MAJURO RESORT, INC.
(A COMPONENT UNIT OF THE REPUBLIC OF THE MARSHALL ISLANDS)

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

YEARS ENDED SEPTEMBER 30, 2008 AND 2007

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Majuro Resort, Inc.:

We have audited the accompanying statements of net assets of Majuro Resort, Inc. (MRI), a component unit of the Republic of the Marshall Islands, as of September 30, 2008 and 2007, and the related statements of revenues, expenses and changes in net assets 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, 2008 and 2007, 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 5, these financial statements have been prepared under the terms of a Memorandum of Agreement dated February 19, 2004. Should this agreement be modified, the accompanying financial statements may be materially impacted.

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.

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.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 12, 2009, 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 the 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.

Deloitte + Touche LLP

May 12, 2009

MAJURO RESORT, INC.

Management's Discussion and Analysis
Year Ended September 30, 2008

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 ended September 30, 2008. The discussion and analysis should be read in conjunction with the audited financial statements, which follow this section.

Financial Highlights

Total assets decreased by $207,826 or 9% from $2,436,835 in 2007 to $2,229,009 in 2008. The decrease in the total assets is the effect of the increase in receivables by $47,057, those decreases in inventories particularly for linens/towels of $29,379, food and beverages of $8,573, glasswares of $10,643 and other supplies of $2,776, and decrease in the capital assets by $162,737 which is primarily due to depreciation.

Gross operating revenues for 2008 were $2,290,054 and represent a decrease of $212,997 or 9% compared to 2007. However, compared to the fiscal year 2006 total operating revenues, there was an improvement of $17,083 or 1%. The decrease in the fiscal year 2008 operating revenues is the combined effect of the decreased revenue performance in the Rooms, Food and Beverage, Telephone and Other Department, which can be largely attributed to lower room occupancy during the year even with the three (3) Japan Airlines (JAL) charter flights in November and December 2007.

Total departmental gross profit in 2008 was $876,295 compared to $1,065,283 in 2007 or a decrease of $188,988 or 18%. This, however, represents an increase over 2006 departmental gross profit by $5,658 or 1%. As a percentage of total revenues, overall departmental gross profit for 2008 was at 39% which is 4% lower than 2007 and 1% higher than 2006.

Operating expenses for 2008 amounted to $1,364,584 representing 60% of total revenues. As a percentage of total revenues, this represents an increase of 8% compared to 2007 and 9% increase over 2006. The increase in the operating expenses during the year was primarily attributable to the increase in utilities costs due to fuel prices escalation that resulted in higher energy rates despite the decline in energy usage as reflected by lower room occupancy for 2008 compared with 2007.

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 MRI's Statements of Net Assets is presented below:

	2008	2007	2006
Current and other assets	$ 402,088	$ 447,177	$ 365,390
Capital assets	1,826,921	1,989,658	2,093,287
Total Assets	$ 2,229,009	$ 2,436,835	$ 2,458,677
Current Liabilities	$ 1,241,604	$ 928,580	$ 755,905
Net Assets:			
Invested in capital assets	1,826,921	1,989,658	2,093,287
Unrestricted	(839,516)	(481,403)	(390,515)
	987,405	1,508,255	1,702,772
Total Liabilities and Net Assets	$ 2,229,009	$ 2,436,835	$ 2,458,677

Total assets decreased by $207,826 or 9% from $2,436,835 in 2007 to $2,229,009 in 2008. Total accounts receivable balance increased by $47,057 and inventories decreased by $51,371 compared to 2007. Receivables are mainly from the government and government-related agencies in which the Hotel experienced a slow turnover over the past years. Total inventories decreased in the current year since the prior year's bulk purchases of kitchen equipment, utensils, room amenities and supplies were all put into operation during the year. In addition, property, plant and equipment decreased due to depreciation.

