

*Financial Statements and Required Supplementary
Information*

Air Marshall Islands, Inc.

(A Component Unit of the Republic of the Marshall Islands)

Year Ended September 30, 2022

with Report of Independent Auditors



Air Marshall Islands, Inc.
(A Component Unit of the Republic of the Marshall Islands)

Financial Statements and Required Supplementary Information

Year Ended September 30, 2022

Contents

Report of Independent Auditors.....	1
Management’s Discussion and Analysis	4
Audited Financial Statements	
Statement of Net Position	16
Statement of Revenues, Expenses and Changes in Net Position	18
Statement of Cash Flows	19
Notes to Financial Statements.....	21
Report on Internal Control and Compliance	
Report of Independent Auditors on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	35



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Report of Independent Auditors

The Board of Directors
Air Marshall Islands, Inc.

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Air Marshall Islands, Inc. (AMI), a component unit of the Republic of the Marshall Islands, as of and for the year ended September 30, 2022, and the related notes to the financial statements, which collectively comprise AMI's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of AMI as of September 30, 2022, and the changes in financial position, and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of AMI and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about AMI's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 AMI's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about AMI's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 15 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with GAAS, 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 basic financial statements, and other knowledge we obtained during our audit of the basic 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 December 4, 2023, 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 financial 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.

Ernst + Young LLP

December 4, 2023

Air Marshall Islands, Inc.
(A Component Unit of the Republic of the Marshall Islands)

Management's Discussion and Analysis

Year Ended September 30, 2022

ABOUT AIR MARSHALL ISLANDS

Air Marshall Islands, Inc. (AMI) is the national airline and flag carrier of the Republic of the Marshall Islands (RMI). 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 & rescue and related services when required.

STRATEGY

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

Air Marshall Islands, Inc.
(A Component Unit of the Republic of the Marshall Islands)

Management's Discussion and Analysis

KEY ACHIEVEMENTS IN 2022

- AMI has, for the first time in many years, made an operating profit of \$522k, as compared to last year with operating loss of \$868k, resulting from total operating revenues having increased by 31% whilst total operating expenses increased by only 6%.
- In FY22, the number of passengers increased by 3,113 (or 13%) from 23,090 passengers in the prior year to 26,203 passengers in the current year.
- AMI increased airfares, effective April 1, 2022, by 30% across all atolls and routes except for Kwajalein, which was increased by 18%, and Bikini, Enewatak, Rongelap and Utrik (no increase).
- Fuel surcharge revenue increased by 47% in line with increased rates from April 1, 2022 compared to last financial year.
- Charter revenue increased by \$382k (or 37%) due to MOH COVID-19 vaccination charters. Included in this amount is the emergency response to the COVID-19 outbreak to the outer islands to deliver medical supplies.
- Total number of flights flown in FY22 increased by 657 (or 22%) from 2,370 flights in the prior year to 3,027 flights in the current year.
- Cargo revenue increased by \$230k (or 31%) in line with increased rates from April 1, 2022 compared to last financial year.
- Working capital ratio at the end of FY22 has improved to 2.03:1 compared to 1.54:1 at the end of FY21, indicating that AMI is able to meet its immediate debts as the industry benchmark is 2:1.
- The net cashflow at the end of FY22 has improved to \$2.4 million compared to \$1.6 million at the end of FY21.

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 2022, to be read along with our financial statements and the accompanying notes to our financial statements in this report.

Air Marshall Islands, Inc.
(A Component Unit of the Republic of the Marshall Islands)

Management’s Discussion and Analysis

FINANCIAL SUMMARY

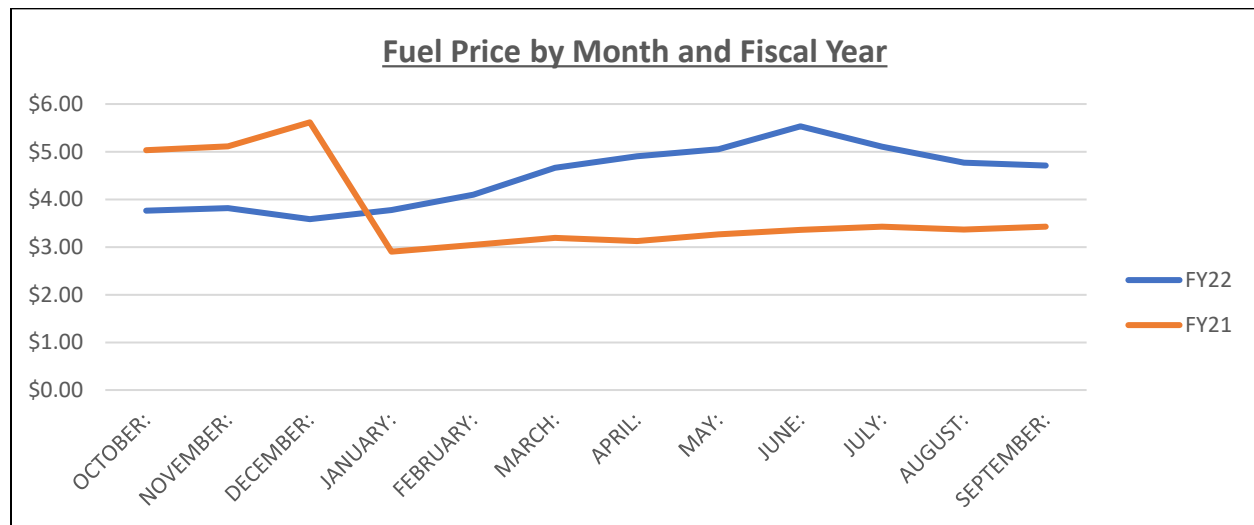
For the year ended September 30, 2022, AMI’s operations resulted in operating income of \$522k. Together with the RMI government’s subsidy of \$725k, AMI experienced an overall increase in net position of \$1.23 million (or 17%) from \$7.45 million to \$8.68 million. The RMI government subsidy was invested in operational costs, including repairs/overhauls of aircraft parts and Community Service Obligations.

The FY21 operating loss of \$868k was turned around in FY22 into an operating profit of \$522k. This was the result of the increase in tariff on airfares, effective April 1, 2022. In addition, 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. Total operating expenses increased from \$6.7 million in FY21 to \$7.1 million in FY22.

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

Impact of Russian War on Ukraine

Fuel expenses increased in FY22 by \$402k (or 58%) from \$693k in FY21 to \$1.01 million in FY22 due primarily to the Russia and Ukraine war where the annual average fuel price per US gallon increased from \$3.74 per gallon in FY21 to \$4.48 per gallon in FY22. To counter this rise in the world fuel price of Jet-A aviation fuel, AMI successfully maneuvered by increasing its fuel surcharge rate to customers and for which AMI subsequently earned 47% additional revenues. Presented below is the average fuel price comparison for FY22 vs FY21.



