AIR MARSHALL ISLANDS, INC.

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

FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT

YEARS ENDED SEPTEMBER 30, 2007 AND 2006

Deloitte & Touche LLP
361 South Marine Corps Drive
Tamuning, GU 96913-3911
USA

Tel: +1 671 646 3884
Fax: +1 671 649 4932
www.deloitte.com

INDEPENDENT AUDITORS' REPORT

Board of Directors
Air Marshall Islands, Inc.:

We have audited the accompanying statements of net assets of Air Marshall Islands, Inc. (AMI), a component unit of the Republic of the Marshall Islands, as of September 30, 2007 and 2006, and the related statements of revenues, expenses and changes in net assets 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, 2007 and 2006, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 3 through 5 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 June 30, 2008, 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 the 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

June 30, 2008

AIR MARSHALL ISLANDS, INC.

Management's Discussion and Analysis
Year Ended September 30, 2007

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, 2007. This Management Discussion and Analysis 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 air 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. with AMI being the surviving corporation, on January 26, 1990. AMI is governed by a six-member Board of Directors and presently, the Minister of Transportation and Communication is appointed as Chairperson of the Board.

Financial Highlights

The biggest decision of AMI for the year is the acquisition of the de Havilland Canada Dash 8 (DHC-8) aircraft on February 01, 2007 at a cost of $1,750,000 from Finova Aviation Leasing Limited. The funding for the procurement of the aircraft came from a capital subsidy provided by the RMI. This improved the net capital assets of the Company from $1,861,389 in 2006 to $3,577,812 in 2007.

Of total operating costs for 2007, 20% pertains to fuel. Because of the continually escalating fuel prices, management decided to impose a fuel surcharge of $9.00 per passenger, effective December 2006, which resulted in additional revenue of $148,542 for fiscal year 2007.

AMI entered into a ground handling agreement with Japan Airlines, effective March 2007, and revenues generated in 2007 from this arrangement amounted to $13,134.

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		
	2007	2006	2005
Assets:			
Current and Other Assets	$ 1,094,476	$ 1,288,343	$ 2,052,177
Property and equipment, net	3,577,812	1,861,389	2,336,112
Total Assets	$ 4,672,288	$ 3,149,732	$ 4,388,289
Liabilities:			
Current liabilities	1,666,739	1,531,658	1,789,111
Non-current liabilities	2,762,846	2,538,012	2,365,545
Total Liabilities	4,429,585	4,069,670	4,154,656
Net Assets:			
Invested in capital assets	3,577,812	1,861,389	2,018,112
Unrestricted	(3,335,109)	(2,781,327)	(1,784,479)
Total Net Assets	242,703	(919,938)	233,633
	$ 4,672,288	$ 3,149,732	$ 4,388,289

Net increase in property and equipment amounted to $1,716,423 or 92% compared with prior year due mainly to the acquisition of the DHC-8 Series 100 aircraft on February 2, 2007 at a cost of $1,750,000. For additional information concerning AMI's capital assets, please refer to note 4 to the financial statements.

On August 24, 2007 AMI rolled over the outstanding loan payable to BOMI resulting in additional loan proceeds of $251,174 as of fiscal year 2007. The loan was used to purchase needed parts for AMI's aircraft. The loan was subsequently transferred to RMI. For additional information concerning AMI's long-term debt, please refer to note 5 to the financial statements.

Statement of Revenues, Expenses, and Changes in Net Assets

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

	Year		
	2007	2006	2005
Operating Revenues:			
Passenger	$ 2,145,824	$ 2,620,672	$ 2,816,119
Cargo	427,805	455,438	444,403
Charter	496,536	338,393	280,821
Other	370,587	223,430	237,501
Operating revenues	3,440,572	3,637,933	3,778,844
Less: provision for doubtful accounts	(30,000)	(15,829)	(285,671)
Net operating revenues	3,410,572	3,622,104	3,493,173
Operating Expenses:			
Flying operations	1,685,620	2,014,958	1,889,776
Maintenance	794,210	907,274	972,186
Depreciation and amortization	491,564	625,866	627,202
General and administrative	459,440	536,639	468,730
Promotion and sales	231,247	370,355	394,336
Aircraft and traffic servicing	306,771	250,268	282,771
Total operating expenses	3,968,852	4,705,360	4,635,001
Operating loss	(558,100)	(1,083,256)	(1,141,828)
Nonoperating revenues (expenses), net	(279,259)	(70,315)	314,133
Loss before capital contributions	(837,359)	(1,153,571)	(827,695)
Capital contributions	2,000,000	-	-
Change in net assets	$ 1,162,641	$ (1,153,571)	$ (827,695)

The Statement of Revenues, Expenses and Changes in Net Assets identify various revenue and expense items that affect the change in net assets. Operating revenues for FY07 showed a decrease of 5.8% or $211,532 from $3,622,104 in 2006 to $3,410,572 in 2007. Charter revenues for the year increased dramatically by 46.7% or $158,143 compared to 2006. In December of 2006, AMI imposed a fuel surcharge of $9 per passenger and this amounted to $148,542 at the end of 2007. Moreover, AMI and Japan Airlines entered into a ground handling agreement, effective March 2007, which generated revenue of $13,134 for 2007.

