

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

**FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT**

**YEARS ENDED SEPTEMBER 30, 2020 AND 2019
(AS RESTATED)**

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

Years Ended September 30, 2020 and 2019
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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, 2020 and 2019, 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, 2020 and 2019, 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

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.

Change in Accounting Principle

As discussed in Note 9 to the financial statements, AMI has elected to change its method of accounting for aircraft maintenance and rotatable repairs in 2019.

Our opinion is not modified with respect to these matters.

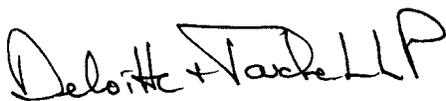
Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 to 12 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 10, 2021, 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.



September 10, 2021

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

Management's Discussion and Analysis
Years Ended September 30, 2020 and 2019

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 and one 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 and rescue and related services when required.

STRATEGY

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

KEY ACHIEVEMENTS IN 2020

- Operating loss is reduced by \$212K (or 30% decrease) due to a significant decrease in the fuel price resulting from the COVID-19 global pandemic, decline in the number of flights, and fewer travel expenses during the year.
- The passenger load percentage increased from 50% in FY19 to 52% in FY20.
- Charter revenues increased by \$309K, or 35%, due to an increase in Dengue Fever outbreak related medivac flights by the Outer Islands Dispensary System (OIDS), an increase in outer islands chartered flights by the Office of Chief Secretary for COVID-19 preparedness, and repatriation flights to Pohnpei, Kiribati, and Kosrae by the National Disaster Management Office (NDMO).
- \$274K of interest was forgiven by the Marshall Islands Development Bank (MIDB) upon full settlement of a long outstanding loan.
- A long outstanding loan to RMI Ports Authority (RMIPA) was fully settled.
- Cargo revenues increased by \$145K, or 26%, due to an increase in cargo capacity of aircraft during the Dengue Fever outbreak when RMI Cabinet issued a travel ban restricting outbound passenger travel to the outer islands.
- Two Marshallese pilot students who were studying in Fiji completed their training and have arrived back to Majuro in November 2020 and have started flying for AMI.

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

Management's Discussion and Analysis
Years Ended September 30, 2020 and 2019

OVERVIEW

Presented herewith is AMI's annual Management's Discussion and Analysis (MD&A) of the company's financial performance for the financial year ended 30th September 2020, 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, 2020, AMI's overall operations resulted in a net surplus of \$612K. The change was primarily due to the RepMar subsidy of \$843K. The total funding was used in capital expenses (investment and repairs/overhaul of aircraft parts) and Community Service Obligations.

The operating loss decreased from \$716K in 2019 to \$505K in 2020. This was the result of the decrease in flight operations expenses (16%), general and administrative expenses (25%), and aircraft and traffic servicing (8%). AMI has invested heavily in parts repairs and overhauls as a business strategy to reduce aircraft on ground (AOG) and increase the reliability of service in the future. The total operating expenses decreased from \$5.62M in 2019 to \$5.51M in 2020.

AMI continues to face operational difficulties and challenges due to AOG of the Dornier and the Dash 8 as a result of poor conditions in the Outer Island airports and the severely corrosive environment that AMI aircraft operate in leading to disruptions of flight schedules.

Net surplus caused total assets to exceed total liabilities by \$7.25M in 2020.

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 the Dengue Fever outbreak. The Ministry of Health and Human Services (MoHHS) made a considerable effort to protect the Outer Island communities from the introduction of Dengue, given the limited resources available in their local health centers.

The travel advisory was effective from August 23, 2019 until the end of December 2019, which greatly affected the operations of AMI as passenger revenue dropped by \$263K for the months of October to December 2019.

COVID -19 Pandemic

The outbreak of the global pandemic affected airlines across the world preventing international passenger travel to curb the spread of the novel coronavirus. As a consequence, AMI's ground handling revenues significantly decreased by 52% compared to last financial year. Moreover, due to the ban of Nauru Airlines regular flights to Majuro, AMI had to charter its own plane to Nauru to bring a Dornier 9207 engine and a Dash 8 Propeller that were urgently needed to get the AOG aircraft back to service.

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Management's Discussion and Analysis
 Years Ended September 30, 2020 and 2019

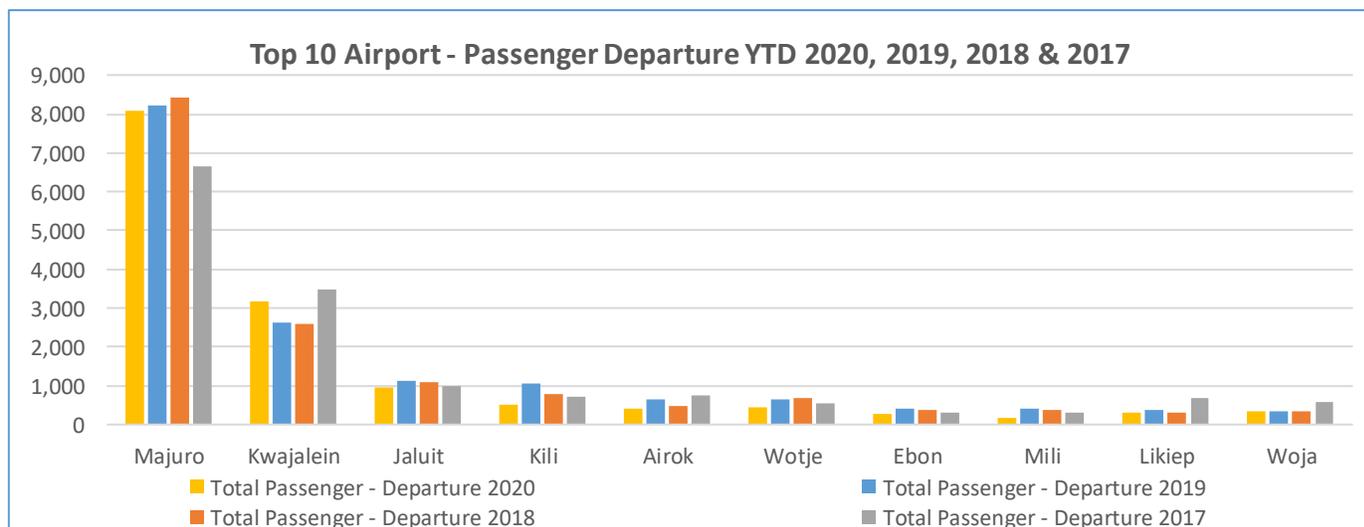
FINANCIAL ANALYSIS OF AMI

The Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Position provide an indication of AMI's financial condition. AMI's net position reflects the difference between assets and liabilities. An increase in net position over time typically indicates an improvement in financial condition. A summary of AMI's Statements of Net Position at September 30, 2020 compared with 2019 and 2018 is presented below:

