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April 15, 2008

CONFIDENTIAL

Mr. Bill Weza
General Manager
Majuro Resort, Inc.

Dear Mr. Weza:

In planning and performing our audit of the financial statements of Majuro Resort, Inc. (MRI) for the year ended September 30, 2007, on which we have issued our report dated April 15, 2008, we developed the following recommendations concerning certain matters related to MRI's internal control and certain observations and recommendations on other accounting, administrative and operating matters. Our principal recommendations are summarized below:

(1) Reconciliation between Subsidiary Ledger and General Ledger

A difference of $4,827 was noted between the AR – direct bill general ledger account and the subsidiary ledger; while a difference of $8,633 was noted between the AP - trade general ledger and the subsidiary ledger. The difference was discussed with the Financial Controller, who indicated that such may be due to timing differences.

We recommend that reconciliations between the general ledger and subsidiary ledger be performed monthly to ensure that differences are resolved in an orderly manner.

Auditee Response:

Based on our review of the differences, the differences between the Subsidiary Ledger and the General Ledger is brought by timing differences in posting collections or payments and adjustments in the Accounts Receivable and Accounts Payable modules of the System. In addition, certain entries affecting the Accounts Receivable and the Accounts Payable modules were made through the General Ledger Module in the past which brought the differences.

Ideally, all entries for Accounts Receivable and Accounts Payable should be made to the appropriate modules so that the balances between the General Ledger and the Subsidiary Ledgers are in agreement. At present, invoices and payments are properly posted to the A/P module and collections are properly posted to the A/R module. Any adjustments affecting the A/R and A/P modules are properly done on the appropriate modules. Further, we have implemented monthly closing of the A/P and A/R modules to ensure that the postings and adjustments are reflected in the proper period.

(2) Right of Offset

A general principle of accounting requires that offset of assets and liabilities occur only when a right to offset exists.

MRI should obtain written evidence authorizing the right of offset. Otherwise, the verbal agreement between the parties may not be enforceable.

Auditee Response:

At present, we have offsetting arrangements with two (2) of our suppliers. Management has agreed the offsetting arrangements with the Company Owners verbally only. However, we will consider obtaining written agreements for these offsetting arrangements.

(3) Fixed Assets

Fixed assets are not tagged and inventoried. Also, purchase of assets occurred in the current year to replace existing assets; however, no corresponding disposal was recorded. There is no current process whereby the accounting department is notified of disposals. Furthermore, there is no documentation or procedure in place to document that assets have been received and have been placed in use.

We recommend that fixed assets be tagged and inventoried. Disposals should be approved and documented, and be recorded. Documentation to evidence that assets were received and in place should be available for examination.

Auditee Response:

We have not performed physical property count since the opening of the Hotel. Further, our capital assets are not also tagged. The cost and benefit to conduct property count will be properly considered.

Certain capital equipments were purchased during the year to replace damaged equipments due to wear and tear. The net book values of these assets were zero at the time of replacement, being purchased 7 to 10 years ago. We opted not to relieve the cost and accumulated depreciation in the Lapsing Schedule for future reference but are properly considered to adhere to the appropriate accounting standards.

All newly acquired capital equipment is immediately put into use. Thus, the need to document the use of these assets is deemed not necessary.

(4) National Government Tax

An additional $43,731 was added to the sales account. The amount refers to the aggregate national local tax billed to guests but unpaid to the National Government. Per inquiry, it is understood that this practice was implemented since the Hotel is a RepMar affiliate, and therefore the Hotel is not subject to National Government taxes.

In May 2007, management suspended imposing tax on hotel rooms pending the finalization of Memorandum of Agreement (MOA) between RepMar and PII. However, there may still be a risk regarding non-payment of National Government tax as MRI does not have a formal agreement with RepMar. Hence, the MOA between PII and RepMar should be finalized and include the terms and conditions to be implemented by MRI concerning non-payment of National Government taxes.

Auditee Response:

Discussions have been held to finalize the agreement between PII and RepMar for the past years already. After a series of meetings chaired by the Chief Secretary in 2005, the final agreement has been submitted to Cabinet for action. We have not received any development yet after that.

Currently, Management has suspended imposing tax on hotel rooms pending the finalization of the MOA between RepMar and PII.

(5) Payroll Expenses

Of 24 items selected for testing, we noted 8 instances indicating the under deduction of withholding taxes that averaged $5 per pay period per employee. The reason for the incorrect computation is unknown. Management should discuss the matter with the service provider to understand the cause of the observation and its resolution.

Auditee Response:

The difference between the manual and system computation of the employee withholding taxes has been discussed with the software provider. The differences are now currently being reviewed by the Software Provider and a discussion will be made as to the results of the review and correction needed, if any.

(6) Recording of Fixed Assets

It was noted that an asset, amounting to $5,094, was bought and paid for in December 2005 but was only recorded in fiscal year 2007. Management should ensure that goods received are immediately posted in the period in which they were purchased.

Auditee Response:

The Hotel has implemented appropriate housekeeping and control procedures in ensuring that all transactions are properly documented, recorded in the appropriate ledger account and posted in the proper accounting period. The lack of documents to support the asset bought by the Hotel caused the delay in recording the asset purchased in the General Ledger.

