

*Financial Statements, Required Supplementary
Information, and Report on Internal Control and
Compliance*

Air Marshall Islands, Inc.

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

*Years ended September 30, 2023 and 2022
with Report of Independent Auditors*



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

Financial Statements, Required Supplementary Information,
and Report on Internal Control and Compliance

Years ended September 30, 2023 and 2022

Contents

Report of Independent Auditors.....	1
Management’s Discussion and Analysis	4
Audited Basic Financial Statements	
Statements of Net Position.....	16
Statements of Revenues, Expenses and Changes in Net Position	17
Statements of Cash Flows	18
Notes to Financial Statements.....	19
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>	33

Report of Independent Auditors

Board of Directors
Air Marshall Islands, Inc.

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the business-type activities of Air Marshall Islands, Inc. (AMI), a component unit of the Republic of the Marshall Islands, as of and for the years ended September 30, 2023 and 2022, and the related notes to the financial statements, which collectively comprise AMI's basic financial statements as listed in the table of contents (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of AMI as of September 30, 2023 and 2022, and the changes in financial position, and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits 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 January 13, 2025 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

January 13, 2025

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

Management's Discussion and Analysis

Years ended September 30, 2023 and 2022

Presented herewith is the annual Management's Discussion and Analysis (MD&A) of the financial performance of Air Marshall Islands, Inc. (AMI) for the financial year ended 30th September 2023, to be read along with our financial statements and the accompanying notes to our financial statements in this report.

ABOUT AIR MARSHALL ISLANDS

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.
- 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 and cargo.
- 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, continued

KEY ACHIEVEMENTS

- AMI generated operating income of \$603,961 in 2023, an increase of \$82,018 (or 15.7%) compared to operating income of \$521,943 in 2022.
- Total operating revenues amounted to \$7,889,650 in 2023, an increase of \$264,433 (or 3.5%) compared to \$7,625,217 in 2022. Total operating expenses amounted to \$7,285,689 in 2023, an increase of \$182,415 (or 2.6%) compared to \$7,103,274 in 2022.
- 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). This fare restructuring had a full impact in 2023, leading to the increase in operating revenues.
- In 2023, AMI saw a 5.1% increase in cargo revenue, adding \$49,606, following the implementation of new cargo rates in 2022. Conversely, charter revenue declined by 10.3%, or \$144,031, due to a decrease in demand for charter services.
- Fuel surcharge revenue increased by 20.1% in line with the increased rates effective April 1, 2022. The enhanced fuel surcharge was strategically implemented to mitigate the impact of rising fuel costs on AMI's overall financial health, thereby strengthening its revenue generation capabilities amidst fluctuating global fuel prices.
- In 2023, AMI experienced a 100% increase in ground handling revenue, amounting to an additional \$276,000, compared to 2022 when revenues were severely impacted by the COVID-19 pandemic and international border closures. This recovery highlights a resurgence in operations and travel activities as pandemic-related restrictions were lifted.
- Working capital ratio has improved to 2.38: 1 in 2023 compared to 2.03: 1 in 2022 indicating that AMI is able to meet its immediate debts as the industry benchmark is 2:1.
- Net cashflow has improved by \$1,061,915 from \$2,427,531 in 2022 to \$3,489,446 in 2023. The increase in cash balances is due to net cash provided by operating and noncapital financing activities of \$2,388,547 and \$969,204, respectively, less cash used in capital and related financing activities of \$2,295,836.

FINANCIAL SUMMARY

For the year ended September 30, 2023, AMI's operations resulted in operating income of \$603,961. Together with the RMI government subsidy of \$936,622, AMI experienced an overall increase in net position of \$1,531,055 (or 17.6%) from \$8,682,394 in 2022 to \$10,213,449 in 2023. The RMI Government subsidy was invested in capital-related projects such as repair/overhaul of aircraft parts, training of pilots and engineers, and Community Service Obligations.

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

Management's Discussion and Analysis, continued

FINANCIAL SUMMARY, CONTINUED

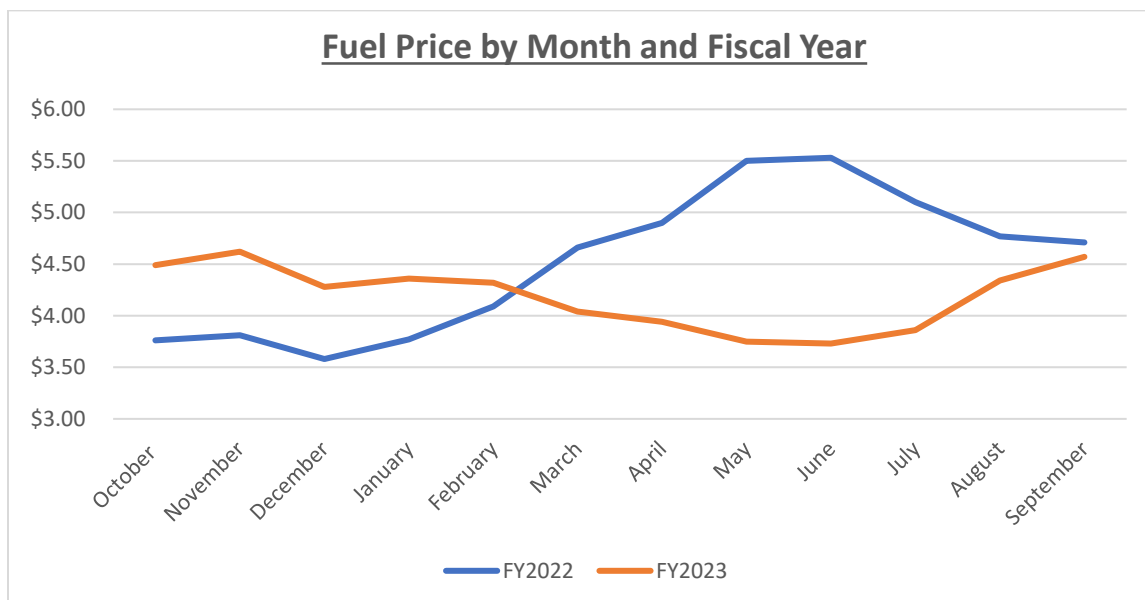
With the operating income in 2023 and 2022 of \$603,961 and \$521,943, respectively, such was a remarkable achievement compared to prior year operating losses. The operating income was a direct result of the increase in airfare tariffs, effective April 1, 2022, which enabled AMI to generate sufficient operating revenues to cover operating expenses. In addition, AMI has invested heavily in parts repair 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 \$7,103,274 in 2022 to \$7,285,689 in 2023.

