

MAJURO RESORT, INC.

FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITORS' REPORT

YEAR ENDED DECEMBER 31, 2002

INDEPENDENT AUDITORS' REPORT

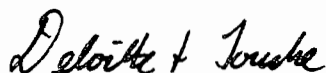
Board of Directors  
Majuro Resort, Inc.:

We have audited the accompanying balance sheet of Majuro Resort, Inc. (MRI), a component unit of the Republic of the Marshall Islands, as of December 31, 2002, and the related statements of loss and deficit and cash flows for the year then ended. These financial statements are the responsibility of MRI's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of MRI as of December 31, 2002, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 31, 2003, on our consideration of MRI's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.



January 31, 2003

MAJURO RESORT, INC.

Balance Sheet  
December 31, 2002

ASSETS

Current assets:	
Cash (note 5)	\$ <u>174,563</u>
Receivables:	
Accounts receivable	245,640
Affiliates (note 5)	30,113
Other	<u>1,828</u>
	277,581
Less allowance for doubtful accounts	<u>(111,690)</u>
Total receivables, net	<u>165,891</u>
Inventories	<u>101,367</u>
Prepaid expenses	<u>55,977</u>
Total current assets	497,798
Property, plant and equipment, net (note 4)	<u>8,264,112</u>
	\$ <u><u>8,761,910</u></u>

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:	
Accounts payable	\$ 69,879
Payable to affiliates (note 5)	593,749
Accrued expenses	<u>99,126</u>
Total current liabilities	762,754
Payable to affiliates (note 5)	<u>28,650</u>
Total liabilities	<u>791,404</u>
Stockholders' equity:	
Common stock (note 1)	11,315,220
Deficit	<u>(3,344,714)</u>
Total stockholders' equity	<u>7,970,506</u>
Commitments and contingency (note 6)	\$ <u><u>8,761,910</u></u>

See accompanying notes to financial statements.

MAJURO RESORT, INC.

Statement of Loss and Deficit  
Year Ended December 31, 2002

Revenues:	
Rooms	\$ 1,491,744
Food and beverage	967,462
Telephone	173,012
Other	<u>89,070</u>
Total revenues	<u>2,721,288</u>
Cost of sales:	
Food and beverage	960,522
Rooms	346,359
Telephone	129,518
Other	<u>53,809</u>
Total cost of sales	<u>1,490,208</u>
Gross profit	<u>1,231,080</u>
Other operating expenses:	
General and administrative expenses	515,475
Depreciation	500,500
Utility costs	442,424
Maintenance	224,546
Sales and marketing	135,155
Management fees (note 5)	81,567
Insurance	<u>58,840</u>
Total operating expenses	<u>1,958,507</u>
Net loss	(727,427)
Deficit at beginning of year, as restated (note 7)	<u>(2,617,287)</u>
Deficit at end of year	<u>\$ (3,344,714)</u>

See accompanying notes to financial statements.

MAJURO RESORT, INC.

Statement of Cash Flows  
Year Ended December 31, 2002

Cash flows from operating activities:	
Net loss	\$ (727,427)
Adjustments to reconcile net loss to net cash used for operating activities:	
Depreciation	500,500
(Increase) decrease in assets:	
Receivables:	
Accounts receivable	2,518
Affiliates	93,028
Other	11,178
Inventories	8,077
Prepaid expenses	(15,270)
Increase (decrease) in liabilities:	
Accounts payable	35,803
Payable to affiliates	108,986
Accrued expenses	<u>(42,065)</u>
Net cash used for operating activities	<u>(24,672)</u>
Cash flows from capital and related financing activities:	
Acquisition of capital assets	<u>(75,172)</u>
Net cash used for capital and related financing activities	<u>(75,172)</u>
Net decrease in cash	(99,844)
Cash at beginning of year	<u>274,407</u>
Cash at end of year	\$ <u><u>174,563</u></u>

See accompanying notes to financial statements.

