

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

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITOR'S REPORT

YEARS ENDED SEPTEMBER 30, 2021 AND 2020
(AS RESTATED)

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

Years Ended September 30, 2021 and 2020
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INDEPENDENT AUDITOR'S 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, 2021 and 2020, 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.

Auditor's 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, 2021 and 2020, 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.

Restatement

As discussed in Note 9 to the financial statements, the 2020 financial statements have been restated for the correction of an error.

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 6, 2022, 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 6, 2022

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

Management's Discussion and Analysis
Years Ended September 30, 2021 and 2020

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 25 Outer Island communities scattered over almost 700,000 square miles of the Pacific Ocean. The airline fulfills an essential role in the transportation infrastructure for the Nation. AMI currently operates a fleet of two Dornier 228 aircraft and a Dash 8 aircraft with a workforce of 75 employees and 25 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 state subsidy;
- 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 2021

- In FY21, the number of passengers increased to 23,090 from 17,044 when compared to FY20 due to dengue fever travel restriction to outer islands in the first quarter of FY20, which subsequently led to increase in revenue by 38% in FY21.
- The passenger load percentage increased from 52.5% in FY20 to 60.2% in FY21, which translates to a more efficient utilization of seat capacity on each flight.
- Fuel surcharge revenue increased by 36% in line with increase in passenger numbers compared to FY20.
- Total number of flights flown in FY21 increased to 2,262 compared to FY20, which was 1,930 translating to an increase of 17%.
- AMI was able to successfully charter a Fiji Airways aircraft to bring in 2 new pilots and 2 student pilots after being stranded in Fiji due to border closure as a result of Covid 19 pandemic, which meant that AMI has a full set of crew.
- A key maintenance requirement known as the Non-Destructive Test (NDT) was carried out in FY21 by sourcing engineers from Papua New Guinea on 2 charter flights. After the 2 NDT checks, both the Dornier and Dash 8 aircraft were able to fly, otherwise, the planes would have been grounded.

AIR MARSHALL ISLANDS, INC
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Management's Discussion and Analysis
Years Ended September 30, 2021 and 2020

OVERVIEW

Presented herewith is AMI's annual discussion and analysis (MD&A) of the Company's financial performance for the financial year ended 30th September 2021, 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, 2021, AMI operations resulted in a net surplus of \$33k. The change was primarily due to the RepMar subsidy of \$901k. The total funding was used to finance capital expenses (investment and repairs/overhauls of aircraft parts) and Community Service Obligations.

Operating loss increased from \$505k in 2020 to \$868k in 2021. This was the result of the increase in maintenance expenses (44%), flight operations expenses (27%), general and administrative expenses (34%), and aircraft and traffic servicing expenses (13%). 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 increased from \$5.52m in 2020 to \$6.7m in 2021.

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

Net surplus caused the total assets to exceed total liabilities by \$7.4m in 2021.

COVID -19 OUTBREAK

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 97% compared to last financial year. If the Covid-19 pandemic had not occurred, AMI's ground handling revenue would have been \$312,000; however, the actual revenue earned from Nauru Airline was \$6,000 only.

Moreover, due to the closure of the Marshall Islands border and the restriction on regular passenger flights to Majuro, AMI had to charter aircraft on 3 occasions at a total cost of \$268,445 for the following:

<u>Vendor</u>	<u>Particulars</u>	<u>Amount</u>
Air Niugini	Charter, labor and inspection cost incurred for bringing NDT Inspectors from PNG for the Dash 8 Aircraft	\$ 73,100
Air Niugini	Charter, labor and inspection cost for bringing NDT Inspectors from PNG for the Dornier 1512 aircraft	\$ 98,345
Fiji Airways	Fiji Airways for repatriation flight to bring essential workers from Nadi including AMI pilots and student pilots, MOH nurses, CMI and USP educators	\$ 97,000
Total		\$ 268,445

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Management's Discussion and Analysis
Years Ended September 30, 2021 and 2020

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 as of September 30, 2021 compared with 2020 and 2019 is presented below:

Summary Statements of Net Position
As of September 30

	2021	2020 (As Restated)	\$ Change 2021-2020	% Change 2021-2020	2019
Assets:					
Current and other assets	\$ 3,290,396	\$ 2,622,817	\$ 667,579	25.5%	\$ 1,718,212
Capital assets	9,310,322	9,796,264	(485,942)	(5.0)%	10,084,182
Total assets	<u>12,600,718</u>	<u>12,419,081</u>	<u>181,637</u>	1.5%	<u>11,802,394</u>
Liabilities:					
Current and other liabilities	5,150,889	5,002,560	148,329	3.0%	4,838,785
Long-term debt	-	-	-		330,216
Total liabilities	<u>5,150,889</u>	<u>5,002,560</u>	<u>148,329</u>	3.0%	<u>5,169,001</u>
Net position:					
Net investment in capital assets	9,310,322	9,796,264	(485,942)	(5.0)%	9,783,390
Unrestricted	(1,860,493)	(2,379,743)	519,250	(21.8)%	(3,149,997)
Total net position	<u>\$ 7,449,829</u>	<u>\$ 7,416,521</u>	<u>\$ 33,308</u>	0.4%	<u>\$ 6,633,393</u>

The trend in total net position indicates that AMI 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.

