MAJURO RESORT, INC.

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

FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT

YEARS ENDED SEPTEMBER 30, 2011 AND 2010

Deloitte.

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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, 2011 and 2010, and the related statements of revenues, expenses and changes in net assets (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, 2011 and 2010, 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.

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 September 11, 2012, 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.

The Management's Discussion and Analysis on pages 3 through 8 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of MRI's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit such information and we do not express an opinion on it.

Deloitte + Touche LLP

September 11, 2012

Financial Highlights

Total assets decreased by $22,393 or 1% from $1,875,607 in 2010 to $1,853,214 in 2011. The slight decrease in the total assets is the effect of the decrease in receivables by $17,165 and a decrease in the capital assets by $102,477 due to depreciation, which was offset by the increase in inventories particularly for Food and Beverages of $3,288 and Gift Shop of $4,725, and further increase in cash reserves by $62,669 at the end of the fiscal year.

Gross operating revenues for 2011 was the highest so far in the past three years at $2,374,968 and represent an increase of $389,909 or 20% compared to 2010. Compared to FY2009, total operating revenues was higher by $220,141 or 10%. The increase over FY2010 operating revenues is the combined effect of the increased revenue performance in the Rooms by $179,668, which can be largely attributed to the increase in occupancy resulting from the increase in the number of visitors on the island, the increase in Food and Beverage revenue of $174,809, and the increase in Other revenue of $37,184, that was offset by the slight decrease in Telephone revenue of $1,752.

Total departmental operating profit for the full twelve-month period was $855,465 compared to 2010, which was $573,923 or an increase of $281,542 or 49%. This also represents an increase over 2009 departmental profit by $72,958 or 9%. As a percentage of total revenues, overall departmental operating profit for 2011 was at 36%, which represents 7% higher than 2010 but same percentage level compared to 2009.

Operating expenses for 2011 amounted to $1,354,049 compared to 2010, which was $1,167,322 or an increase of $186,727 or 16%. Despite the increase in absolute overall operating expenses from 2010 and 2009, operating expenses for 2011 was at 57% of total revenues, which represents a decrease of 2% compared to 2010 and 2% increase over 2009. The increase in operating expenses during the year was primarily attributable to the increase in utilities costs due to escalation of fuel prices that resulted in 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:

	2011	2010	2009
Current and Other assets	$ 446,935	$ 366,851	$ 357,918
Capital Assets	1,406,279	1,508,756	1,658,343
Total Assets	$ 1,853,214	$ 1,875,607	$ 2,016,261
Current Liabilities	$ 2,030,433	$ 2,149,637	$ 1,465,351
Net Assets:			
Invested in Capital Assets	1,406,279	1,508,756	1,658,343
Unrestricted	(1,583,498)	(1,782,786)	(1,107,433)
Total Net Assets (Deficiency)	(177,219)	(274,030)	550,910
Total Liabilities and Net Assets	$ 1,853,214	$ 1,875,607	$ 2,016,261

Total assets decreased by $22,393 or 1% from $1,875,607 in 2010 to $1,853,214 in 2011. Compared to 2010, total accounts receivable decreased by $17,165 due to collection efforts and net book value of capital assets decreased by $102,477 due primarily to depreciation. The decrease was offset by the nominal increase in inventories, increase in prepayment and significant increase in cash reserves at the end of the fiscal year. Receivables mainly comprise receivables from the government and government-related agencies in which the hotel experienced a slow turnover over the past years.