## MAJURO RESORT, INC.

### Notes to Financial Statements December 31, 2002

#### (1) Organization

Majuro Resort, Inc. (MRI), a component unit of the Republic of the Marshall Islands (RepMar), was formed on November 8, 1995, as a corporation. The primary business of MRI is the operation of a 150 room hotel on the atoll of Majuro in the Republic of the Marshall Islands. MRI's Articles of Incorporation authorized the issuance of 2,000,000 shares of \$10 par value common stock. On June 4, 1996, 1,101,500 shares of common stock were issued to RepMar in exchange for various payments made by RepMar on behalf of MRI. On August 20, 1996, an additional 30,022 shares of common stock were issued to the Marshall Islands Investment Development Fund (RMIIDF), a component unit of RepMar, in exchange for payments made by RMIIDF, on a note payable to bank, on behalf of MRI. MRI's financial statements are incorporated into the general purpose financial statements of RepMar as a component unit.

#### (2) Summary of Significant Accounting Policies

The accounting policies of MRI conform to accounting principles generally accepted in the United States of America, as applicable to governmental entities, specifically proprietary funds. Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, requires that proprietary activities apply all applicable GASB pronouncements as well as Statements and Interpretations issued by the Financial Accounting Standards Board (FASB), Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedures issued on or before November 30, 1989. MRI has implemented GASB 20 and elected not to apply FASB Statements and Interpretations issued after November 30, 1989.

##### Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

##### Basis of Accounting

Proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operation of the fund are included in the balance sheets. Proprietary fund operating statements present increases and decreases in net total assets. The accrual basis of accounting is utilized by proprietary funds. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

MAJURO RESORT, INC.

Notes to Financial Statements  
December 31, 2002

(2) Summary of Significant Accounting Policies, Continued

Cash

For purposes of the balance sheet and the statement of cash flows, cash is defined as cash on hand and cash held in demand accounts. As of December 31, 2002, the carrying amount of cash was \$174,563 and the corresponding bank balance was \$224,110. The bank balance amount is maintained in one financial institution which is not subject to Federal Deposit Insurance Corporation insurance. MRI does not require collateralization of its cash deposits; therefore, deposit levels are uncollateralized.

Receivables

All receivables are uncollateralized and are due from hotel customers and others located within the Republic of the Marshall Islands and the South Pacific region. The allowance for doubtful accounts is stated at an amount which management believes will be adequate to absorb possible losses on accounts receivable that may become uncollectible based on evaluations of the collectibility of these accounts and prior collection experience. The allowance is established through a provision for bad debts charged to expense.

Inventories

Inventories consist of linen, chinaware, glassware, food and beverage items and are stated at the lower of cost (first-in, first-out method) or market value.

Property, Plant and Equipment

Property, plant and equipment are stated at cost. Depreciation is calculated using the straight-line method based on the estimated useful lives of the respective assets.

Taxes

Corporate profits are not subject to income tax in the Republic of the Marshall Islands. The Government of the Republic of the Marshall Islands imposes a gross receipts tax of 3% on revenues.

Advertising Costs

MRI expenses advertising costs as incurred. During the year ended December 31, 2002, MRI incurred advertising costs of \$25,479.

Compensated Absences

Vested or accumulated vacation leave is recorded as an expense and liability as the benefits accrue to employees. No liability is recorded for nonvesting accumulating rights to receive sick benefits. As of December 31, 2002, the accumulated vacation leave liability amounted to \$30,793 and is included within the balance sheet as accrued expenses.

MAJURO RESORT, INC.

Notes to Financial Statements  
December 31, 2002

(3) Risk Management

MRI is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions, injuries to employees; and natural disasters. MRI has elected to purchase commercial insurance from independent third parties for the risks of loss to which it is exposed. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years.

(4) Property, Plant and Equipment

Property, plant and equipment as of December 31, 2002, consist of the following:

	<u>Estimated Useful Lives</u>	
Building and structure	25 years	\$ 11,064,076
Furniture and fixtures	3 years	400,395
Office equipment	3 years	175,335
Other equipment	3 years	75,679
Motor vehicles	3 years	<u>54,725</u>
		11,770,210
Less accumulated depreciation		<u>(3,506,098)</u>
		<u>\$ 8,264,112</u>

(5) Related Party Transactions

MRI entered into a Hotel Management Agreement (the Agreement) with Outrigger Pacific, Inc. (OPI), formerly Outrigger Hotels & Resorts, effective June 1, 1996. The Agreement is for an initial term of five years, with automatic extensions of successive one year terms, unless terminated in writing by either party. On April 11, 2001, the Board of Directors passed a resolution to extend the Agreement with OPI from January 1, 2001 through December 31, 2006. Pursuant to the Agreement, OPI is to operate the hotel owned by MRI and all of its facilities and activities in accordance with the management standards of "First Class" (three to four star) resort hotels. All hotel expenses incurred by OPI are to be borne by MRI. Additionally, central office services may be provided by OPI, and these will be reimbursed by MRI. MRI has also agreed to reimburse OPI for expenses made on behalf of MRI. During the year ended December 31, 2002, \$102,083 was paid by MRI to OPI as reimbursement for expenses incurred, central office services provided and expenses made on behalf of MRI.