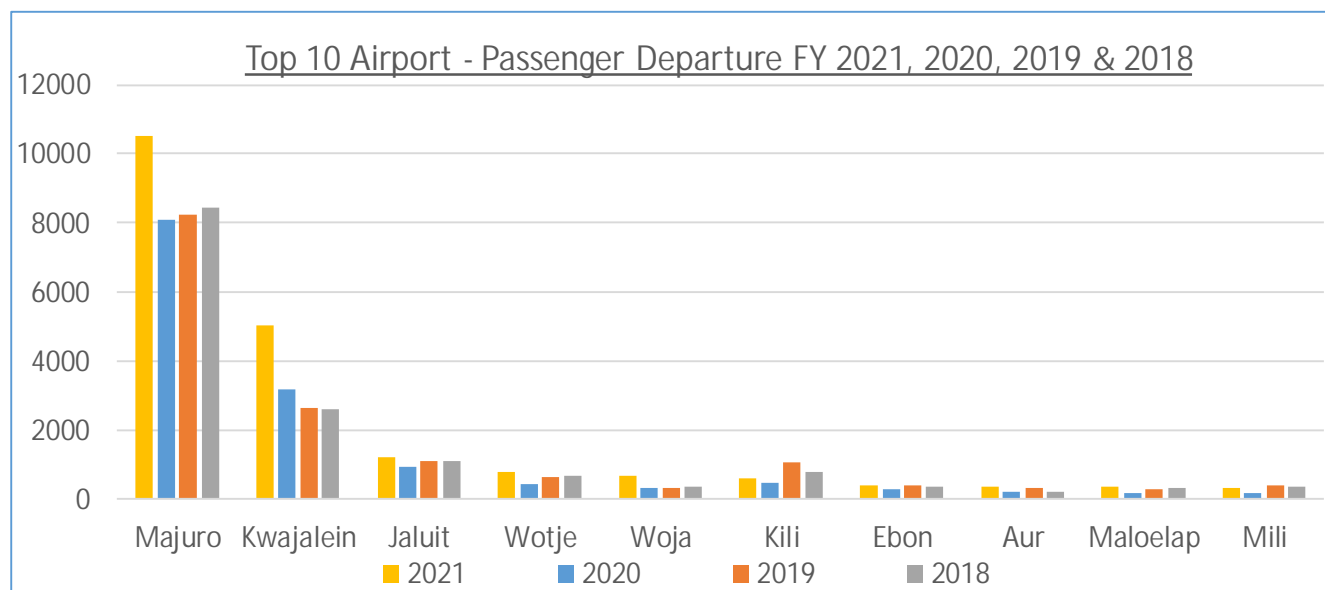
Total assets have increased by \$182k or 1.5% from FY20 to FY21. This is the result of an increase in current and other assets of \$668k or 25.5% from FY20 to FY21 primarily due to the increase in cash balances offset by a decrease in capital assets of \$486k or 5%. Total liabilities have increased by \$148k or 3% from FY20 to FY21. This is the result of an increase in current and other liabilities primarily due to the increase in payables to affiliates.

As discussed in Note 9 to the financial statements, AMI's management determined that receivables from affiliates and related subsidy revenues were understated by \$171k resulting in the restatement of the FY20 financial statements.

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Management's Discussion and Analysis
Years Ended September 30, 2021 and 2020

The trend in passenger numbers from 2018 to 2021, indicates an improvement in delivery of essential public services to the Marshallese people and communities residing in the Outer Islands.



A summary of AMI's Statements of Revenues, Expenses and Changes in Net Position for the year ended September 30, 2021 compared with 2020 and 2019 is presented below:

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

	2021	2020 (As Restated)	\$ Change 2021-2020	% Change 2021-2020	2019
Operating:					
Operating revenues	\$ 5,834,993	\$ 5,010,519	\$ 824,474	16.5%	\$ 4,905,222
Operating expenses	6,703,125	5,515,106	1,188,019	21.5%	5,621,685
Operating loss	(868,132)	(504,587)	(363,545)	72.0%	(716,463)
Nonoperating:					
Nonoperating revenues	901,440	1,287,715	(386,275)	(30.0)%	942,400
Nonoperating expenses	-	-	-		20,014
	901,440	1,287,715	(386,275)	(30.0)%	922,386
Change in net position	\$ 33,308	\$ 783,128	\$ (749,820)	(95.7)%	\$ 205,923

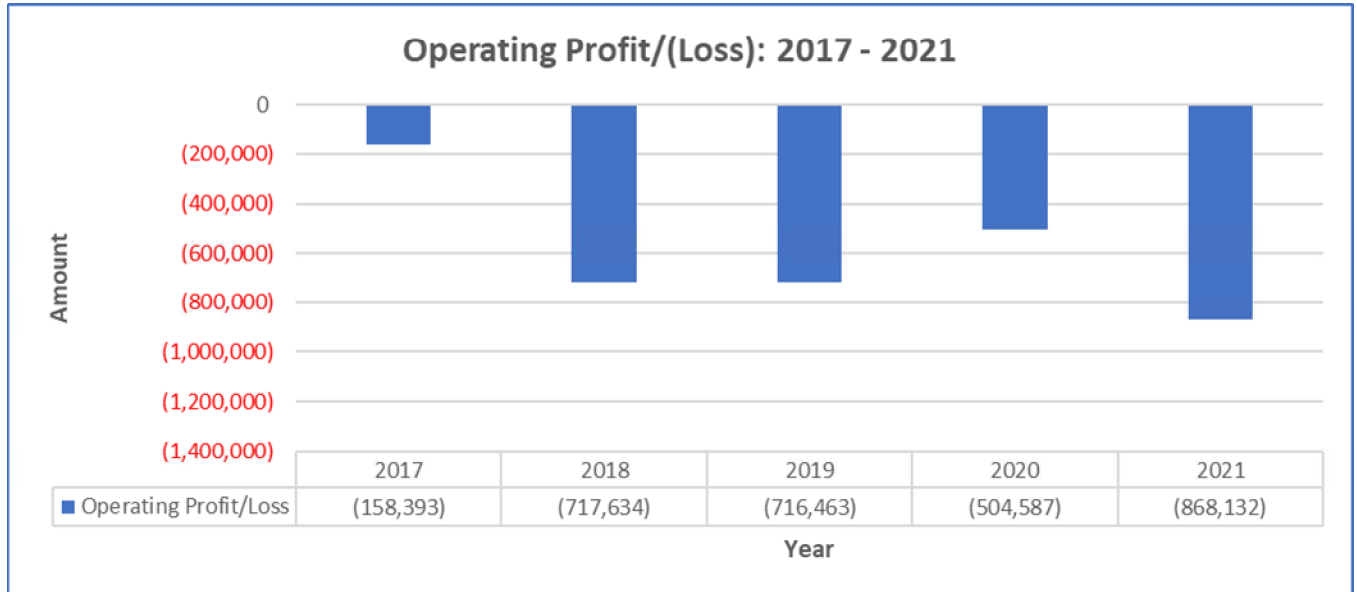
Total operating revenues have increased by \$824k or 16.5% from FY20 to FY21. This is the result of an increase in passenger revenues of \$932k or 36.7% offset by a decrease in charter revenues of \$182k or 15.1%. Total operating expenses have increased by \$1.2m or 21.5% from FY20 to FY21. This is the result of an increase in flight operations and maintenance expenses of \$363k or 26.8% and \$481k or 43.9%.

