

*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, 2024 and 2023
with Report of Independent Auditors*



**Shape the future
with confidence**

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, 2024 and 2023

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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, 2024 and 2023, 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, 2024 and 2023, 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 audits. 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 16 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 November __, 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

November 26, 2025

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

Management's Discussion and Analysis

Years ended September 30, 2024 and 2023

ABOUT AIR MARSHALL ISLANDS

Air Marshall Islands, Inc. (AMI) is the national airline and flag carrier of the Republic of the Marshall Islands. AMI's market consists of 25 Outer Island communities scattered over almost 700,000 square miles of the Pacific Ocean. The airline fulfills an essential role in the transportation infrastructure for the Nation. AMI's current fleet consists 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 services for their success;
- Support growth of in-bound travel and export by conducting activities in support of these objectives, including the provision of commercially viable regional services; and
- Provide medical evacuation, humanitarian relief, search and rescue, and related services when required.

STRATEGY

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

Key Achievements in 2024

- **Fleet renewal progressed significantly**, with the AMI Board and Cabinet approving the sale of the Dash 8 aircraft and the RMI Government endorsing the purchase of **two new Cessna Sky Courier aircraft**.

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

Management's Discussion and Analysis, continued

Key Achievements in 2024, continued

- **AMI completed the most extensive maintenance program in its recent history**, successfully conducting the full **C-Check of the Dash 8 aircraft** in Cairns, Australia at a total capitalized cost of **\$4.7 million**, restoring the aircraft to enhanced airworthiness standards.
- **Total Net Position increased by \$5.59 million (55%)**, rising from \$10.21 million to \$15.8 million, driven by the RMI Government's subsidy support of **\$0.69 million** for operations and **\$2.33 million** for the Dash 8 C-Check, disciplined financial management, and the Cabinet-approved **write-off of \$3.12 million** in long-term advances.
- **Capital assets increased by 50%**, from \$9.51 million in FY2023 to \$14.26 million in FY2024, reflecting major investment in aircraft safety, maintenance, and operational capability, including Dornier engine and component overhauls.
- **Working capital remained positive**, demonstrating AMI's continued ability to meet short-term financial obligations despite reduced fleet capacity, prolonged Aircraft on Ground (AOG) events, and challenging operating conditions throughout the year.

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 2024, to be read along with our financial statements and the accompanying notes to our financial statements in this report.

FINANCIAL SUMMARY

For the year ended September 30, 2024, AMI recorded an operating loss of **\$540,611**. However, when combined with the **RMI Government subsidies of \$3.02 million** and the **RMI Government's advance write-off of \$3.12 million**, AMI achieved a total **increase in net position of \$5.59 million (55%)**, rising from **\$10.21 million to \$15.8 million**. The RMI Government subsidies was fully allocated toward capital projects, including the repair and overhaul of aircraft components, training for pilots and engineers, and funding for Community Service Obligations (CSO).

Compared with an operating profit of **\$603,961 in FY2023**, AMI incurred an operating loss in FY2024 primarily due to the reduction in operational fleet capacity. AMI relied solely on its two 18-seater Dornier aircraft throughout most of the fiscal year, as the 38-seater Dash 8 remained in Cairns, Australia undergoing an extensive C-Check for nearly **11 months**, at a total capitalized cost of approximately **\$4.7 million**. In addition, AMI continued its strategic investment in parts repairs and component overhauls to reduce AOG occurrences and improve long-term service reliability.

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

Management’s Discussion and Analysis, continued

FINANCIAL SUMMARY, continued

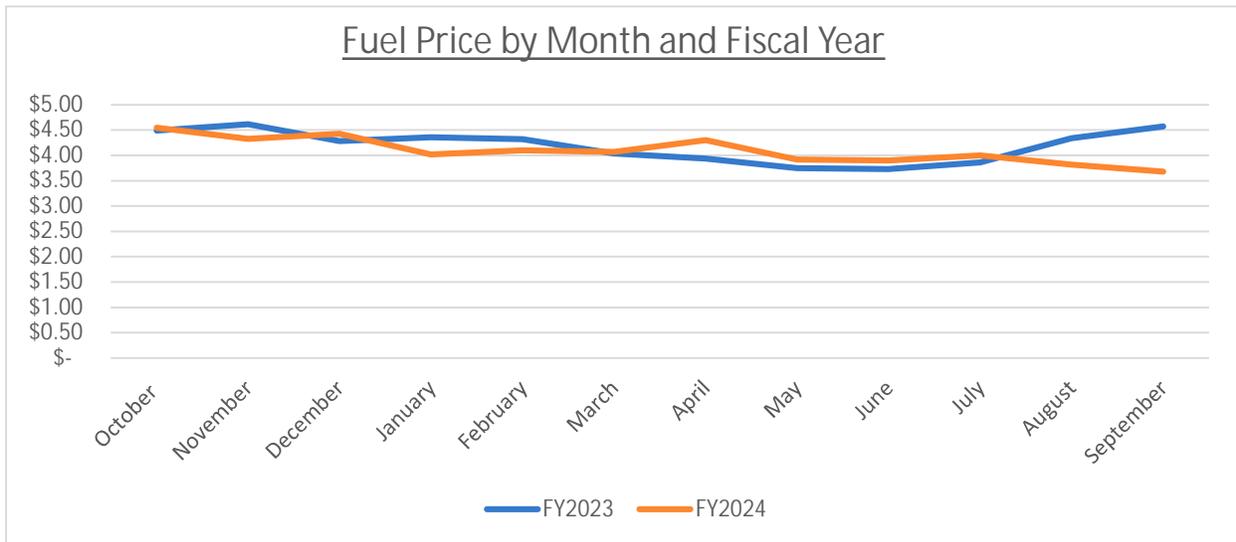
AMI continues to face operational difficulties and challenges due to increased AOG of both the Dornier and Dash 8 aircraft because of poor conditions of the Outer Island airports and the severely corrosive maritime environment leading to disruption of flight schedules.