On February 01, 2007, AMI decided to purchase the Dash 8 leased aircraft (DHC-8) from Finova Aviation Leasing Limited at a cost of $1,750,000. The cost associated with the lease of the aircraft for the year 2007 amounted to $122,000 against $354,246 in 2006 or a difference of $232,246.

Passengers carried and the number of flights flown during the year compared to prior year was as follows:

	Year			2007 vs. 2006	
	2007	2006	2005	Change	Percent
No. of Flights	2,338	2,793	3,083	455	16%
No. of Passengers	17,967	21,924	25,789	3,957	18%
Aircraft Seat Miles	7,193,192	8,605,107	8,904,171	1,411,915	16%

Management's Discussion and Analysis for the year ended September 30, 2006, is set forth in AMI's report on the audit of financial statements, which is dated June 13, 2008. That Discussion and Analysis explains the major factors impacting the 2006 financial statements and can be obtained from AMI's General Manager via the contact information below.

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

On January 24, 2008, the RMI Cabinet approved the appointments of the following individuals to the AMI Board of Directors in accordance with Cabinet Minute C.M. 010 (2008) signed by His Excellency, President Litokwa Tomeing:

Charles Dominick	Amon Tibon
Ramsey Reimers	Fred Pedro
Neil Milne	Tom Kijner
Evelyn Lanki	

On February 8, 2008 the new Board of Directors elected their new set of officers, namely:

Chairperson	Ms. Evelyn Lanki
Vice Chairman	Mr. Ramsey Reimers
Secretary/Treasurer	Mr. Neil Milne
Member	Mr.Tom Kijner
Member	Mr. Charles Dominick
Member	Mr. Fred Pedro
Member	Mr. Amon Tibon

On January 18, 2008, AMI received a subsidy from RMI amounting to $1,000,000 in accordance with C.M. 009 (2008) for the purchase of Dash 8 parts and payment of suppliers and salaries and wages. On March 20, 2008 AMI received a further subsidy from RMI amounting to $600,000 in accordance with C.M. 060 (2008) for operational purposes.

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
September 30, 2007 and 2006

ASSETS	2007	2006
Current assets:		
Cash	$ 6,526	$ 26,158
Receivables:		
Trade	515,868	540,785
Employees	224,889	247,004
Affiliates (net of allowance for doubtful accounts of $130,889 and $429,663 at September 30, 2007 and 2006, respectively)	120,599	26,415
	861,356	814,204
Less allowance for doubtful receivables	(682,048)	(708,539)
Receivables, net	179,308	105,665
Expendable parts (net of allowance for obsolescence of $138,000 and $139,565 at September 30, 2007 and 2006, respectively)	533,834	548,714
Prepaid expenses and deposits	141,284	189,567
Total current assets	860,952	870,104
Advance to RepMar	233,524	352,239
Property and equipment, net	3,577,812	1,861,389
Deposit on equipment	-	66,000
	$ 4,672,288	$ 3,149,732

LIABILITIES AND NET ASSETS	2007	2006
Current liabilities:		
Current portion of long-term debt	$ 237,154	$ 210,814
Accounts payable	384,510	480,237
Air traffic liability	187,011	208,038
Accrued expenses	100,039	99,762
Payable to affiliates	758,025	532,807
Total current liabilities	1,666,739	1,531,658
Advances from RepMar	2,000,000	2,000,000
Long-term debt, net of current portion	762,846	538,012
Total liabilities	4,429,585	4,069,670
Commitment and contingencies		
Net assets:		
Invested in capital assets	3,577,812	1,861,389
Unrestricted	(3,335,109)	(2,781,327)
Total net assets	242,703	(919,938)
	$ 4,672,288	$ 3,149,732

See accompanying notes to financial statements.

AIR MARSHALL ISLANDS, INC.