Management's Discussion and Analysis for the year ended September 30, 2020 is set forth in AMI's report on the audit of financial statements, which is dated September 10, 2021. That Management Discussion and Analysis explains the major factors impacting the 2020 financial statements.

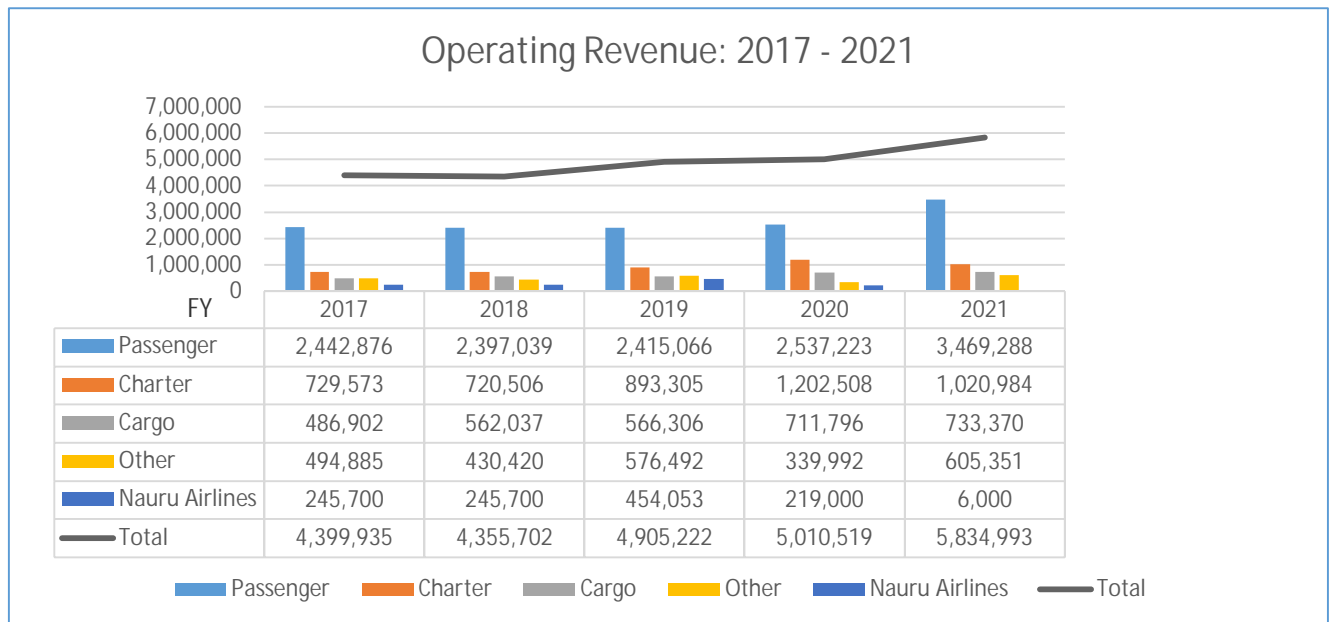
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Management's Discussion and Analysis
Years Ended September 30, 2021 and 2020

The below graph shows the operating loss of AMI from 2017 through to 2021.



The graph below shows the main components of AMI's operating revenues from 2017 through to 2021.

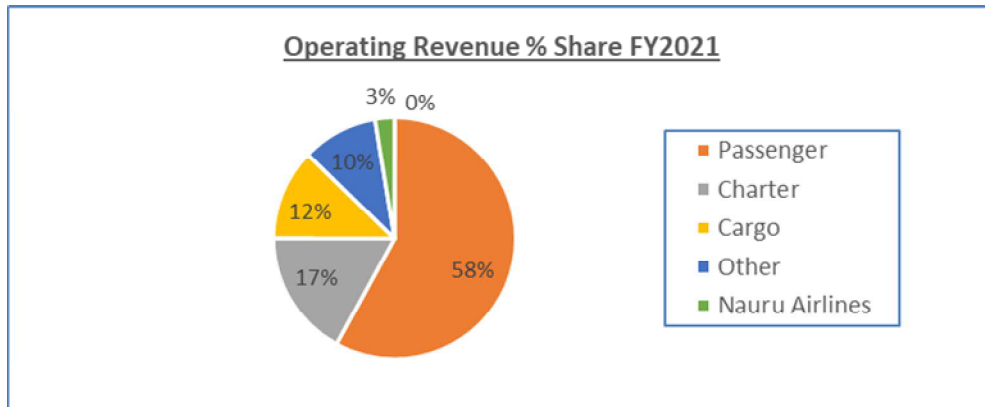


AMI's total operating revenues as indicated above have generally been on an upward trend, with revenues from passengers, or from selling of air-tickets, as the largest source. It continued to rise since 2017 due to increase in passenger travel.