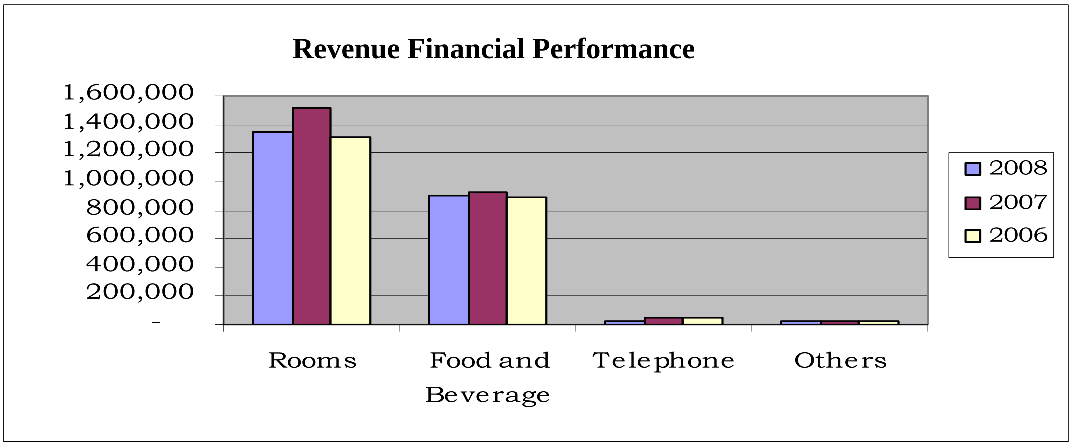
On the other hand, total liabilities increased by $313,024 or 34% from $928,580 in 2007 to $1,241,604 in 2008. MRI's liabilities increased as cash flow has been tied up in accounts receivables, particularly with the government and government-related agencies.

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

	2008	2007	2006
Revenues:			
Rooms	$ 1,342,835	$ 1,512,820	$ 1,309,830
Food and beverage	902,699	920,516	889,721
Telephone	25,711	46,224	48,161
Others	18,809	23,491	25,259
	2,290,054	2,503,051	2,272,971
Less bad debts expense	31,647	5,301	-
	2,258,407	2,497,750	2,272,971
Cost of Sales & Services:			
Rooms	415,189	394,231	349,872
Food & Beverage	907,360	978,251	986,993
Telephone	52,065	59,234	61,958
Others	7,498	751	3,511
	1,382,112	1,432,467	1,402,334
Department Gross Profit (Losses):			
Rooms	895,999	1,113,288	959,958
Food and beverage	(4,661)	(57,735)	(97,272)
Telephone	(26,354)	(13,010)	13,797
Others	11,311	22,740	21,748
Total Gross Profit	876,295	1,065,283	870,637
Operating Expenses	1,364,584	1,305,276	1,151,748
Nonoperating Revenues (Expenses)	(32,561)	45,476	(8,231)
Change in Net Assets	$ (520,850)	$ (194,517)	$ (289,342)

The Statement of Revenues, Expenses and Changes in Net Assets identify various revenue and expense items that impact the change in net assets. Operating revenues for 2008 showed a decline of $212,997 or 9% from $2,503,051 in 2007 to $2,290,054 in 2008. Room revenues for 2008 decreased by $169,985 or 11% from 2007 and increased by $33,005 or 3% from 2006. Food and Beverage showed a decline of $17,817 or 2% over 2007 but showed an increase of $12,978 or 1% over 2006. As mentioned previously, the decline in fiscal year 2008 operating revenues is the combined effect of the decreased revenue performance in the Rooms, Food and Beverage, Telephone and Other Department as a result of lower occupancy rates during the period. The occupancy rate in 2008 was 45% as compared to 48% in 2007.

The following graph shows the major components of revenue for financial periods 2008, 2007 and 2006.



Statement of Hotel Occupancy Performance

The following table shows a comparison of financial and statistical information affecting the room revenue performance for the years 2008, 2007, 2006, 2005 and 2004.

Financial information for all the years represents a twelve-month period except for 2005 which only covers a nine-month period.