Statements of Revenues, Expenses and Changes in Net Assets
Years Ended September 30, 2007 and 2006

	2007	2006
Operating revenues:		
Passenger	$ 2,145,824	$ 2,620,672
Cargo	427,805	455,438
Charter	496,536	338,393
Other	370,587	223,430
Total operating revenues	3,440,752	3,637,933
Less provision for doubtful accounts	(30,000)	(15,829)
Total net operating revenues	3,410,752	3,622,104
Operating expenses:		
Flying operations	1,685,620	2,014,958
Maintenance	794,210	907,274
Depreciation and amortization	491,564	625,866
General and administrative	459,440	536,639
Promotion and sales	231,247	370,355
Aircraft and traffic servicing	306,771	250,268
Total operating expenses	3,968,852	4,705,360
Operating loss	(558,100)	(1,083,256)
Nonoperating revenues (expenses):		
RepMar subsidy	100,000	-
Interest expense	(74,368)	(72,533)
Gain on disposal of property and equipment	-	2,218
Other expense	(304,891)	-
Total nonoperating revenues (expenses) , net	(279,259)	(70,315)
Loss before capital contributions	(837,359)	(1,153,571)
Capital contributions:		
Contributions from RepMar	2,000,000	-
Change in net assets	1,162,641	(1,153,571)
Net assets at beginning of year	(919,938)	233,633
Net assets at end of year	$ 242,703	$ (919,938)

See accompanying notes to financial statements.

AIR MARSHALL ISLANDS, INC.

Statements of Cash Flows
Years Ended September 30, 2007 and 2006

	2007	2006
Cash flows from operating activities:		
Cash received from customers	$ 3,316,082	$ 4,297,594
Cash payments to suppliers for goods and services	(2,215,292)	(2,778,039)
Cash payments to employees for services	(1,263,977)	(1,174,763)
Net cash (used for) provided by operating activities	(163,187)	344,792
Cash flows from noncapital financing activities:		
Operating subsidy received from RepMar	100,000	-
Net repayment under bank overdraft arrangement	-	(55,825)
Net cash provided by (used in) noncapital financing activities	100,000	(55,825)
Cash flows from capital and related financing activities:		
Acquisition of property and equipment	(2,141,987)	(241,997)
Proceeds from sale of property and equipment	-	27,072
Capital contributions from RepMar	2,000,000	-
Proceeds from issuance of long term debt	289,229	198,000
Principal repayments of long-tern debt	(38,055)	(220,043)
Interest paid on long-term debt	(65,632)	(68,433)
Net cash provided by (used in) capital and related financing activities	43,555	(305,401)
Net change in cash	(19,632)	(16,434)
Cash at beginning of year	26,158	42,592
Cash at end of year	$ 6,526	$ 26,158
Reconciliation of operating loss to net cash (used for) provided by operating activities:		
Operating loss	(558,100)	$ (1,083,256)
Adjustments to reconcile operating loss to net cash (used for) provided by operating activities:		
Depreciation and amortization	491,564	625,866
Bad debts expense	30,000	15,829
Inventory obsolescence	-	39,565
(Increase) decrease in assets:		
Receivables:		
Affiliates	(150,675)	640,720
Trade	24,917	(8,596)
Employees	22,115	1,899
Expendable parts	14,880	38,164
Prepaid expenses and deposits	48,283	(37,801)
Advance to RepMar	118,715	123,620
Increase (decrease) in liabilities:		
Accounts payable	(95,727)	(53,737)
Air traffic liability	(21,027)	25,638
Accrued expenses	(8,459)	3,852
Payable to affiliates	(79,673)	13,029
Net cash (used for) provided by operating activities	$ (163,187)	$ 344,792
Non-cash investing, capital, and financing activities:		
Refinancing of long-term debt:		
Proceeds from issuance of long-term debt	$ 1,560,771	$ 696,864
Principal repayment of long-term debt	(1,560,771)	(696,864)
	$ -	$ -

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, 2007, 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 six-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 issued 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*. These statements established 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, 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 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 accounts. As of September 30, 2007 and 2006, cash was $6,526 and $26,158, respectively, and the corresponding bank balances were $11,034 and $56,834, respectively. Of the bank balances $5,759 and $9,581, respectively, were maintained in one financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance. AMI does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized. Accordingly, these deposits are exposed to custodial credit risk.

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, 2007 and 2006, the accumulated vacation leave liability totals $43,498 and $56,084, 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 tickets expire unused. 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

In April 2004, GASB issued Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which establishes uniform financial reporting for other postemployment benefit plans by state and local governments. The provisions of this statement are effective for periods beginning after December 15, 2006. Management does not believe that the implementation of this statement will have a material effect on the financial statements of AMI.

