

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

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

*Year ended September 30, 2023
with Report of Independent Auditors*



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

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

Year ended September 30, 2023

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Report of Independent Auditors

Board of Directors
Marshall Islands Shipping Corporation

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the business-type activities of Marshall Islands Shipping Corporation (MISC), a component unit of the Republic of the Marshall Islands, as of and for the year ended September 30, 2023, and the related notes to the financial statements, which collectively comprise MISC'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 MISC as of September 30, 2023, and the changes in financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of MISC, 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 MISC'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 MISC'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 MISC'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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 13 be presented to supplement the financial statements. Such information is the responsibility of management and, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with GAAS, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 4, 2025, on our consideration of MISC's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of MISC's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering MISC's internal control over financial reporting and compliance.

The logo for Ernst + Young, featuring the company name in a stylized, handwritten-style script.

December 4, 2025

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

Management's Discussion and Analysis

Year ended September 30, 2023

Marshall Islands Shipping Corporation (MISC) herewith presents a discussion and analysis of the company's financial performance for the financial year ended 30th September 2023. It is to be read in conjunction with the financial statements following this section.

FINANCIAL HIGHLIGHTS

MISC's net position at the end of the fiscal year 2023 decreased by \$294,871 (or 4%) to \$7,705,403 in 2023 compared to a net position of \$8,000,274 in 2022. The decrease in net position from 2022 to 2023 of \$294,871 is a negative indicator of the results of operations, and ongoing struggles by management to maintain expenses within operational revenues as well as non-operational revenues in the form of RMI government subsidies. MISC was the recipient of RMI government subsidies of \$2,786,457 in 2023 compared with \$2,041,262 received in 2022. No capital contributions were received in 2023 or 2022 compared with \$819,787 received in 2021.

MISC's total net operating revenues decreased by \$827,536 (or 35%) from \$2,334,821 in 2022 to \$1,507,285 in 2023. The decrease in revenues from cargo, charter, ship sales, fuel and other revenues, were offset by the increase in passenger revenues. The decrease in cargo, charter, ship sales, fuel and other revenues correspond to the decrease in the frequency of field trips from 38 trips in 2022 to 37 trips in 2023. The major decrease in cargo revenues was due to charter trips to assist with the continued cleanup efforts of the world's oceans and extraordinary circumstances in the form of the COVID-19, with fewer people traveling to the outer islands but, instead traveling to the U.S. mainland for better opportunities in getting medical treatment, job opportunities, and education and other needs for a better life.

MISC's total operating expenses decreased by \$602,226 (or 12%) from \$5,188,747 in 2022 to \$4,586,521 in 2023. MISC's leading operational expenses in 2023 were salaries, wages and benefits expense; petroleum, oil and lube expense; depreciation expense; cost of goods sold expense; and dry-dock repair and maintenance expense. Salaries, wages and benefits decreased by \$43,212 (or 2%) from \$2,233,953 in 2022 to \$2,190,741 in 2023. Petroleum, oil and lube expense decreased by \$240,287 (or 25%) from \$979,868 in 2022 to \$739,581 in 2023. Depreciation expense increased marginally by \$31,251 (or 5%) from \$619,207 in 2022 to \$650,458 in 2023. Cost of goods sold expense decreased by \$10,534 (or 4%) from \$292,704 in 2022 to \$282,170 in 2023. Dry-dock repair and maintenance expense increased by \$35,920 (or 27%) from \$132,967 in 2022 to \$168,887 in 2023.

MISC's operating loss increased by \$225,310 (or 8%) from \$2,853,927 in 2022 to \$3,079,236 in 2023. MISC's operating losses were funded by cash subsidies from RepMar. In line with MISC's operating losses, operating subsidies received from RepMar increased by \$745,195 (or 37%) from \$2,041,262 in 2022 to \$2,786,457 in 2023. The RepMar subsidy for 2023 included \$446,400 earmarked for dry-dock repairs and maintenance similar to an earmark that was received in 2022.

Marshall Islands Shipping Corporation
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Management's Discussion and Analysis, continued

FINANCIAL HIGHLIGHTS, CONTINUED

MISC's change in net position decreased by \$517,793 (or 64%) from negative \$812,664 in 2022 to negative \$294,871 in 2023. One of the drivers associated with this positive change was the recognition of a one-time on forgiveness of debt contribution to Marshalls Energy Company, Inc. of \$150,000 from RepMar together with other contributions of \$313,645 received in 2023 related to disaster assistance for COVID-19 in 2022.

Without the approval of RepMar to allow management of MISC to increase tariffs, it is expected that MISC will always operate at a loss and MISC's future sustainability will continue to be a burden on RepMar as a community service obligation.

FINANCIAL ANALYSIS OF MISC

The Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Position provides an indication of MISC's financial condition. MISC's net position reflects the difference between total assets and total liabilities. A decrease in net position over time normally indicates an improvement in financial condition. As illustrated in the figures below, MISC's net position decreased for the year ended 30th September, 2023.

