

MAJURO RESORT, INC.

INDEPENDENT AUDITORS' REPORT ON  
INTERNAL CONTROL AND ON COMPLIANCE

YEAR ENDED SEPTEMBER 30, 2000



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) as of and for the year ended September 30, 2000, and have issued our report thereon dated July 25, 2001. 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*, which are described in the accompanying Schedule of Findings (pages 3 through 6) as items 2000-2 through 2000-4.

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 2000-1.

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 believe that the reportable condition described above is a material weakness. We also noted other matters involving the internal control over financial reporting, which we have reported to management of MRI in a separate letter dated July 25, 2001.

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*

July 25, 2001

MAJURO RESORT, INC.

Schedule of Findings  
Year Ended September 30, 2000

External Financial Reporting

Finding No. 2000-1

Criteria: Adjusting entries recorded in the general ledger should be evidenced by journal vouchers that include proper source documentation, adjustment calculations and estimates, and/or any other evidential matter to support the nature of the adjustments.

Condition: During the year ended September 30, 2000, unsupported adjusting journal entries were recorded to accumulated depreciation, depreciation expense, deficit and other accounts resulting in an unreconciled variance of \$69,987. An audit adjustment was proposed to record this variance as general and administrative expense.

Cause: The cause of the above condition is unknown.

Effect: The effect of the above condition is the possibility of improper entries being recorded to depreciation expense and deficit.

Recommendation: We recommend that management ensure that all adjustments to the general ledger be properly supported by adequate source documentation.

Auditee Response and Corrective Action Plan: This error was the result of processing the adjusting journal entries from the fiscal year 1999 audit. In an effort to correct the depreciation expense, prior year earnings and a number of other accounts, the correct entries, as proposed in the audit by Deloitte & Touche, were not processed. Future adjusting journal entries will be made as required.

MAJURO RESORT, INC.

Schedule of Findings, Continued  
Year Ended September 30, 2000

Local Noncompliance

Finding No. 2000-2

Criteria: Section 5 of the Republic of the Marshall Islands (RepMar) Income Tax Act of 1989, as amended, states that the employer shall, once every four weeks or thirteen times per year, pay taxes withheld under Section 4 of the Act.

Condition: At September 30, 2000, MRI owed RepMar \$54,795 in income tax withholdings from employee wages. This amount is represented by income tax withheld from employee wages for the period July 1, 1999 through September 30, 2000.

Cause: The cause of the above condition is unknown.

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 and 1999.

Auditee Response and Corrective Action Plan: Due to cash flow constraints, MRI was unable to pay income tax withholdings in a timely manner. This resulted in a payable to the National Government. We currently have a subsidy in the budget that allows MRI to pay all delinquent taxes. We are also meeting our obligations with respect to current liabilities within terms.

MAJURO RESORT, INC.

Schedule of Findings, Continued  
Year Ended September 30, 2000

Local Noncompliance

Finding No. 2000-3

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 forwarded to RepMar on a monthly basis.

Condition: At September 30, 2000, MRI owed RepMar \$107,190 in hotel tax. This amount is represented by unpaid RepMar hotel tax for the months of July 1999 through September 2000.

Cause: The cause of the above condition is unknown.

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 and 1999.

Auditee Response and Corrective Action Plan: Due to cash flow constraints, MRI was unable to pay hotel tax in a timely manner. This resulted in a payable to the National Government. We currently have a subsidy in the budget that allows MRI to pay all delinquent taxes. We are also meeting our obligations with respect to current liabilities within terms.

MAJURO RESORT, INC.

Schedule of Findings, Continued  
Year Ended September 30, 2000

Local Noncompliance

Finding No. 2000-4

Criteria: Sections 2 and 6 of the Majuro Atoll Local Government (Malgov) General Revenue Tax Ordinance of 1992 states that there shall be assessed: 1) a sales tax of four percent on retail sales; and 2) a room tax of three dollars per room per day on hotel accommodation. The taxes shall be collected and forwarded to Malgov on the fourteenth of each month.

Condition: At September 30, 2000, MRI owed Malgov sales tax and room tax, totaling \$16,156 and \$23,886, respectively. This amount is represented by unpaid taxes for the months of May 2000 through September 2000.

Cause: The cause of the above condition is unknown.

Effect: The effect of the above condition is noncompliance with the Malgov General Revenue Tax Ordinance of 1992.

Recommendation: We recommend that management comply with the Malgov General Revenue Tax Ordinance of 1992.

Prior Year Status: Noncompliance with the Malgov General Revenue Tax Ordinance of 1992 was reported as a finding in the audits of MRI for fiscal years 1998 and 1999.

Auditee Response and Corrective Action Plan: Due to cash flow constraints, MRI was unable to pay Local Government room tax and sales tax in a timely manner. This resulted in a payable to the Local Government. During the current year, management has endeavored to alleviate this problem of noncompliance with current cash flows. It is projected that MRI will be current with respect to room tax and sales tax by December 31, 2001.

MAJURO RESORT, INC.

Schedule of Findings, Continued  
Year Ended September 30, 2000

Unresolved Prior Year Comments

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