AIR MARSHALL ISLANDS, INC.

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

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

YEARS ENDED SEPTEMBER 30, 2014 AND 2013

AIR MARSHALL ISLANDS, INC.
(A COMPONENT UNIT OF THE REPUBLIC OF THE MARSHALL ISLANDS)

Years Ended September 30, 2014 and 2013
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INDEPENDENT AUDITORS' REPORT

Board of Directors
Air Marshall Islands, Inc.:

Report on the Financial Statements

We have audited the accompanying financial statements of Air Marshall Islands, Inc. (AMI), a component unit of the Republic of the Marshall Islands, which comprise the statements of net position as of September 30, 2014 and 2013, and the related statements of revenues, expenses and changes in net position and of cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Basis for Qualified 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 statements of net position at September 30, 2014 and 2013 (stated at $470,142 and $485,702, respectively). Expendable parts enter materially into the determination of the results of operations for the years ended September 30, 2014 and 2013.

Opinion

In our opinion, except for the matter described in the "Basis for Qualified Opinion" paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of Air Marshall Islands, Inc. as of September 30, 2014 and 2013, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis-of-Matter

Going Concern

The accompanying financial statements have been prepared assuming that AMI will continue as a going concern. As discussed in Note 8 to the financial statements, AMI's recurring losses from operations and deficient net position raise substantial doubt about its ability to continue as a going concern. Management's plans concerning these matters are also discussed in Note 8 to the financial statements. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 to 11 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated July 10, 2015, 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 financing reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering AMI's internal control over financial reporting and compliance.

Deloitte & Touche LLP

July 10, 2015

OVERVIEW

Presented herewith is Management's Discussion and Analysis (MD&A) of Air Marshall Islands (AMI), which presents the Company's financial performance for the financial year ended 30th September 2014, to be read along with our financial statements and the accompanying notes to our financial statements in this report.

FINANCIAL HIGHLIGHTS

For the year ended September 30, 2014, AMI recorded an increase in net deficiency of $214,400 due mainly to significant losses in operating revenues and non-operating revenues, as opposed to 2013 and 2012, which had significant positive increases in operating and non-operating revenues.

The Company continued to face operational difficulties and great challenges as it continued to experience frequent Aircraft-On-Ground (AOG) of the Dornier and the Dash 8, which was due to lack of spare parts on shelves, lack of timely funding, and frequent interruption to the flight schedule as a result of the foregoing.

The bad conditions of the airports in the outer islands continued to contribute significantly also to the AOG of the Company's aircraft, and disruption of the schedule.

Operating loss increased from $1.03 million in 2013 to $1.23 million in 2014 resulting from loss of charter revenues that fell from $697,767 in 2013 to $393,211 in 2014, and from decrease in the government direct subsidy that fell from $1.18 million in 2013 to $0.89 million in 2014.

Total operating expenses decreased by $61,482 from $3.39 million in 2013 to $3.33 million in 2014. The corresponding decrease in total operating revenues during the same period of $219,806 from $2.36 million in 2013 to $2.10 million in 2014 was bigger thus nullifying the positive impact from the net decrease in total operating expenses.

Net deficiency caused total liabilities to exceed total assets by $1.06 million in 2014 as compared to total liabilities that exceeded total assets by $0.84 million in 2013.

FINANCIAL ANALYSIS OF AMI

The table below provides a summary of AMI's net financial position as of September 30, 2014, 2013 and 2012, which is indicating that total assets decreased while total liabilities increased in 2014 over 2013.

	2014	2013	2012
Assets:			
Current and other assets	$ 1,101,249	$ 739,861	$ 646,946
Capital assets and other noncurrent assets	6,478,160	6,936,827	5,195,590
Total assets	$ 7,579,409	$ 7,676,688	$ 5,842,536

	2014	2013	2012
Liabilities:			
Current and other liabilities	$ 6,021,134	$ 5,780,147	$ 6,587,643
Long-term obligations	2,613,475	2,737,341	237,341
Total liabilities	8,634,609	8,517,488	6,824,984
Net position:			
Net investment in capital assets	6,478,160	6,936,827	5,195,590
Unrestricted	(7,533,360)	(7,777,627)	(6,178,038)
Total net position	(1,055,200)	(840,800)	(982,448)
	$ 7,579,409	$ 7,676,688	$ 5,842,536

Total net position for the last three years indicates that the Company has been spending more than it has been generating as revenues to finance its operations. The importance of AMI's service in the delivery of essential public services to the Marshallese people and communities residing on the outer islands is made possible through continued RMI government support.

Total liabilities of the Company continued to rise due to increase in accounts payable and other accrued liabilities in 2014 as compared to 2013.

In 2014, the situation became exacerbated, or more precarious, when both the Dornier and the Dash 8 continued to experience frequent AOG due to bad airports in the outer islands, and lack of spare parts on shelves. This continued to hamper a steady flying schedule, thus continuing to prevent AMI from earning consistent income, or operating revenues (cash flows) that are very much needed to finance AMI's ongoing operations themselves.

During 2014, the RMI government, through the Cabinet, provided AMI subsidies and capital contributions for the following purposes below:

	Amount	Date
For Subsidy:		
1. D-Check Dash 8	$ 20,000	10/08/13
2. Subsidy	48,131	10/29/12
3. MISSA arrear payment	75,000	10/29/13
4. MIDB loan payment	191,092	10/31/13
5. MISSA arrear payment	75,000	01/17/14
6. Subsidy	99,200	04/11/14
7. MISSA arrear payment	75,000	04/17/14
8. Subsidy	10,000	05/29/14
9. Subsidy	10,000	06/02/14
10. MISSA arrear payment	75,000	07/16/14
11. Subsidy	209,478	09/11/14
	887,901	

For Capital Contributions:		
1. Engine repairs (Sigma)	86,522	08/07/14
2. Aircraft parts	25,150	05/22/14
3. Security deposit (D228)	200,000	09/02/14
	311,762	
Grand Total	$ 1,199,573	

As indicated above, the RMI government provided a total operational subsidy allocation of $887,901 for AMI to meet some of its ongoing major financial obligations such as AMI's arrears to the Marshall Islands Social Security Administration (MISSA) in the annual amount of $300,000, AMI's debt service obligations to the Marshall Islands Development Bank (MIDB) of $191,092, and others ($396,809) in 2014.