Net Position

A summary of MISC's Statements of Net Position 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	\$ 754,901	\$ 560,155	\$ 194,746	34.8%	\$ 658,232
Capital assets	<u>7,878,057</u>	<u>8,383,028</u>	<u>(504,971)</u>	(6.0)%	<u>8,774,440</u>
Total assets	<u>8,632,958</u>	<u>8,943,183</u>	<u>(310,225)</u>	(3.5)%	<u>9,432,672</u>
Liabilities:					
Current and other liabilities	<u>927,555</u>	<u>942,909</u>	<u>(15,354)</u>	(1.6)%	<u>619,734</u>
Net position:					
Net investment in capital assets	7,878,057	8,383,028	(504,971)	(6.0)%	8,774,440
Restricted	11,516	9,797	1,719	17.5%	283,626
Unrestricted	<u>(184,170)</u>	<u>(392,551)</u>	<u>208,381</u>	(53.1)%	<u>(245,128)</u>
Total net position	<u>\$ 7,705,403</u>	<u>\$ 8,000,274</u>	<u>\$ (294,871)</u>	(3.7)%	<u>\$ 8,812,938</u>

Marshall Islands Shipping Corporation
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Management's Discussion and Analysis, continued

FINANCIAL ANALYSIS OF MISC, CONTINUED

Total assets decreased by \$310,225 (or 3%) from \$8,943,183 in 2022 to \$8,632,958 in 2023. The decrease was due to a decrease in capital assets, net of accumulated depreciation, of \$504,970 (or 6%) and an increase in current and other assets of \$194,746 (or 35%). The decrease in capital assets was due to acquisitions of \$145,488 offset by depreciation of \$650,458. The increase in current and other assets was due to an increase in cash balances of \$7,717 (or 7%) and an increase in net receivables of \$58,414 (or 40%).

Total liabilities decreased by \$15,354 (or 2%) from \$942,909 in 2022 to \$927,555 in 2023. The decrease in liabilities was primarily driven by the decrease in MISC's obligations due to RepMar and affiliates, including Marshalls Energy Company, Inc. (MEC). Payables to affiliates decreased by \$303,157 (or 65%) from \$465,592 in 2022 to \$162,435 in 2023 primarily because of a decrease in liabilities due to MEC.

Total net position decreased by \$294,871 (or 4%) from \$8,000,274 in 2022 to \$7,705,403 in 2023. In 2023, MISC incurred a loss from operations of \$3,079,236, which was principally funded by contributions received from RepMar of \$2,786,457. In comparison, MISC incurred a loss from operations of \$2,853,926 in 2022, which was principally funded by RepMar contributions of \$2,041,262.

Change in Net Position

A summary of MISC's Statements of Net Position as of 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,

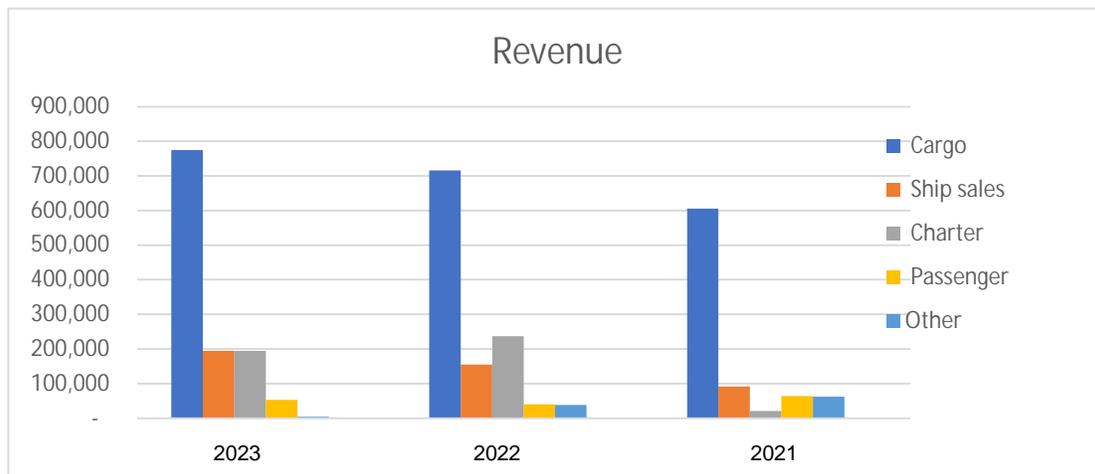
	2023	2022	\$ Change 2023-2022	% Change 2023-2022	2021
Operating:					
Operating revenues	\$ 1,507,285	\$ 2,334,821	\$ (827,536)	(35.4)%	\$ 1,163,258
Operating expenses	4,586,521	5,188,747	(602,226)	(11.6)%	3,789,320
Operating income (loss)	(3,079,236)	(2,853,926)	(225,310)	7.9%	(2,626,062)
Nonoperating:					
Nonoperating revenues	2,786,457	2,041,262	745,195	36.5%	3,222,680
Nonoperating expenses	2,092	-	2,092		35,844
	2,784,365	2,041,262	743,103	36.4%	3,186,836
Change in net position	\$ (294,871)	\$ (812,664)	\$ 517,793	(63.7)%	\$ 560,774

Marshall Islands Shipping Corporation
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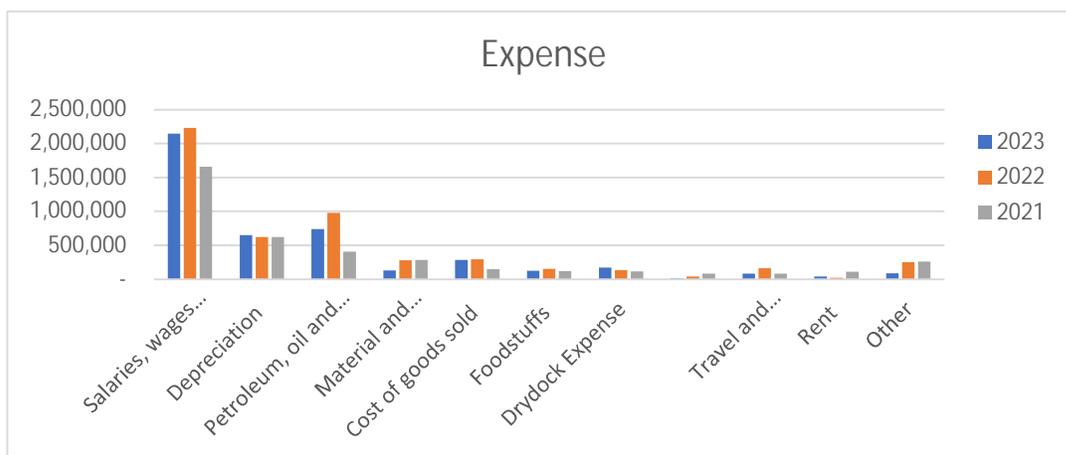
Management’s Discussion and Analysis, continued

