AIR MARSHALL ISLANDS, INC.

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

FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT

YEARS ENDED SEPTEMBER 30, 2010 AND 2009

Deloitte.

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Air Marshall Islands, Inc.:

We have audited the accompanying statements of net assets (deficiency) of Air Marshall Islands, Inc. (AMI), a component unit of the Republic of the Marshall Islands, as of September 30, 2010 and 2009, and the related statements of revenues, expenses and changes in net assets (deficiency) and of cash flows for the years then ended. These financial statements are the responsibility of AMI's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of AMI as of September 30, 2010 and 2009, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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

The Management's Discussion and Analysis on pages 3 through 6 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of AMI's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 4, 2011, 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 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Deloitte + Touche LLP

November 4, 2011

Introduction

Our discussion and analysis of the Air Marshall Islands, Inc. (AMI) financial performance provides an overview of AMI's financial activities for the fiscal year ended September 30, 2010. This MD&A is to be used in conjunction with the financial statements that follow this section.

AMI is a component unit of the Republic of the Marshall Islands (RMI) and was established as the official carrier of the Government of the Republic of the Marshall Islands by virtue of a Corporate Charter granted by the Cabinet of the Marshall Islands on October 12, 1989. AMI subsequently merged with Airline of the Marshall Islands Inc., AMI being the surviving corporation on January 26, 1990.

AMI is governed by a nine - member Board of Directors. The RMI Cabinet appoints members to the Board of Directors and presently, the Minister of Transportation and Communication, is appointed as Chairperson of the Board.

Adoption of GASB 34

Air Marshall Islands, Inc. has adopted GASB Statement No.34, "Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments," which was issued in June of 1999. GASB 34 was developed to make financial reports of government entities easier to understand and more informative to oversight bodies. GASB 34 brought about significant changes in the format of the financial reports, one of which is the management's discussion and analysis.

Financial Highlights

On January 15, 2009, Air Marshall Islands, Inc. entered into an Aircraft Lease Agreement with General Aviation Maintenance Pty. Ltd of Australia to lease a Dornier 228 -202 for a period of six months with a monthly fixed cost or basic rent of $31,500 (being 105 Flight Hours at USD300). The lease of the aircraft was extended until it was redelivered to the Lessor ("GAM") on October 01, 2010.

In April 2009, a Dornier 9207 owned by AMI, was sent to Air Asia Company Ltd. (AACL) of ROC (Taiwan) to perform services required for airframe overhaul and associated modifications. The total costs of the repair as at September 30, 2010 amounted to $1,406,295.

The aircraft was redelivered to AMI and arrived in Majuro in June 17, 2010.

Statement of Net Assets

The Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets provide an indication of AMI's financial condition. AMI's net assets reflect the difference between assets and liabilities. A summary of AMI's Statement of Net Assets is presented below:

	Year		
	2010	2009	2008
Assets:			
Current and Other Assets	$ 750,055	$ 780,023	$ 1,067,062
Property and equipment, net	4,548,751	4,910,240	3,965,137
Total Assets	$ 5,298,806	$ 5,690,263	$ 5,032,199

Liabilities:			
Current liabilities	$ 5,842,744	$ 6,024,115	$ 4,624,250
Non-current liabilities	1,027,196	254,986	-
Total Liabilities	6,869,940	6,279,101	4,624,250
Net Assets:			
Invested in capital assets	4,548,751	4,910,240	3,965,137
Deficiency	(6,119,885)	(5,499,078)	(3,557,188)
Total Net Assets	(1,571,134)	(588,838)	407,949
	$ 5,298,806	$ 5,690,263	$ 5,032,199

Capital Assets and Long-Term Debt

Additions for property and equipment during the year amounted to $1,536,307 broken down as follows:

Aircraft DO 228 - 9207 major repair	$ 1,406,295
Rotables DO 228	9,348
Rotables Dash 8	105,060
Motor Vehicles	8,876
Office Furniture and Equipments	6,728
	$ 1,536,307

Capital asset activity for the year ended September 30, 2010 includes a transfer of $1,406,295 from Constuction In Progress account to Aircraft and Improvements Dornier 228 to recognize the completion of Dornier 228-212 repair from Air Asia Company Ltd., of Taiwan.