Summary Statements of Net Position
 As of September 30

	2020	2019 (As Restated)	\$ Change 2020-2019	% Change 2020-2019	2018 (As Restated)
Assets:					
Current and other assets	\$ 2,451,817	\$ 1,718,212	\$ 733,605	42.7%	\$ 3,404,570
Capital assets	9,796,264	10,084,182	(287,918)	(2.9)%	8,308,673
Total assets	12,248,081	11,802,394	445,687	3.8%	11,713,243
Liabilities:					
Current and other liabilities	5,002,560	4,838,785	163,775	3.4%	4,741,857
Long-term debt	-	330,216	(330,216)	(100.0)%	543,916
Total liabilities	5,002,560	5,169,001	(166,441)	(3.2)%	5,285,773
Net position:					
Net investment in capital assets	9,796,264	9,783,390	12,874	0.1%	7,908,302
Unrestricted	(2,550,743)	(3,149,997)	599,254	(19.0)%	(1,480,832)
Total net position	\$ 7,245,521	\$ 6,633,393	\$ 612,128	9.2%	\$ 6,427,470

The trend in total net position indicates that the Company is moving in the right direction as its accumulated losses are decreasing and assets are greater than liabilities. This has been made possible by continued government support, decrease in aircraft downtime, and increase in reliability of service which has led to an increase in passenger numbers. The trend in passenger numbers from 2017 to 2020, indicates an improvement in the delivery of essential public services to the Marshallese people and communities residing in the Outer Islands.



AIR MARSHALL ISLANDS, INC
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Management's Discussion and Analysis
Years Ended September 30, 2020 and 2019

A summary of AMI's Statements of Revenues, Expenses and Changes in Net Position for the year ended September 30, 2020 compared with 2019 and 2018 is presented below:

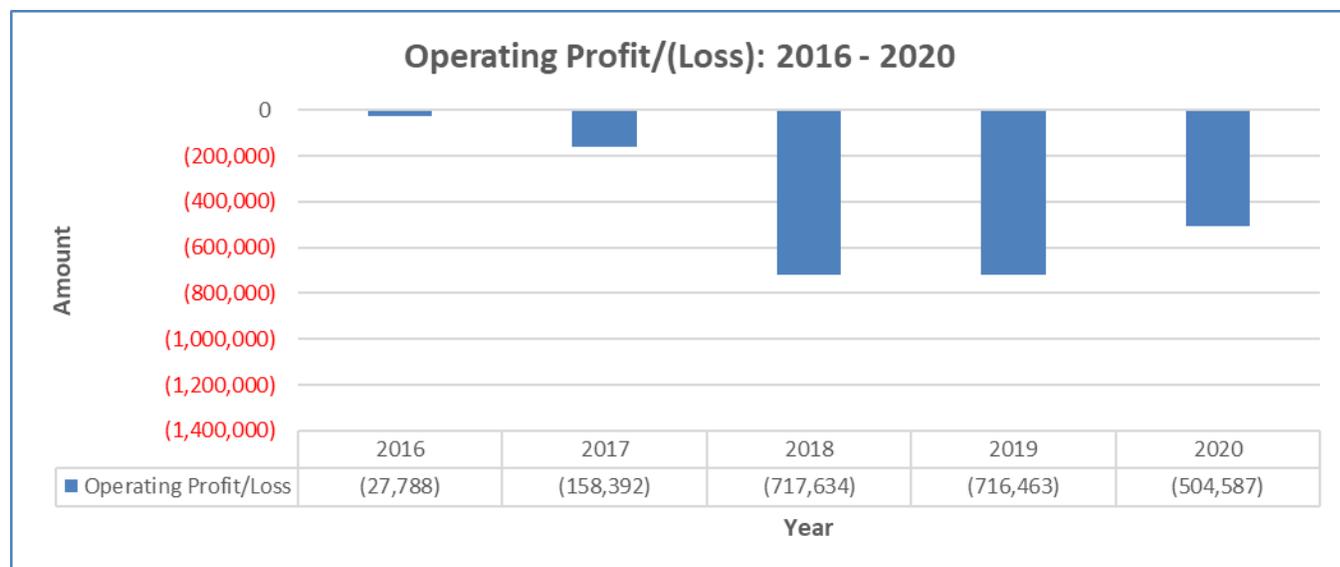
Summary Statements of Revenues, Expenses and Changes in Net Position
Years Ended September 30

	2020	2019 (As Restated)	\$ Change 2020-2019	% Change 2020-2019	2018 (As Restated)
Operating:					
Operating revenues	\$ 5,010,519	\$ 4,905,222	\$ 105,297	2.1%	\$ 4,355,702
Operating expenses	5,515,106	5,621,685	(106,579)	(1.9)%	5,073,336
Operating loss	(504,587)	(716,463)	211,876	(29.6)%	(717,634)
Nonoperating:					
Nonoperating revenues	1,116,715	942,400	174,315	18.5%	1,415,106
Nonoperating expenses	-	20,014	(20,014)	(100.0)%	91,083
	1,116,715	922,386	194,329	21.1%	1,324,023
Change in net position	<u>\$ 612,128</u>	<u>\$ 205,923</u>	<u>\$ 406,205</u>	197.3%	<u>\$ 606,389</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, 2019 is set forth in AMI's report on the audit of financial statements, which is dated June 2, 2020. That Management Discussion and Analysis explains the major factors impacting the 2019 financial statements and may be obtained from the contact information below.