FINANCIAL ANALYSIS OF MISC, CONTINUED

The Statement of Revenues, Expenses and Changes in Net Position identifies the various revenue and expense items that contributed to the change in net position. MISC’s total net operating revenue decreased by \$827,536 (or 35%) to a total of \$1,507,285 in 2023 compared to \$2,334,821 in 2022. In 2022, MISC benefitted from increased revenues through the short-term charter of the SV Kwai aka SV Tarmelu vessel by Ocean Voyage Institutes, in partnership with Island Ventures Limited, to assist with the continued cleanup efforts of the world’s oceans. In 2023, charter revenues decreased by \$520,679 (or 60%) from \$862,115 in 2022 to \$341,436. The graph below presents the major components of MISC’s operating revenues from 2021 through 2023:



Total operating expenses decreased by \$602,226 (or 12%) from \$5,188,747 in 2022 to \$4,586,521 in 2023. For 2023, the top five components of operating expenses were: (1) salaries, wages and benefits, (2) petroleum, oil and lube (POL), (3) depreciation, (4) cost of goods sold, and (5) drydock repair and maintenance expense. The graph below presents the major components of MISC’s operating expenses from 2021 through 2023:



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Management's Discussion and Analysis, continued

FINANCIAL ANALYSIS OF MISC, CONTINUED

Salaries, wages and benefits remain as the leading operational expense and decreased by \$43,212 (or 2%) from \$2,233,953 in 2022 to \$2,190,741 in 2023. The decrease in salaries, wages and benefits is due to a decrease in employees who migrated and moved to the U.S. mainland for better opportunities in getting medical treatment, job opportunities with better pay, and children education and other needs for a better life.

POL expenses decreased marginally by \$240,287 (or 25%) from \$979,868 in 2022 to \$739,581 in 2023. In 2022, POL expense was severely impacted by the increase in global fuel costs as a result of the ongoing Russia/Ukraine war, the decrease in frequency of field trips from 38 in 2022 to 37 in 2023 decreased POL expenses.

Depreciation expense increased marginally by \$31,251 (or 5%) from \$619,207 in 2022 to \$650,458 in 2023. This marginal increase is the result of acquisitions offset by the write-off of certain assets associated with SV Juren Ae and MV Aelonlaplap.

Ship sales services provide MISC an alternative source of income to subsidize operations. The decrease in COGS by \$10,534 (or 4%) from \$292,704 in 2022 to \$282,170 in 2023 corresponds with the ship sales to customers from the outer islands during field trips.

Dry-dock repair and maintenance expense increased by \$35,920 (or 27%) from \$132,967 in 2022 to \$168,887 in 2023 due primarily to ancillary costs incurred by MISC on minor repairs and maintenance of MISC vessels in addition to the amortization of prepaid dry-dock expense. With the establishment of the Shipping Vessel Repairs and Maintenance Act in 2011, an annual subsidy is granted by RepMar for proper and timely dry docking, repairs and maintenance to be undertaken by MISC. This is to ensure the good and operable conditions of MISC's fleet and for the safety and reliability of sea transportation services for the RMI outer island community. Drydock expense increased by \$18,689 (or 16%) from \$114,278 in 2022 to \$132,967 in 2023, with no drydocking activities taking place in 2020 or 2021 due to the lack of drydock funding being made available by the RMI government. Funding recommenced in 2022 in the amount of \$446,400 with a similar amount remitted in 2023.

The operating loss before nonoperating revenues (i.e., RepMar subsidy) increased by \$225,310 (or 8%) from \$2,853,926 in 2022 to \$3,079,236 in 2023. At the same time, change in net position decreased from a balance of \$812,664 in 2022 to a negative balance of \$294,871 in 2023, a difference of \$517,793 from 2022 to 2023.

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Management's Discussion and Analysis, continued

FINANCIAL ANALYSIS OF MISC, CONTINUED

Total subsidies for operations were \$2,786,457 in 2023 compared to \$2,041,262 in 2022. In 2019, 2022 and 2023, MISC was the recipient of subsidies associated with the Shipping Vessel Repairs and Maintenance Act, but MISC did not receive such in 2020 and 2021. The subsidy to support the Shipping Vessel Repairs and Maintenance Act fluctuates annually based on the repairs and maintenance schedule and costing developed with the technical assistance of the Japan International Cooperation Agency (JICA) and has considered major repairs that will need to be completed and the inclusion of two additional vessels to the MISC fleet.

As noted above, the operating subsidy received from RepMar in 2023 increased by \$745,195 (37%) from \$2,041,262 in 2022 to \$2,786,457 in 2023, with including drydock subsidy being received in 2021 and 2022. With no capital contributions 2022 and 2023 compared to \$819,787 received 2021. In addition, with current fare rates unchanged since 1980 and no available landing craft for charter, MISC cannot achieve full cost recovery to cover operational costs and maintain adequate major and ongoing repairs and maintenance without financial support from RepMar. The future financial sustainability and conditions of the MISC fleet will continue to depend on sufficient financial support from RepMar.

Management's Discussion and Analysis for the year ended September 30, 2022, is set forth in MISC's report on the audit of financial statements, which is dated July 26, 2024. Such analysis explains the major factors impacting FY2022 financial statements and can be obtained from MISC's General Manager via the contact information on page 13.

