MAJURO RESORT, INC.

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

FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT

YEARS ENDED SEPTEMBER 30, 2013 AND 2012

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

Years Ended September 30, 2013 and 2012
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INDEPENDENT AUDITORS' REPORT

Board of Directors
Majuro Resort, Inc.:

Report on the Financial Statements

We have audited the accompanying financial statements of Majuro Resort, Inc. (MRI), a component unit of the Republic of the Marshall Islands, which comprise the statements of net position as of September 30, 2013 and 2012, and the related statements of revenues, expenses and changes in net position and of cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of MRI as of September 30, 2013 and 2012, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis-of-Matter

Going Concern

The accompanying financial statements have been prepared assuming that MRI will continue as a going concern. As discussed in Note 7 to the financial statements, MRI's recurring losses from operations raise substantial doubt about its ability to continue as a going concern. Management's plans concerning these matters are also discussed in Note 7 to the financial statements. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 8, 2014, 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 financing reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering MRI's internal control over financial reporting and compliance.

Deloitte + Touche LLP

September 8, 2014

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, 2013. The discussion and analysis should be read in conjunction with the audited financial statements, which follow this section.

Financial Highlights

Total assets increased by $410,974 or 22% from $1,875,284 in 2012 to $2,286,258 in 2013. The increase in the total assets is the effect of the increase in receivables by $144,503 and increase in over-all inventories by $17,247 attributed mainly for Food and Beverages, which was offset by the decrease in cash reserves at the end of the fiscal year by $53,819 and increase in the capital assets by $305,631 due to building improvement and capital equipment acquisitions during the year.

Gross operating revenues for 2013 were $2,707,229 and represent an increase of $535,120 or 25% compared to 2012. Compared to FY2011, total operating revenues was higher by $332,261 or 14%. The increase over FY2012 operating revenues is the combined effect in the increased revenue performance in the Rooms by $172,648 which can be largely attributed to the increase in average room rate, increase in Food and Beverage revenue of $322,787, and increase in Telephone and Other revenue of $39,685.

Total departmental operating profit for the full twelve-month period was $874,765 compared to 2012 which was $476,560 or an increase of $398,205 or 84%. This also represents an increase over 2011 departmental profit by $19,300 or 2%. As a percentage of total revenues, overall departmental operating profit for 2013 was at 32% which represents 10% higher than 2012 and 4% lesser than 2011.

Operating expenses for 2013 amounted to $1,669,549 compared to 2012 which was $1,509,924 or an increase of $159,625 or 11%. As a percentage of total revenues, overall operating expenses for 2013 was at 62% which represents a decrease of 8% compared to 2012 and 5% increase over 2011. The increase in operating expenses during the year was primarily attributable to the increase in general and administrative, maintenance, sales and marketing, and expenses related to building equipment acquisition and maintenance.

Financial Analysis

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

	2013	2012	2011
Current and other assets	$ 495,430	$ 390,087	$ 446,935
Capital assets	1,790,828	1,485,197	1,406,279
Total Assets	$ 2,286,258	$ 1,875,284	$ 1,853,214
Current liabilities	$ 1,321,873	$ 2,798,267	$ 2,030,433
Net Position:			
Net investment in capital assets	1,790,828	1,485,197	1,406,279
Unrestricted	(826,443)	(2,408,180)	(1,583,498)
Total net position	964,385	(922,983)	(177,219)
Total Liabilities and Net Position	$ 2,286,258	$ 1,875,284	$ 1,853,214

Total assets increased by $410,974 or 22% from $1,875,284 in 2012 to $2,286,258 in 2013. The increase was represented by the increase in receivables by $144,503 even with the increase of doubtful accounts by $ 66,247 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. An increase in net book value of capital assets by $305,631 due primarily to building improvement and acquisitions of various equipment, furniture and fixtures during the year. Inventories also increased by $17,247. The increase was partly offset by the slight decrease of $2,588 in prepayment.

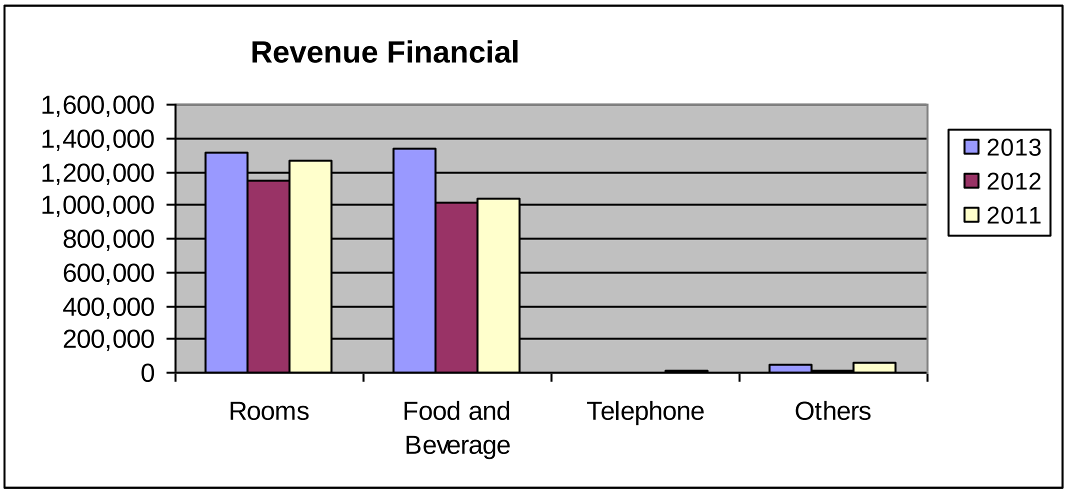
On the other hand, total liabilities decreased by $1,476,394 or 53% from $2,798,267 in 2012 to $1,321,873 in 2013. MRI's liabilities decreased due to the forgiveness of debt of $2,365,635 through RepMar in paying the utility charges to MEC.

