MAJURO RESORT, INC.

(A COMPONENT UNIT OF THE REPUBLIC OF THE MARSHALL ISLANDS)

FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT

YEARS ENDED SEPTEMBER 30, 2012 AND 2011

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Majuro Resort, Inc.:

We have audited the accompanying statements of net deficiency of Majuro Resort, Inc. (MRI), a component unit of the Republic of the Marshall Islands, as of September 30, 2012 and 2011, and the related statements of revenues, expenses and changes in net deficiency and of cash flows for the years 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 audits.

We conducted our audits 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of MRI's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide 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 September 30, 2012 and 2011, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that MRI will continue as a going concern. As discussed in Note 6 to the financial statements, MRI's recurring losses from operations and net deficiency raise substantial doubt about its ability to continue as a going concern. Management's plans concerning these matters are also discussed in Note 6 to the financial statements. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

As discussed in Note 6, MRI has accrued but has not paid certain taxes. The accompanying financial statements do not include any adjustments that might result from the outcome of this matter.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 14, 2013, on our consideration of MRI's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 8 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Deloitte + Touche LLP

October 14, 2013

This section of the Majuro Resort, Inc. (MRI) annual financial report presents our discussion and analysis of MRI's financial performance for the fiscal year that ended on September 30, 2012. The discussion and analysis should be read in conjunction with the audited financial statements, which follow this section.

Financial Highlights

Total assets increased by $22,070 or 1% from $1,853,214 in 2011 to $1,875,284 in 2012. The slight increase in total assets is the effect of the decrease in receivables of $90,782 and a decrease in over-all inventories of $1,799 attributed mainly to Food, Beverages and Gift Shop, which was offset by the increase in cash at the end of the fiscal year of $37,100 and an increase in capital assets of $78,918 due to building improvements and capital equipment acquisitions during the year.

Gross operating revenues for 2012 were $2,172,109 and represent a decrease of $202,859 or 9% compared to 2011. Compared to FY2010, total operating revenues were higher by $187,050 or 9%. The decrease over FY2011 operating revenues is the combined effect of the decrease in rooms revenue performance of $127,440, which can be largely attributed to the decrease in average room rate despite a higher occupancy ratio due to more long-stay tenants during the period, the decrease in Food and Beverage revenue of $19,672, and the decrease in Telephone and Other revenue of $55,747.

Total departmental operating profit for the full twelve-month period was $476,560 compared to 2011 which was $855,465, a decrease of $378,905 or 44%. This also represents a decrease over 2010 departmental profit of $97,363 or 17%. As a percentage of total revenues, overall departmental operating profit for 2012 was 22%, which is 14% and 7% lower than 2011 and 2010, respectively.

Operating expenses for 2012 amounted to $1,509,924 compared to 2011, which was $1,354,049, an increase of $155,875 or 12%. As a percentage of total revenues, overall operating expenses for 2012 was at 70%, which represents an increase of 13% compared to 2011 and a 11% increase over 2010. The increase in operating expenses during the year was primarily attributable to the increase in utilities costs resulting from higher energy rates and usage, the increase in general and administrative, sales and marketing, and expenses related to building maintenance.

Financial Analysis

The Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets provide an indication of MRI's financial condition. MRI's net assets reflect the difference between assets and liabilities. A summary of the company's Statement of Net Assets is presented below:

	2012	2011	2010
Current and other assets	$ 390,087	$ 446,935	$ 366,851
Capital assets	1,485,197	1,406,279	1,508,756
Total Assets	$ 1,875,284	$ 1,853,214	$ 1,875,607
Current liabilities	$ 2,798,267	$ 2,030,433	$ 2,149,637
Net Deficiency:			
Invested in capital assets	1,485,197	1,406,279	1,508,756
Unrestricted	(2,408,180)	(1,583,498)	(1,782,786)
Total net deficiency	(922,983)	(177,219)	(274,030)
Total Liabilities and Net Deficiency	$ 1,875,284	$ 1,853,214	$ 1,875,607

Total assets increased by $22,070 or 1% from $1,853,214 in 2011 to $1,875,284 in 2012. The increase was represented by the increase in cash of $37,100 at the end of the fiscal year and an increase in the net book value of capital assets of $78,918 due primarily to building improvements and acquisitions of various equipment, furnitures and fixtures during the year. The increase was partly offset by the slight decrease of $1,367 in prepayments, a nominal decrease of $1,799 in inventories and a reduction of total accounts receivable of $90,782 caused by the significant increase in the allowance for doubtful accounts of $108,616. Receivables are mainly due from the government and government-related agencies in which the hotel experienced a slow turnover over the past years.