As of December 31, 2002, MRI was liable to OPI for reimbursement of expenses incurred of \$4,678, which is recorded as accrued expenses in the accompanying financial statements.

MAJURO RESORT, INC.

Notes to Financial Statements  
December 31, 2002

(5) Related Party Transactions, Continued

The Agreement provides for payments to OPI of a base management fee equal to three percent of gross revenues, a marketing fee equal to two percent of room revenues, and an incentive management fee equal to five percent of the net available cash flow for each fiscal year. During the year ended December 31, 2002, MRI recorded base management fees of \$81,567 and marketing fees of \$29,835 in accordance with the Agreement. Incentive management fees for the year ended December 31, 2002 amounted to \$-0-. As of December 31, 2002, MRI was liable to OPI for base management fees and marketing fees of \$5,085 and \$1,794, respectively, which are recorded as accrued expenses in the accompanying financial statements.

MRI is owned by RepMar and RMIIDF, and is therefore affiliated with all RepMar-owned and affiliated entities.

MRI's hotel service is provided to RepMar and all RepMar-owned and affiliated entities. Services are provided to these entities at the same rates charged to third parties; however, MRI provides more favorable payment terms to its affiliates than those afforded to third parties.

MRI utilizes services from certain affiliated entities at substantially more favorable terms than those incurred from third parties.

A summary of related party transactions for the year ended December 31, 2002 and the related receivable and payable balances as of December 31, 2002, are as follows:

	<u>Revenues</u>	<u>Expenses</u>	<u>Receivables</u>	<u>Payables</u>
RepMar	\$ 192,785	\$ 83,216	\$ 20,697	\$ 487,116
Air Marshall Islands, Inc.	8,243	-	4,128	-
Marshalls Energy Company, Inc.	12,143	392,427	1,436	29,908
Marshall Islands National Telecommunications Authority	4,368	172,800	680	-
Marshall Islands Social Security Administration	1,334	72,625	-	99,218
Majuro Water and Sewer Company, Inc.	5,068	49,997	208	6,157
Other	<u>21,649</u>	<u>-</u>	<u>2,964</u>	<u>-</u>
	<u>\$ 245,590</u>	<u>\$ 771,065</u>	<u>\$ 30,113</u>	<u>\$ 622,399</u>

Receivables from affiliates are uncollateralized, interest free and have no set repayment terms.

On November 24, 2000, MRI entered into a promissory note agreement with the Marshall Islands Social Security Administration for the repayment of certain delinquent payroll taxes and related penalties and interest in the amount of \$139,020. The note is due on or before November 30, 2004 and is payable in monthly installments of \$2,607, with an initial payment of \$13,902. As of December 31, 2002, the balance of the note amounted to \$59,905 of which \$31,255 is classified as short-term. The balance is recorded as payable to affiliates in the accompanying financial statements.

MAJURO RESORT, INC.

Notes to Financial Statements  
December 31, 2002

(5) Related Party Transactions, Continued

Future repayment commitments for this promissory note payable are as follows:

<u>Year ending December 31,</u>	
2003	\$ 31,255
2004	<u>28,650</u>
	<u>\$ 59,905</u>

As of December 31, 2002, MRI maintained demand deposit accounts with a related financial institution with a bank balance of \$224,110.

(6) Commitments and Contingency

Commitments

MRI leases the land on which the hotel is situated at the rate of \$10,212 per year plus 2.5% of gross revenue earned. These payments are suspended until such time as 75% of the ownership of the lessee, or its successor in the interest in the hotel, is held by any person or entity other than RepMar or any agency thereof. The lease agreement also requires that 5% of the initial outstanding shares of the lessee or its successor be issued to the lessor. No shares have been issued to the lessor by either of MRI or RepMar at December 31, 2002.