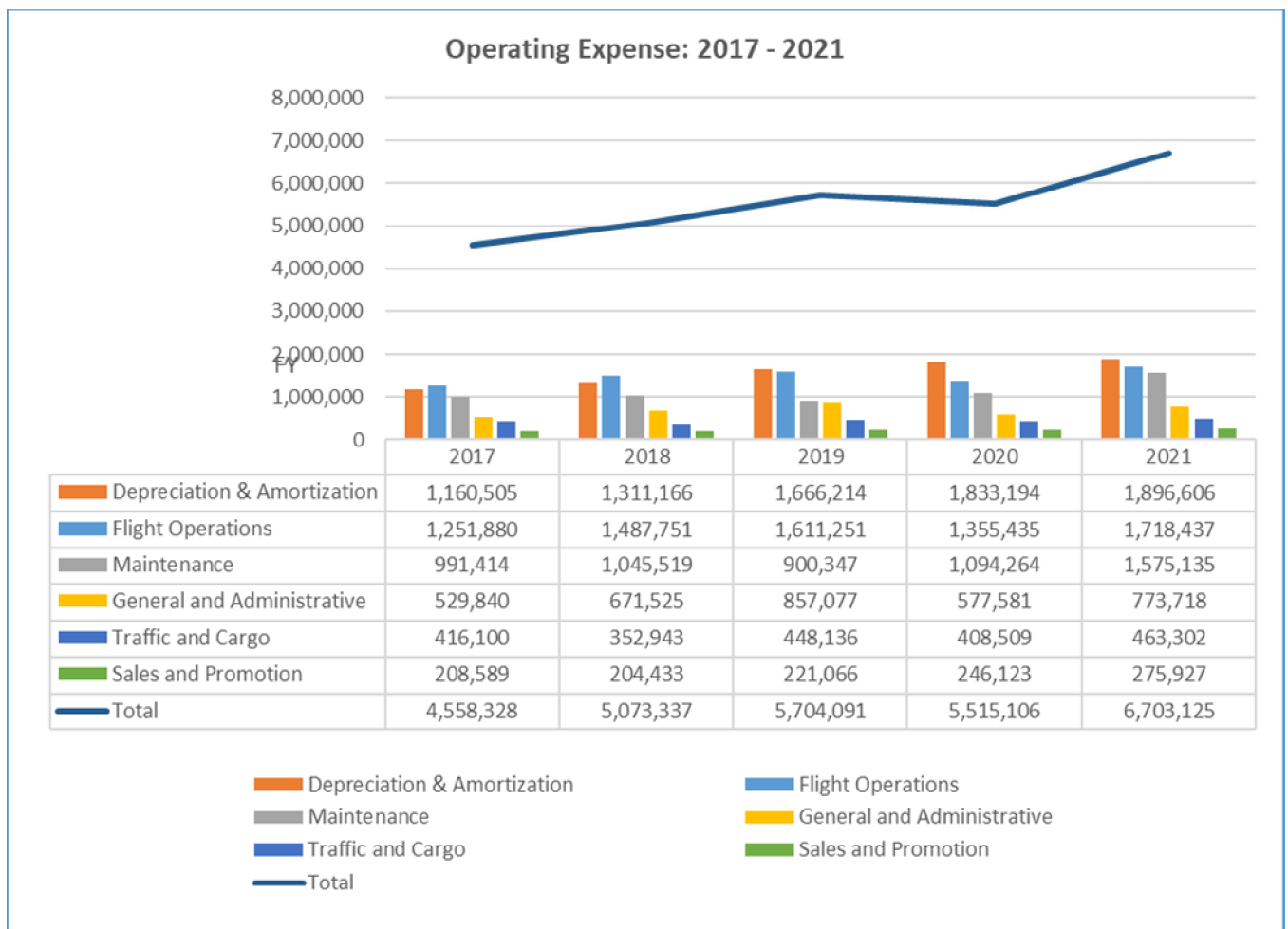
Charter revenue is the second largest revenue source and it decreased in 2021 by 15% when compared to 2020. However, it is made up mostly of vaccination charters by MOHHS for the COVID-19 preparedness in the outer islands . Cargo revenues increased by 3% in line with increase in passenger numbers.

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Management's Discussion and Analysis
Years Ended September 30, 2021 and 2020



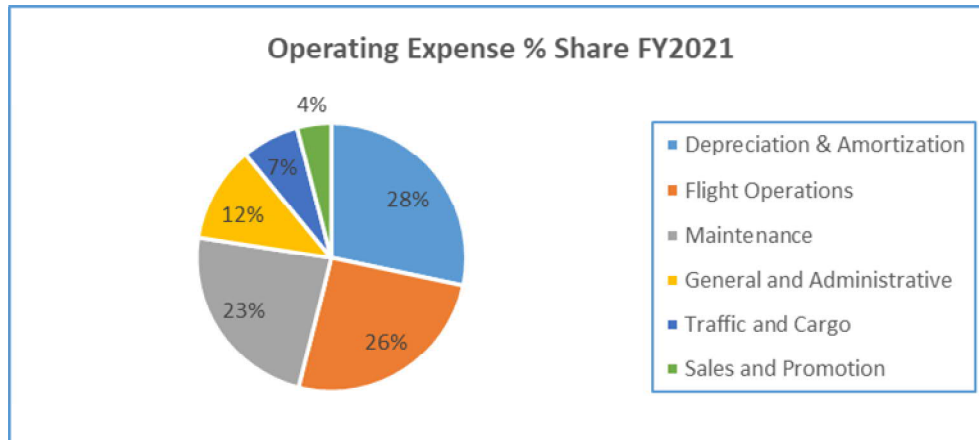
The above pie chart shows the distribution of each operating revenue source as a percentage of total operating revenues in which passenger revenue is at 58%, charter at 17%, cargo/freight at 12%, others at 10%, and Nauru Airlines (ground handling) at 3%.