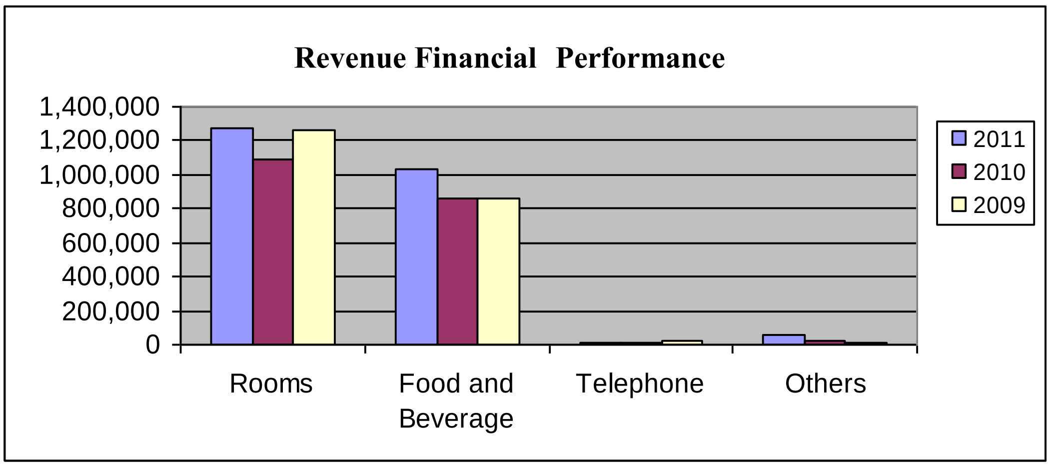
On the other hand, total liabilities decreased by $119,204 or 6% from $2,149,637 in 2010 to $2,030,433 in 2011. The decrease in liabilities was the net effect of the transfer from MRI to RepMar of the remaining balance on unpaid Social Security taxes including penalties for the seven quarters ending March 31, 2008 through September 30, 2009, as covered by the post-judgment agreement executed on June 4, 2010. For additional information concerning this post-judgment agreement, please see note 5 to the financial statements.

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

	2011	2010	2009
Revenues:			
Rooms	$ 1,268,619	$ 1,088,951	$ 1,265,906
Food and Beverage	1,033,618	858,809	861,453
Telephone	10,644	12,396	19,752
Others	62,087	24,903	7,716
	2,374,968	1,985,059	2,154,827
Less: Bad Debts Expense	54,516	120,689	14,117
	2,320,452	1,864,370	2,140,710
Cost of Sales and Services:			
Rooms	322,818	317,029	358,499
Food and Beverage	1,118,260	943,747	940,081
Telephone	17,091	22,699	50,291
Others	6,818	6,972	9,332
	1,464,987	1,290,447	1,358,203
Department Gross Profits (Losses):			
Rooms	891,285	651,233	893,290
Food and Beverage	(84,642)	(84,938)	(78,628)
Telephone	(6,447)	(10,303)	(30,539)
Others	55,269	17,931	(1,616)
Total Gross Profit	855,465	573,923	782,507
Operating Expenses	1,354,049	1,167,322	1,186,505
Non-operating Revenues (Expenses)	595,395	(231,541)	(32,497)
Change in Net Assets (Deficiency)	$ 96,811	$ (824,940)	$ (436,495)

The Statement of Revenues, Expenses and Changes in Net Assets (Deficiency) identify various revenue and expense items that impact the change in net assets. Operating revenues for 2011 showed an increase of $389,909 or 20% from $1,985,059 in 2010 to $2,374,968 in 2011. The increase in revenues was attributable to the increase in occupancy rates in 2011 compared to 2010, which resulted in higher room revenues and food and beverage sales. Room revenues for 2011 increased by $179,668 or 16% from 2010 and increased by $2,713 or 0.2% from 2009. The occupancy ratio in 2011 and 2010 was at 48% and 41%, respectively, with $1 increase in average room rate from $50 in 2010 to $51 in 2011. Food and Beverage revenues for 2011 was $1,033,618, the highest revenue generated over the years by the Food and Beverage department, which showed a significant increase of $174,809 or 20% over 2010 and an increase of $172,165 or 20% over 2009. Meanwhile, telephone revenues and revenues from other operating departments posted a net increase of $35,432 as compared to last year.

The following graph shows the major components of revenue for financial periods 2011, 2010 and 2009, 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 2011, 2010, 2009, 2008 and 2007.

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

Occupancy Performance	2011	2010	2009	2008	2007
% of total occupancy	47.56%	40.59%	47.60%	44.87%	47.61%
Average rate	$ 50.75	$ 50.34	$ 49.77	$ 60.29	$ 59.76
% of paid occupancy	47.46%	40.49%	46.88%	44.50%	46.12%
Average rate	$ 50.86	$ 50.47	$ 50.54	$ 60.79	$ 61.70
Group rooms	-	-	555	1,122	1,644
% of total occupancy	-	-	1.04%	2.26%	3.09%
Average rate	$ -	$ -	$ 89.07	$ 97.55	$ 87.92

Paid occupancy ratio in 2011 is 47% as compared to 40% in 2010 and 47% in 2009.

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 remained almost the same due to more long-stay rooms this year, which caused the room rate to be diluted.