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

	2013	2012	2011
Revenues:			
Rooms	$ 1,313,827	$ 1,141,179	$ 1,268,619
Food and Beverage	1,336,733	1,013,946	1,033,618
Telephone	4,045	2,872	10,644
Others	52,624	14,112	62,087
	2,707,229	2,172,109	2,374,968
Less: Bad Debts Expense	(93,227)	(108,616)	(54,516)
	2,614,002	2,063,493	2,320,452
Cost of Sales and Services:			
Rooms	397,641	364,189	322,818
Food and Beverage	1,294,779	1,191,878	1,118,260
Telephone	26,727	17,580	17,091
Others	20,090	13,286	6,818
	1,739,237	1,586,933	1,464,987
Department Gross Profits (Losses):			
Rooms	822,959	668,374	891,285
Food and Beverage	41,954	(177,932)	(84,642)
Telephone	(22,682)	(14,708)	(6,447)
Others	32,534	826	55,269
Total Gross Profit	874,765	476,560	855,465
Operating Expenses	1,669,549	1,509,924	1,354,049
Non-operating Revenues (Expenses), net	316,517	287,600	595,395
Forgiveness of debt	2,365,635	-	-
Change in Net Position	$ 1,887,368	$ (745,764)	$ 96,811

The Statement of Revenues, Expenses and Changes in Net Position identify various revenue and expense items that impact the change in net position. Operating revenues for 2013 showed an increase of $535,120 or 25% from $2,172,109 in 2012 to $2,707,229 in 2013. Room revenues for 2013 increased by $172,648 or 15% from 2012 and increased by $45,208 or 4% from 2011. The occupancy ratio in 2013 and 2012 decreased by 3% but $10 increase in average room rate from $45 in 2012 to $55 in 2013. Food & Beverage revenues for 2013 was $1,336,733 which showed an increase of $322,787 or 32% over 2012 and an increase of $303,115 or 29% over 2011. Meanwhile, telephone revenues and revenues from other operating departments posted a net increase of $39,685 as compared to last year.

The following graph shows the major components of revenue for financial periods 2013, 2012 and 2011, 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 2013, 2012, 2011, 2010 and 2009.

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

Occupancy Performance	2013	2012	2011	2010	2009
% of total occupancy	45.04%	47.96%	47.56%	40.59%	47.60%
Average rate	$ 55.50	$ 45.27	$ 50.75	$ 50.34	$ 49.77
% of paid occupancy	44.97%	47.87%	47.46%	40.49%	46.88%
Average rate	$ 55.59	$ 45.35	$ 50.86	$ 50.47	$ 50.54
Group rooms	-	-	-	-	555
% of total occupancy	-	-	-	-	1.04%
Average rate	-	-	-	-	$ 89.07

Paid occupancy ratio in 2013 was 45% as compared to 48% in 2012 and 2011.

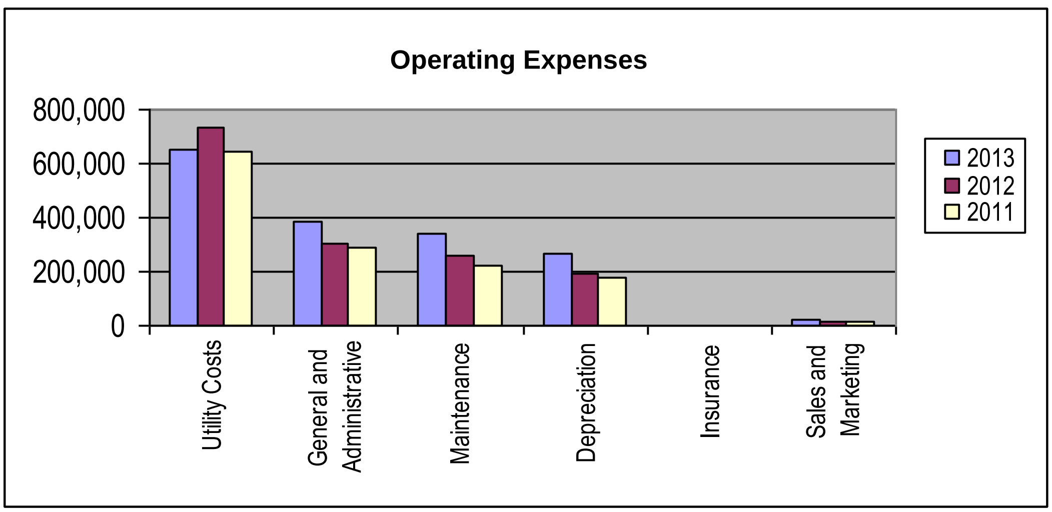
The hotel paid occupancy ratio for the current year has decreased over the past two (2) years while the average paid room rate for the current year has increased due to more long-stay rooms and increase in room rate.

