MAJURO RESORT, INC.

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

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

YEARS ENDED SEPTEMBER 30, 2009 AND 2008

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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, 2009 and 2008, 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, 2009 and 2008, 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.

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 August 31, 2010, 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

August 31, 2010

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, 2009. The discussion and analysis should be read in conjunction with the audited financial statements, which follow this section.

Financial Highlights

Total assets decreased by $212,748 or 10% from $2,229,009 in 2008 to $2,016,261 in 2009. The decrease in the total assets is primarily due to decrease in receivables at the end of the fiscal year by $65,008 and decrease in the capital assets by $168,578 due to depreciation.

Gross operating revenues for 2009 were $2,154,827 and represent a decrease of $135,227 or 6% compared to 2008. Compared to FY2007, total operating revenues was lower by $348,224 or 14%. The decrease over FY2009 operating revenues is the combined effect of the decreased revenue performance in the Rooms by $76,929 which can be largely attributed to the decrease in average room rate despite a higher occupancy ratio due to more apartment rooms during the period, the decrease in Food and Beverage revenue of $41,246, and the decrease in Telephone and Other revenue of $17,052.

Total departmental operating profit for the full twelve-month period was $782,507 compared to 2008 which was $876,295 or a decrease of $93,788 or 11%. This, however, represents a significant decrease over 2007 departmental profit by $282,776 or 27%. As a percentage of total revenues, overall departmental operating profit for 2009 was at 36% which represents 2% and 7% lower than 2008 and 2007, respectively.

Operating expenses for 2009 amounted to $1,186,505 representing 55% of Operating Revenues. As a percentage of total revenues, this represents a decrease of 5% compared to 2008 and 3% increase over 2007. The decrease in the operating expenses during the year was primarily attributable to the significant reduction in utilities costs resulting from lower energy rates for 2009 compared with 2008.

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:

	2009	2008	2007
Current and Other assets	$ 357,918	$ 402,088	$ 447,177
Capital Assets	1,658,343	1,826,921	1,989,658
Total Assets	$ 2,016,261	$ 2,229,009	$ 2,436,835
Current Liabilities	$ 1,465,351	$ 1,241,604	$ 928,580
Net Assets:			
Invested in Capital Assets	1,658,343	1,826,921	1,989,658
Unrestricted	(1,107,433)	(839,516)	(481,403)
Total Liabilities and Net Assets	$ 2,016,261	$ 2,229,009	$ 2,436,835

Total assets decreased by $212,748 or 10% from $2,229,009 in 2008 to $2,016,261 in 2009. The decrease was represented by the reduction in total accounts receivable of $50,891 due to collection efforts and decrease in net book value of capital assets by $168,578 due primarily to depreciation. The decrease was partly offset by the slight increase in inventories and 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.

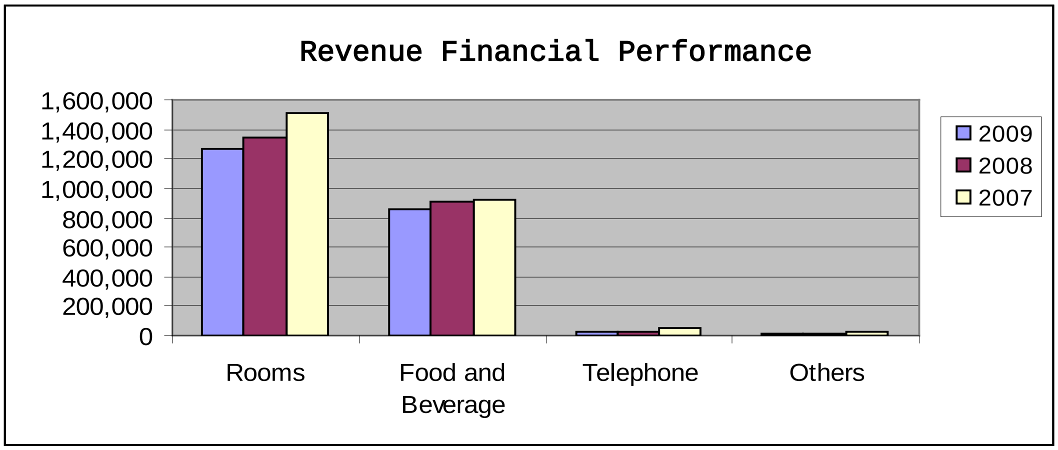
On the other hand, total liabilities increased by $223,747 or 18% from $1,241,604 in 2008 to $1,465,351 in 2009. MRI's liabilities increased as cash flow has been tied up in accounts receivables, particularly with the government and government-related agencies.