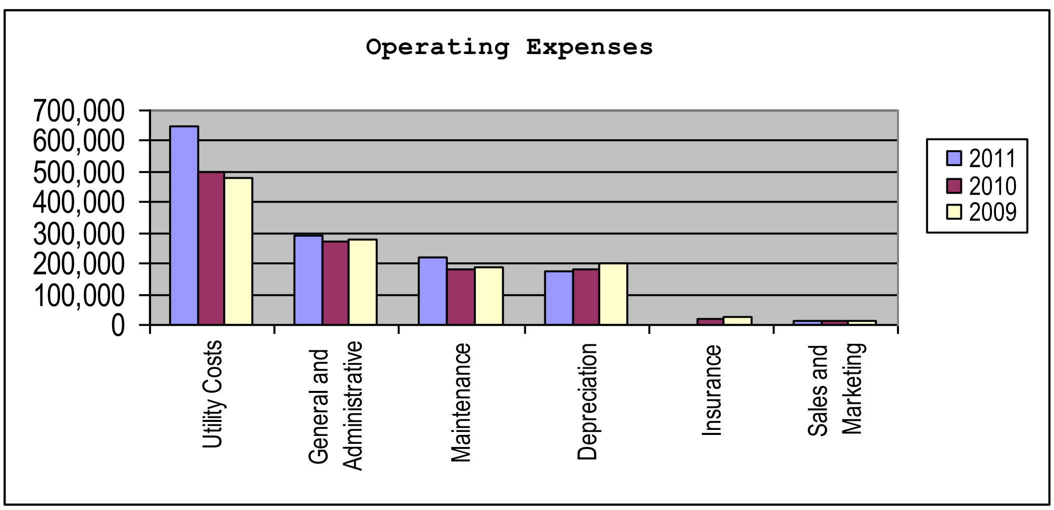
Operating Expenses

Total operating expenses increased by $186,727 from $1,167,322 in 2010 to $1,354,049 in 2011, as a result of the increased cost in overall major components of operating expenses due to additional activity reflected by the increase in room revenue, food and beverage revenue and other revenue which is attributed further to higher occupancy during the year.

As a percentage of total revenues, operating expenses for 2011 represents 57% or a decrease of 2% compared to 2010 and 2% increase over 2009.

Utility costs showed a substantial increase of $147,918 from $498,490 in 2010 to $646,408 in 2011. This is caused by the increase in energy rate resulting from escalation of fuel prices and higher energy consumption. General and administrative expenses showed an increment of $20,017 while the maintenance cost posted an increase of $41,764 from 2010 to 2011. Meanwhile, a considerable reduction of $20,480 in insurance cost was due to MRI not being able to maintain the general liability and property insurance. Other operating expenses such as depreciation, sales and marketing did not post significant increases or decreases from 2010.

The following graph shows the major components of operating expenses for financial periods 2011, 2010 and 2009, all of which cover a twelve (12) month period ending September 30.



Capital Assets

Net capital assets decreased by $102,477 due mainly to depreciation charge for this year. Certain capital equipments were purchased to replace damaged equipments due to wear and tear. MRI replaced a number of air conditioning units in guest rooms and acquired additional split-type energy saver air conditioning units for Melele function room, Enra restaurant and Jakaro bar, which brought the upsurge in the furniture and fixtures account. A major auto repair of Mitsubishi shuttle bus has also contributed to the increase in capital expenditure during the year.

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

	2011	2010	2009
Building and structure	$ 2,234,912	$ 2,234,912	$ 2,234,912
Furniture and fixtures	782,306	712,985	691,546
Office equipment	220,481	220,481	217,905
Other equipment	95,456	95,456	95,281
Motor vehicles	110,362	104,406	96,206
At Cost	3,443,517	3,368,240	3,335,850
Accumulated depreciation	(2,037,238)	(1,859,484)	(1,677,507)
Net Book Value	$ 1,406,279	$ 1,508,756	$ 1,658,343

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 (MIVA) 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 to generate sufficient visitor numbers through conferences, workshops, trainings and seminars.

3.) There has been a proposal submitted to the government for the support of the commencement of Our Airline services to the Republic of Marshall Islands. Several meetings and discussions were held during the visit of representatives of this airline with the government and other stakeholders on the possible resumption of weekly flights. It will have a great impact in the tourism industry and country as a whole should this weekly flights service materialized.

4.) The MRI management does not foresee a significant increase in room revenues for 2012 as evidenced by the slight decrease in the number of guests for the first and second quarters of 2012. However, the hotel is receiving more business interest in its restaurant, bar, banquet and catering services which will have a great impact on food and beverage operations.