CAPITAL ASSETS AND DEBT

Net capital assets decreased by \$504,971 (or 6%) from \$8,383,028 in 2022 to \$7,878,057 in 2023. Capital asset acquisitions in 2023 of \$173,341 were offset by depreciation of \$650,458.

During the year ended September 30, 2023, the vessel namely MV Aemman, previously under dry-dock repair and maintenance, was completed and returned at a cost of \$895,852 from \$451,171 in 2022 to \$444,681 in 2023. A summary of MISC's capital assets is presented below:

	2023	2022	\$ Change 2023-2022	% Change 2023-2022	2021
Vessels	\$9,878,861	\$9,878,861	\$ ---	0%	\$9,878,861
Vehicles	564,365	564,365	---	0%	508,870
Equipment	634,016	511,028	122,988	24%	345,128
Motorboats	252,374	229,874	22,500	10%	223,474
	<u>11,329,616</u>	<u>11,184,128</u>	<u>145,488</u>	<u>1%</u>	<u>10,956,333</u>
Accumulated depreciation	<u>(3,451,559)</u>	<u>(2,801,100)</u>	<u>(650,459)</u>	<u>23%</u>	<u>(2,181,893)</u>
	<u>\$7,878,057</u>	<u>\$8,383,028</u>	<u>\$(504,971)</u>	<u>-6%</u>	<u>\$8,774,440</u>

Capital assets are summarized in note 4 to the financial statements. Please refer to note 4 for additional information concerning capital assets. Currently, MISC has no long-term debt.

Marshall Islands Shipping Corporation
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Management's Discussion and Analysis, continued

CASH FLOWS

Net cash used for operating activities for 2023 was \$2,631,161 compared to net cash used for operating activities of \$1,939,673 in 2022. The cash provided by operational activities was absorbed entirely by MISC's operational costs. Additionally, cash flow injections from RepMar to subsidize MISC's operations were received in the amount of \$2,786,457 and \$2,041,262 during 2023 and 2022, respectively.

Available subsidies for vessel repairs and maintenance were received in 2023 and 2022 of \$446,400 and no subsidies in 2021. The repair and maintenance subsidy amounts are determined by a schedule developed in January 2011 under the JICA Preparatory Study for the "Project for Improvement of Domestic Shipping Services in the Marshall Islands".

FUTURE OUTLOOK ON SUSTAINABILITY

MISC plays an important role in the lives of people living in the outer islands. The regular field trip services are essential to transfer people and basic needs from the capital city to the outer islands and vice versa. As an indicator of MISC's future outlook on sustainability, MISC's has continued to improve and increase its net position since 2012; In 2023, MISC's net position decreased by \$294,871 from \$8,000,274 in 2022 to \$7,705,403 in 2023. This is in comparison to the decrease in MISC's net position in 2022 of \$812,664 from \$8,812,938 in 2022 to \$8,000,274 in 2023. Prior to that, MISC's net position increased in 2021 of \$560,774 from \$8,252,164 in 2020 to \$8,812,938 in 2021 and decrease by \$95,746 from \$8,347,910 in 2019 to \$8,252,164 in 2020, increased to \$8,542,142 in 2018, \$1,437,797 in 2017, \$401,081 in 2016, \$279,970 in 2015.

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

Marshall Islands Shipping Corporation
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Management's Discussion and Analysis, continued

FUTURE OUTLOOK ON SUSTAINABILITY, CONTINUED

Historically, operating revenues generated by MISC have never been sufficient to cover the related expenses necessary to operate the shipping vessels and provide sea-transportation services. With operating losses of over \$1.2M to \$3.4M annually, MISC continues to be dependent on financial support from RepMar. Most importantly, MISC has not been able to generate enough revenue through its operations due to the current passenger and freight rate structure, which has been in place since the early 1980's, despite the increase in fuel costs and inflation rates. As a state-owned enterprise (SOE) and governed under the SOE act, the MISC has no authority to stand alone and make decisions on tariff increases without further consultation and approval by the RepMar Cabinet. In this effort, and on the MISC's Board of Directors meeting, it was approved to increase freight rates to a median amount of \$117 per tonnage. However, this action was deferred by the former President David Kabua's administration. The current freight rate, which remains unchanged, was approved in April 25, 2019, from \$56.50 per ton to \$66.50 per ton as reflected in the 2019 and 2020 audit reports.

With fluctuation and inflation, especially increases of fuel and goods around the world, MISC will continue all its effort to approach the RMI Government for either a CSO or increasing traffic rate to an affordable amount that will offset the amount of MISC's operating deficit every year. MISC continues to work closely with the RMI Government and relevant government agencies for the sustainability of the sea transport services to the Neighboring Islands, as mandated, but will continue to rely on RepMar's continued subsidies to meet its goal and objectives as stated in the business plan. MISC's business plan was renewed and modified until 2027.

The future outlook on sustainability for MISC continues to be threatened by the deteriorating conditions of the shipping vessels. In 2011, RepMar passed the Shipping Vessel Repairs and Maintenance Act (R&M) to ensure that subsidy funding is made available on an annual basis to ensure that major repairs and services are performed regularly and for the procurement of safety equipment and parts. The R&M Act provides a strong position for MISC to continue to advocate for and to receive subsidies for the sole purpose of repairs and maintenance needs of its aging fleet. Without the R&M subsidy, the continued deterioration of more than half of MISC's shipping fleet will have a negative impact on MISC's ability to provide safe and reliable shipping services. Furthermore, the operations of MISC are further hampered with the loss of MV Ribuuk Ae, which ran aground on Ujae Atoll and later sunk in December 2019 followed by MV Tobolar in April 2021 and the transfer of MV Majuro back to the Ministry of Public Works. With this current maintenance fund compared to the number of the current fleet, MISC's management feel that for the sustainability of the vessel management, the RMI government should increase annual contributions to the R&M maintenance fund in order to maintain and prolong the lifespan of the vessels.

