

MAJURO RESORT, INC.

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

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

YEAR ENDED SEPTEMBER 30, 2012

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

Board of Directors
Majuro Resort, Inc.:

We have audited the financial statements of Majuro Resort, Inc. (MRI) as of and for the year ended September 30, 2012, and have issued our report thereon dated October 14, 2013. Our report includes explanatory paragraphs regarding a going concern uncertainty and the accrual of certain unpaid taxes. 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

Management of MRI is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered MRI's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of MRI's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of MRI's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Responses (pages 3 through 5), we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

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. We consider the deficiencies described in the accompanying Schedule of Findings and Responses as items 2012-2 and 2012-3 to be material weaknesses.

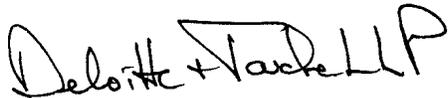
Compliance and Other Matters

As part of obtaining reasonable assurance about whether MRI's financial statements are free of 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 2012-1.

We noted certain matters that we reported to management of MRI in a separate letter dated October 14, 2013.

MRI's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. We did not audit MRI's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Board of Directors and management of MRI 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 + Tatchell LLP". The signature is written in a cursive, stylized font.

October 14, 2013

MAJURO RESORT, INC.

Schedule of Findings and Responses Year Ended September 30, 2012

Sales and Local Government Tax

Finding 2012-1

Criteria: Majuro Atoll Local Government (Malgov) has local ordinances that require the payment of 4% sales tax and three dollar per night room tax by consumers and that these taxes be remitted to Malgov on a monthly basis.

Condition: MRI did not file the sales tax and local government tax returns from 2006 through 2012. MRI had been accruing these taxes; however, starting May 2009, MRI stopped accruing the sales tax payable.

Cause: MRI did not pay these taxes as management believes that they have already paid for the sales tax when MRI purchased items from the vendors. Paying sales tax would only result in double taxation. Local government hotel room taxes were not paid since by virtue of a signed agreement, MRI is owned by RepMar and therefore MRI believes no tax payment is necessary.

Effect: Non-compliance with local laws and regulations could result from this condition which may result in penalties and interest.

Prior Year Status: Non-filing of sales and local government tax was reported as a finding in the audits of MRI for fiscal years 2006 through 2011.

Recommendation: We recommend that MRI comply with Malgov ordinances.

Auditee Response: MRI neither files tax returns nor pays the sales tax as management believes that food and supplies are subject to tax only on the first sale. Payment of sales tax to Local Government would result in double taxation as taxes have already been paid by MRI upon purchased of the products from the vendors. In addition, the hotel is making use of locally produced food items and therefore payment of sales tax is not necessary. On the other hand, MRI has suspended the imposition of local tax on hotel rooms but continue to accrue the \$3.00 per night room tax payable as reflected in the financial statements for fiscal years 2006 through 2012. The hotel has ceased to impose and collect from the customer the 4% local sales tax on its food and beverage sales and as a result, sales tax payable has not been accrued since May 2009.

MAJURO RESORT, INC.

Schedule of Findings and Responses, Continued
Year Ended September 30, 2012

Financial Reporting

Finding 2012-2

Criteria: Timely financial reporting should be facilitated by an internal control structure conducive to the preparation and independent review of reconciliations of all significant general ledger accounts.

Condition: MRI did not close fiscal year September 30, 2012 financial information (trial balance and subsidiary ledgers) until May 25, 2013.

Cause: The cause of the above condition is the lack of timely year-end closing with reviews and reconciliations of all significant general ledger accounts.

Effect: The trial balance was not timely provided for audit.

Recommendation: We recommend that MRI implement internal control procedures to facilitate more timely general ledger reconciliation processes.

Auditee Response: MRI has already implemented procedures for monthly reconciliations of Subsidiary Ledgers and General Ledgers. Based on our review of the variances, the differences are mostly attributable to timing differences in postings and therefore, adjusting entries have been made. Another factor that has affected the timely closing of the year-end is the reform brought by the new management requiring one or two personnel to undergo more training in analyzing and recording transactions as well as reconciling of accounts. The accounting process somehow decelerated during this transition period.

Meanwhile, due to the increasing activity in the hotel's daily operation that MRI management, with the Board's consent, has called for additional manpower in the Accounting Department. This will ease the workload within the department and will assist in implementing internal control procedures to facilitate preparation of reports on a more timely basis. To date, timely review and reconciliations are performed to ensure that any variances are resolved in an orderly manner and adjustments, if any, are reflected in the proper period.

MAJURO RESORT, INC.

Schedule of Findings and Responses, Continued Year Ended September 30, 2012

Food and Beverage Operations

Finding 2012-3

Criteria: The fiscal year 2012 gross loss for food and beverage revenue is \$177,932 compared with \$84,641 in fiscal year 2011 and \$84,938 in fiscal year 2010. This matter may result from inadequate internal control over inventories and/or the pricing of food and beverage products.

Condition: MRI has continued to incur losses from the Food and Beverage division with the losses increasing in fiscal year 2012.

Cause: The cause of the above condition is the lack of monitoring of costs and selling prices and other various division costs.

Effect: This matter resulted in a significant loss per the division.

Recommendation: We recommend that MRI implement internal controls to monitor food and beverage division costs and sales in order to improve division revenue.

Auditee Response: The hotel has already modified and implemented internal control to monitor food and beverage costs and sales. However, MRI management continued to be challenged with the negative end results of the operation of the Food and Beverage Department. The department incurred significant losses over the past several years and this becomes a serious problem to the management. The losses are mainly attributed to the escalating cost of food and beverages as well as the labor cost. The present management is now exploring all avenues to solve the problem. There have been issues in the food portioning control and beverage pouring control but the management has able to address that. At present, actual count of beverages is conducted on a daily basis while actual count of dry, chilled and frozen food items is done on a weekly basis, in addition to the periodic month-end physical inventory count. Along with this, the management has recently hired a qualified Executive Chef to help manage the kitchen operation and assists in monitoring control implementation in order to improve the department's financial performance.

MAJURO RESORT, INC.

Unresolved Prior Year Findings
Year Ended September 30, 2012

The status of unresolved prior year findings is discussed within the Schedule of Findings and Responses section (pages 3 through 5) of this report.