

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

**INDEPENDENT AUDITORS' REPORTS ON
INTERNAL CONTROL AND ON COMPLIANCE**

YEAR ENDED SEPTEMBER 30, 2005

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

Chairman
Board of Directors
Air Marshall Islands, Inc.:

We have audited the financial statements of Air Marshall Islands, Inc. (AMI), as of and for the year ended September 30, 2005, and have issued our report thereon dated June 13, 2008, which was qualified due to our inability to obtain adequate accounting records to support the valuation of expendable parts. Except as discussed in the preceding sentence, we conducted our audit 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered AMI's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect AMI's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings (pages 6 through 13) as items 2005-1 through 2005-7.

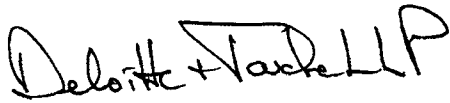
A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider items 2005-2 through 2005-7 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether AMI's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of AMI in a separate letter dated June 13, 2008.

This report is intended solely for the information and use of the Board of Directors and management, the federal awarding agencies, pass-through entities, the cognizant and other federal agencies and is not intended to be and should not be used by anyone other than these specified parties.

Handwritten signature of Deloitte + Tatchell LLP in black ink.

June 13, 2008

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND INTERNAL CONTROL
OVER COMPLIANCE APPLICABLE TO EACH MAJOR FEDERAL AWARD PROGRAM
AND ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

Chairman
Board of Directors
Air Marshall Islands, Inc.:

Compliance

We have audited the compliance of Air Marshall Islands, Inc. (AMI) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its one major federal program for the year ended September 30, 2005. AMI's major federal program is identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs (page 6). Compliance with the requirements of laws, regulations, contracts, and grants applicable to its one major federal program is the responsibility of AMI's management. Our responsibility is to express an opinion on AMI's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about AMI's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on AMI's compliance with those requirements.

In our opinion, AMI complied, in all material respects, with the requirements referred to above that are applicable to its one major federal program for the year ended September 30, 2005.

Internal Control Over Compliance

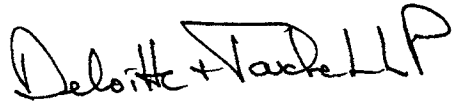
The management of AMI is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered AMI's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the basic financial statements of AMI as of and for the year ended September 30, 2005, and have issued our report thereon dated June 13, 2008, which was qualified due to our inability to obtain adequate accounting records to support the valuation of expendable parts. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards (page 5) is presented for the purpose of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. This schedule is the responsibility of the management of AMI. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, when considered in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the Board of Directors, management, the federal awarding agencies, pass-through entities, the cognizant audit and other federal agencies and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Deloitte + Touche LLP". The signature is written in a cursive, stylized font.

June 13, 2008

AIR MARSHALL ISLANDS, INC.

Schedule of Expenditures of Federal Awards
Year Ended September 30, 2005

Federal Grantor/Pass-Through <u>Grantor's Program Title</u>	<u>Federal CFDA Number</u>	<u>2005 Receipts</u>	<u>Total Funding Available</u>	<u>2005 Expenditures</u>	September 30, 2005 Available <u>Funds</u>
<u>U.S. Department of the Interior</u>					
Compact of Free Association Section 211 Capital	15.875	\$ <u>550,000</u>	\$ <u>1,600,000</u>	\$ <u>550,000</u>	\$ <u>-----</u>

The above federal award is passed through RepMar. The Schedule of Expenditures of Federal Awards is prepared on the accrual basis of accounting.

See Accompanying Independent Auditors' Report on Compliance and Internal Control Over Compliance Applicable to Each Major Federal Award Program and on the Schedule of Expenditures of Federal Awards.

AIR MARSHALL ISLANDS, INC.

Schedule of Findings and Questioned Costs
Year Ended September 30, 2005

Section I - Summary of Auditors' Results

1. The Independent Auditors' Report on the financial statements expressed a qualified opinion due to inadequate accounting records supporting the valuation of expendable parts.
2. Reportable conditions in internal control over financial reporting were identified, some of which are considered to be material weaknesses.
3. No instances of noncompliance considered material to the financial statements were disclosed by the audit.
4. No reportable conditions in internal control over compliance with requirements applicable to major federal award programs were identified.
5. The Independent Auditors' Report on compliance with requirements applicable to major federal award programs expressed an unqualified opinion.
6. The audit disclosed no findings required to be reported by OMB Circular A-133.
7. AMI's one major program was:

<u>Name of Federal Program</u>	<u>CFDA Number</u>
Compact of Free Association: Section 211 Capital	15.875

8. A threshold of \$300,000 was used to distinguish between Type A and Type B programs as those terms are defined in OMB Circular A-133.
9. AMI did not qualify as a low-risk auditee as that term is defined in OMB Circular A-133.