Long-term debt at September 30, 2010 amounted to $1,027,196 (net of current portion of $325,185) the details of which are:

A. Note payable to BOMI, due on November 28, 2014, interest at 13.5% per annum, payable in monthly installments of $31,500, including interest, collateralized by AMI's aircraft.	$ 1,171,455
B. Note payable to RMI Ports Authority, due on March 30, 2013, interest at 8% per annum, payable in monthly installments of $11,560, including interest, and is uncollateralized.	180,926
Total	1,352,381
Less: Current installments	325,185
	$ 1,027,196

Additional information on AMI’s capital assets and long-term debt can be found in notes 4 and 5, respectively, to the financial statements.

Statement of Revenues, Expenses, and Changes in Net Assets

A summary of AMI's statement of revenues, expenses and changes in net assets is presented below:

	Year 2010	Year 2009	Year 2008
Operating Revenues:			
Passenger	$ 1,456,427	$ 1,126,701	$ 621,507
Cargo	422,526	299,516	127,288
Charter	198,463	138,050	190,275
Other	375,288	201,647	171,639
Total operating revenues	2,452,704	1,765,914	1,110,709
Less: provision for doubtful accounts	(200,275)	-	(51,938)
Net operating revenues	2,252,429	1,765,914	1,058,771
Operating Expenses:			
Flying operations	1,481,471	1,183,707	1,011,709
Maintenance	663,002	801,348	1,039,512
Depreciation and amortization	801,866	601,397	634,151
General and administrative	564,538	520,584	475,379
Promotion and sales	219,835	210,822	162,719
Aircraft and traffic servicing	240,220	233,664	314,617
Total operating expenses	3,970,932	3,551,522	3,638,087
Operating loss	(1,718,503)	(1,785,608)	(2,579,316)
Nonoperating revenues (expenses), net	336,207	788,821	2,744,562
Income (loss) before capital contribution	(1,382,296)	(996,787)	165,246
Capital contribution	400,000	-	-
Change in net assets	$ (982,296)	$ (996,787)	$ 165,246

The Statements of Revenues, Expenses and Changes in Net Assets identify various revenue and expense items that affect the change in net assets. Net operating revenues for FY2010 showed an increase of 28% or $486,515 from $1,765,914 in 2009 to $2,252,429.

During the year ended September 30, 2010, the lay-up periods (AOG) for AMI’s aircraft negatively impacted the number of passengers carried during months of good aircraft service ability but managed to increase passengers carried by 35% or 2,877 compared to the prior year. The number of days aircraft were grounded during the year are:

Aircraft	Days	Reason
Dornier 228-202 V7 - 9207	243	Airframe overhaul at Air Asia, Taiwan
	5	Ferry flight from Taiwan to Majuro
	15	DCA certification after overhaul from Taiwan
	8	Scheduled engine inspection
	271	

Dash 8 V7 - 0210	9	Pilot's recurrent training
	5	NDT Inspection of wing
	12	Mandatory NDT inspection following NLG landing incident in March 2005.
	67	De-Ice boots, NIL spare
	41	Co-pilot's side window, NIL spare
	15	Required 2 - year NDT inspection
	149	
Dornier 228 212 V7 - 0811 (Leased aircraft)	13	Nose wheel steering actuator
	41	LH engine experienced uncommanded in-flight shutdown.
	13	HF radio inoperable, NIL spare
	59	Remote compass fault
	22	Awaiting ferry flight departure
	148	
Total Lay-Up In Days	568	

The Discussion and Analysis for the year ended September 30, 2009, is set forth in AMI's report on the audit of financial statements, which is dated January 21, 2011. That discussion and analysis explains the major factors impacting the 2009 financial statements and can be obtained from AMI's general manager via the contract information below.

Subsequent Events and Economic Decisions that May Affect Next Years' Performance

On August 22, 2011, AMI received a copy of RMI's C.M. 082 (2011) and as such do hereby agreed:

(i) to guarantee a loan for Air Marshall Islands with Bank of Marshall Islands (BOMI) for the total of $1.6M to enable the Dash 8 D check with Hawker Pacific Pty. Limited of Australia; and

(ii) to sell the Dash 8 at selling price of $4.5M, with $1.6M going towards clearing the $1.6M RMI Guarantee from the proceeds of the sale; and

(iii) approved the use of the expected net proceeds of $2.9M to defray other obligations of AMI, including the purchase of a sustainable and reliable aircraft.