On the other hand, total liabilities increased by $767,834 or 38% from $2,030,433 in 2011 to $2,798,267 in 2012. MRI's liabilities increased as cash flow has been tied up in accounts receivable, particularly from government and government-related agencies.

A summary of MRI's Statement of Revenues, Expenses and Changes in Net Deficiency is presented below:

	2012	2011	2010
Revenues:			
Rooms	$ 1,141,179	$ 1,268,619	$ 1,088,951
Food and Beverage	1,013,946	1,033,618	858,809
Telephone	2,872	10,644	12,396
Others	14,112	62,087	24,903
	2,172,109	2,374,968	1,985,059
Less: Bad Debts Expense	(108,616)	(54,516)	(120,689)
	2,063,493	2,320,452	1,864,370
Cost of Sales and Services:			
Rooms	364,189	322,818	317,029
Food and Beverage	1,191,878	1,118,260	943,747
Telephone	17,580	17,091	22,699
Others	13,286	6,818	6,972
	1,586,933	1,464,987	1,290,447
Department Gross Profits (Losses):			
Rooms	668,374	891,285	651,233
Food and Beverage	(177,932)	(84,642)	(84,938)
Telephone	(14,708)	(6,447)	(10,303)
Others	826	55,269	17,931
Total Gross Profit	476,560	855,465	573,923
Operating Expenses	1,509,924	1,354,049	1,167,322
Non-operating Revenues (Expenses)	287,600	595,395	(231,541)
Change in Net Deficiency	$ (745,764)	$ 96,811	$ (824,940)

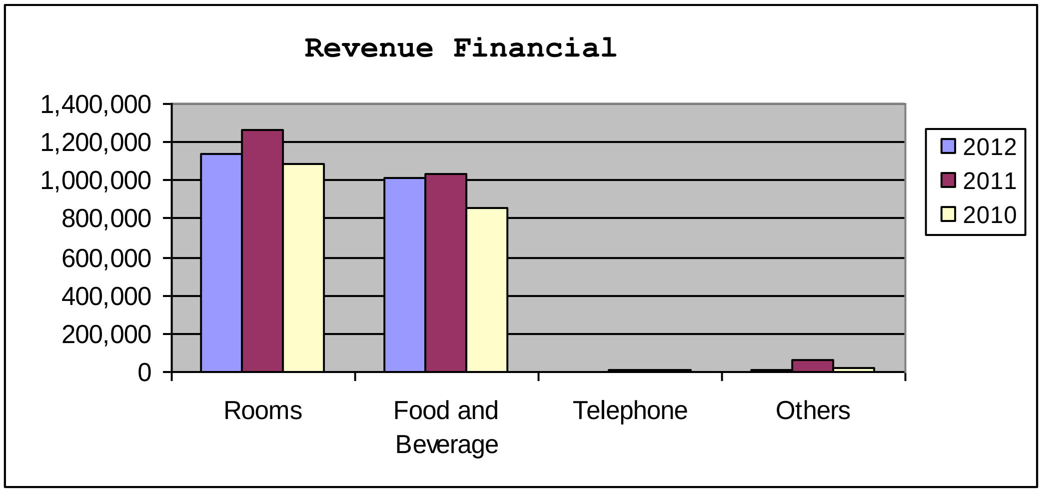
The Statement of Revenues, Expenses and Changes in Net Deficiency identify various revenue and expense items that impact the change in net deficiency. Operating revenues for 2012 showed a decrease of $202,859 or 9% from $2,374,968 in 2011 to $2,172,109 in 2012. Room revenues for 2012 decreased by $127,440 or 10% from 2011 and increased by $52,228 or 5% from 2010. The occupancy ratio in 2012 and 2011 remained constant at 48% with a $6 decrease in average room rate from $51 in 2011 to $45 in 2012. Food & Beverage revenue for 2012 was $1,013,946, which showed a decline of $19,672 or 2% over 2011 and an increase of $155,137 or 18% over 2010. Meanwhile, telephone revenue and revenue from other operating departments posted a net decrease of $55,747 as compared to last year.

