MARSHALL ISLANDS SHIPPING CORPORATION

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

FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT

YEARS ENDED SEPTEMBER 30, 2020 AND 2019

MARSHALL ISLANDS SHIPPING CORPORATION
(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
Marshall Islands Shipping Corporation:

Report on the Financial Statements

We have audited the accompanying financial statements of Marshall Islands Shipping Corporation (MISC), a component unit of the Republic of the Marshall Islands (RepMar), which comprise the statements of net position as of September 30, 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 MISC 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.

Deloitte.

Emphasis of Matters

Payable to Affiliates

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

Going Concern

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

COVID-19

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

Our opinion is not modified with respect to these matters.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 to 11 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 27, 2021, on our consideration of MISC's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of MISC's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering MISC's internal control over financial reporting and compliance.

Deloitte & Touche LLP

October 27, 2021

MARSHALL ISLANDS SHIPPING CORPORATION

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

Marshall Islands Shipping Corporation (MISC) herewith presents a management's discussion and analysis of the company's financial performance for the financial year ended 30th September 2020. It is to be read in conjunction with the financial statements following this section.

FINANCIAL HIGHLIGHTS

MISC's net position at the end of the fiscal year 2020 was $8,252,164 compared to a net position of $8,347,910 in 2019. The decrease in net position from 2019 to 2020 of $95,746 is a negative indicator of the results of operations, and ongoing efforts by management to maintain expenses within operational revenues as well as nonoperational revenues in the form of RMI government subsidies and RMI government capital contributions, which represent contributions for the purchase of new ships of $724,400 for MV Enen Kio in 2019 and $993,845 for MV Ribuuk Meto in 2020.

MISC's total net operating revenues increased by $291,113 (38%) from $767,992 in 2019 to $1,059,105 in 2020. The increase in revenues from charter, cargo and ship sales, offset by the decrease in revenues from passengers, copra fee and other revenues such as fuel delivery revenue, was driven by two factors. The first factor was due to MISC's fleet of five (5) vessels with a reduced number of field trips from 36 in 2019 to 24 in 2020. MISC's fleet was negatively impacted by the following: (1) the sinking of MV Ribuuk Ae in December 2019; (2) mechanical problems with MV Tobolar, which was subsequently determined to be impaired in August 2020; and (3) mechanical problems with MV Enen Kio, which continuously underwent maintenance and was not allowed to operate due to its deteriorating condition, posing a safety concern for passengers. MV Enen Kio was subsequently fixed and became operational in 2021. The second factor was due to extraordinary circumstances in the form of a natural disaster such as the Dengue Fever outbreak and the COVID-19 pandemic. MISC's charter revenues increased significantly by $216,539 (1058%) from $20,461 in 2019 to $237,000 in 2020 while cargo revenues increased by $110,236 (18%) from $605,302 in 2019 to $715,538 in 2020 and ship sales revenue increased by $63,857 (70%) from $91,410 in 2019 to $155,267 in 2020. On the other hand, MISC's passenger revenues decreased by $24,215 (38%) from $64,201 in 2019 to $39,986 in 2020 while copra fee revenues decreased by $21,022 (39%) from $53,423 in 2019 to $32,401 in 2020.

Total operating expenses increased by $788,491 (21%) from $3,699,880 in 2019 to $4,488,371 in 2020. MISC's leading operational expenses in 2019 and 2020 were personnel costs, impairment loss, depreciation, and petroleum, oil and lube (POL). Salaries, wages and benefits expenses increased by $6,075 (0.4%) from $1,502,251 in 2019 to $1,508,326 in 2020. MISC managed to decrease POL expenses by $55,361 (11%) from $497,403 in 2019 to $442,042 in 2020. Material and supplies expenses decreased by $18,896 (11%) from $177,956 in 2019 to $159,060 in 2020. Travel and entertainment expenses decreased by $195,062 (81%) from $241,635 in 2019 to $46,573 in 2020 due to COVID-19 pandemic related travel restrictions. Drydock expense decreased by $40,974 (12%) from $343,066 in 2019 to $302,092 in 2020. Unfortunately, depreciation expense increased by $41,466 (8%) from $552,207 in 2019 to $593,673 in 2020. Rent expense also increased by $171,823 (197%) from $87,052 in 2019 to $258,875 in 2020 due to boat charters for MV Ribuuk Ae rescue mission, and COVID-19 pandemic and Dengue Fever outreach activities to the outer islands.

MISC's operating loss increased by $497,378 (17%) from an operating loss of $2,931,888 in 2019 to an operating loss of $3,429,266 in 2020. Although MISC has maintained efforts to reduce operating expenses, MISC will continue to operate at a loss ranging from $2.9M to $3.4M annually based on the tariff rate structure and current passenger rates that have been in place since the early 1980's. However, this range is expected to positively change due to tariff rate increases approved on April 25, 2019. MISC continues to depend heavily on subsidies from RepMar, which account for approximately 69% of MISC's source of total operating and non-operating revenues in 2020. The subsidy from RepMar to support the Shipping Vessel Repairs and Maintenance Act resumed in 2016. However, drydocking subsidy was not budgeted and MISC did not receive such in 2020. MISC also received a total of $3M in years 2017-2020 for ship purchases. Without the approval of RepMar to allow management of MISC to increase tariffs, it is expected that MISC will always operate at a loss and MISC's future sustainability will continue to be a burden on RepMar as a community service obligation.

