MAJURO RESORT, INC.

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

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

YEARS ENDED SEPTEMBER 30, 2010 AND 2009

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Majuro Resort, Inc.:

We have audited the accompanying statements of net assets (deficiency) of Majuro Resort, Inc. (MRI), a component unit of the Republic of the Marshall Islands, as of September 30, 2010 and 2009, 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, 2010 and 2009, 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 28, 2011, 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.

Deloitte & Touche LLP

August 28, 2011

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, 2010. The discussion and analysis should be read in conjunction with the audited financial statements, which follow this section.

Financial Highlights

Total assets decreased by $140,654 or 7% from $2,016,261 in 2009 to $1,875,607 in 2010. The decrease in total assets is primarily due to a decrease in cash reserves at the end of the fiscal year by $33,513 and a decrease in capital assets by $149,587 due to depreciation, which was offset with an increase in receivables of $45,222 or 18% over 2009.

Gross operating revenues for 2010 were $1,985,059 and represent a decrease of $169,768 or 8% compared to 2009. Compared to FY2008, total operating revenues was lower by $304,995 or 13%. The decrease over FY2010 operating revenues is the combined effect of the decreased revenue performance in the Rooms by $176,955, which can be largely attributed to the decrease in occupancy ratio resulting from the significant decline in the number of visitors on the island, the slight decrease in Food and Beverage revenue of $2,644, and a decrease in Telephone revenue of $7,356.

Total departmental operating profit for the full twelve-month period was $573,923 compared to 2009 which was $782,507 or a decrease of $143,877 or 27%. This, however, represents a significant decrease over 2008 departmental profit by $302,372 or 35%. As a percentage of total revenues, overall departmental operating profit for 2010 was at 29%, which represents 7% and 9% lower than 2009 and 2008, respectively.

Operating expenses for 2010 amounted to $1,167,322 compared to 2009 which was $1,186,505 or a decrease of $19,183 or 2%. Despite the decrease in absolute overall operating expenses from 2009 and 2008, operating expenses for 2010 was at 59% of total revenues, which represents an increase of 4% compared to 2009 and 1% decrease over 2008. The decrease in operating expenses during the year is the effect of the reduced building maintenance and insurance costs, lower depreciation, general and administration expenses, and decline in sales and marketing fees, which was partly offset by an increase in utilities cost due to higher energy rates for 2010 compared with 2009.

Financial Analysis

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

	2010	2009	2008
Current and Other assets	$ 366,851	$ 357,918	$ 402,088
Capital Assets	1,508,756	1,658,343	1,826,921
Total Assets	$ 1,875,607	$ 2,016,261	$ 2,229,009
Current Liabilities	$ 2,149,637	$ 1,465,351	$ 1,241,604
Net Assets (Deficiency):			
Invested in Capital Assets	1,508,756	1,658,343	1,826,921
Deficiency	(1,782,786)	(1,107,433)	(839,516)
Total Net Assets (Deficiency)	(274,030)	550,910	987,405
Total Liabilities and Net Assets (Deficiency)	$ 1,875,607	$ 2,016,261	$ 2,229,009

Total assets decreased by $140,654 or 7% from $2,016,261 in 2009 to $1,875,607 in 2010. The decrease was represented by the reduction in cash reserves by $33,513 and a decrease in net book value of capital assets by $149,587 due to depreciation. The decrease was offset by the nominal increase in inventories and significant increase in total accounts receivable 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.

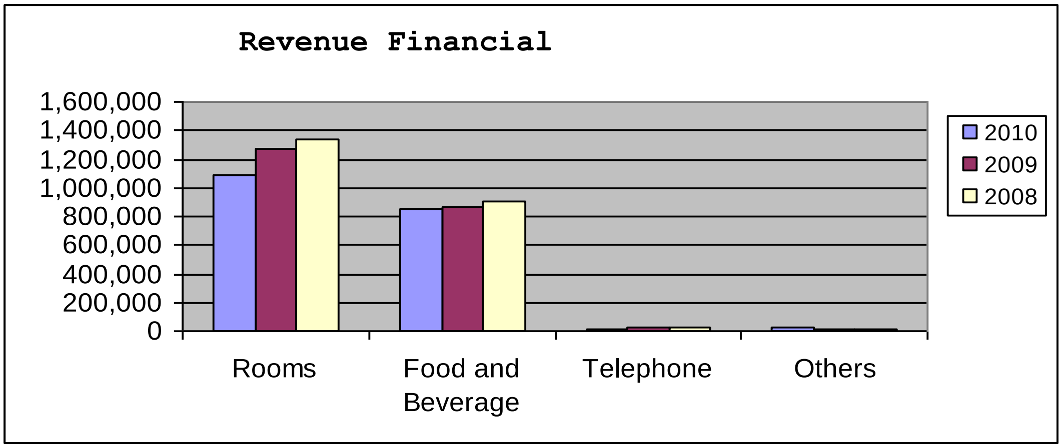
On the other hand, total liabilities increased by $684,286 or 47% from $1,465,351 in 2009 to $2,149,637 in 2010. MRI's liabilities increased as cash flow has been tied up in accounts receivables, particularly with the government and government-related agencies.