MAJURO RESORT, INC.

Management's Discussion and Analysis
Years Ended September 30, 2012 and 2011

Management's Discussion and Analysis for the year ended September 30, 2011 is set forth in MRI's report on the audit of the financial statements, which is dated September 11, 2012, and that Discussion and Analysis explains the major factors impacting the 2011 financial statements and can be obtained at the address below.

The following graph shows the major components of revenue for financial periods 2012, 2011 and 2010, all of which cover a twelve (12) month period ending September 30.



Statement of Hotel Occupancy Performance

The following table shows a comparison of financial and statistical information affecting the room revenue performance for the years 2012, 2011, 2010, 2009 and 2008.

Financial information for all the years represents a twelve-month period ending September 30.

Occupancy Performance	2012	2011	2010	2009	2008
% of total occupancy	47.96%	47.56%	40.59%	47.60%	44.87%
Average rate	$ 45.27	$ 50.75	$ 50.34	$ 49.77	$ 60.29
% of paid occupancy	47.87%	47.46%	40.49%	46.88%	44.50%
Average rate	$ 45.35	$ 50.86	$ 50.47	$ 50.54	$ 60.79
Group rooms		-		555	1,122
% of total occupancy	-	-		1.04%	2.26%
Average rate	$ -	$ -	$ -	$ 89.07	$ 97.55

Paid occupancy ratio in 2012 and 2011 was 48% as compared to 41% in 2010.

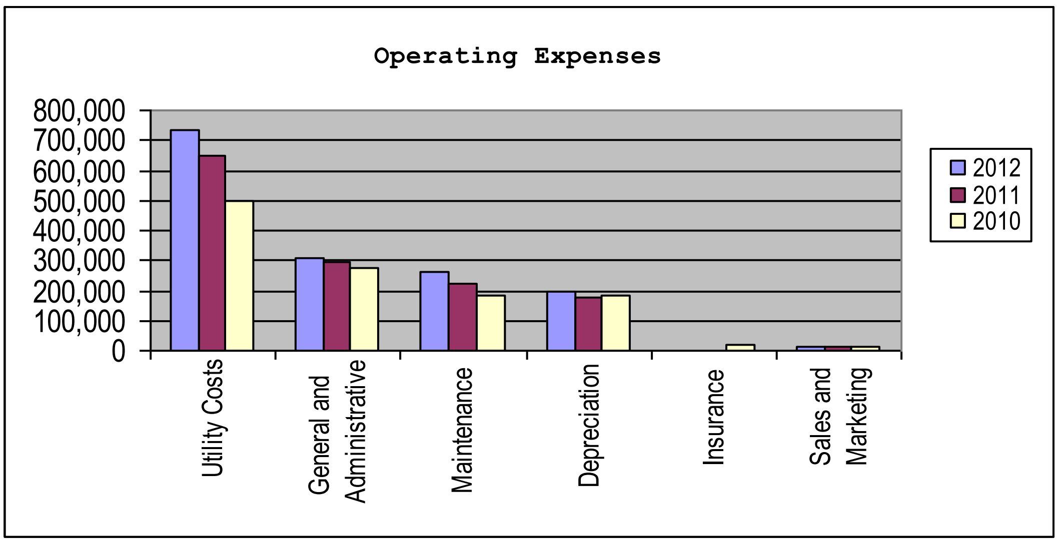
The hotel paid occupancy ratio for the current year has improved over the last five (5) years while the average paid room rate for the current year has declined due to more long-stay rooms this year, which caused the room rate to be diluted.

Operating Expenses

Total operating expenses increased by $155,875 from $1,354,049 in 2011 to $1,509,924 in 2012 as a result of the increased cost in overall major components of operating expenses. As a percentage of total revenues, operating expenses for 2012 represents 70% or an increase of 13% compared to 2011 and 11% increase over 2010.