In June 2004, GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Post employment Benefits Other Than Pensions*, which establishes standards for the measurement, recognition, and display of other post employment benefits expense/expenditures and related liabilities, note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers. The provisions of this statement are effective for periods beginning after December 15, 2007. Management does not believe that the implementation of this statement will have a material effect on the financial statements of AMI.

In September 2006, GASB issued Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfer of Assets and Future Revenues*. GASB Statement No. 48 establishes criteria that governments will use to ascertain whether certain transactions should be regarded as a sale or a collateralized borrowing. The statement also includes a provision that stipulates that governments should not revalue assets that are transferred between financial reporting entity components. The provisions of this statement are effective for periods beginning after December 15, 2006. Management does not believe that the implementation of this statement will have a material effect on the financial statements of AMI.

In December 2006, GASB issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. GASB Statement No. 49 provides guidance and consistency under which a governmental entity would be required to report a liability related to pollution remediation. The provisions of this statement are effective for periods beginning after December 15, 2007. Management does not believe that the implementation of this statement will have a material effect on the financial statements of AMI.

In May 2007, GASB issued Statement No. 50, *Pension Disclosures an amendment of GASB Statements No. 25 and 27*. GASB Statement No. 50 more closely aligns the financial reporting requirements for pensions with those for other post-employment benefits. The provisions of this statement are effective for periods beginning after June 15, 2007. Management does not believe that the implementation of this statement will have a material effect on the financial statements of AMI.

In June 2007, GASB issued statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. GASB Statement No. 51 addresses whether and when intangible assets should be considered capital assets for financial reporting purposes. The provisions of this statement are effective for periods beginning after June 15, 2009. Management does not believe that the implementation of this statement will have a material effect 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 activity for the years ended September 30, 2007 and 2006 was as follow:

	2007			
	October 1, 2006	Additions	Retirements	September 30, 2007
Aircraft and improvements	$ 10,436,492	$ 1,882,070	$ -	$ 12,318,562
Rotable spare parts	3,714,976	253,855	-	3,968,831
Plant and equipment	428,226	5,147	-	433,373
Office furniture and equipment	639,842	13,104	-	652,946
Motor vehicles	187,188	-	-	187,188
Building improvements	9,887	2,651	-	12,538
	15,416,611	2,156,827	-	17,573,438
Less accumulated depreciation and amortization	(13,555,222)	(491,564)	-	(14,046,786)
	1,861,389	1,665,263	-	3,526,652
Construction in progress	-	51,160	-	51,160
	$ 1,861,389	$ 1,716,423	$ -	$ 3,577,812

	2006			
	October 1, 2005	Additions	Retirements	September 30, 2006
Aircraft and improvements	$ 10,459,269	$ -	$ (22,777)	$ 10,436,492
Rotable spare parts	3,575,412	139,564	-	3,714,976
Plant and equipment	413,958	14,268	-	428,226
Office furniture and equipment	626,147	13,695	-	639,842
Motor vehicles	201,968	7,720	(22,500)	187,188
Building improvements	9,137	750	-	9,887
	15,285,891	175,997	(45,277)	15,416,611
Less accumulated depreciation and amortization	(12,949,779)	(625,866)	20,423	(13,555,222)
	$ 2,336,112	$ (449,869)	$ (24,854)	$ 1,861,389

(5) Long-Term Debt

A schedule of AMI's long-term debt as of September 30, 2007 and 2006 is as follows:

	2007	2006
Note payable to bank, due on August 28, 2011, interest at 8.5%, payable in monthly installments of $24,700, including interest, collateralized by a time certificate of deposit (TCD) owned by the Marshall Islands Development Bank (MIDB) and by a guarantee of RepMar (see note 9).	$ 1,000,000	$ 748,826
Less current of installments	237,154	210,814
	$ 762,846	$ 538,012

Future repayment commitments are as follows:

Year Ending September 30	Principal	Interest	Total
2008	$ 237,154	$ 83,946	$ 321,100
2009	240,828	55,572	296,400
2010	262,115	34,285	296,400
2011	259,903	11,121	271,024
	$ 1,000,000	$ 184,924	$ 1,184,924

Changes in long-term liabilities for the year ended September 30, 2007 were as follows:

	Balance October 1, 2006	Additions	Reductions	Balance September 30, 2007	Due Within One Year
Loans payable	$ 748,826	$ 1,850,000	$ (1,598,826)	$ 1,000,000	$ 237,154
Advances from RepMar	2,000,000	-	-	2,000,000	-
	$ 2,748,826	$ 1,850,000	$ (1,598,826)	$ 3,000,000	$ 237,154

Changes in long-term liabilities for the year ended September 30, 2006 were as follows:

	Balance October 1, 2005	Additions	Reductions	Balance September 30, 2006	Due Within One Year
Loans payable	$ 770,869	$ 894,864	$ (916,907)	$ 748,826	$ 210,814
Advances from RepMar	2,000,000	-	-	2,000,000	-
	$ 2,770,869	$ 894,864	$ (916,907)	$ 2,748,826	$ 210,814

(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.