Air Marshall Islands, Inc.
(A Component Unit of the Republic of the Marshall Islands)

Management's Discussion and Analysis

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, 2022, compared with 2021 and 2020 is presented below:

Summary Statements of Net Position					
As of September 30					
	<u>2022</u>	<u>2021</u>	\$ <u>Change</u> 2022-2021	% <u>Change</u> 2022-2021	<u>2020</u>
ASSETS:					
Current and other assets	\$ 4,472,068	\$ 3,124,756	\$ 1,347,312	43%	\$ 2,443,945
Capital assets and deposits	<u>9,625,610</u>	<u>9,610,657</u>	<u>14,953</u>	<u>0%</u>	<u>9,975,136</u>
Total Assets	<u>14,097,678</u>	<u>12,735,413</u>	<u>1,362,265</u>	<u>11%</u>	<u>12,419,081</u>
LIABILITIES:					
Current liabilities	2,206,923	2,054,984	151,939	7%	1,885,670
Long-term liabilities	<u>3,208,361</u>	<u>3,230,600</u>	<u>(22,239)</u>	<u>(1%)</u>	<u>3,116,890</u>
Total Liabilities	<u>5,415,284</u>	<u>5,285,584</u>	<u>129,700</u>	<u>2%</u>	<u>5,002,560</u>
NET POSITION:					
Net investment in capital assets	8,471,061	9,310,322	(839,261)	(9%)	9,796,264
Unrestricted	<u>211,333</u>	<u>(1,860,493)</u>	<u>2,071,826</u>	<u>(111%)</u>	<u>(2,379,743)</u>
Total Net Position	<u>\$ 8,682,394</u>	<u>\$ 7,449,829</u>	<u>\$ 1,232,565</u>	<u>17%</u>	<u>\$ 7,416,521</u>

The trend in total net position indicate that AMI is moving in the right direction as its unrestricted deficit net position have decreased whilst total assets continue to be greater than total 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 \$1.36 million or 11% from FY21 to FY22. This is the result of an increase in current and other assets of \$1.35 million or 43% from FY21 to FY22 primarily due to the increase in cash balances and expendable parts of \$808k and \$300k, respectively. Total liabilities have increased by \$130k or 2% from FY21 to FY22. This is the result of an increase in current and other liabilities primarily due to the increase in payables to affiliates of \$119k.

Air Marshall Islands, Inc.
(A Component Unit of the Republic of the Marshall Islands)

Management's Discussion and Analysis

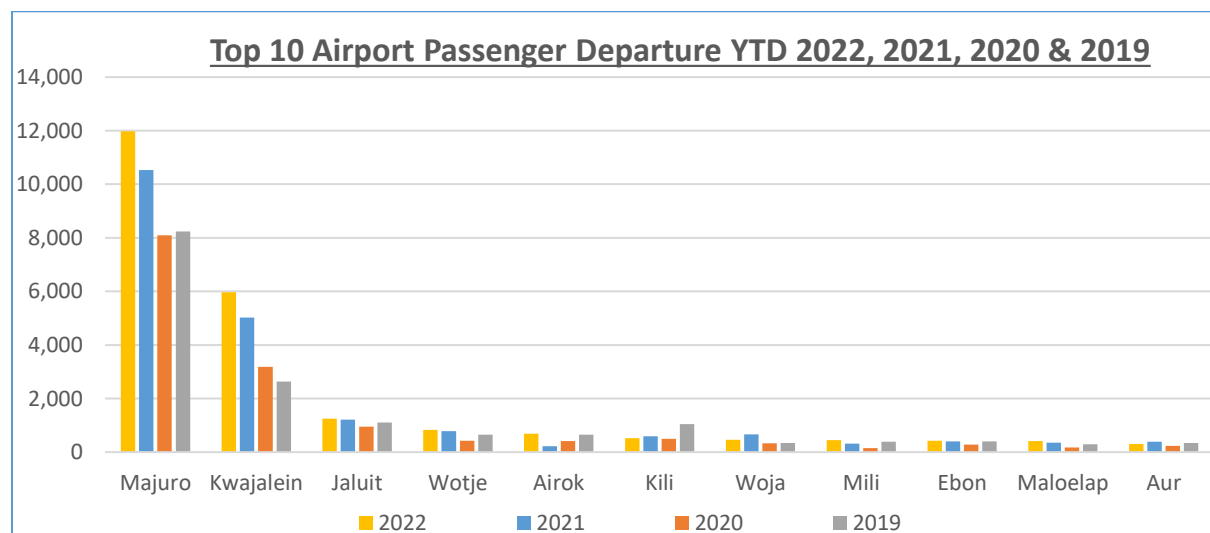
FINANCIAL ANALYSIS OF AMI, continued

A summary of AMI's Statements of Revenues, Expenses and Changes in Net Position for the year ended September 30, 2022, compared with 2021 and 2020 is presented below:

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

	<u>2022</u>	<u>2021</u>	\$ <u>Change</u> 2022-2021	% <u>Change</u> 2022-2021	<u>2020</u>
REVENUES:					
Net operating revenues	\$ 7,625,217	\$ 5,834,993	\$ 1,790,224	31%	\$ 5,010,519
Non-operating revenues	<u>725,364</u>	<u>901,440</u>	<u>(176,076)</u>	<u>(20%)</u>	<u>1,287,715</u>
Total Revenues	<u>8,350,581</u>	<u>6,736,433</u>	<u>1,614,148</u>	<u>24%</u>	<u>6,298,234</u>
EXPENSES:					
Operating expenses	7,103,274	6,703,125	400,149	6%	5,515,106
Non-operating expenses	<u>14,742</u>	<u>-</u>	<u>14,742</u>	<u>-</u>	<u>-</u>
Operating expenses	<u>7,118,016</u>	<u>6,703,125</u>	<u>414,891</u>	<u>6%</u>	<u>5,515,106</u>
Changes in Net Position	\$ <u>1,232,565</u>	\$ <u>33,308</u>	\$ <u>1,199,257</u>	<u>3601%</u>	\$ <u>783,128</u>

The trend in passenger numbers from FY19 to FY22 indicates an improvement in delivery of essential public services to the Marshallese people and communities residing in the Outer Islands.