FINANCIAL ANALYSIS OF MISC

The Statements of Net Position and the Statements of Revenues, Expenses and Changes in Net Position provide an indication of MISC's financial condition. MISC's net position reflects the difference between total assets and total liabilities. An increase in net position over time normally indicates an improvement in financial condition. As illustrated in the figures below, MISC's net position decreased for the year ended 30th September 2020. A summary of MISC's Statements of Net Position is presented below:

Summary Statements of Net Position
As of September 30

	2020	2019	$ Change 2020-2019	% Change 2020-2019	2018
Assets:					
Current and other assets	$ 602,837	$ 1,324,989	$ (722,152)	(54.5)%	$ 1,067,008
Capital assets	8,652,543	8,321,050	331,493	4.0%	8,600,045
Total assets	9,255,380	9,646,039	(390,659)	(4.0)%	9,667,053
Liabilities:					
Current and other liabilities	1,003,216	1,298,129	(294,913)	(22.7)%	1,124,911
Net position:					
Net investment in capital assets	8,652,543	8,037,550	614,993	7.7%	7,936,045
Restricted	195,388	377,708	(182,320)	(48.3)%	399,752
Unrestricted	(595,767)	(67,348)	(528,419)	784.6%	206,345
Total net position	$ 8,252,164	$ 8,347,910	$ (95,746)	(1.1)%	$ 8,542,142

Total assets decreased from $9,667,053 in 2018 to $9,646,039 in 2019 and further decreased to $9,255,380 in 2020. In 2019, total assets marginally decreased by $21,014 (0.2%) to $9,646,039. Capital asset acquisitions of $273,212 were offset by depreciation of $552,207. In addition, the RepMar Cabinet approved the transfer of MV Tobolar in February 2019 from Tobolar Copra Processing Authority (TCPA) to MISC, including prepaid drydock expenditures, which resulted in an increase in assets of $457,124. Prepaid drydock costs from the transaction amounted to $353,903 as of September 30, 2019. In 2020, total assets decreased by $390,659 (4%) to $9,255,380. Capital asset acquisitions of $1,371,907 were offset by depreciation of $593,673. Of the total impairment loss of $744,228 in 2020, $438,341 pertains to vessels and other capital assets and $305,887 pertains to prepaid drydock of vessels impaired.

Net capital assets decreased from $8,600,045 in 2018 to $8,321,050 in 2019 and then increased to $8,652,543 in 2020. In 2019, net capital assets decreased by $278,995 (3%) with capital asset acquisitions of $522,768 offset by annual depreciation of $552,207. In 2020, net capital assets increased by $331,493 (4%) with capital asset acquisitions of $1,371,907 offset by annual depreciation of $593,673. Capital asset acquisitions include $970,000 purchase of MV Ribuuk Meto delivered in the subsequent period. In 2020, impairment loss was recognized for the remaining net book values of $438,341 for MV Ribuuk Ae and other capital assets, which sank in December 2019 and MV Tobolar, which was determined to be disposed of either through sale or decommissioning in August 2020 due to mechanical problems.

Total liabilities increased by $173,218 (15%) from $1,124,911 in 2018 to $1,298,129 in 2019 and decreased by $294,913 (23%) to a total of $1,003,216 in 2020. In 2019, the significant increase in total liabilities is primarily driven by MISC's obligations due to RepMar's related parties, including TCPA. MISC rents warehouse and storage space from RMI Ports Authority (RMIPA) but is not currently able to service the obligation due to cash flow constraints. MISC's total liabilities due to RepMar related parties were $793,397 in 2019, of which $588,069 was due to TCPA followed by $100,668 due to Marshall Islands Social Security Administration (MISSA) and $91,601 due to RMIPA. In 2020, MISC's total liabilities due to RepMar's related parties decreased by $25,143 (3%) from $793,397 in 2019 to $768,254 in 2020. This decrease was primarily due to a decrease in the RMIPA payable by $2,139 (2%) to $89,462 and the MISSA payable by $27,696 (28%) to $72,972.

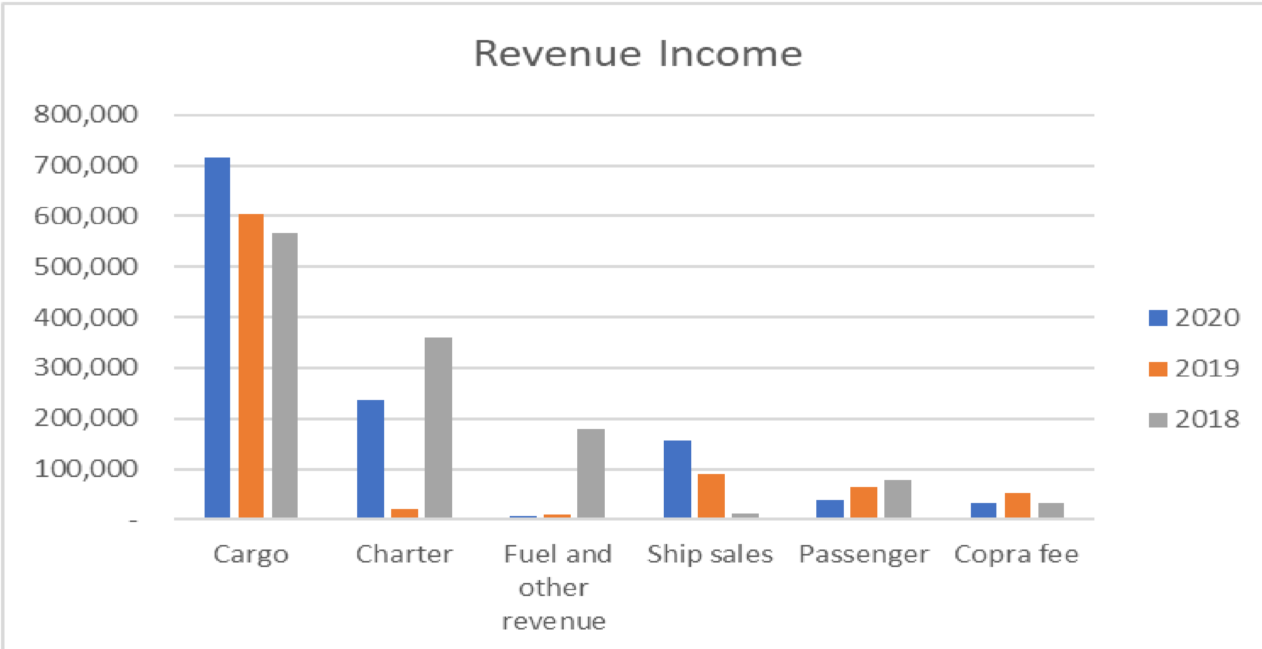
A summary of MISC's Statements of Revenues, Expenses and Changes in Net Position is presented below:

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

	2020	2019	$ Change 2020-2019	% Change 2020-2019	2018
Operating:					
Operating revenues	$ 1,059,105	$ 767,992	$ 291,113	37.9%	$ 1,061,576
Operating expenses	4,488,371	3,699,880	788,491	21.3%	3,236,245
Operating loss	(3,429,266)	(2,931,888)	(497,378)	17.0%	(2,174,669)
Nonoperating:					
Nonoperating revenues	2,348,075	2,033,600	314,475	15.5%	2,073,053
Nonoperating expenses	8,400	20,344	(11,944)	(58.7)%	1,900
	2,339,675	2,013,256	326,419	16.2%	2,071,153
Capital contributions	993,845	724,400	269,445	37.2%	7,207,861
Change in net position	$ (95,746)	$ (194,232)	$ 98,486	(50.7)%	$ 7,104,345

The Statements of Revenues, Expenses and Changes in Net Position identify the various revenue and expense items that contributed to the change in net position. MISC's total net operating revenues decreased by $293,584 (28%) to a total of $767,992 in 2019 compared to $1,061,576 in 2018. In 2020, net operating revenues increased by $291,113 (38%) to a total of $1,059,105. With the issuance by RepMar of "State of Health Emergency due to Dengue Fever Outbreak" in August 6, 2019 and "State of Health Emergency due to COVID-19 Pandemic" in February 7, 2020, relief efforts for outer island outreach activities to deliver relief goods, food baskets, and RMI government charter trip schedules resulted in the increase in MISC charter revenues. Total field trips decreased by 31 (46%) to 67 trips in 2018 compared to 36 trips in 2019. In 2020, total field trips further decreased by 12 (50%) to 24 trips compared to 36 trips in 2019. Charter revenue increased by $216,539, (1058%) for a total of $237,000 in 2020 compared to a total of $20,461 in 2019.

The graph below presents the major components of MISC's operating revenues from 2018 through to 2020:



Total operating expenses increased by $463,635 (14%) from $3,236,245 in 2018 to $3,699,880 in 2019. In 2020, the total operating expenses further increased by $788,491 (21%) to $4,488,371. For 2020, the top five components of operating expenses were: (1) Salaries, Wages and Benefits, (2) Impairment Loss, (3) Depreciation (4) Petroleum, Oil and Lube (POL), and (5) Drydock and Repairs and Maintenance Expense.

Salaries, wages and benefits remain as the leading operational expense and increased by $202,803 (16%) from $1.3M in 2018 to $1.5M in 2019 and marginally increased by $6,075 (0.4%) to $1.5M in 2020. Increase in salaries, wages and benefits is due to new hires and recruitment of employees for the new ship (MV Enen Kio) and salary increase for certain employees.

Impairment loss of $744,228 in 2020 was recognized due to (1) sinking of MV Ribuuk Ae and other capital assets on December 28, 2019 and (2) MV Tobolar operations, which were halted in March 2020 over concern for passenger safety and determined to be sold or decommissioned in August 2020. Amounts of $438,341 and $305,887 pertain to the net book value and prepaid drydock costs, respectively, of the impaired vessels.

Depreciation expense increased by $462,540 (516%) from $89,667 in 2018 to $552,207 in 2019 and further increased by $41,466 (8%) to $593,673 in 2020. This increase was the result of depreciation from the transfer of three (3) ships - MV Aemman, MV Ribuuk Ae, and MV Kwajelein from the RMI government in September 2018, the transfer of MV Tobolar from TCPA in February 2019 and delivery of a new ship - MV Enen Kio in December 2020.

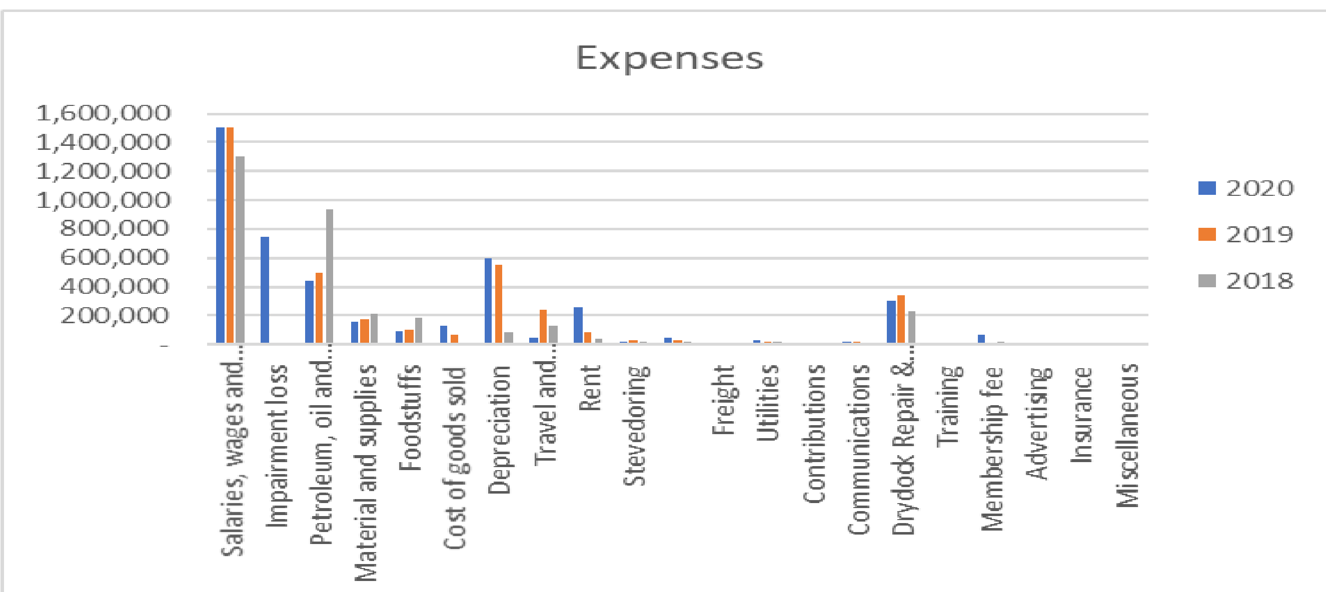
POL expenses decreased by $435,445 (47%) from $932,848 in 2018 to $497,403 in 2019 and further decreased by $55,361 (11%) to $442,042 in 2020. This decrease was the result of the decrease in the frequency of trips in 2020.

