AIR MARSHALL ISLANDS, INC.

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

FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT

YEARS ENDED SEPTEMBER 30, 2012 AND 2011

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Air Marshall Islands, Inc.:

We have audited the accompanying statements of net deficiency of Air Marshall Islands, Inc. (AMI), a component unit of the Republic of the Marshall Islands, as of September 30, 2012 and 2011, and the related statements of revenues, expenses and changes in net 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.

Except as discussed in the following paragraph, 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.

Because of inadequacy of accounting records, we are unable to form an opinion regarding the amounts at which expendable parts is recorded in the accompanying statement of net deficiency at September 30, 2012 and 2011 (stated at $498,662 and $474,598, respectively). Expendable parts enter materially into the determination of the results of operations for the years ended September 30, 2012 and 2011.

In our opinion, except for effects of such adjustments, if any, as might have been determined to be necessary had accounting records concerning expendable parts been adequate, the financial statements referred to above present fairly, in all material respects, the financial position of AMI as of September 30, 2012 and 2011, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 15, 2013, 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.

AMI has not presented the Management's Discussion and Analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Deloitte & Touche LLP

August 15, 2013

AIR MARSHALL ISLANDS, INC.

Statements of Net Deficiency
September 30, 2012 and 2011

ASSETS	2012	2011
Current assets:		
Cash	$ 4,582	$ 13,015
Receivables:		
Trade	320,496	438,198
Employees	239,989	220,641
Affiliates	54,464	103,305
	614,949	762,144
Less allowance for doubtful receivables	(600,825)	(637,409)
Receivables, net	14,124	124,735
Expendable parts (net of allowance for obsolescence of $177,789 at September 30, 2012 and 2011)	498,662	474,598
Prepaid expenses and deposits	129,578	177,873
Total current assets	646,946	790,221
Capital assets:		
Nondepreciable capital assets	1,572,207	-
Capital assets, net of accumulated depreciation	3,623,383	3,966,951
	$ 5,842,536	$ 4,757,172

LIABILITIES AND NET DEFICIENCY	2012	2011
Current liabilities:		
Current portion of long-term debt	$ 467,628	$ 406,197
Accounts payable	319,083	228,821
Contract payable - aircraft overhaul	430,597	196,409
Air traffic liability	211,825	157,763
Accrued expenses	120,293	61,805
Payable to affiliates	2,483,018	1,596,234
Advances from RepMar	3,116,890	3,116,890
Total current liabilities	7,149,334	5,764,119
Long-term debt, net of current portion	-	768,272
Total liabilities	7,149,334	6,532,391
Commitments and contingencies		
Net deficiency:		
Invested in capital assets	-	3,966,951
Deficiency	(1,306,798)	(5,742,170)
Total net deficiency	(1,306,798)	(1,775,219)
	$ 5,842,536	$ 4,757,172

See accompanying notes to financial statements.

AIR MARSHALL ISLANDS, INC.

Statements of Revenues, Expenses and Changes in Net Deficiency
Years Ended September 30, 2012 and 2011

	2012	2011
Operating revenues:		
Passenger	$ 1,054,260	$ 1,874,290
Cargo	254,941	428,807
Charter	337,526	314,951
Other	195,109	304,536
Total operating revenues	1,841,836	2,922,584
Add reversal provision for doubtful accounts	36,583	-
Total net operating revenues	1,878,419	2,922,584
Operating expenses:		
Flight operations	1,026,507	1,374,394
Depreciation and amortization	638,771	711,402
Maintenance	491,061	575,516
General and administrative	903,420	531,320
Aircraft and traffic servicing	319,226	260,835
Promotion and sales	207,593	232,856
Total operating expenses	3,586,578	3,686,323
Operating loss	(1,708,159)	(763,739)
Nonoperating revenues (expenses):		
RepMar subsidy	772,872	719,267
Interest expense	(91,890)	(159,613)
Total nonoperating revenues (expenses) , net	680,982	559,654
Capital contributions from RepMar	1,495,598	-
Change in net assets	468,421	(204,085)
Net deficiency at beginning of year	(1,775,219)	(1,571,134)
Net deficiency at end of year	$ (1,306,798)	$ (1,775,219)

See accompanying notes to financial statements.