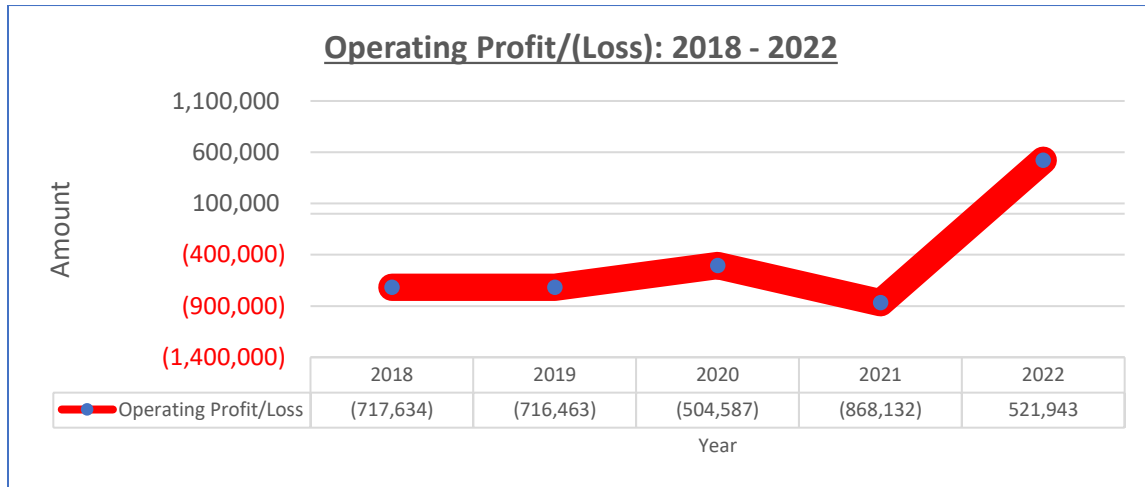
MD&A for the year ended September 30, 2021, is set forth in AMI's report on the audit of financial statements, which is dated September 6, 2022. That MD&A explains the major factors impacting the 2021 financial statements.

Air Marshall Islands, Inc.
(A Component Unit of the Republic of the Marshall Islands)

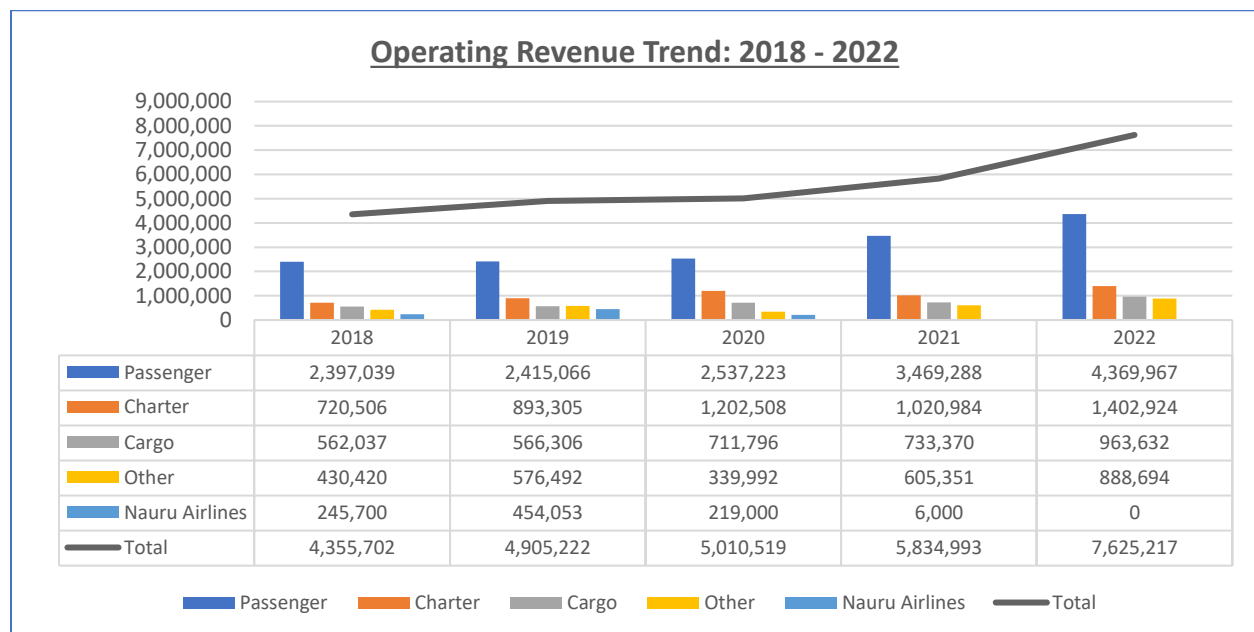
Management’s Discussion and Analysis

FINANCIAL ANALYSIS OF AMI, continued

The below graph shows the operating profit (loss) of AMI from FY18 through to FY22.



The graph below shows the main components of AMI’s operating revenues from FY18 through to FY22.



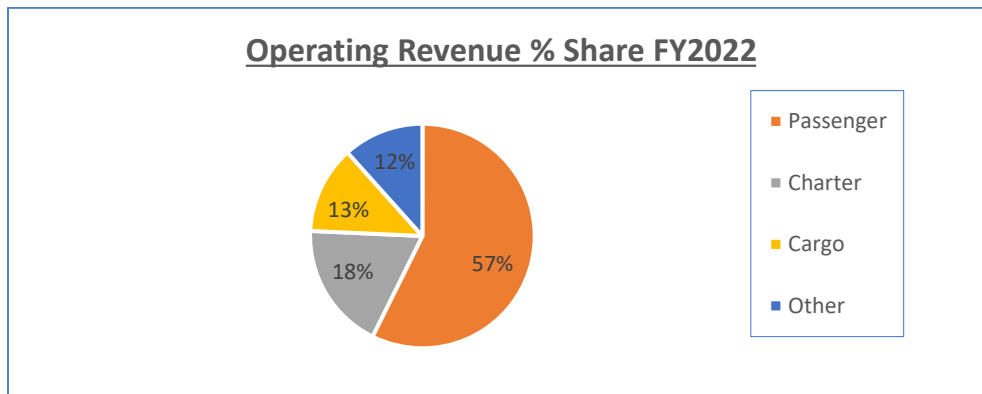
AMI’s total operating revenues as indicated above have generally been on an upward trend, with revenues from passengers, or from selling of air-tickets, as the largest source. It continued to rise since FY18 due to increase in passenger travel.

