AIR MARSHALL ISLANDS, INC.

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

FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT

YEARS ENDED SEPTEMBER 30, 2009 AND 2008

Deloitte.

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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, 2009 and 2008, 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, 2009 and 2008, 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 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 January 21, 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 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

January 21, 2011

Introduction

Our discussion and analysis of the Air Marshall Islands, Inc. financial performance provides an overview of AMI's financial activities for the fiscal year ended September 30, 2009. This MD&A is to be used in conjunction with the financial statements that follow this section.

Deloitte & Touche, an independent registered public accounting firm, audited AMI's financial statements for FY2009, and issued an unqualified opinion. The Statements of Net Assets and related Statements of Revenues, Expenses and Changes in Net Assets and Cash Flows present fairly, in all material respects, the financial position of AMI for the year ended in conformity with accounting principles generally accepted in the United States of America.

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 seven - member Board of Directors. The RMI Cabinet appoints members to the Board of Directors and Minister Kenneth Kedi is appointed as Chairperson of the Board.

Adoption of GASB 34

For the fiscal year ending September 2009, Air Marshall Islands, Inc. is required to adopt GASB Statement No. 34, *Basic Financial Statements - and Management Discussion and Analysis - for State and Local Governments*, which was issued in June 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 (6) months with a monthly fixed cost or basic rent of $31,500 (being 105 Flight Hours at USD300).

In April 2009, a Dornier Aircraft 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 cost of the repair as at June 25, 2010 amounted to $1,402,551. As at February 26, 2010, AMI was able to pay AACL the amount of $986,480 and the balance thereof shall be paid in eighteen (18) equal installment payments, starting July 30, 2010 and ending December 30, 2011. This payment plan is covered by a memorandum of understanding (MOU) with a letter of guarantee duly executed by the Government of the Republic of the Marshall Islands.

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		
	2009	2008	2007
Assets:			
Current and Other Assets	$ 780,023	$ 1,067,062	$ 1,094,476
Property and equipment, net	4,910,240	3,965,137	3,577,812
Total Assets	$ 5,690,263	$ 5,032,199	$ 4,672,288
Liabilities:			
Current liabilities	$ 6,024,115	$ 4,624,250	$ 1,666,739
Non-current liabilities	254,986	-	2,762,846
Total Liabilities	6,279,101	4,624,250	4,429,585
Net assets:			
Invested in capital assets	4,910,240	3,965,137	3,577,812
Unrestricted	(5,499,078)	(3,557,188)	(3,335,109)
Total Net Assets	(588,838)	407,949	242,703
	$ 5,690,263	$ 5,032,199	$ 4,672,288

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		
	2009	2008	2007
Operating Revenues:			
Passenger	$ 1,126,701	$ 621,507	$ 2,145,824
Cargo	299,516	127,288	427,805
Charter	138,050	190,275	496,536
Other	201,647	171,639	370,587
Total operating revenues	1,765,914	1,110,709	3,440,752
Less: provision for doubtful accounts	-	(51,938)	(30,000)
Net operating revenues	1,765,914	1,058,771	3,410,752
Operating Expenses:			
Flying operations	1,183,707	1,011,709	1,685,620
Maintenance	801,348	1,039,512	794,210
Depreciation and amortization	601,397	634,151	491,564
General and administrative	520,584	475,379	459,440
Promotion and sales	210,822	162,719	231,247
Aircraft and traffic servicing	233,664	314,617	306,771
Total operating expenses	3,551,522	3,638,087	3,968,852

Statement of Revenues, Expenses, and Changes in Net Assets, Continued

	Year		
	2009	2008	2007
Operating loss	(1,785,608)	(2,579,316)	(558,100)
Nonoperating revenues (expenses), net	788,821	2,744,562	(279,259)
Income (loss) before capital contribution	(996,787)	165,246	(837,359)
Capital contribution	-	-	2,000,000
Change in net assets	$ (996,787)	$ 165,246	$ 1,162,641

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 FY09 showed an increase of 59% or $655,205 from $1,110,709 in 2008 to $1,765,914 in 2009.