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Management's Discussion and Analysis
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The above diagram shows AMI's individual operating expenses with depreciation and amortization being the largest expense followed by flight operations, maintenance, general and administration, traffic and cargo and sales and promotion during the 2021 period.



The above pie chart shows the composition AMI's total operating expenses in 2021, indicating depreciation and amortization with the largest share of 28%, followed by flight operation of 26%, maintenance of 23%, general administration of 12%, traffic and cargo servicing of 7%; and sales & promotion of 4%.

Depreciation expense represents the largest share of operating expenses because of the capitalization of the major procurements during the year such as the Dash 8 landing gear at a cost of \$627k in FY21 and purchase and installation of a Dornier engine on May 2020 costing \$197k. Flight operations represents the second largest share of operating expenses because of fuel which is a major cost for an airline company which represents 40% of the total cost of Flight Operations department.

The RMI government provided a subsidy allocation of \$751,440 to AMI which was used for capital expenses (investment and repairs/overhauls of parts and engines). In addition, the government provided COVID-19 Relief Assistance of \$150,000 for the loss in revenue from Ground Handling Services from Nauru Airlines in FY21.

Both the Dornier and the Dash 8 aircraft have not been making enough revenues due to low utilization resulting from lack of MEL (minimum equipment list) and from the impact of bad outer island airport runways. This continues to cause breakdown of the aircraft, thus, preventing them from generating the income they need to support the operations.

RESTATEMENT OF COMPARATIVE

The COVID-19 Relief Assistance of \$171,000 was received in FY21 based on an approval letter from the RMI Pandemic Economic Relief Program Committee dated October 26, 2020. Likewise, in the FY20 audit confirmation from the RMI Government, it was noted that there was no payable to AMI. However, subsequent to AMI's final audit report being completed and published, the RMI Government's audit commenced, at which time an accrual was recorded by the RMI Government upon final reconciliation. Accordingly, AMI has restated its FY20 comparative financial statements.

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CAPITAL ASSET AND DEBT

Net capital assets decreased by \$486k or 5% from \$9,796,264 in 2020 to \$9,310,322 in 2021. The decrease is due primarily to the acquisition of capital assets of \$1,385,758, net of an increase in accumulated depreciation of \$1,871,700. A summary of AMI's capital assets as of September 30, 2021 compared with 2020 and 2019 is presented below:

Summary Schedule of Capital Assets
As of September 30

	2021	2020	\$ Change 2021-2020	% Change 2021-2020	2019
Aircraft and improvements	\$ 21,187,806	\$ 20,987,319	\$ 200,487	1.0%	\$ 20,675,866
Rotable spare parts	9,776,370	8,642,804	1,133,566	13.1%	7,849,925
Plant and equipment	1,336,327	1,282,943	53,384	4.2%	902,441
Office furniture and equipment	852,719	837,609	15,110	1.8%	807,872
Motor vehicles	309,748	326,740	(16,992)	(5.2)%	326,740
Computer software	80,498	79,998	500	0.6%	79,998
Building improvements	18,050	18,347	(297)	(1.6)%	17,880
	<u>33,561,518</u>	<u>32,175,760</u>	<u>1,385,758</u>	<u>4.3%</u>	<u>30,660,722</u>
Accumulated depreciation	<u>(24,251,196)</u>	<u>(22,379,496)</u>	<u>(1,871,700)</u>	<u>8.4%</u>	<u>(20,576,540)</u>
	<u>\$ 9,310,322</u>	<u>\$ 9,796,264</u>	<u>\$ (485,942)</u>	<u>(5.0)%</u>	<u>\$ 10,084,182</u>

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

AMI incurred substantial long-term debt when AMI obtained a \$2.5m 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. No other long-term debt was recorded in 2021.

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

CASH FLOW

AMI received \$6,091,773 and \$5,091,869 from customers in 2021 and 2020, respectively.

During the year ended September 30, 2021, AMI paid its vendors \$2,945,130 for goods and services and payroll of \$1,925,969 for employees. AMI noted a cash surplus from operations of \$1,220,674 in 2021, a decrease from \$1,542,328 in 2020. Additionally, the operating subsidies from the government in 2021 assisted in operations continuing "business as usual".

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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 continues to be exposed to external shocks, economic calamities, and risks, such as the 2008 and 2009 global energy crisis that sent ripple effects throughout the world economy as cost of fuel and everything else skyrocketed to new unprecedented heights, and had immediate adverse impact on the local economy.

Prior to the energy crisis, cost of jet fuel used to be around \$2 a gallon, but today it is near \$3.50 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 \$0.87m and \$0.5m in 2021 and 2020, respectively, the annual subsidies and contributions from the central government have been essential in sustaining the airline's services. Continued Government contributions to the Company is important in the short to medium terms until the Republic's economic condition improves through increased tourism and other economic growth activities. Furthermore, serious action is needed regarding the aging Dornier 228 and Dash 8 aircraft, improvement of airport runways, adequate spare parts provisioning and reduction of AOG.