MRI has entered into a management agreement with OPI for an initial term of five years, commencing June 1, 1996 (see note 5). Pursuant to this agreement, RepMar is to provide the operator of the hotel (OPI) with cash reasonably required to finance and support the uninterrupted and efficient operation of the hotel and the performance of OPI under this agreement. The agreement states that at no time shall the amount of working capital available to OPI be less than \$100,000. MRI depends on RepMar for the provision of working capital.

Contingency

MRI has incurred net losses since inception. MRI depends on RepMar for cash funding to continue its operations. Although RepMar has provided funding in the past, MRI does not have a formal agreement with RepMar to provide funds in the future. Management believes that the continuation of MRI's operations and its ability to provide working capital is dependent upon the future financial support of RepMar and/or significant improvements in operations.

(7) Restatement

Subsequent to the issuance of MRI's 2001 financial statements, MRI's management determined that current liabilities were understated for certain tax accruals as of December 31, 2001. As a result, the beginning deficit as of January 1, 2002 has been restated as follows:

MAJURO RESORT, INC.

Notes to Financial Statements  
December 31, 2002

(7) Restatement, Continued

	<u>As Previously Reported</u>	<u>As Restated</u>
At January 1, 2002:		
Deficit	\$ <u>(2,585,642)</u>	\$ <u>(2,617,287)</u>
For the fifteen months ended December 31, 2001:		
Net loss	\$ <u>(419,137)</u>	\$ <u>(450,782)</u>

REVISED INTERNAL  
CONTROL REPORT  
ON 3/18/03 - ISSUED  
TO MRI ONLY

MAJURO RESORT, INC.

INDEPENDENT AUDITORS' REPORT ON  
INTERNAL CONTROL AND ON COMPLIANCE

YEAR ENDED DECEMBER 31, 2002

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, 2002, and have issued our report thereon dated January 31, 2003. 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 6) as items 2002-1 through 2002-3.

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 2002-4.

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 January 31, 2003.

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*

January 31, 2003

MAJURO RESORT, INC.

Schedule of Findings  
Year Ended December 31, 2002

Local Noncompliance

Finding No. 2002-1

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 December 31, 2002, MRI owed RepMar \$43,960 in income tax withholdings from employee wages. Of this amount, approximately \$33,707 is represented by income tax withheld from employee wages for the period from January 2001 through August 2001.

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 through 2001.

Auditee Response and Corrective Action Plan: The hotel agrees with amount provided, and the following action has been implemented to address this amount. At fiscal year ended December 31, 2001, the hotel owed RepMar \$94,064 in income tax withholdings. During fiscal year 2002, the property paid \$60,357 representing the remaining balances due for 1999 and 2000. In December 2002, a payment schedule was agreed upon where the hotel will pay the remaining balance for 2001 during fiscal 2003. Each month, the current amount is to be paid with the corresponding monthly payment due from 2001. The amount outstanding of \$33,707 represents income taxes due for January 2001 through August 2001. With the payment arrangement in place, the hotel will pay back income tax by August 2003.



MAJURO RESORT, INC.

Schedule of Findings, Continued  
Year Ended December 31, 2002

Local Noncompliance

Finding No. 2002-2

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 forwarded to RepMar on a monthly basis.

Condition: At December 31, 2002, MRI owed RepMar \$330,639 in hotel tax. This amount is represented by unpaid RepMar hotel tax for the months of July 1999 through December 2002.

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 through 2001.

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 will be 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 2002 of \$330,639 requiring a subsidy from ownership to pay off.

MAJURO RESORT, INC.

Schedule of Findings, Continued  
Year Ended December 31, 2002

Local Noncompliance

Finding No. 2002-3

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, 2002, MRI owed RepMar \$112,517 in gross receipts tax. This amount is represented by unpaid RepMar gross receipts tax for the months of August 2001 through December 2002.

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.

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.

MAJURO RESORT, INC.

Schedule of Findings, Continued  
Year Ended December 31, 2002

Revenue/Cash Receipts

Finding No. 2002-4

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 sales tickets tested (amounting to \$46,114), 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 selected from the following dates: January 9, 23, 26 and 28; April 4 and 18; May 14; June 13; July 16 and 20; August 7; September 9 and 21; October 16; and December 6, all in calendar year 2002. 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 the loss of a proper audit trail.

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

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 for non-adherence to these policies in both Marshallese and English

MAJURO RESORT, INC.

Unresolved Prior Year Comments  
Year Ended December 31, 2002

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