

June 13, 2008

CONFIDENTIAL

Board of Directors
Air Marshall Islands, Inc.

Dear Board Members:

In planning and performing our audit of the financial statements of Air Marshall Islands, Inc. (AMI) for the year ended September 30, 2005, on which we have issued our report dated June 13, 2008, which was qualified due our inability to obtain adequate accounting records to support the valuation of expendable parts, we developed the following recommendations concerning certain matters related to AMI's internal control and certain observations and recommendations on other accounting, administrative, and operating matters. Our principal recommendations are summarized below.

(1) Cash Receipts

In a sample of twenty-five cash receipts tested, we noted the following exceptions:

- Cash receipts are not used in sequential order.
- Airport station sales for April 29, 2005 and August 5, 2005 were not deposited until May 3, 2005 and August 9, 2005, respectively.
- Cash receipt #s 63116 and 63431 were payments for freight; the associated airway bills were not made available.
- The cash receipts listing that included receipt # 62760 included an airport station sale amounting to \$297 that was not included in the station's daily sales; instead, the sale was recorded and deposited by the downtown office.
- Airport station sales for April 29, 2005 included a ticket (ticket # 5500-149432) that was sold and validated the previous day and therefore should have been part of that day's sales.

We recommend that management ensure that cash receipts are used in sequential order, source documentation supports all revenue items, collections are deposited in a timely manner and sales are properly and timely reported. This matter was discussed in our previous letters dated August 15, 2005, August 8, 2003, May 20, 2002 and August 24, 2001.

(2) Payroll

Of twenty-five payroll disbursements tested, statutory deductions were incorrectly calculated for the following employees:

<u>Employee#</u>	<u>PPE</u>
LH00489	10/19/04
LJ00626	11/30/04
JM00681	06/28/05

We recommend that management ensure that payroll is accurately calculated. This matter was discussed in our previous letters dated August 15, 2005 and August 8, 2003.

(3) Payroll

Of twenty-five payroll disbursements tested, we noted the following:

- The actual hours differed from the hours paid for the following employees:

<u>Employee #</u>	<u>PPE</u>	<u>Actual Hours</u>	<u>Paid Hours</u>
RL00496	10/05/04	79.45 regular	80.00 regular
LH00489	10/19/04	84.86 regular	80.00 regular
LJ00626	11/30/04	94.39 regular	108.00 regular
AM00218	01/11/05	40.00 regular 32.00 vacation 08.00 holiday	08.00 regular 72.00 vacation
DS00673	01/25/05	90.03 regular	89.80 regular
DA00216	02/08/05	89.30 regular	89.23 regular
SR00264	03/08/05	107.18 regular	80.00 regular
MS00306	03/22/05	68.73 regular	67.64 regular
TN00217	03/22/05	86.20 regular	80.00 regular
MS00306	04/05/05	70.52 regular	64.70 regular
JM00681	06/28/05	80.71 regular	80.00 regular
DS00673	08/09/05	68.22 regular	80.00 regular

- For one employee (employee # DS00673) for pay periods ended January 25, 2005 and August 9, 2005, the time cards were not signed as approved.

We recommend that management ensure that employees' hours are accurately calculated and approved and that established policies are adhered to relating to annual and sick leave. This matter was discussed in our previous letters dated August 15, 2005, August 8, 2003, May 20, 2002 and August 24, 2001.

(4) Payroll

Of twenty-five payroll disbursements tested, we noted that certain authorized allotment forms were not made available for the following employees:

<u>Employee #</u>	<u>PPE</u>
TN00217	03/22/05
LD00638	08/09/05

Additionally, authorized allotment forms were on file but no deductions were made for the following employees:

<u>Employee #</u>	<u>PPE</u>
RL00496	10/05/04
LH00636	02/22/05
SR00264	03/08/05
FA00430	05/31/05

We recommend that management ensure that authorized allotment forms are retained and that authorized deductions are made. This matter was discussed in our previous letters dated August 15, 2005, August 8, 2003, May 20, 2002 and August 24, 2001.

(5) Payroll

The same individual performs all payroll functions. We recommend that management ensure that proper segregation of duties is in place over the payroll function to ensure accuracy and authorization. This matter was discussed in our previous letters dated August 15, 2005.

(6) Cash

At September 30, 2005, AMI recorded cash in bank (A/c # 10103, totaling \$1,578) that pertained to a bank account which was closed in a prior year. We recommend that management ensure that only valid cash accounts are recorded.

(7) Accounts Receivable

Of thirty-seven accounts receivable items confirmed, the customer's response to one account amounting to \$21,932 was \$-0-. No reconciliation was provided for the variance, which is fully provided for. We recommend that management ensure that customer accounts are routinely reviewed and collected in a timely manner and that discrepancies are promptly resolved.