In 2009, the number of passengers carried is 8,334 vs. 4,722 in 2008. This is equivalent to 76% increase over 2008.

The aircraft on the ground or "AOG" situation for the year 2009 is equivalent to 31% or 84 days for the leased Dornier and 49% or 178 days for the Dash 8.

Operating expenses for FY09 showed a decrease of 2% or $86,565 from $3,638,087 in 2008 to $3,551,522 in 2009.

Capital Assets and Debt Administration

As discussed above, AMI's Dornier Aircraft 9207 was sent to AACL for airframe overhaul and associated modifications, which resulted in the accrual of progress billings as CWIP in the amount of $1,009,450. In addition, AMI acquired various rotable parts for its aircraft in the amount of $404,220. For additional information concerning capital assets, please refer to note 4 to the accompanying financial statements.

AMI entered into a new loan agreement with BOMI in the amount of $627,877 for the purpose of financing the purchase of rotable parts. For additional information concerning long-term debt, please refer to note 5 to the accompanying financial statements.

Subsequent Events and Economic Decisions that May Affect Next Year's Performance

The Dornier 9207 that was sent to Air Asia Company Ltd. for aircraft repair and maintenance was completed at a cost of $1,402,551. Amount paid to AACL is $986,480 and the balance of $397,287 will be paid in eighteen equal installment payments amounting to $22,072 starting July 30, 2010 and ending December 30, 2011. Moreover, an additional amount of $18,784 (late billing) shall be paid on or before September 10, 2010. The aircraft arrived back in Majuro on June 17, 2010.

Subsequent Events and Economic Decisions that May Affect Next Year's Performance, Continued

On November 27, 2009, a new loan was obtained from BOMI in the amount of $1,365,712. This amount includes outstanding loan (BOMI Loan No. 125185) with the bank and was rolled-over into a new loan payable for a period of five years with a monthly payment of $31,500 for sixty months. The proceeds of the loan was substantially disbursed for:

	Amount
Pay-off previous loan	$ 570,078
MISSA	100,000
AIR Asia Company Ltd. – Dornier	500,000
Leased Engine Repair	63,185
Additional working capital	132,449
	$ 1,365,712

The leased Dornier from Australia is extended to April 30, 2010 under the following terms:

Minimum flying hours is 90
Rate is $27,000 ($300/hr. at 90 hrs. per month)

The position of General Manager was declared vacant and the incumbent GM was asked to assume the position of Commercial Manager.

The Asst. General Manager was asked to assume the position of Traffic and Cargo Manager.

The Discussion and Analysis for the year ended September 30, 2008, is set forth in AMI’s report on the audit of financial statements, which is dated May 1, 2009. That Discussion and Analysis explains the major factors impacting the 2008 financial statements and can be obtained from AMI’s General Manager via the contact information below.

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, 2009 and 2008

ASSETS	2009	2008
Current assets:		
Cash	$ 20,217	$ 77,594
Receivables:		
Trade	241,263	591,065
Employees	228,055	207,018
Affiliates	46,846	115,267
	516,164	913,350
Less allowance for doubtful receivables	(447,765)	(808,275)
Receivables, net	68,399	105,075
Expendable parts (net of allowance for obsolescence of $177,789 and $174,130 at September 30, 2009 and 2008, respectively)	463,630	572,723
Prepaid expenses and deposits	204,147	179,592
Total current assets	756,393	934,984
Advance to RepMar	23,630	132,078
Property and equipment, net	4,910,240	3,965,137
	$ 5,690,263	$ 5,032,199