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Management's Discussion and Analysis, continued

FUTURE OUTLOOK ON SUSTAINABILITY, CONTINUED

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

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

MISC FOCUS IN THE COMING FISCAL YEAR

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

- MISC, through its Board of Directors, will continue to lobby for the approval from Cabinet to increase the MISC tariff rates, and to negotiate CSO agreements for identified commercial rates.
- With the support of its Board of Directors, MISC will continue to implement and monitor activities laid out in its business plan addressing both the operational and financial goals of MISC. The business plans include but are not limited to the following:
 - Lobby and seek government and development partner opportunities to finance or co-finance procurement of additional shipping vessels to increase MISC's existing shipping fleet.
 - Seeking assistance from donor partner's opportunities to finance or co-finance procurement of additional equipment or trucks to improve our streamline loading and unloading processes of the vessels to ensure quicker turn-around of the vessels and improve the efficiency of their transport services.

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

Management's Discussion and Analysis, continued

MISC FOCUS IN THE COMING FISCAL YEAR, CONTINUED

- Develop a tariff rate template to incorporate rising cost and fluctuation of fuel and inflation rates.
- Streamline operational processes (such as stevedoring, field trip scheduling, shipping vessel loading and unloading processes to reduce downtime and turn ships around more frequently to increase their services to the outer island);
- Develop and improve management and financial reporting.
- Address capacity building weaknesses and provide or seek opportunities for capacity building; and
- Ensure adherence to the shipping repairs and maintenance schedule.

The Marshall Islands was not directly impacted by the COVID-19 pandemic being experienced elsewhere worldwide. No cases of COVID-19 were experienced in the Marshall Islands for the majority of 2022 and, as such, MISC was able to continue operations as usual subject to the continued support from RepMar. However, community transmission occurred in August 2022 that temporarily disrupted operations resulting in delays in MISC's field trip operations.

ADDITIONAL FINANCIAL INFORMATION

This discussion and analysis is designed to provide MISC's customers and other stakeholders with an overview of the company's operations and financial condition as at 30th September 2023. Should the reader have questions regarding the information included in this report, or wish to request additional financial information, please contact the Marshall Islands Shipping Corporation General Manager at P.O. Box 1198, Majuro, Marshall Islands, MH 96960.

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

Statement of Net Position

September 30, 2023

ASSETS

Current assets:	
Cash	\$ 125,117
Receivables:	
Trade	213,891
Due from affiliates	408,056
Employees and former employees	362,774
	<u>984,721</u>
Less allowance for doubtful accounts	(778,499)
Total receivables, net	<u>206,222</u>
Inventories	125,457
Current portion of prepaid dry-docking	146,674
Total current assets	<u>603,470</u>
Noncurrent assets:	
Prepaid dry-docking, net of current portion	151,431
Capital assets, net of accumulated depreciation	7,878,057
Total noncurrent assets	<u>8,029,488</u>
	<u>\$ 8,632,958</u>

LIABILITIES AND NET POSITION

Current liabilities:	
Accounts payable	\$ 368,392
Payable to affiliates	373,767
Accruals and other liabilities	185,396
Total liabilities	<u>927,555</u>
Commitments and contingencies	
Net position:	
Net investment in capital assets	7,878,057
Restricted	11,516
Unrestricted	(184,170)
Total net position	<u>7,705,403</u>
	<u>\$ 8,632,958</u>

See accompanying notes.

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

Statement of Revenues, Expenses and Changes in Net Position

Year ended September 30, 2023

Operating revenues:	
Cargo	\$ 702,845
Ship sales	349,525
Charter	341,436
Passenger	61,724
Fuel and other revenue	4,047
Total operating revenues	<u>1,459,577</u>
Recovery of bad debts	47,708
Net operating revenues	<u>1,507,285</u>
Operating expenses:	
Salaries, wages and benefits	2,190,741
Petroleum, oil and lube	739,581
Depreciation	650,459
Cost of goods sold	282,170
Dry-dock expense	168,887
Material and supplies	130,016
Foodstuffs	123,431
Travel and entertainment	81,921
Utilities	43,545
Rent	37,136
Freight	21,978
Sitting fees	21,444
Communications	16,770
Contributions	12,946
Professional fees	10,881
Insurance	8,200
Miscellaneous	46,415
Total operating expenses	<u>4,586,521</u>
Operating loss	<u>(3,079,236)</u>
Nonoperating revenues (expenses):	
Operating subsidies	2,786,457
Penalties and interest	<u>(2,092)</u>
Total nonoperating revenues, net	<u>2,784,365</u>
Change in net position	<u>(294,871)</u>
Net position at beginning of year	<u>8,000,274</u>
Net position at end of year	<u><u>\$ 7,705,403</u></u>

See accompanying notes.