The MISSA payment is part of the $1.4 million court judgment owed by AMI to MISSA for past due employer and employee contributions to the social security program and, as agreed to in 2013 between MISSA, the RMI government, and AMI, the RMI government is to allocate and to provide $300,000 on an annual basis (or $75,000 per quarter) as a direct payment to MISSA on behalf of AMI, until the arrears are paid in full.

The Dash 8 has not been making money due to low utilization (averaging less than 25 percent per year since arrival back from Australia) resulting from the lack of an MEL (Minimum Equipment List) and the lack of spare parts on shelves due to lack of money, and resulting from the impact of bad outer island airport runways, which continue to cause breakdown of the aircraft and thus effectively preventing it from generating the income it needs in order to pay off its own loan, and help support operations.

The RMI government commenced paying off the MIDB loan on behalf of AMI in 2014 with the understanding that as soon as things get better for the Company, the Company will then start making payments towards the loan. Alternatively, the Company may have to sell the Dash 8, with RMI government approval, in order to pay off the MIDB loan, and to create adequate MEL for the Dornier.

Presented herewith are AMI's Summary Statements of Revenues, Expenses and Changes in Net Position for the years ended September 30, 2014, 2013 and 2012:

	2014	2013	2012
Revenues:			
Net operating revenues	$ 2,099,660	$ 2,361,115	$ 1,878,419
Non-operating revenues	887,901	1,177,040	772,872
Capital contributions	311,672	76,767	1,495,598
Total revenues	3,299,233	3,614,922	4,146,889
Expenses:			
Operating expenses	3,332,754	3,394,236	3,262,228
Non-operating expenses	180,879	79,038	91,890
Total expenses	3,513,633	3,473,274	3,354,118
Change in net position:	$ (214,400)	$ 141,648	$ 792,771

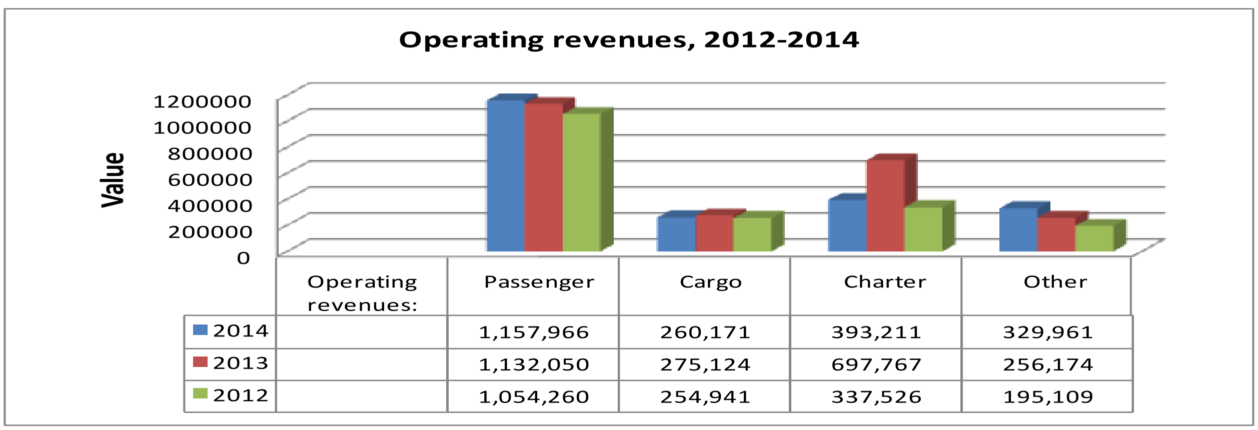
The above identifies the various revenue and expense items that contributed to AMI's change in net position.

The change in net position is the snapshot of the Company's financial situation in those years. Therefore, if it goes up, the situation is good, or it is not so good if it goes down.

While operating expenses during 2014 decreased from $3.39 million to $3.33 million in 2013, the net operating revenues, or income from services offered by the Company itself, also decreased, and this was due to the decrease in charter income of $304,556 from $697,767 in 2013 to $393,211 in 2014. The increase in charter income in 2013 compared with 2012 was due to the drought situation experienced by the Marshall Islands, which brought business to AMI. The decrease in total revenues in 2014 compared to 2013 was also due, in part, to a decrease in RMI government subsidies and capital contributions of $54,234, which fell from $1.25 million in 2013 to $1.20 million in 2014.

As discussed above, the need (or demand) for charter services in 2014 fell by about 50% as compared to 2013, which played a significant role in the fall in the Company's net position in 2014. Coupled with the increase in current and other liabilities of $240,987 due to insufficient cash flows, increasing from $5.78 million in 2013 to $6.02 million in 2014, such indicates a precarious and/or a "sort of insolvency" situation in the making.

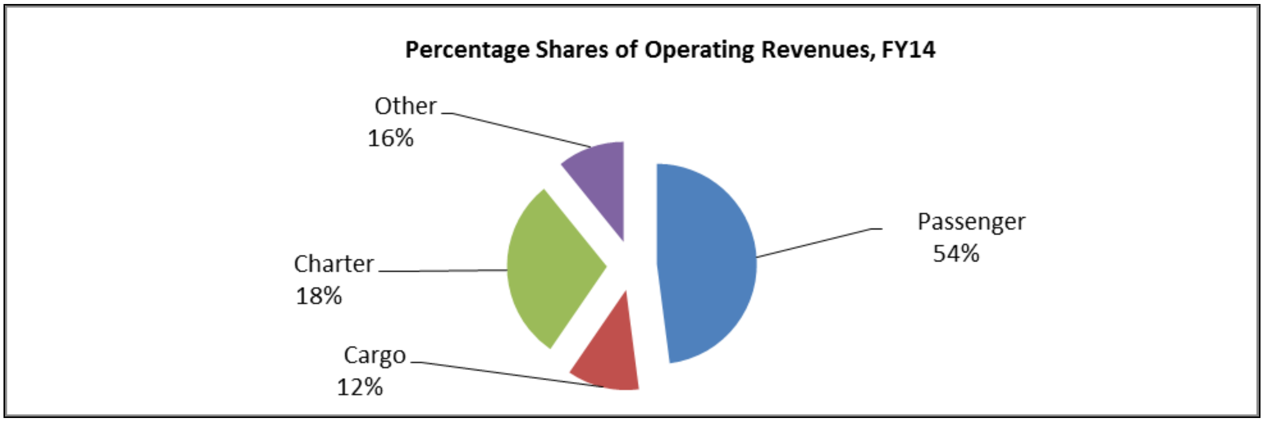
The graph below shows the main components of AMI's operating revenues from 2012 through to 2014.