LIABILITIES AND NET ASSETS (DEFICIENCY)	2009	2008
Current liabilities:		
Current portion of long-term debt	$ 303,293	$ -
Accounts payable	345,339	399,920
Contract payable - aircraft overhaul	1,009,450	-
Air traffic liability	160,496	179,402
Accrued expenses	105,073	47,080
Payable to affiliates	983,574	880,958
Advances from RepMar	3,116,890	3,116,890
Total current liabilities	6,024,115	4,624,250
Long-term debt, net of current portion	254,986	-
Total liabilities	6,279,101	4,624,250
Commitment and contingencies		
Net assets (deficiency):		
Invested in capital assets	4,910,240	3,965,137
Deficiency	(5,499,078)	(3,557,188)
Total net assets (deficiency)	(588,838)	407,949
	$ 5,690,263	$ 5,032,199

See accompanying notes to financial statements.

AIR MARSHALL ISLANDS, INC.

Statements of Revenues, Expenses and Changes in Net Assets (Deficiency)
Years Ended September 30, 2009 and 2008

	2009	2008
Operating revenues:		
Passenger	$ 1,126,701	$ 621,507
Cargo	299,516	127,288
Charter	138,050	190,275
Other	201,647	171,639
Total operating revenues	1,765,914	1,110,709
Less provision for doubtful accounts	-	(51,938)
Total net operating revenues	1,765,914	1,058,771
Operating expenses:		
Flying operations	1,183,707	1,011,709
Maintenance	801,348	1,039,512
Depreciation and amortization	601,397	634,151
General and administrative	520,584	475,379
Aircraft and traffic servicing	233,664	314,617
Promotion and sales	210,822	162,719
Total operating expenses	3,551,522	3,638,087
Operating loss	(1,785,608)	(2,579,316)
Nonoperating revenues (expenses):		
RepMar subsidy	824,400	2,740,000
Interest expense	(35,579)	(438)
Gain on disposal of property and equipment	-	5,000
Total nonoperating revenues (expenses) , net	788,821	2,744,562
Change in net assets	(996,787)	165,246
Net assets at beginning of year	407,949	242,703
Net assets (deficiency) at end of year	$ (588,838)	$ 407,949

See accompanying notes to financial statements.

AIR MARSHALL ISLANDS, INC.

Statements of Cash Flows
Years Ended September 30, 2009 and 2008

	2009	2008
Cash flows from operating activities:		
Cash received from customers	$ 1,783,684	$ 1,125,395
Cash payments to suppliers for goods and services	(1,762,696)	(2,027,636)
Cash payments to employees for services	(888,415)	(853,831)
Net cash used for operating activities:	(867,427)	(1,756,072)
Cash flows from noncapital financing activities:		
Operating subsidy received from RepMar	824,400	2,740,000
Advance from RepMar	-	128,316
Net cash provided by noncapital financing activities	824,400	2,868,316
Cash flows from capital and related financing activities:		
Acquisition of property and equipment	(537,050)	(1,021,476)
Proceeds from sale of property and equipment	-	5,000
Proceeds from issuance of long term debt	627,877	-
Principal repayments of long-term debt	(69,598)	(11,426)
Interest paid on long-term debt	(35,579)	(13,274)
Net cash used for capital and related financing activities	(14,350)	(1,041,176)
Net change in cash	(57,377)	71,068
Cash at beginning of year	77,594	6,526
Cash at end of year	$ 20,217	$ 77,594
Reconciliation of operating loss to net cash used for operating activities:		
Operating loss	$ (1,785,608)	$ (2,579,316)
Adjustments to reconcile operating loss to net cash used for operating activities:		
Depreciation and amortization	601,397	634,151
Bad debts expense	-	51,938
Inventory obsolescence	3,659	33,000
(Increase) decrease in assets:		
Receivables:		
Affiliates	68,421	136,221
Trade	(10,708)	(131,797)
Employees	(21,037)	17,871
Expendable parts	105,434	(71,889)
Prepaid expenses and deposits	(24,555)	(38,308)
Advance to RepMar	108,448	101,446
Increase (decrease) in liabilities:		
Accounts payable	(54,581)	15,410
Air traffic liability	(18,906)	(7,609)
Accrued expenses	57,993	(40,123)
Payable to affiliates	102,616	122,933
Net cash used for operating activities	$ (867,427)	$ (1,756,072)
Summary disclosure of noncash activities:		
Construction in progress	$ (1,009,450)	$ -
Contract payable - aircraft overhaul	1,009,450	-
	$ -	$ -
Note payable to bank	$ -	$ 988,574
Advance from RepMar	-	(988,574)
	$ -	$ -