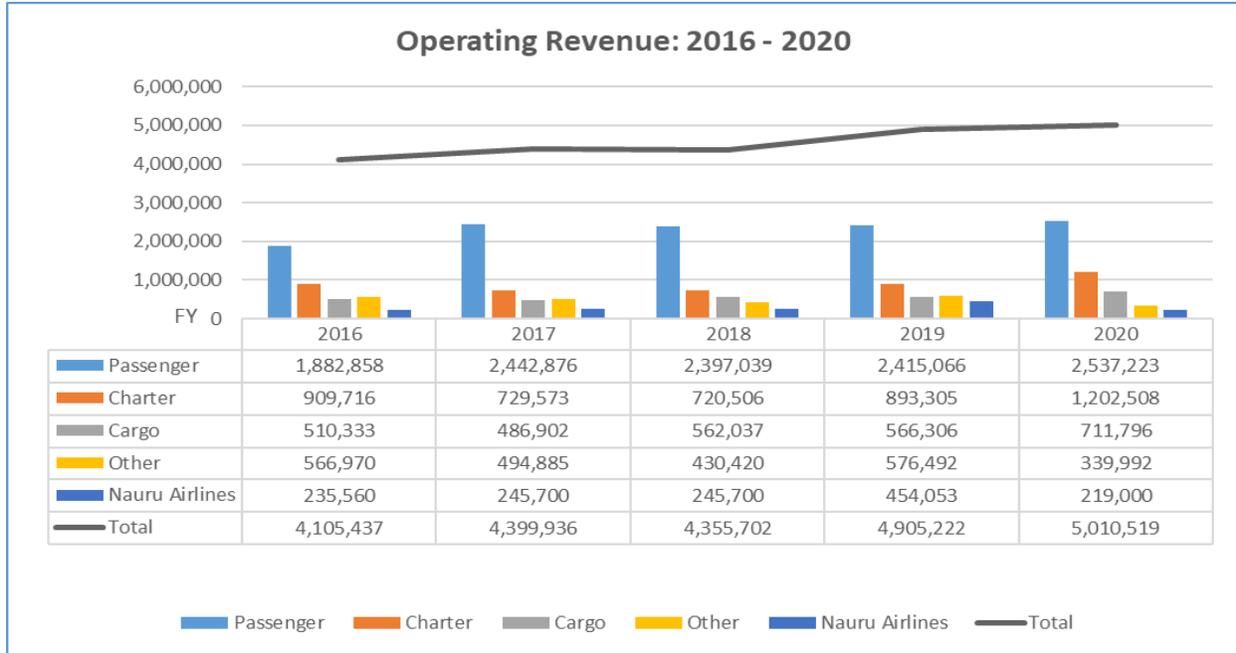
The below graph shows the operating loss of AMI from 2016 through to 2020.



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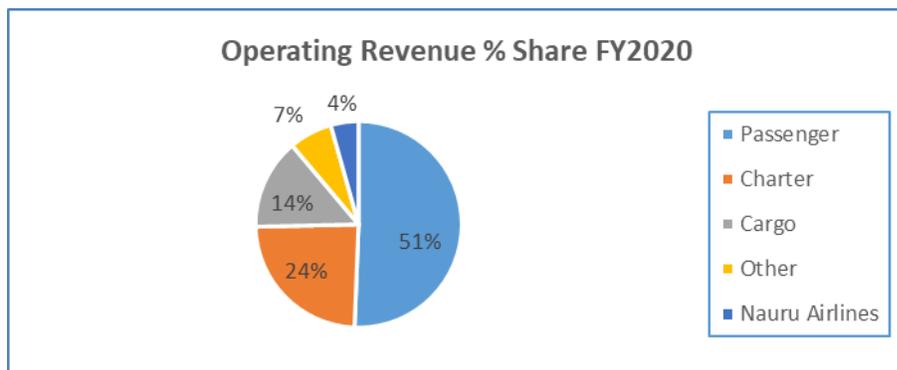
Management’s Discussion and Analysis
 Years Ended September 30, 2020 and 2019

The graph below shows the main components of AMI’s operating revenues from 2016 through to 2020.



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 2016 due to increase in passenger travel.

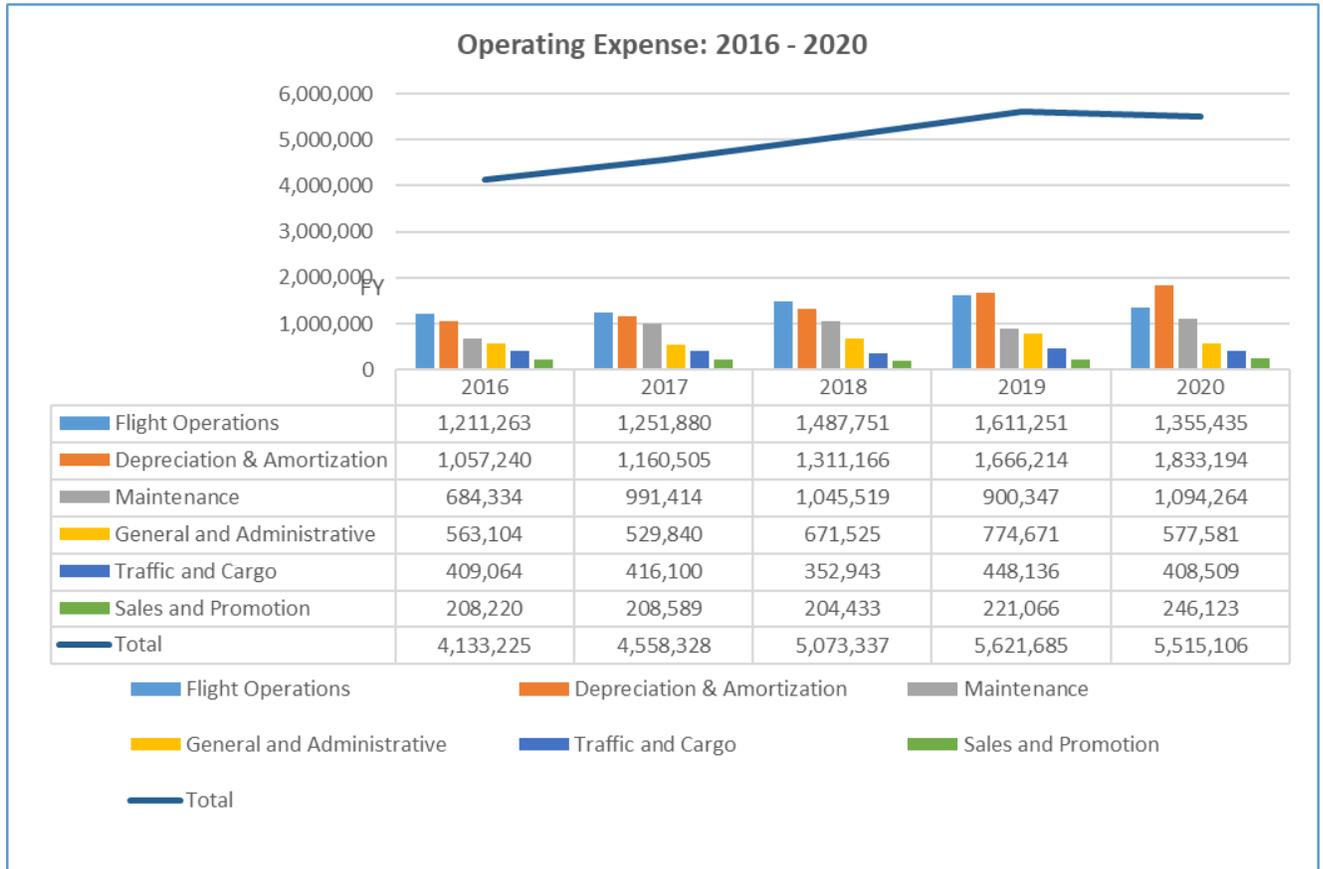
Charter revenue is the second largest and it increased in 2020 by 35% when compared to 2019 due to an increase in Dengue Fever outbreak related medivac flights, and charters for COVID-19 preparedness and repatriation flights. Cargo revenues increased by 26% as a result of an increase in cargo capacity of aircraft during the Dengue Fever outbreak when the RMI Cabinet issued a travel ban restricting outbound passenger travel to the outer islands.