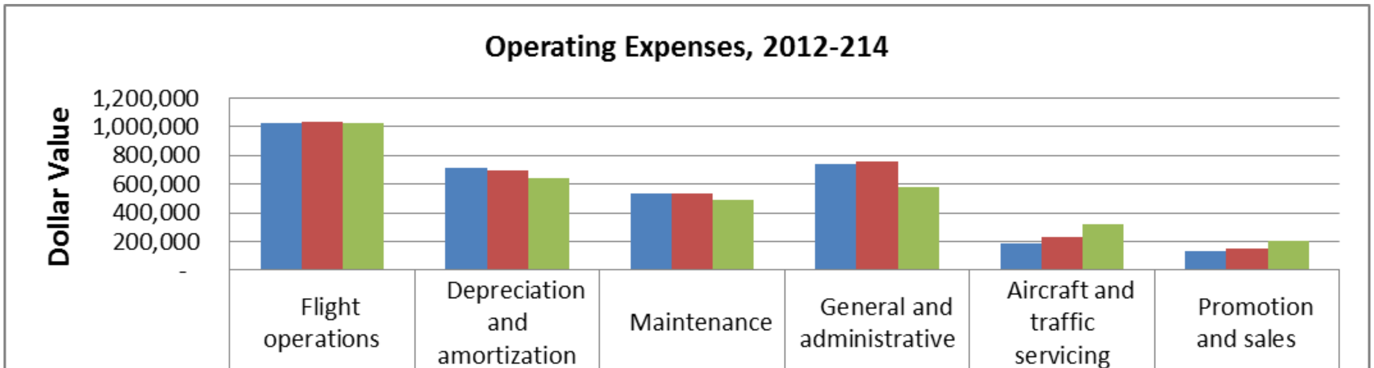
AMI's total operating revenues, as indicated above, have generally been on an up-and-down trend, with revenues from passengers, or from selling of air-tickets, was the largest source which continued to rise since 2012 due to increase passenger travel.

Charter is the second largest and it jumped almost 100 percent in 2013 simply because of the drought during the year which triggered the need for more charter flights.

Cargo revenue, although it went up slightly in 2013 as compared to 2012, it fell back again in 2014 indicating a consistent trend over the years.



The above pie chart shows the distribution of each operating revenue source as a percentage of total operating revenues in which passenger was 54%, charter 18%, cargo/freight 12%, and others 16%.

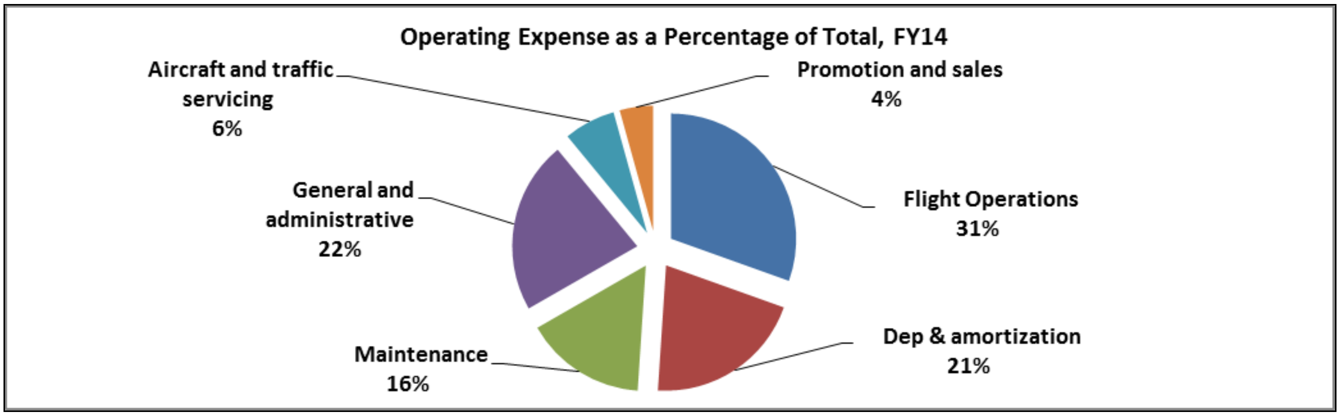


	Flight operations	Depreciation and amortization	Maintenance	General and administrative	Aircraft and traffic servicing	Promotion and sales
2014	1,027,315	711,111	531,897	739,854	187,760	134,817
2013	1,033,458	699,092	532,380	756,368	226,062	146,876
2012	1,026,507	638,773	491,061	579,068	319,226	207,593

The above diagram shows AMI's individual operating expense categories with flight operations being the largest expense followed by general and administrative, depreciation and amortization, maintenance, and promotion and sales during the 2012 to 2014 period.

In 2013, when business was relatively good as compared to both 2014 and 2012, operating costs were also relatively high in 2013 ($3.39 million) as opposed to 2014 ($3.33 million) and 2012 ($3.26 million), respectively.

In 2014, the expense component which contributed to the increase in operating expenses was again in depreciation and amortization, indicating the Company's increasing indebtedness and aging capital assets.



The above pie chart shows major component percentage shares of AMI's total operating expenses in 2014, indicating flight operations with the largest share of 31%, followed by general and administrative of 22%; depreciation and amortization of 21%; maintenance of 16%; aircraft and traffic servicing of 6%; and promotion and sales of 4%, which were almost identical to the 2013 percentage distribution.

Fuel is an expense that comes under flight operations and, being the second largest cost after personnel, is therefore the reason flight operations represents the largest share of AMI's operating expenses.

CAPITAL ASSETS AND DEBT

AMI's net capital assets for 2014 decreased by about 7% or $458,667 resulting from no major capital investment such as acquisition of additional capital assets and capital improvements as compared to 2013 when AMI's net capital assets value increased by $1,741,237 (or 34%) due to the overhaul and D-check performed on the Dash 8, which upgraded the condition of the aircraft.