With the establishment of the Shipping Vessel Repairs and Maintenance Act in 2011, an annual subsidy is granted by RepMar for proper and timely dry docking, repairs and maintenance to be undertaken by MISC. This is to ensure the good and operable conditions of MISC's fleet and for the safety and reliability of sea transportation services for the RMI outer island community. Drydock expense increased by $114,314 (50%) from $228,752 in 2018 (for MV Ribuuk Ae) to $343,066 in 2019 (MV Aemman and MV Tobolar). Unfortunately, drydock expense decreased by $40,974 (12%) to $302,092 in 2020, with no drydocking activities taking place due to the lack of drydock funding being made available by the RepMar government.

Travel and entertainment expenses increased by $113,578 (89%) from $128,057 in 2018 to $241,635 in 2019; however, such decreased by $195,062 (81%) to $46,573 in 2020. This is in relation to purchase of new shipping fleet (MV Enen Kio) and 5 months of drydocking provided for MV Aemman in 2019, which was longer compared to drydock repair and maintenance for MV Ribuuk Ae in 2018, which only took 3 months for drydocking. In 2020, border closure was imposed due to COVID-19 pandemic and travel outside Marshall Islands was restricted.

Ship sales services provide MISC an alternative source of income to subsidize operations. The increase in COGS from 2018 is attributed primarily to the private vendors taking over the merchant services on the vessels through a claimed decision by the RMI Cabinet to privatize such services. As such services were a major source of revenue for MISC, the Board decided in 2018 to investigate whether there was a Cabinet Minute (CM) authorizing such services to be privatized and, if not, then return such to MISC. Since the Office of the Clerk of Cabinet had confirmed that there had not been a Cabinet Minute in this regard, merchandise and sales services were returned in 2019, but through a transitional or phase out period. Accordingly, the merchant on the three vessels, namely the MV Aemman, MV Kwajelein, and MV Ribuuk Ae, were notified. MISC operated the ship sales services and COGS increased by $52,237 (492%) to $62,851 compared to $10,614 in 2018 and further increased by $66,009 (105%) to $128,860 in 2020.

The following graphic shows the major components of MISC's operating expenses from 2018 through to 2020:



The operating loss before nonoperating revenues (i.e., RepMar subsidy) increased by $757,219 (35%) from $2,174,669 in 2018 to $2,931,888 in 2019 and increased further by $497,378 (17%) from $2,931,888 in 2019 to $3,429,266 in 2020. In 2019, even though MISC was able to control and decrease some of the operating expenses for some areas, the operating loss increased due to travel costs associated with the purchase of MV Enen Kio, the drydocking of MV Aemman in Fiji, and the drydocking expense recognized due to the transfer of MV Tobolar from TCPA to MISC in February 2019. In 2020, although with control and the reduction of some expense categories, the operating loss increased due to impairment loss of two (2) ships – MV Ribuuk Ae and MV Tobolar, including the unamortized prepaid drydock costs, and depreciation of a new ship - MV Enen Kio.

Total subsidies for operations were $2,348,075 in 2020 compared to $2,033,600 in 2019, which included $446,400 for repairs and maintenance, and $2,005,427 in 2018, which also included $456,320 for repairs and maintenance and $99,200 for vessel delivery. In 2018 and 2019, as noted, MISC was the recipient of subsidies associated with the Shipping Vessel Repairs and Maintenance Act, but MISC did not receive such in 2020. The subsidy to support the Shipping Vessel Repairs and Maintenance Act fluctuates annually based on the repairs and maintenance schedule and costing developed with the technical assistance of the Japan International Cooperation Agency (JICA) and has taken into account major repairs that will need to be completed and the inclusion of two additional vessels to the MISC fleet. In 2017, an additional $248,000 was appropriated on top of the initial appropriation amounting to $1,700,000, as a down-payment to secure the purchase of a new ship. Only $435,000 was used for the negotiation of said vessel. Additional appropriations of $99,200 in November 2017 and $198,400 in March 2020 were received to fund vessel delivery costs. The new vessel (MV Enen Kio) arrived in November 2019.

The operating subsidy received from RepMar in 2020 increased by $760,875 (48%) from $1,587,200 in 2019 to $2,348,075, no drydock subsidy was received in 2020 from $446,400 in 2019, and ship purchase increased by $269,455 (37%) to a total $993,845 in 2020. With current fare rates unchanged since 1980 and no available landing craft for charter, MISC is not able to achieve full cost recovery to cover operational costs and maintain adequate major and ongoing repairs and maintenance without financial support from RepMar. The future financial sustainability and conditions of the MISC fleet will continue to depend on sufficient financial support from RepMar.

Management's Discussion and Analysis for the year ended September 30, 2019 is set forth in MISC's report on the audit of financial statements, which is dated July 21, 2020. That Management's Discussion and Analysis explains the major factors impacting 2019 financial statements and can be obtained from MISC's General Manager via the contact information below.

CAPITAL ASSETS AND DEBT

Net capital assets increased from $8,321,050 in 2019 to $8,652,543 in 2020. Capital asset acquisitions in 2020 of $1,371,907 were offset by depreciation of $593,673. A summary of MISC's capital assets at September 30, 2020 compared with 2019 and 2018 is presented below:

	2020	2019	$ Change 2020-2019	% Change 2020-2019	2018
Vessels	$ 8,239,074	$ 6,792,253	$ 1,446,821	21.3%	$ 6,521,980
Vehicles	502,870	457,070	45,800	10.0%	423,472
Equipment	397,586	387,023	10,563	2.7%	269,342
Motor boats	223,924	221,229	2,695	1.2%	177,374
	9,363,454	7,857,575	1,505,879	19.2%	7,392,168
Accumulated depreciation	(1,680,911)	(1,437,025)	(243,886)	17.0%	(692,623)
	7,682,543	6,420,550	1,261,993	19.7%	6,699,545
Vessels under construction	970,000	1,900,500	(930,500)	(49.0)%	1,900,500
	$ 8,652,543	$ 8,321,050	$ 331,493	4.0%	$ 8,600,045

Refer to note 4 of the accompanying financial statements for additional information relating to capital assets. At this time, MISC has no long-term debt.