On September 09, 2011, a letter for loan application in the amount of $1.6M was sent to BOMI. The Dash 8 D Check is tentatively scheduled on September 17, 2011 and is expected to be finished within 60 working days.

While the Dash 8 is undergoing major repair or overhaul, management decides to lease an aircraft to reinforce operation.

Additional Financial Information

The discussion and analysis is designed to provide AMI's customers and other parties with an overview of AMI's financial operations and financial condition. Should the reader have questions regarding the information included in this report or wish to request additional financial information, please contact the Air Marshall Island, Inc. General Manager at P.O. Box 1319, Majuro, MH 96960.

AIR MARSHALL ISLANDS, INC.

Statements of Net Assets (Deficiency)
September 30, 2010 and 2009

ASSETS	2010	2009
Current assets:		
Cash	$ 25,694	$ 20,217
Receivables:		
Trade	423,315	241,263
Employees	256,054	228,055
Affiliates	97,042	46,846
	776,411	516,164
Less allowance for doubtful receivables	(637,409)	(447,765)
Receivables, net	139,002	68,399
Expendable parts (net of allowance for obsolescence of $177,789 at September 30, 2010 and 2009)	438,691	463,630
Prepaid expenses and deposits	146,668	204,147
Total current assets	750,055	756,393
Advance to RepMar	-	23,630
Property and equipment, net	4,548,751	4,910,240
	$ 5,298,806	$ 5,690,263

LIABILITIES AND NET ASSETS (DEFICIENCY)	2010	2009
Current liabilities:		
Current portion of long-term debt	$ 325,185	$ 303,293
Accounts payable	488,974	345,339
Contract payable - aircraft overhaul	375,671	1,009,450
Air traffic liability	156,380	160,496
Accrued expenses	100,179	105,073
Payable to affiliates	1,279,465	983,574
Advances from RepMar	3,116,890	3,116,890
Total current liabilities	5,842,744	6,024,115
Long-term debt, net of current portion	1,027,196	254,986
Total liabilities	6,869,940	6,279,101
Commitments and contingencies		
Net assets (deficiency):		
Invested in capital assets	4,548,751	4,910,240
Deficiency	(6,119,885)	(5,499,078)
Total net deficiency	(1,571,134)	(588,838)
	$ 5,298,806	$ 5,690,263

See accompanying notes to financial statements.

AIR MARSHALL ISLANDS, INC.

Statements of Revenues, Expenses and Changes in Net Assets (Deficiency)
Years Ended September 30, 2010 and 2009

	2010	2009
Operating revenues:		
Passenger	$ 1,456,427	$ 1,126,701
Cargo	422,526	299,516
Charter	198,463	155,112
Other	375,288	184,585
Total operating revenues	2,452,704	1,765,914
Less provision for doubtful accounts	200,275	-
Total net operating revenues	2,252,429	1,765,914
Operating expenses:		
Flight operations	1,481,471	1,183,707
Depreciation and amortization	801,866	601,397
Maintenance	663,002	801,348
General and administrative	564,538	520,584
Aircraft and traffic servicing	240,220	233,664
Promotion and sales	219,835	210,822
Total operating expenses	3,970,932	3,551,522
Operating loss	(1,718,503)	(1,785,608)
Nonoperating revenues (expenses):		
RepMar subsidy	498,791	824,400
Interest expense	(162,584)	(35,579)
Total nonoperating revenues (expenses) , net	336,207	788,821
Capital contributions from RepMar	400,000	-
Change in net assets	(982,296)	(996,787)
Net assets (deficiency) at beginning of year	(588,838)	407,949
Net deficiency at end of year	$ (1,571,134)	$ (588,838)

See accompanying notes to financial statements.

AIR MARSHALL ISLANDS, INC.