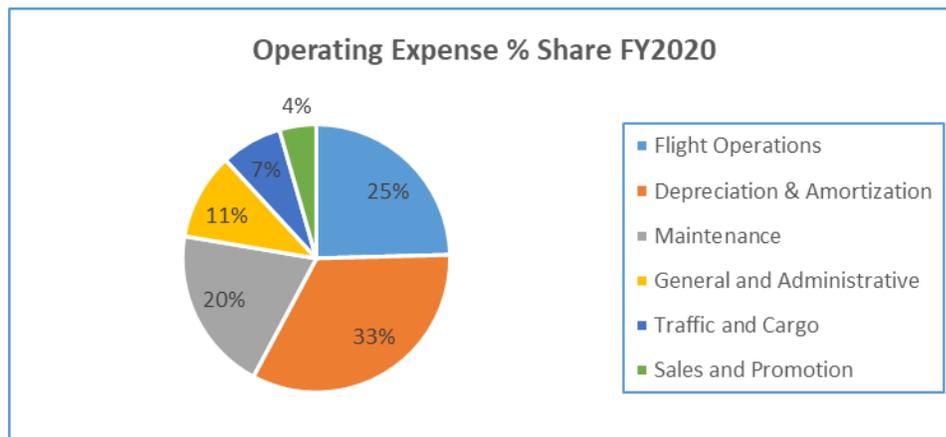
The above pie chart shows the distribution of each operating revenue source as a percentage of total operating revenues in which passengers are at 51%, charter at 24%, cargo/freight at 14%, others at 7%, and Nauru Airlines (ground handling) at 4%.

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Management’s Discussion and Analysis
 Years Ended September 30, 2020 and 2019



The above diagram shows AMI’s individual operating expenses with depreciation and amortization being the largest expense followed by flight operations, maintenance, general and administration, traffic and cargo and sales and promotion during the 2020 period.



The above pie chart shows the composition of AMI’s total operating expenses in 2020, indicating depreciation and amortization with the largest share of 33%, followed by flight operation of 25%, maintenance of 20%, general administration of 10%, traffic and cargo servicing of 7%, and sales and promotion of 4%.

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Management's Discussion and Analysis
Years Ended September 30, 2020 and 2019

Depreciation expense represents the largest share of operating expenses because of the capitalization of the Dash 8 C-Check costs when the aircraft returned from Australia on December 2018 as well as the purchase and installation of the Dash 8 engine in Canada in March 2019. Flight operations represents the second largest share of operating expense because of fuel which is a major cost for an airline company.

In 2020, the RMI government provided a subsidy allocation of \$843K for AMI which was used for capital expenses (investment and repairs/overhauls of parts and engines) and Community Service Obligations.

The Dash 8 has not been making sufficient revenues due to low utilization resulting from the lack of MEL (Minimum Equipment List) and from the impact of the bad outer island airport runways. This continues to cause breakdown of the aircraft, thus, preventing it from generating income it needs to support the 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 RMI government subsidy.

The RMI government guaranteed the MIDB loan and started paying it off on behalf of AMI in 2014. As operations improved, AMI commenced making payments towards the loan. In 2020, AMI fully settled the loan on April 8, 2020.

RESTATEMENT

AMI identified that most of the transactions for repairs and maintenance were being capitalized and it was very difficult to determine the life of these parts which are overhauled, repaired and exchanged. To avoid excessive amounts of assets being recorded in the Fixed Asset Register, which might be difficult to identify upon verification, AMI's new policy is to expense all rotatable repairs, as per U.S. GAAP, and only rotatable repairs of more than \$15,000 will be capitalized. As a result of the change in accounting policy, a retrospective application results in the restatement of FY19 and FY18 comparison figures. Please refer to note 9 of the accompanying financial statements for additional information regarding the restatement.