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

	2010	2009	2008
Revenues:			
Rooms	$ 1,088,951	$ 1,265,906	$ 1,342,835
Food & Beverage	858,809	861,453	902,699
Telephone	12,396	19,752	25,711
Others	24,903	7,716	18,809
	1,985,059	2,154,827	2,290,054
Less: Bad Debts Expense	120,689	14,117	31,647
	1,864,370	2,140,710	2,258,407
Cost of Sales & Services:			
Rooms	317,029	358,499	415,189
Food & Beverage	943,747	940,081	907,360
Telephone	22,699	50,291	52,065
Others	6,972	9,332	7,498
	1,290,447	1,358,203	1,382,112
Department Gross Profit:			
Rooms	651,233	893,290	895,999
Food & Beverage	(84,938)	(78,628)	(4,661)
Telephone	(10,303)	(30,539)	(26,354)
Others	17,931	(1,616)	11,311
Total Gross Profit	573,923	782,507	876,295
Operating Expenses	1,167,322	1,186,505	1,364,584
Non-operating Revenues (Expenses)	(231,541)	(32,497)	(32,561)
Change in Net Assets (Deficiency)	$ (824,940)	$ (436,495)	$ (520,850)

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 2010 showed a decline of $169,768 or 8% from $2,154,827 in 2009 to $1,985,059 in 2010. The decline in revenues was attributable to lower occupancy rates in 2010 compared to 2009, which resulted in lower room revenues and a decline in food and beverage sales. Room revenues for 2010 decreased by $176,955 or 14% from 2009 and decreased by $253,884 or 19% from 2008, while the average room rate remained constant for two years. The occupancy ratio in 2010 was at 41% and 48% in 2009, both years have an average room rate of $50 per night. Food & Beverage revenues for 2010 is at $858,809, which showed a slight decline of $2,644 or 0.3% over 2009 and a decrease of $43,890 or 5% over 2008. Meanwhile, telephone revenues and revenues from other operating departments posted a net increase of $9,831 as compared to last year.

The following graph shows the major components of revenue for financial periods 2010, 2009 and 2008, 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 2010, 2009, 2008, 2007 and 2006.

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

Occupancy Performance	2010	2009	2008	2007	2006
% of total occupancy	40.59%	47.60%	44.87%	47.61%	34.61%
Average rate	$50.34	$49.77	$60.29	$59.76	$73.43
% of paid occupancy	40.49%	46.88%	44.50%	46.12%	32.87%
Average rate	$50.47	$50.54	$60.79	$61.70	$75.08
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 2010 is 40% as compared to 47% in 2009 and 45% in 2008.

The hotel paid occupancy ratio for the current year has declined dramatically as compared to the last three (3) years while the average paid room rate for the current year remained the same due to the increase in apartment room rate this year compared to previous years.