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

	2009	2008	2007
Revenues:			
Rooms	$ 1,265,906	$ 1,342,835	$ 1,512,820
Food and Beverage	861,453	902,699	920,516
Telephone	19,752	25,711	46,224
Others	7,716	18,809	23,491
	2,154,827	2,290,054	2,503,051
Less: Bad Debts Expense	14,117	31,647	5,301
	2,140,710	2,258,407	2,497,750
Cost of Sales and Services:			
Rooms	358,499	415,189	394,231
Food and Beverage	940,081	907,360	978,251
Telephone	50,291	52,065	59,234
Others	9,332	7,498	751
	1,358,203	1,382,112	1,432,467
Department Gross Profit (Losses):			
Rooms	893,290	895,999	1,113,288
Food and Beverage	(78,628)	(4,661)	(57,735)
Telephone	(30,539)	(26,354)	(13,010)
Others	(1,616)	11,311	22,740
Total Gross Profit	782,507	876,295	1,065,283
Operating Expenses	1,186,505	1,364,584	1,305,276
Non-operating (Expenses) Revenues	(32,497)	(32,561)	45,476
Change in Net Assets	$ (436,495)	$ (520,850)	$ (194,517)

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 2009 showed a decline of $135,227 or 6% from $2,290,054 in 2008 to $2,154,827 in 2009. Room revenues for 2009 decreased by $76,929 or 6% from 2008 and decreased by $246,914 or 16% from 2007 resulted from considerable decrease in average room rate for 2009 despite a higher occupancy percentage due to more apartment rooms during the year. The occupancy ratio in 2009 was at 48% with an average room rate of $50 per night as compared to 45% with an average room rate of $60 per night in 2008. Food and Beverage revenues for 2009 is at $861,453 which showed a decline of $41,246 or 5% over 2008 and decrease of $59,063 or 6% over 2007. Telephone revenues and revenues from other operating department also showed a decline of $17,052 as compared to last year.

The following graph shows the major components of revenue for financial periods 2009, 2008 and 2007, 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 2009, 2008, 2007, 2006 and 2005.

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

Occupancy Performance	2009	2008	2007	2006	2005
% of total occupancy	47.60%	44.87%	47.61%	34.61%	38.01%
Average rate	$ 49.77	$ 60.29	$ 59.76	$ 73.43	$ 67.33
% of paid occupancy	46.88%	44.50%	46.12%	32.87%	37.58%
Average rate	$ 50.54	$ 60.79	$ 61.70	$ 75.08	$ 68.10
Group rooms	555	1,122	1,644	-	225
% of total occupancy	1.04%	2.26%	3.09%	-	0.50%
Average rate	$ 89.07	$ 97.55	$ 87.92	-	$ 91.70

Paid occupancy ratio in 2009 is 47% as compared to 45% in 2008 and 46% in 2007.

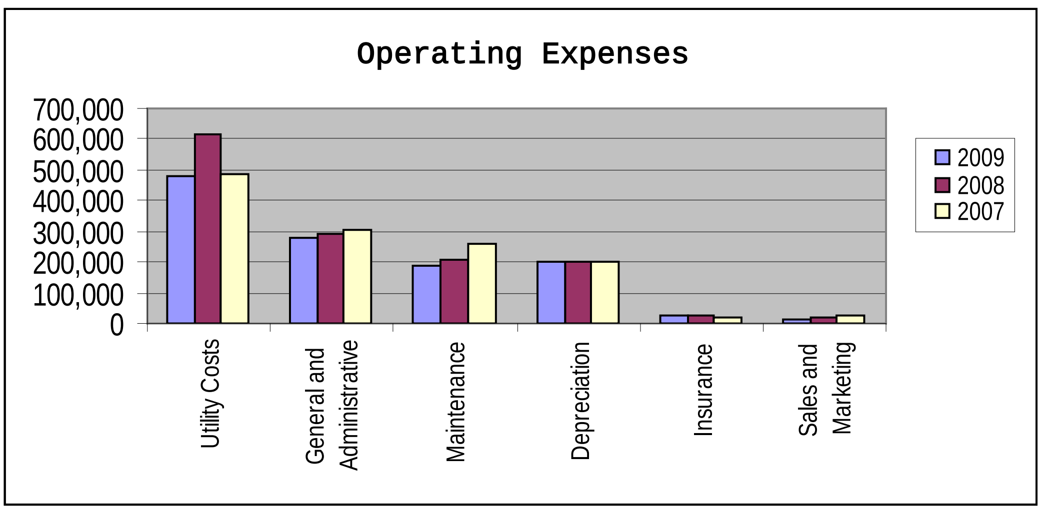
The hotel paid occupancy ratio for the current year has improved over the last five (5) years while the average paid room rate for the current year declined due to more apartment rooms this year compared to previous years which caused the room rate to be diluted.