Every year, AMI has spent on average $200,000 on rotable spare parts for its two aircraft, although this could be way more depending on the need. In 2014, the Company spent $206,564, which was less than the $222,444 spent on the same during 2013.

Kindly refer to note 5 to the accompanying financial statements in the report for more information on AMI's capital assets.

In May 2013, AMI incurred substantial long-term debt when the Company obtained a $2.5 million loan from MIDB to pay down the remaining cost of the Dash 8 D-check in Cairns Australia. The Dash 8 is the loan's collateral although the government has started making payment of $191,092 in 2014. Kindly refer to note 6 to the accompanying financial statements in the report for more information on AMI's long-term debt.

CASH FLOW

AMI's cash receipts from customers in 2014 were $2,090,063 compared with $2,179,565 in 2013. In 2014, the Company turned around and paid $1,396,612 to vendors for goods and services and $1,018,254 to employees for services, leaving an operating cash deficit of $324,803, which was less than the operating cash deficit in 2013 of $537,174. However, with operating subsidies from the RMI government in 2014 and 2013 of $887,901 and $1,177,040, respectively, AMI managed to continue business operations.

CURRENT ECONOMIC OUTLOOK

Being a small open and highly susceptible economy to world events, coupled with being highly dependent on funding from the U.S. Government through the Compact and federal funding, which represents up to 60% or more of annual government budget of $150 million, and which is almost on a same bar with the nominal GDP, the Marshall Islands will continue to be exposed to external shocks, economic calamities, and risks. With the 2008 and 2009 global energy crisis that sent ripple effects throughout the world economy, the Marshall Islands continues to experience high costs as the cost of fuel and everything else has skyrocketed to new unprecedented heights and, as a result, has had a continued adverse impact on the local economy.

Prior to the energy crisis, cost of jet fuel used to be around $2 a gallon; however, today it is close to $5 a gallon, and with today's situation around the globe coupled with the demand for the fuel, the world price for fuel does not appear to be returning to the pre-crisis levels. Therefore, the increase in fuel costs since the crisis has effectively increased the cost of operations for the Company by at least 15% per year.

With operating losses of $1.23 million and $1.03 million in 2014 and 2013, respectively, the annual subsidies and contributions from the central government to sustain the service and help keep the airline afloat will continue to be very important for the Company, both in the short-term and medium-term. Furthermore, with an aging Dornier 228 and Dash 8 aircraft, which were built more than 20 years ago, coupled with the need for better airport runways and adequate MEL, etc., the need for serious action on such will be more important than ever before.

ROLE OF BOARD AND MANAGEMNET

AMI management and Board can only do so much in terms of streamlining operations and reining in costs and improving performance, but this will not create a much visible change on operations if the following challenges and predicaments to the airline continue to exist:

1. Deteriorated and dilapidated airport runways and ramps in the outer islands that continue to cause great and costly damage to the aircraft;

2. Insufficient MEL for the aircraft; and

3. Deteriorating hangar at the Majuro airport, which is urgently needed to house everyone under one roof in order to increase efficiency and economy throughout the Company, and which because the offices are so spread out as the Main Office is in Uliga while Maintenance and Spare Parts departments are at the hangar and Flight Operations and Traffic at the main terminal, hindering efficient communication and timely response to problems between departments whenever they occur.

Management's Discussion and Analysis for the year ended September 30, 2013 is set forth in AMI's report on the audit of financial statements, which is dated July 17, 2014. That Discussion and Analysis explains the major factors impacting the 2013 financial statements and can be obtained from the Company's General Manager at the address below.

WAY FORWARD AND FUTURE SUSTAINABILITY

In the 2013 report, AMI informed about a new strategic Business Plan (BP) which was developed by the Company to be used as a compass to chart the Company's future operating course.

In short, the BP's mission statement is two-fold:

- First, we want to transform AMI into a modern and efficient airline that provides a domestic air service that is safe, reliable, and commercially viable for the benefit of the travelling public and in support of industries such as tourism that rely on air service for their success; and

- Second, we want to transform AMI into once again a financially viable national airline that is capable of taking part in the regional and in the international air service.

In order to achieve the above, the BP's ***6 Rs*** or six goals, must be implemented and these goals are:

> ***Goal 1: AMI must begin to "Rebuild" its financial base;***
> ***Goal 2: AMI must begin to "Reverse" its loss making";***
> ***Goal 3: AMI must begin to "Restore" its service reliability;***
> ***Goal 4: AMI must begin to "Renew" its operation;***
> ***Goal 5: AMI must begin to "Restrict" its reliance on state subsidy; and***
> ***Goal 6: AMI must continue to beat the drum for the government to begin "Repair" of outer island airstrips.***

We strongly believe that implementation of these six goals through adequate support of the Cabinet and the Board would enable AMI, in spite of all abovementioned challenges, to achieve each individual goal, or all of them at once.

Therefore, achievement of success will depend very much on an unabated and continuous government support to the national airline (AMI) over the next few years.

ADDITIONAL FINANCIAL AND OTHER INFORMATION

This MD&A was designed to provide AMI's customers and other stakeholders with an overview of the company's operations and financial condition as at 30th September 2014, and its vision for future sustainability. Should the readers have questions regarding the information provided in this report, or wish to request for additional financial information, kindly contact the AMI's General Manager & CEO at P.O. Box 1319, Majuro, Marshall Islands, MH 96960; Telephone (692) 625-3731; Fax (692) 625-3730; Email Address: gm.airmarshallislands@gmail.com

AIR MARSHALL ISLANDS, INC.