Jet Fuel Price

Global energy markets continued to be shaped by geopolitical instability throughout FY2024, particularly the prolonged conflict between Russia and Ukraine, ongoing tensions in the Middle East, and disruptions within major oil-producing regions. These external pressures contributed to heightened volatility in global oil supply chains, affecting refining, transportation, and overall fuel availability. Despite these persistent geopolitical risks, the average jet fuel price per US gallon **decreased from \$4.19 in FY2023 to \$3.68 in FY2024**, offering some relief to AMI’s operating cost structure.

The FY2024 decline contrasts with the elevated prices experienced since FY2022, when global shocks pushed fuel costs to historic highs. While current prices remain above pre-pandemic levels - such as the average **\$2.90 per gallon recorded in FY2020 and FY2021** - the marginal reduction in FY2024 helped partially offset operational cost pressures. Nevertheless, given the airline’s reliance on imported fuel and the geographic isolation of the Marshall Islands, AMI remains highly exposed to international fuel price volatility. Continued global uncertainty underscores the importance of ongoing financial oversight, strategic fuel planning, and RMI Government support to safeguard AMI’s operational stability.

Below, we present a comparison of average fuel prices for FY2024 versus FY2023, 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

Statement of Net Position

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 overtime typically indicates an improvement in financial condition.

A summary of AMI's Statements of Net Position as of September 30, 2024 compared with 2023 and 2022 is presented below:

Summary Statements of Net Position
September 30,

	2024	2023	\$ Change 2024-2023	% Change 2024-2023	2022
Assets:					
Current and other assets	\$ 4,847,881	\$ 6,216,904	\$ (1,369,023)	(22.0)%	\$ 5,621,544
Capital assets	<u>14,265,081</u>	<u>9,506,678</u>	<u>4,758,403</u>	50.1%	<u>8,476,134</u>
Total assets	<u>19,112,962</u>	<u>15,723,582</u>	<u>3,389,380</u>	21.6%	<u>14,097,678</u>
Liabilities:					
Current and other liabilities	<u>3,309,167</u>	<u>5,510,133</u>	<u>(2,200,966)</u>	(39.9)%	<u>5,415,284</u>
Net position:					
Net investment in capital assets	14,255,440	9,497,786	4,757,654	50.1%	8,471,061
Restricted	---	165,165	(165,165)	(100.0)%	---
Unrestricted	<u>1,548,355</u>	<u>550,498</u>	<u>997,857</u>	181.3%	<u>211,333</u>
Total net position	<u>\$ 15,803,795</u>	<u>\$ 10,213,449</u>	<u>\$ 5,590,346</u>	54.7%	<u>\$ 8,682,394</u>

The trend in total net position indicates that AMI is moving in the right direction as its unrestricted net position has strengthened and total assets continue to exceed total liabilities by a significant margin. This improvement reflects sustained RMI Government support, reduced aircraft downtime toward the end of the fiscal year, and ongoing efforts to improve the reliability of service delivery.

Total assets increased by \$3.39 million, or 22%, from FY2023 to FY2024. This growth is primarily attributable to a \$4.76 million (50%) increase in capital assets, driven largely by the capitalization of major fixed asset projects. The most significant component was the Dash 8 C-Check project, which was fully capitalized at approximately \$4.7 million.

Total liabilities decreased by \$2.2 million, or 40%, from FY2023 to FY2024. This reduction is mainly due to the RMI Government's write-off of \$3.12 million in advances owed by AMI, which materially strengthened AMI's statement of net position and improved its long-term financial position.

Air Marshall Islands, Inc.
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Management's Discussion and Analysis, continued

FINANCIAL ANALYSIS OF AMI, continued

Statement of Revenues, Expenses and Changes in Net Position

A summary of AMI's Statements of Revenues, Expenses and Changes in Net Position for the year ended September 30, 2024, compared with 2023 and 2022 is presented below:

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

	<u>2024</u>	<u>2023</u>	<u>\$ Change 2024-2023</u>	<u>% Change 2024-2023</u>	<u>2022</u>
Revenues:					
Net operating revenues	\$ 6,590,522	\$ 7,889,650	\$ (1,299,128)	(16.5)%	\$ 7,625,217
Nonoperating revenues	<u>694,400</u>	<u>936,622</u>	<u>(242,222)</u>	(25.9)%	<u>725,364</u>
Total revenues	<u>7,284,922</u>	<u>8,826,272</u>	<u>(1,541,350)</u>	(17.5)%	<u>8,350,581</u>
Expenses:					
Operating expenses	7,131,133	7,285,689	(154,556)	(2.1)%	7,103,274
Nonoperating expenses	<u>9,066</u>	<u>9,528</u>	<u>(462)</u>	(4.8)%	<u>14,742</u>
Total expenses	<u>7,140,199</u>	<u>7,295,217</u>	<u>(155,018)</u>	(2.1)%	<u>7,118,016</u>
	144,723	1,531,055	(1,386,332)	(90.5)%	1,232,565
Capital contributions	<u>5,445,623</u>	---	<u>5,445,623</u>		---
Change in net position	<u>\$ 5,590,346</u>	<u>\$ 1,531,055</u>	<u>\$ 4,059,291</u>	265.1%	<u>\$ 1,232,565</u>

The trend in passenger numbers from FY2021 to FY2024 indicates an improvement in delivery of essential public services to Marshallese people and communities residing in the Neighboring Islands.