Utility costs showed a substantial increase of $88,338 from $646,408 in 2011 to $734,746 in 2012. This is caused by the increase in energy rate resulting from fuel price escalation and higher energy consumption during the year. General and administrative expenses showed an increment of $12,926 while the maintenance cost and depreciation posted an increase of $37,095 and $17,572, respectively, from 2011 to 2012. Other operating expenses such as insurance, sales and marketing did not reflect significant increases or decreases from 2011.

The following graph shows the major components of operating expenses for financial periods 2012, 2011 and 2010, all of which cover a twelve (12) month period ending September 30.



Capital Assets

Net capital assets increased by $78,918 due mainly to building improvements and capital equipment acquisitions for this year. Certain capital equipment was purchased to replace damaged equipment due to wear and tear. MRI replaced 40 air conditioning units in guest rooms with split-type energy saver Mitsubishi Brand which brought the upsurge in the furniture and fixtures account. Additional equipment was purchased such as new split-type energy efficiency air conditioning units for the Melele function room, flat-screen TVs, electric ranges and refrigerators for guest rooms, various office and maintenance equipment. A major auto repair of Big Shuttle Bus also contributed to the increase in capital expenditures during the year.

A summary of MRI's capital assets is presented below:

	2012	2011	2010
Building and structures	$ 2,362,004	$ 2,234,912	$ 2,234,912
Furniture and fixtures	924,297	782,306	712,985
Office equipment	221,545	220,481	220,481
Other equipment	96,153	95,456	95,456
Motor vehicles	113,762	110,362	104,406
At Cost	3,717,761	3,443,517	3,368,240
Accumulated depreciation	(2,232,564)	(2,037,238)	(1,859,484)
Net Book Value	$ 1,485,197	$ 1,406,279	$ 1,508,756

For additional information concerning capital assets, please see note 4 to the financial statements.

Economic Factors and Next Year's Performance

The following factors may have a great impact on next year's operations:

1.) Marshall Islands Visitors Authority has been aggressively promoting the destination through outside sales agents in Japan, Europe and other countries to continually assist the tourism industry. Exposure to travel writers, travel agents, wholesalers, retailers as well as the general public is being accomplished through a combination of advertising, public relations, direct marketing, trade shows and promotions.

2.) Continued cooperative advertising and marketing with the Marshall Islands tourism industry and other local industry related businesses in reaching a broad range of travelers despite limited marketing funds. The government administration is now playing an active role in promoting the Marshall Islands to generate sufficient visitor numbers through conferences, workshops, trainings and seminars.

3.) There is a continuous growth in guest arrivals brought about by the service provided by Our Airline between Majuro and Australia. This will have a great impact on the tourism industry and country as a whole. With the current number of visitors to Majuro, MRI management is optimistic about the amount of increase in room revenues for 2013. Additionally, the hotel is receiving more business interest in restaurant, bar, banquet and catering services, which will have a great impact on food and beverage operations. Banquet revenues are contributing largely to better cost of sales ratio. The more banquets generated, the better would be the food and beverage bottom line.

4.) The government through the Ministry of Foreign Affairs has appropriated a sum of more than $350,000 for purposes of funding MRI operations to allow for immediate structural refurbishment of the hotel building, interior and exterior, and purchases of various hotel and restaurant/bar equipments and supplies necessary in preparation for the upcoming Pacific Islands Forum hosted by the RMI government.

5.) Increased marketing effort to promote the hotel facilities to the local market through discounted room rates, musical entertainment and other promotional activities to attract the local market.

6.) Combined efforts in searching for ways to increase collections and cut on costs and expenses to improve cash flow and help generate funds in order to meet obligations. MRI new management has established measures to improve its collection campaign in order to recover long-outstanding receivables.

Additional Financial Information

The discussion and analysis is designed to provide MRI's customers and other interested parties with an overview of MRI's financial operations and financial condition. Should the reader have questions regarding the information included in this report or wish to request additional financial information, please contact the Majuro Resort, Inc. General Manager at P.O. Box 3279, Majuro, MH 96960.

MAJURO RESORT, INC.