Occupancy Performance	**2008**	**2007**	**2006**	**2005**	**2004**
% of total occupancy	44.87%	47.61%	34.61%	38.01%	30.12%
Average rate	$ 60.29	$ 59.76	$ 73.43	$ 67.33	$ 67.14
% of paid occupancy	44.50%	46.12%	32.87%	37.58%	28.87%
Average rate	$ 60.79	$ 61.70	$ 75.08	$ 68.10	$ 70.04
Group rooms	1,122	1,644	-	225	883
% of total occupancy	2.26%	3.09%	-	0.50%	1.70%
Average rate	$ 97.55	$ 87.92	-	$ 91.70	$ 82.00

Paid occupancy rate in 2008 is 45% as compared to 46% in 2007 and 33% in 2006.

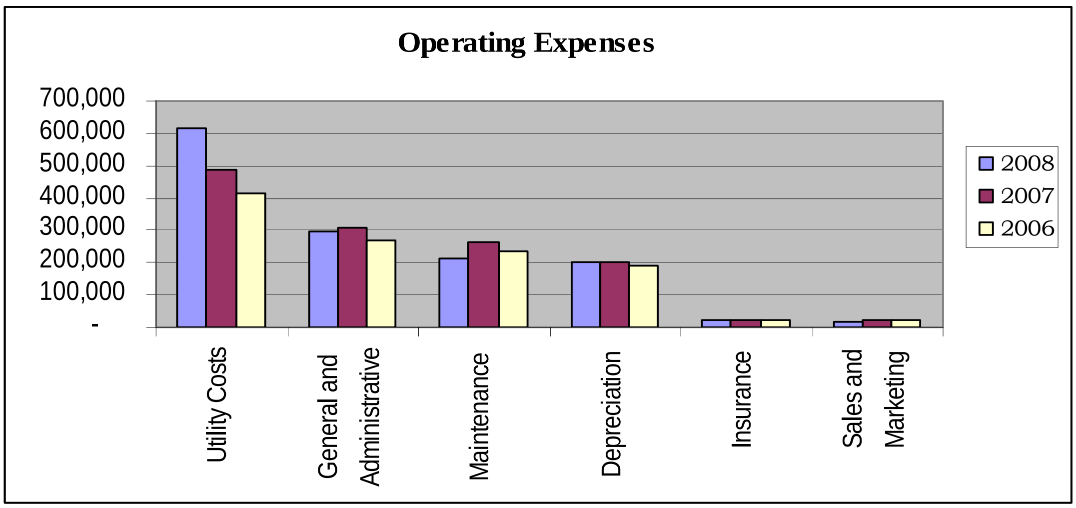
The hotel paid occupancy ratio and the average paid room rate for the current year showed a reduction from 2007. Compared to 2006, it showed an increase in hotel paid occupancy ratio but the average paid room rate declined from 2006 due to more apartment rooms in 2007 and 2008 which caused the room rate to be diluted.

Operating Expenses

Total operating expenses increased by $59,308 from $1,305,276 in 2007 to $1,364,584 in 2008. As a percentage of total revenues, operating expenses for 2008 represents 60% of total revenues or an increase of 8% compared to 2007 and 9% increase over 2006. The increase in operating expenses was mainly due to utility costs which posted an increase of $129,843 from $487,083 in 2007 to $616,926 in 2008. This is caused by the increase in energy rate which resulted from fuel prices escalation despite lower energy consumption as reflected by lower room occupancy for 2008 compared with 2007.

General and administrative expenses, showed a decrease of $12,375 while the maintenance cost posted a significant reduction of $51,241 from 2007 to 2008. Other major components of operating expenses such as depreciation, insurance, and sales and marketing did not post significant increases or decreases from 2007.

The following graph shows the major components of operating expenses for financial periods 2008, 2007 and 2006, all of which cover a twelve (12) month period ending September 30.



