

January 31, 2003

CONFIDENTIAL

Mr. Grant James
General Manager
Majuro Resort, Inc.

Dear Mr. James:

In planning and performing our audit of the financial statements of Majuro Resort, Inc. (MRI) for the year ended December 31, 2002, on which we have issued our report dated January 31, 2003, 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) Purchases/Disbursements

Of twenty-five cash disbursements tested, the supporting invoices for one disbursement (check # 100576) relating to a local purchase was not made available. We recommend that management ensure that all disbursements be supported by appropriate documentation. This matter was discussed in our previous letter dated March 26, 2002.

(2) Purchases/Disbursements

All check vouchers should be issued in numeric sequence. During the year ended December 31, 2002, we noted that check vouchers pertaining to the Bank of Hawaii operating account (A/c # 0039-008505) were not issued in numeric sequence. We recommend that management ensure that check vouchers are issued in numeric sequence. This matter was discussed in our previous letter dated March 26, 2002.

(3) Payroll Disbursements

Of twenty-five payroll disbursements tested, we noted two (check #s 11797 and 12461) for which RepMar withholding tax was not properly calculated. For one instance, a tax exemption of \$43.44 was taken in contradiction to RepMar's income tax law which requires that only gross salaries of less than \$200 be exempted. For the second instance, gross pay met the exemption threshold, however, no exemption was given to the employee. Discussions with the Payroll Master indicated that this was an error on the part of the payroll service provider. We recommend that MRI personnel review the payroll reports to ensure the accuracy of the service provider's calculations.

(4) Revenue/Cash Receipts

Of twenty-five food and beverage sales tickets tested, (amounting to \$46,114), sixteen related cash summary reports included cash overages and shortages for the daily collections. The total net variance amounted to \$396 in overage. The ticket dates included the following: January 9, 23 and 26; April 4; May 14; June 13, 17,24 and 29; July 20; August 7; September 9 and 21; November 15; and December 11 and 25, 2002. Although shortages/overages are indicated in the cash summary reports such are frequent and on several occasions significant. We recommend that management establish policies and procedures to ensure that daily cash collections are properly compiled and reconciled.

(5) Compensated Absences

At December 31, 2002, MRI recorded accrued annual leave totaling \$30,793, which included three employees with leave hours exceeding 200 hours each. MRI's current policy of mandatory vacations for its employees specifies a maximum of 200 hours of unused vacation leave that may be accrued. We recommend that MRI adhere to its mandatory vacation policy. This matter was discussed in our previous letters dated March 26, 2002 and July 25, 2001.

(6) Note Payable to Marshall Islands Social Security Administration (MISSA)

At December 31, 2002, MRI recorded a note payable to MISSA of \$59,905. This amount did not agree to the balance confirmed by MISSA by an immaterial amount. We recommend that MRI resolve this discrepancy with MISSA.

(7) Receivable Write-Offs

During the fiscal year ended December 31, 2002, MRI wrote-off approximately \$41,311 in bad debts. No formal approval of this write-off was obtained from the Board. We recommend that such approval be obtained for write-offs. Further, the Income Tax Act of 1989, as amended, allows for the deduction of write-offs from gross revenues for the calculation of the gross receipts tax liability.

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We have communicated one matter noted during our audit of the financial statements of MRI for the year ended December 31, 2002, which we considered to be a reportable condition, in our letter to the Board of Directors dated January 31, 2003.

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