Statements of Net Position
September 30, 2014 and 2013

ASSETS	2014	2013
Current assets:		
Cash	$ 102,750	$ 113,882
Receivables:		
Trade	457,724	367,756
Employees	187,750	217,006
Affiliates	63,410	105,967
	708,884	690,729
Less allowance for doubtful receivables	(642,474)	(600,825)
Receivables, net	66,410	89,904
Expendable parts (net of allowance for obsolescence of $177,789 at September 30, 2014 and 2013)	470,142	485,702
Prepaid expenses and deposits	41,406	50,373
Total current assets	680,708	739,861
Capital assets:		
Capital assets, net of accumulated depreciation	6,478,160	6,936,827
Other noncurrent assets	420,541	-
	6,898,701	6,936,827
	$ 7,579,409	$ 7,676,688
LIABILITIES AND NET POSITION		
Current liabilities:		
Current portion of long-term debt	1,132,367	$ 755,588
Accounts payable	453,281	214,796
Social security taxes payable	1,233,118	1,358,051
Withholding taxes payable	452,197	352,785
Air traffic liability	72,964	106,055
Accrued expenses	300,279	200,350
Payable to affiliates	392,405	431,220
Advances from RepMar	3,116,890	3,116,890
Total current liabilities	7,153,501	6,535,735
Long-term debt, net of current portion	1,481,108	1,981,753
Total liabilities	8,634,609	8,517,488
Commitments and contingencies		
Net position:		
Net investment in capital assets	6,478,160	6,936,827
Deficiency	(7,533,360)	(7,777,627)
Total net position	(1,055,200)	(840,800)
	$ 7,579,409	$ 7,676,688

See accompanying notes to financial statements.

AIR MARSHALL ISLANDS, INC.

Statements of Revenues, Expenses and Changes in Net Position
Years Ended September 30, 2014 and 2013

	2014	2013
Operating revenues:		
Passenger	$ 1,157,966	$ 1,132,050
Cargo	260,171	275,124
Charter	393,211	697,767
Other	329,961	256,174
Total operating revenues	2,141,309	2,361,115
Bad debt expense	(41,649)	-
Total net operating revenues	2,099,660	2,361,115
Operating expenses:		
Flight operations	1,027,315	1,033,458
Depreciation and amortization	711,111	699,092
Maintenance	531,897	532,380
General and administrative	739,854	756,368
Aircraft and traffic servicing	187,760	226,062
Promotion and sales	134,817	146,876
Total operating expenses	3,332,754	3,394,236
Operating loss	(1,233,094)	(1,033,121)
Nonoperating revenues (expenses):		
RepMar subsidy	887,901	1,177,040
Interest expense	(180,879)	(79,038)
Total nonoperating revenues (expenses) , net	707,022	1,098,002
Capital contributions from RepMar	311,672	76,767
Change in net position	(214,400)	141,648
Net position at beginning of year	(840,800)	(982,448)
Net position at end of year	$ (1,055,200)	$ (840,800)

See accompanying notes to financial statements.

AIR MARSHALL ISLANDS, INC.

Statements of Cash Flows
Years Ended September 30, 2014 and 2013

	2014	2013
Cash flows from operating activities:		
Cash received from customers	$ 2,090,063	$ 2,179,565
Cash payments to suppliers for goods and services	(1,396,612)	(1,741,291)
Cash payments to employees for services	(1,018,254)	(975,448)
Net cash used for operating activities	(324,803)	(537,174)
Cash flows from noncapital financing activities:		
Operating subsidy received from RepMar	887,901	1,177,040
Cash flows from capital and related financing activities:		
Acquisition of property and equipment	(672,985)	(2,870,926)
Capital subsidy received from RepMar	311,672	76,767
Proceeds from long-term debt	-	2,500,000
Principal repayments of long-term debt	(123,866)	(230,287)
Interest paid	(89,051)	(6,120)
Net cash used for capital and related financing activities	(574,230)	(530,566)
Net change in cash	(11,132)	109,300
Cash at beginning of year	113,882	4,582
Cash at end of year	$ 102,750	$ 113,882
Reconciliation of operating loss to net cash used for operating activities:		
Operating loss	$ (1,233,094)	$ (1,033,121)
Adjustments to reconcile operating loss to net cash used for operating activities:		
Depreciation and amortization	711,111	699,092
Bad debt expense	41,649	-
(Increase) decrease in assets:		
Receivables:		
Trade	(89,968)	(47,260)
Employees	29,256	22,983
Affiliates	42,557	(51,503)
Expendable parts	15,560	12,960
Prepaid expenses and deposits	8,967	79,205
Increase (decrease) in liabilities:		
Accounts payable	238,485	(104,287)
Social security taxes payable	(124,933)	(53,934)
Withholding taxes payable	99,412	77,632
Air traffic liability	(33,091)	(105,770)
Accrued expenses	8,101	7,139
Payable to affiliates	(38,815)	(40,310)
Net cash used for operating activities	$ (324,803)	$ (537,174)

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, 2014, AMI operated a fleet of a single Dornier Do228 aircraft and a single de Havilland Canada Dash 8 (DHC-8) Series 100 aircraft. During AMI's initial operating year, the 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.

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 position categories:

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

- Unrestricted; net position that is not subject to externally imposed stipulations. Unrestricted net position may be designated for specific purposes by action of management or the Board of Directors or may otherwise be limited by contractual agreements with outside parties.

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

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.

(2) Summary of Significant Accounting Policies, Continued

Cash, Continued

For purposes of the statements of net position and cash flows, cash is defined as cash on hand and cash held in demand and savings accounts. As of September 30, 2014 and 2013, the carrying amounts of cash were $102,750 and $113,882, respectively, and the corresponding bank balances were $124,848 and $143,527, respectively. As of September 30, 2014 and 2013, bank balances in the amount of $112,175 and $137,407, 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.

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

(2) Summary of Significant Accounting Policies, Continued

Property and Equipment, Continued

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.

Deferred Outflows of Resources

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

Compensated Absences

Vested or accumulated vacation leave is recorded as an expense and liability as the benefits accrue to employees. No liability is recorded for non-vesting accumulating rights to receive sick pay benefits. As of September 30, 2014 and 2013, the accumulated vacation leave liability amounted to $51,670 and $46,232, respectively, and is included within the statements of net position as accrued expenses.

Deferred Inflows of Resources

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

Revenue Recognition

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.

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.

Reclassifications

Certain reclassifications have been made to the 2013 financial statements to conform to the 2014 presentation.

(2) Summary of Significant Accounting Policies, Continued

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.

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.

New Accounting Standards

During the year ended September 30, 2014, AMI implemented the following pronouncements:

- GASB 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 implementation of this statement did not have a material effect on the accompanying financial statements.

- GASB Statement No. 67, *Financial Reporting for Pension Plans,* which revises existing guidance for the financial reports of most pension plans. The implementation of this statement did not have a material effect on the accompanying financial statements.

- GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, which requires a state or local government guarantor that offers a nonexchange financial guarantee to another organization or government to recognize a liability on its financial statements when it is more likely than not that the guarantor will be required to make a payment to the obligation holders under the agreement. The implementation of this statement did not have a material effect on the accompanying financial statements.

In June 2012, GASB issued 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 68 are effective for fiscal years beginning after June 15, 2014. Management does not believe that the implementation of this statement will have a material effect on the financial statements of AMI.

In January 2013, GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations,* which improves accounting and financial reporting for state and local governments' combinations and disposals of government operations. Government combinations include mergers, acquisitions, and transfers of operations. A disposal of government operations can occur through a transfer to another government or a sale. The provisions in Statement 69 are effective for fiscal years beginning after December 15, 2013. 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 November 2013, GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68,* which addresses an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. The provisions in Statement 71 are effective for fiscal years beginning after June 15, 2014. 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) Other Assets

A summary of other assets as of September 30, 2014 and 2013, follows:

	2014	2013
Deposit on acquisition of Dornier 228-212 (note 8)	$ 200,000	$ -
Deposit on acquisition of rotable parts	220,541	-
	$ 420,541	$ -

(5) Property and Equipment

Capital asset activities for the years ended September 30, 2014 and 2013, were as follows:

	2014			
	October 1, 2013	Additions	Retirements/ Transfers	September 30, 2014
Aircraft and improvements	$ 17,981,771	$ -	$ -	$ 17,981,771
Rotable spare parts	5,668,095	206,564	-	5,874,659
Plant and equipment	439,655	-	-	439,655
Office furniture and equipment	716,416	-	-	716,416
Motor vehicles	159,364	45,880	-	205,244
Building improvements	13,314	-	-	13,314
	24,978,615	252,444	-	25,231,059
Less accumulated depreciation and amortization	(18,041,788)	(711,111)	-	(18,752,899)
	$ 6,936,827	$ (458,667)	$ -	$ 6,478,160

(5) Property and Equipment, Continued

	2013			
	October 1, 2012	Additions	Retirements/ Transfers	September 30, 2013
Aircraft and improvements	$ 14,194,817	$ 3,786,954	$ -	$ 17,981,771
Rotable spare parts	5,445,651	222,444	-	5,668,095
Plant and equipment	439,655	-	-	439,655
Office furniture and equipment	713,278	3,138	-	716,416
Motor vehicles	159,364	-	-	159,364
Building improvements	13,314	-	-	13,314
	20,966,079	4,012,536	-	24,978,615
Less accumulated depreciation and amortization	(17,342,696)	(699,092)	-	(18,041,788)
	3,623,383	3,313,444	-	6,936,827
Construction in progress	1,572,207	-	(1,572,207)	-
	$ 5,195,590	$ 3,313,444	$ (1,572,207)	$ 6,936,827

(6) Long-Term Debt

A schedule of AMI's long-term debt as of September 30, 2014 and 2013, is as follows:

	2014	2013
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
Note payable to Marshall Islands Development Bank, due on May 30, 2018, interest at 6.5% per annum, payable in monthly installments of $51,100, including interest. The loan is collateralized by the Dash 8 aircraft (please see note 10).	2,376,134	2,500,000
	$ 2,613,475	$ 2,737,341

(6) Long-Term Debt, Continued

Future repayment commitments are as follows:

Year Ending September 30	Principal	Interest	Total
2015	$ 1,132,367	$ 311,044	$ 1,443,411
2016	533,701	79,452	613,153
2017	568,940	44,213	613,153
2018	378,467	8,756	387,223
	$ 2,613,475	$ 443,465	$ 3,056,940

Changes in long-term liabilities for the year ended September 30, 2014, were as follows:

	Balance October 1, 2013	Additions	Reductions	Balance September 30, 2014	Due Within One Year
Notes payable:					
RMIPA	$ 237,341	$ -	$ -	$ 237,341	$ 237,341
MIDB	2,500,000	-	(123,866)	2,376,134	895,026
	$ 2,737,341	$ -	$ (123,866)	$ 2,613,475	$ 1,132,367

Changes in long-term liabilities for the year ended September 30, 2013, were as follows:

	Balance October 1, 2012	Additions	Reductions	Balance September 30, 2013	Due Within One Year
Notes payable:					
RMIPA	$ 237,341	$ -	$ -	$ 237,341	$ 237,341
MIDB	-	2,500,000	-	2,500,000	518,247
	$ 237,341	$ 2,500,000	$ -	$ 2,737,341	$ 755,588

(7) 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.

(7) Related Party Transactions, Continued

During the years ended September 30, 2014 and 2013, AMI received operating subsidies from RepMar of $887,901 and $1,177,040, respectively. In addition, AMI received capital contributions from RepMar of $311,672 and $76,767 during the years ended September 30, 2014 and 2013, respectively, relating to deposit payment made for Dornier 228-212 and payments made for Dash 8 aircraft overhaul costs.

A summary of related party transactions as and for the years ended September 30, 2014 and 2013, is as follows:

	2014			
	Receivables	Revenues	Payables	Expenses
RepMar	$ 46,380	$ 322,670	$ 53,414	$ 8,107
RMIPA	-	-	319,402	-
Marshall Islands National Telecommunications Authority	-	-	6,419	31,089
Marshalls Energy Company, Inc.	-	-	11,918	55,468
Other	17,030	8,713	1,252	15,000
	63,410	$ 331,383	$ 392,405	$ 109,664
Less allowance for doubtful receivables	(42,766)			
	$ 20,644			

	2013			
	Receivables	Revenues	Payables	Expenses
RepMar	$ 89,180	$ 351,524	$ 7,485	$ 9,520
RMIPA	-	-	396,710	525
Marshall Islands National Telecommunications Authority	-	802	2,330	28,579
Marshalls Energy Company, Inc.	-	-	24,137	53,546
Other	16,787	2,435	559	-
	105,967	$ 354,761	$ 431,220	$ 92,170
Less allowance for doubtful receivables	(55,684)			
	$ 50,283			

(7) Related Party Transactions, Continued

A summary of advances from RepMar as of September 30, 2014 and 2013, follows:

	2014	2013
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, 2014 and 2013, AMI is liable for payroll taxes, totaling $452,197 and $352,785, respectively. Payroll taxes for 2014 and 2013 exclude related penalties and interest.