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, 2009, 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, 2009 and 2008, the carrying amount of cash was $20,217 and $77,594, respectively, and the corresponding bank balances were $26,401 and $74,350, respectively. As of September 30, 2009 and 2008, bank balances in the amount of $10,332 and $24,656, 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, 2009 and 2008, the accumulated vacation leave liability amounted to $55,277 and $47,080, 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 2009, AMI implemented the following pronouncements:

- GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which establishes standards for the measurement, recognition, and display of other postemployment benefits expense/expenditures and related liabilities, note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers.

- GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, which provides guidance and consistency under which a governmental entity would be required to report a liability related to pollution remediation.

- GASB Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*, which improves the quality of financial reporting by requiring endowments to report their land and other real estate investments at fair value, creating consistency in reporting among similar entities that exist to invest resources for the purpose of generating income.

- GASB Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, which improves financial reporting by contributing to the GASB's efforts to codify all GAAP for state and local governments so that they derive from a single source.

- GASB Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards*, which incorporates accounting and financial reporting guidance previously only contained in the American Institute of Certified Public Accountants (AICPA) auditing literature into the GASB's accounting and financial reporting literature for state and local governments, and addresses three issues from the AICPA's literature - related party transactions, going concern considerations, and subsequent events.

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

In June 2007, GASB issued 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. 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.

In June 2008, GASB issued 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. 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.

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In December 2008, GASB issued 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. The provisions of this statement are effective for periods beginning after December 15, 2008. Management does not believe that the implementation of this statement will have a material effect on the financial statements of AMI.

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 does not believe that the implementation of this statement will have a material effect on the financial statements of AMI.

Reclassifications

Certain reclassifications have been made to the 2008 financial statements to conform to the 2009 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, 2009 and 2008 was as follow:

	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

(4) Property and Equipment, Continued

	2008			
	October 1, 2007	Additions	Retirements/ Transfers	September 30, 2008
Aircraft and improvements	$ 12,318,562	$ 315,945	$ -	$ 12,634,507
Rotable spare parts	3,968,831	706,320	(3,455)	4,671,696
Plant and equipment	433,373	2,599	-	435,972
Office furniture and equipment	652,946	18,132	-	671,078
Motor vehicles	187,188	29,640	(77,277)	139,551
Building improvements	12,538	-	-	12,538
	17,573,438	1,072,636	(80,732)	18,565,342
Less accumulated depreciation and amortization	(14,046,786)	(634,151)	80,732	(14,600,205)
	3,526,652	438,485	-	3,965,137
Construction in progress	51,160	-	(51,160)	-
	$ 3,577,812	$ 438,485	$ (51,160)	$ 3,965,137

(5) Long-Term Debt

A schedule of AMI's long-term debt as of September 30, 2009 and 2008 is as follows:

	2009	2008
Note payable to bank, due on June 28, 2011, interest at 13.5%, payable in monthly installments of $30,000, including interest, collateralized by AMI's aircraft.	$ 558,279	$ -
Less current installments	303,293	-
	$ 254,986	$ -

Future repayment commitments are as follows:

Year Ending September 30	Principal	Interest	Total
2010	$ 303,293	$ 57,032	$ 360,325
2011	254,986	14,536	269,522
	$ 558,279	$ 71,568	$ 629,847

In December 2007, a bank foreclosed on an AMI note payable, resulting in bank seizure of a TCD collateral belonging to Marshall Islands Development Bank (MIDB). The foreclosure transferred the liability from a note payable to bank to payable to RepMar (see note 6).