(8) Accounts Receivable

At September 30, 2005, AMI recorded other receivables (A/c # 12711, totaling \$104,973) that included certain balances outstanding since September 1998, including a receivable from Pacific Air Express (PAE) of \$62,291, which included three disbursements, totaling \$18,190, made on behalf of PAE for which no invoice was issued. PAE has indicated in the past that they have no outstanding balances with AMI. We recommend that management follow-up with PAE regarding amounts due to and from them. Furthermore, we recommend that management ensure that disbursements made on behalf of third parties are invoiced and collected in a timely manner. This matter was discussed in our previous letters dated August 15, 2005, August 8, 2003, May 20, 2002, August 24, 2001 and May 29, 2000.

(9) Accounts Receivable

Payment plans with debtors should be closely monitored to ensure that such are received in a timely manner. On June 16, 1999, a court judgement, totaling \$122,202, ordered a travel agency to make monthly payments of \$2,500, including interest, to AMI. No payments have been received since January 2000. We recommend that management ensure the travel agency adheres to the established payment plan. This matter was discussed in our previous letters dated August 15, 2005, August 8, 2003, May 20, 2002, August 24, 2001 and May 29, 2000.

(10) Prepaid Expenses and Deposits

Prepaid expenses and deposits at September 30, 2005 included \$3,474 (A/c # 14101) that pertained to a rotatable part prepayment in a prior year; amount is no longer a valid prepayment as it should have been recorded to plant and equipment or expensed in a prior year. Amount is not material to warrant an audit adjustment. We recommend that management ensure that prepayments are properly treated when the related purchases or transactions are completed.

(11) Advance to RepMar

At September 30, 2005, AMI recorded an advance to RepMar totaling \$475,859 that did not reconcile with the corresponding payable recorded by RepMar of \$495,759. Although the variance was not material to warrant an audit adjustment, we recommend that management ensure that the advance to RepMar is reconciled with RepMar on a monthly basis. This matter was discussed in our previous letters dated August 15, 2005.

(12) Plant and Equipment

Of twenty-four plant and equipment acquisitions items tested, we noted eight items (serial #s P-100091C, PC-E120878, S4-3300264, NP157902-9, 120191, 3P-36736, 0030048 and 99122087) and an engine overhaul whose acquisition dates in the subsidiary fixed asset register did not agree with the supporting vendor invoices or receipt dates.

(13) Plant and Equipment

Of thirty-seven plant and equipment items tested for existence, six items (brake control valve # 909, main wheel assy # aug89-387, starter generator # 15410, amplifier # 313, main wheel assy # aug90-117, and hydraulic pump assy # 200102) represent obsolete rotatable parts that are no longer maintained in the parts system at the maintenance department. For five items, the vendors' names rather than the items are included as the assets' description in the subsidiary fixed asset register.

(14) Plant and Equipment

Of thirty-seven plant and equipment items tested for existence, the location of four items could not be determined due to insufficient information contained in the subsidiary fixed asset register. We recommend that management ensure that all relevant information is included in the subsidiary fixed asset register, including asset location and identification number for tracking purposes. This matter was discussed in our previous letter dated August 15, 2005.

(15) Accounts Payable

We requested statements of accounts from seventeen vendors, including the Directorate of Civil Aviation, whose response to AMI's balance amounting to \$82,574 was \$90. Another vendor's response indicated unrecorded liabilities totaling \$10,731 at September 30, 2005. This amount was not material to warrant an audit adjustment. We recommend that management ensure that payables are properly reconciled to vendor statements on a monthly basis and in a timely manner. This matter was discussed in our previous letter dated August 15, 2005.

(16) Cargo Revenue

Of twenty-nine cargo revenue items tested, we noted that following exceptions:

- Certain of the daily sales reports for the daily cash receipts listing for AWB # 81913 were not made available.
- The cargo manifest for AWB #s 81141 and 89858 were not made available.
- Certain of the AWBs for the daily sales report for AWB # 84608 were not made available.

We recommend that management ensure that source documentation is retained. This matter was discussed in our previous letters dated August 15, 2005, August 8, 2003 and May 20, 2002.

(17) Cargo Revenue

Of twenty-nine cargo revenue items tested, we noted that following exceptions:

- Rates per pound were incorrect for the following airway bills (AWB):

<u>AWB #</u>	<u>AWB Rate</u>	<u>Actual Rate</u>
81141	\$1.00	\$0.50
81913	\$0.80	\$0.70
83787	\$0.50	\$0.55
84608	\$0.75	\$0.65
87444	\$0.55	\$0.50
90189	\$0.75	\$0.65

- Rates per pound were incorrect for the following baggage coupons (BC):

<u>BC #</u>	<u>BC Rate</u>	<u>Actual Rate</u>
11061	\$0.60	\$0.50
13201	\$0.65	\$0.60

- Incorrect sales were recorded for the daily sales reports for following AWBs:

<u>AWB #</u>	<u>Recorded Sales</u>	<u>Actual Sales</u>	<u>Variance</u>
82008	\$1,802.75	\$1,826.30	\$23.55
82309	\$1,068.40	\$1,119.40	\$51.00
85149	\$1,158.45	\$1,197.65	\$39.20

- The sales report for AWB # 83720 was short \$182.20, however, such was not charged to the responsible employee.