ROLE OF BOARD AND MANAGEMNET

AMI management and board can only do so much in terms of streamlining operations and reining in costs and improving performance. 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 damages to aircraft;
2. Insufficient spare parts for aircraft; and
3. Sourcing parts for the Dornier 228 which are available only from the manufacturer.

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 2022- 2024 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 has been altered to 3 Rs (three goals) as AMI relies on RMI subsidy funding, the 3 Rs must be implemented and these goals are:

- Goal 1: "Repair" of outer island airstrips;
- Goal 2: "Reverse" our loss making; and
- Goal 3: "Renew" our operation.

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We strongly believe that implementation of these three goals through adequate support of the Cabinet and the Board would enable AMI, in spite of all the 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 are work in progress and will be achieved.

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

KEY ACHIEVEMENTS SUBSEQUENT TO FY2021

- 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 of 30th September 2021, 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, 2021 and 2020

	<u>2021</u>	<u>2020</u> (As Restated)
<u>ASSETS</u>		
Current assets:		
Cash	\$ 1,619,605	\$ 1,044,923
Receivables:		
Trade	222,777	150,307
Employees	21,718	30,553
Affiliates	396,781	467,701
Other	-	118,461
	<u>641,276</u>	<u>767,022</u>
Less allowance for doubtful receivables	<u>(208,382)</u>	<u>(316,134)</u>
Receivables, net	<u>432,894</u>	<u>450,888</u>
Expendable parts (net of allowance for obsolescence of \$198,909 at September 30, 2021 and 2020)	983,502	866,625
Prepaid expenses and deposits	<u>88,755</u>	<u>81,509</u>
Total current assets	<u>3,124,756</u>	<u>2,443,945</u>
Capital assets, net of accumulated depreciation and amortization	9,310,322	9,796,264
Long-term deposits	<u>165,640</u>	<u>178,872</u>
Total noncurrent assets	<u>9,475,962</u>	<u>9,975,136</u>
	<u>\$ 12,600,718</u>	<u>\$ 12,419,081</u>
<u>LIABILITIES AND NET POSITION</u>		
Current liabilities:		
Accounts payable	\$ 286,426	\$ 311,600
Social security taxes payable	103,728	80,266
Withholding taxes payable	571,072	560,162
Air traffic liability	190,238	101,452
Accrued expenses	93,967	124,073
Payable to affiliates	<u>788,568</u>	<u>708,117</u>
Total current liabilities	2,033,999	1,885,670
Noncurrent liabilities:		
Advances from RepMar	<u>3,116,890</u>	<u>3,116,890</u>
Total liabilities	<u>5,150,889</u>	<u>5,002,560</u>
Commitments and contingencies		
Net position:		
Net investment in capital assets	9,310,322	9,796,264
Unrestricted	<u>(1,860,493)</u>	<u>(2,379,743)</u>
Total net position	<u>7,449,829</u>	<u>7,416,521</u>
	<u>\$ 12,600,718</u>	<u>\$ 12,419,081</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, 2021 and 2020

	2021	2020 (As Restated)
Operating revenues:		
Passenger	\$ 3,469,288	\$ 2,537,223
Charter	1,020,984	1,202,508
Cargo	733,370	711,796
Fuel surcharge	280,944	207,132
Flight diversion	186,934	156,566
Ground handling	6,000	219,000
Other	148,182	98,042
Bad debt expense	(10,709)	(121,748)
Total operating revenues	5,834,993	5,010,519
Operating expenses:		
Depreciation and amortization	1,896,606	1,833,194
Flight operations	1,718,437	1,355,435
Maintenance	1,575,135	1,094,264
General and administrative	773,718	577,581
Aircraft and traffic servicing	463,302	408,509
Promotion and sales	275,927	246,123
Total operating expenses	6,703,125	5,515,106
Operating loss	(868,132)	(504,587)
Nonoperating revenues:		
RepMar subsidy	901,440	1,014,200
Forgiveness of debt	-	273,515
Total nonoperating revenues	901,440	1,287,715
Change in net position	33,308	783,128
Net position at beginning of year	7,416,521	6,633,393
Net position at end of year	\$ 7,449,829	\$ 7,416,521

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, 2021 and 2020

	2021	2020
Cash flows from operating activities:		
Cash received from customers	\$ 6,091,773	\$ 5,091,869
Cash payments to suppliers for goods and services	(2,945,130)	(1,636,135)
Cash payments to employees for services	(1,925,969)	(1,913,406)
Net cash provided by operating activities	1,220,674	1,542,328
Cash flows from noncapital financing activities:		
Operating subsidy received from RepMar	751,440	843,200
Cash flows from capital and related financing activities:		
Acquisition of property and equipment	(1,397,432)	(1,448,083)
Principal repayments of long-term debt	-	(56,701)
Net cash used for capital and related financing activities	(1,397,432)	(1,504,784)
Net change in cash	574,682	880,744
Cash at beginning of year	1,044,923	164,179
Cash at end of year	\$ 1,619,605	\$ 1,044,923
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	\$ (868,132)	\$ (504,587)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation and amortization	1,896,606	1,833,194
Bad debt expense	10,709	121,748
(Increase) decrease in assets:		
Receivables:		
Trade	(72,470)	58,398
Employees	8,835	13,819
Affiliates	220,920	(112,030)
Expendable parts	(116,877)	(39,500)
Prepaid expenses and deposits	(7,246)	7,511
Increase (decrease) in liabilities:		
Accounts payable	(25,174)	139,421
Social security taxes payable	-	5,715
Withholding taxes payable	10,910	(8,074)
Air traffic liability	88,786	(585)
Accrued expenses	(30,106)	(13,900)
Payable to affiliates	103,913	41,198
Net cash provided by operating activities	\$ 1,220,674	\$ 1,542,328
Summary disclosure of noncash activities:		
Forgiveness of debt by MIDB:		
Forgiveness of debt	\$ -	\$ 273,515
Long-term debt	-	(273,515)
	\$ -	\$ -