Section II - Financial Statement Findings

<u>Reference Number</u>	<u>Findings</u>	<u>Refer Page #</u>
2005-1	Revenue/Receipts	7
2005-2	Receivables	8
2005-3	Receivables	9
2005-4	Receivables	10
2005-5	Expendable Parts	11
2005-6	Plant and Equipment	12
2005-7	External Financial Reporting	13

Section III - Federal Award Findings and Questioned Costs

No federal award findings were reported for the year ended September 30, 2005.

AIR MARSHALL ISLANDS, INC.

Schedule of Findings
Year Ended September 30, 2005

Revenue/Receipts

Finding No. 2005-1

Criteria: Ticket stock should be maintained in an orderly and systematic fashion.

Condition: During the year ended September 30, 2005, ticket stock was not issued to and sold by ticketing agents/stations in sequential order and certain auditor and flight coupons were not reported to revenue accounting in a timely manner. In addition, of fifty tickets tested, we noted the following exceptions:

- For one ticket (ticket # 5500-147579), the flight date was on July 4, 2005, however, the ticket was issued on July 5, 2005.
- For twelve tickets (ticket #s 5500-136898, 5500-137525, 5500-139818, 5500-139962, 5500-141433, 5500-141466, 5500-143444, 5500-146357, 5500-147579, 5500-150898, 5500-150912, and 5500-152156), there was no validation date indicating that they were valid sales or the validation dates did not agree with the associated sales report dates.
- For one airport station daily sales report dated December 15, 2004, the ticket series listed in the report of 5500-128080s did not agree with the actual ticket series attached to the report of 5500-128090s.
- The August 12, 2005 Woja station sales report included two cargo sales for which no airway bills were processed.
- Cash sales made by ticketing agents at the following stations were not deposited to the bank in a timely manner:

<u>Station</u>	<u>Sales Date</u>	<u>Deposit Date</u>
Airport	December 4, 2004	December 8, 2004
Downtown Majuro	December 3, 2004	December 8, 2004
Kili	May 20, 2005	June 6, 2005

Cause: The cause of the above condition is the lack of adherence to established policies and procedures relating to control over and issuance of ticket stock and the depositing of receipts.

Effect: The effect of the above condition is the possible misstatement of cash, revenues, unearned revenues and expenses.

Recommendation: We recommend that management ensure the revenue accounting department adheres to established policies and procedures relating to control over and issuance of ticket stock.

Prior Year Status: Lack of adherence to established policies and procedures relating to control over and issuance of ticket stock was reported as a finding in the audits of AMI for fiscal years 1999 through 2004.

Auditee Response and Corrective Action Plan: The relevant staff have been instructed to adhere to set policies and procedures for issuing and reporting tickets.

AIR MARSHALL ISLANDS, INC.

Schedule of Findings
Year Ended September 30, 2005

Receivables

Finding No. 2005-2

Criteria: Accounts receivable should be recorded at net realizable value.

Condition: As of September 30, 2005, the aged accounts receivable subsidiary ledger, excluding affiliate accounts, indicated that customer accounts with balances greater than 120 days represented ninety (90) percent of the \$888,664 balance. An audit adjustment was proposed to increase the related allowance to \$792,370.

Cause: The cause of the above condition is the lack of procedures to evaluate the collectibility of recorded receivables.

Effect: The effect of the above condition is the possible misstatement of receivables.

Prior Year Status: Collectibility of receivables was reported as a finding in the audits of AMI for fiscal years 2000 through 2004.

Recommendation: We recommend that management review all outstanding receivables for collectibility.

Auditee Response and Corrective Action Plan: These accounts were fully provided in 2006.

AIR MARSHALL ISLANDS, INC.

Schedule of Findings
Year Ended September 30, 2005

Receivables

Finding No. 2005-3

Criteria: Accounts receivable should be collected in a timely manner.

Condition: As of September 30, 2005, AMI recorded receivables from employees amounting to \$248,903, the majority of which are several years old.

Cause: The cause of the above condition is the lack of policies and procedures to ensure that employee receivables are collected in a timely manner.

Effect: The effect of the above condition is that receivables from employees are potentially overstated, which resulted in an allowance for doubtful receivables greater than 120 days old.