Statements of Cash Flows
Years Ended September 30, 2010 and 2009

		2010		2009
Cash flows from operating activities:				
Cash received from customers	$	2,177,710	$	1,783,684
Cash payments to suppliers for goods and services		(1,798,940)		(1,762,696)
Cash payments to employees for services		(829,446)		(888,415)
Net cash used for operating activities:		(450,676)		(867,427)
Cash flows from noncapital financing activities:				
Operating subsidy received from RepMar		498,791		824,400
Cash flows from capital and related financing activities:				
Acquisition of property and equipment		(674,156)		(537,050)
Proceeds from issuance of long term debt		1,546,637		627,877
Principal repayments of long-term debt		(752,535)		(69,598)
Interest paid on long-term debt		(162,584)		(35,579)
Net cash used for capital and related financing activities		(42,638)		(14,350)
Net change in cash		5,477		(57,377)
Cash at beginning of year		20,217		77,594
Cash at end of year	$	25,694	$	20,217
Reconciliation of operating loss to net cash used for operating activities:				
Operating loss	$	(1,718,503)	$	(1,785,608)
Adjustments to reconcile operating loss to net cash used for operating activities:				
Depreciation and amortization		801,866		601,397
Bad debts expense		200,275		-
Inventory obsolescence		-		3,659
(Increase) decrease in assets:				
Receivables:				
Trade		(192,683)		(10,708)
Employees		(27,999)		(21,037)
Affiliates		(50,196)		68,421
Expendable parts		24,939		105,434
Prepaid expenses and deposits		57,479		(24,555)
Advance to RepMar		23,630		108,448
Increase (decrease) in liabilities:				
Accounts payable		143,635		(54,581)
Air traffic liability		(4,116)		(18,906)
Accrued expenses		(4,894)		57,993
Payable to affiliates		295,891		102,616
Net cash used for operating activities	$	(450,676)	$	(867,427)
Summary disclosure of noncash activities:				
Construction in progress	$	310,365	$	1,009,450
Contract payable-aircraft overhaul		(310,365)		(1,009,450)
	$	-	$	-
Capital contribution from RepMar	$	400,000	$	-
Contract payable - aircraft overhaul		(400,000)		-
	$	-	$	-

See accompanying notes to financial statements.

(1) Organization

Air Marshall Islands, Inc. (AMI) was incorporated on October 12, 1989 to provide regular scheduled domestic and international passenger, charter and cargo service within and from the Marshall Islands. As of September 30, 2010, AMI operated a fleet of two Dornier Do228 aircraft and a single de Havilland Canada Dash 8 (DHC-8) Series 100 aircraft. During AMI's initial operating year, RepMar contributed equity capital (including amounts resulting from the merger with Airline of the Marshall Islands, Inc.) amounting to $1,284,722. 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 as applicable to governmental entities, specifically proprietary funds. Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, requires that proprietary activities apply all applicable GASB pronouncements as well as Statements and Interpretations issued by the Financial Accounting Standards Board (FASB), Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedures issued on or before November 30, 1989. AMI has implemented GASB 20 and elected not to apply FASB Statements and Interpretations issued after November 30, 1989.

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 nonoperating.

GASB Statement No. 34, *Basic Financial Statements - and Management’s Discussion and Analysis - for State and Local Governments*, which was subsequently amended by Statement No. 37, *Basic Financial Statements - and Management’s Discussion and Analysis - for State and Local Governments: Omnibus*, and modified by Statement No. 38, *Certain Financial Statement Note Disclosures*, 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 the requirements of GASB 34, equity is presented in the following net asset categories:

- Invested in capital assets; capital assets, net of accumulated depreciation and related debt, plus construction or improvement of those assets.

- Unrestricted; net assets that are not subject to externally imposed stipulations. Unrestricted net assets 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.

(2) Summary of Significant Accounting Policies, Continued

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities 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.

Basis of Accounting

Proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operation of the fund are included in the statements of net assets. Proprietary fund operating statements present increases and decreases in net total assets. 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 assets and cash flows, cash is defined as cash on hand and cash held in demand and savings accounts. As of September 30, 2010 and 2009, the carrying amount of cash was $25,694 and $20,217, respectively, and the corresponding bank balances were $38,469 and $26,401, respectively. As of September 30, 2010 and 2009, bank balances in the amount of $34,950 and $10,332, respectively, were maintained in a financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance with the remainder maintained in non-FDIC insured financial institutions. Accordingly, these deposits are exposed to custodial credit risk. AMI does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized.

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 accounts receivable that may become uncollectible based on evaluations of the collectability of these accounts and prior collection experience. The allowance is established through a provision for losses on accounts receivable charged to expense.

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.

(2) Summary of Significant Accounting Policies, Continued

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 repairs are charged to operations as they are incurred. 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.