Operating Expenses

Total operating expenses increased by $159,625 from $1,509,924 in 2012 to $1,669,549 in 2013 as a result of the increased cost in overall major components of operating expenses. As a percentage of total revenues, operating expenses for 2013 represents 62% or a decrease of 8% compared to 2012 and 5% increase over 2011.

Utility costs showed a substantial decrease of $81,785 from $734,746 in 2012 to $652,961 in 2013. The decrease was primarily contributed by the efforts of MIR to change old equipments to energy saver, change of water heater even with the increase in energy rate. General and administrative expenses showed an increase of $82,292 while the maintenance cost and depreciation posted an increase of $83,533 and $70,189, respectively, from 2012 to 2013. Other operating expenses such as insurance, sales and marketing did not post significant increases or decreases from 2012.

The following graph shows the major components of operating expenses for financial periods 2013, 2012 and 2011, all of which cover a twelve (12) month period ending September 30.



Management's Discussion and Analysis for the year ended September 30, 2012 is set forth in MRI's report on the audit of the financial statements, which is dated October 14, 2013, and that Discussion and Analysis explains the major factors impacting the 2012 financial statements and can be obtained at the address indicated on page 8.

Capital Assets and Debt

Net capital assets increased by $305,631 due mainly to building improvement and capital equipment acquisitions for this year. Certain capital equipment was purchased to replace damaged equipment due to wear and tear. MRI had various capital projects such as replacement of water heater system on all premises, 30 refrigerator units for guest rooms, table lamps, TV and air conditioning units, trash and cigarette butt receptacle, banquet tables and chairs, kitchen equipment such as deep fryer, dishwasher, range and oven and which brought the increase in the furniture and fixtures account. There was also an increase in motor vehicles with the purchase of a 4 door pick-up truck as well as body repairs and painting repairs on the other vehicles that led to an increase in capital expenditure during the year.

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

	2013	2012	2011
Building and structure	$ 2,543,390	$ 2,362,004	$ 2,234,912
Furniture and fixtures	1,238,720	924,297	782,306
Office equipment	228,226	221,545	220,481
Other equipment	104,983	96,153	95,456
Motor vehicles	173,588	113,762	110,362
At Cost	4,288,907	3,717,761	3,443,517
Accumulated depreciation	(2,498,079)	(2,232,564)	(2,037,238)
Net Book Value	$ 1,790,828	$ 1,485,197	$ 1,406,279

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

On December 12, 2012, MRI obtained a short-term loan facility for $95,000 to finance certain expenditures associated with the hosting of the Pacific Islands Forum. For additional information concerning debt, please see note 5 to the financial statements.

Economic Factors and Next Year's Performance

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

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

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

3) There is a continuous growth in guest arrivals brought about by the service provided by Our Airline between Majuro and Australia. This will have a great impact in the tourism industry and country as a whole. With the current number of visitors to Majuro, MRI management is optimistic about the amount of increase in room revenues for 2014. Upcoming conferences and seminars that will be hosted by RMI for 2014 will also give us an advantage in hotel room occupancy as well as the food and beverage operations.

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

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 obligations. MRI new management has established measures to improve its collection campaign in order to recover long-outstanding receivables.

Additional Financial Information

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

MAJURO RESORT, INC.

Statements of Net Position
September 30, 2013 and 2012

ASSETS	2013	2012
Current assets:		
Cash	$ 79,276	$ 133,095
Receivables:		
Trade	365,796	297,473
Affiliates	293,890	153,417
Other	28,038	26,084
	687,724	476,974
Less allowance for doubtful accounts	(353,746)	(287,499)
Total receivables, net	333,978	189,475
Inventories	48,514	31,267
Prepaid expenses	33,662	36,250
Total current assets	495,430	390,087
Property, plant and equipment, net	1,790,828	1,485,197
	$ 2,286,258	$ 1,875,284
LIABILITIES AND NET POSITION		
Current liabilities:		
Note payable	$ 95,000	$ -
Accounts payable	346,441	178,743
Payable to affiliates	361,243	2,153,912
Accrued expenses	519,189	465,612
Total current liabilities	1,321,873	2,798,267
Commitment and contingencies		
Net position:		
Net investment in capital assets	1,790,828	1,485,197
Unrestricted	(826,443)	(2,408,180)
Total net position	964,385	(922,983)
	$ 2,286,258	$ 1,875,284

See accompanying notes to financial statements.