At September 30, 2014 and 2013, AMI is liable to the Marshall Islands Social Security Administration (MISSA) for certain delinquent employee and employer contributions, totaling $1,233,118 and $1,358,051, 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. 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.

(8) 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, 2014, 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) Commitments and Contingencies, Continued

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America, which contemplates the continuation of AMI as a going concern. AMI sustained operating losses during the years ended September 30, 2014 and 2013 of $1,233,094 and $1,033,121, respectively, and used a substantial amount of working capital in its operations resulting in a working capital deficiency of $6,472,793 at September 30, 2014. Furthermore, at September 30, 2014, total liabilities exceeded total assets by $1,055,200. 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 position at September 30, 2014, 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.

On August 19, 2014, AMI entered into a purchase agreement to acquire a used Dornier 228-212 at a purchase price of $2,100,000. On September 2, 2014, RepMar paid $200,000 on behalf of AMI in accordance with the purchase agreement. The remaining $1,900,000 will be payable by RepMar on behalf of AMI upon acceptance of the aircraft and upon delivery.

(9) Subsequent Event

On April 17, 2015, the Cabinet approved and authorized withdrawal of funds from the RMI Time Certificate of Deposit with MIDB to pay AMI's loan from MIDB.

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Chairman
Board of Directors
Air Marshall Islands, Inc.:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Air Marshall Islands, Inc. (AMI), which comprise the statement of net position as of September 30, 2014, statements of revenues, expenses and changes in net position and of cash flows for the year then ended and the related notes to the financial statements, and have issued our report thereon dated July 10, 2015. Our report was qualified for the inadequacy of accounting records over expendable parts and included an emphasis-of-matter paragraph regarding a going concern uncertainty.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be significant deficiencies. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Responses as items 2014-001 through 2014-005, which we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether AMI's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Responses as item 2014-006.

AMI's Responses to Findings

AMI's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. AMI's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

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

Deloitte & Touche LLP

July 10, 2015

AIR MARSHALL ISLANDS, INC.

Schedule of Findings and Responses
Year Ended September 30, 2014

Finding No. 2014-001

Reconciliation of Balances

Criteria: Balances per the general ledger (GL) should be timely reconciled with balances per subsidiary ledgers (SL).

Condition: Certain GL accounts did not reconcile with SL balances:

GL Account Name	GL Balance Over (Under) SL Balance
Due from Affiliates	$ 58,101
Advances to Employees	600
Receivable for Uncleared Checks	1,593
Inventory	1,851
AP System	94,233

In addition, we noted unlocated differences presented per reconciliation reports.

GL Account Name	Unlocated Amount
AR – System	$ 7,492
AP – System	(124,527)

Cause: The cause of this condition is the lack of established policies and procedures pertaining to timely reconciliation of GL and SL balances, resolution of reconciling items, and independent reviews.

Effect: The effect of the above condition is a misstatement of account balances and errors not being timely detected.

Recommendation: We recommend that management establish policies and procedures over timely reconciliation of account balances, resolution of reconciling items, and independent reviews to minimize opportunity for unreconciled differences.

Prior Year Status: Lack of established policies and procedures pertaining to timely reconciliation of GL balances against SL balances, resolution of reconciling items, and independent reviews was reported as a finding in the audits of AMI for fiscal years 2011 through 2013.

Auditee Response and Corrective Action Plan: Management agrees with the finding and as stated in FY2013 audit, the Chief Officer for the company, the CFO, is finally coming in the next couple of days and will be going through the financial data, and to reconcile and to maintain all the balances from now on.

Finding No. 2014-002

Inventories

Criteria: Adequate accounting controls necessitate that inventories be appropriately recorded, monitored and valued based on the existing accounting policy. Information maintained by the accounting department and the inventory management system at the spares department should be reconciled. Furthermore, an independent review of inventory valuation report should be performed.

Condition:

1. Of ten items tested, the following exceptions were noted:

Item #	Part #	Quantity per Audit at 9/30/14	Quantity per Valuation Report at 9/30/14	Unit Cost	Difference
1	93469-12	1	12	$ 448	$ 4,928
2	NHSSMSP5ASD705	4	44	$ 110	$ 4,400

Furthermore, we noted the following unit cost exceptions:

		Valuation Reports			Difference Over (Under)	
Item #	Part #	Quantity	Unit Cost	Unit Cost per Audit	Unit Cost	Extended Amount
1	A-262110C00C	1	$ 5,876.41	$ 4,046.51	$ 1,829.90	$ 1,829.90
2	A-262330A09B	6	3,092.00	168.91	2,923.09	17,538.54
3	CA3420-4-C22	4	2,844.00	28.44	2,815.56	11,262.24
4	NHSSMSP5ASD705	44	110.10	110.00	0.10	4.40

2. Of ten items tested, the following exceptions were noted:

Item #	Part #	Quantity per Audit at 9/30/14	Quantity per Valuation Report at 9/30/14	Unit Cost	Difference
1	MS24513-4174	17	0	$ 13	$ 223
2	A-623080A11B	6	4	$ 862	$ 1,725

The above items were incorrectly valued based on the latest transaction, misapplication of unit cost, and an error in entering unit costs in the valuation report.

Cause: It appears that there is lack of a review process of inventory valuation reports that resulted in erroneous movements which incorrectly updated unit costs. Furthermore, it appears that inventory management did not maintain adequate documents supporting inventory issuances.

Effect: The effect of the condition is a possible misstatement of inventory and consumable expenses and a report modification concerning expendable parts.

Finding No. 2014-002, Continued

Inventories, Continued

Recommendation: Management should adopt and implement appropriate internal control policies over recording, monitoring, and valuation of inventories.

Prior Year Status: Lack of reconciliation between accounting and inventory departments was reported as a finding in the audits of AMI for fiscal years 2006 through 2013.

Auditee Response and Corrective Action Plan: Management agrees with the finding and hope that the presence of the CFO on the scene will resolve this matter as he will go through all the data and make the corrections and adjustments, as needed, once and for all.

Finding No. 2013-003

Revenue

Criteria: Adequate accounting controls necessitate that revenues be appropriately reviewed, documented, and recorded.