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, 2021 and 2020

(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 as of September 30, 2021 and 2020.
- 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, 2021 and 2020

(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, 2021 and 2020, the carrying amounts of cash were \$1,619,605 and \$1,044,923, respectively, and the corresponding bank balances were \$1,686,019 and \$1,079,644, respectively. As of September 30, 2021 and 2020, bank balances in the amount of \$1,554,881 and \$1,045,418, respectively, are maintained in a financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance whereas bank deposits of \$131,138 and \$34,226, respectively, are maintained in financial institutions not subject to depository insurance. As of September 30, 2021 and 2020, bank deposits in the amount of \$250,000, respectively, were FDIC insured. AMI does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized. Accordingly, these deposits are exposed to custodial credit risk.

Receivables

Receivables from providing passenger, charter and cargo services are based on contracted prices, which are both interest free and uncollateralized and are primarily due from government agencies, businesses and individuals located within the Republic of the Marshall Islands. The allowance for doubtful receivables is stated at an amount which management believes will be adequate to absorb possible losses on receivables that may become uncollectible based on evaluations of the collectability of these receivables and prior collection experience. The allowance is established through a provision for losses on receivables charged to expense.

Expendable Parts

Flight equipment expendable parts are carried at the lower of average cost or net realizable value. An allowance for obsolescence is provided for flight equipment expendable parts to allocate the costs of these assets, less estimated residual value, over the useful lives of the related aircraft and engines.

Property and Equipment

Flight equipment and other property with a cost that equals or exceeds \$2,500 are capitalized, as well as major additions, betterments, and renewals. Such assets are stated at cost. Aircraft maintenance and rotatable repairs up to \$15,000 are charged to operations as they are incurred. Rotatable repairs that exceed \$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, 2021 and 2020

(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, 2021 and 2020, the accumulated vacation leave liability amounted to \$84,083 and \$59,691, 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, 2021 and 2020

(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

In 2020, GASB issued Statement No. 95, Postponement of the Effective Dates of Certain Authoritative Guidance, which postponed 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.

During the year ended September 30, 2021, AMI implemented the following pronouncements:

- GASB Statement No. 84, Fiduciary Activities, which improves guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported.
- GASB Statement No. 90, Majority Equity Interests - An Amendment of GASB Statements No. 14 and 61, which improves 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.
- GASB Statement No. 93, Replacement of Interbank Offered Rates, which establishes accounting and reporting requirements related to the replacement of Interbank Offered Rates such as the London Interbank Offered Rate (LIBOR) for hedging derivative instruments. The provision removing LIBOR as an appropriate benchmark interest rate for the evaluation of the effectiveness of derivative instruments is effective for the year ending September 30, 2022.

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

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 the 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, 2021 and 2020

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

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 the fiscal year ending September 30, 2022.

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 the 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 are effective for the fiscal year ending September 30, 2022.

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 the 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 the fiscal year ending September 30, 2023.

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

Notes to Financial Statements
September 30, 2021 and 2020

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

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. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. GASB Statement No. 97 will be effective for the 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.

(3) Capital Assets

Capital asset activities for the years ended September 30, 2021 and 2020 were as follows:

	<u>2021</u>			
	<u>October 1, 2020</u>	<u>Additions</u>	<u>Transfers and Disposals</u>	<u>September 30, 2021</u>
Aircraft and improvements	\$ 20,987,319	\$ 200,487	\$ -	\$ 21,187,806
Rotable spare parts	8,642,804	1,133,566	-	9,776,370
Plant and equipment	1,282,943	53,087	297	1,336,327
Office furniture and equipment	837,609	15,110	-	852,719
Motor vehicles	326,740	7,914	(24,906)	309,748
Computer software	79,998	500	-	80,498
Building improvements	18,347	-	(297)	18,050
	<u>32,175,760</u>	<u>1,410,664</u>	<u>(24,906)</u>	<u>33,561,518</u>
Less accumulated depreciation and amortization	<u>(22,379,496)</u>	<u>(1,896,606)</u>	<u>24,906</u>	<u>(24,251,196)</u>
	<u>\$ 9,796,264</u>	<u>\$ (485,942)</u>	<u>\$ -</u>	<u>\$ 9,310,322</u>

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

Notes to Financial Statements
September 30, 2021 and 2020

(3) Capital Assets, Continued

	2020			
	October 1, 2019	Additions	Transfers and Disposals	September 30, 2020
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	17,880	467	-	18,347
	30,660,722	1,545,276	(30,238)	32,175,760
Less accumulated depreciation and amortization	(20,576,540)	(1,833,194)	30,238	(22,379,496)
	\$ 10,084,182	\$ (287,918)	\$ -	\$ 9,796,264

(4) Long-Term Debt

In 2013, AMI entered into a \$2,500,000 loan agreement with Marshall Islands Development Bank (MIDB) for the purpose of paying down the remaining cost of the Dash 8 D-check. During the year ended September 30, 2020, AMI recognized \$273,515 in forgiveness of debt associated with the MIDB loan and the loan was considered paid in full. No long-term debt was entered into during the year ended September 30, 2021.

A summary of changes in long-term debt for the year ended September 30, 2020, was as follows:

	Balance October 1, 2019	Additions	Reductions	Balance September 30, 2020	Due Within One Year
Note payable:					
MIDB	\$ 330,216	\$ -	\$ (330,216)	\$ -	\$ -

(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.