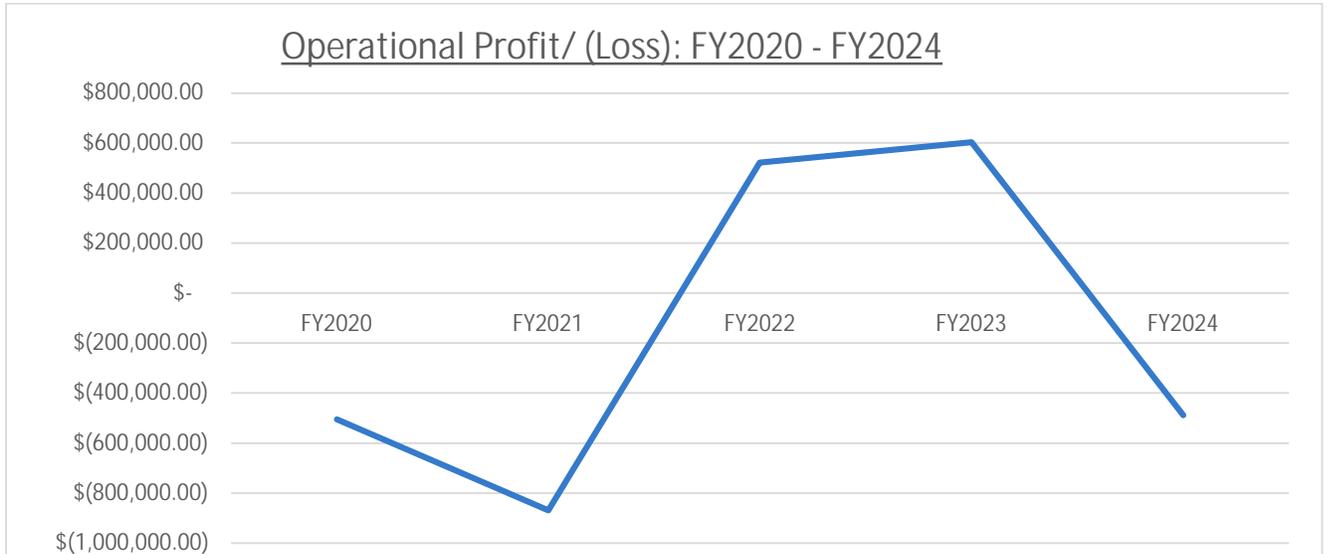
Air Marshall Islands, Inc.
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Management’s Discussion and Analysis, continued

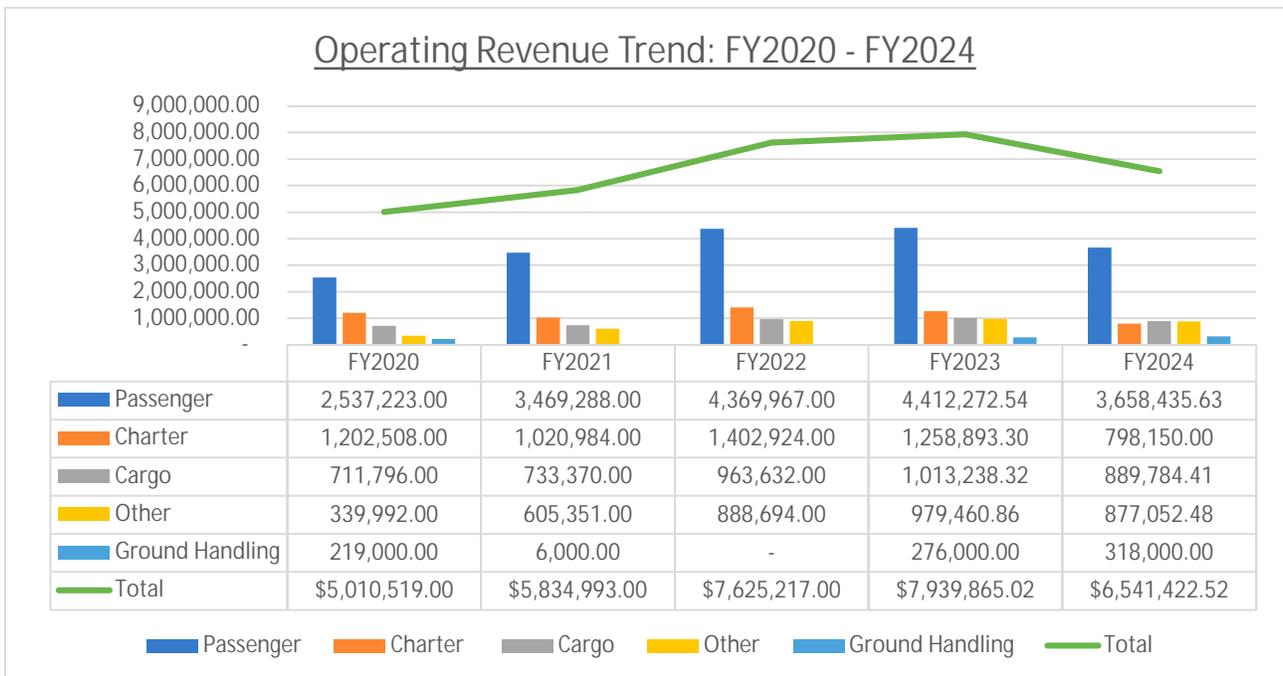
FINANCIAL ANALYSIS OF AMI, continued

Statement of Revenues, Expenses and Changes in Net Position, continued

The below graph below shows the operating profit (loss) of AMI from FY2020 through to FY2024:



The graph below shows the main components of AMI’s operating revenues from FY2020 through to FY2024:



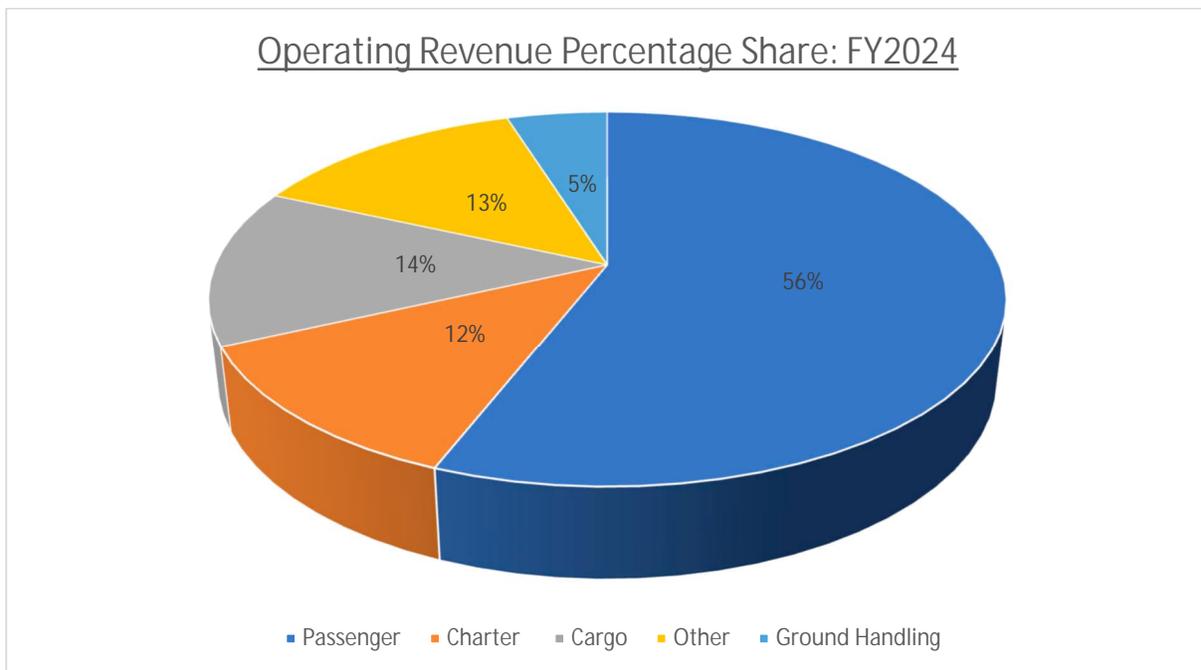
Air Marshall Islands, Inc.
(A Component Unit of the Republic of the Marshall Islands)

Management’s Discussion and Analysis, continued

FINANCIAL ANALYSIS OF AMI, continued

Statement of Revenues, Expenses and Changes in Net Position, continued

AMI’s operating revenues declined in FY2024 after the last 5 years of steady growth, primarily due to reduced fleet capacity. With the 38-seater Dash 8 aircraft out of service for the entire year for a major C-Check, AMI operated only with its two smaller Dornier aircraft. This significantly reduced seat availability and flight frequency, resulting in lower passenger, charter, and cargo revenues. Overall, the decline in operating revenue directly reflects the prolonged unavailability of the Dash 8 and the operational limitations of relying solely on the aging Dornier fleet.



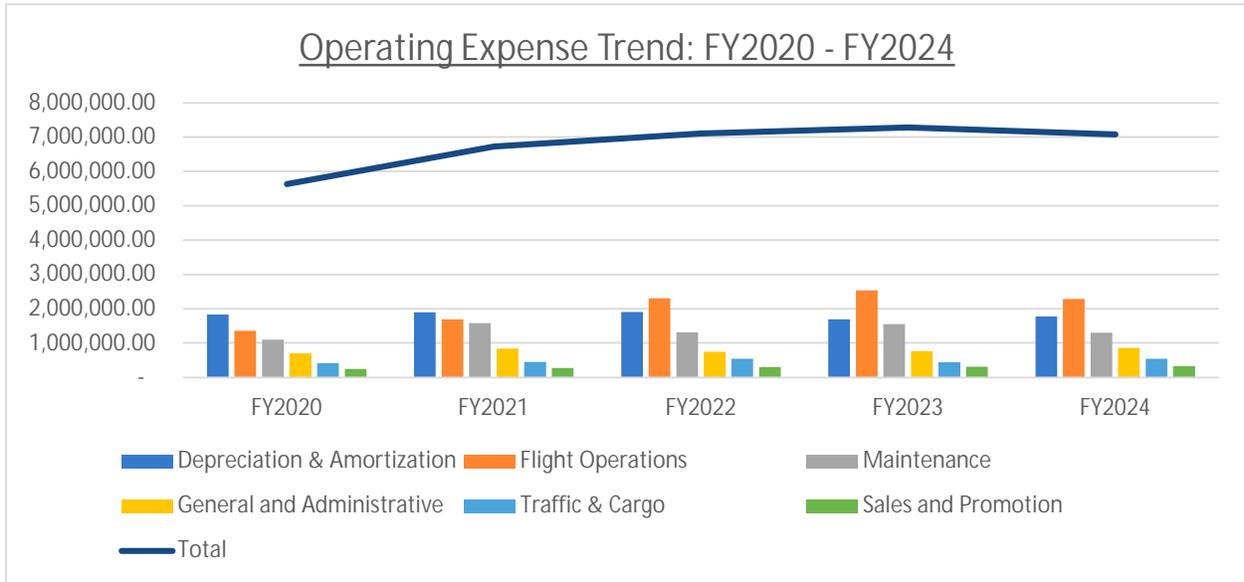
The above pie chart shows the distribution of each operating revenue source as a percentage of total operating revenues with passenger revenue at 56%, charter revenue at 12%, cargo/freight revenue at 14%, other revenue at 13% and Ground handling revenue at 5%.

