city to the outer islands and vice versa.

As an indicator of MISC's future outlook on sustainability, MISC's has continued to improve and increase its net position since 2012. MISC's net position decreased to $8,347,910 in 2019, compared to a net position of $8,542,142 in 2018, $1,437,797 in 2017, $401,081 in 2016, $279,970 in 2015, $224,931 in 2014, and $135,699 in 2013. The vast improvement in MISC's financial position from a net deficiency in 2012 to an increasing net position in 2013 – 2018 is a result of increases in revenue streams stemming from increases in charter trips in response to the ongoing relief efforts of the State of Drought Disaster originally issued in June – July 2113, 2016 climate change such as El Nino and 2017 climate change of heavy wave storm, along with the increases in field trips with the addition of the two shipping vessels donated by the government of Japan. Combined with management efforts and persistence to streamline its operational expenses and to continue to reduce its personnel costs in prior years, the rebounds achieved in generating additional revenue streams have been a success factor to MISC's current net position. In addition to subsidies received from RepMar, the three (3) vessels (MV Ribuuk Ae, MV Aemman, and MV Kwajelein) were formally transferred with NBV of $6,432,862. In February 2019, TCPA transferred MV Tobolar and other capital assets with NBV of $130,944.

MISC's improved trend in net position over the period 2017 to 2018 provides an indicator of MISC management's efforts to reduce its recurrent expenditures. However, at its current passenger rate structure and limitation vessel number or fleet size capacity, MISC will continue to have operational losses and rely on RepMar subsidies to minimize the operational losses. In order to revive the MISC operations for future sustainability, MISC must be able to obtain RepMar approval to increase its passenger rates or continue to rely on a steady flow of subsidy amounts as a community service obligation to absorb the operational losses of MISC to provide affordable sea-transport services to the people.

Historically, the operating revenue generated by MISC has never been sufficient to cover the related expenses necessary to operate the shipping vessels and provide sea-transportation services. With operating losses over $1.2M to 2.9M annually, MISC continues to be dependent on financial support from RepMar. Most importantly, MISC is not able to generate sufficient revenue through its operations due to its low passenger rate structure, which has been in place since the early 1980's, despite the increase in fuel costs and inflation rates. As a state-owned entity, MISC does not have the authority to increase its tariff rates without the approval of RepMar. MISC has made numerous requests to RepMar until such was approved on April 25, 2019 for a $10 increase on freight rate or from $56.50 per ton to $66.50 per ton.

It is the intention of MISC to continue its lobbying efforts for the authority and flexibility to increase its tariff rates to account for the rising fuel costs and inflation rates. MISC's strategic plan will be expired in 2021; With tariff rates likely to remain low, on-going financial support from RepMar will have to continue and may need to increase, as appropriate to satisfy the community service obligation provided by MISC.

The future outlook on sustainability for MISC continues to be threatened by the deteriorating conditions of the shipping vessels. In 2011, RepMar passed the Shipping Vessel Repairs and Maintenance Act (R&M) to ensure that subsidy funding is made available on an annual basis to ensure that major repairs and services are performed regularly and for the procurement of safety equipment. The R&M Act provides a strong position for MISC to continue to advocate for and to receive subsidy for the sole purpose of repairs and maintenance needs of its aging fleet. Without the R&M subsidy, the continued deteriorating conditions of more than half of MISC's shipping fleet will have a negative impact on MISC's ability to provide safe and reliable shipping services. Furthermore, the operations of MISC are further hampered with the loss of MV Ribuuk Ae, which ran aground on Ujae Atoll and later sunk.

To summarize, MISC's future outlook on sustainability is dependent but not limited to the following factors:

- Approval from RepMar to increase MISC's tariff rate structure towards full cost recovery;
- Ongoing recipient of RepMar subsidy to support both MISC operations and the Shipping Vessel Repairs and Maintenance Act and New Ship;
- Develop and adhere to an ongoing annual repairs and maintenance schedule;
- Increase the number of vessels in its shipping fleet;
- Explore other grant financing opportunities (i.e. ADB, World Bank, RUS, etc.);
- Continue with budgetary controls to minimize operational expenses where possible;
- Improve financial and operational management reporting and streamline processes:
- Capacity building opportunities for MISC personnel (administration and technical)
- Implementation of community services obligation (CSO) to comply with the SOE Act.

MISC FOCUS IN THE COMING FISCAL YEAR

MISC's focus in the coming fiscal year includes but is not limited to the following:

- MISC, through its Board of Directors, will continue to lobby for the approval from Cabinet to increase the MISC tariff rates, and to negotiate CSO agreements for identified commercial rates.