MAJURO RESORT, INC.

Statements of Revenues, Expenses and Changes in Net Position
Years Ended September 30, 2013 and 2012

	2013	2012
Revenues:		
Food and beverage	$ 1,336,733	$ 1,013,946
Rooms	1,313,827	1,141,179
Telephone	4,045	2,872
Other	52,624	14,112
Total revenues	2,707,229	2,172,109
Less provision for doubtful accounts	(93,227)	(108,616)
Net revenues	2,614,002	2,063,493
Cost of sales:		
Food and beverage	1,294,779	1,191,878
Rooms	397,641	364,189
Telephone	26,727	17,580
Other	20,090	13,286
Total cost of sales	1,739,237	1,586,933
Gross profit	874,765	476,560
Operating expenses:		
Utility costs	652,961	734,746
General and administrative	387,777	305,485
Maintenance	342,795	259,262
Depreciation	265,515	195,326
Sales and marketing	20,501	15,105
Total operating expenses	1,669,549	1,509,924
Operating loss	(794,784)	(1,033,364)
Nonoperating revenues (expenses):		
Operating subsidies	321,900	300,000
Management fee	-	(7,171)
Interest expense	(5,383)	(5,229)
Total nonoperating revenues (expenses), net	316,517	287,600
	(478,267)	(745,764)
Special item:		
Forgiveness of debt through transfer of liability to RepMar	2,365,635	-
Changes in net position	1,887,368	(745,764)
Net position at beginning of year	(922,983)	(177,219)
Net position at end of year	$ 964,385	$ (922,983)

See accompanying notes to financial statements.

MAJURO RESORT, INC.

Statements of Cash Flows
Years Ended September 30, 2013 and 2012

	2013	2012
Cash flows from operating activities:		
Cash received from customers	$ 2,469,499	$ 2,154,275
Cash payments to suppliers for goods and services	(1,544,046)	(1,323,330)
Cash payments to employees for services	(819,643)	(814,372)
Net cash provided by operating activities	105,810	16,573
Cash flows from noncapital financing activities:		
RepMar subsidy received	321,900	300,000
Interest paid	(5,383)	(5,229)
Net cash provided by noncapital financing activities	316,517	294,771
Cash flows from capital and related financing activities:		
Acquisition of capital assets	(571,146)	(274,244)
Proceeds from note payable	95,000	-
Net cash used for capital and related financing activities	(476,146)	(274,244)
Net change in cash	(53,819)	37,100
Cash at beginning of year	133,095	95,995
Cash at end of year	$ 79,276	$ 133,095
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	$ (794,784)	$ (1,033,364)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation	265,515	195,326
Bad debt expense	93,227	108,616
(Increase) decrease in assets:		
Receivables:		
Trade	(95,303)	(76,988)
Affiliates	(140,473)	61,263
Other	(1,954)	(2,109)
Inventories	(17,247)	1,799
Prepaid expenses	2,588	(5,804)
Increase in liabilities:		
Accounts payable	167,698	73,550
Payable to affiliates	572,966	665,603
Accrued expenses	53,577	28,681
Net cash provided by operating activities	$ 105,810	$ 16,573
Supplemental disclosure of cash flow information:		
Transfer of utility liaiblity to RepMar:		
Payable to affiliates	$ 2,365,635	$ -
Forgiveness of debt through transfer of liability to RepMar	(2,365,635)	-
	$ -	$ -

See accompanying notes to financial statements.

MAJURO RESORT, INC.

Statements of Cash Flows, Continued
Years Ended September 30, 2013 and 2012

	2013	2012
Management fee reclassified from advance to supplier:		
Prepaid expenses	$ -	$ (7,171)
Other expense	-	7,171
	$ -	$ -

See accompanying notes to financial statements.

(1) Organization

Majuro Resort, Inc. (MRI) dba Marshall Islands Resort, a component unit of the Republic of the Marshall Islands (RepMar), was formed on November 8, 1995, as a corporation. The primary business of MRI is the operation of a 150-room hotel on the atoll of Majuro in the Republic of the Marshall Islands. MRI is governed by a five-member Board of Directors appointed by the Cabinet of RepMar. MRI's financial statements are incorporated into the financial statements of RepMar as a component unit.

(2) Summary of Significant Accounting Policies

The accounting policies of MRI conform to accounting principles generally accepted in the United States of America, as applicable to governmental entities, specifically proprietary funds.

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:

- Net investment in capital assets; capital assets, net of accumulated depreciation, plus construction or improvement of those assets.

- Unrestricted; net position that is not subject to externally imposed stipulations. Unrestricted net position 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 position. Proprietary fund operating statements present increases and decreases in net position. 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.