Statements of Net Deficiency
September 30, 2012 and 2011

ASSETS	2012	2011
Current assets:		
Cash	$ 133,095	$ 95,995
Receivables:		
Trade	297,473	220,485
Affiliates	153,417	214,680
Other	26,084	23,975
	476,974	459,140
Less allowance for doubtful accounts	(287,499)	(178,883)
Total receivables, net	189,475	280,257
Inventories	31,267	33,066
Prepaid expenses	36,250	37,617
Total current assets	390,087	446,935
Property, plant and equipment, net	1,485,197	1,406,279
	$ 1,875,284	$ 1,853,214
LIABILITIES AND NET DEFICIENCY		
Current liabilities:		
Accounts payable	$ 178,743	$ 105,193
Payable to affiliates	2,153,912	1,488,309
Accrued expenses	465,612	436,931
Total current liabilities	2,798,267	2,030,433
Commitment and contingencies		
Net deficiency:		
Invested in capital assets	1,485,197	1,406,279
Deficiency	(2,408,180)	(1,583,498)
Total net deficiency	(922,983)	(177,219)
	$ 1,875,284	$ 1,853,214

See accompanying notes to financial statements.

MAJURO RESORT, INC.

Statements of Revenues, Expenses and Changes in Net Deficiency
Years Ended September 30, 2012 and 2011

	2012	2011
Revenues:		
Rooms	$ 1,141,179	$ 1,268,619
Food and beverage	1,013,946	1,033,618
Telephone	2,872	10,644
Other	14,112	62,087
Total revenues	2,172,109	2,374,968
Less provision for doubtful accounts	(108,616)	(54,516)
Net revenues	2,063,493	2,320,452
Cost of sales:		
Rooms	364,189	322,818
Food and beverage	1,191,878	1,118,260
Telephone	17,580	17,091
Other	13,286	6,818
Total cost of sales	1,586,933	1,464,987
Gross profit	476,560	855,465
Operating expenses:		
Utility costs	734,746	646,408
General and administrative	305,485	292,559
Maintenance	259,262	222,167
Depreciation	195,326	177,754
Sales and marketing	15,105	13,316
Insurance	-	1,845
Total operating expenses	1,509,924	1,354,049
Operating loss	(1,033,364)	(498,584)
Nonoperating revenues (expenses):		
Operating subsidies	300,000	137,303
Management fee	(7,171)	-
Interest expense	(5,229)	(5,909)
Forgiveness of debt through transfer of liability to RepMar	-	464,001
Total nonoperating revenues, net	287,600	595,395
Changes in net deficiency	(745,764)	96,811
Net deficiency at beginning of year	(177,219)	(274,030)
Net deficiency at end of year	$ (922,983)	$ (177,219)

See accompanying notes to financial statements.

MAJURO RESORT, INC.

Statements of Cash Flows
Years Ended September 30, 2012 and 2011

	2012	2011
Cash flows from operating activities:		
Cash received from customers	$ 2,154,275	$ 2,337,617
Cash payments to suppliers for goods and services	(1,323,330)	(1,443,657)
Cash payments to employees for services	(814,372)	(750,105)
Net cash provided by operating activities	16,573	143,855
Cash flows from noncapital financing activities:		
RepMar subsidy received	300,000	-
Interest paid	(5,229)	(5,909)
Net cash provided by (used for) noncapital financing activities	294,771	(5,909)
Cash flows from capital and related financing activity:		
Acquisition of capital assets	(274,244)	(75,277)
Net change in cash	37,100	62,669
Cash at beginning of year	95,995	33,326
Cash at end of year	$ 133,095	$ 95,995
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	$ (1,033,364)	$ (498,584)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation	195,326	177,754
Bad debt expense	108,616	54,516
(Increase) decrease in assets:		
Receivables:		
Trade	(76,988)	(16,835)
Affiliates	61,263	(14,440)
Other	(2,109)	(6,076)
Inventories	1,799	(7,713)
Prepaid expenses	(5,804)	(26,867)
Increase (decrease) in liabilities:		
Accounts payable	73,550	(65,283)
Payable to affiliates	665,603	522,878
Accrued expenses	28,681	24,505
Net cash provided by operating activities	$ 16,573	$ 143,855
Supplemental disclosure of cash flow information:		
Subsidy paid directly to vendor:		
Accounts payable	$ -	$ (137,303)
Operating subsidies	-	137,303
	$ -	$ -

See accompanying notes to financial statements.