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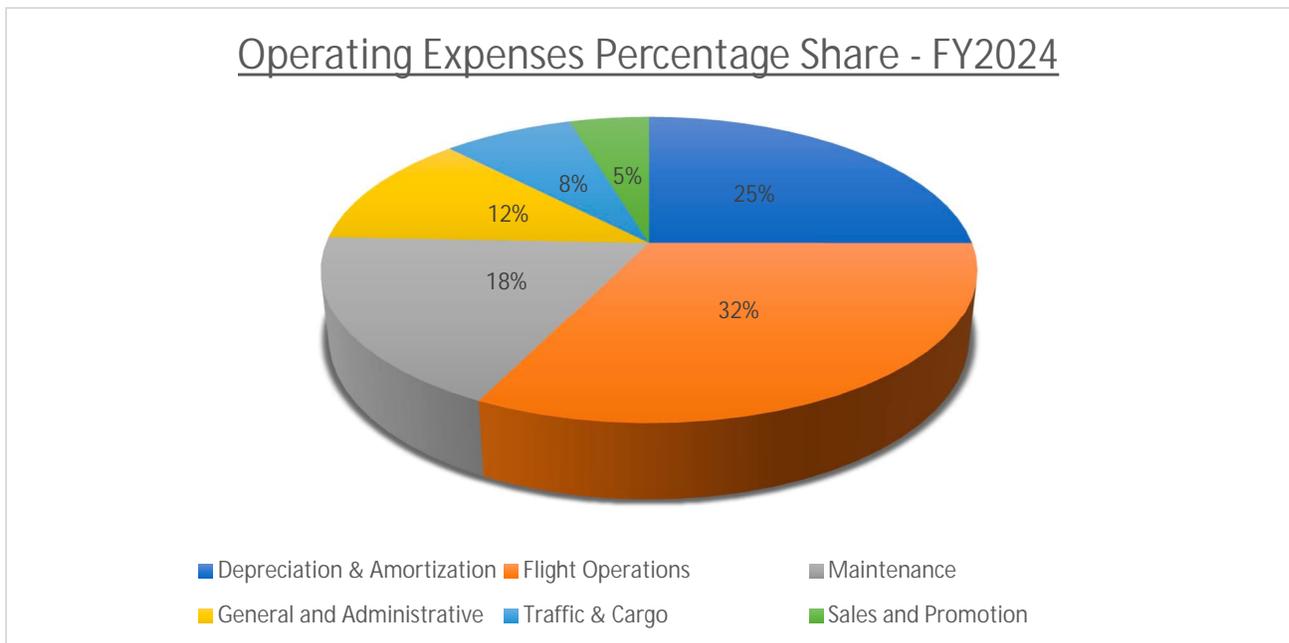
Management’s Discussion and Analysis, continued

FINANCIAL ANALYSIS OF AMI, continued

Statement of Revenues, Expenses and Changes in Net Position, continued



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

Statement of Revenues, Expenses and Changes in Net Position, continued

The operating expense composition for FY2024 reflects the cost structure of AMI's operations, with **Flight Operations accounting for the largest share at 32%**, followed by **Depreciation and Amortization at 25%**. **Maintenance expenses represented 18%**, while **General Administration comprised 12%**, **Traffic and Cargo Servicing 8%**, and **Sales and Promotion 5%** of total operating costs.

Flight Operations represents the largest component of AMI's operating expenses, driven primarily by fuel costs, which account for approximately **50%** of total Flight Operations expenses. Depreciation and amortization expense constitutes the second-largest expense category, making up **25%** of total operating costs, reflecting the significant capital investments made during the year, including the Dash 8 C-Check and major aircraft parts and component overhauls.

The Dornier fleet has not been generating sufficient revenue due to low utilization caused by the absence of a fully supported Minimum Equipment List (MEL) and the deteriorated condition of many Outer Island airstrips. These challenges contribute to frequent AOG events and recurring mechanical issues.

The situation was further compounded in FY2024 by the complete absence of the Dash 8 from operations, as it remained in Cairns, Australia for an extensive C-Check throughout the financial year.

As a result, AMI's revenue-generating capacity was significantly constrained, with the airline relying solely on its aging Dornier aircraft, which were unable to fully support the operational and financial demands of the business.

Management's Discussion and Analysis for the year ended September 30, 2023 is set forth in AMI's report on the audit of financial statements, which is dated January 13, 2025. Such Management Discussion and Analysis explains the major factors impacting the FY2023 financial statements and can be obtained from AMI's General Manager via the contact information on page 16.

CAPITAL ASSETS AND DEBT

Net capital assets increased by \$4.76 million or by 51% from \$9.51 million in FY2023 to \$14.27 million in FY2024. The major increase was due to the capitalization of C-Check for the Dash 8 aircraft for \$4.7 million, net of an increase in accumulated depreciation of \$1.79 million.

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

A summary of AMI’s capital assets as of September 30, 2024, compared with FY2023 and FY2022, is presented below:

Summary Schedule of Capital Assets
As of September 30

	2024	2023	\$ Change 2024-2023	% Change 2024-2023	2022
Aircraft and improvements	\$ 28,323,838	\$ 23,230,500	\$ 5,093,338	21.9%	\$ 21,542,515
Rotable spare parts	12,535,700	11,215,096	1,320,604	11.8%	10,371,594
Plant and equipment	1,486,815	1,464,162	22,653	1.5%	1,401,623
Office furniture and equipment	887,515	880,559	6,956	0.8%	873,059
Motor vehicles	489,283	406,443	82,840	20.4%	309,748
Computer and software	108,998	80,498	28,500	35.4%	80,498
Building improvements	25,484	25,484	---	0.0%	25,484
	43,857,633	37,302,742	6,554,891	17.6%	34,604,521
Accumulated depreciation	(29,592,552)	(27,796,064)	(1,796,488)	6.5%	(26,128,387)
	<u>\$ 14,265,081</u>	<u>\$ 9,506,678</u>	<u>\$ 4,758,403</u>	50.1%	<u>\$ 8,476,134</u>

For additional information on AMI’s capital assets, please refer to note 3 to the accompanying financial statements. AMI did not recognize or record any formal long-term debt in 2023 or 2024. However, AMI previously carried \$3.12 million in long-term advances from the RMI Government, originating from historic support for Dash 8 start-up operations, a transferred note payable, and earlier funding assistance. In September 2024, the Cabinet approved the full write-off of these balances, resulting in the complete removal of long-term debt from AMI’s books. This write-off significantly reduced total liabilities and contributed to the strong increase in AMI’s net position for FY2024.