5.) The government appropriated a sum of $300,000 for purposes of funding the MRI operations to allow for immediate building maintenance repairs and renovations and acquire additional energy efficiency air conditioning units and lightings. This project is still ongoing and there are 40 Mitsubishi split-type energy saver air conditioning units currently being installed in guest rooms. With this, the management has anticipated that energy consumption will be minimized, thus allowing savings in cost.

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

Management's Discussion and Analysis for the year ended September 30, 2010 is set forth in MRI's report on the audit of the financial statements, which is dated August 28, 2011, and that Discussion and Analysis explains the major factors impacting the 2010 financial statements and can be obtained at the address below.

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, 2011 and 2010

ASSETS	2011	2010
Current assets:		
Cash	$ 95,995	$ 33,326
Receivables:		
Trade	220,485	253,943
Affiliates	214,680	200,240
Other	23,975	17,899
	459,140	472,082
Less allowance for doubtful accounts	(178,883)	(174,660)
Total receivables, net	280,257	297,422
Inventories	33,066	25,353
Prepaid expenses	37,617	10,750
Total current assets	446,935	366,851
Property, plant and equipment, net	1,406,279	1,508,756
	$ 1,853,214	$ 1,875,607
LIABILITIES AND NET DEFICIENCY		
Current liabilities:		
Accounts payable	$ 105,193	$ 307,779
Payable to affiliates	1,488,309	1,429,432
Accrued expenses	436,931	412,426
Total current liabilities	2,030,433	2,149,637
Commitment and contingencies		
Net deficiency:		
Invested in capital assets	1,406,279	1,508,756
Deficiency	(1,583,498)	(1,782,786)
Total net deficiency	(177,219)	(274,030)
	$ 1,853,214	$ 1,875,607

See accompanying notes to financial statements.

MAJURO RESORT, INC.

Statements of Revenues, Expenses and Changes in Net Assets (Deficiency)
Years Ended September 30, 2011 and 2010

	2011	2010
Revenues:		
Rooms	$ 1,268,619	$ 1,088,951
Food and beverage	1,033,618	858,809
Telephone	10,644	12,396
Other	62,087	24,903
Total revenues	2,374,968	1,985,059
Less provision for doubtful accounts	(54,516)	(120,689)
Net revenues	2,320,452	1,864,370
Cost of sales:		
Rooms	322,818	317,029
Food and beverage	1,118,260	943,747
Telephone	17,091	22,699
Other	6,818	6,972
Total cost of sales	1,464,987	1,290,447
Gross profit	855,465	573,923
Operating expenses:		
Utility costs	646,408	498,490
General and administrative	292,559	272,542
Maintenance	222,167	180,403
Depreciation	177,754	181,977
Sales and marketing	13,316	11,585
Insurance	1,845	22,325
Total operating expenses	1,354,049	1,167,322
Operating loss	(498,584)	(593,399)
Nonoperating revenues (expenses):		
Operating subsidies	137,303	-
Forgiveness of debt through transfer of liability to RepMar	464,001	-
Interest expense	(5,909)	(231,541)
Total nonoperating revenues (expenses), net	595,395	(231,541)
Changes in net assets (deficiency)	96,811	(824,940)
Net assets (deficiency) at beginning of year	(274,030)	550,910
Net deficiency at end of year	$ (177,219)	$ (274,030)

See accompanying notes to financial statements.

MAJURO RESORT, INC.

Statements of Cash Flows
Years Ended September 30, 2011 and 2010

	2011	2010
Cash flows from operating activities:		
Cash received from customers	$ 2,337,617	$ 1,819,148
Cash payments to suppliers for goods and services	(1,443,657)	(1,142,094)
Cash payments to employees for services	(750,105)	(669,623)
Net cash provided by operating activities	143,855	7,431
Cash flows from noncapital financing activities:		
Interest paid	(5,909)	(8,554)
Cash flows from capital and related financing activity:		
Acquisition of capital assets	(75,277)	(32,390)
Net change in cash	62,669	(33,513)
Cash at beginning of year	33,326	66,839
Cash at end of year	$ 95,995	$ 33,326
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	$ (498,584)	$ (593,399)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation	177,754	181,977
Bad debt expense	54,516	120,689
(Increase) decrease in assets:		
Receivables:		
Trade	(16,835)	(122,609)
Affiliates	(14,440)	(65,105)
Other	(6,076)	21,803
Inventories	(7,713)	(2,102)
Prepaid expenses	(26,867)	4,878
Increase (decrease) in liabilities:		
Accounts payable	(65,283)	1,608
Payable to affiliates	522,878	408,416
Accrued expenses	24,505	51,275
Net cash provided by operating activities	$ 143,855	$ 7,431
Supplemental disclosure of cash flow information:		
Subsidy paid directly to vendor:		
Accounts payable	$ (137,303)	$ -
Operating subsidies	137,303	-
	$ -	$ -
Transfer of MISSA liability to RepMar:		
Payable to affiliates	$ (464,001)	$ -
Forgiveness of debt through transfer to RepMar	464,001	-
	$ -	$ -

See accompanying notes to financial statements.