The estimated useful lives of these assets are as follows:

	Estimated Useful Lives
Building and improvements	20 years
Aircraft and improvements	10 – 15 years
Rotable spare parts	5 – 10 years
Office furniture and equipment	5 – 7 years
Plant and equipment	5 years
Motor vehicles	3 years

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 less.

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 nonvesting accumulating rights to receive sick pay benefits. As of September 30, 2010 and 2009, the accumulated vacation leave liability amounted to $62,551 and $55,277, respectively, and is included within the statements of net assets as accrued expenses.

Revenue Recognition

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 revenue is 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.

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards

During fiscal year 2010, AMI implemented the following pronouncements:

- GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, which addresses whether and when intangible assets should be considered capital assets for financial reporting purposes.

- GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, which is intended to improve how state and local governments report information about derivative instruments - financial arrangements used by governments to manage specific risks or make investments - in their financial statements.

- GASB Technical Bulletin No. 2008-1, *Determining the Annual Required Contribution Adjustment for Postemployment Benefits*, which clarifies the requirements of GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, for calculating the annual required contribution (ARC) adjustment.

- GASB Statement No. 58, *Accounting and Financial Reporting for Chapter 9 Bankruptcies*, which provides guidance for governments that have petitioned for protection from creditors by filing for bankruptcy under Chapter 9 of the United States Bankruptcy Code, and establishes requirements for recognizing and measuring the effects of the bankruptcy process on assets and liabilities, and for classifying changes in those items and related costs.

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

In March 2009, GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. The provisions of this statement are effective for periods beginning after June 15, 2010. Management has not evaluated the effect that the implementation of this statement will have on the financial statements of AMI.

In December 2009, GASB issued Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, which amends Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, and addresses issues related to measurement of OPEB obligations by certain employers participating in agent multiple-employer OPEB plans. The provisions of Statement 57 related to the use and reporting of the alternative measurement method are effective immediately. The provisions related to the frequency and timing of measurements are effective for actuarial valuations first used to report funded status information in OPEB plan financial statements for periods beginning after June 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of AMI.

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In June 2010, GASB issued Statement No. 59, *Financial Instruments Omnibus*, which updates and improves existing standards regarding financial reporting of certain financial instruments and external investment pools. The provisions of this statement are effective for periods beginning after June 15, 2010. Management has not evaluated the effect that the implementation of this statement will have on the financial statements of AMI.

Reclassifications

Certain reclassifications have been made to the 2009 financial statements to conform to the 2010 presentation.

(3) 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.

(4) Property and Equipment

Capital asset activity for the years ended September 30, 2010 and 2009, was as follow:

	2010			
	October 1, 2009	Additions	Retirements/ Transfers	September 30, 2010
Aircraft and improvements	$ 12,634,507	$ 1,406,295	$ -	$ 14,040,802
Rotable spare parts	5,075,916	114,408	-	5,190,324
Plant and equipment	439,655	-	-	439,655
Office furniture and equipment	691,861	6,728	-	698,589
Motor vehicles	150,488	8,876	-	159,364
Building improvements	12,538	-	-	12,538
	19,004,965	1,536,307	-	20,541,272
Less accumulated depreciation and amortization	(15,190,655)	(801,866)	-	(15,992,521)
	3,814,310	734,441	-	4,548,751
Construction in progress	1,095,930	310,365	(1,406,295)	-
	$ 4,910,240	$ 1,044,806	$ (1,406,295)	$ 4,548,751

(4) Property and Equipment, Continued

	2009			
	October 1, 2008	Additions	Retirements/ Transfers	September 30, 2009
Aircraft and improvements	$ 12,634,507	$ -	$ -	$ 12,634,507
Rotable spare parts	4,671,696	404,220	-	5,075,916
Plant and equipment	435,972	3,683	-	439,655
Office furniture and equipment	671,078	20,783	-	691,861
Motor vehicles	139,551	21,884	(10,947)	150,488
Building improvements	12,538	-	-	12,538
	18,565,342	450,570	(10,947)	19,004,965
Less accumulated depreciation and amortization	(14,600,205)	(601,397)	10,947	(15,190,655)
	3,965,137	(150,827)	-	3,814,310
Construction in progress	-	1,095,930	-	1,095,930
	$ 3,965,137	$ 945,103	$ -	$ 4,910,240

(5) Long-Term Debt

A schedule of AMI's long-term debt as of September 30, 2010 and 2009, is as follows:

	2010	2009
Note payable to bank (original amount of $1,365,712), dated November 27, 2009, due on November 28, 2014, interest at 13.5% per annum, payable in monthly installments of $31,500, including interest, collateralized by AMI's aircraft. The note refinanced a previous operational loan and remaining proceeds funded aircraft overhaul and working capital purposes.	$ 1,171,455	$ -
Note payable to RMI Ports Authority (original amount of $313,385), dated September 1, 2010, due on March 30, 2013, interest at 8.0% per annum, payable in monthly installments of $11,560, including interest. The note is uncollateralized and was used to fund aircraft overhaul and spare parts.	180,926	-
Note payable to bank (original amount of $627,877), dated July 2, 2009, due on June 28, 2011, interest at 13.5% per annum, payable in monthly installments of $30,000, including interest, collateralized by AMI's aircraft. The note was used for working capital purposes and was refinanced on November 27, 2009.	-	558,279
	1,352,381	558,279
Less current installments	325,185	303,293
	$ 1,027,196	$ 254,986

(5) Long-Term Debt, Continued

Future repayment commitments are as follows:

Year Ending September 30	Principal	Interest	Total
2011	$ 325,185	$ 167,057	$ 492,242
2012	325,298	119,697	444,995
2013	301,444	76,556	378,000
2014	344,753	33,247	378,000
2015	55,701	906	56,607
	$ 1,352,381	$ 397,463	$ 1,749,844

Changes in long-term liabilities for the year ended September 30, 2010, were as follows:

	Balance October 1, 2009	Additions	Reductions	Balance September 30, 2010	Due Within One Year
Loans payable	$ 558,279	$ 1,546,637	$ (752,535)	$ 1,352,381	$ 325,185

Changes in long-term liabilities for the year ended September 30, 2009, were as follows:

	Balance October 1, 2008	Additions	Reductions	Balance September 30, 2009	Due Within One Year
Loans payable	$ -	$ 627,877	$ (69,598)	$ 558,279	$ 303,293

(6) Related Party Transactions

AMI is a component unit of RepMar and is therefore affiliated with all RepMar-owned and affiliated entities. AMI's airline service is provided to RepMar and all RepMar-owned and affiliated entities, including the Marshall Islands Development Bank (MIDB) and the RMI Ports Authority (RMIPA). 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 with the exception of services provided by RMIPA, a component unit of RepMar. Specifically, AMI utilizes RMIPA’s airport facilities at the Amata Kabua International Airport, including landing rights, for which no fees or charges are levied by RMIPA.

(6) Related Party Transactions, Continued

A summary of related party transactions for the years ended September 30, 2010 and 2009, is as follows:

	2010			
	Receivables	Revenues	Payables	Expenses
RepMar	$ 90,721	$ 305,874	$ 144,060	$ -
RMIPA	-	-	242,588	14,060
Marshall Islands Social Security Administration	-	-	875,690	93,958
Marshall Islands National Telecommunications Authority	1,439	758	7,255	54,217
Marshalls Energy Company, Inc.	1,303	1,085	9,100	29,057
Other	3,579	2,555	772	-
	97,042	$ 310,272	$ 1,279,465	$ 191,292
Less allowance for doubtful receivables	(39,891)			
	$ 57,151			

	2009			
	Receivables	Revenues	Payables	Expenses
RepMar	$ 41,906	$ 223,892	$ 14,337	$ -
RMIPA	-	-	218,899	14,059
Marshall Islands Social Security Administration	-	-	734,631	120,946
Marshall Islands National Telecommunications Authority	1,300	498	8,328	56,615
Marshalls Energy Company, Inc.	310	1,011	4,885	24,176
Other	3,330	1,789	2,494	-
	46,846	$ 227,190	$ 983,574	$ 215,796
Less allowance for doubtful receivables	(31,499)			
	$ 15,347			

A summary of advances from RepMar as of September 30, 2010 and 2009, follows:

	2010	2009
Advances in accordance with Cabinet Minute C.M. 150 (2002), no interest and due in May 2008.	$ 2,000,000	$ 2,000,000
Transfer of note payable to bank to payable to affiliate as a result of bank seizing the TCD collateral belonging to MIDB, terms and interest rate are currently under negotiation.	988,574	988,574
Funding assistance in accordance with Cabinet Minute C.M. 118 (2007), no interest and on reimbursable basis.	128,316	128,316
	$ 3,116,890	$ 3,116,890

(6) Related Party Transactions, Continued

AMI's liability for payroll taxes, totaling $108,448, for the year ended September 30, 2009 and certain prior years' delinquent payroll taxes and related penalties and interest have been applied against AMI's previous $1,750,000 advance to RepMar. The remaining advance of $23,630 as of September 30, 2009 was fully liquidated during 2010. At September 30, 2010, AMI is liable for additional payroll taxes, totaling $124,598, which includes related penalties and interest.