- With the support of its Board of Directors, MISC will continue to implement and monitor activities laid out in its strategic plan addressing both the operational and financial goals of MISC. The strategic plans include but are not limited to the following:

  - Lobby and seek government and development partner opportunities to finance or co-finance procurement of additional shipping vessels to increase MISC's existing shipping fleet;

  - Seek assistance from donor partners opportunities to finance or co-finance procurement of additional equipment or trucks to improve or streamline loading and unloading processes of the vessels to ensure quicker turn-around of the vessels and improve the efficiency of their transport services.

  - Develop a tariff rate template to incorporate rising cost and fluctuation of fuel and inflation rates;

  - Streamline operational processes (such as stevedoring, field trip scheduling, shipping vessel loading and unloading process to reduce downtime and turn ships around more frequently to increase its services to the outer island);

  - Develop and improve management and financial reporting;

  - Address capacity building weaknesses and provide or seek opportunities for capacity building; and

  - Ensure adherence to the shipping repairs and maintenance schedule.

The Marshall Islands is currently not being directly impacted by the current COVID19 pandemic being experienced elsewhere worldwide. No cases of COVID19 have yet to be experienced in the Marshall Islands and, as such, MISC have been able to continue operations as usual subject to the continued support from RepMar. In the event that the pandemic reaches the Marshall Islands, we expect MISC to feel the impact of such through potential shutdown of MISC's field trips and continued reliance on RepMar for operational subsidies.

ADDITIONAL FINANCIAL INFORMATION

This discussion and analysis are designed to provide MISC's customers and other stakeholders with an overview of the company's operations and financial condition as at 30th September 2019. Should the reader have questions regarding the information included in this report, or wish to request additional financial information, please contact the Marshall Islands Shipping Corporation General Manager at P.O. Box 1198, Majuro, Marshall Islands, MH 96960.

MARSHALL ISLANDS SHIPPING CORPORATION

Statements of Net Position
September 30, 2019 and 2018

ASSETS	2019	2018
Current assets:		
Cash	$ 308,205	$ 493,028
Receivables:		
Trade	84,323	152,158
Affiliates	533,722	400,593
Employees	267,735	268,922
	885,780	821,673
Less allowance for doubtful accounts	(679,860)	(604,605)
Total receivables, net	205,920	217,068
Inventory	4,052	2,379
Current portion of prepaid drydocking	386,621	211,659
Total current assets	904,798	924,134
Noncurrent assets:		
Prepaid drydocking, net of current portion	420,191	142,874
Capital assets:		
Nondepreciable capital assets	1,900,500	1,900,500
Capital assets, net of accumulated depreciation	6,420,550	6,699,545
Total noncurrent assets	8,741,241	8,742,919
	$ 9,646,039	$ 9,667,053
LIABILITIES AND NET POSITION		
Current liabilities:		
Accounts payable	$ 59,859	$ 117,606
Payable to affiliates	793,397	219,654
Contracts payable	283,500	664,000
Accruals and other liabilities	137,373	123,651
Unearned revenue	24,000	-
Total liabilities	1,298,129	1,124,911
Commitments and contingencies		
Net position:		
Net investment in capital assets	8,037,550	7,936,045
Restricted	377,708	399,752
Unrestricted	(67,348)	206,345
Total net position	8,347,910	8,542,142
	$ 9,646,039	$ 9,667,053

See accompanying notes to financial statements.

MARSHALL ISLANDS SHIPPING CORPORATION

Statements of Revenues, Expenses and Changes in Net Position
Years Ended September 30, 2019 and 2018