(2) Summary of Significant Accounting Policies, Continued

Cash, Continued

For purpose of the statements of net position and cash flows, cash is defined as cash on hand and cash held in demand accounts. As of September 30, 2013 and 2012, the carrying amount of cash was $79,276 and $133,095, respectively, and the corresponding bank balances were $116,080 and $130,406, respectively. As of September 30, 2013 and 2012, bank balances in the amount of $110,358 and $127,295, 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 collectability 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.

Deferred Outflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (deduction of net position) until then. MRI has no items that qualify for reporting in this category.

(2) Summary of Significant Accounting Policies, Continued

Deferred Inflows of Resources

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (additions to net position) until then. MRI has no items that qualify for reporting in this category.

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, 2013 and 2012, MRI incurred advertising costs of $12,980 and $5,302, 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, 2013 and 2012, the accumulated vacation leave liability amounted to $37,861 and $29,277, respectively, and is included within the statements of net position as accrued expenses.

New Accounting Standards

During fiscal year 2013, MRI implemented the following pronouncements:

- GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, which addressed how to account for and report service concession arrangements (SCAs), a type of public-private or public-public partnership that state and local governments are increasingly entering into. The implementation of this statement did not have a material effect on the accompanying financial statements.

- GASB Statement No. 61, *The Financial Reporting Entity: Omnibus,* which improved financial reporting for governmental entities by amending the requirements of Statements No. 14, *The Financial Reporting Entity,* and No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments,* to better meet user needs and address reporting entity issues that have come to light since those Statements were issued in 1991 and 1999, respectively. The implementation of this statement did not have a material effect on the accompanying financial statements.

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

- GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which enhanced the usefulness of its Codification by incorporating guidance that previously could only be found in certain Financial Accounting Standards Board (FASB) and American Institute of Certified Public Accountants (AICPA) pronouncements issued on or before November 30, 1989, which does not conflict or contradict GASB pronouncements. GASB Statement No. 62 superseded GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*. The implementation of this statement did not have a material effect on the accompanying financial statements.

- GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which established guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position, and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which clarifies the appropriate reporting of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. These Statements amend the net asset reporting requirements in Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. With the implementation of GASB Statement No. 63 and Statement No. 65, the Statement of Net Assets was renamed the Statement of Net Position.

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

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

In January 2013, GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations*, which improves accounting and financial reporting for state and local governments' combinations and disposals of government operations. Government combinations include mergers, acquisitions, and transfers of operations. A disposal of government operations can occur through a transfer to another government or a sale. The provisions in Statement 69 are effective for fiscal years beginning after December 15, 2013. Management has not yet determined the effect of implementation of these statements on the financial statements of MRI.

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In April 2013, GASB issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, which requires a state or local government guarantor that offers a nonexchange financial guarantee to another organization or government to recognize a liability on its financial statements when it is more likely than not that the guarantor will be required to make a payment to the obligation holders under the agreement. The provisions in Statement 70 are effective for fiscal years beginning after June 15, 2013. Management has not yet determined the effect of implementation of these statements on the financial statements of MRI.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(3) Risk Management

MRI is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions, injuries to employees; and natural disasters. MRI has elected to purchase commercial insurance from independent third parties for the risks of loss to which it is exposed. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years. MRI does not maintain general liability insurance; property insurance; and fire, lightning and typhoon insurance for its hotel building and contents. In the event of an insurable loss, MRI may be self-insured to a material extent.

(4) Property, Plant and Equipment

Capital asset activity for the years ended September 30, 2013 and 2012 was as follows:

	Estimated Useful Lives	Balance at October 1, 2012	Additions	Balance at September 30, 2013
Building and structure	17 years	$ 2,362,004	$ 181,386	$ 2,543,390
Furniture and fixtures	3 years	924,297	314,423	1,238,720
Office equipment	3 years	221,545	6,681	228,226
Other equipment	3 years	96,153	8,830	104,983
Motor vehicles	3 years	113,762	59,826	173,588
		3,717,761	571,146	4,288,907
Less accumulated depreciation		(2,232,564)	(265,515)	(2,498,079)
		$ 1,485,197	$ 305,631	$ 1,790,828

(4) Property, Plant and Equipment, Continued

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

(5) Note Payable

On December 12, 2012, MRI obtained a $95,000 short-term loan facility from the Marshall Islands Development Bank to finance certain capital expenditures associated with the hosting of the Pacific Islands Forum in Majuro. The loan bears interest at 7% per annum payable at maturity, due October 1, 2013 or as soon as funding from RepMar becomes available. This loan was paid in full on December 13, 2013 through an assignment of 2014 appropriations received from RepMar.

Changes in short-term borrowings during the year ended September 30, 2013 is as follows:

Beginning Balance	Draws	Repayments	Ending Balance
$ -	$ 95,000	$ -	$ 95,000

(6) Related Party Transactions

MRI is a component unit of RepMar and is therefore affiliated with all RepMar-owned and affiliated entities, including the Marshall Islands Development Bank.