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.

Jet Fuel Price

The ongoing conflict between Russia and Ukraine has significantly influenced global energy markets, notably leading to a marked escalation in jet fuel prices. This geopolitical tension has disrupted the supply chain and increased the volatility of oil prices, directly affecting the aviation industry by elevating operational costs and impacting overall profitability. Despite these challenges, the annual average fuel price per US Gallon has seen a slight decrease, moving from \$4.48 in 2022 to \$4.19 in 2023. This is in stark contrast to 2020 and 2021, when the average jet fuel price per gallon was notably lower at \$2.90.

Below, we present a comparison of average fuel prices for 2023 versus 2022, illustrating these dynamics.



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

Management's Discussion and Analysis, continued

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 asset and liabilities. An increase in net position over time typically indicates an improvement in financial condition.

A summary of AMI's Statement of Net Position as of September 30, 2023 compared with 2022 and 2021 is presented below:

Summary Statements of Net Position
As of September 30

	2023	2022	\$ Change 2023-2022	% Change 2023-2022	2021
Assets:					
Current and other assets	\$ 6,216,904	\$ 5,621,544	\$ 595,360	10.6%	\$ 3,425,091
Capital assets	<u>9,506,678</u>	<u>8,476,134</u>	<u>1,030,544</u>	12.2%	<u>9,310,322</u>
Total assets	<u>15,723,582</u>	<u>14,097,678</u>	<u>1,625,904</u>	11.5%	<u>12,735,413</u>
Liabilities:					
Current and other liabilities	<u>5,510,133</u>	<u>5,415,284</u>	<u>94,849</u>	1.8%	<u>5,285,584</u>
Net position:					
Net investment in capital assets	9,497,786	8,471,061	1,026,725	12.1%	9,310,322
Restricted	165,165	-	165,165		-
Unrestricted	<u>550,498</u>	<u>211,333</u>	<u>339,165</u>	160.5%	<u>(1,860,493)</u>
Total net position	<u>\$ 10,213,449</u>	<u>\$ 8,682,394</u>	<u>\$ 1,531,055</u>	17.6%	<u>\$ 7,449,829</u>

The trend in total net position indicates that AMI is moving in the right direction as its unrestricted net position has increased whilst total assets continue to be greater than total liabilities. This has been made possible by continued RMI government support, a decrease in aircraft downtime, and an increase in reliability of service, which has led to an increase in passenger numbers. Total assets have increased by \$1,625,904 (or 11.5%) from \$14,097,678 in 2022 to \$15,723,582 in 2023. This is the result of an increase in current and other assets of \$595,360 (or 10.6%) from \$5,621,544 in 2022 to \$6,216,904 in 2023 primarily due to the increase in cash balances and expendable parts, and an increase in capital assets of \$1,010,544 (or 12.2%) from \$8,476,134 in 2022 to \$9,506,678 in 2023. Total liabilities have increased by \$94,849 (or 1.8%) from \$5,415,284 in 2022 to \$5,510,133 in 2023. This is the result of an increase in current and other liabilities due to the increase in payables to affiliates.

Other liabilities include \$3,116,890 in advances from the RMI Government, which included: (1) a \$2,000,000 advance for start-up operations and lease payment for the Dash 8 Aircraft; (2) the transfer of a \$988,574 note payable to a bank for payable to an affiliate as a result of the bank seizing a TCD collateral; and (3) a \$128,316 reimbursable advance.

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

Management's Discussion and Analysis, continued

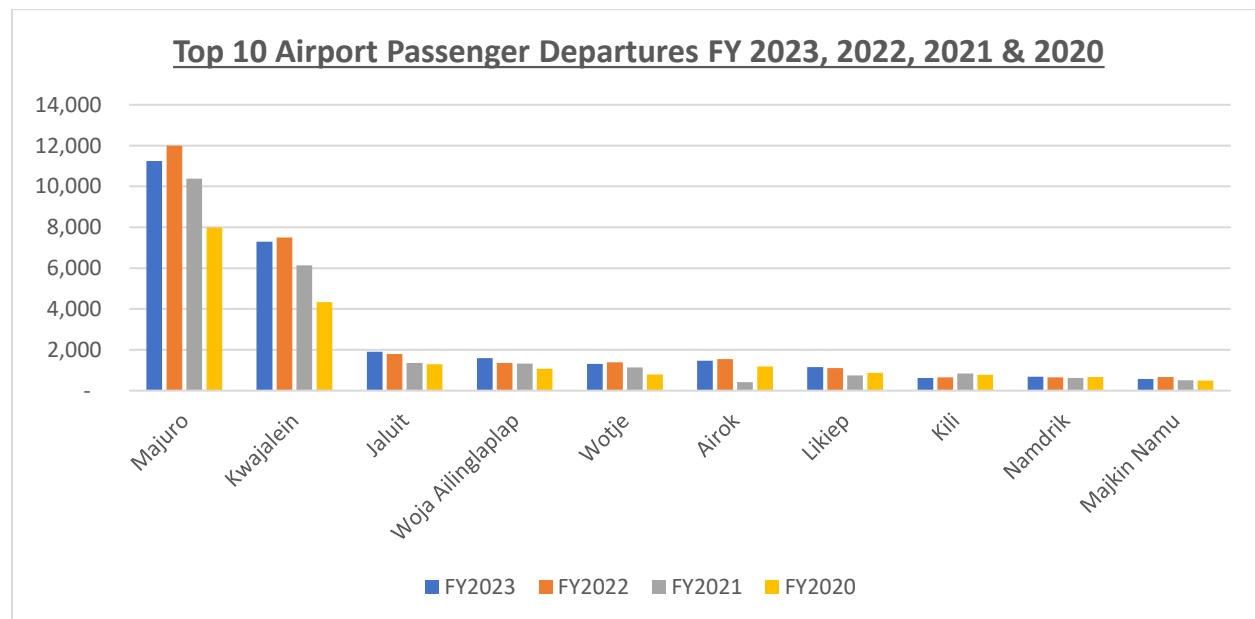
FINANCIAL ANALYSIS OF AMI, CONTINUED

A summary of AMI's Statement of Revenue, Expenses and Changes in Net Position for the year ended September 30, 2023, compared with 2022 and 2021 is presented below:

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

	2023	2022	\$ Change 2023-2022	% Change 2023-2022	2021
Operating:					
Operating revenues	\$ 7,889,650	\$ 7,625,217	\$ 264,433	3.5%	\$ 5,834,993
Operating expenses	(7,285,689)	(7,103,274)	(182,415)	2.6%	(6,703,125)
Operating income (loss)	603,961	521,943	82,018	15.7%	(868,132)
Nonoperating:					
Nonoperating revenues	936,622	725,364	211,258	29.1%	901,440
Nonoperating expenses	(9,528)	(14,742)	5,214	(35.4)%	-
	927,094	710,622	216,472	30.5%	901,440
Change in net position	\$ 1,531,055	\$ 1,232,565	\$ 298,490	24.2%	\$ 33,308

The trend in passenger numbers from 2020 to 2023 indicates an improvement in delivery of essential public services to Marshallese people and communities residing in the Neighboring Islands as indicated in the graph below.