	2019	2018
Operating revenues:		
Cargo	$ 605,302	$ 566,808
Ship sales	91,410	12,760
Passenger	64,201	77,476
Copra fee	53,423	32,296
Charter	20,461	359,888
Fuel and other revenue	8,450	177,950
Total operating revenues	843,247	1,227,178
Provision for bad debts	(75,255)	(165,602)
Net operating revenues	767,992	1,061,576
Operating expenses:		
Salaries, wages and benefits	1,502,251	1,299,448
Depreciation	552,207	89,667
Petroleum, oil and lube	497,403	932,848
Drydock expense	343,066	228,752
Travel and entertainment	241,635	128,057
Material and supplies	177,956	210,402
Foodstuffs	99,173	183,626
Rent	87,052	37,443
Cost of goods sold	62,851	10,614
Professional fees	33,603	21,828
Stevedoring	27,295	23,349
Utilities	21,789	19,486
Communications	19,436	11,780
Membership fees	15,700	16,550
Contributions	6,849	4,785
Insurance	4,164	3,628
Freight	1,942	3,130
Advertising	1,497	6,829
Miscellaneous	4,011	4,023
Total operating expenses	3,699,880	3,236,245
Operating loss	(2,931,888)	(2,174,669)
Nonoperating revenues (expenses):		
Operating subsidies	2,033,600	2,005,427
Penalties and interest	(20,344)	-
Other income	-	67,626
Loss on disposal of fixed asset	-	(1,900)
Total nonoperating revenues (expenses), net	2,013,256	2,071,153
Loss before capital contributions	(918,632)	(103,516)
Capital contributions	724,400	7,207,861
Change in net position	(194,232)	7,104,345
Net position at beginning of year	8,542,142	1,437,797
Net position at end of year	$ 8,347,910	$ 8,542,142

See accompanying notes to financial statements.

MARSHALL ISLANDS SHIPPING CORPORATION

Statements of Cash Flows
Years Ended September 30, 2019 and 2018

		2019		2018
Cash flows from operating activities:				
Cash received from customers	$	796,640	$	1,143,997
Cash payments to suppliers for goods and services		(1,707,822)		(1,988,282)
Cash payments to employees for services		(1,488,529)		(1,288,313)
Net cash used for operating activities		(2,399,711)		(2,132,598)
Cash flows from noncapital financing activities:				
RepMar subsidy received		2,033,600		2,005,427
Penalties and interest paid		(20,344)		-
Net cash cash provided by noncapital financing activities		2,013,256		2,005,427
Cash flows from capital and related financing activities:				
Acquisition of capital assets		(522,768)		(1,333,524)
Capital contributions received		724,400		775,000
Net cash cash provided by (used for) capital and related financing activities		201,632		(558,524)
Net change in cash		(184,823)		(685,695)
Cash at beginning of year		493,028		1,178,723
Cash at end of year	$	308,205	$	493,028
Reconciliation of operating loss to net cash used for operating activities:				
Operating loss	$	(2,931,888)	$	(2,174,669)
Adjustments to reconcile operating loss to net cash used for operating activities:				
Depreciation		552,207		89,667
Drydock		343,066		228,752
Provision for bad debts		75,255		165,602
(Increase) decrease in assets:				
Receivables:				
Affiliates		(133,129)		(107,966)
Trade		67,835		(15,236)
Employees		1,187		40,021
Inventory		(1,673)		1,422
Prepayments		(338,220)		(238,841)
Increase (decrease) in liabilities:				
Accounts payable		(57,747)		(35,177)
Payable to affiliates		(14,326)		(97,308)
Accruals and other liabilities		13,722		11,135
Unearned revenue		24,000		-
Net cash used for operating activities	$	(2,399,711)	$	(2,132,598)
Summary disclosure of noncash capital and related financing activities:				
Transfer of MV Aemman, MV Rubuuk Ae and MV Kwajalein to MISC:				
Capital contribution from RepMar	$	-	$	6,432,861
Additions to capital assets		-		(6,432,861)
	$	-	$	-
Transfer of MV Tobolar to MISC:				
Payable to affiliates	$	588,069	$	-
Prepaid drydocking		(457,125)		-
Additions to capital assets		(130,944)		-
	$	-	$	-

See accompanying notes to financial statements.

(1) Organization

Marshall Islands Shipping Corporation (MISC), a component unit of the Republic of the Marshall Islands (RepMar), was created under Public Law 2005-41, the Marshall Islands Shipping Corporation Act, 2004. MISC was established to manage and operate RepMar's shipping vessels. MISC's principal line of business is to provide sea transportation services; to carry on business as ship owners; and to build and maintain ships and vessels.

MISC is governed by a seven-member Board of Directors appointed by the Cabinet of RepMar.

MISC'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 MISC 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: Nonexpendable net position subject to externally imposed stipulations that require MISC to maintain such permanently. As of September 30, 2019 and 2018, MISC does not have nonexpendable restricted net position.

- Restricted: Expendable net position whose use by MISC is subject to externally imposed stipulations that can be fulfilled by actions of MISC pursuant to those stipulations or that expire with the passage of time. As of September 30, 2019 and 2018, MISC has expendable restricted net position for unexpended contributions from RepMar as follows:

	2019	2018
Repairs and maintenance	$ 278,508	$ 300,552
MV Enen Kio vessel delivery	99,200	99,200
	$ 377,708	$ 399,752

- 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.