A summary of related party transactions for the years ended September 30, 2007 and 2006 is as follows:

	2007			
	Receivables	Revenues	Payables	Expenses
RepMar	$ 87,132	$ 394,190	$ 103,993	$ -
Marshall Islands Social Security Administration	224	-	461,523	95,789
Marshall Islands National Telecommunications Authority	2,083	2,813	11,827	68,711
Marshalls Energy Company, Inc.	1,870	1,151	12,255	57,079
Other	160,179	792	168,427	-
	251,488	$ 398,946	$ 758,025	$ 221,579
Less allowance for doubtful receivables	(130,889)			
	$ 120,599			

	2006			
	Receivables	Revenues	Payables	Expenses
RepMar	$ 332,499	$ 510,344	$ 83,999	$ -
Marshall Islands Social Security Administration	-	-	305,144	106,246
Marshall Islands National Telecommunications Authority	1,322	6,813	9,689	73,905
Marshalls Energy Company, Inc.	1,885	460	9,258	48,291
Other	120,372	6,698	124,717	-
	456,078	$ 524,315	$ 532,807	$ 228,442
Less allowance for doubtful receivables	(429,663)			
	$ 26,415			

Advances from RepMar amount to $2,000,000 as of September 30, 2007 and 2006. These advances are in accordance with Cabinet Minute C.M. 150 (2002), which approved a loan to AMI in the amount of $2,000,000. The advances bear no interest and have a repayment term of no more than five years.

(6) Related Party Transactions, Continued

AMI previously advanced $1,750,000 to RepMar from which AMI's liability for payroll taxes, totaling $118,715 and $123,620, during the years ended September 30, 2007 and 2006, respectively, and certain delinquent payroll taxes and related penalties and interest from prior years has been applied against such advance. AMI management expects that the remaining advance of $233,524 and $352,239 as of September 30, 2007 and 2006, respectively, will be applied against future payroll taxes withheld by AMI.

During the year ended September 30, 2007, AMI received an operating subsidy from RepMar of $100,000 to assist in the subsidization of certain flight schedules in accordance with Cabinet Minute C.M. 148 (2006). In addition, AMI received a capital contribution from RepMar of $2,000,000 to assist in the purchase of the DHC-8 aircraft, which was previously being leased by AMI.

During the year ended September 30, 2007, AMI refinanced its long-term debt to cover a down-payment on the purchase of the DHC-8 aircraft, in accordance with Cabinet Minute C.M. 131 (2006), and other repair costs associated with the DHC-8 aircraft, which resulted in net loan proceeds of $289,229.

During the year ended September 30, 2006, AMI refinanced its long-term debt to cover the costs of engine repairs to the DHC-8 aircraft, in accordance with Cabinet Minute C.M. 145 (2005), which resulted in net loan proceeds of $198,000.

As of September 30, 2007 and 2006, AMI maintained a demand deposit account with an affiliate financial institution amounting to $1,794 and $3,284, respectively.

(7) Commitment and Contingencies

Commitment

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	
2008	$ 2,059
2009	2,059
2010	2,059
2011	858
	$ 7,035

(7) Commitment and Contingencies, Continued

Contingencies

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.

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, 2006, 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.

(8) Other Expense

In November 2006, a court ordered AMI to pay delinquent social security contributions, totaling $304,891, by May 15, 2007. Compliance with this order allows AMI to petition the court to extinguish the balance of a $611,627 judgment. AMI has paid the $304,891 as ordered, which has been recorded as other nonoperating expense in the accompanying financial statements. Management has yet to petition the court for the aforementioned purpose.

(9) Subsequent Events

In December 2007, AMI's $1,000,000 note payable to bank was foreclosed on resulting in the bank seizing the TCD collateral belonging to MIDB. Since RepMar guaranteed the note payable, the foreclosure essentially transferred the liability from a payable to bank to a payable to RepMar. AMI and RepMar are currently negotiating the terms of repayment and the applicable interest rate.

From October 2007 to April 2008, AMI's entire fleet was grounded due to major repairs and overhauls. In accordance with Cabinet Minute C.M. 009 (2008) and C.M. 060 (2008), AMI received subsidies from RepMar in the amounts of $1,000,000 and $600,000, respectively, to assist with daily operations and to purchase critically needed parts.