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

Statement of Cash Flows

Year ended September 30, 2023

Cash flows from operating activities:	
Cash received from customers	\$ 1,421,018
Cash payments to suppliers for goods and services	(1,860,142)
Cash payments to employees for services	(2,192,037)
Net cash used for operating activities	(<u>2,631,161</u>)
Cash flows from noncapital financing activities:	
Operating subsidies received	2,786,457
Penalties and interest paid	(2,092)
Net cash provided by noncapital financing activities	<u>2,784,365</u>
Cash flows from capital and related financing activities:	
Acquisition of capital assets	(<u>145,488</u>)
Net change in cash	7,716
Cash at beginning of year	<u>117,401</u>
Cash at end of year	<u>\$ 125,117</u>
Reconciliation of operating loss to net cash used for operating activities:	
Operating loss	\$(3,079,236)
Adjustments to reconcile operating loss to net cash used for operating activities:	
Depreciation	650,459
Dry-dock	141,917
Recovery of bad debts	(47,708)
Change in assets and liabilities:	
Receivables:	
Trade	(48,429)
Due from affiliates	94,880
Employees and former employees	(57,157)
Inventories	(77,409)
Prepaid dry-docking	(193,124)
Accounts payable	105,620
Payable to affiliates	(91,825)
Accruals and other liabilities	(1,296)
Unearned revenue	(<u>27,853</u>)
Net cash used for operating activities	<u>\$(2,631,161)</u>

See accompanying notes.

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

Notes to Financial Statements

Year ended September 30, 2023

1. Organization

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

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

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

2. Summary of Significant Accounting Policies

The accounting policies of MISC conform to accounting principles generally accepted in the United States of America (GAAP), as applicable to governmental entities, specifically proprietary funds. The Governmental Accounting Standards Board (GASB) is the recognized standard-setting body for establishing governmental accounting and financial reporting principles.

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 - 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 No. 34*, establish standards for external financial reporting for state and local governments and requires that resources be classified for accounting and reporting purposes into the following three 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 MISC to maintain such permanently. As of September 30, 2023, MISC does not have nonexpendable net position. Expendable net position whose use by MISC is subject to externally imposed stipulations that can be fulfilled by actions of MISC pursuant to those stipulations or that expire by the passage of time. As of September 30, 2023, MISC has expendable net position of \$11,516 for unexpended contributions from RepMar for vessel repairs and maintenance.

Marshall Islands Shipping Corporation
(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 MISC'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 statement of net position. Proprietary fund operating statements present increases and decreases in net position. The accrual basis of accounting is utilized by proprietary funds. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

Revenue Recognition

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

Cash

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

For purposes of the statements of net position and cash flows, cash is defined as cash on hand and cash held in demand and savings accounts. As of September 30, 2023, the carrying amount of cash was \$125,117 and the corresponding bank balance was \$187,729. Of the bank balance amount, \$177,155 was maintained in a financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance. The remaining amount of \$10,574 was maintained in a financial institution not subject to depository insurance.

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

Notes to Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

Cash, continued

As of September 30, 2023, bank deposits in the amount of \$177,155 were FDIC insured. MISC does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized. Accordingly, these deposits are exposed to custodial credit risk.

Receivables

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

Inventories

Inventories consist of items purchased for resale (on the ships) during outer islands voyages and are valued at the lower of cost (moving average) or market value (net realized value).

Deferred Dry-dock Expenditures

Dry-dock expenditures have been recognized as an asset when the recognition criteria were met. The recognition is made when the dry-docking has been performed and is amortized over the period until the next scheduled dry-docking, usually 2 to 3 years. Any remaining carrying amount of the cost of the previous inspection is derecognized. Ordinary repairs and maintenance expenses are charged to the income statement during the financial period in which they are incurred.

Capital Assets

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

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

Notes to Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

Capital Assets, continued

The estimated useful lives of these assets are as follows:

	<u>Estimated Useful Lives</u>
Equipment	5 - 10 years
Vehicles	5 years
Vessels	25 years
Motorboats	5 years

Deferred Outflows of Resources

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

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, the accumulated vacation leave liability totals \$107,925 and is included within the statement of net position as accruals and other liabilities.

Deferred Inflows of Resources

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

Marshall Islands Shipping Corporation
(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

During the year ended September 30, 2023, MISC 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.
- 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.
- 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.
- 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.

Marshall Islands Shipping Corporation
(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

- 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.

In addition, this Statement modifies accounting and reporting guidance in GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, related to termination of hedge.

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

Upcoming Accounting Pronouncements

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

- 1) Modifies guidance in GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, to bring all guarantees under the same financial reporting requirements and disclosures effective for the 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 the 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 the fiscal year ending September 30, 2024.

Marshall Islands Shipping Corporation
(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 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.

Marshall Islands Shipping Corporation
(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 assets 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.

Taxes

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

Estimates

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

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

Notes to Financial Statements, continued

3. Prepaid Dry-docking

During the year ended September 30, 2023, MISC incurred dry-dock expenditures of \$193,124 for the MV Aemman in Fiji. As of September 30, 2023, prepaid dry-dock costs amounted to \$298,105, which is being amortized over the period of 3 years. An analysis of the change in prepaid dry-dock costs during the year ended September 30, 2023, is as follows:

Beginning balance	\$ 246,898
Dry-dock capitalized	193,124
Amortized dry-dock expense	<u>(141,917)</u>
 Ending balance	 \$ <u>298,105</u>
 Disclosed as follows:	
Current	\$ 146,674
Noncurrent	<u>151,431</u>
	 \$ <u>298,105</u>

4. Capital Assets

Capital asset activities for the year ended September 30, 2023, were as follows:

	<u>October 1, 2022</u>	<u>Additions</u>	<u>Transfers and Disposals</u>	<u>September 30, 2023</u>
Depreciable capital assets:				
Vessels	\$ 9,878,861	\$ ---	\$ ---	\$ 9,878,861
Vehicles	564,365	---	---	564,365
Equipment	511,028	122,988	---	634,016
Motorboats	<u>229,874</u>	<u>22,500</u>	<u>---</u>	<u>252,374</u>
	11,184,128	145,488	---	11,329,616
Less accumulated depreciation	<u>(2,801,100)</u>	<u>(650,459)</u>	<u>---</u>	<u>(3,451,559)</u>
	<u>\$ 8,383,028</u>	<u>\$ (504,971)</u>	<u>\$ ---</u>	<u>\$ 7,878,057</u>