When both restricted and unrestricted resources are available for use for the same purpose, it is MISC's policy to use unrestricted resources first, then restricted resources as they are needed.

(2) Summary of Significant Accounting Policies, Continued

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.

Revenue Recognition

MISC's revenues are derived primarily from the operation of shipping vessels. Capital grants, financing or investing related transactions are reported as non-operating revenues. Revenue is recognized on the accrual basis and is recorded upon billing when services have been completed. Specifically, cargo, charter and passenger revenue 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. All expenses related to operating MISC are reported as operating expenses. Interest income or federal program revenues are the primary components of non-operating expenses and revenues.

Cash

Custodial credit risk is the risk that in the event of a bank failure, MISC'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. MISC 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 accounts. As of September 30, 2019 and 2018, the carrying amount of cash was $308,205 and $493,028, respectively, and the corresponding bank balances were $347,304 and $534,817, respectively. Of the bank balance amounts, $331,984 and $524,814, respectively, were maintained in a financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance with the remaining amounts being maintained in a financial institution not subject to depository insurance. As of September 30, 2019 and 2018, bank deposits in the amount of $250,000 were FDIC insured. MISC 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

All receivables are uncollateralized and are due from affiliates or customers, located within the Republic of the Marshall Islands. The allowance for uncollectible accounts is stated at an amount which management believes will be adequate to absorb possible losses on accounts receivable that may become uncollectible based on evaluations of the collectability of these accounts and prior collection experience. Management determines the adequacy of the allowance for uncollectible accounts based upon review of the aged accounts receivable. The allowance is established through a provision for bad debts charged to expense. Bad debts are written off against the allowance on the specific identification method.

(2) Summary of Significant Accounting Policies, Continued

Inventory

Inventory consists of items purchased for resale (on the ships) during outer islands voyages. Inventory is valued at the lower of cost (moving average) or market value (net realized value).

Deferred Dry-dock Expenditures

Dry dock expenditures have been recognized as an asset when the recognition criteria were met. The recognition is made when the dry docking has been performed and is amortized over the period until the next scheduled dry docking, usually two to three years. Any remaining carrying amount of the cost of the previous inspection is derecognized. Ordinary repairs and maintenance expenses are charged to the income statement during the financial period in which they are incurred.

Equipment

MISC has not adopted a formal capitalization policy for equipment; however, items with a cost that equals or exceeds $1,000 and have an estimated life of more than one year are generally capitalized. Such assets are stated at cost. Depreciation is calculated on the straight-line method based on the estimated useful lives of the respective assets. The estimated useful lives of these assets are as follows:

Equipment	5 - 10 years
Vehicles	5 years
Vessels	25 years
Motor boats	5 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. MISC has no items that qualify for reporting in this category.

Deferred Inflows of Resources

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element 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. MISC 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 totals $88,160 and $79,093, respectively, and is included within the statements of net position as accruals and other liabilities.

(2) Summary of Significant Accounting Policies, Continued

Unearned Revenue

Unearned revenue represents cash received in advance for revenue to be earned in a future period.

Taxes

Corporate profits are not subject to income tax in the Republic of the Marshall Islands. The Government of the Republic of the Marshall Islands imposes a gross receipts tax of 3% on revenues. MISC is specifically exempt from this tax.

New Accounting Standards

During the year ended September 30, 2019, MISC 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 standards 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.

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

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.

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.

Reclassifications

Certain balances in the 2018 presentation has been reclassified to conform to the 2019 presentation. These reclassifications had no impact on operating loss, net position or cash flows as previously reported.

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 disclosures 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) Prepaid Drydocking

During the years ended September 30, 2019 and 2018, MISC incurred dry-dock expenditures of $338,220 and $238,841, respectively, for MV Aemman, MV Ribuuk Ae and MV Kwajalein in Fiji, which is to be amortized over 3 years. On February 28, 2019, Tobolar Copra Processing Authority (TCPA) transferred dry-dock expenditures amounting to $457,125, which are related to the transfer of MV Tobolar. As of September 30, 2019 and 2018, prepaid dry-docking amounted to $806,812 and $354,533, respectively.