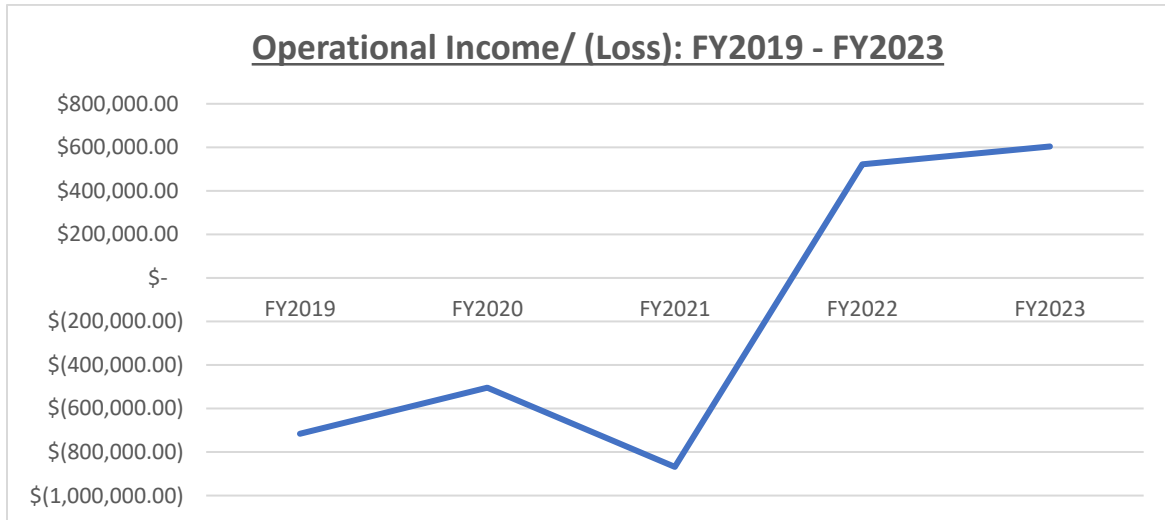


Air Marshall Islands, Inc.
(A Component Unit of the Republic of the Marshall Islands)

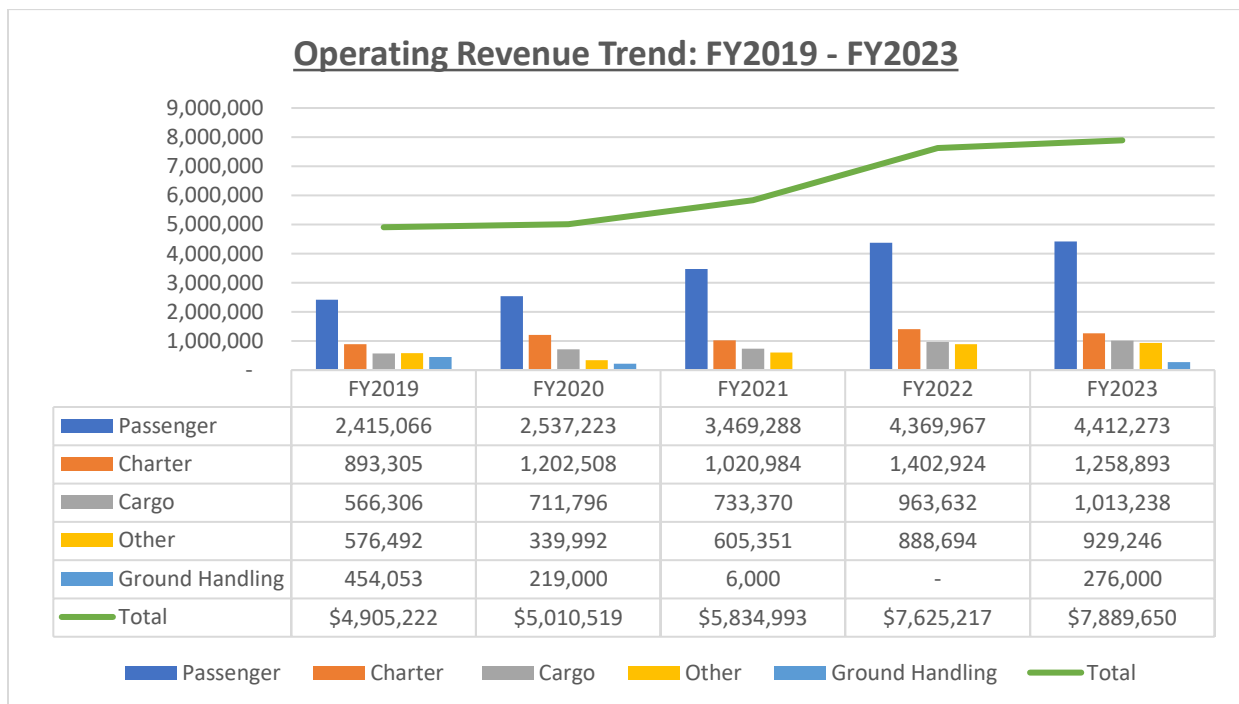
Management's Discussion and Analysis, continued

FINANCIAL ANALYSIS OF AMI, CONTINUED

The graph below indicates the operating income (loss) of AMI from 2019 through 2023.



The graph below indicates the main components of AMI's operating revenues from 2019 through to 2023.