AIR MARSHALL ISLANDS, INC.

Statements of Cash Flows
Years Ended September 30, 2012 and 2011

	2012	2011
Cash flows from operating activities:		
Cash received from customers	$ 2,043,092	$ 2,938,234
Cash payments to suppliers for goods and services	(882,545)	(2,117,514)
Cash payments to employees for services	(1,005,495)	(921,986)
Net cash proviced by (used for) operating activities:	155,052	(101,266)
Cash flows from noncapital financing activities:		
Operating subsidy received from RepMar	772,872	719,267
Cash flows from capital and related financing activities:		
Acquisition of property and equipment	(1,633,224)	(308,864)
Capital contribution from RepMar	1,495,598	-
Principal repayments of long-term debt	(706,841)	(177,912)
Interest paid on long-term debt	(91,890)	(143,904)
Net cash used for capital and related financing activities	(936,357)	(630,680)
Net change in cash	(8,433)	(12,679)
Cash at beginning of year	13,015	25,694
Cash at end of year	$ 4,582	$ 13,015
Reconciliation of operating loss to net cash provided by (used for) operating activities:		
Operating loss	$ (1,708,159)	$ (763,739)
Adjustments to reconcile operating loss to net cash provided by (used for) operating activities:		
Depreciation and amortization	638,773	711,402
Recovery of doubtful accounts	(36,584)	-
(Increase) decrease in assets:		
Receivables:		
Trade	117,702	(14,883)
Employees	(19,348)	35,413
Affiliates	48,841	(6,263)
Expendable parts	(24,064)	(35,907)
Prepaid expenses and deposits	48,295	(31,205)
Increase (decrease) in liabilities:		
Accounts payable	90,262	(260,153)
Air traffic liability	54,062	1,383
Accrued expenses	58,488	(54,083)
Payable to affiliates	886,784	316,769
Net cash provided by (used for) operating activities	$ 155,052	$ (101,266)
Summary disclosure of noncash activities:		
Construction in progress	$ (234,188)	$ 179,262
Contract payable-aircraft overhaul	234,188	(179,262)
	$ -	$ -

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, 2012, 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, Government of the Republic of Marshall Islands (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.

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.

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.

(2) Summary of Significant Accounting Policies, Continued

Basis of Accounting

Proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and 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.

Classification of Revenues

AMI considers passenger and related charter and cargo revenues, and costs directly related to such revenues to be operating revenues and expenses. Revenues and expenses related to financing and other activities are reflected as non-operating.

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 deficiency and cash flows, cash is defined as cash on hand and cash held in demand and savings accounts. As of September 30, 2012 and 2011, the carrying amounts of cash were $4,582 and $13,015, respectively, and the corresponding bank balances were $17,782 and $11,665, respectively. As of September 30, 2012 and 2011, bank balances in the amount of $14,944 and $2,864, 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 receivables that may become uncollectible based on evaluations of the collectability of these receivables and prior collection experience. The allowance is established through a provision for losses on receivables charged to expense.

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 lower.

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, 2012 and 2011, the accumulated vacation leave liability amounted to $45,321 and $12,882, respectively, and is included within the statements of net deficiency 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 revenues are recognized when the transportation is provided. Other components of other operating revenue are recognized as revenue when the related goods and services are provided.

Taxes

Corporate profits are not subject to income tax in the Republic of the Marshall Islands. The Government of the Republic of the Marshall Islands imposes a gross revenue tax of 3% on revenues. Pursuant to the Income Tax Act of 1989, as amended, revenue from domestic flights and operations of any government-owned corporation providing air transportation services are exempt from gross revenue tax. Accordingly, AMI is exempt from this tax relating to gross revenue.

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards

During fiscal year 2012, AMI implemented the following pronouncements:

- GASB 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 the frequency and timing of measurements for actuarial valuations first used to report funded status information in OPEB plan financial statements. The implementation of this pronouncement did not have a material effect on the accompanying financial statements.