Operating Expenses

Total operating expenses decreased by $178,079 from $1,364,584 in 2008 to $1,186,505 in 2009. As a percentage of total revenues, operating expenses for 2009 represents 55% of Operating Revenues or a decrease of 5% compared to 2008 and 3% increase over 2007. The decrease in operating expenses was mainly due to the significant decline in utility costs resulted from the decrease in energy rates for 2009 compared with 2008.

General and administrative expenses, showed a decrease of $14,026 while the maintenance cost posted a reduction of $21,964 from 2008 to 2009. Other major components of operating expenses such as depreciation, insurance, and sales and marketing did not post significant increases or decreases from 2008.

The following graph shows the major components of operating expenses for financial periods 2009, 2008 and 2007, all of which cover a twelve (12) month period ending September 30.



Capital Assets

Net capital assets decreased by $168,578 mainly due to depreciation charge for this year. MRI replaced a number of room air conditioning units which brought the upsurge in the furniture and fixtures account. Additional vehicle, office and other equipments were also purchased which contribute to the increase in capital expenditure during the year.

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

	2009	2008	2007
Building and structure	$ 2,234,912	$ 2,234,912	$ 2,234,912
Furniture and fixtures	691,546	669,187	654,020
Office equipment	217,905	215,523	191,678
Other equipment	95,281	94,940	94,443
Motor vehicles	96,206	88,206	88,206
At Cost	3,335,850	3,302,768	3,263,259
Accumulated depreciation	(1,677,507)	(1,475,847)	(1,273,601)
Net Book Value	$ 1,658,343	$ 1,826,921	$ 1,989,658

For additional information concerning capital assets, please refer to 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 unrelenting aggressive promotion of the destination by Marshall Islands Visitors Authority (MIVA) through outside sales agents in Japan, Europe and other countries have continued to assist the tourism industry for over years now. However, cautious optimism is the most suitable forecast for the immediate future with current low visitor numbers to Majuro and continuous decrease in the number of tourist arrivals particularly the Japanese market and other Pacific Islands.

2.) The MIR management is not optimistic about the amount of increase for 2010 as evidenced by the decrease in the number of guests for the first and second quarters of 2010. However, the hotel is receiving more business interest in its banquet and catering services which will have a good impact on food and beverage operations.

3.) Cooperative advertising and marketing with the Marshall Islands tourism industry is essential in reaching a broad range of travelers with limited marketing funds. Promotional chores now lie to the tourism industry and other local industry related businesses to generate sufficient visitor numbers through conferences, workshops, trainings and seminars.

4.) 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. As observed in the past, there has been a steady trend for lower-rated versus added-value and this may have an impact on next year's operations.

5.) 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 some obligations. MIR is anticipating to collect some receivables from the government based on the recent budget consultation with few of the government agencies.