MAJURO RESORT, INC.

Statements of Cash Flows, Continued
Years Ended September 30, 2012 and 2011

	2012	2011
Transfer of MISSA liability to RepMar:		
Payable to affiliates	$ -	$ (464,001)
Forgiveness of debt through transfer to RepMar	-	464,001
	$ -	$ -
Management fee reclassified from advance to supplier:		
Prepaid expenses	$ (7,171)	$ -
Other expense	7,171	-
	$ -	$ -

See accompanying notes to financial statements.

(1) Organization

Majuro Resort, Inc. (MRI) dba Marshall Islands Resort, 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 is governed by a five-member Board of Directors appointed by the Cabinet of RepMar. MRI's financial statements are incorporated into the 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.

GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, which was subsequently amended by Statement No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus*, and modified by Statement No. 38, *Certain Financial Statement Note Disclosures,* establish financial reporting standards for governmental entities, which require that management's discussion and analysis of the financial activities be included with the basic financial statements and notes, and modify certain other financial statement disclosure requirements.

To conform to the requirements of GASB Statement No. 34, equity is presented in the following net assets categories:

- Invested in capital assets; capital assets, net of accumulated depreciation, plus construction or improvement of those assets.
- Unrestricted; net assets that are not subject to externally imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of management or the Board of Directors or may otherwise be limited by contractual agreements with outside parties.

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 statements of net assets. 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. MRI considers room and related food, beverage and telephone revenues and costs directly related to such revenues to be operating revenues and expenses. Revenues and expenses related to financing and other activities are reflected as nonoperating.

(2) Summary of Significant Accounting Policies, Continued

Cash

Custodial risk is the risk that in the event of a bank failure, MRI's deposits may not be returned to it. Such deposits are not covered by depository insurance and are either uncollateralized or collateralized with securities held by the pledging financial institution or held by the pledging financial institution but not in the depositor-government's name. MRI does not have a deposit policy for custodial credit risk.

For purpose of the statements of net deficiency and cash flows, cash is defined as cash on hand and cash held in demand accounts. As of September 30, 2012 and 2011, the carrying amount of cash was $133,095 and $95,995, respectively, and the corresponding bank balances were $130,406 and $117,453, respectively. As of September 30, 2012 and 2011, bank balances in the amount of $127,295 and $114,342, respectively, were maintained in a financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance with the remainder being maintained in a non-FDIC insured financial institution. Accordingly, these deposits are exposed to custodial credit risk. MRI does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC insurance coverage 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.

Allowance for Doubtful Accounts

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 are stated at the lower of cost (average costing) or market (net realizable value).

Operating Supplies

China, glass, linen, silverware and uniforms are charged to expense in the year of purchase.

Property, Plant and Equipment

Property, plant and equipment with a cost that equals or exceeds $100 are capitalized. Such assets 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.

(2) Summary of Significant Accounting Policies, Continued

Advertising Costs

MRI expenses advertising costs as incurred. During the years ended September 30, 2012 and 2011, MRI incurred advertising costs of $5,302 and $8,573, respectively.

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 September 30, 2012 and 2011, the accumulated vacation leave liability amounted to $29,277 and $30,363, respectively, and is included within the statements of net deficiency as accrued expenses.

New Accounting Standards

During fiscal year 2012, MRI implemented the following pronouncements:

- GASB Statement No. 57, *OPEB measurements by Agent Employers Agent Multiple-Employer Plans*, which amends Statement No.43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans,* and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions,* and address issues related to the frequency and timing of measurements for actuarial valuations first used to report funded status information in OPEB plan financial statements. The implementation of this pronouncement did not have a material effect on the accompanying financial statements.

- GASB Statement No. 64, *Derivative Instruments*: *Application of Hedge Accounting Termination Provisions* (an amendment of GASB Statement No.53), which will improve financial reporting by state and local governments by clarifying the circumstances in which hedge accounting continues to be applied when a swap counterparty, or a swap counterparty's credit support provider, is replaced. The implementation of this pronouncement did not have a material effect on the accompanying financial statements.