CAPITAL ASSETS AND DEBT

Net capital assets decreased by \$288K or 3% from \$10,084,182 in 2019 to \$9,796,264 in 2020. The decrease is due primarily to the acquisition of capital assets of \$1,515,038, net of an increase in accumulated depreciation of \$1,802,956. A summary of AMI's capital assets at September 30, 2020 compared with 2019 and 2018 is presented below:

	2020	2019 (As Restated)	\$ Change 2020-2019	% Change 2020-2019	2018 (As Restated)
Aircraft and improvements	\$ 20,987,319	\$ 20,675,866	\$ 311,453	1.5%	\$ 17,812,512
Rotable spare parts	8,642,804	7,849,925	792,879	10.1%	7,396,409
Plant and equipment	1,282,943	902,441	380,502	42.2%	865,807
Office furniture and equipment	837,609	807,872	29,737	3.7%	782,501
Motor vehicles	326,740	326,740	-	0.0%	321,568
Computer software	79,998	79,998	-	0.0%	79,998
Building improvements	18,347	17,880	467	2.6%	17,880
	<u>32,175,760</u>	<u>30,660,722</u>	<u>1,515,038</u>	4.9%	<u>27,276,675</u>
Accumulated depreciation	<u>(22,379,496)</u>	<u>(20,576,540)</u>	<u>(1,802,956)</u>	8.8%	<u>(18,968,002)</u>
	<u>\$ 9,796,264</u>	<u>\$ 10,084,182</u>	<u>\$ (287,918)</u>	(2.9)%	<u>\$ 8,308,673</u>

Please refer to note 3 of the accompanying financial statements for additional information regarding AMI's capital assets.

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Management's Discussion and Analysis
Years Ended September 30, 2020 and 2019

A summary of AMI's long-term debt at September 30, 2020 compared with 2019 and 2018 is presented below:

	2020	2019	\$ Change 2020-2019	% Change 2020-2019	2018
Long-term:					
RMIPA loan	\$ -	\$ 29,424	\$ (29,424)	(100.0)%	\$ 143,545
MIDB loan	-	300,792	(300,792)	(100.0)%	400,371
	<u>\$ -</u>	<u>\$ 330,216</u>	<u>\$ (330,216)</u>	(100.0)%	<u>\$ 543,916</u>

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 RMI government subsidies in 2014 through 2018. The loan was fully settled in 2020.

Please refer to note 4 of the accompanying financial statements for additional information regarding AMI's long-term debt.

CASH FLOW

AMI received \$5,091,869 and \$4,814,225 from customers in 2020 and 2019, respectively.

During the year ended September 30, 2020, AMI paid its vendors \$1,636,135 for goods and services and payroll of \$1,913,406 for employees. AMI noted a cash surplus from operations of \$1,542,328 in 2020, an increase from \$786,511 in 2019. Additionally, the operating subsidies from the government in 2020 assisted in operations continuing "business as usual".

CURRENT ECONOMIC OUTLOOK

Being a small open and highly susceptible economy to world events, coupled with being highly dependent on funding from the US Government through the Compact and federal funding, representing up to 60% or more of annual government budget of \$150M, 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 \$2.47 a gallon. Today's situation around the globe and following the demand for the fuel, the world price for fuel is not going back to the pre-crisis level. Therefore, the increase in fuel cost since the crisis has effectively increased the cost of operation for AMI by at least 15% per year.

With operating losses of \$0.50 million and \$0.71 million in 2020 and 2019, 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 aircraft, improvement on airport runways, adequate spare parts provisioning and reduction of AOG.

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ROLE OF BOARD AND MANAGEMENT

AMI Board and management can only do so much in terms of streamlining operations and reining in costs and improving performance. However, this will not create a much visible change 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 the aircraft;
2. Insufficient spare parts for the aircraft; and
3. Renovation at the Hangar was in progress in 2020 and completed in April 2021. The hangar renovation is urgently needed to house everyone under one roof, to 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 such occur.

WAY FORWARD AND FUTURE SUSTAINABILITY

AMI presented a new strategic Business Plan (BP) which was developed by the company as a compass for the period 2021- 2023 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 and rescue and related services when required.

In order to achieve the above, the BP's 6 Rs have been altered to 3 Rs (three goals) as AMI relies on RMI government 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 RMI Cabinet and the Board would enable AMI, in spite of all abovementioned challenges, to achieve each individual goal and once achieved the 4th R – **Restrict reliance on state subsidy** can be implemented.

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

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

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Management's Discussion and Analysis
Years Ended September 30, 2020 and 2019

KEY ACHIEVEMENTS SUBSEQUENT TO FY2020

- **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 assist in AOG situations.

ADDITIONAL FINANCIAL AND OTHER INFORMATION

This MD&A was designed to provide AMI's customers and other stakeholders with an overview of the company's operations and financial condition as at 30th September 2020, and its vision for future sustainability. Should the readers have questions regarding the information provided in this report, or wish to request for additional financial information, kindly contact the AMI's General Manager & CEO at P.O. Box 1319, Majuro, Marshall Islands, MH 96960; Telephone (692) 625-3731; Fax (692) 625-3730; Email Address: gm@airmarshallislands.net

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

Statements of Net Position
September 30, 2020 and 2019

	<u>2020</u>	<u>2019</u> (As Restated)
<u>ASSETS</u>		
Current assets:		
Cash	\$ 1,044,923	\$ 164,179
Receivables:		
Trade	150,307	208,705
Employees	30,553	44,372
Affiliates	296,701	184,671
Other	118,461	118,461
	<u>596,022</u>	<u>556,209</u>
Less allowance for doubtful receivables	<u>(316,134)</u>	<u>(194,386)</u>
Receivables, net	<u>279,888</u>	<u>361,823</u>
Expendable parts (net of allowance for obsolescence of \$198,909 at September 30, 2020 and 2019)	866,625	827,125
Prepaid expenses and deposits	<u>81,509</u>	<u>89,020</u>
Total current assets	<u>2,272,945</u>	<u>1,442,147</u>
Capital assets, net of accumulated depreciation and amortization	9,796,264	10,084,182
Long-term deposits	<u>178,872</u>	<u>276,065</u>
Total noncurrent assets	<u>9,975,136</u>	<u>10,360,247</u>
	<u>\$ 12,248,081</u>	<u>\$ 11,802,394</u>
<u>LIABILITIES AND NET POSITION</u>		
Current liabilities:		
Current portion of long-term debt	\$ -	\$ 330,216
Accounts payable	311,600	172,179
Social security taxes payable	80,266	74,551
Withholding taxes payable	560,162	568,236
Air traffic liability	101,452	102,037
Accrued expenses	124,073	137,973
Payable to affiliates	708,117	666,919
Total current liabilities	<u>1,885,670</u>	<u>2,052,111</u>
Noncurrent liabilities:		
Advances from RepMar	<u>3,116,890</u>	<u>3,116,890</u>
Total liabilities	<u>5,002,560</u>	<u>5,169,001</u>
Commitments and contingencies		
Net position:		
Net investment in capital assets	9,796,264	9,783,390
Unrestricted	<u>(2,550,743)</u>	<u>(3,149,997)</u>
Total net position	<u>7,245,521</u>	<u>6,633,393</u>
	<u>\$ 12,248,081</u>	<u>\$ 11,802,394</u>

See accompanying notes to financial statements.