Capital Assets

Net capital assets decreased by $162,737 mainly as a result of higher depreciation expense for this year. MRI acquired additional room air conditioning units to complete its phase of converting from window-type to split-type units. Additional equipments were purchased such as new set of computers, plasma TV, washing machines and driers for use in the operation.

Two (2) new softwares were also purchased during the year; namely the Guest Tracker Software for use at MIR Front Office and the Quickbooks Accounting Software for use at the Back Office or Accounting Department. This software will be eventually integrated to produce a more user-friendly system program intended to replace the existing outdated system, Hotel Information System, currently being utilized since the inception of the hotel.

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

	2008	2007	2006
Building and structure	$ 2,234,912	$ 2,234,912	$ 2,232,681
Furniture and fixtures	669,187	654,020	571,494
Office equipment	215,523	191,678	187,220
Other equipment	94,940	94,443	88,193
Motor vehicles	88,206	88,206	83,206
At cost	3,302,768	3,263,259	3,162,794
Accumulated depreciation	(1,475,849)	(1,273,601)	(1,069,507)
Net Book Value	$ 1,826,921	$ 1,989,658	$ 2,093,287

For additional information concerning fixed 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.) The Marshall Islands Visitors Authority (MIVA) has been aggressively promoting the destination through outside sales agents in Japan and Europe. However, the MIR management is not optimistic about the amount of increase for 2009 especially with the cessation of the Japan Airlines (JAL) flights by early part of January 2009. Slow business during the first quarter of each year has been the trend for over the years due to uncertainties of the RMI elections. The financial crisis that started in late 2007 and the unparalleled increases in world oil prices in mid-2008 created a domino effect worldwide. Generally, we do not foresee any significant increase in the number of guests but a slight rebound in the number of occupancy is anticipated by what we see for the first and second quarters of 2009.

2.) Cooperative advertising and marketing with the Marshall Islands tourism industry is essential in reaching a broad range of travelers with limited marketing funds. There has been a proposal submitted by MIVA to RMI government in 2007, for the marketing and promotion of the newly-built International Conference Center (ICC) which has the capacity to host a big number of conferences. With this, MIR should be seeing a growth in its banquet and catering business. Unfortunately, no favorable response has been received from the government leaving promotional chores to the tourism industry and other local industry related businesses to generate sufficient visitor numbers through conferences, workshops, trainings and seminars.

3.) Increased marketing effort to promote the hotel facilities to the local market through discounted room rates and other promotional activities to lure "shoppers" and bargain "hunters" to our product. MRI will continue to market the hotel to the local market through its Room and Ramen promotion. However, we see a steady trend for lower-rated versus added-value. We may have to re-evaluate this aspect and come up with another strategy for a better result.

4.) Combined efforts in searching for ways to increase collections and cut on costs and expenses to improve cash flow. As part of MIR's collection effort, a special collector will be assigned to assist in the collection of receivables particularly those long outstanding delinquent accounts. This will help to generate funds in order to meet some obligations.

Management's Discussion and Analysis for the year ended September 30, 2007 is set forth in MRI's report on the audit of the financial statements, which is dated April 15, 2008, and that Discussion and Analysis explains the major factors impacting the 2007 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 Assets
September 30, 2008 and 2007

ASSETS	2008	2007
Current assets:		
Cash	$ 55,147	$ 48,104
Receivables:		
Trade	219,028	164,543
Affiliates	192,598	187,040
Other	25,583	38,569
	437,209	390,152
Less allowance for doubtful accounts	(120,001)	(88,354)
Total receivables, net	317,208	301,798
Inventories	16,982	68,353
Prepaid expenses	12,751	28,922
Total current assets	402,088	447,177
Property, plant and equipment, net	1,826,921	1,989,658
	$ 2,229,009	$ 2,436,835
LIABILITIES AND STOCKHOLDER'S EQUITY		
Current liabilities:		
Accounts payable	$ 131,067	$ 84,614
Payable to affiliates	755,781	542,874
Accrued expenses	354,756	301,092
Total current liabilities	1,241,604	928,580
Commitment and contingencies		
Net assets:		
Invested in capital assets	1,826,921	1,989,658
Unrestricted	(839,516)	(481,403)
Total net assets	987,405	1,508,255
	$ 2,229,009	$ 2,436,835

See accompanying notes to financial statements.