(7) Presentation of Payroll

During the testing of payroll expense, it was noted that BOMI allotments were incorrectly presented in the payroll check voucher. The total deduction per the check voucher computation appeared to exclude BOMI allotments; therefore, it appears that the deduction was understated. However, when the net pay was recomputed, it was noted that BOMI allotments were actually considered in the final computation. Although the error does not affect the total payroll expense, it is recommended to correct the payroll presentation to avoid confusion.

Auditee Response:

The confusion on the presentation of the BOMI allotments in the pay check has been corrected already.

(8) Long Outstanding Credit Card Receivable

A credit card difference, dated prior to 2004, amounting to $4,171 is still unresolved to date. According to MRI, all supporting documents have been submitted to the credit card company to support the claim, however, until now, they have not received a reply. MRI has already provided an allowance to cover for the possible loss.

MRI should follow up with the credit card company to collect the long outstanding receivables, or to write-off the amount if it appears that the receivables may not be collectible.

Auditee Response:

The amount of $4,171 was fully covered with allowance for doubtful accounts. Management will consider to write-off of the account after seeking approval from the Executive management.

(9) Posting of Accounts Payable

An accounts payable account, amounting to $3,923, was not timely adjusted at the end of the fiscal year. We recommend that timely reconciliation of accounts payable are prepared to ensure that all adjustments are properly noted, and these adjustments should be posted on a timely manner to ensure that reliable financial information is generated.

Auditee Response:

The accounts payable – others account amounting to $3,923 was reconciled and adjusted to reflect the correct payable balance at the end of the fiscal year. After a careful analysis of the postings to the account, it was determined that there were some transactions in the past that were posted to a different Hotel Posting Journal Code – MISC instead of CAR. This brought the debit balance in the account in the past. Hence, an entry was made to adjust the account to reflect the correct amount at FY2007.

(10) Food and Beverage Revenue

The following were noted during the examination of 32 food and beverage (F&B) receipts:

A. Missing F&B tickets:

Date	Ticket Amount ($)
1. May 5, 2007	10.66
2. March 19, 2007	16.12

B. Unaccounted difference between the F&B reconciliation report and the Hotel posting journal:

Date	Amount Per ($)		Difference ($)
	F&B Reconciliation Report	Hotel Posting Journal	
1. May 26, 2007	2,197	2,276	(79)
2. October 12, 2006	1,951	1,924	27
3. May 15, 2007	1,839	1,842	(3)
4. July 16, 2007	2,121	2,127	(6)
5. January 15, 2007	1,362	1,343	19
6. March 22, 2007	2,866	2,837	29
7. July 27, 2007	3,222	3,217	5
8. May 9, 2007	2,028	2,090	(62)
9. April 23, 2007	1,741	1,716	25
10. June 12, 2007	2,395	2,415	(20)
11. April 5, 2007	2,622	2,615	7
12. March 14, 2007	1,583	1,561	22
13. June 17, 2007	3,737	3,732	5
14. February 15, 2007	2,232	2,273	(41)
15. August 19, 2007	2,649	2,658	(9)
16. November 27, 2007	931	907	24

C. Double posting of transaction:

Date	Ticket Amount ($)
1. October 7, 2007	42.63
2. July 29, 2007	44.05

D. Incorrect posting of transaction amount:

Date	Document	Amount ($)		Difference ($)
		Per Document	Should be	
1. January 15, 2007	Cashier's Report	137	173	(36)
2. October 7, 2006	F&B Reconciliation	1,080	1,801	721

E. Incorrect posting of transaction amount:

Date	Ticket Amount ($)	Others
1. March 1, 2007	112	Ticket was included in the F&B Reconciliation report, but was not posted in the Hotel posting journal.
2. March 19, 2007	20	Ticket was included in the F&B Reconciliation report, but was not posted in the Hotel posting journal.
2. May 5, 2007	11	Ticket was posted in the Hotel posting journal, but was excluded in the F&B Reconciliation report.

There are no documented policies and procedures regarding the preparation of F&B reconciliation and posting of information in the system. Further, there was no review process to ensure that the reconciliation was properly performed. Food and beverage account may likely be misstated.

Formal policies and procedures regarding preparation of reconciliation and posting of information should be prepared and implemented. Review process should be performed to ensure that reconciliation is properly prepared and revenues are completely recorded.

Auditee Response:

The Hotel has already implemented a reconciliation of the Hotel Posting Journal and the Restaurant Reconciliation Report as part of the Night Auditors' work. Further, all Front Desk Agents have initiated also review of their shift audit as part of their daily task. The Night Auditor will then review the Hotel Posting Journal before they finally close the Hotel Audit for that day. A second level review is performed by the Rooms Division Manager to ensure that their work is performed as expected.

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We have communicated certain matters noted during our audit of the financial statements of MRI for the year ended September 30, 2007, which we considered to be significant deficiencies, in our report to the Board of Directors dated April 15, 2008

This report is intended solely for the information and use of management and others within the organization 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,

Deloitte + Touche LLP