

MAJURO RESORT, INC.

**INDEPENDENT AUDITORS' REPORT ON
INTERNAL CONTROL AND ON COMPLIANCE**

YEAR ENDED SEPTEMBER 30, 2006

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN 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 September 30, 2006, and have issued our report thereon dated October 1, 2007. 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 in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. 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 initiate, record, process, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings (pages 3 and 4) as items 2006-1 and 2006-2.

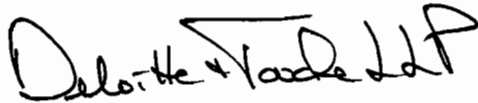
A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being 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 conditions described above are not 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 no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

However, we noted other matters involving the internal control over financial reporting that we have reported to management in a separate letter dated October 1, 2007.

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.

A handwritten signature in black ink, appearing to read "Deloitte & Touche LLP", is written over the printed name of the firm.

October 1, 2007

MAJURO RESORT, INC.

Schedule of Findings
Year Ended September 30, 2006

Management Contract

Finding 2006-1

Criteria: On February 19, 2004, RepMar entered into a joint venture Memorandum of Agreement (MOA) with Pacific International Inc. (PII) whereby RepMar granted and conveyed controlling interest of MRI to PII.

Condition: The MOA has not been executed by RepMar and therefore, 100% of MRI's records are reported as a component unit by RepMar. Additionally, 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: The status of repairs needed for the building, estimated management expenses of \$189,360, and the structure of MRI is 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 audit of MRI for fiscal year 2005.

Recommendation: We recommend that RepMar prepare and execute a management agreement.

Auditee Response: Discussions have been held to finalize the agreement between PII and RepMar for the past years already. After a series of meetings chaired by the Chief Secretary in 2005, the final agreement has been submitted to Cabinet for action. We have not received any development yet after that.

Management has estimated that a total of \$189,360 is due to PII for management fees based on the management contract with Outrigger Hotel. As RepMar is currently negotiating a final agreement with PII, we have not recorded any accrual for management fees in the aforementioned financial statements.

Pacific International, Inc. is carrying its responsibilities in accordance with the provisions of the February 19, 2004 MOA and the Management Contract assumed from Outrigger Hotel.

MAJURO RESORT, INC.

Schedule of Findings
Year Ended September 30, 2006

Local Government Tax

Finding 2006-2

Criteria: Majuro Atoll Local Government (Malgov) has local ordinances that require the payment of 4% sales tax and 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 the sales tax and local government hotel room tax returns for the years 2006 and 2005. However, an accrual was established as of September 30, 2006 and 2005 for sales tax payable, which amounts to \$76,542 and \$49,732 respectively, and local government hotel room tax payable, which amounts to \$64,151 and \$28,518 respectively.

Cause: MRI did not pay for these taxes as management believes that they have already paid for the sales tax when the MRI purchased items from the vendors. Paying sales tax would only result in double taxation. Local government hotel room tax was not paid since by virtue of a signed agreement, the entity is owned by RepMar therefore no tax payment is necessary.

Effect: Non-compliance with local laws and regulations, which may result in penalties and additional interest.

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

Auditee Response: Management did not file the tax returns nor pay the sales tax because we believe that this is considered an indirect tax and payment of any taxes collected from our guests to the Local Government will result in a double taxation on our part. When food and supplies are purchased, we have paid the sales tax already and so, remittance to the Local Government of any sales tax collected from guest is not necessary.

On the other hand, Management has now suspended the imposition of local tax on hotel rooms pending the negotiation of the MOA between RepMar and PII.

MAJURO RESORT, INC.

**Unresolved Prior Year Findings
Year Ended September 30, 2006**

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