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.

(6) Related Party Transactions, Continued

A summary of related party balances and transactions as of September 30, 2013 and 2012 and for the years then ended are as follows:

	2013			
	Revenues	Expenses	Receivables	Payables
RepMar	$ 445,575	$ 11,610	$ 230,983	$ 273,616
Marshalls Energy Company, Inc.	97,180	625,744	16,407	-
Marshall Islands National Telecommunications Authority	2,759	75,754	1,149	4,631
Marshall Islands Social Security Administration	3,302	91,403	266	60,960
Majuro Water and Sewer Company, Inc.	18,356	48,534	12,126	20,145
Other	167,323	3,692	32,959	1,891
	$ 734,495	$ 856,737	$ 293,890	$ 361,243

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

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

The operations of MRI were funded by appropriations, totaling $321,900 and $300,000, respectively, from the Nitijela of RepMar during the years ended September 30, 2013 and 2012.

(7) Commitment and Contingencies

Commitment

MRI leases the land on which the hotel is situated at the rate of $10,212 per year plus 2.5% of gross revenue earned. These payments are suspended until such time as any person or entity other than RepMar or any agency thereof holds 75% of the ownership of the lessee, or its successor in the interest in the hotel. The lease agreement also requires that 5% of the initial outstanding shares of the lessee or its successor be issued to the lessor. Neither MRI or RepMar have issued shares to the lessor at September 30, 2013 and 2012.

(7) Commitment and Contingencies, Continued

Contingencies

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America, which contemplates the continuation of MRI as a going concern. MRI sustained substantial operating losses during the years ended September 30, 2013 and 2012 of $794,784 and $1,033,364, respectively, and used a substantial amount of working capital in its operations resulting in a working capital deficiency of $826,443 at September 30, 2013. Management acknowledges that it is currently dependent on RepMar for cash funding in order to maintain MRI as a going concern. Although RepMar has provided funding in the past, MRI does not have a formal agreement with RepMar to provide funds in the future. Management believes that the continuation of MRI's operations is dependent upon the future financial support of RepMar, deferment in payment of certain liabilities, and/or significant improvements in operations.

In view of these matters, realization of a major portion of the assets in the accompanying statement of net position at September 30, 2013, is dependent upon continued operations of MRI, which, in turn, is dependent upon MRI's ability to provide service to its customers and the success of future operations. Management believes that actions presently being undertaken to revise MRI's operating requirements, including the generation of positive cash flows from operations, and increasing occupancy rates and average room rates, provide the opportunity for MRI to continue as a going concern.

Prior to cessation of the management and operation of the Hotel, the former management company estimated a total of $400,613 was due and payable to them for management fees calculated in accordance with the previously negotiated management contract between RepMar and the Outrigger Hotel Group. As no formal Joint Venture Agreement was executed, RepMar was negotiating a final settlement with the former management company and, therefore, MRI has not recorded management fees payable in the accompanying financial statements. Pursuant to Cabinet Minute C.M. 132 (2011), dated December 30, 2011, the Nitijela of RepMar approved to offset certain tax liabilities of the former management company in the amount of $239,365 and $154,077 against a portion of this claim. In addition, MRI recorded the remaining $7,171 of unpaid management fees by reversing in 2012 an advance payment made to the former management company on August 3, 2011 to fully settle the total estimated management fee payable.

At September 30, 2013 and 2012, 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 $283,764 and $243,662 and local government taxes of $301,535 and $259,418 as of September 30, 2013 and 2012, respectively, remain outstanding and are included as accrued expenses in the accompanying statements of net position. Unfavorable resolution of this matter could expose MRI to additional penalties and interest. Penalties and interest are estimated to be $140,472 and $120,739 as of September 30, 2013 and 2012, respectively. No such action has yet been filed. At September 30, 2013 and 2012, 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.

At September 30, 2013 and 2012, MRI is liable for delinquent withholding taxes, totaling $273,616 and $201,680, respectively. MRI is currently negotiating with RepMar for the waiver of penalties and interest associated with these delinquent withholding taxes, which amounts to $239,775 at September 30, 2013. At September 30, 2013, the financial statements do not include any adjustments that might result from the outcome of this uncertainty. (see note 8)

(8) Subsequent Events

On November 12, 2013, MRI entered into an agreement with RepMar to resolve the settlement of certain delinquent withholding taxes whereby RepMar will deduct 20% from all payments due to MRI until such time that the delinquent withholding taxes liability has been fully satisfied. In addition, RepMar agreed to waive the payment of penalties and interest so long as MRI remains current on withholding taxes payable commencing October 2013.

On December 5, 2013, RepMar and Marshalls Energy Company, Inc. (MEC) entered into a Memorandum of Agreement to reconcile reciprocal accounts receivable and liability balances, offsetting such balances in lieu of cash payment for settlement. The agreement resulted in the forgiveness of MRI's debt to MEC in the amount of $2,365,635. MRI has elected to record the forgiveness of debt in the accompanying financial statements during the year ended September 30, 2013.