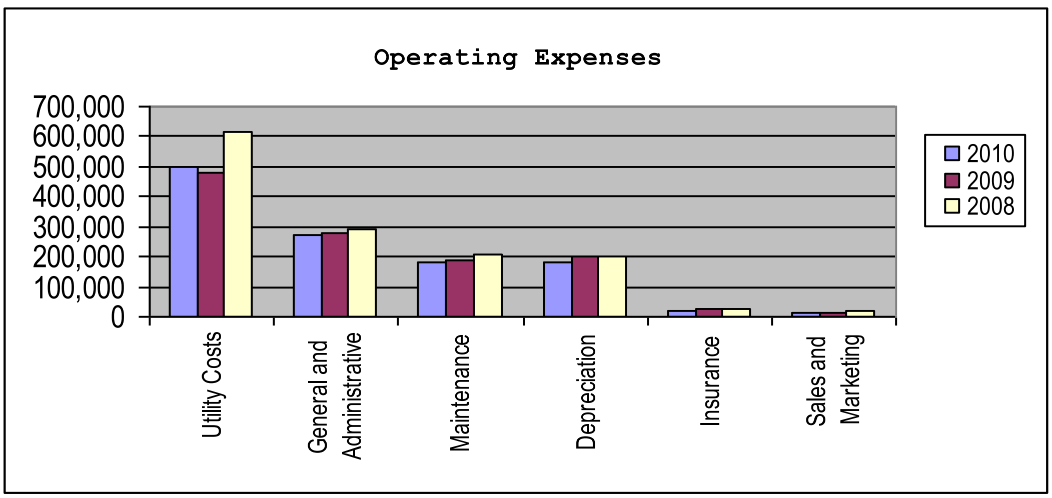
Operating Expenses

Total operating expenses decreased by $19,183 from $1,186,505 in 2009 to $1,167,322 in 2010. The decrease was due to the reduced cost in overall major components of operating expenses as a result of the decline in activity reflected by lower room revenue, food and beverage revenue and telephone revenue, which is attributed further to lower occupancy during the year.

As a percentage of total revenues, operating expenses for 2010 represents 59% or an increase of 4% compared to 2009 and 1% decrease over 2008.

While the utility costs showed an increase of $20,370 resulting from higher energy rates during the year, depreciation expenses showed a decrease of $19,683 from 2009. General and administrative expenses decreased by $7,708 and the maintenance cost posted a reduction of $8,225 from 2009 to 2010. Other operating expenses such as insurance and sales and marketing did not post significant increases or decreases from 2009.

The following graph shows the major components of operating expenses for financial periods 2010, 2009 and 2008, all of which cover a twelve (12) month period ending September 30.



Capital Assets

Net capital assets decreased by $149,587 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 expenditures during the year.

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

	2010	2009	2008
Building and structure	$ 2,234,912	$ 2,234,912	$ 2,234,912
Furniture & fixture	712,985	691,546	669,187
Office equipment	220,481	217,905	215,523
Other equipment	95,456	95,281	94,940
Motor vehicles	104,406	96,206	88,206
At Cost	3,368,240	3,335,850	3,302,768
Accumulated depreciation	(1,859,484)	(1,677,507)	(1,475,847)
Net Book Value	$ 1,508,756	$ 1,658,343	$ 1,826,921

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.) 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 a decade now. 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, and promotions.

2.) With the current number of visitors to Majuro, the Marshall Islands Resort (MIR) management is optimistic about the amount of increase in room revenues for 2011 as evidenced by the increase in the number of guests for the first and second quarters of 2011. Additionally, 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. However, this may be offset by the increase in utilities cost due to the continued increase in energy rate resulting from fuel prices escalation. With this anticipation, the MIR management is looking for effective ways to save cost and minimize the energy consumption for the hotel.

3.) 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.

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.

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. A special collector has been assigned to assist in the collection of receivables.

Management's Discussion and Analysis for the year ended September 30, 2009 is set forth in MRI's report on the audit of the financial statements, which is dated August 31, 2010, and that Discussion and Analysis explains the major factors impacting the 2009 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 (Deficiency)
September 30, 2010 and 2009

ASSETS	2010	2009
Current assets:		
Cash	$ 33,326	$ 66,839
Receivables:		
Trade	253,943	211,481
Affiliates	200,240	135,135
Other	17,899	39,702
	472,082	386,318
Less allowance for doubtful accounts	(174,660)	(134,118)
Total receivables, net	297,422	252,200
Inventories	25,353	23,251
Prepaid expenses	10,750	15,628
Total current assets	366,851	357,918
Property, plant and equipment, net	1,508,756	1,658,343
	$ 1,875,607	$ 2,016,261
LIABILITIES AND NET ASSETS (DEFICIENCY)		
Current liabilities:		
Accounts payable	$ 307,779	$ 306,171
Payable to affiliates	1,429,432	798,029
Accrued expenses	412,426	361,151
Total current liabilities	2,149,637	1,465,351
Commitment and contingencies		
Net assets (deficiency):		
Invested in capital assets	1,508,756	1,658,343
Deficiency	(1,782,786)	(1,107,433)
Total net assets (deficiency)	(274,030)	550,910
	$ 1,875,607	$ 2,016,261

See accompanying notes to financial statements.

MAJURO RESORT, INC.

