MAJURO RESORT, INC.

INDEPENDENT AUDITORS' REPORT ON
INTERNAL CONTROL AND ON COMPLIANCE

YEAR ENDED DECEMBER 31, 2003

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED UPON THE AUDIT PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Directors
Majuro Resort, Inc.:

We have audited the financial statements of Majuro Resort, Inc. (MRI) for the year ended December 31, 2003, and have issued our report thereon dated February 20, 2004. 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.

Compliance

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 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 instances of noncompliance that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings (pages 3 through 5) as items 2003-1 and 2003-2.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered MRI'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 one matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. 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 MRI's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying Schedule of Findings as item 2003-3.

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 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, we do not consider the reportable condition described above to be a material weakness. We also noted other matters involving the internal control over financial reporting that we have reported to management in a separate letter dated February 20, 2004.

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.

Deloitte + Touche LLP

February 20, 2004

Local Noncompliance

Finding No. 2003-1

Criteria: The Republic of the Marshall Islands (RepMar) Income Tax Act of 1989, as amended by the Income Tax (Amendment) Act of 1991, states that there shall be assessed a tax of three percent of the gross revenues earned by every business operating in the Marshall Islands. The tax is due on or before the last day of the month following the close of each calendar year quarter. MRI was granted an exemption from this tax for a period of five years from commencement of its business operations. This exemption terminated in August 2001.

Condition: At December 31, 2003, MRI owes RepMar $126,420 in gross receipts tax. This amount includes unpaid RepMar taxes for the months of August 2001 through December 2003.

Cause: The cause of the above condition is inadequate cash flows.

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

Recommendation: We recommend that management comply with the Income Tax Act of 1989, as amended.

Prior Year Status: Noncompliance with the Income Tax Act of 1989, as amended, was reported as a finding in the audit of MRI for fiscal year 2002.

Auditee Response and Corrective Action Plan: As stated, the gross receipts tax exemption terminated August 2001. The oversight has been acknowledged and the expense has been properly recorded as of December 2002. The hotel at this time does not have enough working capital to pay off the liability and will request a subsidy from ownership in 2003 to pay off the past amount due. No subsidy was given to the hotel during 2003.

Local Noncompliance

Finding No. 2003-2

Criteria: Section 153 of the Republic of the Marshall Islands (RepMar) Income Tax Act of 1989, as amended, states that there shall be assessed a tax of eight percent of the daily room rate on hotel and resort facilities in the Marshall Islands. The tax shall be collected by the owner of the room and be forwarded to RepMar on a monthly basis.

Condition: At December 31, 2003, MRI owed RepMar $336,059 in hotel tax. This amount is represented by unpaid RepMar hotel tax for the months of July 1999 through December 2003.

Cause: The cause of the above condition is inadequate cash flows.

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

Recommendation: We recommend that management comply with the Income Tax Act of 1989, as amended.

Prior Year Status: Noncompliance with the Income Tax Act of 1989, as amended, was reported as a finding in the audits of MRI for fiscal years 1998 through 2002.

Auditee Response and Corrective Action Plan: As in past years, MRI has not generated sufficient business levels to meet all of its financial obligations. When operating cash shortfalls occur, ownership needs to issue a subsidy to MRI for it to pay off these obligations. Requests for subsidies have been presented, but the funding has not been made available to the hotel. Additional requests for funding were made to ownership during fiscal 2003. OMR recognizes its liability and will begin paying its current room tax due effective January 2003. This will still leave a balance for July 1999 through December 2003 of $336,059 requiring a subsidy from ownership to pay off.

Revenue/Cash Receipts

Finding No. 2003-3

Criteria: An effective system of internal control includes policies and procedures to ensure that food and beverage sales are properly recorded.

Condition: Of twenty-five Food and Beverage revenue items tested (amounting to $35,624), an audit trail from the food and beverage reconciliation worksheet, prepared by the night auditor, to the general ledger could not be determined for fifteen sales tickets. The fifteen items include tickets from the following dates: February 24; March 26; April 17; May 23; June 13; July 30; August 3, 8, 22 and 26; September 1 and 7; November 11 and 24; and December 7. Variances between the food and beverage reconciliation worksheet and the general ledger were not properly identified and summarized on the reconciliation worksheet.

Cause: The cause of the above condition is an incomplete audit trail of daily sales tickets to the food and beverage reconciliation worksheet, and to the general ledger, and the lack of proper supervision over the compilation of sales tickets to the food and beverage reconciliation worksheet.

Effect: The effect of the above condition is an inadequate audit trail.

Recommendation: We recommend that management implement appropriate policies and procedures for proper compilation and review of sales tickets to the food and beverage reconciliation worksheet.

Prior Year Status: Lack of appropriate policies and procedures for proper compilation and review of sales tickets to the food and beverage reconciliation worksheet was reported as a finding in the audit of MRI for fiscal year 2002.

Auditee Response and Corrective Action Plan: The hotel has taken the following corrective actions to address these issues:

- Daily review of all tickets issued against meals served and posted to the Food & Beverage reconciliation worksheet.
- Follow-up of missing, voided and non-sequential ticket numbers.
- Approval of voided tickets by management only.
- Daily reviews of voided tickets.

Disciplinary procedures have been implemented for non-adherence to these policies in both Marshallese and English.

Unresolved Prior Year Comments
Year Ended December 31, 2003

The status of unresolved prior year findings are disclosed within the Schedule of Findings section (pages 3 through 5) of this report.