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

Notes to Financial Statements, continued

5. Related Party Transactions

MISC was created by the Nitijela of RepMar under Public Law 2005-41 and is thus considered a component unit of RepMar. Accordingly, MISC is affiliated with all RepMar-owned and affiliated entities, including Tobolar Copra Processing Authority (TCPA) and the RMI Ports Authority. A summary of related party transactions as of September 30, 2023, and for the year then ended are as follows:

	<u>Revenues</u>	<u>Expenses</u>	<u>Receivables</u>	<u>Payables</u>
Tobolar Copra Processing Authority	\$404,686	\$ ---	\$339,896	\$ ---
Marshall Islands Social Security Administration	---	406,647	---	95,796
Marshalls Energy Company, Inc.	---	561,992	---	101,635
RMI Ports Authority	---	37,423	---	31,636
RepMar	113,355	222,130	13,119	129,899
Other	<u>131,442</u>	<u>52,326</u>	<u>55,041</u>	<u>14,801</u>
	<u>\$649,483</u>	<u>\$1,280,518</u>	<u>\$408,056</u>	<u>\$373,767</u>

During the year ended September 30, 2023, the operations of MISC were funded by appropriations from the Nitijela of RepMar of \$2,786,457.

In 2018, MISC entered into an agreement with the Ministry of Works, Infrastructure and Utilities (MWIU) whereby the MV Majuro vessel was transferred to MWIU. In return, MWIU agreed to operate the vessel and that any revenue generated by MWIU from the vessel more than \$300,000 per annum would be remitted to MISC. During the year ended September 30, 2023, vessel revenues did not exceed the \$300,000 threshold.

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

As of September 30, 2023, receivables from employees and former employees amounted to \$362,774, which consists of advances given to employees as financial support by MISC.

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

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

Notes to Financial Statements, continued

6. Risk Management

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

7. Commitments and Contingencies

Lease Commitments

MISC leases a warehouse for \$2,297 per month, effective August 1, 2020, from the RMI Ports Authority, which expires on July 31, 2025. During the year ended September 30, 2023, MISC recorded associated rent expense of \$27,558. MISC also leases 3 rooms on Ebeye island for \$750 per month, effective February 1, 2018, from Kwajalein Atoll Stevedoring Company, which expires on February 1, 2028. Total minimum future rental payments under these non-cancellable lease agreements are as follows:

Year ending <u>September 30,</u>	
2024	\$ 36,558
2025	31,965
2026	9,000
2027	9,000
2028	<u>3,000</u>
	<u>\$ 89,523</u>

Going Concern

The accompanying financial statements have been prepared in accordance with GAAP, which contemplates the continuation of MISC as a going concern. During the year ended September 30, 2023, MISC incurred losses from operations of \$3,079,236, which was funded by appropriations from the Nitijela of RepMar of \$2,786,457. Management acknowledges that it is currently dependent on RepMar for cash funding to maintain MISC as a going concern. Although RepMar has provided funding in the past, MISC does not have a formal agreement with RepMar to provide future funding. Management believes that the continuation of MISC's operations is dependent upon the future financial support of RepMar, deferment of payment of certain liabilities, and/or significant improvements in operations.

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

Notes to Financial Statements, continued

7. Commitments and Contingencies, continued

Going Concern, continued

In view of these matters, realization of the related assets in the accompanying statement of net position as of September 30, 2023, is dependent upon continued operations of MISC, which, in turn, is dependent upon MISC's ability to provide service to its customers and the success of future operations. Management believes that actions presently being undertaken to revise MISC's operating requirements, including the generation of positive cash flows from operations by increasing the number of field trips, provide the opportunity for MISC to continue as a going concern. For the year ending September 30, 2024, RepMar has appropriated \$3,284,730 to fund MISC operations.



Shape the future
with confidence

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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
Marshall Islands Shipping Corporation

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the business-type activities of Marshall Islands Shipping Corporation (MISC), which comprise the statement of net position as September 30, 2023, and the related statements of revenues, expenses and changes in net position and of cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 4, 2025.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered MISC's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of MISC's internal control. Accordingly, we do not express an opinion on the effectiveness of MISC's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified certain deficiencies in internal control, described in the accompanying Schedule of Findings and Responses as items 2023-001 through 2023-003 that we consider to be material weaknesses.

Report on Compliance and Other Matters

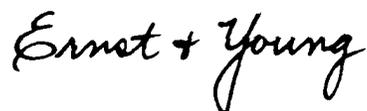
As part of obtaining reasonable assurance about whether MISC's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards*, and which is described in the accompanying Schedule of Findings and Responses as item 2023-004.

MISC's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on MISC's response to the findings identified in our audit and described in the accompanying Schedule of Findings and Responses. MISC's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of this Report

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

The logo for Ernst + Young, featuring the company name in a stylized, handwritten-style script font.

December 4, 2025

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

Schedule of Findings and Responses

Year ended September 30, 2023

Finding No. 2023-001

Leases

Criteria: GASB Statement No. 87 requires the recognition of certain lease assets and liabilities for leases that were previously classified as operating leases.

Condition: During the year ended September 30, 2023, MISC did not evaluate their operating leases under GASB Statement No. 87 to determine whether the recognition of certain lease assets and liabilities for leases was required.

Cause: MISC lacks the necessary staffing resources to implement GASB Statement No. 87 effectively.

Effect: MISC's financial statements may not accurately reflect lease obligations and related expenses impacting the credibility of financial statements.

Recommendation: We recommend management provide training and education for relevant staff to ensure they understand the requirements of GASB Statement No. 87 and can effectively implement the new processes.