(3) Prepaid Drydocking, Continued

An analysis of the change in prepaid drydocking costs during the years ended September 30, 2019 and 2018 is as follows:

	2019	2018
Beginning balance	$ 354,533	$ 344,444
Drydock costs incurred	338,220	238,841
Drydock costs from transfer	457,125	-
Amortized drydock expense	(343,066)	(228,752)
Ending balance	$ 806,812	$ 354,533
Disclosed as follows:		
Current	$ 386,621	$ 211,659
Noncurrent	420,191	142,874
	$ 806,812	$ 354,533

(4) Capital Assets

Capital asset activity for the years ended September 30, 2019 and 2018 is as follows:

	2019			
	October 1, 2018	Additions	Disposals/ Reclassifications	September 30, 2019
Equipment	$ 269,342	$ 117,681	$ -	$ 387,023
Vehicles	423,472	43,348	(9,750)	457,070
Vessels	6,521,980	270,273	-	6,792,253
Motor boats	177,374	43,855	-	221,229
	7,392,168	475,157	(9,750)	7,857,575
Less accumulated depreciation	(692,623)	(754,152)	9,750	(1,437,025)
	6,699,545	(278,995)	-	6,420,550
Construction in progress	1,900,500	-	-	1,900,500
	$ 8,600,045	$ (278,995)	$ -	$ 8,321,050

	2018			
	October 1, 2017	Additions	Disposals/ Reclassifications	September 30, 2018
Equipment	$ 360,843	$ 24,950	$ (116,451)	$ 269,342
Vehicles	306,723	116,749	-	423,472
Vessels	89,119	6,432,861	-	6,521,980
Motor boats	115,098	62,276	-	177,374
	871,783	6,636,836	(116,451)	7,392,168
Less accumulated depreciation	(610,556)	(89,667)	7,600	(692,623)
	261,227	6,547,169	(108,851)	6,699,545
Construction in progress	-	1,900,500	-	1,900,500
	$ 261,227	$ 8,447,169	$ (108,851)	$ 8,600,045

Construction in progress additions of $1,900,500 during the year ended September 30, 2018, pertain to the MV Enen Kio vessel under construction. In October 2019, MISC received the Notice of Readiness from shipbuilder and the vessel was delivered to the Marshall Islands and placed into service.

(4) Capital Assets, Continued

During the year ended September 30, 2018, RepMar formally transferred MV Aemman, MV Ribuuk Ae and MV Kwajelein to MISC with an aggregate net book value of $6,432,861.

On November 14, 2018, the Cabinet of RepMar authorized and approved the transfer of MV Tobolar, with a net book value of $130,944, and crew from Tobolar Copra Processing Authority (TCPA) to MISC. On February 17, 2019, this transfer was effectuated resulting in a liability of $588,069 payable to TCPA, which remains unpaid. MISC is currently negotiating with RepMar and TCPA for a final determination insofar as payment of this amount.

(5) Related Party Transactions

MISC was created by the Nitijela of RepMar under Public Law 2005-41 and is thus considered a component unit of RepMar. Accordingly, MISC is affiliated with all RepMar-owned and affiliated entities, including Tobolar Copra Processing Authority (TCPA) and the RMI Ports Authority.

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

	2019			
	Revenues	Expenses	Receivables	Payables
Tobolar Copra Processing Authority	$ 391,472	$ -	$ 297,979	$ 588,069
Marshall Islands Social Security Administration	-	273,990	-	100,668
Marshalls Energy Company, Inc.	7,355	428,168	3,892	1,289
RMI Ports Authority	-	48,955	-	91,601
Republic of the Marshall Islands	72,317	127,082	187,879	7,627
Other	32,456	55,860	43,972	4,143
	$ 503,600	$ 934,055	$ 533,722	$ 793,397

	2018			
	Revenues	Expenses	Receivables	Payables
Tobolar Copra Processing Authority	$ 307,570	$ 880	$ 161,122	$ -
Marshall Islands Social Security Administration	-	255,856	-	67,560
Marshalls Energy Company, Inc.	92,925	173,226	3,537	7,641
RMI Ports Authority	-	44,764	-	122,971
Republic of the Marshall Islands	220,951	119,302	189,987	16,882
Other	7,389	61,123	46,037	4,600
	$ 628,835	$ 655,151	$ 400,593	$ 219,654

During the years ended September 30, 2019 and 2018, the operations of MISC were funded by appropriations from the Nitijela of RepMar as follows:

	2019	2018
Operating subsidy	$ 1,587,200	$ 1,449,907
Repairs and maintenance	446,400	456,320
Vessel delivery	-	99,200
	$ 2,033,600	$ 2,005,427

During the years ended September 30, 2019 and 2018, MISC received $724,400 and $775,000, respectively, from the Nitijela of RepMar for the purpose of funding the acquisition of MV Enen Kio.