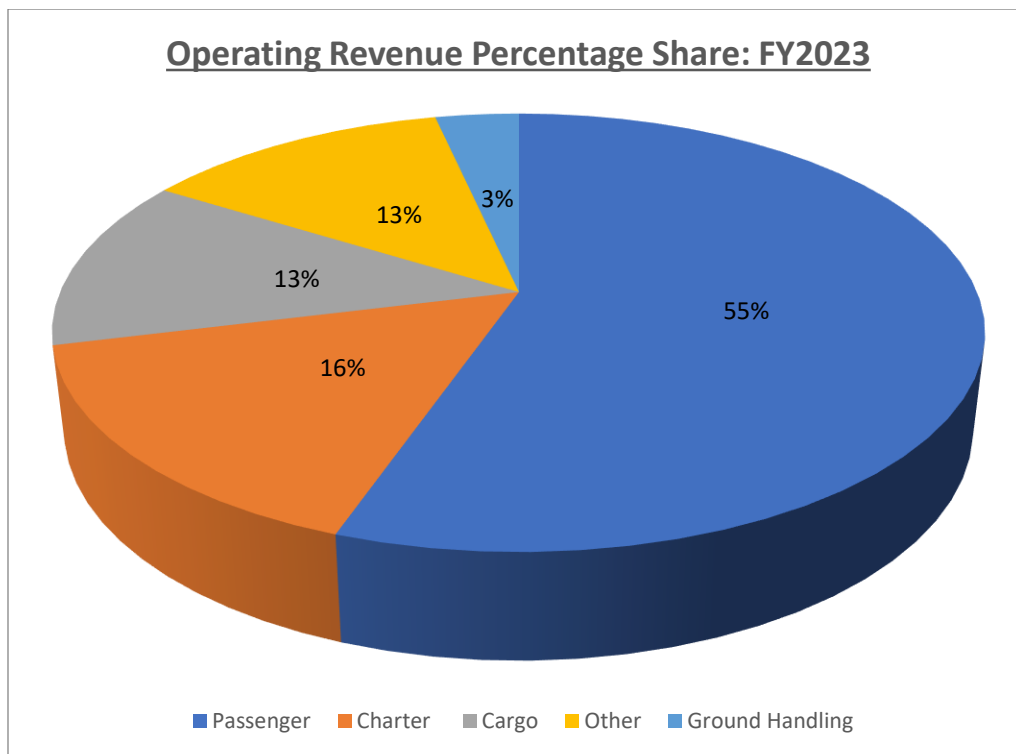
Air Marshall Islands, Inc.
(A Component Unit of the Republic of the Marshall Islands)

Management's Discussion and Analysis, continued

FINANCIAL ANALYSIS OF AMI, CONTINUED

AMI's total operating revenues, as indicated on the previous page, 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 2019 due to an increase in passenger travel.

Passenger revenue is the largest portion of total revenue and has increased in 2023 and mainly the increase in passenger revenue is due to an increase in airfare rates from April 1, 2022.



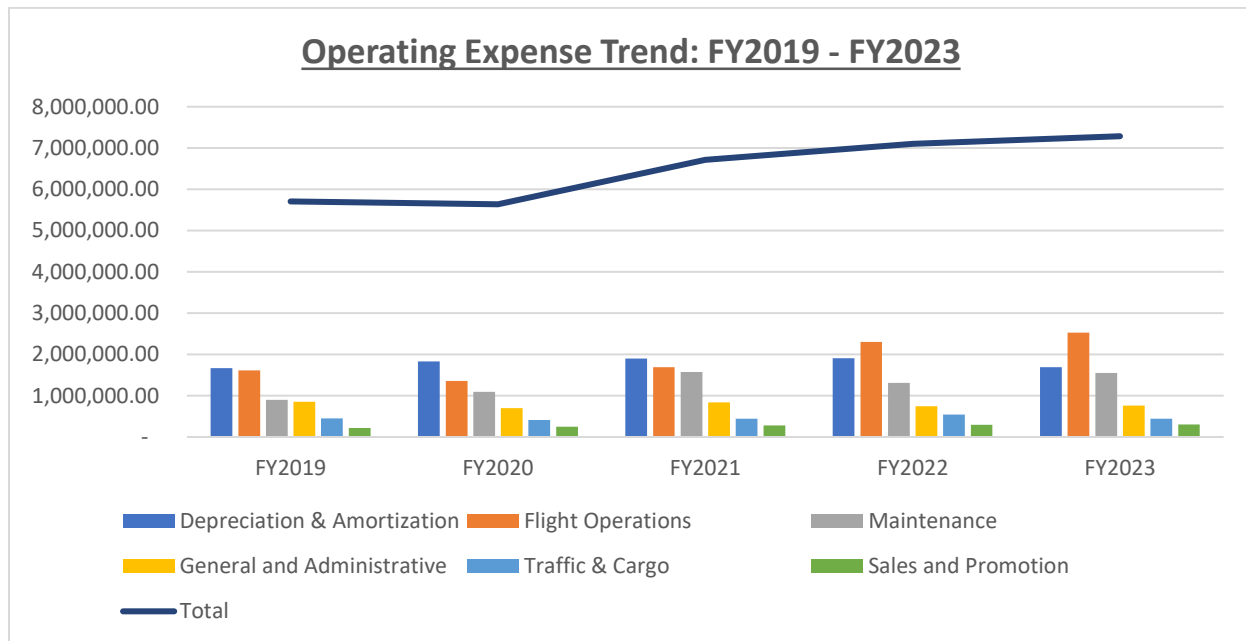
The above pie chart shows the distribution of each operating revenue source as a percentage of total operating revenues in which passenger at 55%, charter at 16%, cargo/freight at 13%, other at 13% and Ground handling revenue at 3%.