Air Marshall Islands, Inc.
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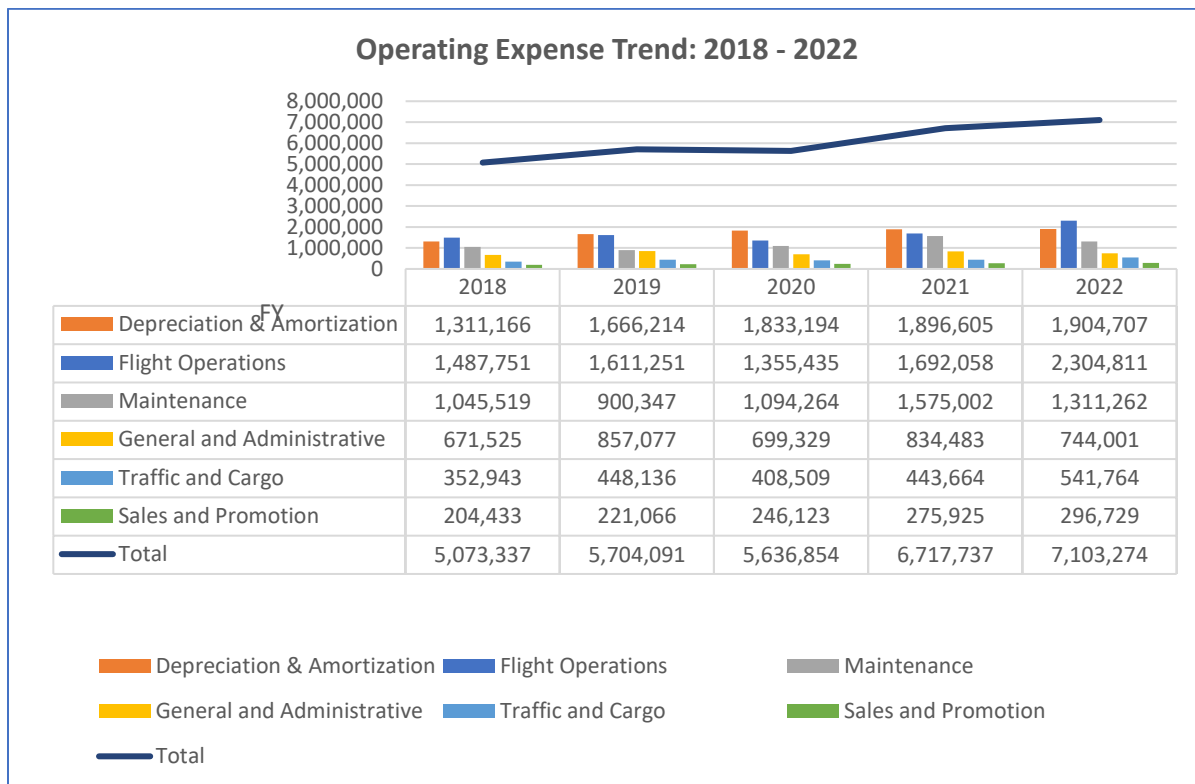
Management’s Discussion and Analysis

FINANCIAL ANALYSIS OF AMI, continued

Passenger revenue is the largest portion of total revenue and has increased in FY22 by 26% when compared to FY21 due to an increase in airfare rates from April 1, 2022.



The above pie chart shows the distribution of each operating revenue source as a percentage of total operating revenues in which passenger at 57%, charter at 18%, cargo/freight at 13%, and other at 12%.

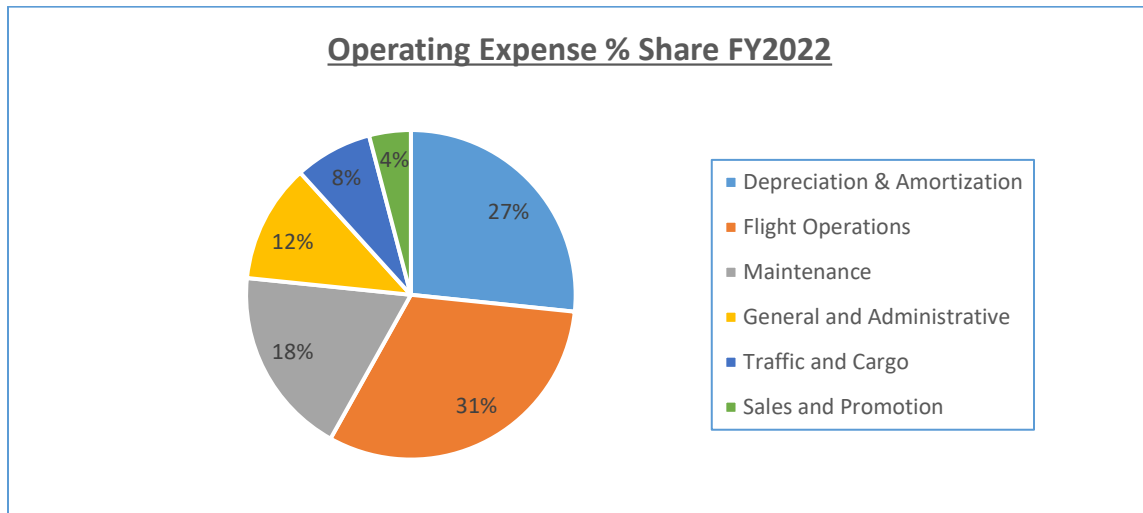


Air Marshall Islands, Inc.
(A Component Unit of the Republic of the Marshall Islands)

Management’s Discussion and Analysis

FINANCIAL ANALYSIS OF AMI, continued

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 FY22.



The above pie chart shows the composition of AMI’s total operating expenses in FY22, indicating flight operations with the largest share of 31%, followed by depreciation and amortization of 27%, maintenance of 18%, general administration of 12%, traffic and cargo servicing of 8%; and sales and promotion of 4%.

Flight operations represents the largest share of operating expenses because of the rising fuel costs that was attributed to the war in Russia and Ukraine, which is 40% of the total cost of the Flight Operations department. Depreciation expense represents the 2nd largest share of operating expenses at 27% of total operating expenses.

The RMI government provided AMI with an operating subsidy allocation of \$725k, which was used by AMI for operational costs, including investment in repairs/overhauls of parts and engines.