Recommendation: We recommend that management review collection methods with employees and ensure that such are consistent and being adhered to.

Auditee Response and Corrective Action Plan: A Policy is in place and will be implemented accordingly.

AIR MARSHALL ISLANDS, INC.

Schedule of Findings
Year Ended September 30, 2005

Receivables

Finding No. 2005-4

Criteria: Receivables should represent amounts due from customers for services rendered.

Condition: As of September 30, 2005, the receivable subsidiary ledger included a receivable due from AMI of \$81,441, which represented various expenses incurred over the years, including employee travel and training. An audit adjustment was proposed to correct \$77,907 of this amount. The remaining balance of \$3,534 requires further management analysis and is not material to the audit.

Cause: The cause of the above condition is the improper recording of advances to employees.

Effect: The effect of the above condition is the misstatement of receivables and expenses.

Recommendation: We recommend that management ensure that receivables include amounts due from customers for services rendered or other receivables from third parties.

Auditee Response and Corrective Action Plan: This account was already adjusted or cleared in 2005 audit. Cleaning of old accounts is continuing process until old and non-moving accounts are cleared.

AIR MARSHALL ISLANDS, INC.

Schedule of Findings
Year Ended September 30, 2005

Expendable Parts

Finding No. 2005-5

Criteria: Expendable parts cost should be supported by vendor invoices.

Condition: Of forty-seven expendable parts items tested, totaling \$212,836, the vendor invoices for thirty-five items were not made available. Furthermore, we noted that three items (part #s A-112560D02W, A-252012C00C and MS20470AD5-16) selected from the subsidiary ledger were not listed in the count sheets. In addition, two items (part #s 0108900-49 and AE707836-3) test counted at year end were not listed in the subsidiary ledger.

Cause: The cause of the above condition is the lack of retention of appropriate documentation.

Effect: The effect of the above condition is the misstatement of expendable parts.

Recommendation: We recommend that management ensure that supporting invoices to substantiate expendable parts cost be retained and that expendable parts are properly recorded.

Prior Year Status: Errors in expendable parts valuation was reported as a finding in the audits of AMI for fiscal years 1992 through 2004.

Auditee Response and Corrective Action Plan: These invoices exist and auditor was informed accordingly. Documents were retrieved and made available for review on April 2007.

AIR MARSHALL ISLANDS, INC.

Schedule of Findings
Year Ended September 30, 2005

Plant and Equipment

Finding No. 2005-6

Criteria: Plant and equipment acquisitions should represent valid fixed assets.

Condition: Of twenty-four plant and equipment acquisitions items tested, we noted four items totaling \$118,839 that were not valid acquisitions. An audit adjustment was proposed to remove these items from plant and equipment.

Cause: The cause of the above condition is the improper recording of plant and equipment acquisitions.

Effect: The effect of the above condition is the possible misstatement of plant and equipment and expenses.

Recommendation: We recommend that management ensure that plant and equipment acquisitions are valid.

Auditee Response and Corrective Action Plan: All cost and incidental expenses related to acquisition of an asset are capitalizable. This includes loan interest and processing fees associated with obtaining loans for the purpose of procuring an asset.

AIR MARSHALL ISLANDS, INC.

Schedule of Findings
Year Ended September 30, 2005

External Financial Reporting

Finding No. 2005-7

Criteria: Board minutes are a primary means by which regulatory agencies and independent auditors can evaluate the administration of AMI's operations.

Condition: The Board of Directors' minutes of meetings held from October 1, 2004 through August 6, 2007 were not made available.

Cause: The cause of the above condition is the lack of adherence to established policies and procedures relating to documentation of Board of Directors minutes of meetings.

Effect: The effect of the above condition is the possibility that directives of the Board are not properly disclosed or recorded in the financial statements of AMI.

Recommendation: We recommend that the Board of Directors ensure that all minutes of meetings are formally documented by the Secretary and approved by the Chairman.

Prior Year Status: Lack of formal documentation of minutes of meetings of the Board of Directors was reported as a finding in the audits of AMI for fiscal years 1999 through 2004.

Auditee Response and Corrective Action Plan: We provided the auditor during the audit engagement a summary of Board Minutes signed by the Chairman of the Board.

The summary that was provided consist of six(6) pages with a covering letter signed by the Chairman of the Board.

AIR MARSHALL ISLANDS, INC.

Unresolved Prior Year Findings
Year Ended September 30, 2005

The status of unresolved prior year findings is disclosed within the Schedule of Findings section of this report (pages 6 through 13).