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

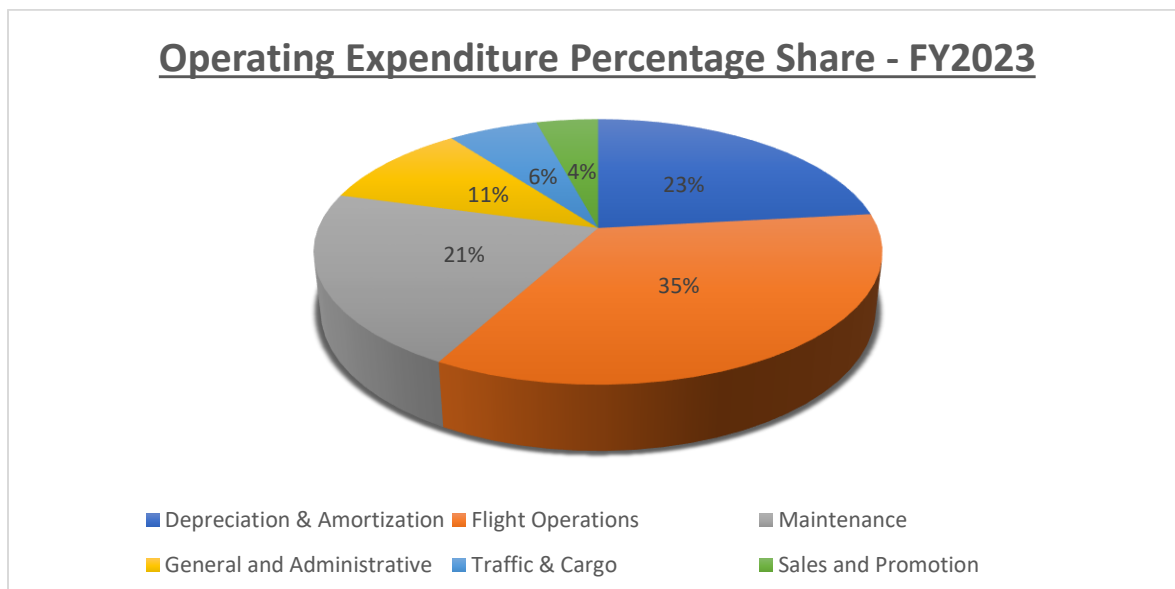
Management's Discussion and Analysis, continued

FINANCIAL ANALYSIS OF AMI, CONTINUED

The graph below indicates the main components of AMI's operating expenses from 2019 through to 2023.



The above diagram shows AMI's individual operating expenses with Flights Operations being the largest expense followed by Depreciation and Amortization, Maintenance, General and Administration, Traffic and Cargo, and Sales and Promotion.



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

Management's Discussion and Analysis, continued

FINANCIAL ANALYSIS OF AMI, CONTINUED

The pie chart, on the previous page, indicates the composition of AMI's total operating expenses in 2023, indicating flight operations with the largest share of 35%, followed by depreciation and amortization of 23%, maintenance of 21%, general administration of 11%, traffic and cargo servicing of 6%, and sales and promotion of 4%.

Flight Operations represents the largest share of operating expenses which included the fuel cost which attributes to 40% of the total cost of Flight Operations department. Depreciation and Amortization expense represents the 2nd largest share of operating expenses at 23% of total operating expenses.

The RMI government provided AMI with an operating subsidy allocation of \$936,622, which was used by AMI for Capital projects., repairs and overhaul of aircraft components, parts and engine. Furthermore, the subsidy was also utilized to train local maintenance engineers and pilots.

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.

CAPITAL ASSETS AND DEBT

Net Capital assets increased by \$1,030,544 (or 12.2%) from \$8,476,134 in 2022 to \$9,506,678 in 2023. The increase is due to the acquisition of capital assets of \$2,698,221, net of an increase in accumulated depreciation of \$1,667,677. A summary of AMI's capital assets as of September 30, 2023, compared with 2022 and 2021 is presented below:

Summary Schedule of Capital Assets
As of September 30

	2023	2022	\$ Change 2023-2022	% Change 2023-2022	2021
Aircraft and improvements	\$ 23,230,500	\$ 21,542,515	\$ 1,687,985	7.8%	\$ 20,987,319
Rotable spare parts	11,215,096	10,371,594	843,502	8.1%	8,642,804
Plant and equipment	1,464,162	1,401,623	62,539	4.5%	1,282,943
Office furniture and equipment	880,559	873,059	7,500	0.9%	837,609
Motor vehicles	406,443	309,748	96,695	31.2%	326,740
Computer and software	80,498	80,498	-	0.0%	79,998
Building improvements	25,484	25,484	-	0.0%	18,347
	37,302,742	34,604,521	2,698,221	7.8%	32,175,760
Accumulated depreciation	(27,796,064)	(26,128,387)	(1,667,677)	6.4%	(22,379,496)
	<u>\$ 9,506,678</u>	<u>\$ 8,476,134</u>	<u>\$ 1,030,544</u>	12.2%	<u>\$ 9,796,264</u>

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

Management's Discussion and Analysis, continued

CAPITAL ASSETS AND DEBT, CONTINUED

Refer to note 3 to the accompanying financial statements for additional information over AMI's capital assets. AMI did not recognize or record any formal long-term debt in 2022 or 2023. However, AMI recognized certain advances from the RMI Government in the aggregate amount of \$3,116,890. These advances were subsequently forgiven by the RMI Cabinet in 2024.

CASH FLOWS

AMI received cash of \$7,760,015 and \$7,260,594, respectively, from customers in 2023 and 2022. In 2023, AMI made cash payments to vendors for goods and services and employees for payroll in the amount of \$3,139,023 and \$2,232,445, respectively, compared with \$3,303,849 and \$2,036,214, respectively, in 2022. This resulted in net cash provided by operating activities in 2023 of \$2,388,547 compared with \$1,920,531 in 2022. Additionally, operating cash subsidies received from the RMI Government in 2023 and 2022 of \$969,204 and \$842,782, respectively, assisted in operations continuing "business as usual".

CURRENT ECONOMIC OUTLOOK

The Marshall Islands' economy is small, open, and highly susceptible to global events, with significant reliance on funding from the US Government through Compact and federal contributions. These funds account for 60% or more of the annual government budget, which is approximately \$150 million, closely aligning with the nation's nominal GDP. Consequently, the Marshall Islands remain vulnerable to external shocks and economic adversities. Historical instances, such as the 2008 and 2009 global energy crisis, have demonstrated this vulnerability. During these years, the spike in fuel prices and related costs had a direct and immediate adverse impact on the local economy, underscoring the ongoing risk of similar economic calamities. This context highlights the need for robust financial oversight and strategic planning to mitigate the effects of such external pressures.

Prior to the energy crisis, cost of jet fuel used to be around \$2 per gallon; however, current prices hover around \$4.50 per gallon. Given the current global events, world fuel prices are not going back to the pre-crisis level. Therefore, the increase in fuel cost since the crisis has effectively increased the cost of operations for AMI by at least 15% per year.

The annual subsidies and contributions from the RMI Government has been essential in sustaining the airline's services. Continued Government contributions to AMI is important in the short to medium-terms until the Nation'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 aircrafts, improvement on airport runways, adequate spare parts provisioning, and reduction of AOG.