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

Air Marshall Islands, Inc.
(A Component Unit of the Republic of the Marshall Islands)

Management's Discussion and Analysis

CAPITAL ASSETS AND DEBT

Net capital assets decreased by \$834k or 9% from \$9.31 million in FY21 to \$8.48 million in FY22. The decrease is due primarily to the acquisition of capital assets of \$1.04 million, net of an increase in accumulated depreciation of \$1.88 million. A summary of AMI's capital assets as of September 30, 2022, compared with 2021 and 2020 is presented below:

Summary Schedule of Capital Assets
As of September 30

	<u>2022</u>	<u>2021</u>	\$ <u>Change</u> 2022-2021	% <u>Change</u> 2022-2021	<u>2020</u>
Aircraft and improvements	\$ 21,542,515	\$ 21,187,806	\$ 354,709	2%	\$ 20,987,319
Rotable spare parts	10,371,594	9,776,370	595,224	6%	8,642,804
Plant and equipment	1,401,623	1,336,327	65,296	5%	1,282,943
Office furniture and equipment	873,059	852,719	20,340	2%	837,609
Motor vehicles	309,748	309,748	-	0%	326,740
Computer software	80,498	80,498	-	0%	79,998
Building improvements	<u>25,484</u>	<u>18,050</u>	<u>7,434</u>	<u>41%</u>	<u>18,347</u>
	34,604,521	33,561,518	1,043,003	3%	32,175,760
Accumulated depreciation	<u>(26,128,387)</u>	<u>(24,251,196)</u>	<u>(1,877,191)</u>	<u>8%</u>	<u>(22,379,496)</u>
Net carrying amounts	\$ <u>8,476,134</u>	\$ <u>9,310,322</u>	\$ <u>(834,188)</u>	<u>(9%)</u>	\$ <u>9,796,264</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 \$2.5 million loan from MIDB in May 2013. The loan was used to pay the remaining cost of the Dash 8 D-check in Cairns Australia. AMI was able to pay-off the loan to MIDB with RMI government subsidies in 2014 through 2018. The loan was fully settled and paid off in FY20. No other long-term debt was recorded in FY21 or FY22.

CASH FLOWS

AMI received \$7.26 million and \$6.09 million, respectively, from its customers in FY22 and FY21. In FY22, AMI paid its vendors for goods and services and payroll for its employees in the amount \$3.3 million and \$2.04 million, respectively, compared with \$2.94 million and \$1.93 million, respectively, in FY21. This resulted in a cash surplus from operations of \$1.92 million in FY22, whereas in FY21, AMI had a cash surplus from operations of \$1.22 million. Additionally, the operating subsidies from the RMI government in FY22 assisted in operations continuing "business as usual".

Air Marshall Islands, Inc.
(A Component Unit of the Republic of the Marshall Islands)

Management's Discussion and Analysis

CURRENT ECONOMIC OUTLOOK

Being a small open and highly susceptible economy to world events, coupled with being highly dependent on funding from the US Government through the Compact and federal funding, representing up to 60% or more of annual government budget of \$150 million, which is almost on a same bar with the nominal GDP, the Marshall Islands would continue to be exposed towards external shocks, economic calamities, and risks, such as the 2008 and 2009 global energy crisis that sent ripple effects throughout the world economy as cost of fuel and everything else skyrocketed to new unprecedented heights, and had immediate adverse impact on the local economy.

Prior to the energy crisis, cost of jet fuel used to be around \$2 a gallon, but today it is near \$4.50 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.

The annual subsidies and contributions from the RMI government has still been essential in sustaining the airline's services. Continued government contributions to the Company is important in the short to medium-term until RMI's economic condition improves through increased tourism and other economic growth activities. Furthermore, serious action is needed regarding the aging of the Dornier 228 and Dash 8 aircraft, improvement on airport runways, adequate spare parts provisioning, and reduction of AOG.

ROLE OF MANAGEMENT AND BOARD

AMI's 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 the aircraft;
2. Insufficient spare parts for the aircrafts; and
3. Sourcing parts for Dornier Aircraft which are available only from the manufacturer.

Air Marshall Islands, Inc.
(A Component Unit of the Republic of the Marshall Islands)

Management's Discussion and Analysis

WAY FORWARD AND FUTURE SUSTAINABILITY

AMI presented a new strategic Business Plan (BP) which was developed as a compass for the period 2023- 2025 to chart the Company's future operating course.

In short, the BP's mission statement is:

1. Provide domestic air services that are safe, reliable, and commercially viable for the benefit of the travelling public and in support of industries such as tourism, that rely on air service for their success.
2. Support growth of in-bound travel and export by carrying out activities in support of these objectives, including the provision of commercially viable regional services.
3. Provide medical evacuation, humanitarian relief, search & rescue and related services when required.

In order to achieve the above, the BP's 6 Rs has been altered to **3 Rs** (three goals) as AMI relies on RMI government's subsidy funding, the 3 Rs must be implemented and these goals are:

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

We strongly believe that implementation of these three goals through adequate support of the RMI Cabinet and the Board would enable AMI, in spite of all abovementioned challenges, to achieve each individual goal and once achieved the 4th R – **Restrict reliance on state subsidy** can be implemented.

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

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

Air Marshall Islands, Inc.
(A Component Unit of the Republic of the Marshall Islands)

Management's Discussion and Analysis

KEY ACHIEVEMENTS SUBSEQUENT TO FY2022

- **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 2022, 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 AMI's General Manager/CEO at P.O. Box 1319, Majuro, Marshall Islands, MH 96960; Telephone No.: (692) 625-3731; Fax No.; (692) 625-3730; Email Address: gm@airmarshallislands.

Air Marshall Islands, Inc.
(A Component Unit of the Republic of the Marshall Islands)

Statement of Net Position

September 30, 2022

Assets

Current assets:

Cash	\$ 2,427,531
Receivables:	
Trade	205,120
Employees	10,528
Affiliates	<u>567,679</u>
	783,327
Less allowance for doubtful accounts	<u>(185,813)</u>
Receivables, net	<u>597,514</u>
Expendable parts (net of allowance for obsolescence of \$198,909 at September 30, 2022)	1,283,327
Prepaid expenses and deposits	<u>163,696</u>
Total current assets	<u>4,472,068</u>
Capital assets, net of accumulated depreciation and amortization	8,476,134
Lease assets, net	108,637
Long-term deposits	<u>1,040,839</u>
Total noncurrent assets	<u>9,625,610</u>
	<u>\$14,097,678</u>

Liabilities and Net Position

Current liabilities:

Accounts payable	\$ 430,392
Social security taxes payable	103,281
Withholding taxes payable	533,601
Air traffic liability	107,653
Lease liabilities, current portion	22,239
Accrued expenses	102,231
Payable to affiliates	<u>907,526</u>
Total current liabilities	2,206,923

See accompanying notes.

Air Marshall Islands, Inc.
(A Component Unit of the Republic of the Marshall Islands)

Statement of Net Position, continued

Noncurrent liabilities:	
Lease liabilities, net of current portion	91,471
Advances from RepMar	<u>3,116,890</u>
Total noncurrent liabilities	<u>3,208,361</u>
Total liabilities	<u>5,415,284</u>
Commitment and contingency	
Net position:	
Net investment in capital assets	8,471,061
Unrestricted	<u>211,333</u>
Total net position	<u>8,682,394</u>
	<u>\$14,097,678</u>

See accompanying notes.