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Directors
Majuro Resort, Inc.:

We have audited, 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, the financial statements of Majuro Resort, Inc. (MRI), which comprise the statement of net position as of September 30, 2013, and the statements of revenues, expenses and changes in net position and of cash flows for the year then ended and the related notes to the financial statements, and have issued our report thereon dated September 8, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered MRI's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of MRI's internal control. Accordingly, we do not express an opinion on the effectiveness of MRI's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Responses, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Responses as items 2013-2 and 2013-3 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether MRI's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Responses as items 2013-1 and 2013-4.

MRI's Responses to Findings

MRI's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. MRI's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Deloitte + Touche LLP

September 8, 2014

MAJURO RESORT, INC.

Schedule of Findings and Responses
Year Ended September 30, 2013

Finding No.: 2013-1
Area: Sales and Local Government Tax

Criteria: Majuro Atoll Local Government (Malgov) has local ordinances that require the payment of 3% sales tax and three dollar per night room tax by consumers and that these taxes be remitted to Malgov on a monthly basis.

Condition: MRI did not file the sales tax and local government tax returns from 2006 through 2013. The entity had been accruing theses taxes; however, starting May 2009, the entity stopped accruing the sales tax payable.

Cause: MRI did not pay for these taxes as management believes that they have already paid for the sales tax when MRI purchased items from the vendors. Paying sales tax would only result in double taxation. Local government hotel room taxes were not paid since by virtue of a signed agreement, MRI is owned by RepMar therefore no tax payment is necessary.

Effect: Non-compliance with local laws and regulations could result from this condition which may result in penalties and interest.

Prior Year Status: Non-filing of sales and local government tax was reported as a finding in the audits of MRI for fiscal years 2006 through 2012.

Recommendation: We recommend that MRI file the tax returns on a timely basis to avoid the potential penalties and interest that may arise from it.

Auditee Response and Corrective Action Plan: MRI neither files tax returns nor pays the sales tax as management believes that food and supplies are subject to tax only on the first sale. Payment of sales tax to Local Government would result in double taxation as taxes have already been paid by MRI upon purchased of the products from the vendors. In addition, the hotel is making use of locally produced food items and therefore payment of sales tax is not necessary.

On the other hand, MRI has suspended the imposition of local tax on hotel rooms but continue to accrue the $3.00 per night room tax payable as reflected in the financial statements for fiscal years 2006 through 2013. The hotel has ceased to impose and collect from the customer the 4% local sales tax on its food and beverage sales and as a result, sales tax payable has not been accrued since May 2009.

Finding No.: 2013-2
Area: Financial Reporting

Criteria: Timely financial reporting should be facilitated by an internal control structure conducive to the preparation and independent review of reconciliations of all significant general ledger accounts.

Condition: MRI did not close fiscal year September 30, 2013 financial information (trial balance and subsidiary ledgers) until April 28, 2014, which delayed the incorporation of MRI's component unit financial statements into the Republic of the Marshall Islands' reporting entity financial statements for the year ended September 30, 2013.

Cause: The cause of the above condition is the lack of timely closing of the year-end with reviews and reconciliations of all significant general ledger accounts.

Effect: The trial balance was not provided for audit in a timely manner.

Recommendation: We recommend that MRI implement internal control procedures to facilitate timely general ledger reconciliation processes.

Auditee Response and Corrective Action Plan: MRI has implemented internal control procedures on a monthly basis on Subsidiary and General Ledgers. Based on our reviews of the variances, the differences are mostly attributed by timing differences in postings therefore, adjusting entries have been made.

Management recently employed an accounting manager to ease the workload within the department to implement internal control procedures and facilitate in the preparation of reports on a timely manner. To date, timely review and reconciliations are performed to ensure that any variances are resolved in an orderly manner and adjustments, if any, are reflected in the proper period.

Finding No.: 2013-3
Area: Food and Beverage Operations

Criteria: Gross profit for the food and beverage operations amounted to $41,954 based on gross revenues of $1,336,733, which represents a gross profit margin (GPM) of 3%. Although such is an improvement over food and beverage operations for 2012, which resulted in negative GPM of $177,932 (or negative 15%). It appears to be continuing issue with internal control over inventories and/or selling pricing of food and beverage products.

Condition: MRI incurred minimal gross profit from the food and beverage division in 2013.

Cause: The cause of the above condition is the lack of monitoring costs and selling price and other various division costs.

Effect: Resulted in a minimal gross profit in the division gross sales.

Recommendation: We recommend that MRI implement internal control to monitor food and beverage division costs and sales in order to improve division revenue.

Auditee Response and Corrective Action Plan: The hotel is very much challenged on the issue of internal control in monitoring food and beverage costs. The losses are mainly associated with food portioning, inventory control and selling price.