CASH FLOWS

AMI received \$6.89 million and \$7.76 million, respectively, from its customers in FY2024 and FY2023. In FY2024, AMI paid its vendors for goods and services and payroll of its employees in the amount of \$3.38 million and \$2.23 million, respectively, compared with \$3.14 million and \$2.23 million respectively in FY2023. This resulted in a cash surplus from operations of \$1.29 million, whereas in FY2023, AMI had a cash surplus from operation of \$2.39 million. Additionally, the operating subsidies from RMI Government in FY2024 and FY2023 of \$1.69 million and \$0.97 million, respectively, assisted in operations continuing “business as usual”. Finally, AMI used net cash of \$4.06 million and \$2.3 million, respectively, in capital related activities.

Air Marshall Islands, Inc.
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Management's Discussion and Analysis, continued

CURRENT ECONOMIC OUTLOOK

The operating environment for airlines across the Pacific remained challenging in FY2024, shaped by global economic uncertainty, persistent geopolitical conflicts, and continued disruptions in energy and supply markets. Although jet fuel prices softened to an average of \$3.68 per gallon (down from \$4.19 in FY2023), they remain higher than pre-crisis levels, maintaining pressure on operating margins for carriers reliant on imported fuel. For the Marshall Islands—where all aviation fuel and technical materials must be shipped over long distances—these global developments translate into elevated costs and extended lead times.

Across the region, airlines continue to contend with rising maintenance costs, shortages of aviation specialists, and aging fleets. In the Marshall Islands, deteriorated Outer Island airstrips and the advanced age of AMI's Dornier aircraft amplify these challenges, reducing aircraft utilization and increasing AOG occurrences. These constraints underscore the importance of targeted capital investment and strong government support, both of which remain critical to sustaining reliable inter-island air services.

Despite these external pressures, AMI's long-term outlook includes several positive developments. The Government's commitment to fleet renewal—specifically the acquisition of two Cessna Sky Courier aircraft—marks a significant step toward modernizing the airline's operations. The Cessna aircraft are expected to deliver meaningful improvements in fuel efficiency, reliability, payload flexibility, and maintenance turnaround times. Their introduction will enhance operational capacity, reduce AOG frequency, and provide a more sustainable platform for expanding services to remote atolls. Together, these advancements position AMI to strengthen service delivery, improve financial resilience, and build a more modern and efficient fleet for the future.

ROLE OF BOARD AND MANAGEMENT

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 much of a 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; 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, continued

WAY FORWARD AND FUTURE SUSTAINABILITY

AMI presented a new strategic Business Plan (BP) which was developed by the company as a compass for the period 2025- 2027 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 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 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 unabated and continuous government support to the national airline (AMI) over the next few years.

KEY ACHIEVEMENTS SUBSEQUENT TO FY2024

- **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.

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

Management's Discussion and Analysis, continued

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 2024, 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,	
	2024	2023
ASSETS		
Current assets:		
Cash	\$ 2,418,635	\$ 3,489,446
Receivables:		
Affiliates	328,052	640,619
Trade	176,737	296,821
Employees	42,365	32,590
	547,154	970,030
Less allowance for doubtful accounts	(186,931)	(236,028)
	360,223	734,002
Expendable parts (net of allowance for obsolescence of \$164,739 and \$198,909 at September 30, 2024 and 2023, respectively)	1,482,653	1,136,602
Prepaid expenses and deposits	126,397	167,586
Total current assets	4,387,908	5,527,636
Capital assets:		
Capital assets, net of accumulated depreciation and amortization	14,265,081	9,506,678
Lease assets, net	56,522	82,580
Long-term deposits	403,451	606,688
Total noncurrent assets	14,725,054	10,195,946
	\$ 19,112,962	\$ 15,723,582
LIABILITIES AND NET POSITION		
Current liabilities:		
Accounts payable	\$ 727,168	\$ 617,308
Social security taxes payable	104,822	105,906
Withholding taxes payable	284,813	429,798
Air traffic liability	71,268	147,088
Payable to affiliates	947,769	904,645
Advance from RepMar	1,000,000	---
Lease liabilities, current portion	28,801	25,309
Other liabilities and accruals	107,164	97,026
Total current liabilities	3,271,805	2,327,080
Lease liabilities, net of current portion	37,362	66,163
Advances from RepMar	---	3,116,890
Total liabilities	3,309,167	5,510,133
Commitments and contingencies		
Net position:		
Net investment in capital assets	14,255,440	9,497,786
Restricted	---	165,165
Unrestricted	1,548,355	550,498
Total net position	15,803,795	10,213,449
	\$ 19,112,962	\$ 15,723,582

