

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, 2010

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, 2010, and have issued our report thereon dated August 28, 2011. Our report includes an explanatory paragraph regarding 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

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 6), 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 2010-1 through 2010-3 to be material weaknesses.

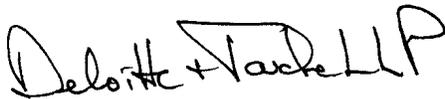
Compliance and Other Matters

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 2010-4.

We noted certain matters that we reported to management of MRI in a separate letter dated August 28, 2011.

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 + Touche LLP". The signature is written in a cursive, stylized font.

August 28, 2011

MAJURO RESORT, INC.

Schedule of Findings and Responses Year Ended September 30, 2010

Management Contracts

Finding No. 2010-1

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 does 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 fee of \$400,613 is uncertain due to the status of the management agreement.

Recommendation: We recommend that MRI, in conjunction with RepMar, finalize the terms 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 2009.

Auditee Response and Corrective Action Plan: The estimated management fee of \$400,613 is still uncertain due to the status of the management agreement. The RMI Government's position remains that it does not owe the former Management any management fees since there was no agreement signed by both RMI Government and the former management of MIR pertaining to the management of the hotel.

MAJURO RESORT, INC.

Schedule of Findings and Responses, Continued
Year Ended September 30, 2010

Bank Reconciliations

Finding No. 2010-2

Criteria: Bank reconciliations should be performed and independently reviewed on a monthly basis.

Condition: MRI did not perform monthly bank reconciliations in a timely manner. Furthermore, MRI did not examine the validity of outstanding checks, totaling \$16,064 (Payroll - \$354, Imprest - \$15,710), and recorded as outstanding checks as of September 30, 2010.

Cause: Old outstanding items are not timely investigated.

Effect: Total \$16,064 old checks are still recorded as outstanding checks in the bank reconciliation as of September 30, 2010.

Recommendation: We recommend that monthly bank reconciliations be prepared and independently reviewed on a timely basis and reconciling items, including outstanding checks, be examined to determine their validity.

Auditee Response and Corrective Action Plan: Management recognizes the importance of fairly stating all cash balances and understands that the bank reconciliation helps aid in keeping the Cash accounts accurate and is a critical tool in the verification of these balance sheet accounts. Bank reconciliation has always been performed promptly and accurately. Monitoring of old bank reconciliation items are now being carefully reviewed for proper disposal.

MAJURO RESORT, INC.

Schedule of Findings and Responses, Continued Year Ended September 30, 2010

Financial Reporting

Finding No. 2010-3

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

Condition: MRI did not close fiscal year September 30, 2010 financial information (trial balance and subsidiary ledges) until June 13, 2011.

Cause: The cause of the above condition is the lack of timely monthly reconciliations and independent review of all significant general ledger accounts.

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

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

Auditee Response and Corrective Action Plan: Based on our review of the variances, the differences between the Subsidiary Ledger and the General Ledger is due to timing differences in posting collections or payments and adjustments in the Accounts Receivable and Accounts Payable modules of the systems. In addition, certain entries affecting the Accounts Receivable and the Accounts Payable modules were made through the General Ledger module.

An adjusting entry is made in order to bring the AR Direct Bill Subsidiary Ledger and General Ledger into agreement at the end of FY2010. To date, timely review and reconciliations are performed to ensure that differences 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, 2010

Sales and Local Government Tax

Finding No. 2010-4

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 on a monthly basis.

Condition: MRI did not file sales tax and local government tax returns from 2006 through 2010. MRI has 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 therefore 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 estimated to be \$91,095 at September 30, 2010.

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

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 2009.

Auditee Response and Corrective Action Plan: The hotel stop imposing and collecting from the customer the 4% sales tax on its food and beverage sales since May 2009 and onwards since MRI management believes that food and supplies are subjected 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. 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 2010. 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, 2010

The status of unresolved prior year findings is discussed within the Schedule of Findings section (pages 3 through 6) of this report.