At September 30, 2010 and 2009, AMI is liable to the Marshall Islands Social Security Administration for certain delinquent employee and employer contributions, totaling $875,690 and $734,631, respectively, which includes related penalties and interest (see note 8).

During the years ended September 30, 2010 and 2009, AMI received operating subsidies from RepMar, totaling $498,791 and $824,400, respectively. In addition, AMI received a capital contribution from RepMar during the year ended September 30, 2010 of $400,000 relating to payments made by RepMar on behalf of AMI for certain aircraft overhaul costs.

(7) Commitments and Contingencies

Commitments

AMI leases office space at the Amata Kabua International Airport. Total future minimum lease payments under this lease for subsequent years ending September 30 are as follows:

Year Ending September 30	
2011	$ 2,059
2012	858
	$ 2,917

Contingencies

On May 15, 2000, AMI cancelled a purchase agreement to acquire two Dornier 328 aircraft at a total cost of $28,045,780. AMI made pre-delivery payments totaling $2,100,000. In October 2000, AMI sued the aircraft manufacturer for repayment of the pre-delivery payments and for other claims. On August 17, 2001, a court awarded damages in favor of AMI in the amount of $4,065,000, plus pre-judgment interest in the amount of $115,411. On April 2, 2002, the aircraft manufacturer filed for bankruptcy protection. The ultimate outcome of collection of this judgment is uncertain. As of September 30, 2010, AMI has not been repaid the pre-delivery payments and has recorded a provision for uncollectible advances of $2,100,000.

Management does not believe that AMI is liable for certain billings approximating $160,000 for attorney fees for services which were not authorized by AMI's Board of Directors. The billings are not recorded by AMI and the ultimate resolution of this matter is uncertain.

(7) Commitments and Contingencies, Continued

Contingencies, Continued

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America, which contemplates the continuation of AMI as a going concern. AMI sustained substantial operating losses during the years ended September 30, 2010 and 2009 of $1,718,503 and $1,785,608, respectively, and used a substantial amount of working capital in its operations resulting in a working capital deficiency of $5,092,689 at September 30, 2010. Furthermore, at September 30, 2010, total liabilities exceeded total assets by $1,571,134. Management acknowledges that it is currently dependent on RepMar for cash funding in order to maintain AMI as a going concern. Although RepMar has provided funding in the past, AMI does not have a formal agreement with RepMar to provide funds in the future. Management believes that the continuation of AMI's operations is dependent upon the future financial support of RepMar, the offering of additional common stock, and/or significant improvements in operations, to be achieved through significant reductions in operating expenses.

In view of these matters, realization of a major portion of the assets in the accompanying statements of net assets at September 30, 2010, is dependent upon continued operations of AMI, which, in turn, is dependent upon AMI’s ability to provide reliable service to its customers and the success of future operations. Management believes that actions presently being undertaken to revise AMI’s operating requirements, including the repair and rehabilitation of its aircraft, generating cash flows through possible disposal of assets, improving flight schedules, increasing cargo and other services, and negotiating to secure electronic ticketing capability, provide the opportunity for AMI to continue as a going concern.

(8) Subsequent Events

On December 28, 2010, AMI entered into a promissory note with the Marshall Islands Social Security Administration (MISSA) in the amount of $1,059,068 for certain delinquent employee and employer contributions and related penalties and interest. The note bears interest at 12% per annum with monthly payments of $15,000 commencing January 10, 2011. In addition, a $50,000 payment is due on or before January 31, 2011 and another on or before April 30, 2011.

On September 23, 2011, MISSA filed suit against AMI for defaulting on the above promissory note.

During the period from October 1, 2010 through February 28, 2011, AMI borrowed an additional $110,387 against the note payable to RMI Ports Authority dated September 1, 2010.