CASH FLOW

Net cash used for operating activities for 2020 was $1.7M compared to net cash used for operating activities of $2.4M in 2019 and $2.1M in 2018. The cash provided by operational activities was absorbed entirely by MISC's operational costs. Additionally, injection of cash flow from RepMar subsidies were received in the amount of $3.2M, $2.7M, and $2.7M during 2020, 2019, and 2018, respectively. In 2018, RepMar subsidies were utilized by MISC to cover operational expenses in the amount of $1.55M; and for repairs and maintenance expenses in the amount of $0.45M; and for new ship purchase in $0.77M. The repair and maintenance subsidy amounts are determined by a schedule developed in January 2011 under the JICA Preparatory Study for the "Project for Improvement of Domestic Shipping Services in the Marshall Islands". In 2019, RepMar subsidies were utilized by MISC to cover operational expenses in the amount of $1.59M; and for repairs and maintenance expenses in the amount of $0.44M; and for new ship (MV Enen Kio) negotiation expenses in the amount of $0.72M. In 2020, RepMar subsidies were utilized by MISC to cover operational expenses in the amount of $2.35M; no subsidy was received and incurred for drydocking repairs and maintenance expenses; and for new ship finalized negotiation expenses for MV Enen Kio and MV Ribuuk Meto in the amount of $0.99M.

FUTURE OUTLOOK ON SUSTAINABILITY

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

As an indicator of MISC's future outlook on sustainability, MISC's has continued to improve and increase net position since 2012; however, MISC's net position decreased to $8,252,164 in 2020, compared to a net position of $8,347,910 in 2019, and decreased from $8,542,142 in 2018. Prior to that, MISC's net position increased to $1,437,797 in 2017, $401,081 in 2016, $279,970 in 2015, and $224,931 in 2014. The vast improvement in MISC's financial position from a net deficiency in 2012 to an increasing net position in 2014 - 2020 is a result of increases in revenue streams stemming from increases in charter trips in response to the ongoing relief efforts of the State of Drought Disaster originally issued in June - July 2013, 2016 climate change such as El Nino, 2017 climate change of heavy wave storm, along with the increases in field trips with the addition of the two shipping vessels donated by the Government of Japan, and the COVID-19 pandemic in 2020. In addition to subsidies received from RepMar, the three vessels (MV Ribuuk Ae, MV Aemman, and MV Kwajelein) were formally transferred with net book values (NBV) of $6,432,862 in 2018. In February 2019, TCPA transferred MV Tobolar and other capital assets with NBV of $130,944. In 2020, capital subsidies were received from RepMar for purchase of one vessel (MV Ribuuk Meto).

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

FUTURE OUTLOOK ON SUSTAINABILITY, CONTINUED

Historically, operating revenues generated by MISC have never been sufficient to cover the related expenses necessary to operate the shipping vessels and provide sea-transportation services. With operating losses over $1.2M to 3.4M annually, MISC continues to be dependent on financial support from RepMar. Most importantly, MISC is not able to generate sufficient revenues through operations due to the current passenger rate structure, which has been in place since the early 1980's, despite the increase in fuel costs and inflation rates. As a state-owned entity, MISC does not have the authority to increase tariff rates without the approval of RepMar. MISC has made numerous requests to RepMar until such was approved on April 25, 2019 for a $10 increase on freight rate or from $56.50 per ton to $66.50 per ton.

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

The future outlook on sustainability for MISC continues to be threatened by the deteriorating conditions of the shipping vessels. In 2011, RepMar passed the Shipping Vessel Repairs and Maintenance Act (R&M) to ensure that subsidy funding is made available on an annual basis to ensure that major repairs and services are performed regularly and for the procurement of safety equipment. The R&M Act provides a strong position for MISC to continue to advocate for and to receive subsidy for the sole purpose of repairs and maintenance needs of MISC's aging fleet. Without the R&M subsidy, the continued deteriorating conditions of more than half of MISC's fleet will have a negative impact on MISC's ability to provide safe and reliable shipping services. Furthermore, the operations of MISC are further hampered with the loss of MV Ribuuk Ae, which ran aground on Ujae Atoll in December 2019 and later sank in March 2020, followed by the decision to dispose of MV Tobolar in August 2020 and later decommissioned in April 2021.

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

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

MISC FOCUS IN THE COMING FISCAL YEAR

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

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

- With the support of MISC's Board of Directors, MISC will continue to implement and monitor activities laid out in the strategic plan addressing both the operational and financial goals of MISC. The strategic plans include:

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

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

  - Develop a tariff rate template to incorporate rising costs and fluctuations of fuel and inflation rates;

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

  - Develop and improve management and financial reporting;

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

  - Ensure adherence to the shipping repairs and maintenance schedule.

The Marshall Islands is currently not being directly impacted by the current COVID-19 pandemic being experienced elsewhere worldwide. No cases of COVID-19 have yet to be experienced in the Marshall Islands and, as such, MISC have been able to continue operations as usual subject to the continued support from RepMar. In the event that the pandemic reaches the Marshall Islands, we expect MISC to feel the impact of such through potential shutdown of MISC's field trips and continued reliance on RepMar for operational subsidies.

ADDITIONAL FINANCIAL INFORMATION

This discussion and analysis are designed to provide MISC's customers and other stakeholders with an overview of the company's operations and financial condition as at 30th September 2020. Should the reader have questions regarding the information included in this report, or wish to request additional financial information, please contact the Marshall Islands Shipping Corporation General Manager at P.O. Box 1198, Majuro, Marshall Islands, MH 96960.