Air Marshall Islands, Inc.
(A Component Unit of the Republic of the Marshall Islands)

Statement of Revenues, Expenses and Changes in Net Position

Year Ended September 30, 2022

Operating revenues:	
Passenger	\$4,369,967
Charter	1,402,924
Cargo	963,632
Fuel surcharge	412,948
Flight diversion	227,075
Other	253,448
Bad debt expense	<u>(4,777)</u>
Total operating revenues	<u>7,625,217</u>
Operating expenses:	
Flight operations	2,304,811
Depreciation and amortization	1,904,707
Maintenance	1,311,262
General and administrative	744,001
Aircraft and traffic servicing	541,764
Promotion and sales	<u>296,729</u>
Total operating expenses	<u>7,103,274</u>
Income from operations	<u>521,943</u>
Nonoperating revenues (expenses):	
RepMar subsidy	725,364
Interest expense	<u>(14,742)</u>
Total nonoperating revenues, net	<u>710,622</u>
Change in net position	1,232,565
Net position at beginning of year	<u>7,449,829</u>
Net position at end of year	<u>\$8,682,394</u>

See accompanying notes.

Air Marshall Islands, Inc.
(A Component Unit of the Republic of the Marshall Islands)

Statement of Cash Flows

Year Ended September 30, 2022

Cash flows from operating activities:	
Cash received from customers	\$7,260,594
Cash payments to suppliers for goods and services	(3,303,849)
Cash payments to employees for services	<u>(2,036,214)</u>
Net cash provided by operating activities	<u>1,920,531</u>
Cash flows from noncapital financing activities:	
Operating subsidy received from RepMar	<u>842,782</u>
Cash flows from capital and related financing activities:	
Acquisition of property and equipment	(1,919,660)
Principal paid on lease liabilities	(20,985)
Interest paid on lease liabilities	<u>(14,742)</u>
Net cash used for capital and related financing activities	<u>(1,955,387)</u>
Net change in cash	807,926
Cash at beginning of year	<u>1,619,605</u>
Cash at end of year	<u>\$2,427,531</u>

See accompanying notes.

Air Marshall Islands, Inc.
(A Component Unit of the Republic of the Marshall Islands)

Statement of Cash Flows, continued

Reconciliation of income from operations to net cash provided by operating activities:	
Income from operations	\$ 521,943
Adjustments to reconcile income from operations to net cash provided by operating activities:	
Depreciation and amortization	1,904,707
Bad debt expense	4,777
(Increase) decrease in assets:	
Receivables:	
Trade	(9,689)
Employees	11,190
Affiliates	(288,316)
Expendable parts	(299,825)
Prepaid expenses and deposits	(74,941)
Increase (decrease) in liabilities:	
Accounts payable	143,966
Social security taxes payable	(447)
Withholding taxes payable	(37,471)
Air traffic liability	(82,585)
Accrued expenses	8,264
Payable to affiliates	<u>118,958</u>
Net cash provided by operating activities	<u>\$1,920,531</u>

See accompanying notes.

Air Marshall Islands, Inc.
(A Component Unit of the Republic of the Marshall Islands)

Notes to Financial Statements

Year Ended September 30, 2022

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.
- 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.

Air Marshall Islands, Inc.
(A Component Unit of the Republic of the Marshall Islands)

Notes to Financial Statements, continued

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.

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, 2022, the carrying amount of cash was \$2,427,531 and the corresponding bank balance was \$2,362,929, of which \$2,166,393 is maintained in a financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance. The remaining bank deposits of \$196,356 are maintained in financial institutions not subject to depository insurance.

As of September 30, 2022, bank deposits in the amount of \$250,000 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.

Air Marshall Islands, Inc.
(A Component Unit of the Republic of the Marshall Islands)

Notes to Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

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.

The estimated useful lives of these assets are as follows:

	Estimated Useful Lives
Aircraft and improvements	10 - 15 years
Rotable spare parts	5 - 10 years
Plant and equipment	5 years
Office furniture and equipment	3 - 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.

Air Marshall Islands, Inc.
(A Component Unit of the Republic of the Marshall Islands)

Notes to Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

Leases

AMI is a party as lessee for various noncancellable long-term leases of office space. AMI determines if an arrangement is a lease or contains a lease at inception of a contract. A contract is determined to be or contain a lease if the contract conveys the right to control the use of identified property, land, or equipment in exchange for consideration. Leases result in the recognition of right-to-use lease assets and lease liabilities on the statement of net position. Lease assets represent the right to use an underlying asset for the lease term and lease liabilities represent the obligation to make lease payments arising from the lease, measured on a discounted basis.

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, 2022, the accumulated vacation leave liability amounted to \$86,704 and is included within the statement 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, continued

2. Summary of Significant Accounting Policies, continued

Recently Adopted Accounting Pronouncements

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, AMI's management has elected to postpone implementation of these statements.

During the year ended September 30, 2022, AMI implemented the following pronouncements:

- GASB Statement No. 87, *Leases*, which 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. As a result of adoption of GASB Statement No. 87, AMI has recognized right-to-use leased assets and related lease liabilities in the initial amount of \$134,695.
- GASB Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*, which enhances the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and simplifies accounting for interest cost incurred before the end of a construction period. The implementation of this statement did not have a material effect on the accompanying financial statements.
- GASB Statement No. 92, *Omnibus 2020*, which enhances comparability in accounting and financial reporting and improves the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. The implementation of this statement did not have a material effect on the accompanying financial statements.
- GASB 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*, which increases consistency and comparability related to the reporting of fiduciary component units; mitigates costs associated with the reporting of certain pension plans and other postemployment benefit (OPEB) plans as fiduciary component units; and enhances 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. The implementation of this statement did not have a material effect on the accompanying financial statements.