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

Management's Discussion and Analysis, continued

ROLE OF BOARD AND MANAGEMNET

AMI management and board can only do so much in terms of streamlining operations and reining in costs and improving performance. However, this will not create a much visible change in operations if the following challenges and predicaments of the airline continue to exist:

1. Deteriorated and dilapidated airport runways and ramps in the outer islands that continue to cause great and costly damages to the aircrafts.
2. Insufficient spare parts for the aircrafts.
3. Sourcing parts for Dornier Aircraft which are available only from the manufacturer.

WAY FORWARD AND FUTURE SUSTAINABILITY

AMI presented a new strategic Business Plan (BP) which was developed as a compass for the period 2024 - 2026 to chart AMI'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 have been altered to 3 Rs (three goals) as AMI relies on RMI subsidy funding, the 3 Rs must be implemented, and these goals are:

Goal 1: "Repair" of outer island airstrips.

Goal 2: "Reverse" our loss making.

Goal 3: "Renew" our operation.

We strongly believe that implementation of these three goals through adequate support of the Cabinet and the Board would enable AMI, in spite of all 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 (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, continued

KEY ACHIEVEMENTS SUBSEQUENT TO FY2023

- **Goal 2: “Reverse” our loss making:** objectives as per below:
 - AMI is working to invest in parts such as repairs and overhauls so that it reduces the AOG and this will result in a steady stream of revenues.
 - AMI is working very closely with suppliers in restoring supplier confidence and trying to negotiate 30-day trial credit terms which eases the cash flow and assist in AOG situations.

ADDITIONAL FINANCIAL AND OTHER INFORMATION

This MD&A was designed to provide AMI's customers and other stakeholders with an overview of the company's operations and financial condition as at 30th September 2023, and its vision for future sustainability. Should the readers have questions regarding the information provided in this report, or wish to request for additional financial information, kindly contact the AMI's General Manager and Chief Executive Officer - Mr. Albon Jelke at P.O. Box 1319, Majuro, Marshall Islands, MH 96960; Telephone (692) 625-3731; Fax (692) 625-3730; Email Address: albon.jelke@airmarshallislands.net

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

Statements of Net Position

	September 30, 2023	2022
ASSETS		
Current assets:		
Cash	\$ 3,489,446	\$ 2,427,531
Receivables:		
Affiliates	640,619	535,097
Due from RepMar	---	32,582
Trade	296,821	205,120
Employees	32,590	10,528
	970,030	783,327
Less allowance for doubtful accounts	(236,028)	(185,813)
	734,002	597,514
Expendable parts (net of allowance for obsolescence of \$198,909 at September 30, 2023 and 2022)	1,136,602	1,283,327
Prepaid expenses and deposits	167,586	163,696
Total current assets	5,527,636	4,472,068
Capital assets:		
Capital assets, net of accumulated depreciation and amortization	9,506,678	8,476,134
Lease assets, net	82,580	108,637
Long-term deposits	606,688	1,040,839
Total noncurrent assets	10,195,946	9,625,610
	<u>\$ 15,723,582</u>	<u>\$ 14,097,678</u>
LIABILITIES AND NET POSITION		
Current liabilities:		
Accounts payable	\$ 617,308	\$ 430,392
Social security taxes payable	105,906	103,281
Withholding taxes payable	429,798	533,601
Air traffic liability	147,088	107,653
Payable to affiliates	904,645	907,526
Lease liabilities, current portion	25,309	22,239
Other liabilities and accruals	97,026	102,231
Total current liabilities	2,327,080	2,206,923
Lease liabilities, net of current portion	66,163	91,471
Advances from RepMar	3,116,890	3,116,890
Total liabilities	5,510,133	5,415,284
Commitment and contingency		
Net position:		
Net investment in capital assets	9,497,786	8,471,061
Restricted	165,165	---
Unrestricted	550,498	211,333
Total net position	10,213,449	8,682,394
	<u>\$ 15,723,582</u>	<u>\$ 14,097,678</u>

See accompanying notes.

Air Marshall Islands, Inc.

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

Statements of Revenues, Expenses and Changes in Net Position

	Year ended September 30,	
	2023	2022
Operating revenues:		
Passenger	\$ 4,412,273	\$ 4,369,967
Charter	1,258,893	1,402,924
Cargo	1,013,238	963,632
Fuel surcharge	496,149	412,948
Flight diversion	277,840	227,075
Ground handling	276,000	---
Other	205,472	253,448
Total operating revenues	<u>7,939,865</u>	<u>7,629,994</u>
Bad debts expense	(50,215)	(4,777)
Total net operating revenues	<u>7,889,650</u>	<u>7,625,217</u>
Operating expenses:		
Flight operations	2,535,971	2,304,811
Depreciation and amortization	1,693,734	1,904,707
Maintenance	1,469,708	1,311,262
General and administrative	750,706	744,001
Aircraft and traffic servicing	512,462	541,764
Promotion and sales	323,108	296,729
Total operating expenses	<u>7,285,689</u>	<u>7,103,274</u>
Operating income	<u>603,961</u>	<u>521,943</u>
Nonoperating revenues (expenses):		
RepMar subsidy	936,622	725,364
Interest expense	(9,528)	(14,742)
Total nonoperating revenues, net	<u>927,094</u>	<u>710,622</u>
Change in net position	<u>1,531,055</u>	<u>1,232,565</u>
Net position at beginning of year	<u>8,682,394</u>	<u>7,449,829</u>
Net position at end of year	<u>\$ 10,213,449</u>	<u>\$ 8,682,394</u>

See accompanying notes.

Air Marshall Islands, Inc.

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

Statements of Cash Flows

	Year ended September 30,	
	2023	2022
Cash flows from operating activities:		
Cash received from customers	\$ 7,760,015	\$ 7,260,594
Cash payments to suppliers for goods and services	(3,139,023)	(3,303,849)
Cash payments to employees for services	(2,232,445)	(2,036,214)
Net cash provided by operating activities	<u>2,388,547</u>	<u>1,920,531</u>
Cash flows from noncapital financing activities:		
Operating subsidy received from RepMar	<u>969,204</u>	<u>842,782</u>
Cash flows from capital and related financing activities:		
Acquisition of capital assets	(2,264,070)	(1,919,660)
Principal paid on lease liabilities	(22,238)	(20,985)
Interest paid on lease liabilities	(9,528)	(14,742)
Cash used in capital and related financing activities	<u>(2,295,836)</u>	<u>(1,955,387)</u>
Net change in cash	1,061,915	807,926
Cash at beginning of year	<u>2,427,531</u>	<u>1,619,605</u>
Cash at end of year	<u><u>\$ 3,489,446</u></u>	<u><u>\$ 2,427,531</u></u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 603,961	\$ 521,943
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	1,693,734	1,904,707
Bad debts expense	50,215	4,777
Changes in assets, liabilities, and deferred inflows of resources:		
Receivables:		
Affiliates	(105,522)	(288,316)
Trade	(91,701)	(9,689)
Employees	(22,062)	11,190
Expendable parts	146,725	(299,825)
Prepaid expenses and deposits	(3,890)	(74,941)
Accounts payable	186,916	143,966
Social security taxes payable	2,625	(447)
Withholding taxes payable	(103,803)	(37,471)
Air traffic liability	39,435	(82,585)
Payable to affiliates	(2,881)	118,958
Other liabilities and accruals	(5,205)	8,264
Net cash provided by operating activities	<u><u>\$ 2,388,547</u></u>	<u><u>\$ 1,920,531</u></u>

See accompanying notes.