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

Statements of Revenues, Expenses and Changes in Net Position
Years Ended September 30, 2020 and 2019

	2020	2019 (As Restated)
Operating revenues:		
Passenger	\$ 2,537,223	\$ 2,415,066
Charter	1,202,508	893,305
Cargo	711,796	566,306
Ground handling	219,000	454,053
Fuel surcharge	207,132	226,344
Flight diversion	156,566	245,302
Other	98,042	187,252
Bad debt expense	(121,748)	(82,406)
Total operating revenues	5,010,519	4,905,222
Operating expenses:		
Depreciation and amortization	1,833,194	1,666,214
Flight operations	1,355,435	1,611,251
Maintenance	1,094,264	900,347
General and administrative	577,581	774,671
Aircraft and traffic servicing	408,509	448,136
Promotion and sales	246,123	221,066
Total operating expenses	5,515,106	5,621,685
Operating loss	(504,587)	(716,463)
Nonoperating revenues (expenses):		
RepMar subsidy	843,200	942,400
Forgiveness of debt	273,515	-
Interest expense	-	(20,014)
Total nonoperating revenues (expenses), net	1,116,715	922,386
Change in net position	612,128	205,923
Net position at beginning of year, as previously reported	6,633,393	6,574,335
Cumulative effect of accounting change (Note 9)	-	(146,865)
Net position at beginning of year, as restated	6,633,393	6,427,470
Net position at end of year	\$ 7,245,521	\$ 6,633,393

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, 2020 and 2019

	<u>2020</u>	<u>2019</u> (As Restated)
Cash flows from operating activities:		
Cash received from customers	\$ 5,091,869	\$ 4,814,225
Cash payments to suppliers for goods and services	(1,636,135)	(2,131,400)
Cash payments to employees for services	(1,913,406)	(1,896,314)
Net cash provided by operating activities	<u>1,542,328</u>	<u>786,511</u>
Cash flows from noncapital financing activities:		
Operating subsidy received from RepMar	<u>843,200</u>	<u>942,400</u>
Cash flows from capital and related financing activities:		
Acquisition of property and equipment	(1,448,083)	(2,922,662)
Principal repayments of long-term debt	(56,701)	(213,700)
Interest paid on long-term debt	-	(20,014)
Net cash used for capital and related financing activities	<u>(1,504,784)</u>	<u>(3,156,376)</u>
Net change in cash	880,744	(1,427,465)
Cash at beginning of year	<u>164,179</u>	<u>1,591,644</u>
Cash at end of year	<u>\$ 1,044,923</u>	<u>\$ 164,179</u>
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	\$ (504,587)	\$ (716,463)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation and amortization	1,833,194	1,666,214
Bad debt expense	121,748	82,406
(Increase) decrease in assets:		
Receivables:		
Trade	58,398	(92,060)
Employees	13,819	18,831
Affiliates	(112,030)	(55,389)
Other	-	(80,606)
Expendable parts	(39,500)	(230,398)
Prepaid expenses and deposits	7,511	97,047
Increase (decrease) in liabilities:		
Accounts payable	139,421	69,470
Social security taxes payable	5,715	(1,117)
Withholding taxes payable	(8,074)	28,057
Air traffic liability	(585)	(44,785)
Accrued expenses	(13,900)	29,282
Payable to affiliates	41,198	16,022
Net cash provided by operating activities	<u>\$ 1,542,328</u>	<u>\$ 786,511</u>
Summary disclosure of noncash activities:		
Forgiveness of debt by MIDB:		
Forgiveness of debt	\$ 273,515	\$ -
Long-term debt	(273,515)	-
	<u>\$ -</u>	<u>\$ -</u>

See accompanying notes to financial statements.

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

Notes to Financial Statements
September 30, 2020 and 2019

(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, 2020 and 2019.
- 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 AMI's policy to use unrestricted resources first, then restricted resources as they are needed.

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, 2020 and 2019

(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, 2020 and 2019, the carrying amounts of cash were \$1,044,923 and \$164,179, respectively, and the corresponding bank balances were \$1,079,644 and \$223,521, respectively. As of September 30, 2020 and 2019, bank balances in the amount of \$1,045,418 and \$218,153, respectively, are maintained in a financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance whereas bank deposits of \$34,226 and \$5,368, respectively, are maintained in financial institutions not subject to depository insurance. As of September 30, 2020 and 2019, bank deposits in the amount of \$250,000 and \$218,153, 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 rotatable repairs up to \$15,000 are charged to operations as they are incurred. Rotatable repairs that exceeds \$15,000 are recorded as expendable parts or capital assets. 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, 2020 and 2019

(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, 2020 and 2019, the accumulated vacation leave liability amounted to \$59,691 and \$85,123, 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, 2020 and 2019

(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, 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, 91, 92 and 93 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. In accordance with GASB Statement No. 95, management has elected to postpone implementation of these statements.

In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*. This Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The requirements of this Statement will enhance consistency and comparability by (1) establishing specific criteria for identifying activities that should be reported as fiduciary activities and (2) clarifying whether and how business-type activities should report their fiduciary activities. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 84 will be effective for fiscal year ending September 30, 2021.

In June 2017, GASB issued Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and as inflows of resources or outflows of resources recognized based on the payment provisions of the contract. Management believes that this statement, upon implementation, will have a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 87 will be effective for fiscal year ending September 30, 2022.