Air Marshall Islands, Inc.
(A Component Unit of the Republic of the Marshall Islands)

Notes to Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

Recently Adopted Accounting Pronouncements, continued

- GASB Statement No. 98, *The Annual Comprehensive Financial Report*, which establishes the term annual comprehensive financial report and its acronym ACFR. That new term and acronym replace instances of comprehensive annual financial report and its acronym in generally accepted accounting principles for state and local governments. The implementation of this statement did not have a material effect on the accompanying financial statements.
- GASB Statement No. 99, *Omnibus 2022*, which provides clarification guidance on several of its recent statements that addresses different accounting and financial reporting issues identified during implementation of the new standards and during the GASB's review of recent pronouncements. GASB Statement No. 99:
 - 1) Amends guidance in GASB Statement No. 24, *Accounting and Financial Reporting for Certain Grants and Other Financial Assistance*, requiring that the accounting and financial reporting of Supplemental Nutrition Assistance Program (SNAP) transactions should follow the provisions of GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, as amended. These provisions were effective upon issuance and implementation did not have a material effect on the accompanying financial statements.
 - 2) Requires disclosures related to nonmonetary transactions, in the notes to financial statements, of the measurement attribute(s) applied to the assets transferred rather than the basis of accounting for those assets. These provisions were effective upon issuance and implementation did not have a material effect on the accompanying financial statements.
 - 3) Provides guidance on accounting for pledges of future revenues when resources are not received by the pledging government. The guidance addresses the process of blending a component unit created to issue debt on behalf of a primary government when that component unit is required to be presented as a blended component unit. This guidance was effective upon issuance and implementation did not have a material effect on the accompanying financial statements.
 - 4) Provides clarification of provisions in GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as amended, related to the focus of the government-wide financial statements. This guidance was effective upon issuance and implementation did not have a material effect on the accompanying financial statements.

Air Marshall Islands, Inc.
(A Component Unit of the Republic of the Marshall Islands)

Notes to Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

Recently Adopted Accounting Pronouncements, continued

- 5) Provides terminology updates related to certain provisions of GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and terminology used in GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. These updates were effective upon issuance and implementation did not have a material effect on the accompanying financial statements.

- 6) GASB Statement No. 93, *Replacement of Interbank Offered Rates*, which amended GASB Statement No. 53 to address transition away from the London Interbank Offered Rate (LIBOR). GASB Statement No. 99 extends the period during which the LIBOR is considered an appropriate benchmark interest rate to when LIBOR ceases to be determined using methodology in place as of December 31, 2021. This guidance was effective upon issuance and implementation did not have a material effect on the accompanying financial statements.

Upcoming Accounting Pronouncements

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 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.

Air Marshall Islands, Inc.
(A Component Unit of the Republic of the Marshall Islands)

Notes to Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

Upcoming Accounting Pronouncements, continued

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 April 2022, GASB issued Statement No. 99, *Omnibus 2022*. This Statement contains guidance whose effective dates are in future periods. Management is evaluating the effect that this Statement, upon implementation, will have on the financial statements. GASB Statement No. 99:

- 1) Modifies guidance in GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, to bring all guarantees under the same financial reporting requirements and disclosures effective for fiscal year ending September 30, 2024.
- 2) Provides guidance on classification and reporting of derivative instruments within the scope of GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, effective for fiscal year ending September 30, 2024.
- 3) Provides clarification of provisions in GASB Statement No. 87 related to the determination of the lease term, classification of a lease as a short-term lease, recognition and measurement of a lease liability and a lease asset, and identification of lease incentives effective for fiscal year ending September 30, 2023.
- 4) Provides clarification of provisions in GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, related to (a) the determination of the public-private and public-public partnership (PPP) term and (b) recognition and measurement of installment payments and the transfer of the underlying PPP asset. Effective for fiscal year ending September 30, 2023.
- 5) Provides clarification of provisions in GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*, related to the subscription-based information technology arrangement (SBITA) term, classification of a SBITA as a short-term SBITA, and recognition and measurement of a subscription liability. Effective for fiscal year ending September 30, 2023.

Air Marshall Islands, Inc.
(A Component Unit of the Republic of the Marshall Islands)

Notes to Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

Upcoming Accounting Pronouncements, continued

- 6) Modifies accounting and reporting guidance in GASB Statement No. 53 related to termination of hedge. Guidance is effective for fiscal year ending September 30, 2023.

In June 2022, GASB issued Statement No. 100, *Accounting Changes and Error Corrections - An Amendment of GASB Statement No. 62*. This Statement enhances accounting and financial reporting requirements for accounting changes and error corrections and requires that (a) changes in accounting principles and error corrections be reported retroactively by restating prior periods, (b) changes to or within the financial reporting entity be reported by adjusting beginning balances of the current period, and (c) changes in accounting estimates be reported prospectively by recognizing the change in the current period. Requirements applicable to changes in accounting principles apply to the implementation of a new pronouncement if there is no specific transition guidance in the new pronouncement. The Statement also requires that aggregate amounts of adjustments to, and restatements of, beginning net position, fund balance, or fund net position, as applicable, be displayed by reporting unit in the financial statements. Management is evaluating the effect that this Statement, upon implementation, will have on the financial statements. GASB Statement No. 100 will be effective for fiscal year ending September 30, 2024.

In June 2022, GASB issued Statement No. 101, *Compensated Absences*. The primary objective of the Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. This Statement requires that liabilities for compensated absences be recognized for leave that has not been used and leave that has been used but not yet paid, provided the services have occurred, the leave accumulates, and the leave is more likely than not to be used for time off or otherwise paid in cash or noncash means. In estimating the leave that is more likely than not to be used or otherwise paid or settled, a government should consider relevant factors such as employment policies related to compensated absences and historical information about the use or payment of compensated absences. Leave that is more likely than not to be settled through conversion to defined benefit postemployment benefits should not be included in a liability for compensated absences. Management is evaluating the effect that this Statement, upon implementation, will have on the financial statements. GASB Statement No. 101 will be effective for fiscal year ending September 30, 2025.

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.

Air Marshall Islands, Inc.
(A Component Unit of the Republic of the Marshall Islands)

Notes to Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

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 year ended September 30, 2022, were as follows:

	October <u>1, 2021</u>	<u>Additions</u>	Transfers and <u>Disposals</u>	September <u>30, 2022</u>
Aircraft and improvements	\$ 21,187,806	\$ 354,709	\$ -	\$ 21,542,515
Rotable spare parts	9,776,370	595,224	-	10,371,594
Plant and equipment	1,336,327	65,296	-	1,401,623
Office furniture and equipment	852,719	23,057	(2,717)	873,059
Motor vehicles	309,748	-	-	309,748
Computer software	80,498	-	-	80,498
Building improvements	<u>18,050</u>	<u>7,434</u>	<u>-</u>	<u>25,484</u>
	33,561,518	1,045,720	(2,717)	34,604,521
Less accumulated depreciation and amortization	<u>(24,251,196)</u>	<u>(1,878,649)</u>	<u>1,458</u>	<u>(26,128,387)</u>
	<u>\$ 9,310,322</u>	<u>\$ (832,929)</u>	<u>\$ (1,259)</u>	<u>\$ 8,476,134</u>

4. Leases

Lease asset activities for the year ended September 30, 2022, were as follows:

	October <u>1, 2021</u>	<u>Additions</u>	Transfers and <u>Disposals</u>	September <u>30, 2022</u>
Right-to-use assets	\$ 134,695	\$ -	\$ -	\$ 134,695
Less accumulated amortization	<u>(-)</u>	<u>(26,058)</u>	<u>-</u>	<u>(26,058)</u>
	<u>\$ 134,695</u>	<u>\$ (26,058)</u>	<u>\$ -</u>	<u>\$ 108,637</u>

Air Marshall Islands, Inc.
(A Component Unit of the Republic of the Marshall Islands)

Notes to Financial Statements, continued

4. Leases, continued

The following is a summary of principal and interest requirements to maturity for the lease liabilities as of September 30, 2022:

<u>Year ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2023	\$ 22,239	\$ 13,488	\$ 35,727
2024	25,309	10,418	35,727
2025	28,801	6,926	35,727
2026	4,399	4,601	9,000
2027	5,006	3,994	9,000
2028 - 2031	<u>27,956</u>	<u>8,044</u>	<u>36,000</u>
	<u>\$ 113,710</u>	<u>\$ 47,471</u>	<u>\$ 161,181</u>

5. Long-term Liabilities

Long-term liabilities as of September 30, 2022, and changes for the year then ended were as follows:

	<u>October 1, 2021</u>	<u>Additions</u>	<u>Reductions</u>	<u>September 30, 2022</u>	<u>Due Within One Year</u>
Advances from RepMar	\$ 3,116,890	\$ -	\$ -	\$ 3,116,890	\$ -
Lease liabilities	<u>134,695</u>	<u>-</u>	<u>(20,985)</u>	<u>113,710</u>	<u>22,239</u>
	<u>\$ 3,251,585</u>	<u>\$ -</u>	<u>\$ (20,985)</u>	<u>\$ 3,230,600</u>	<u>\$ 22,239</u>

6. 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.

Air Marshall Islands, Inc.
(A Component Unit of the Republic of the Marshall Islands)

Notes to Financial Statements, continued

7. Related Party Transactions

AMI is a component unit of RepMar and is therefore affiliated with all RepMar-owned and affiliated entities, including the Marshall Islands Development Bank (MIDB) and the RMI Ports Authority (RMIPA). AMI's airline service is provided to RepMar and all RepMar-owned and affiliated entities. Services are extended to these entities at the same terms and conditions provided to third parties.

AMI utilizes services from certain affiliated entities at substantially the same terms and conditions as those incurred from third parties. A summary of related party transactions as of and for the year ended September 30, 2022, is as follows:

	<u>Receivables</u>	<u>Revenues</u>	<u>Payables</u>	<u>Expenses</u>
RepMar	\$ 502,361	\$ 2,169,905	\$ 13,578	\$ 41,214
RMIPA	525	1,794	807,273	59,133
Marshall Islands National Telecommunications Authority	1,908	28,520	-	55,709
College of the Marshall Islands	-	117,399	79,295	45,524
Marshalls Energy Company, Inc.	677	17,456	3,856	5,300
Other	<u>29,626</u>	<u>60,233</u>	<u>3,524</u>	<u>37,054</u>
	<u>\$ 535,097</u>	<u>\$ 2,395,307</u>	<u>\$ 907,526</u>	<u>\$ 243,934</u>

During the year ended September 30, 2022, AMI received cash operating subsidies from RepMar of \$725,364. As of September 30, 2022, operating subsidies due and receivable from RepMar was \$32,582.

A summary of advances from RepMar as of September 30, 2022, is as follows:

Advances in accordance with Cabinet Minute C.M. 150 (2002), no interest and due in May 2008.	\$ 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
Funding assistance in accordance with Cabinet Minute C.M. 118 (2007), no interest, on a reimbursable basis.	<u>128,316</u>
	<u>\$ 3,116,890</u>

AMI does not expect that RepMar will pursue collection of the above advances prior to September 30, 2023. Accordingly, such have been presented as long-term liabilities within the accompanying financial statements.

Air Marshall Islands, Inc.
(A Component Unit of the Republic of the Marshall Islands)

Notes to Financial Statements, continued

7. Related Party Transactions, continued

During the year ended September 30, 2022, AMI incurred Marshall Islands Social Security Administration (MISSA) employer contributions in the amount of \$186,534. As of September 30, 2022, AMI is liable to MISSA for employee and employer contributions in the amount of \$103,281.

As of September 30, 2022, AMI is liable for \$533,601 of payroll taxes, excluding related penalties and interest of approximately \$134,439. During the year ended September 30, 2022, AMI entered into an agreement with RepMar establishing a payment plan by which RepMar withholds 15% from future payment of AMI receivables until the liability is fully settled. Related penalties and interest associated with these delinquent taxes were waived. AMI's management further 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.

8. Employee Retirement Plan

During the year ended September 30, 2022, AMI implemented a defined contribution retirement savings plan (the Plan) for the benefit of eligible employees. An employee is eligible to become a member of the Plan following the completion of the three months continuous employment. Plan participants are required to contribute from a minimum of 5% of their salaries per payroll period to be matched by AMI up to 5% of the participant's annual base salaries. Withdrawal from the Plan occurs upon termination of employment, death, or financial hardship. Plan assets are held in trust administered by a trustee in accordance with the trust agreement. Management has the authority to establish or amend Plan provisions and contribution requirements. AMI contributed \$39,277 to Plan participant accounts during the year ended September 30, 2022, and total combined plan assets were \$69,849 as of September 30, 2022.

9. Commitment and Contingency

Commitment

In 2000, AMI cancelled a purchase agreement to acquire two Dornier 328 aircraft at a total cost of \$28,045,780, which included the requirement by AMI to make pre-delivery payments of \$2,100,000. AMI subsequently sued the aircraft manufacturer for repayment of the pre-delivery payments and for other claims. In 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. In 2002, the aircraft manufacturer filed for bankruptcy protection. The ultimate outcome of collection of this judgment is uncertain. As of September 30, 2022, AMI has not been repaid the pre-delivery payments and has recorded a provision for uncollectible advances of \$2,100,000.

Air Marshall Islands, Inc.
(A Component Unit of the Republic of the Marshall Islands)

Notes to Financial Statements, continued

9. Commitment and Contingency, continued

Contingency

As of September 30, 2022, AMI is liable to RMIPA for certain charges in the amount of \$807,273, and which is under dispute. Management is currently negotiating the settlement of these charges with RMIPA, and it is anticipated by management that such will be settled in favor of AMI. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Report of Independent Auditors 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*

The Board of Directors
Air Marshall Islands, Inc.

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 Air Marshall Islands, Inc. (AMI), which comprise the statement of net position as of September 30, 2022, 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 December 4, 2023.

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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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 or significant deficiencies may exist that were not identified.

Report on 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of 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 AMI's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Ernst + Young LLP

December 4, 2023