We recommend that management ensure that approved rates are charged and that sales are accurately recorded.

(18) Cargo Revenue

We were informed that the minimum charge for freight and excess baggage are \$5 for cash sales and \$10 for charge sales, however, this policy is not in writing.

We recommend that all policies are approved by the Board in writing. This matter was discussed in our previous letter dated August 15, 2005.

(19) Charter Revenue

Of eighteen charter revenue items tested, we noted the following exceptions:

- For four items (flight request #s 483, 511, 526 and 568), the customer was not invoiced for the chartered flight; instead, related revenue was recorded based on the customer's payment. Additionally, for one item (flight request # 515), the customer's payment for the related un-invoiced charter flight was credited to receivables rather than to revenue. This error was not material to warrant an audit adjustment.
- For one item (flight request # 508), the number of chartered flight hours was not included; therefore, we were unable to verify that the item was properly invoiced and recorded.
- Customers were not invoiced in a timely manner for the following items:

<u>Request #</u>	<u>Flight Date</u>	<u>Invoice Date</u>
502	02/17/05	02/21/05
538	05/15/05	05/17/05
567	08/20/05	08/24/05
575	09/09/05	09/15/05

- Invoiced amounts were incorrect for the following items:

<u>Request #</u>	<u>Invoiced Amount</u>	<u>Actual Amount</u>	<u>Variance</u>
554	\$4,953.00	\$5,727.00	\$774.00
568	\$2,986.00	\$2,686.00	\$300.00

We recommend that management ensure that all services are properly and timely invoiced and collected. This matter was discussed in our previous letters dated August 15, 2005, August 8, 2003 and May 20, 2002.

(20) Other Revenue

Of thirteen other revenue items tested, we noted one item pertaining to ground handling (invoice # GH327-1004) where an associated ground handling form was not signed by the customer. We recommend that management ensure that all service forms are signed by customers to ensure validity.

(21) Expenses

We noted travel expenses totaling \$4,478 pertaining to fiscal year 2004 that were recorded as fiscal year 2005 expenses. We recommend that management ensure that expenses are recorded in the proper period. This matter was discussed in our previous letters dated August 15, 2005.

(22) Cash Shortage/Overage

At September 30, 2005, AMI recorded cash overages (A/C # 80052) totaling \$22,750. Advances to pilots paid from daily sales are recorded as cash shortages and repayments of such are recorded as sales overages. Advances to employees should be recorded as receivables from employees. We recommend that management ensure that advances to employees are properly recorded. This matter was discussed in our previous letters dated August 15, 2005.

(23) Sales Invoices

Prenumbered sales invoices facilitate the completeness of recording revenue. Prenumbered sales invoices are not utilized. We recommend that management ensure that prenumbered sales invoices are utilized to facilitate the completeness of recording revenue. This matter was discussed in our previous letters dated August 15, 2005, August 8, 2003, May 20, 2002, August 24, 2001 and May 29, 2000.

(24) RMI Withholding Taxes

During the year ended September 30, 2004, AMI incurred penalties and interest totaling \$1,680 related to AMI's late filing of withholding tax returns. Such penalties and interest were deducted from the balance of AMI's advance to RepMar. We recommend that management ensure that withholding tax returns are filed in a timely manner to avoid future penalties and interest. This matter was discussed in our previous letter dated August 15, 2005.

(25) Capitalization Policy

AMI currently does not have a formal capitalization policy for plant and equipment. We recommend that management establish a formal capitalization policy for the recording of capital assets. This matter was discussed in our previous letter dated August 15, 2005.

(26) Lease Agreement

The lease agreements for the Ebeye and Majuro office spaces expired in fiscal year 2006 and have not been renewed. AMI continues to utilize these spaces and pay rent. We recommend that management ensure that these lease agreements are renewed.

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We have communicated certain matters noted during our audit of the financial statements of AMI for the year ended September 30, 2005, which we considered to be reportable conditions, in our report dated June 13, 2008.

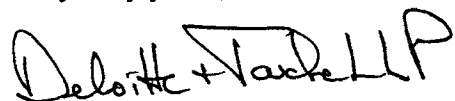
This report is intended solely for the information and use of the Board of Directors, management and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

Board of Directors
Air Marshall Islands, Inc.
June 13, 2008

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We would like to express our appreciation to management and staff for their assistance and cooperation provided during the course of this engagement. Should you have any questions regarding matters discussed herein, please feel free to contact our office at your convenience.

Very truly yours,

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