

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, 2009

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, 2009, and have issued our report thereon dated August 31, 2010. Our report included an explanatory paragraph concerning a matter of uncertainty. 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

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 would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A *control deficiency* 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 misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency described in the accompanying Schedule of Findings and Responses as item 2009-1 to be a significant deficiency in internal control over financial reporting.

A *material weakness* is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiency described above in item 2009-1 to be a material weakness.

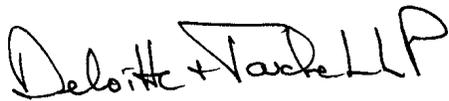
Compliance and Other Matters

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 one instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Findings and Responses as item 2009-2.

We noted certain matters that we reported to management of MRI in a separate letter dated August 31, 2010.

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

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

August 31, 2010

MAJURO RESORT, INC.

Schedule of Findings and Responses Year Ended September 30, 2009

Management Contracts

Finding 2009-1

Criteria: RepMar entered into a Memorandum of Agreement (MOA) with Pacific International, Inc. (PII), effective February 19, 2004, for the purpose of assuming the management and operation of MRI.

Condition: The MOA did not indicate if any management fees will be collected by PII and thus, none has been recorded since February 19, 2004.

Cause: The cause of the above condition is that final discussions between RepMar and PII have yet to be concluded.

Effect: Estimated management fees of \$400,613 are uncertain due to the status of the management agreement.

Prior Year Status: Lack of an executed management agreement was reported as a finding in the audits of MRI for fiscal years 2005 through 2008.

Recommendation: We recommend that MRI, in conjunction with RepMar, finalize the terms of the management agreement.

Auditee Response and Corrective Action Plan: There have been discussions held for the past years to finalize the agreement between PII and RepMar. Consultations and varying business issues of the Hotel were also presented after the appointment of the new members of the Cabinet, including the proposed management agreement with RepMar. We have not received any development yet after that.

On August 31, 2009, PII terminated their management and operation of the hotel. MRI has estimated that a total of \$400,613 is due to PII for management fees calculated in accordance with previously negotiated management contract between RepMar and the Outrigger Hotel Group. PII assumed the prior management contract between RepMar and the Outrigger Hotel. RepMar is currently reviewing the management agreement for final negotiation with PII and therefore, MIR has not recorded any accrual for management fees in the financial statements.

MAJURO RESORT, INC.

Schedule of Findings and Responses, Continued Year Ended September 30, 2009

Sales and Local Government Taxes

Finding 2009-2

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

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

Cause: MRI did not pay for 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, no tax payment is necessary.

Effect: Noncompliance with local laws and regulations could result from this condition which may result in penalties and interest estimated to be \$77,718 at September 30, 2009.

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 2008.

Recommendation: We recommend that the Company file the tax returns on a timely basis.

Auditee Response and Corrective Action Plan: 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 MIR upon purchased of the products from the vendors. Further, the Hotel is making use of locally produced food items and therefore payment of sales tax is not necessary.

On the other hand, Management 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 year 2009. In addition, effective May 2009, the hotel ceased to impose and collect from the customer the local tax on its food and beverage sales and as a result, sales tax payable has not been accrued since then.

MAJURO RESORT, INC.

Unresolved Prior Year Findings
Year Ended September 30, 2009

The status of unresolved prior year findings are disclosed within the Schedule of Findings section (pages 3 and 4) of this report.