MAJURO RESORT, INC.

Statements of Revenues, Expenses and Changes in Net Assets
Years Ended September 30, 2008 and 2007

	2008	2007
Revenues:		
Rooms	$ 1,342,835	$ 1,512,820
Food and beverage	902,699	920,516
Telephone	25,711	46,224
Other	18,809	23,491
Total revenues	2,290,054	2,503,051
Bad debt expense	31,647	5,301
Net revenues	2,258,407	2,497,750
Cost of sales:		
Rooms	415,189	394,231
Food and beverage	907,360	978,251
Telephone	52,065	59,234
Other	7,498	751
Total cost of sales	1,382,112	1,432,467
Gross profit	876,295	1,065,283
Operating expenses:		
Utility costs	616,926	487,083
General and administrative	294,276	306,651
Maintenance	210,592	261,833
Depreciation	202,246	204,094
Insurance	24,319	20,729
Sales and marketing	16,225	24,886
Total operating expenses	1,364,584	1,305,276
Operating loss	(488,289)	(239,993)
Nonoperating revenues (expenses):		
Fire insurance recovery	-	51,820
Other expense	(32,561)	(6,344)
Total nonoperating revenues (expenses), net	(32,561)	45,476
Change in net assets	(520,850)	(194,517)
Net assets at beginning of year	1,508,255	1,702,772
Net assets at end of year	$ 987,405	$ 1,508,255

See accompanying notes to financial statements.

MAJURO RESORT, INC.

Statements of Cash Flows
Years Ended September 30, 2008 and 2007

	2008	2007
Cash flows from operating activities:		
Cash received from customers	$ 2,242,997	$ 2,426,117
Cash payments to suppliers for goods and services	(1,471,842)	(1,645,635)
Cash payments to employees for services	(692,042)	(695,184)
Net cash provided by operating activities	79,113	85,298
Cash flows from noncapital financing activities:		
Payments on promissory note	-	(15,213)
Interest and other expense paid	(32,561)	(6,344)
Net cash used for noncapital financing activities	(32,561)	(21,557)
Cash flows from capital and related financing activity:		
Acquisition of capital assets	(39,509)	(100,465)
Cash received from fire insurance	-	51,820
Net cash used for capital and related financing activities	(39,509)	(48,645)
Net change in cash	7,043	15,096
Cash at beginning of year	48,104	33,008
Cash at end of year	$ 55,147	$ 48,104
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	$ (488,289)	$ (239,993)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation	202,246	204,094
Bad debt expense	31,647	5,301
(Increase) decrease in assets:		
Receivables:		
Trade	(54,485)	(27,954)
Affiliates	(5,558)	(33,720)
Other	12,986	(15,260)
Inventories	51,371	(20,050)
Prepaid expenses	16,171	24,992
Increase in liabilities:		
Accounts payable	46,453	26,644
Payable to affiliates	212,907	94,437
Accrued expenses	53,664	66,807
Net cash provided by operating activities	$ 79,113	$ 85,298

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'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 has issued 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*. These statements 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 34, MRI's 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.

New Accounting Standards

During fiscal year 2008, MRI implemented the following pronouncements:

- GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* which establishes uniform financial reporting for other postemployment benefit plans by state and local governments.

- GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfer of Assets and Future Revenues,* which establishes criteria that governments will use to ascertain whether certain transactions should be regarded as a sale or a collateralized borrowing. The statement also includes a provision that stipulates that governments should not revalue assets that are transferred between financial reporting entity components.

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

- GASB Statement No. 50, *Pension Disclosures an amendment of GASB Statements No. 25 and 27*, which amends applicable note disclosure and RSI requirements of Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and No. 27, *Accounting for Pensions by State and Local Governmental Employees*, to conform with requirements of 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*. GASB Statement No. 50 more closely aligns the financial reporting requirements for pensions with those for other post-employment benefits.