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

Notes to Financial Statements

Years ended September 30, 2023 and 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.
- Restricted - nonexpendable net position subject to externally imposed stipulations that requires AMI to maintain such permanently. As of September 30, 2023 and 2022, AMI does not have nonexpendable net position. Expendable net position whose use by AMI is subject to externally imposed stipulations that can be fulfilled by actions of AMI pursuant to those stipulations or that expire by the passage of time. As of September 30, 2023 and 2022, AMI has expendable net position as follows:

	<u>2023</u>	<u>2022</u>
Pilot Training and Maintenance	\$ <u>165,165</u>	\$ <u>---</u>

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

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

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

Basis of Accounting

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

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, 2023 and 2022, the carrying amount of cash was \$3,489,446 and \$2,427,531, respectively, and the corresponding bank balance was \$3,529,240 and \$2,362,929, respectively, of which \$2,722,485 and \$2,166,393, respectively, is maintained in a financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance. The remaining bank deposits of \$806,755 and \$196,356, respectively, are maintained in financial institutions not subject to depository insurance.

As of September 30, 2023 and 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.

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

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 income.

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. Rotable 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:

	<u>Estimated Useful Lives</u>
Aircraft and improvements	10 - 15 years
Rotable spare parts	5 - 10 years
Plant and equipment	5 years
Office furniture and equipment	3 - 7 years
Motor vehicles	3 years
Building improvements	20 years

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

Deferred Outflows of Resources

In addition to assets, the statements 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.

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 statements 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, 2023 and 2022, the accumulated vacation leave liability amounted to \$80,531 and \$86,704, respectively, and is included within the statements of net position as accrued expenses.

Deferred Inflows of Resources

In addition to liabilities, the statements 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.

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

Revenue Recognition, continued

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.

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.

Recently Adopted Accounting Pronouncements

During the year ended September 30, 2023, AMI implemented the following pronouncements:

- GASB Statement No. 91, *Conduit Debt Obligations*, which provides 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. The implementation of this Statement did not have a material effect on the accompanying financial statements.
- GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, which improves 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. 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. 96, *Subscription-Based Information Technology Arrangements*, which 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. The implementation of this Statement did not have a material effect on the accompanying financial statements.
- GASB Statement No. 99, *Omnibus 2022*, which enhances comparability in accounting and financial reporting and improves consistency of authoritative literature by addressing (1) practice issues that have been identified during the implementation and application of certain GASB Statements and (2) accounting and financial reporting for financial guarantees.

This Statement provides clarification of provisions in:

- 1) GASB Statement No. 87, *Leases*, 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.
- 2) 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.
- 3) GASB Statement No. 96 related to the SBITA term, classification of a SBITA as a short-term SBITA, and recognition and measurement of a subscription liability.

This Statement modifies accounting and reporting guidance in:

- 4) GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, related to termination of hedge.

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

Upcoming Accounting Pronouncements

In April 2022, GASB issued Statement No. 99. 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.

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.

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 December 2023, GASB issued Statement No. 102, *Certain Risk Disclosures*. The primary objective of this Statement is to provide users of the government financial statements with essential information about risks related to a government's vulnerabilities due to ascertain concentrations or constraints. This Statement requires a government to assess whether a concentration or constraint makes the primary government reporting unit or other reporting units that report a liability for revenue debt vulnerable to the risk of a substantial impact. Additionally, this Statement requires a government to assess whether an event or events associated with a concentration or constraint that could cause the substantial impact has occurred, has begun to occur, or is more likely than not to begin to occur within 12 months of the date the financial statements are issued. Management is evaluating the effect that this Statement, upon implementation, will have on the financial statements. GASB Statement No. 102 will be effective for fiscal year ending September 30, 2025.

In April 2024, GASB issued Statement No. 103, *Financial Reporting Model Improvements*. The primary objective of this Statement is to improve key components of the financial reporting model to enhance its effectiveness in providing information that is essential for decision making and assessing a government's accountability. This Statement also addresses certain application issues identified through agenda research conducted by the GASB. This Statement establishes new accounting and financial reporting requirements - or modifies existing requirements - related to the following: a) management's discussion and analysis (MD&A); b) unusual or infrequent items; c) presentation of the proprietary fund statement of revenues, expenses, and changes in fund net position; d) information about major component units in basic financial statements; e) budgetary comparison information; and f) financial trends information in the statistical section. Management is evaluating the effect that this Statement, upon implementation, will have on the financial statements. GASB Statement No. 103 will be effective for fiscal year ending September 30, 2026.

Estimates

The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and deferred outflows of resources, liabilities and deferred inflows of resources, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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

Notes to Financial Statements, continued

3. Capital Assets

Capital asset activities for the years ended September 30, 2023 and 2022, were as follows:

	<u>2023</u>			
	<u>October 1, 2022</u>	<u>Additions</u>	<u>Transfers and Disposals</u>	<u>September 30, 2023</u>
Depreciable capital assets:				
Aircraft and improvements	\$ 21,542,515	\$ 1,687,985	\$ ---	\$ 23,230,500
Rotable spare parts	10,371,594	843,502	---	11,215,096
Plant and equipment	1,401,623	62,539	---	1,464,162
Office furniture and equipment	873,059	7,500	---	880,559
Motor vehicles	309,748	96,695	---	406,443
Computer software	80,498	---	---	80,498
Building improvements	<u>25,484</u>	<u>---</u>	<u>---</u>	<u>25,484</u>
	34,604,521	2,698,221	---	37,302,742
Less accumulated depreciation and amortization	<u>(26,128,387)</u>	<u>(1,667,677)</u>	<u>---</u>	<u>(27,796,064)</u>
	<u>\$ 8,476,134</u>	<u>\$ 1,030,544</u>	<u>\$ ---</u>	<u>\$ 9,506,678</u>
	<u>2022</u>			
	<u>October 1, 2021</u>	<u>Additions</u>	<u>Transfers and Disposals</u>	<u>September 30, 2022</u>
Depreciable capital assets:				
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>