(5) Related Party Transactions, Continued

On February 28, 2019, the net book value of MV Tobolar and related deferred dry-dock expenditures were transferred from TCPA to MISC resulting in a payable to TCPA of $588,069.

MISC occupies certain RepMar office space at no cost. No lease agreement has been executed to formalize this arrangement. However, management is of the opinion that no rental payment for the use of this property is anticipated. The fair value of this contribution is presently not determinable. Accordingly, the contributed facility use has not been recognized as revenue and expenses in the accompanying financial statements.

As described in note 7, MISC leases space from a related party.

(6) Risk Management

MISC 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. MISC has elected to purchase commercial automobile insurance from independent third parties for the risks of loss to which it is exposed with respect to the use of motor vehicles. Settled claims have not exceeded this commercial coverage for the last three years. MISC does not maintain general liability insurance; maritime insurance; and fire, lightning and typhoon insurance for its office building and contents. In the event of an insurable loss, MISC may be self-insured to a material extent.

(7) Commitments and Contingencies

Commitments

MISC leases a warehouse for $2,557 per month, effective August 1, 2015, from the RMI Ports Authority, which lease expires on July 31, 2020. During the years ended September 30, 2019 and 2018, MISC recorded associated rent expense of $30,678 per year. Total minimum future rental payments for this non-cancelable lease agreement for the year ending September 30, 2020 are $25,565.

Going Concern

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America, which contemplates the continuation of MISC as a going concern. During the years ended September 30, 2019 and 2018, MISC incurred losses from operations of $2,931,888 and $2,174,669, respectively. During the years ended September 30, 2019 and 2018, the operations of MISC were funded by appropriations from the Nitijela of RepMar of $2,033,600 and $2,005,427, respectively. In addition, during the years ended September 30, 2019 and 2018, MISC received $724,400 and $775,000, respectively, for the purpose of funding the acquisition of MV Enen Kio. Management acknowledges that it is currently dependent on RepMar for cash funding in order to maintain MISC as a going concern. Although RepMar has provided funding in the past, MISC does not have a formal agreement with RepMar to provide future funding. Management believes that the continuation of MISC's operations is dependent upon the future financial support of RepMar, deferment in payment of certain liabilities, and/or significant improvements in operations.

(7) Commitments and Contingencies, Continued

Going Concern, Continued

In view of these matters, realization of the related assets in the accompanying statement of net position at September 30, 2019, is dependent upon continued operations of MISC, which, in turn, is dependent upon MISC's ability to provide service to its customers and the success of future operations. Management believes that actions presently being undertaken to revise MISC's operating requirements, including the generation of positive cash flows from operations by increasing the number of field trips and operation of the new MV Enen Kio vessel, provide the opportunity for MISC to continue as a going concern. For the year ending September 30, 2020, RepMar has appropriated $1,900,000 to fund MISC operations.

(8) Subsequent Events

In October 2019, MISC received Notice of Readiness from shipbuilder to transport MV Enen Kio to the Marshall Islands. The vessel subsequently suffered mechanical problems and has not been operating as intended. On June 15, 2020, results of inspection identified that the propeller suffered cavitation. MISC has no plans yet on the return of the vessel to the shipbuilder due to COVID-19 restrictions.

On December 28, 2019, MV Ribuuk Ae ran aground on Ujae Atoll. Subsequent recovery efforts failed resulting in the vessel sinking. Total impairment loss from vessel and other equipment amounted to $381,165.

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 July 21, 2020, there has been no confirmed case of COVID-19 in the Marshall Islands. MISC has determined that should the pandemic reach the Marshall Islands, it may negatively impact MISC's business, results of operations, and financial position and MISC may become dependent upon the financial support of RepMar. However, the effect of the pandemic on RepMar is also uncertain and future available funding to RepMar component units may be limited. Therefore, while MISC expects this matter to potentially have a negative impact on its business, results of operations, and financial position, the related financial impact cannot be reasonably estimated at this time.

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Chairman
Board of Directors
Marshall Islands Shipping Corporation:

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States, the financial statements of the Marshall Islands Shipping Corporation (MISC), which comprise the statement of net position as September 30, 2019, and the related statements of revenues, expenses and changes in net position and of cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated July 21, 2020.

Internal Control Over Financial Reporting

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether MISC'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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Deloitte & Touche LLP

July 21, 2020

Unresolved Prior Year Findings
Year Ended September 30, 2019

There are no unresolved audit findings from prior year audits of MISC.