- GASB Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions* (an amendment of GASB Statement No. 53), which will improve financial reporting by state and local governments by clarifying the circumstances in which hedge accounting continues to be applied when a swap counterparty, or a swap counterparty's credit support provider, is replaced. The implementation of this pronouncement did not have a material effect on the accompanying financial statements.

In December 2010, GASB issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, which addresses how to account for and report service concession arrangements (SCAs), a type of public-private or public-public partnership that state and local governments are increasingly entering into. The provisions of this statement are effective for periods beginning after December 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of AMI.

In December 2010, GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus*, which is designed to improve financial reporting for governmental entities by amending the requirements of Statements No. 14, *The Financial Reporting Entity*, and No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, to better meet user needs and address reporting entity issues that have come to light since those Statements were issued in 1991 and 1999, respectively. The provisions of this statement are effective for periods beginning after June 15, 2012. Management does not believe that the implementation of this statement will have a material effect on the financial statements of AMI.

In December 2010, GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which is intended to enhance the usefulness of its Codification by incorporating guidance that previously could only be found in certain FASB and American Institute of Certified Public Accountants (AICPA) pronouncements. The provisions of this statement are effective for periods beginning after December 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of AMI.

In July 2011, GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which establishes guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position. The provisions of this statement are effective for periods beginning after December 15, 2011. Management has not yet determined the effect of implementation of this statement on the financial statements of AMI.

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In April 2012, GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which clarifies the appropriate reporting of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. The provisions of this statement are effective for periods beginning after December 15, 2012. Management has not yet determined the effect of implementation of this statement on the financial statements of AMI.

In April 2012, GASB issued Statement No. 66, *Technical Corrections - 2012*, which enhances the usefulness of financial reports by resolving conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting. The provisions of this statement are effective for periods beginning after December 15, 2012. Management has not yet determined the effect of implementation of this statement on the financial statements of AMI.

In June 2012, GASB issued Statement No. 67, *Financial Reporting for Pension Plans*, which revises existing guidance for the financial reports of most pension plans, and Statement No. 68, *Accounting and Financial Reporting for Pensions*, which revises and establishes new financial reporting requirements for most governments that provide their employees with pension benefits. The provisions in Statement 67 are effective for financial statements for periods beginning after June 15, 2013. The provisions in Statement 68 are effective for fiscal years beginning after June 15, 2014. Management has not yet determined the effect of implementation of these statements on the financial statements of AMI.

(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 activities for the years ended September 30, 2012 and 2011, were as follows:

	2012			
	October 1, 2011	Additions	Retirements/ Transfers	September 30, 2012
Aircraft and improvements	$ 14,054,830	$ 139,987	$ -	$ 14,194,817
Rotable spare parts	5,296,793	148,858	-	5,445,651
Plant and equipment	439,655	-	-	439,655
Office furniture and equipment	706,918	6,360	-	713,278
Motor vehicles	159,364	-	-	159,364
Building improvements	13,314	-	-	13,314
	20,670,874	295,205	-	20,966,079
Less accumulated depreciation and amortization	(16,703,923)	(638,773)	-	(17,342,696)
	3,966,951	(343,568)	-	3,623,383
Construction in progress	-	1,572,207	-	1,572,207
	$ 3,966,951	$ 1,228,639	$ -	$ 5,195,590

(4) Property and Equipment, Continued

	2011			
	October 1, 2010	Additions	Retirements/ Transfers	September 30, 2011
Aircraft and improvements	$ 14,040,802	$ 14,028	$ -	$ 14,054,830
Rotable spare parts	5,190,324	106,469	-	5,296,793
Plant and equipment	439,655	-	-	439,655
Office furniture and equipment	698,589	8,329	-	706,918
Motor vehicles	159,364	-	-	159,364
Building improvements	12,538	776	-	13,314
	20,541,272	129,602	-	20,670,874
Less accumulated depreciation and amortization	(15,992,521)	(711,402)	-	(16,703,923)
	$ 4,548,751	$ (581,800)	$ -	$ 3,966,951

(5) Long-Term Debt

A schedule of AMI's long-term debt as of September 30, 2012 and 2011, is as follows:

	2012	2011
Note payable to bank, 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.	$ 230,287	$ 937,128
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. This note is uncollateralized.	237,341	237,341
	$ 467,628	$ 1,174,469

Future repayment commitments are as follows:

Year Ending September 30	Principal	Interest	Total
2013	$ 467,628	$ 46,766	$ 514,394

Changes in long-term liabilities for the year ended September 30, 2012, were as follows:

	Balance October 1, 2011	Additions	Reductions	Balance September 30, 2012	Due Within One Year
Notes payable	$ 1,174,469	$ -	$ (706,841)	$ 467,628	$ 467,628

(5) Long-Term Debt, Continued

Changes in long-term liabilities for the year ended September 30, 2011, were as follows:

	Balance October 1, 2010	Additions	Reductions	Balance September 30, 2011	Due Within One Year
Notes payable	$ 1,352,381	$ -	$ (177,912)	$ 1,174,469	$ 406,197

(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.

During the years ended September 30, 2012 and 2011, AMI received operating subsidies from RepMar, totaling $772,872 and $719,267, respectively. In addition, AMI received a $1,495,598 capital contribution from RepMar during the year ended September 30, 2012 relating to payments made for Dash 8 aircraft overhaul costs.

A summary of related party transactions as and for the years ended September 30, 2012 and 2011, is as follows:

	2012			
	Receivables	Revenues	Payables	Expenses
RepMar	$ 38,885	$ 184,241	$ 606,987	$ 274,955
RMIPA	-	-	355,991	96,915
Marshall Islands Social Security Administration	-	-	1,411,985	194,312
Marshall Islands National Telecommunications Authority	-		2,305	24,721
Marshalls Energy Company, Inc.	-	-	66,843	84,762
Marshall Island Development Bank	-	-	36,993	-
Other	15,579	45,774	1,914	-
	54,464	$ 230,015	$ 2,483,018	$ 675,665
Less allowance for doubtful receivables	(42,295)			
	$ 12,169			

(6) Related Party Transactions, Continued

	2011			
	Receivables	Revenues	Payables	Expenses
RepMar	$ 95,981	$ 256,759	$ 233,042	$ -
RMIPA	-	-	237,552	21,089
Marshall Islands Social Security Administration	-	-	1,109,707	89,941
Marshall Islands National Telecommunications Authority	-	173	9,047	39,531
Marshalls Energy Company, Inc.	-	-	4,068	29,965
Other	7,324	-	2,818	-
	103,305	$ 256,932	$ 1,596,234	$ 180,526
Less allowance for doubtful receivables	(39,891)			
	$ 63,414			

A summary of advances from RepMar as of September 30, 2012 and 2011, follows:

	2012	2011
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

At September 30, 2012 and 2011, AMI is liable for payroll taxes, totaling $606,987 and $233,042, respectively. The additional payroll taxes for 2012 and 2011 exclude the related penalties and interest.

At September 30, 2012 and 2011, AMI is liable to the Marshall Islands Social Security Administration (MISSA) for certain delinquent employee and employer contributions, totaling $1,411,985 and $1,109,707, respectively, which includes related penalties and interest. On December 28, 2010, AMI entered into a promissory note with MISSA in the amount of $1,059,068 associated with these delinquent contributions. 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 (see note 8).

(7) Commitments and 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, 2012, 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.

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, 2012 and 2011 of $1,708,159 and $763,739, respectively, and used a substantial amount of working capital in its operations resulting in a working capital deficiency of $6,502,388 at September 30, 2012. Furthermore, at September 30, 2012, total liabilities exceeded total assets by $1,306,798. 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 statement of net deficiency at September 30, 2012, 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 November 30, 2012, the High Court entered judgment against AMI in favor of MISSA for $1,411,985, inclusive of penalties relating to delinquent contributions.

On May 30, 2013, AMI entered into a $2.5 million emergency loan with the Marshall Islands Development Bank.

On June 6, 2013, AMI and Hawker Pacific Pty. Ltd agreed to settle a liability with an original amount of AUD 2,085,000 for AUD 1,980,000. On June 13, 2013, AMI completed the payment for USD 1,876,244.