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

Notes to Financial Statements, continued

4. Leased Assets

Leased asset activities for the years ended September 30, 2023 and 2022, were as follows:

	<u>2023</u>			
	<u>October 1, 2022</u>	<u>Additions</u>	<u>Transfers and Disposals</u>	<u>September 30, 2023</u>
Lease assets:				
Right-to-use assets	\$ 134,695	\$ ---	\$ ---	\$ 134,695
Less accumulated amortization	(26,058)	(26,057)	---	(52,115)
	<u>\$ 108,637</u>	<u>\$(26,057)</u>	<u>\$ ---</u>	<u>\$ 82,580</u>
	<u>2022</u>			
	<u>October 1, 2021</u>	<u>Additions</u>	<u>Transfers and Disposals</u>	<u>September 30, 2022</u>
Lease assets:				
Right-to-use assets	\$ ---	\$ 134,695	\$ ---	\$ 134,695
Less accumulated amortization	---	(26,058)	---	(26,058)
	<u>\$ ---</u>	<u>\$ 108,637</u>	<u>\$ ---</u>	<u>\$ 108,637</u>

5. Leases

AMI has leases for certain use of office space. The terms of the agreements range from 2 to 20 years generally at fixed monthly payments with no variable payments or escalation clauses. The calculated interest rates used were 13.5%. The following is a summary of principal and interest requirements to maturity for the lease liabilities as of September 30, 2023:

<u>Year ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	5,697	3,303	9,000
2029 - 2031	<u>22,260</u>	<u>4,740</u>	<u>27,000</u>
	<u>\$ 91,472</u>	<u>\$ 33,982</u>	<u>\$ 125,454</u>

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

Notes to Financial Statements, continued

6. Long-term Liabilities

Long-term liabilities as of September 30, 2023 and 2022, and changes for the years then ended were as follows:

	<u>2023</u>				
	<u>October 1, 2022</u>	<u>Additions</u>	<u>Reductions</u>	<u>September 30, 2023</u>	<u>Due Within One Year</u>
Advances from RepMar	\$ 3,116,890	\$ ---	\$ ---	\$ 3,116,890	\$ ---
Lease liabilities	<u>113,710</u>	<u>---</u>	<u>(22,238)</u>	<u>91,472</u>	<u>25,309</u>
	<u>\$ 3,230,600</u>	<u>\$ ---</u>	<u>\$ (22,238)</u>	<u>\$ 3,208,362</u>	<u>\$ 25,309</u>
	<u>2022</u>				
	<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>---</u>	<u>134,695</u>	<u>(20,985)</u>	<u>113,710</u>	<u>22,239</u>
	<u>\$ 3,116,890</u>	<u>\$ 134,695</u>	<u>\$ (20,985)</u>	<u>\$ 3,230,600</u>	<u>\$ 22,239</u>

7. 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.

8. Related Party Transactions

AMI is a component unit of RepMar and is therefore affiliated with all RepMar-owned and affiliated entities, including 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.

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

Notes to Financial Statements, continued

8. Related Party Transactions, continued

A summary of related party transactions as of and for the years ended September 30, 2023 and 2022, are as follows:

	2023			
	<u>Receivables</u>	<u>Revenues</u>	<u>Payables</u>	<u>Expenses</u>
RepMar	\$ 623,831	\$ 2,445,819	\$ 6,022	\$ 59,356
RMIPA	2,025	3,250	876,674	70,889
Marshall Islands National Telecommunications Authority	459	16,627	2,589	65,963
College of the Marshall Islands	3,235	38,586	11,924	300
Marshall's Energy Company, Inc.	202	2,437	3,996	45,460
Other	<u>10,867</u>	<u>95,529</u>	<u>3,440</u>	<u>7,455</u>
	<u>\$ 640,619</u>	<u>\$ 2,602,248</u>	<u>\$ 904,645</u>	<u>\$ 249,423</u>
	2022			
	<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
Marshall's 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 years ended September 30, 2023 and 2022, AMI received cash operating subsidies from RepMar in the amount of \$936,622 and \$725,364, respectively. As of September 30, 2022, operating subsidies due and receivable from RepMar was \$32,582.

As of September 30, 2023 and 2022, AMI recorded certain advances from RepMar in the amount of \$3,116,890 (see Note 11).

During the years ended September 30, 2023 and 2022, AMI incurred Marshall Islands Social Security Administration (MISSA) employer contributions in the amount of \$153,429 and \$186,534, respectively. As of September 30, 2023 and 2022, AMI is liable to MISSA for employee and employer contributions in the amount of \$105,906 and \$103,281, respectively.

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

Notes to Financial Statements, continued

8. Related Party Transactions, continued

As of September 30, 2023 and 2022, AMI is liable for \$429,798 and \$533,601, respectively, of payroll taxes, excluding related penalties and interest. In 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.

9. Employee Retirement Plan

AMI has 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 \$78,443 and \$39,277, respectively, to Plan participant accounts during the years ended September 30, 2023 and 2022, and total combined plan assets were \$241,755 and \$69,849, respectively, as of September 30, 2023 and 2022.

10. 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, 2023, AMI has not been repaid the pre-delivery payments and has recorded a provision for uncollectible advances of \$2,100,000 (see Note 11).

Contingency

As of September 30, 2023, AMI is liable to RMIPA for certain charges in the amount of \$746,368, 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.

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

Notes to Financial Statements, continued

11. Subsequent Events

On September 19, 2024, the RepMar Cabinet through C.M. 211 (2024) approved the write-off of certain advances in the aggregate amount of \$3,116,890 (see Note 8). In addition, the Cabinet approved the write-off of a \$2,100,000 pre-delivery deposit associated with a purchase agreement for two Dornier 328 aircraft (see Note 10).

On September 30, 2024, AMI entered into a purchase agreement to acquire two Cessna SkyCourier aircraft at a total cost of \$18,519,400.

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*

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 the business-type activities of Air Marshall Islands, Inc. (AMI), which comprise the statement of net position as of September 30, 2023, 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 January 13, 2025.

Report on 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 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.

Ernst + Young LLP

January 13, 2025