(5) Long-Term Debt, Continued

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
Advances from RepMar	3,116,890	-	-	3,116,890	3,116,890
	$ 3,116,890	$ 627,877	$ (69,598)	$ 3,675,169	$ 3,420,183

Changes in long-term liabilities for the year ended September 30, 2008 were as follows:

	Balance October 1, 2007	Additions	Reductions	Balance September 30, 2008	Due Within One Year
Loans payable	$ 1,000,000	$ -	$ (1,000,000)	$ -	$ -
Advances from RepMar	2,000,000	1,116,890	-	3,116,890	3,116,890
	$ 3,000,000	$ 1,116,890	$ (1,000,000)	$ 3,116,169	$ 3,116,890

(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, 2009 and 2008 is as follows:

	2009			
	Receivables	Revenues	Payables	Expenses
RepMar	$ 41,906	$ 223,892	$ 14,337	$ -
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	221,393	-
	46,846	$ 227,190	$ 983,574	$ 201,737
Less allowance for doubtful receivables	(31,499)			
	$ 15,347			

(6) Related Party Transactions, Continued

	2008			
	Receivables	Revenues	Payables	Expenses
RepMar	$ 93,293	$ 159,552	$ 59,928	$ -
Marshall Islands Social Security Administration	224	-	607,153	88,636
Marshall Islands National Telecommunications Authority	2,284	381	12,871	54,846
Marshalls Energy Company, Inc.	2,028	208	3,710	27,363
Other	17,438	10,275	197,296	-
	115,267	$ 170,416	$ 880,958	$ 170,845
Less allowance for doubtful receivables	(100,870)			
	$ 14,397			

A summary of advances from RepMar as of September 30, 2009 and 2008 follows:

	2009	2008
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

AMI's liability for payroll taxes, totaling $108,448 and $101,446, for the years ended September 30, 2009 and 2008, respectively, 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. Management expects that the remaining advance of $23,630 and $132,078 as of September 30, 2009 and 2008, respectively, will be applied against future payroll taxes withheld by AMI.

During the years ended September 30, 2009 and 2008, AMI received operating subsidies from RepMar totaling $824,400 and $1,840,000, respectively. AMI also received $900,000 passed through RepMar from the Government of Republic of China during fiscal year 2008.

As of September 30, 2009 and 2008, AMI maintained demand and savings accounts with an affiliate financial institution amounting to $14,653 and $46,322, respectively.

(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	
2010	$ 2,059
2011	2,059
2012	858
	$ 4,976

AMI entered into an aircraft overhaul services contract in fiscal year 2009. The estimated outstanding commitment related to this contract as of September 30, 2009 was $393,101.

Contingencies

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, 2009 and 2008 of $1,785,608 and $2,579,316, respectively, and used a substantial amount of working capital in its operations resulting in a working capital deficiency of $5,267,722 at September 30, 2009. Furthermore, at September 30, 2009, total liabilities exceeded total assets by $588,838. 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 assets at September 30, 2009, 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 taken to revise AMI’s operating requirements, which include repairing/rehabilitating its aircraft, 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.

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, 2009, AMI has not been repaid the pre-delivery payments and has recorded a provision for uncollectible advances of $2,100,000.

(7) Commitments and Contingencies, Continued

Contingencies, Continued

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) Subsequent Events

On November 27, 2009, AMI refinanced the note payable to bank specified in note 5 through acquisition of a $1,365,712 5-year term loan. Loan proceeds were used to pay for aircraft overhaul and for working capital purposes.

On November 27, 2009, AMI paid $500,000 on aircraft overhaul services outstanding. On February 26, 2010, RepMar paid a further $400,000 on behalf of AMI.