MARSHALL ISLANDS SHIPPING CORPORATION

Statements of Net Position
September 30, 2020 and 2019

	2020	2019
ASSETS		
Current assets:		
Cash	$ 132,716	$ 308,205
Receivables:		
Trade	137,265	84,323
Affiliates	700,496	533,722
Employees	224,728	267,735
	1,062,489	885,780
Less allowance for doubtful accounts	(806,968)	(679,860)
Total receivables, net	255,521	205,920
Inventory	15,767	4,052
Current portion of prepaid drydocking	114,278	386,621
Total current assets	518,282	904,798
Noncurrent assets:		
Prepaid drydocking, net of current portion	84,555	420,191
Capital assets:		
Nondepreciable capital assets	970,000	1,900,500
Capital assets, net of accumulated depreciation	7,682,543	6,420,550
Total noncurrent assets	8,737,098	8,741,241
	$ 9,255,380	$ 9,646,039
LIABILITIES AND NET POSITION		
Current liabilities:		
Accounts payable	$ 81,448	$ 59,859
Payable to affiliates	768,254	793,397
Accruals and other liabilities	136,483	137,373
Unearned revenue	17,031	24,000
Contracts payable	-	283,500
Total liabilities	1,003,216	1,298,129
Commitments and contingencies		
Net position:		
Net investment in capital assets	8,652,543	8,037,550
Restricted	195,388	377,708
Unrestricted	(595,767)	(67,348)
Total net position	8,252,164	8,347,910
	$ 9,255,380	$ 9,646,039

See accompanying notes to financial statements.

MARSHALL ISLANDS SHIPPING CORPORATION

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

	2020	2019
Operating revenues:		
Cargo	$ 715,538	$ 605,302
Charter	237,000	20,461
Ship sales	155,267	91,410
Passenger	39,986	64,201
Copra fee	32,401	53,423
Fuel and other revenue	6,021	8,450
Total operating revenues	1,186,213	843,247
Provision for bad debts	(127,108)	(75,255)
Net operating revenues	1,059,105	767,992
Operating expenses:		
Salaries, wages and benefits	1,508,326	1,502,251
Impairment loss	744,228	-
Depreciation	593,673	552,207
Petroleum, oil and lube	442,042	497,403
Drydock expense	302,092	343,066
Rent	258,875	87,052
Material and supplies	159,060	177,956
Cost of goods sold	128,860	62,851
Foodstuffs	98,053	99,173
Membership fees	63,405	15,700
Professional fees	48,741	33,603
Travel and entertainment	46,573	241,635
Utilities	31,255	21,789
Communications	24,766	19,436
Stevedoring	19,638	27,295
Contributions	6,279	6,849
Freight	3,804	1,942
Insurance	2,199	4,164
Miscellaneous	6,502	5,508
Total operating expenses	4,488,371	3,699,880
Operating loss	(3,429,266)	(2,931,888)
Nonoperating revenues (expenses):		
Operating subsidies	2,348,075	2,033,600
Penalties and interest	-	(20,344)
Loss on disposal of capital assets	(8,400)	-
Total nonoperating revenues (expenses), net	2,339,675	2,013,256
Loss before capital contributions	(1,089,591)	(918,632)
Capital contributions	993,845	724,400
Change in net position	(95,746)	(194,232)
Net position at beginning of year	8,347,910	8,542,142
Net position at end of year	$ 8,252,164	$ 8,347,910

See accompanying notes to financial statements.

MARSHALL ISLANDS SHIPPING CORPORATION

Statements of Cash Flows
Years Ended September 30, 2020 and 2019

		2020		2019
Cash flows from operating activities:				
Cash received from customers	$	1,181,205	$	796,640
Cash payments to suppliers for goods and services		(1,355,327)		(1,707,822)
Cash payments to employees for services		(1,509,210)		(1,488,529)
Net cash used for operating activities		(1,683,332)		(2,399,711)
Cash flows from noncapital financing activities:				
Operating subsidies received		2,324,230		2,033,600
Penalties and interest paid		-		(20,344)
Net cash cash provided by noncapital financing activities		2,324,230		2,013,256
Cash flows from capital and related financing activities:				
Capital contributions received		839,020		724,400
Acquisition of capital assets		(1,655,407)		(522,768)
Net cash cash provided by (used for) capital and related financing activities		(816,387)		201,632
Net change in cash		(175,489)		(184,823)
Cash at beginning of year		308,205		493,028
Cash at end of year	$	132,716	$	308,205
Reconciliation of operating loss to net cash used for operating activities:				
Operating loss	$	(3,429,266)	$	(2,931,888)
Adjustments to reconcile operating loss to net cash used for operating activities:				
Impairment loss		744,228		-
Depreciation		593,673		552,207
Drydock		302,092		343,066
Provision for bad debts		127,108		75,255
(Increase) decrease in assets:				
Receivables:				
Affiliates		11,896		(133,129)
Trade		(52,942)		67,835
Employees		43,007		1,187
Inventory		(11,715)		(1,673)
Prepayments		-		(338,220)
Increase (decrease) in liabilities:				
Accounts payable		21,589		(57,747)
Payable to affiliates		(25,143)		(14,326)
Accruals and other liabilities		(890)		13,722
Unearned revenue		(6,969)		24,000
Net cash used for operating activities	$	(1,683,332)	$	(2,399,711)
Summary disclosure of noncash capital and related financing activities:				
Impairment of MV Ribuuk Ae and MV Tobolar:				
Prepaid drydocking	$	305,887	$	-
Capital assets		778,824		-
Accumulated depreciation		(340,483)		-
Impairment loss		(744,228)		-
	$	-	$	-
Transfer of MV Tobolar to MISC:				
Payable to affiliates	$	-	$	588,069
Prepaid drydocking		-		(457,125)
Additions to capital assets		-		(130,944)
	$	-	$	-

See accompanying notes to financial statements.

(1) Organization

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

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

MISC's financial statements are incorporated into the financial statements of RepMar as a component unit.

(2) Summary of Significant Accounting Policies

The accounting policies of MISC conform to accounting principles generally accepted in the United States of America (GAAP), as applicable to governmental entities, specifically proprietary funds.

GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as amended by GASB Statement No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus*, GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, and GASB Statement No. 61, *The Financial Reporting Entity: Omnibus - an amendment of GASB Statements No. 14 and 34,* establish financial reporting standards for governmental entities, which require that management's discussion and analysis of the financial activities be included with the basic financial statements and notes and modifies certain other financial statement disclosure requirements.

To conform to these requirements, equity is presented in the following net position categories:

- Net investment in capital assets: capital assets, net of accumulated depreciation and related debt, plus construction or improvement of those assets.

- Restricted: Nonexpendable net position subject to externally imposed stipulations that require MISC to maintain such permanently. As of September 30, 2020 and 2019, MISC does not have nonexpendable restricted net position.

- Restricted: Expendable net position whose use by MISC is subject to externally imposed stipulations that can be fulfilled by actions of MISC pursuant to those stipulations or that expire with the passage of time. As of September 30, 2020 and 2019, MISC has expendable restricted net position for unexpended contributions from RepMar as follows:

	2020	2019
Repairs and maintenance	$ 158,000	$ 278,508
MV Enen Kio vessel delivery	37,388	99,200
	$ 195,388	$ 377,708

- Unrestricted: net position that is not subject to externally imposed stipulations. Unrestricted net position may be designated for specific purposes by action of management or the Board of Directors or may otherwise be limited by contractual agreements with outside parties.

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

(2) Summary of Significant Accounting Policies, Continued

Basis of Accounting

Proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and deferred outflows of resources, and liabilities and deferred inflows of resources associated with the operation of the fund are included in the statements of net position. Proprietary fund operating statements present increases and decreases in net position. The accrual basis of accounting is utilized by proprietary funds. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

Revenue Recognition

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

Cash

Custodial credit risk is the risk that in the event of a bank failure, MISC's deposits may not be returned to it. Such deposits are not covered by depository insurance and are either uncollateralized or collateralized with securities held by the pledging financial institution or held by the pledging financial institution but not in the depositor-government's name. MISC does not have a deposit policy for custodial credit risk.

For purposes of the statements of net position and cash flows, cash is defined as cash on hand and cash held in demand accounts. As of September 30, 2020 and 2019, the carrying amount of cash was $132,716 and $308,205, respectively, and the corresponding bank balances were $154,821 and $347,304, respectively. Of the bank balance amounts, $108,827 and $331,984, respectively, were maintained in a financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance with the remaining amounts of $45,994 and $15,320, respectively, being maintained in a financial institution not subject to depository insurance. As of September 30, 2020 and 2019, bank deposits in the amount of $108,827 and $250,000, respectively, were FDIC insured. MISC does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized. Accordingly, these deposits are exposed to custodial credit risk.

Receivables

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

(2) Summary of Significant Accounting Policies, Continued

Inventory

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

Deferred Dry-dock Expenditures

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

Equipment

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

Equipment	5 - 10 years
Vehicles	5 years
Vessels	25 years
Motor boats	5 years

Deferred Outflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (deduction of net position) until then. MISC has no items that qualify for reporting in this category.

Deferred Inflows of Resources

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (additions to net position) until then. MISC has no items that qualify for reporting in this category.

Compensated Absences

Vested or accumulated vacation leave is recorded as an expense and liability as the benefits accrue to employees. No liability is recorded for non-vesting accumulating rights to receive sick pay benefits. As of September 30, 2020 and 2019, the accumulated vacation leave liability totals $86,866 and $88,160, respectively, and is included within the statements of net position as accruals and other liabilities.

(2) Summary of Significant Accounting Policies, Continued

Unearned Revenue

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

Taxes

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

New Accounting Standards

During the year ended September 30, 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.

(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.

(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 disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(3) Prepaid Drydocking

In 2019, MISC incurred dry-dock costs of $338,220 for MV Aemman in Fiji, which is to be amortized over 3 years. Furthermore, Tobolar Copra Processing Authority (TCPA) transferred dry-dock costs of $457,125 relating to the transfer of MV Tobolar. During the year ended September 30, 2020, MV Ribuuk Ae sank resulting in related prepaid dry-dock costs of $106,816 being written off. In addition, MV Tobolar was considered impaired resulting in related prepaid dry-dock costs of $199,071 being written off. As of September 30, 2020 and 2019, prepaid dry-dock costs amounted to $198,833 and $806,812, respectively.

An analysis of the change in prepaid dry-dock costs during the years ended September 30, 2020 and 2019 is as follows:

	2020	2019
Beginning balance	$ 806,812	$ 354,533
Drydock costs incurred	-	338,220
Drydock costs from transfer	-	457,125
Drydock costs written off	(305,887)	-
Amortized drydock expense	(302,092)	(343,066)
Ending balance	$ 198,833	$ 806,812
Disclosed as follows:		
Current	$ 114,278	$ 386,621
Noncurrent	84,555	420,191
	$ 198,833	$ 806,812

(4) Capital Assets

Capital asset activity for the years ended September 30, 2020 and 2019 is as follows:

	2020				
	October 1, 2019	Additions	Transfers	Disposals/ Impairment/ Reclassifications	September 30, 2020
Equipment	$ 387,023	$ 61,600	$ -	$ (51,037)	$ 397,586
Vehicles	457,070	49,500	-	(3,700)	502,870
Vessels	6,792,253	262,212	1,900,500	(715,891)	8,239,074
Motor boats	221,229	28,595	-	(25,900)	223,924
	7,857,575	401,907	1,900,500	(796,528)	9,363,454
Less accumulated depreciation	(1,437,025)	(593,673)	-	349,787	(1,680,911)
	6,420,550	(191,766)	1,900,500	(446,741)	7,682,543
Vessels under construction	1,900,500	970,000	(1,900,500)	-	970,000
	$ 8,321,050	$ 778,234	$ -	$ (446,741)	$ 8,652,543

(4) Capital Assets, Continued

	2019				
	October 1, 2018	Additions	Transfers	Disposals/ Impairment/ Reclassifications	September 30, 2019
Equipment	$ 269,342	$ 53,647	$ 64,034	$ -	$ 387,023
Vehicles	423,472	43,348	-	(9,750)	457,070
Vessels	6,521,980	45,273	225,000	-	6,792,253
Motor boats	177,374	-	43,855	-	221,229
	7,392,168	142,268	332,889	(9,750)	7,857,575
Less accumulated depreciation	(692,623)	(552,207)	(201,945)	9,750	(1,437,025)
	6,699,545	(409,939)	130,944	-	6,420,550
Vessels under construction	1,900,500	-	-	-	1,900,500
	$ 8,600,045	$ (409,939)	$ 130,944	$ -	$ 8,321,050

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

In October 2019, MISC received the Notice of Readiness from a shipbuilder for MV Enen Kio and the vessel was delivered to the Marshall Islands and was placed in service in November 2019. Subsequently, the vessel suffered mechanical problems and, while still in operation, has not been operating as intended. On June 15, 2020, results of inspection identified that the propeller suffered cavitation. Management is of the opinion that the vessel's service utility has not significantly declined and recognition of an impairment loss is not warranted.