Management tried to resolve this serious problem within the F&B department by hiring a qualified Executive chef to help, oversee and implement control procedures especially with inventory, food portioning and food costing. At present, actual count of beverage is conducted on a daily basis while actual count of dry, chilled and frozen food item is done on a weekly basis, in addition to the periodic month-end physical inventory count. Purchases are now being monitored and controlled. The idea of changing the menus are now being revisited and reviewed.

Finding No.: 2013-4
Area: Procurement

Criteria: RepMar's Procurement Code states the following:

(a) Section 124 - unless otherwise authorized by law, all Government contracts shall be awarded by competitive sealed bidding.

(b) Section 127 - procurement of goods and services not exceeding $25,000 may be made in accordance with small purchase procedures promulgated by Repmar's Policy Office; provided, however, that procurement requirements shall not be artificially divided so as to constitute a small purchase under this Section. Small purchase procedures are those relatively simple and informal methods for securing services, supplies, or other property that do not cost more than $25,000. RepMar's Ministry of Finance has previously declared that if small purchase procedures are used, price or rate quotations shall be obtained from an adequate number of qualified sources.

(c) Section 128 - a contract may be awarded for a supply, service, or construction item without competition when it is determined in writing that there is only one source for the required supply, service, or construction item.

(d) Section 129 - notwithstanding any other provision of this Act, emergency procurement may be made when there exists a threat to public health, welfare, or safety under emergency conditions as defined in regulations promulgated by the Policy Office; provided, that such emergency procurement shall be made with such competition as is practicable under the circumstances. A written determination of the basis for the emergence and for the selection of the particular contractor shall be included in the contract file.

Condition: We noted the following expense items where supporting documentation was inadequate to evidence compliance with the procurement process set forth in the criteria:

G/L Acct #	G/L Account	Date	Ref.	Amount
60-6680	Music & Entertainment – F & B	05/14/13	10852	$ 1,339
60-6750	Operating Supplies – F & B	09/01/13	9818	$ 2,941
60-6750	Operating Supplies – F & B	10/23/12	93008	$ 1,206
50-6504	Guest Supplies	09/01/13	9805	$ 2,436
50-6604	Linen Expense – Rooms	09/01/13	9806	$ 6,822
50-6706	Office Supplies – Rooms	08/14/13	60245	$ 1,346
50-6750	Operating Supplies – Rooms	04/09/13	2151	$ 2,395
50-6780	Contracted Services – Rooms	08/08/13	11291	$ 2,890
90-7184	Painting & Decoration	08/13/13	220693	$ 5,838
90-7112	Building Maintenance	06/27/13	212825	$ 1,630
80-6740	Freight Charges	04/09/13	7488	$ 7,733
90-6272	Automobile Expense – Maint.	02/06/13	1244021	$ 1,227
90-6780	Contracted Services – Maint.	09/01/13	090113	$ 1,688

Finding No.: 2013-4, Continued
Area: Procurement

Condition, Continued:

In addition, the following fixed asset purchases were also noted to have inadequate support to evidence compliance with the procurement process:

G/L Acct #	G/L Account	Date	Ref.	Amount
00-1901	Building Improvements	03/27/13	10682	$ 6,125
00-1901	Building Improvements	04/25/13	10771	$ 6,125
00-1901	Building Improvements	05/27/13	10914	$ 6,125
00-1901	Building Improvements	06/12/13	10973	$ 6,125
00-1901	Building Improvements	07/02/13	213671	$ 5,824
00-1901	Building Improvements	07/05/13	214223	$ 8,648
00-1901	Building Improvements	07/23/13	11203	$ 5,130
00-1901	Building Improvements	08/30/13	11432	$ 3,967
00-1901	Building Improvements	03/28/13	199095	$ 7,035
00-1901	Building Improvements	04/09/13	9447	$13,350

Cause: The cause of the above condition is the lack of planning and adequate internal control policies and procedures requiring documentation of procurement procedures and compliance with RepMar's Procurement Code.

Effect: The effect of the above condition is noncompliance with RepMar's Procurement Code.

Recommendation: We recommend that management establish adequate internal control policies and procedures requiring compliance with RepMar's Procurement Code.

Auditee Response and Corrective Action Plan: MRI wasn't able to comply with the procurement procedure of RepMar were mainly due to (1) Time Constraint – MRI needed to accomplish/complete all projects in preparation for the upcoming 2013 Pacific Island Forum that will be held in the Marshall Islands September 2013; (2) Funding assistance from MOFA for MRI's renovation was not released on an earlier date that resulted a shorter period of time for planning that then hindered MRI to comply with such procedure ; (3) Limited product availability on island - getting quotations from on-island vendors take time and since some items are not on available in their respective local establishments, they still needed to wait for quotations from their off-island suppliers so MRI went directly to outside vendors with a minimum time frame given by RepMar.

MAJURO RESORT, INC.

Unresolved Prior Year Findings
Year Ended September 30, 2013

The status of unresolved prior year findings is discussed within the Schedule of Findings and Responses section of this report.