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

Notes to Financial Statements
September 30, 2021 and 2020

(6) Related Party Transactions, Continued

AMI utilizes services from certain affiliated entities at substantially the same terms and conditions as those incurred from third parties. A summary of related party transactions as and for the years ended September 30, 2021 and 2020, is as follows:

	2021			
	Receivables	Revenues	Payables	Expenses
RepMar	\$ 359,846	\$ 2,057,666	\$ 22,400	\$ 133,447
RMIPA	175	21,658	749,926	75,035
Marshall Islands National Telecommunications Authority	3,226	15,752	8,759	54,382
Marshalls Energy Company, Inc.	490	1,651	3,942	37,258
Other	<u>33,044</u>	<u>54,251</u>	<u>3,541</u>	<u>7,836</u>
	<u>\$ 396,781</u>	<u>\$ 2,150,978</u>	<u>\$ 788,568</u>	<u>\$ 307,958</u>
	2020			
	Receivables	Revenues	Payables	Expenses
RepMar	\$ 440,509	\$ 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>
	<u>\$ 467,701</u>	<u>\$ 1,583,758</u>	<u>\$ 708,117</u>	<u>\$ 193,271</u>

During the years ended September 30, 2021 and 2020, AMI received cash operating subsidies from RepMar of \$901,440 and \$1,014,200, respectively. As of September 30, 2021 and 2020, operating subsidies due and receivable from RepMar were \$150,000 and \$171,000, respectively.

A summary of advances from RepMar as of September 30, 2021 and 2020, is as follows:

	2021	2020
Advances in accordance with Cabinet Minute C.M. 150 (2002), no interest and due in May 2008.	\$ 2,000,000	\$ 2,000,000
Transfer of note payable to a bank for payable to an affiliate as a result of the bank seizing TCD collateral belonging to MIDB, terms and interest rate are currently under negotiation.	988,574	988,574
Funding assistance in accordance with Cabinet Minute C.M. 118 (2007), no interest, on a reimbursable basis.	<u>128,316</u>	<u>128,316</u>
	<u>\$ 3,116,890</u>	<u>\$ 3,116,890</u>

AMI does not expect that RepMar will pursue collection of the above advances prior to September 30, 2022. Accordingly, such have been presented as long-term liabilities within the accompanying financial statements.

AIR MARSHALL ISLANDS, INC.
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Notes to Financial Statements
September 30, 2021 and 2020

(6) Related Party Transactions, Continued

During the years ended September 30, 2021 and 2020, AMI incurred Marshall Islands Social Security Administration (MISSA) employer contributions in the amount of \$171,083 and \$169,495, respectively. As of September 30, 2021 and 2020, AMI is liable to MISSA for employee and employer contributions in the amount of \$103,728 and \$80,266, respectively.

As of September 30, 2021 and 2020, AMI is liable for \$571,072 and \$560,162, respectively, of payroll taxes, excluding related penalties and interest of approximately \$134,439. Management plans to enter into an agreement with RepMar to reconcile reciprocal accounts receivable and liability balances, to offset such balances in lieu of cash payments, and to establish a payment plan to settle this liability inclusive of penalties and interest. AMI's management believes that no provision for any additional liability, if any, which may arise from this matter is required to be reflected in the accompanying financial statements.

(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, 2021 and 2020, 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, 2021 and 2020, AMI incurred losses from operations of \$868,132 and \$504,587, respectively. For the years ended September 30, 2021 and 2020, AMI received cash operating subsidies of \$901,440 and \$1,014,200, 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.

As of September 30, 2021, AMI has an outstanding recorded liability to RMIPA of \$749,926, which is under dispute and is anticipated by management to be settled in favor of AMI. As of September 30, 2021, 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.

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Notes to Financial Statements
September 30, 2021 and 2020

(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. During the year ended September 30, 2021, four confirmed cases were identified in the Marshall Islands that were isolated and contained. On August 8, 2022, community transmission was identified and AMI has determined that such 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 RepMar 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 2020 financial statements, AMI's management determined that receivables from affiliates and related subsidy revenues were understated by \$171,000. As a result of this determination, receivables from affiliates and related subsidy revenues have been restated from the amounts previously reported as follows:

	<u>As Previously Reported</u>	<u>Adjustment</u>	<u>As Restated</u>
As of September 30, 2020:			
Current assets:			
Receivables:			
Affiliates	\$ <u>296,701</u>	\$ <u>171,000</u>	\$ <u>467,701</u>
Net Position:			
Unrestricted	\$ <u>(2,550,743)</u>	\$ <u>171,000</u>	\$ <u>(2,379,743)</u>
Total net position	\$ <u>7,245,521</u>	\$ <u>171,000</u>	\$ <u>7,416,521</u>
Year ended September 30, 2020:			
Nonoperating revenues:			
RepMar subsidy	\$ <u>843,200</u>	\$ <u>171,000</u>	\$ <u>1,014,200</u>
Change in net position	\$ <u>612,128</u>	\$ <u>171,000</u>	\$ <u>783,128</u>
Net position:			
End of year	\$ <u>7,245,521</u>	\$ <u>171,000</u>	\$ <u>7,416,521</u>

INDEPENDENT AUDITOR'S 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, 2021, 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 6, 2022.

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 2021-001.

AMI's Responses to Findings

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

Purpose of this Report

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

Deloitte & Touche LLP

September 6, 2022

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

Schedule of Findings and Responses
Year Ended September 30, 2021

Finding No. 2021-001

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 \$571,072 as of September 30, 2021, 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 2020.

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 and pays the withholding taxes as per RepMar Income Tax Act of 1989, exclusive of penalties and interest.

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

Unresolved Prior Years' Findings
Year Ended September 30, 2021

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