On December 28, 2019, MV Ribuuk Ae ran aground on Ujae Atoll. Subsequent recovery efforts failed resulting in the vessel sinking and the recognition of an impairment loss of $386,978.

On August 19, 2020, MISC determined that MV Tobolar was impaired resulting in the recognition of an impairment loss of $51,363.

(5) Related Party Transactions

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

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

	2020			
	Revenues	Expenses	Receivables	Payables
Tobolar Copra Processing Authority	$ 434,405	$ -	$ 288,918	$ 588,069
Marshall Islands Social Security Administration	2,314	291,519	-	72,972
Marshalls Energy Company, Inc.	39	352,598	3,585	6,989
RMI Ports Authority	-	50,237	-	89,462
Republic of the Marshall Islands	354,088	146,017	363,335	5,015
Other	106,523	67,153	44,658	5,747
	$ 897,369	$ 907,524	$ 700,496	$ 768,254

(5) Related Party Transactions, Continued

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

During the years ended September 30, 2020 and 2019, the operations of MISC were funded by appropriations from the Nitijela of RepMar as follows:

	2020	2019
Operating subsidy	$ 2,348,075	$ 1,587,200
Repairs and maintenance	-	446,400
	$ 2,348,075	$ 2,033,600

As of September 30, 2020, $23,845 relating to operating subsidies is due from RepMar.

During the years ended September 30, 2020 and 2019, the acquisition of certain vessels was funded by capital contributions from the Nitijela of RepMar of $993,845 and $724,400, respectively. As of September 30, 2020, the amount of $154,825 relating to these capital contributions is due from RepMar.

On February 28, 2019, the net book value of MV Tobolar amounting to $130,944 and related deferred dry-dock costs of $457,125 were transferred from TCPA to MISC resulting in a payable to TCPA of $588,069.

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

As described in note 7, MISC leases space from RMI Ports Authority.

(6) Risk Management

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

(7) Commitments and Contingencies

Commitments

MISC leased a warehouse for $2,557 per month, effective August 1, 2015, from the RMI Ports Authority, which lease expired on July 31, 2020. On August 1, 2020, the lease was renewed for a term of five years, expiring on July 31, 2025 for $2,297 per month. During the years ended September 30, 2020 and 2019, MISC recorded associated rent expense of $30,158 and $30,678, respectively.

Total minimum future rental payments for this non-cancelable lease agreement for the years ending September 30, are as follows:

Year ending September 30,	
2021	$ 27,558
2022	27,558
2023	27,558
2024	27,558
2025	22,965
	$ 133,197

Going Concern

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America, which contemplates the continuation of MISC as a going concern. During the years ended September 30, 2020 and 2019, MISC incurred losses from operations of $3,429,266 and $2,931,888, respectively. During the years ended September 30, 2020 and 2019, the operations of MISC were funded by appropriations from the Nitijela of RepMar of $2,348,075 and $2,033,600, respectively. In addition, during the years ended September 30, 2020 and 2019, MISC received $993,845 and $724,400, respectively, for the purpose of funding the acquisition of certain vessels. Management acknowledges that it is currently dependent on RepMar for cash funding in order to maintain MISC as a going concern. Although RepMar has provided funding in the past, MISC does not have a formal agreement with RepMar to provide future funding. Management believes that the continuation of MISC's operations is dependent upon the future financial support of RepMar, deferment in payment of certain liabilities, and/or significant improvements in operations.

In view of these matters, realization of the related assets in the accompanying statement of net position at September 30, 2020, is dependent upon continued operations of MISC, which, in turn, is dependent upon MISC’s ability to provide service to its customers and the success of future operations. Management believes that actions presently being undertaken to revise MISC’s operating requirements, including the generation of positive cash flows from operations by increasing the number of field trips and operation of the new MV Enen Kio vessel, provide the opportunity for MISC to continue as a going concern. For the year ending September 30, 2021, RepMar has appropriated $1,775,000 to fund MISC operations.

(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 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 October 27, 2021, no community transmission has been identified. MISC has determined that should the pandemic reach the Marshall Islands, it may negatively impact MISC's business, results of operations, and financial position and MISC may become dependent upon the financial support of RepMar. However, the effect of the pandemic on RepMar is also uncertain and future available funding to RepMar component units may be limited. Therefore, while MISC expects this matter to potentially have a negative impact on its business, results of operations, and financial position, the related financial impact cannot be reasonably estimated at this time.

(9) Subsequent Event

On December 2, 2020, the Board of Directors approved the acquisition of SV Kwai for $300,000. MISC financed the acquisition through a $450,000 loan from the Marshall Islands Development Bank.

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

Chairman
Board of Directors
Marshall Islands Shipping Corporation:

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States, the financial statements of the Marshall Islands Shipping Corporation (MISC), which comprise the statement of net position as September 30, 2020, and the related statements of revenues, expenses and changes in net position and of cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 27, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered MISC's internal control over financial reporting (internal control) 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 MISC's internal control. Accordingly, we do not express an opinion on the effectiveness of MISC's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether MISC's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Deloitte.

Purpose of this Report

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

Deloitte & Touche LLP

October 27, 2021

Unresolved Prior Year Findings
Year Ended September 30, 2020

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