In June 2018, GASB issued Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 89 will be effective for fiscal year ending September 30, 2022.

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

Notes to Financial Statements
September 30, 2020 and 2019

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In March 2018, GASB issued Statement No. 90, *Majority Equity Interests - An Amendment of GASB Statements No. 14 and 61*. The primary objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 90 will be effective for fiscal year ending September 30, 2021.

In May 2019, GASB issued Statement No. 91, *Conduit Debt Obligations*. The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying 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. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 91 will be effective for fiscal year ending September 30, 2023.

In January 2020, GASB issued statement No. 92, *Omnibus 2020*. The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics and includes specific provisions about the effective date of Statement No. 87, *Leases*, and Implementation Guide No. 2019-3, *Leases*, for interim financial reports, the terminology used to refer to derivative instruments and the applicability of certain requirements of Statement No. 84, *Fiduciary Activities*, to postemployment benefits. The requirements related to the effective date of GASB Statement No. 87 and Implementation Guide 2019-3, reissuance recoveries and terminology used to refer to derivative instruments are effective upon issuance. In accordance with GASB Statement No. 95, the remaining requirements of GASB Statement No. 92 is effective for the fiscal year ending September 30, 2022.

In March 2020, GASB issued Statement No. 93, *Replacement of Interbank Offered Rates*. The primary objective of this statement is to address those and other accounting and financial reporting implications of the replacement of an IBOR. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. Except for paragraphs 11b, 13, and 14, GASB Statement No. 93 will be effective for fiscal year ending September 30, 2021. The requirement in paragraphs 11b, 13, and 14 are effective for fiscal year September 30, 2022.

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

Notes to Financial Statements
September 30, 2020 and 2019

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In March 2020, GASB issued Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. The primary objective of this statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements. This statement also provides guidance for accounting and financial reporting for availability payment arrangements. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. GASB Statement No. 94 will be effective for fiscal year ending September 30, 2023.

In May 2020, GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements*. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset - an intangible asset - and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. GASB Statement No. 96 will be effective for fiscal year ending September 30, 2023.

In June 2020, GASB issued Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans - an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32*. The primary objectives of this Statement are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans. GASB Statement No. 97 will be effective for fiscal year ending September 30, 2022.

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.

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

Notes to Financial Statements
September 30, 2020 and 2019

(3) Property and Equipment

Capital asset activities for the years ended September 30, 2020 and 2019 were as follows:

	October 1, <u>2019</u>	<u>Additions</u>	<u>Transfers</u>	September 30, <u>2020</u>
Aircraft and improvements	\$ 20,675,866	\$ 311,453	\$ -	\$ 20,987,319
Rotable spare parts	7,849,925	823,117	(30,238)	8,642,804
Plant and equipment	902,441	380,502	-	1,282,943
Office furniture and equipment	807,872	29,737	-	837,609
Motor vehicles	326,740	-	-	326,740
Computer software	79,998	-	-	79,998
Building improvements	<u>17,880</u>	<u>467</u>	-	<u>18,347</u>
	30,660,722	1,545,276	(30,238)	32,175,760
Less accumulated depreciation and amortization	<u>(20,576,540)</u>	<u>(1,833,194)</u>	<u>30,238</u>	<u>(22,379,496)</u>
	\$ <u>10,084,182</u>	\$ <u>(287,918)</u>	\$ <u>-</u>	\$ <u>9,796,264</u>
	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	7,396,409	453,516	-	7,849,925
Plant and equipment	865,807	36,634	-	902,441
Office furniture and equipment	782,501	25,371	-	807,872
Motor vehicles	321,568	62,849	(57,677)	326,740
Computer software	79,998	-	-	79,998
Building improvements	<u>17,880</u>	<u>-</u>	<u>-</u>	<u>17,880</u>
	27,276,675	3,441,724	(57,677)	30,660,722
Less accumulated depreciation and amortization	<u>(18,968,002)</u>	<u>(1,666,215)</u>	<u>57,677</u>	<u>(20,576,540)</u>
	\$ <u>8,308,673</u>	\$ <u>1,775,509</u>	\$ <u>-</u>	\$ <u>10,084,182</u>

(4) Long-Term Debt

A schedule of AMI's long-term debt as of September 30, 2020 and 2019, is as follows:

	<u>2020</u>	<u>2019</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
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>-</u>	<u>300,792</u>
	\$ <u>-</u>	\$ <u>330,216</u>

At September 30, 2019, the total principal balance of AMI's long-term debt is classified as current liabilities within the accompanying financial statements as AMI is in default of its loan payments due to RMIPA and MIDB. During the year ended September 30, 2020, AMI recognized \$273,515 in forgiveness of debt associated with the MIDB loan and paid in full both the RMIPA and MIDB loans.

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

Notes to Financial Statements
September 30, 2020 and 2019

(4) Long-Term Debt, Continued

A summary of changes in long-term debt for the years ended September 30, 2020 and 2019, were as follows:

	2020				
	Balance October 1, <u>2019</u>	<u>Additions</u>	<u>Reductions</u>	Balance September 30, 2020	Due Within <u>One Year</u>
Notes payable:					
RMIPA	\$ 29,424	\$ -	\$ (29,424)	\$ -	\$ -
MIDB	<u>300,792</u>	<u>-</u>	<u>(300,792)</u>	<u>-</u>	<u>-</u>
	<u>\$ 330,216</u>	<u>\$ -</u>	<u>\$ (330,216)</u>	<u>\$ -</u>	<u>\$ -</u>
	2019				
	Balance October 1, <u>2018</u>	<u>Additions</u>	<u>Reductions</u>	Balance September 30, 2019	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>

(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, 2020 and 2019, AMI received cash operating subsidies from RepMar of \$843,200 and \$942,400, respectively.