Management's Discussion and Analysis for the year ended September 30, 2008 is set forth in MRI's report on the audit of the financial statements, which is dated May 12, 2009, and that Discussion and Analysis explains the major factors impacting the 2008 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, 2009 and 2008

ASSETS	2009	2008
Current assets:		
Cash	$ 66,839	$ 55,147
Receivables:		
Trade	211,481	219,028
Affiliates	135,135	192,598
Other	39,702	25,583
	386,318	437,209
Less allowance for doubtful accounts	(134,118)	(120,001)
Total receivables, net	252,200	317,208
Inventories	23,251	16,982
Prepaid expenses	15,628	12,751
Total current assets	357,918	402,088
Property, plant and equipment, net	1,658,343	1,826,921
	$ 2,016,261	$ 2,229,009
LIABILITIES AND STOCKHOLDER'S EQUITY		
Current liabilities:		
Accounts payable	$ 306,171	$ 131,067
Payable to affiliates	798,029	755,781
Accrued expenses	361,151	354,756
Total current liabilities	1,465,351	1,241,604
Commitment and contingencies		
Net assets:		
Invested in capital assets	1,658,343	1,826,921
Unrestricted	(1,107,433)	(839,516)
Total net assets	550,910	987,405
	$ 2,016,261	$ 2,229,009

See accompanying notes to financial statements.

MAJURO RESORT, INC.

Statements of Revenues, Expenses and Changes in Net Assets
Years Ended September 30, 2009 and 2008

	2009	2008
Revenues:		
Rooms	$ 1,265,906	$ 1,342,835
Food and beverage	861,453	902,699
Telephone	19,752	25,711
Other	7,716	18,809
Total revenues	2,154,827	2,290,054
Bad debt expense	14,117	31,647
Net revenues	2,140,710	2,258,407
Cost of sales:		
Rooms	358,499	415,189
Food and beverage	940,081	907,360
Telephone	50,291	52,065
Other	9,332	7,498
Total cost of sales	1,358,203	1,382,112
Gross profit	782,507	876,295
Operating expenses:		
Utility costs	478,120	616,926
General and administrative	280,250	294,276
Maintenance	188,628	210,592
Depreciation	201,660	202,246
Insurance	24,319	24,319
Sales and marketing	13,528	16,225
Total operating expenses	1,186,505	1,364,584
Operating loss	(403,998)	(488,289)
Nonoperating expenses:		
Interest expense	(32,497)	(32,561)
Change in net assets	(436,495)	(520,850)
Net assets at beginning of year	987,405	1,508,255
Net assets at end of year	$ 550,910	$ 987,405

See accompanying notes to financial statements.

MAJURO RESORT, INC.

Statements of Cash Flows
Years Ended September 30, 2009 and 2008

	2009	2008
Cash flows from operating activities:		
Cash received from customers	$ 2,205,718	$ 2,242,997
Cash payments to suppliers for goods and services	(1,424,247)	(1,470,218)
Cash payments to employees for services	(704,200)	(693,666)
Net cash provided by operating activities	77,271	79,113
Cash flows from noncapital financing activities:		
Interest paid	(32,497)	(32,561)
Cash flows from capital and related financing activity:		
Acquisition of capital assets	(33,082)	(39,509)
Net change in cash	11,692	7,043
Cash at beginning of year	55,147	48,104
Cash at end of year	$ 66,839	$ 55,147
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	$ (403,998)	$ (488,289)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation	201,660	202,246
Bad debt expense	14,117	31,647
(Increase) decrease in assets:		
Receivables:		
Trade	7,547	(54,485)
Affiliates	57,463	(5,558)
Other	(14,119)	12,986
Inventories	(6,269)	51,371
Prepaid expenses	(2,877)	16,171
Increase in liabilities:		
Accounts payable	175,104	46,453
Payable to affiliates	42,248	212,907
Accrued expenses	6,395	53,664
Net cash provided by operating activities	$ 77,271	$ 79,113

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, 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 2009, MRI implemented the following pronouncements:

- GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which 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.

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

- GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, which provides guidance and consistency under which a governmental entity would be required to report a liability related to pollution remediation.

- GASB Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*, which 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.

- GASB Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, which improves financial reporting by contributing to the GASB's efforts to codify all GAAP for state and local governments so that they derive from a single source.

- GASB Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards*, which incorporates accounting and financial reporting guidance previously only contained in the American Institute of Certified Public Accountants (AICPA) auditing literature into the GASB's accounting and financial reporting literature for state and local governments, and addresses three issues from the AICPA's literature - related party transactions, going concern considerations, and subsequent events.

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

In June 2007, GASB issued statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, which 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 June 2008, GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, which 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.

