

June 20, 2007

CONFIDENTIAL

Mr. Jack Chong Gum
Executive Director
RMI Ports Authority

Dear Mr. Chong Gum:

In planning and performing our audit of the financial statements of the RMI Ports Authority (the Authority) as of and for the year ended September 30, 2006, on which we have issued our report dated June 20, 2007, we developed the following recommendations concerning certain matters related to the Authority's internal control and certain observations and recommendations on other accounting, administrative and operating matters. Our principal recommendations are summarized below:

(1) Revenues

During tests of twenty five departure fee revenues, the following exceptions were noted:

- Twenty-four tickets did not show evidence of supervisor review.
- Nine tickets indicated that the collection was deposited from four to ten days after receipt.

We recommend that management ensure that collections are verified against supporting receipts and other relevant documents. Additionally, collections should be deposited in a timely manner.

(2) Revenues

Rental arrangements with airport tenants should be evidenced by valid lease agreements. During the year ended September 30, 2006, the Authority did not have a valid lease agreement with one airport tenant. Additionally, six lease agreements expired during the year for which no new lease agreements were available.

We recommend that management execute lease agreements with all airport tenants.

(3) Revenues

During the year ended September 30, 2006, the Airport Division billed an affiliated airline for terminal space rental. The affiliate has disputed the billing based on a RepMar Cabinet Minute passed in February 1998, which authorized the transfer of the cargo hangar to the affiliate.

We recommend that management determine the propriety of this receivable. This matter was discussed in our previous letter of March 31, 2006.

Mr. Jack Chong Gum
Executive Director
RMI Ports Authority
June 20, 2007

Page 2

(4) Employee Advances

During the year ended September 30, 2006, a total of \$1,437 was recorded as employee advances relating to a sale of assets in a prior year. No collection has been pursued.

We recommend that management pursue collection of this receivable. This matter was discussed in our previous letter dated March 31, 2006.

(5) Note Receivable

The Seaport Division has a note receivable of \$100,000 that was due on September 30, 1998 from Tobolar Copra Processing Plant, Inc., including interest receivable of \$80,000. A \$180,000 has been recorded as an allowance for doubtful accounts against this balances.

We recommend that management increase its efforts to collect the outstanding note, including forwarding this matter to the attorney general for collection. This matter was discussed in our previous letters March 31, 2006, February 28, 2005, December 19, 2003, January 8, 2003, November 7, 2001, and October 27, 2000.

(6) Meram, Inc.

On November 22, 2001, Seaport Division advanced funds in the amount of \$173,555 to Meram, Inc. for boat operations. The November 20, 2001 minutes of former MIPA Board of Directors indicated that this advance was fully guaranteed by the RepMar Ministry of Transportation and Communication. No agreement exists with the Ministry of Transportation and Communication documenting terms and conditions of the advance. As of September 30, 2006, these amounts have not been repaid and a full allowance has been recorded against these balances.

We recommend that management increase its effort to collect this outstanding advance, including forwarding this matter to the attorney general for collection. Additionally, we recommend that management obtain a written agreement with the Ministry of Transportation and Communication documenting terms and conditions of the advance. This matter was discussed in our previous letter dated March 31, 2006.

(7) Inventory

No issuance slips were utilized for inventory issuances during the year totaling \$7,389.

We recommend that management ensure that issuance slips are utilized for inventory issuances. This matter was discussed in our previous letter dated March 31, 2006.

Mr. Jack Chong Gum
Executive Director
RMI Ports Authority
June 20, 2007

Page 3

(8) Fixed Assets

Fixed assets have not been periodically inventoried or reconciled to the fixed asset subledger. Additionally, depreciation expense totaling \$880,089 was recorded without a supporting schedule. We were informed that this amount was based on the prior year schedule. An audit adjustment was proposed to adjust depreciation expense based on the final schedule provided.

We recommend that all fixed assets be periodically inventoried. Furthermore, we recommend that prenumbered fixed asset identification tags be attached to the assets to facilitate maintenance of the fixed asset register. We also recommend that management ensure that depreciation expense is recorded based on actual depreciation expense. This matter was discussed in our previous letters dated March 31, 2006, February 28, 2005, December 19, 2003, January 8, 2003 and November 7, 2001.

(9) Accounts Payable

The Authority is responsible for paying utility bills. As of September 30, 2006, the Authority recorded a payable to RepMar for prior year utility bills of \$78,957. No formal agreement has been made with RepMar to establish the validity of this liability.

We recommend that management determine the propriety of this liability.

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We have also communicated matters noted during our audit of the financial statements of the Authority for the year ended September 30, 2006, which we considered to be reportable conditions in our report dated June 20, 2007.

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

We would like to thank the accounting staff and management for their assistance during the course of our audit. Should you have any questions regarding the matters discussed herein, please contact our office at your convenience.

Very truly yours,