In December 2010, GASB issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangement*, which addresses how to account for and report service concession arrangements (SCAs), a type of public-private or public-public partnership that state and local governments are increasingly entering into. The provisions of this statement are effective for periods beginning after December 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of MRI.

In December 2010, GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus,* which is designed to improve financial reporting for governmental entities by amending the requirements of Statements No. 14, *The Financial Reporting Entity,* and No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments,* to better meet user needs and address reporting entity issues that have come to light since those Statements were issued in 1991 and 1999, respectively. The provisions of this statement are effective for periods beginning after June 15, 2012. Management does not believe that the implementation of this statement will have a material effect on the financial statements of MRI.

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In December 2010, GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which is intended to enhance the usefulness of its Codification by incorporating guidance that previously could only be found in certain FASB and American Institute of Certified Public Accountants (AICPA) pronouncements. The provisions of this statement are effective for periods beginning after December 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of MRI.

In July 2011, GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which establishes guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position. The provisions of this statement are effective for periods beginning after December 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of MRI.

In April 2012, GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities,* which clarifies the appropriate reporting of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. The provisions of this statement are effective for periods beginning after December 15, 2012. Management has not yet determined the effect of implementation of this statement on the financial statement of MRI.

In April 2012, GASB issued Statement No.66, *Technical Corrections, -2012,* which enhances the usefulness of financial reports by resolving conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting. The provisions of this statement are effective for periods beginning after December 15, 2012. Management has not yet determined the effect of implementation of this statement on the financial statement of MRI.

In June 2012, GASB issued Statement No. 67, *Financial Reporting for Pension Plans*, which revises existing guidance for the financial reports of most pension plans, and Statement No. 68, *Accounting and Financial Reporting for Pensions*, which revises and establishes new financial reporting requirements for most governments that provide their employees with pension benefits. The provisions in Statement 67 are effective for financial statements for periods beginning after June 15, 2013. The provisions in Statement 68 are effective for fiscal years beginning after June 15, 2014. Management has not yet determined the effect of implementation of these statements on the financial statements of MRI.

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.

(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. MRI does not maintain general liability insurance; property insurance; and fire, lightning and typhoon insurance for its hotel building and contents. In the event of an insurable loss, MRI may be self-insured to a material extent.

(4) Property, Plant and Equipment

Capital asset activity for the years ended September 30, 2012 and 2011 was as follows:

	Estimated Useful Lives	Balance at October 1, 2011	Additions	Balance at September 30, 2012
Building and structure	17 years	$ 2,234,912	$ 127,092	$ 2,362,004
Furniture and fixtures	3 years	782,306	141,991	924,297
Office equipment	3 years	220,481	1,064	221,545
Other equipment	3 years	95,456	697	96,153
Motor vehicles	3 years	110,362	3,400	113,762
		3,443,517	274,244	3,717,761
Less accumulated depreciation		(2,037,238)	(195,326)	(2,232,564)
		$ 1,406,279	$ 78,918	$ 1,485,197

	Estimated Useful Lives	Balance at October 1, 2010	Additions	Balance at September 30, 2011
Building and structure	17 years	$ 2,234,912	$ -	$ 2,234,912
Furniture and fixtures	3 years	712,985	69,321	782,306
Office equipment	3 years	220,481	-	220,481
Other equipment	3 years	95,456	-	95,456
Motor vehicles	3 years	104,406	5,956	110,362
		3,368,240	75,277	3,443,517
Less accumulated depreciation		(1,859,484)	(177,754)	(2,037,238)
		$ 1,508,756	$ 102,477	$ 1,406,279

(5) Related Party Transactions

MRI is a component unit of RepMar 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.