In December 2008, GASB issued Technical Bulletin No. 2008-1, *Determining the Annual Required Contribution Adjustment for Postemployment Benefits*, which clarifies the requirements of GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers,* and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, for calculating the annual required contribution (ARC) adjustment. The provisions of this statement are effective for periods beginning after December 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 March 2009, GASB issued 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. The provisions of this statement are effective for periods beginning after June 15, 2010. 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. 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.

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, 2009 and 2008, the carrying amount of cash was $66,839 and $55,147, respectively, and the corresponding bank balances were $66,150 and $47,385, respectively. As of September 30, 2009 and 2008, bank balances in the amount of $63,039 and $44,274, 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.

(2) Summary of Significant Accounting Policies, Continued

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.

Advertising Costs

MRI expenses advertising costs as incurred. During the years ended September 30, 2009 and 2008, MRI incurred advertising costs of $12,102 and $12,955, 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, 2009 and 2008, the accumulated vacation leave liability amounted to $22,722 and $42,337, 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

Capital asset activity for the years ended September 30, 2009 and 2008, was as follows:

	Estimated Useful Lives	Balance at October 1, 2008	Additions	Balance at September 30, 2009
Building and structure	17 years	$ 2,234,912	$ -	$ 2,234,912
Furniture and fixtures	3 years	669,187	22,359	691,546
Office equipment	3 years	215,523	2,382	217,905
Other equipment	3 years	94,940	341	95,281
Motor vehicles	3 years	88,206	8,000	96,206
		3,302,768	33,082	3,335,850
Less accumulated depreciation		(1,475,847)	(201,660)	(1,677,507)
		$ 1,826,921	$ (168,578)	$ 1,658,343

	Estimated Useful Lives	Balance at October 1, 2007	Additions	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)	(1,475,847)
		$ 1,989,658	$ (162,737)	$ 1,826,921

(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, 2009 and 2008 and for the years then ended are as follows:

	September 30, 2009			
	Revenues	Expenses	Receivables	Payables
RepMar	$ 413,438	$ 1,663	$ 115,088	$ 52,870
Air Marshall Islands, Inc.	648	-	3,200	-
Marshalls Energy Company, Inc.	341	435,041	-	464,561
Marshall Islands National Telecommunications Authority	7,234	96,605	-	13,093
Marshall Islands Social Security Administration	496	97,871	-	258,147
Majuro Water and Sewer Company, Inc.	-	37,820	-	9,259
PII	2,825	7,979	-	-
Triple J/Payless Supermarket	10,042	227,194	-	-
Other	44,994	42,435	16,847	99
	$ 480,018	$ 946,608	$ 135,135	$ 798,029

	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

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

(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 was contingent upon the negotiation of a formal Joint Venture Agreement with the third party. No formal Joint Venture Agreement was executed; however, management reflected such taxes as a subsidy from RepMar in accordance with the Memorandum of Agreement in the 2004 financial statements. On August 31, 2009, PII ceased the management and operation of the Hotel.

(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. Neither MRI or RepMar have issued shares to the lessor at September 30, 2009 and 2008.

Contingencies

MRI has incurred net losses since inception. MRI depends on RepMar for cash funding to continue its operations. 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 MIR’s operations and its ability to provide working capital is dependent upon the future financial support of RepMar and/or significant improvements in operations.

Prior to ceasation of the management and operation of the Hotel, PII 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 PII and, therefore, MRI has not recorded the management fees payable in the accompanying financial statements.

At September 30, 2009 and 2008, 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 $145,286 and $129,612 and local government taxes of $167,354 and $136,451 as of September 30, 2009 and 2008, 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. Penalties and interest are estimated to be $77,718 as of September 30, 2009. No such action has yet been filed. At September 30, 2009 and 2008, 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.

(7) Subsequent Event

On November 5, 2009, a judgment was rendered for Marshall Islands Social Security Administration (MISSA) against MRI. The judgment has been amended to substitute RepMar as a party defendant in place of MRI. MISSA has been awarded a judgment against RepMar in the amount of $464,001 inclusive of penalties of $222,987, with interest calculated at 9% per annum from November 5, 2009. MRI did not recognize the penalty in the accompanying financial statements as management was advised that RepMar plans to negotiate the penalty with MISSA.