Auditee Response and Corrective Action Plan: MISC agrees with this finding. MISC has complied with this where the audit mentioned it is not consistent with the standard. MISC will continue to take any necessary steps for more training on this aspect for proper implementation.

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

Schedule of Findings and Responses, Continued

Finding No. 2023-002

Employee Receivables

Criteria: Effective internal control policies and procedures require entities to establish and maintain effective controls to ensure that receivables are properly monitored, collected in a timely manner, and accurately reported. Receivables should be periodically reviewed to assess collectability, and appropriate follow-up actions should be taken to safeguard public resources.

Condition: At September 30, 2023, MISC recorded receivables from employees and former employees totaling \$362,774, which included one amount totaling \$63,500 representing cash and inventory shortages from various field trips made in 2022 and 2023. We noted that employee receivables were not actively monitored or collected by management. Several employee receivables remained outstanding for extended periods. No documentation was provided to show collection efforts, repayment arrangements, or management review of these balances.

Cause: Management has not implemented sufficient internal control procedures over the monitoring and collection of employee receivables. Responsibilities for oversight were not clearly assigned, and no formal process exists to ensure timely follow-up or evaluation of outstanding balances.

Effect: The lack of monitoring and collection efforts represents a material weakness in internal control over financial reporting. Without effective controls, employee receivables may remain outstanding indefinitely, may become uncollectible, or may result in loss or misuse of public funds. This condition also increases the risk of material misstatement in the financial statements if receivable balances are overstated or not evaluated for collectability.

Recommendation: We recommend that management establish and implement formal policies and procedures for monitoring and collecting employee receivables. These procedures should include periodic review of outstanding balances, documented collection and follow-up actions, clear assignment of oversight responsibilities, and timely evaluation of receivables for collectability. Implementing these controls will help ensure accurate financial reporting and safeguard public resources.

Auditee Response and Corrective Action Plan: MISC agrees with this finding. MISC will take corrective action on the employee receivables and set a guideline to reduce the receivables by increasing allotments and further ensure that no employee advances occur in the future, until all receivables are paid in full. All other charges being engaged with cargo damage will be paid during the fiscal year only. MISC will develop a policy on employee advances and charges.

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

Schedule of Findings and Responses, Continued

Finding No. 2023-003

Inventory

Criteria: Generally accepted accounting principles requires that amounts reported in the financial statements be supported by sufficient, appropriate documentation. Effective internal control over financial reporting also requires that detailed inventory records be maintained and reconciled to the general ledger.

Condition: MISC was unable to provide a detailed inventory listing to support the inventory balance of \$125,457 reported at year end. Management did not maintain documentation of inventory quantities, item descriptions, or valuation supporting the recorded amount.

Cause: Management has not implemented adequate internal control procedures to ensure that inventory records are prepared, maintained, and reviewed as part of the year-end financial reporting process.

Effect: The absence of supporting inventory records represents a material weakness in internal control over financial reporting. Without detailed inventory documentation, management cannot verify the existence, completeness, or valuation of inventory, and auditors cannot obtain sufficient appropriate evidence to support the recorded balance. This increases the likelihood of a material misstatement in the financial statements and may result in audit adjustments or a scope limitation.

Recommendation: We recommend that management develop and implement formal procedures for maintaining a complete and accurate inventory listing that includes item descriptions, quantities, unit costs, and total values. The listing should be reconciled to the general ledger at year end, reviewed by management for accuracy, and retained as support for financial reporting. Establishing these controls will help ensure that inventory balances are properly supported and fairly stated.

Auditee Response and Corrective Action Plan: MISC agrees with this finding. MISC has basic internal procedures on merchants but must ensure responsible employees are implementing procedures accordingly. MISC will also continue to review periodically, on a quarterly basis, or upon ships arrival. Management will continue to review its procedures and make necessary amendments to ensure accuracy and compliance with accounting principles.

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

Schedule of Findings and Responses, Continued

Finding No. 2023-004

Local Noncompliance

Criteria: Section 131 of the Social Security Act of 1990 and Section 218 of the Marshall Islands Health Fund Act of 2002 states that no later than the tenth (10th) day after the end of each quarter, every employer, including self-employed worker, shall (a) submit a report of the wages and salaries paid by him and the respective social security and health fund contributions due from him; and (b) pay into the social security fund and the health fund the respective contributions due.

Condition: MISC filed and paid employer and employee contributions withheld for the year ended September 30, 2023, in a manner inconsistent with the Social Security Act and the Social Security Health Fund Act resulting in penalties and interest being incurred. Specifically, contributions for the following quarters were not timely filed and paid:

<u>Quarter Ended</u>	<u>Due Date</u>	<u>Date Filed</u>	<u>Date Paid</u>	<u>Days Late</u>
September 30, 2023	10/10/2023	10/25/2023	10/25/2023	15 days
June 30, 2023	07/11/2023	08/22/2023	08/22/2023	42 days
March 31, 2023	04/11/2023	04/12/2023	04/12/2023	1 day
December 31, 2022	01/10/2023	01/26/2023	01/26/2023	16 days

Cause: The lack of policies and procedures to implement and monitor timely filing of returns and payment of contributions in accordance with the Social Security Act and the Marshall Islands Health Fund Act.

Effect: Noncompliance with the Social Security Act of 1990 and the Marshall Islands Health Fund Act, of 2002.

Recommendation: We recommend that management establish policies and procedures to comply with the Social Security Act of 1990 and the Marshall Islands Health Fund Act of 2002.

Auditee Response and Corrective Action Plan: MISC agrees with this finding. This matter is the result mostly of insufficient funds being available, including receiving subsidies late. The deployment of MISC's vessels is based on the subsidies received, which also generate additional revenues. MISC has further plans to set a spending plan to eliminate future funding on non-compliance on taxes.