(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 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, 2011 and 2010, the carrying amount of cash was $95,995 and $33,326, respectively, and the corresponding bank balances were $117,453 and $29,553, respectively. As of September 30, 2011 and 2010, bank balances in the amount of $114,342 and $26,442, 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, 2011 and 2010, MRI incurred advertising costs of $8,573 and $8,649, 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, 2011 and 2010, the accumulated vacation leave liability amounted to $30,363 and $24,806, respectively, and is included within the statements of net deficiency as accrued expenses.

New Accounting Standards

During fiscal year 2011, MRI implemented the following pronouncements:

- GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions,* which enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions.

- GASB Statement No. 59, *Financial Instruments Omnibus,* which updates and improves existing standards regarding financial reporting of certain financial instruments and external investments pools.

The implementation of these pronouncements did not have a material effect on the accompanying financial statements.

In December 2009, GASB issued Statement No. 57, *OPEB Measurements by Agent Employers and 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 addresses issues related to measurement of OPEB obligations by certain employers participating in agent multiple-employer OPEB plans. The provisions of Statement 57 related to the use and reporting of the alternative measurement method are effective immediately. The provisions related to the frequency and timing of measurements are effective for actuarial valuations first used to report funded status information in OPEB plan financial statements for periods beginning after June 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.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.

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

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.

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 Financial Accounting Standards Board (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 July 2011, GASB issued 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 provisions of this statement are effective for periods beginning after June 15, 2011. Management does not believe that the implementation of this statement will have a material effect 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, 2011 and 2010 was as follows:

	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

	Estimated Useful Lives	Balance at October 1, 2009	Additions	Balance at September 30, 2010
Building and structure	17 years	$ 2,234,912	$ -	$ 2,234,912
Furniture and fixtures	3 years	691,546	21,439	712,985
Office equipment	3 years	217,905	2,576	220,481
Other equipment	3 years	95,281	175	95,456
Motor vehicles	3 years	96,206	8,200	104,406
		3,335,850	32,390	3,368,240
Less accumulated depreciation		(1,677,507)	(181,977)	(1,859,484)
		$ 1,658,343	$ 149,587	$ 1,508,756

(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, 2011 and 2010 and for the years then ended are as follows:

	September 30, 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

	September 30, 2010			
	Revenues	Expenses	Receivables	Payables
RepMar	$ 350,066	$ 1,984	$ 144,880	$ 63,205
Air Marshall Islands, Inc.	1,416	-	3,338	-
Marshalls Energy Company, Inc.	23,213	475,791	8,853	844,777
Marshall Islands National Telecommunications Authority	12,691	65,448	-	7,306
Marshall Islands Social Security Administration	157	293,572	-	501,643
Majuro Water and Sewer Company, Inc.	112	34,378	112	11,889
Other	44,271	976	43,057	612
	$ 431,926	$ 872,149	$ 200,240	$ 1,429,432

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

During the year ended September 31, 2011, the operations of MRI were funded by an appropriation, totaling $137,303, from the Nitijela of RepMar for the purpose of funding payments made directly by RepMar for certain vendor liabilities of MRI.

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. Penalties of $222,987 with interest are recorded in the accompanying financial statements as of September 30, 2010. 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, 2011 and 2010.

Contingencies

MRI has incurred net losses since inception. MRI depends on RepMar for cash funding to continue its operations. 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. For the year ended September 30, 2012, RepMar appropriated funding to MRI in the amount of $300,000 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 is currently 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 against a portion of this claim.

At September 30, 2011 and 2010, 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 $213,244 and $182,235 and local government taxes of $231,491 and $197,327 as of September 30, 2011 and 2010, 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 $106,736 and $91,095 as of September 30, 2011 and 2010, respectively. No such action has yet been filed. At September 30, 2011 and 2010, 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.