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

In December 2006, GASB issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. GASB Statement No. 49 provides guidance and consistency under which a governmental entity would be required to report a liability related to pollution remediation. The provisions of this statement are effective for periods beginning after December 15, 2007. Management does not believe that the implementation of this statement will have a material effect on the accompanying financial statements of MRI.

In June 2004, GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions.* GASB Statement No. 45 establishes standards for the measurement, recognition, and display of other postemployment benefits expense/expenditures and related liabilities, note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers. The provisions of this statement are effective for periods beginning after December 15, 2007. Management does not believe the implementation of this statement will have a material effect on the financial statements of MRI.

In June 2007, GASB issued statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. GASB Statement No. 51 addresses whether and when intangible assets should be considered capital assets for financial reporting purposes. The provisions of this statement are effective for periods beginning after June 15, 2009. Management does not believe that the implementation of this statement will have a material effect on the financial statements of MRI.

In November 2007, GASB issued Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*. GASB Statement No. 52 improves the quality of financial reporting by requiring endowments to report their land and other real estate investments at fair value, creating consistency in reporting among similar entities that exist to invest resources for the purpose of generating income. The provisions of this statement are effective for periods beginning after June 15, 2008. 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 June 2008, GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. GASB Statement No. 53 is intended to improve how state and local governments report information about derivative instruments - financial arrangements used by governments to manage specific risks or make investments - in their financial statements. The provisions of this statement are effective for periods beginning after June 15, 2009. 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.

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.

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 assets and cash flows, cash is defined as cash on hand and cash held in demand accounts. As of September 30, 2008 and 2007, the carrying amount of cash was $55,147 and $48,104, respectively, and the corresponding bank balances were $47,385 and $58,022, respectively. As of September 30, 2008 and 2007, bank balances in the amount of $44,274 and $54,911, 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.

(2) Summary of Significant Accounting Policies, Continued

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.

Advertising Costs

MRI expenses advertising costs as incurred. During the years ended September 30, 2008 and 2007, MRI incurred advertising costs of $12,955 and $20,349, 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, 2008 and 2007, the accumulated vacation leave liability amounted to $42,337 and $43,962, respectively, and is included within the statement of net assets as accrued expenses.

(3) Risk Management

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

(4) Property, Plant and Equipment

Property, plant and equipment as of September 30, 2008 and 2007, consist of the following:

	Estimated Useful Lives	Balance at October 1, 2007	Additions	Deletions	Balance at September 30, 2008
Building and structure	17 years	$ 2,234,912	$ -	$ -	$ 2,234,912
Furniture and fixtures	3 years	654,020	15,167	-	669,187
Office equipment	3 years	191,678	23,845	-	215,523
Other equipment	3 years	94,443	497	-	94,940
Motor vehicles	3 years	88,206	-	-	88,206
		3,263,259	39,509	-	3,302,768
Less accumulated depreciation		(1,273,601)	(202,246)	-	(1,475,849)
		$ 1,989,658	$ (162,737)	$ -	$ 1,826,921

	Balance at Estimated Useful Lives	October 1, 2006	Additions	Deletions	Balance at September 30, 2007
Building and structure	17 years	$ 2,232,681	$ 2,231	$ -	$ 2,234,912
Furniture and fixtures	3 years	571,494	82,526	-	654,020
Office equipment	3 years	187,220	4,458	-	191,678
Other equipment	3 years	88,193	6,250	-	94,443
Motor vehicles	3 years	83,206	5,000	-	88,206
		3,162,794	100,465	-	3,263,259
Less accumulated depreciation		(1,069,507)	(204,094)	-	(1,273,601)
		$ 2,093,287	$ (103,629)	$ -	$ 1,989,658

(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, 2008 and 2007 and for the years then ended are as follows:

	September 30, 2008			
	Revenues	Expenses	Receivables	Payables
RepMar	$ 310,872	$ 2,184	$ 153,456	$ 24,733
Air Marshall Islands, Inc.	5,986	-	5,566	-
Marshalls Energy Company, Inc.	47,950	565,823	1,269	268,614
Marshall Islands National Telecommunications Authority	-	99,082	-	18,610
Marshall Islands Social Security Administration	1,724	82,871	-	195,661
Majuro Water and Sewer Company, Inc.	-	49,228	-	12,481
PII	34,515	17,246	13,603	144,401
Triple J/Payless Supermarket	17,040	373,647	1,506	80,435
Other	71,045	43,313	17,198	10,846
	$ 489,132	$ 1,233,394	$ 192,598	$ 755,781

	September 30, 2007			
	Revenues	Expenses	Receivables	Payables
RepMar	$ 303,427	$ 3,880	$ 145,701	$ 26,826
Air Marshall Islands, Inc.	16,786	-	4,941	-
Marshalls Energy Company, Inc.	18,102	391,784	160	143,350
Marshall Islands National Telecommunications Authority	-	114,332	-	22,425
Marshall Islands Social Security Administration	689	74,103	-	91,859
Majuro Water and Sewer Company, Inc.	-	41,606	-	12,477
PII	21,397	10,263	13,388	156,113
Triple J/Payless Supermarket	22,579	451,844	3,621	82,009
Other	58,791	42,966	19,229	7,815
	$ 441,771	$ 1,130,778	$ 187,040	$ 542,874

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

On April 2, 2004, MRI entered into a promissory note agreement with the Marshall Islands Social Security Administration for the repayment of certain delinquent payroll taxes and related penalties and interest in the amount of $90,774. The note is due on or before April 30, 2007 and is payable in monthly installments of $3,000. The note was paid in full during the year ended September 30, 2007.

(5) Related Party Transactions, Continued

On February 20, 2004, Outrigger Pacific, Inc., terminated their management contract with MRI. RepMar entered into a Memorandum of Agreement with Pacific International, Inc. (PII) effective February 19, 2004 for the purpose of assuming the management and operation of the hotel. The agreement included the forgiveness of certain taxes payable by MRI which amounted to $545,112. Forgiveness of these taxes is contingent upon the negotiation of a formal Joint Venture Agreement with the third party. As of May 12, 2009, no formal Joint Venture Agreement has been executed; however, management reflected such taxes as a subsidy from RepMar in accordance with the Memorandum of Agreement in the 2004 financial statements.

(6) Commitments 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. Either MRI or RepMar has issued no shares to the lessor at September 30, 2008 and 2007.

Contingencies

MRI has incurred net losses since inception. RepMar has provided funding in the past; however, MRI does not have a formal agreement with RepMar to provide funds in the future. Management believes that the continuation of MRI's operations and its ability to provide working capital is dependent upon the final settlement of the terms and conditions of the Memorandum of Agreement between PII and RepMar, the sale of MRI, or significant improvements in operations and future financial support by RepMar, if required.

As of May 12, 2009, there is no management agreement between PII and RepMar. Management has estimated that a total of $337,821 is due to PII for management fees calculated in accordance with previously negotiated management contract between RepMar and the Outrigger Hotel Group. PII assumed the prior management contract between RepMar and the Outrigger Hotel. RepMar is currently negotiating a final agreement with PII and therefore, MRI has not recorded the management fees.

At September 30, 2008 and 2007, 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 $129,612 and $103,663 and local government taxes of $136,451 and $103,730 as of September 30, 2008 and 2007, respectively, remain outstanding and are included as accrued expenses in the accompanying statements of net assets. Unfavorable resolution of this matter could expose MRI to additional penalties and interest. No such action has yet been filed. At September 30, 2008 and 2007, the financial statements do not include any adjustments that might result from the outcome of this uncertainty.

(7) Subsequent Event

In March 2009, RepMar has entertained a sale of MRI. No determination has as of yet occurred.