Conditions:

1. Of forty-five passenger tickets tested, we noted the following:

   a. Three misapplied a fare rate resulting in undercharging the ticket sale.
   b. The following tickets were not timely deposited:

Ticket Number	Fare Sales Report	Payment Date/ Invoice Date	Deposit Date	No. of Working Days Delayed
177842002704723	$ 352	10/4/2013	10/9/2013	3
177842002739760	197	10/11/2013	10/15/2013	2
177855002553660	217	10/7/2013	10/9/2013	2
177855002538740	197	11/2/2013	11/7/2013	4
177842002740740	116	12/10/2013	12/12/2013	2
177842002469976	197	3/10/2014	3/14/2014	4
177842002483556	116	4/17/2014	4/21/2014	2
177842002488434	197	5/17/2014	5/27/2014	7
177842002489963	99	6/16/2014	6/19/2014	3
177842002506726	168	7/14/2014	7/18/2014	4

2. Of six freight tickets tested, we noted the following:

   a. Invoice No.92668 pertains to sales of 5/22/14 with Airway bill nos. 103831 to 103858 that were not reported or are missing.
   b. The following tickets were not timely deposited:

Ticket Number	Ticket Amount	Date Collected	Date Deposited	No. of Working Days Delayed
102650	1,860.00	2/24/2014	2/26/2014	2
DO30514-IN	1,600.00	3/5/2014	3/7/2014	2

3. Of four excess baggage tickets tested, we noted the following:

   a. Three cash sale tickets were not timely deposited.

Ticket Number	Amount	Date Collected	Date Deposited	No. of Working Days Delayed
33432	$ 409.20	2/13/2014	2/20/2014	5
34168	713.70	8/11/2014	8/13/2014	2
33403	214.80	2/8/2014	2/12/2014	2

Finding No. 2014-003, Continued

Revenue, Continued

4. Of 16 charter flights tested, we noted the following:

   a. Flight requests were not properly signed by sales personnel that evidenced review and complete documentation.
   b. One flight request was provided to a charter fee discount that had no formal documentation supporting the authority to provide discount.
   c. Two flight request forms were dated beyond the flight date. Thus, it appears that the process of securing approval prior to actual flight is not followed.
   d. Two flight request forms did not match existing landing fees resulting in a $30 revenue overstatement.
   e. Eight flight request forms revealed errors in block time computations resulting in a $307 net overstatement of charges.

Cause: The above condition appears to be due to control policies that do not allow for monitoring and filing of documents, independent review of reports, and inadequate coordination and communication between personnel.

Effect: The above condition may result in misstatements and may adversely impact financial information.

Recommendation: Management should adopt and strengthen control policies over management coordination, independent review of reports, timely deposits of collections, and proper filing, reconciliation, and maintenance of documents.

Prior Year Status: Recommendation concerning control policies and procedures over monitoring and filing of documents, independent review of reports to provide accurate financial information, and coordination and communication among departments was reported as a finding in the audit of AMI for fiscal year 2013.

Auditee Response and Corrective Action Plan: Management agrees with the finding and hope that the presence of the CFO on the scene will resolve this matter as he will go through all the data and make the corrections and adjustments and also teaches the Ticketing manager, cashier, and the revenue clerk how to keep make sure the records are consistent and clean.

Finding No. 2014-004

Fixed Assets

Criteria: Adequate internal control policies and procedures should be established to require that the subsidiary fixed asset register includes appropriate detail and is timely updated.

Conditions: Various fixed assets were over depreciated causing a negative net book value.

Cause: The cause of the above condition is the lack of established policies and procedures pertaining to fixed assets.

Effect: The effect of the above condition is a potential misstatement of fixed assets.

Recommendation: We recommend that AMI adopt policies and procedures pertaining to fixed assets.

Auditee Response and Corrective Action Plan: Management agrees with the finding and hope that the presence of the CFO on the scene as he will go through all the data and make the corrections and adjustments, working with the relevant staffs, to resolve this outstanding problems of fixed assetsvaluation, once and for all.

Finding No. 2014-005

Purchase of Dornier 228-212

Criteria: Asset appraisal or valuation should be performed in the determination of the appropriateness of the purchase price of aircraft.

Condition: There is a lack of an independent asset appraisal or valuation associated with the purchase of the Dornier 228-212 at a cost of $2,100,000.

Cause: The cause of the above condition is the lack of an independent asset appraisal or valuation associated with the purchase of the Dornier 228-212.

Effect: The effect of the above condition is the uncertainty of appropriateness in the determination of purchase price of the Dornier 228-212.

Recommendation: We recommend that management have an independent appraisal or valuation performed of the Dornier 228-212 in order to ascertain the appropriateness of the aircraft's purchase price.

Auditee Response and Corrective Action Plan: The decision to purchase the aircraft came from the government so management kindly refers this to the board of directors, the Chairman of the Board, and the Cabinet.

Finding No. 2014-006

Local Noncompliance

Criteria: 48 MIRC Chapter 1, Income Tax Act of 1989, Section 105, states that the employer shall once every four (4) weeks or thirteen times per year, pay taxes withheld under Section 104 under Chapter 1. The employer shall, along with the taxes, within two (2) weeks following the preceding four (4) week period make a full, true and correct return showing all wages and salaries paid by the employer to the employees during the preceding four (4) week period and showing the tax due and withheld thereon as provided in Section 104 of the Chapter.

Condition: AMI filed and paid income taxes withheld for the year ended September 30, 2014 in a manner inconsistent with the criteria. Specifically, withholding taxes in the amount of $99,412 for the year ended September 30, 2014 were not timely remitted. In addition, income taxes withheld in the amount of $352,785 for PPE 1/20/09 through 9/24/13 have not been paid.

Cause: The cause of the above condition is the lack of policies and procedures to monitor timely filing of returns and payment of withheld income taxes.

Effect: The effect of the above condition is noncompliance with RepMar Income Tax Act of 1989, as amended.

Recommendation: We recommend that management establish policies and procedures to comply with the RepMar Income Tax Act of 1989, as amended.

Auditee Response and Corrective Action Plan: Management agrees with the finding and indicates that the company and the revenue and taxation unit of the government have entered into some formal arrangement for the company to start complying through timely filing and paying of taxes.

Unresolved Prior Years' Findings
Year Ended September 30, 2014

The status of unresolved prior year findings is disclosed within the Schedule of Findings and Responses section of this report.