(5) Related Party Transactions, Continued

A summary of related party balances and transactions as of September 30, 2012 and 2011 and for the years then ended are as follows:

	2012			
	Revenues	Expenses	Receivables	Payables
RepMar	$ 322,240	$ 5,336	$ 131,370	$ 201,680
Marshalls Energy Company, Inc.	47,619	692,992	9,667	1,884,433
Marshall Islands National Telecommunications Authority	2,500	60,272	416	7,874
Marshall Islands Social Security Administration	2,370	91,069	461	48,517
Majuro Water and Sewer Company, Inc.	2,602	63,071	1,075	11,408
Other	29,916	1,707	10,428	-
	$ 407,247	$ 914,447	$ 153,417	$ 2,153,912

	2011			
	Revenues	Expenses	Receivables	Payables
RepMar	$ 394,674	$ 3,048	$ 202,890	$ 127,452
Air Marshall Islands, Inc.	964	-	-	-
Marshalls Energy Company, Inc.	46,099	629,423	2,117	1,307,671
Marshall Islands National Telecommunications Authority	8,826	55,648	-	3,789
Marshall Islands Social Security Administration	1,906	159,221	-	44,422
Majuro Water and Sewer Company, Inc.	454	49,066	375	4,975
Other	112,039	939	9,298	-
	$ 564,962	$ 897,345	$ 214,680	$ 1,488,309

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

The operations of MRI were funded by an appropriation, totaling $300,000, from the Nitijela of RepMar during the year ended September 30, 2012. In addition, $137,303 was appropriated for the purpose of funding payments made directly by RepMar for certain vendor liabilities of MRI during the year ended September 30, 2011.

The Marshall Islands Social Security Administration (MISSA) was awarded a judgment against RepMar in the amount of $464,001, including penalties of $222,987, with interest calculated at 9% per annum from November 5, 2009. A post-judgment agreement was executed on June 4, 2010 requiring RepMar to pay MISSA $14,500 per month commencing October 15, 2010 and every month thereafter until the debt is paid in full. Pursuant to the aforementioned agreement, the debt was transferred from MRI to RepMar and MRI recorded forgiveness of debt in the amount of $464,001 for the year ended September 30, 2011.

(6) Commitment and Contingencies

Commitment

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 any person or entity other than RepMar or any agency thereof holds 75% of the ownership of the lessee, or its successor in the interest in the hotel. The lease agreement also requires that 5% of the initial outstanding shares of the lessee or its successor be issued to the lessor. Neither MRI or RepMar have issued shares to the lessor at September 30, 2012 and 2011.

Contingencies

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America, which contemplates the continuation of MRI as a going concern. MRI has incurred net losses since inception and sustained substantial operating losses during the years ended September 30, 2012 and 2011 of $1,033,364 and $498,584, respectively, and used a substantial amount of working capital in its operations resulting in a working capital deficiency of $2,408,180 at September 30, 2012. Furthermore, at September 30, 2012, total liabilities exceeded total assets by $922,983. Management believes that the continuation of MRI's operations is dependent upon the future financial support of RepMar, deferment in payment of certain liabilities, and/or significant improvements in operations. For the year ended September 30, 2013, RepMar appropriated funding to MRI in the amount of $416,900 for the purpose of funding operations.

Prior to ceasation of the management and operation of the Hotel, the former management company estimated a total of $400,613 was due and payable to them for management fees calculated in accordance with the previously negotiated management contract between RepMar and the Outrigger Hotel Group. As no formal Joint Venture Agreement was executed, RepMar was negotiating a final settlement with the former management company and, therefore, MRI has not recorded management fees payable in the accompanying financial statements. Pursuant to Cabinet Minute C.M. 132 (2011), dated December 30, 2011, the Nitijela of RepMar approved to offset certain tax liabilities of the former management company in the amount of $239,365 and $154,077 against a portion of this claim. In addition, MRI recorded the remaining $7,171 of unpaid management fees by reversing an advance payment to the former management company.

At September 30, 2012 and 2011, MRI did not file sales and local government taxes, which may not be in compliance with Majuro Atoll Local Government (Malgov) local ordinances. As a result, sales taxes of $243,662 and $213,244 and local government taxes of $259,418 and $231,491 as of September 30, 2012 and 2011, respectively, remain outstanding and are included as accrued expenses in the accompanying statements of net deficiency. Unfavorable resolution of this matter could expose MRI to additional penalties and interest. Penalties and interest are estimated to be $120,739 and $106,736 as of September 30, 2012 and 2011, respectively. No such action has yet been filed. At September 30, 2012 and 2011, the financial statements do not include any adjustments that might result from the outcome of this uncertainty. Management plans to negotiate the sales and local government taxes with Malgov.