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

Notes to Financial Statements
September 30, 2020 and 2019

(6) Related Party Transactions, Continued

A summary of related party transactions as and for the years ended September 30, 2020 and 2019, is as follows:

	<u>2020</u>			
	<u>Receivables</u>	<u>Revenues</u>	<u>Payables</u>	<u>Expenses</u>
RepMar	\$ 269,509	\$ 1,509,812	\$ 20,049	\$ 55,527
RMIPA	-	122	680,486	50,329
Marshall Islands National Telecommunications Authority	1,615	11,287	3,774	50,622
Marshalls Energy Company, Inc.	507	4,740	3,052	33,976
Other	<u>25,070</u>	<u>57,797</u>	<u>756</u>	<u>2,817</u>
	296,701	<u>\$ 1,583,758</u>	<u>\$ 708,117</u>	<u>\$ 193,271</u>
Less allowance for doubtful receivables	<u>(49,157)</u>			
	<u>\$ 247,544</u>			
	 <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
Marshalls 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>			

A summary of advances from RepMar as of September 30, 2020 and 2019, is as follows:

	<u>2020</u>	<u>2019</u>
Advances in accordance with Cabinet Minute C.M. 150 (2002), no interest and due in May 2008.	\$ 2,000,000	\$ 2,000,000
Transfer of note payable to a bank for payable to an affiliate as a result of the bank seizing TCD collateral belonging to MIDB, terms and interest rate are currently under negotiation.	988,574	988,574
Funding assistance in accordance with Cabinet Minute C.M. 118 (2007), no interest, on a reimbursable basis.	<u>128,316</u>	<u>128,316</u>
	<u>\$ 3,116,890</u>	<u>\$ 3,116,890</u>

AIR MARSHALL ISLANDS, INC.
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Notes to Financial Statements
September 30, 2020 and 2019

(6) Related Party Transactions, Continued

AMI does not expect that RepMar will pursue collection of the above advances prior to September 30, 2021. Accordingly, such have been presented as long-term liabilities within the accompanying financial statements.

At September 30, 2020 and 2019, AMI is liable for \$560,162 and \$568,236, respectively, of payroll taxes, excluding related penalties and interest. Management plans to enter into an agreement with RepMar to reconcile reciprocal accounts receivable and liability balances, and offset such balances in lieu of cash payments.

(7) Commitments and Contingencies

Commitments

On May 15, 2000, AMI cancelled a purchase agreement to acquire two Dornier 328 aircraft at a total cost of \$28,045,780. AMI made pre-delivery payments totaling \$2,100,000. In October 2000, AMI sued the aircraft manufacturer for repayment of the pre-delivery payments and for other claims. On August 17, 2001, a court awarded damages in favor of AMI in the amount of \$4,065,000, plus pre-judgment interest in the amount of \$115,411. On April 2, 2002, the aircraft manufacturer filed for bankruptcy protection. The ultimate outcome of collection of this judgment is uncertain. As of September 30, 2020 and 2019, 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, 2020 and 2019, AMI incurred losses from operations of \$504,587 and \$716,463, respectively. For the years ended September 30, 2020 and 2019, AMI received cash operating subsidies of \$843,200 and \$942,400, 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, 2020, AMI has an outstanding liability to RMIPA of \$680,486, which is under dispute and is anticipated by management to be settled in favor of AMI. At September 30, 2020, 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.

AIR MARSHALL ISLANDS, INC.
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Notes to Financial Statements
September 30, 2020 and 2019

(8) COVID-19 Pandemic

On March 11, 2020, the World Health Organization declared the novel strain of coronavirus (COVID-19) a global pandemic and recommended the containment and mitigation measures worldwide. On October 28, 2020, one confirmed case was identified in the Marshall Islands that was subsequently isolated and contained. On November 17, 2020, an additional three cases were identified and which were isolated and contained. As of September 10, 2021, no community transmission has been identified. AMI has determined that should community transmission occur within the Marshall Islands, it may negatively impact AMI's business, results of operations, and financial position and AMI 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 component units may be limited. Therefore, while AMI 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.

(9) Restatement

Subsequent to the issuance of AMI's 2019 financial statements, AMI's management elected to change its method of accounting for aircraft maintenance and rotatable repairs. As a result of this election, the cumulative effect of accounting change resulted in a \$146,865 reduction in beginning 2019 net position and a restatement of capital assets and related depreciation and maintenance expense from the amounts previously reported as follows:

	<u>As Previously Reported</u>	<u>Adjustment</u>	<u>As Restated</u>
At September 30, 2019:			
Noncurrent assets:			
Capital assets, net	\$ <u>10,272,984</u>	\$ <u>(188,802)</u>	\$ <u>10,084,182</u>
Net Position:			
Net investment in capital assets	\$ <u>9,972,192</u>	\$ <u>(188,802)</u>	\$ <u>9,783,390</u>
Total net position	\$ <u>6,822,195</u>	\$ <u>(188,802)</u>	\$ <u>6,633,393</u>
Year ended September 30, 2019:			
Operating expenses:			
Depreciation and amortization	\$ <u>1,697,861</u>	\$ <u>(31,647)</u>	\$ <u>1,666,214</u>
Maintenance	\$ <u>826,763</u>	\$ <u>73,584</u>	\$ <u>900,347</u>
Operating loss	\$ <u>(674,526)</u>	\$ <u>(41,937)</u>	\$ <u>(716,463)</u>
Change in net position	\$ <u>247,860</u>	\$ <u>(41,937)</u>	\$ <u>205,923</u>
Net position:			
Beginning of year	\$ <u>6,574,335</u>	\$ <u>(146,865)</u>	\$ <u>6,427,470</u>
End of year	\$ <u>6,822,195</u>	\$ <u>(188,802)</u>	\$ <u>6,633,393</u>

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, 2020, 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 September 10, 2021.

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) as a basis for designing 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 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

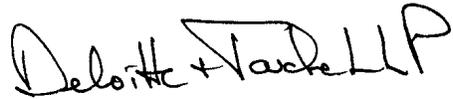
As part of obtaining reasonable assurance about whether AMI's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. 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 2020-001.

AMI's Responses to Findings

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

Purpose of this Report

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

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

September 10, 2021

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

Schedule of Findings and Responses
Year Ended September 30, 2020

Finding No. 2020-001

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 \$560,162 at September 30, 2020, 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 audits of AMI for fiscal years 2014 through 2019.

Auditee Response and Corrective Action Plan: Management agrees with the finding and recommendation; however, the non-compliance was not due to a lack of policies and procedures but is 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, 2020

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