Statements of Revenues, Expenses and Changes in Net Assets (Deficiency)
Years Ended September 30, 2010 and 2009

	2010	2009
Revenues:		
Rooms	$ 1,088,951	$ 1,265,906
Food and beverage	858,809	861,453
Telephone	12,396	19,752
Other	24,903	7,716
Total revenues	1,985,059	2,154,827
Less provision for doubtful accounts	120,689	14,117
Net revenues	1,864,370	2,140,710
Cost of sales:		
Rooms	317,029	358,499
Food and beverage	943,747	940,081
Telephone	22,699	50,291
Other	6,972	9,332
Total cost of sales	1,290,447	1,358,203
Gross profit	573,923	782,507
Operating expenses:		
Utility costs	498,490	478,120
General and administrative	272,542	280,250
Depreciation	181,977	201,660
Maintenance	180,403	188,628
Insurance	22,325	24,319
Sales and marketing	11,585	13,528
Total operating expenses	1,167,322	1,186,505
Operating loss	(593,399)	(403,998)
Nonoperating expenses:		
Interest expense	(231,541)	(32,497)
Change in net assets (deficiency)	(824,940)	(436,495)
Net assets at beginning of year	550,910	987,405
Net assets (deficiency) at end of year	$ (274,030)	$ 550,910

See accompanying notes to financial statements.

MAJURO RESORT, INC.

Statements of Cash Flows
Years Ended September 30, 2010 and 2009

	2010	2009
Cash flows from operating activities:		
Cash received from customers	$ 1,819,148	$ 2,205,718
Cash payments to suppliers for goods and services	(1,142,094)	(1,424,247)
Cash payments to employees for services	(669,623)	(704,200)
Net cash provided by operating activities	7,431	77,271
Cash flows from noncapital financing activities:		
Interest paid	(8,554)	(32,497)
Cash flows from capital and related financing activity:		
Acquisition of capital assets	(32,390)	(33,082)
Net change in cash	(33,513)	11,692
Cash at beginning of year	66,839	55,147
Cash at end of year	$ 33,326	$ 66,839
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	$ (593,399)	$ (403,998)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation	181,977	201,660
Bad debt expense	120,689	14,117
(Increase) decrease in assets:		
Receivables:		
Trade	(122,609)	7,547
Affiliates	(65,105)	57,463
Other	21,803	(14,119)
Inventories	(2,102)	(6,269)
Prepaid expenses	4,878	(2,877)
Increase in liabilities:		
Accounts payable	1,608	175,104
Payable to affiliates	408,416	42,248
Accrued expenses	51,275	6,395
Net cash provided by operating activities	$ 7,431	$ 77,271

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 assets and cash flows, cash is defined as cash on hand and cash held in demand accounts. As of September 30, 2010 and 2009, the carrying amount of cash was $33,326 and $66,839, respectively, and the corresponding bank balances were $29,553 and $66,150, respectively. As of September 30, 2010 and 2009, bank balances in the amount of $26,442 and $63,039, 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, 2010 and 2009, MRI incurred advertising costs of $8,649 and $12,102, 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, 2010 and 2009, the accumulated vacation leave liability amounted to $24,806 and $22,722, respectively, and is included within the statement of net assets as accrued expenses.

New Accounting Standards

During fiscal year 2010, MRI implemented the following pronouncements:

- GASB 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.

- GASB 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.

- GASB 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.

- GASB Statement No. 58, *Accounting and Financial Reporting for Chapter 9 Bankruptcies*, which provides guidance for governments that have petitioned for protection from creditors by filing for bankruptcy under Chapter 9 of the United States Bankruptcy Code, and establishes requirements for recognizing and measuring the effects of the bankruptcy process on assets and liabilities, and for classifying changes in those items and related costs.

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

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 has not evaluated the effect that the implementation of this statement will have on the financial statements of MRI.

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

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 June 2010, GASB issued Statement No. 59, *Financial Instruments Omnibus*, which updates and improves existing standards regarding financial reporting of certain financial instruments and external investment pools. The provisions of this statement are effective for periods beginning after June 15, 2010. Management has not evaluated the effect that the implementation of this statement will have 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.

(4) Property, Plant and Equipment

Capital asset activity for the years ended September 30, 2010 and 2009 was as follows:

	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

(4) Property, Plant and Equipment, Continued

	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

(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.

A summary of related party balances and transactions as of September 30, 2010 and 2009 and for the years then ended are as follows:

	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 MRI	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

(5) Related Party Transactions, Continued

	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 MRI	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

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

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, 2010 and 2009.

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 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.

(6) Commitments and Contingencies, Continued

Contingencies, Continued

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, 2010 and 2009, 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 $182,235 and $145,286 and local government taxes of $197,327 and $167,354 as of September 30, 2010 and 2009, 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 $91,095 and $77,718 as of September 30, 2010 and 2009, respectively. No such action has yet been filed. At September 30, 2010 and 2009, 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.

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.