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,	
	2024	2023
Operating revenues:		
Passenger	\$ 3,658,436	\$ 4,412,273
Charter	798,150	1,258,893
Cargo	889,785	1,013,238
Fuel surcharge	408,860	496,149
Flight diversion	269,907	277,840
Ground handling	318,000	276,000
Other	198,287	205,472
Total operating revenues	6,541,425	7,939,865
Recovery of (provision for) bad debts	49,097	(50,215)
Total net operating revenues	6,590,522	7,889,650
Operating expenses:		
Flight operations	2,284,845	2,535,971
Depreciation and amortization	1,822,843	1,693,734
Maintenance	1,298,357	1,469,708
General and administrative	853,458	750,706
Aircraft and traffic servicing	540,689	512,462
Promotion and sales	330,941	323,108
Total operating expenses	7,131,133	7,285,689
Operating (loss) income	(540,611)	603,961
Nonoperating revenues (expenses):		
RepMar subsidy	694,400	936,622
Interest expense	(9,066)	(9,528)
Total nonoperating revenues, net	685,334	927,094
Earnings before capital contributions	144,723	1,531,055
Capital contributions:		
RepMar subsidy for Dash-08 C-check	2,328,733	---
Gain from write-off of RepMar advances	3,116,890	---
	5,445,623	---
Change in net position	5,590,346	1,531,055
Net position at beginning of year	10,213,449	8,682,394
Net position at end of year	\$ 15,803,795	\$ 10,213,449

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,	
	2024	2023
Cash flows from operating activities:		
Cash received from customers	\$ 6,888,481	\$ 7,760,015
Cash payments to suppliers for goods and services	(3,379,656)	(3,139,023)
Cash payments to employees for services	(2,216,270)	(2,232,445)
Net cash provided by operating activities	1,292,555	2,388,547
Cash flows from noncapital financing activities:		
Operating subsidies received from RepMar	1,694,400	969,204
Cash flows from capital and related financing activities:		
Acquisition of capital assets	(6,352,124)	(2,264,070)
Capital contributions received from RepMar	2,328,733	---
Principal paid on lease liabilities	(25,309)	(22,238)
Interest paid on lease liabilities	(9,066)	(9,528)
Net cash used in capital and related financing activities	(4,057,766)	(2,295,836)
Net change in cash	(1,070,811)	1,061,915
Cash at beginning of year	3,489,446	2,427,531
Cash at end of year	\$ 2,418,635	\$ 3,489,446
Reconciliation of operating income to net cash provided by operating activities:		
Operating (loss) income	(540,611)	\$ 603,961
Adjustments to reconcile operating (loss) income to net cash provided by operating activities:		
Depreciation and amortization	1,822,843	1,693,734
(Recovery of) provision for bad debts	(49,097)	50,215
Loss on disposal of capital assets	173	---
Changes in assets and liabilities:		
Receivables:		
Affiliates	312,567	(105,522)
Trade	120,084	(91,701)
Employees	(9,775)	(22,062)
Expendable parts	(346,051)	146,725
Prepaid expenses and deposits	41,189	(3,890)
Accounts payable	109,860	186,916
Social security taxes payable	(1,084)	2,625
Withholding taxes payable	(144,985)	(103,803)
Air traffic liability	(75,820)	39,435
Payable to affiliates	43,124	(2,881)
Other liabilities and accruals	10,138	(5,205)
Net cash provided by operating activities	\$ 1,292,555	\$ 2,388,547
Noncash capital and related financing activities:		
Write-off of advances from RepMar:		
Advances from RepMar	\$(3,116,890)	\$ ---
Capital contributions	3,116,890	---
	\$ ---	\$ ---

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, 2024 and 2023

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, 2024 and 2023, 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, 2024 and 2023, AMI has expendable net position as follows:

	<u>2024</u>	<u>2023</u>
Pilot Training and Maintenance	\$ <u>---</u>	\$ <u>165,165</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, 2024 and 2023, the carrying amount of cash was \$2,418,635 and \$3,489,446, respectively, and the corresponding bank balance was \$2,494,479 and \$3,529,240, respectively, of which \$2,466,395 and \$2,722,485, respectively, is maintained in a financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance. The remaining bank deposits of \$28,084 and \$806,755, respectively, are maintained in financial institutions not subject to depository insurance.

As of September 30, 2024 and 2023, 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. 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:

	<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, 2024 and 2023, the accumulated vacation leave liability amounted to \$80,096 and \$80,531, respectively, and is included within the statements of net position as other liabilities and accruals.

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, 2024, AMI implemented the following pronouncements:

- GASB Statement No. 99, *Omnibus 2022*, which 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. It also provides guidance on classification and reporting of derivative instruments within the scope of GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. The implementation of this Statement did not have a material effect on the accompanying financial statements.
- GASB Statement No. 100, *Accounting Changes and Error Corrections - An Amendment of GASB Statement No. 62*, which 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. 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 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 the fiscal year ending September 30, 2025.

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 the 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 the fiscal year ending September 30, 2026.

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 September 2024, GASB issued Statement No. 104, *Disclosure of Certain Capital Assets*. The objective of this Statement is to provide users of government financial statements with essential information about certain types of capital assets. This Statement requires certain types of capital assets to be disclosed separately in the capital assets note disclosures required by Statement 34. Lease assets recognized in accordance with Statement No. 87, *Leases*, and intangible right-to-use assets recognized in accordance with Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, should be disclosed separately by major class of underlying asset in the capital as-sets note disclosures. Subscription assets recognized in accordance with Statement No. 96, *Subscription-Based Information Technology Arrangements*, also should be separately disclosed. In addition, this Statement requires intangible assets other than those three types to be disclosed separately by major class. This Statement also requires additional disclosures for capital assets held for sale. A capital asset is a capital asset held for sale if (a) the government has decided to pursue the sale of the capital asset and (b) it is probable that the sale will be finalized within one year of the financial statement date. Governments should consider relevant factors to evaluate the likelihood of the capital asset being sold within the established time frame. This Statement requires that capital assets held for sale be evaluated each reporting period. Governments should disclose (1) the ending balance of capital assets held for sale, with separate disclosure for historical cost and accumulated depreciation by major class of asset, and (2) the carrying amount of debt for which the capital assets held for sale are pledged as collateral for each major class of asset. GASB Statement No. 104 will be effective for the 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, 2024 and 2023, were as follows:

	2024			
	<u>October 1, 2023</u>	<u>Additions</u>	<u>Transfers and Disposals</u>	<u>September 30, 2024</u>
Depreciable capital assets:				
Aircraft and improvements	\$ 23,230,500	\$ 5,093,338	\$ ---	\$ 28,323,838
Rotable spare parts	11,215,096	1,320,604	---	12,535,700
Plant and equipment	1,464,162	22,653	---	1,486,815
Office furniture and equipment	880,559	7,426	(470)	887,515
Motor vehicles	406,443	82,840	---	489,283
Computer software	80,498	28,500	---	108,998
Building improvements	<u>25,484</u>	<u>---</u>	<u>---</u>	<u>25,484</u>
	37,302,742	6,555,361	(470)	43,857,633
Less accumulated depreciation and amortization	<u>(27,796,064)</u>	<u>(1,796,785)</u>	<u>297</u>	<u>(29,592,552)</u>
	<u>\$ 9,506,678</u>	<u>\$ 4,758,576</u>	<u>\$ (173)</u>	<u>\$ 14,265,081</u>
	2023			
	<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>

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, 2024 and 2023, were as follows:

	2024			
	<u>October 1, 2023</u>	<u>Additions</u>	<u>Transfers and Disposals</u>	<u>September 30, 2024</u>
Lease assets:				
Right-to-use assets	\$ 134,695	\$ ---	\$ ---	\$ 134,695
Less accumulated amortization	(52,115)	(26,058)	---	(78,173)
	<u>\$ 82,580</u>	<u>\$(26,058)</u>	<u>\$ ---</u>	<u>\$ 56,522</u>
	2023			
	<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>

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, 2024:

<u>Year ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	6,484	2,516	9,000
2030 - 2031	<u>15,776</u>	<u>2,224</u>	<u>18,000</u>
	<u>\$ 66,163</u>	<u>\$ 23,564</u>	<u>\$ 89,727</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, 2024 and 2023, and changes for the years then ended were as follows:

	2024				
	October <u>1, 2023</u>	<u>Additions</u>	<u>Reductions</u>	September <u>30, 2024</u>	Due Within <u>One Year</u>
Advances from RepMar	\$ 3,116,890	\$ ---	\$(3,116,890)	\$ ---	\$ ---
Lease liabilities	<u>91,472</u>	<u>---</u>	<u>(25,309)</u>	<u>66,163</u>	<u>28,801</u>
	<u>\$ 3,208,362</u>	<u>\$ ---</u>	<u>\$(3,142,199)</u>	<u>\$ 66,163</u>	<u>\$ 28,801</u>
	2023				
	October <u>1, 2022</u>	<u>Additions</u>	<u>Reductions</u>	September <u>30, 2023</u>	Due Within <u>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>

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.

During the years ended September 30, 2024 and 2023, AMI received cash operating subsidies from RepMar in the amount of \$694,400 and \$936,622, respectively. Furthermore, AMI received capital contributions from RepMar during the year ended September 30, 2024, amounting to \$2,328,733 for the purpose of funding Dash 8 C-check costs.

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, 2024 and 2023, are as follows:

	2024			
	<u>Receivables</u>	<u>Revenues</u>	<u>Payables</u>	<u>Expenses</u>
RepMar	\$ 263,063	\$ 4,584,853	\$ 6,156	\$ 57,015
RMIPA	3,425	1,400	918,387	43,174
Marshall Islands National				
Telecommunications Authority	213	6,022	1,501	41,778
College of Marshall Islands	1,008	42,680	12,164	---
Marshalls Energy Company, Inc.	1,036	11,949	7,138	42,484
Other	<u>59,307</u>	<u>146,231</u>	<u>2,423</u>	<u>12,391</u>
	<u>\$ 328,052</u>	<u>\$ 4,793,135</u>	<u>\$ 947,769</u>	<u>\$ 196,842</u>
	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 Marshall Islands	3,235	38,586	11,924	300
Marshalls 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>

As of September 30, 2023, AMI recorded certain advances from RepMar in the amount of \$3,116,890, which were provided to AMI for the purpose of funding certain capital related activities. On September 19, 2024, the RepMar Cabinet through C.M. 211 (2024) approved the write-off of these advances. Accordingly, AMI recognized a gain on write-off of advances as capital contributions during the year ended September 30, 2024.

On September 30, 2024, AMI received \$1,000,000 from RepMar representing an advance on the operating subsidy appropriated by RepMar for the year ended September 30, 2025.

During the years ended September 30, 2024 and 2023, AMI incurred Marshall Islands Social Security Administration (MISSA) employer contributions in the amount of \$193,639 and \$153,429, respectively. As of September 30, 2024 and 2023, AMI is liable to MISSA for employee and employer contributions in the amount of \$104,822 and \$105,906, 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, 2024 and 2023, AMI is liable for \$284,813 and \$429,798, 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 three months of 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 \$79,215 and \$78,443, respectively, to Plan participant accounts during the years ended September 30, 2024 and 2023, and total combined plan assets were \$444,338 and \$241,755, respectively, as of September 30, 2024 and 2023.

10. Commitment and Contingency

Commitment

On September 30, 2024, AMI entered into purchase agreements to acquire two Cessna SkyCourier aircraft at a total purchase price of \$19,702,800. Payments due under these purchase agreements are as follows:

Due on or before October 14, 2024	\$ 1,000,000
Due on or before November 15, 2024	700,000
Due on or before May 15, 2025	700,000
Due on delivery date	<u>17,302,800</u>
	<u>\$19,702,800</u>

Contingency

As of September 30, 2024, and 2023, AMI is liable to RMIPA for certain charges in the amount of \$918,387 and \$876,674, respectively, 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.



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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, 2024, 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 November 26, 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.

The logo for Ernst + Young, featuring the company name in a black, cursive script font.

November 26, 2025