

**REPUBLIC OF THE MARSHALL ISLANDS
OFFICE OF COMMERCE AND INVESTMENT**

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

**FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT**

YEARS ENDED SEPTEMBER 30, 2017 AND 2016

**REPUBLIC OF THE MARSHALL ISLANDS
OFFICE OF COMMERCE AND INVESTMENT
(A COMPONENT UNIT OF THE REPUBLIC OF THE MARSHALL ISLANDS)**

Years Ended September 30, 2017 and 2016

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Republic of the Marshall Islands
Office of Commerce and Investment:

Report on the Financial Statements

We have audited the accompanying financial statements of the Republic of the Marshall Islands Office of Commerce and Investment (OCI), a component unit of the Republic of the Marshall Islands, which comprise the statements of net position as of September 30, 2017 and 2016, 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 OCI as of September 30, 2017 and 2016, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

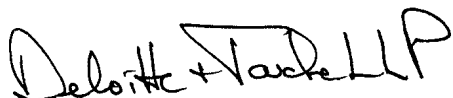
Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 6 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the 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 financial statements, and other knowledge we obtained during our audit of the 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 December 13, 2017, on our consideration of OCI'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* in considering OCI's internal control over financial reporting and compliance.



December 13, 2017

**REPUBLIC OF THE MARSHALL ISLANDS
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Management's Discussion and Analysis
Years Ended September 30, 2017 and 2016

This section of the Office of Commerce and Investment annual financial report presents our discussion and analysis of OCI's financial performance during the fiscal year that ended September 30, 2017. This section is to be read in conjunction with the financial statements that follow this section and the accompanying notes to our financial statements in this report.

OCI Functions

OCI has wide-ranging functions & powers, designed to make it a catalyst for economic and social development. Its primary function is to "... develop and implement social and economic development programs and projects...for the betterment of the economic and social conditions of the inhabitants of the Republic."

Its functions combine the roles of an investment promotion agency and a government investment corporation i.e. to encourage and develop investments and to operate business enterprises on behalf of government. It is empowered to perform its functions alone or in conjunction with other government agencies and private enterprises.

Financial Highlights

This section of the OCI annual financial report presents our discussion and analysis of OCI's financial performance for the fiscal year ending September 30, 2017. Please read it and verify any clarification to the financial statements, which follow this section. The below table summarizes the financial condition and in operations of OCI for fiscal years 2017, 2016 and 2015.

Statement of Net Position Analysis:

OCI has been operation for over three years now and it continues to set out to achieve its mission of being a catalyst for economic and social development. In order to achieve this, it has to attract potential foreign direct investments as well as boost local economic growth by assisting local investors to expand and reinvest in the country. In January 2017, the RMI Small Business Development Corporation (SBDC) merged with OCI and has been assisting SMEs develop sound business plans to access capital financing from both the Marshall Islands Development Bank (MIDB) and the Pacific Islands Development Bank (PIDB) for startup businesses or expansion of existing businesses. The merger certainly increased operational costs while REPMAR subsidy basically remained the same.

Investment in capital assets declined from \$23,813 to \$15,604 which is a 34% decline from prior year due to annual depreciation and no capital additions during the financial year especially that the office has been in operation for over three years now. Cash increased by 41% mainly due to the SBDC merger since the operational budget of SBDC was transferred from Ministry of R&D to OCI. Payable to affiliate increased due to payable to MISSA. As a result of the above, total liabilities and net position increased by 4% due to reasons outlined above and the merger between SBDC and OCI. Summary of the movements in OCI's statement of net position is as follows:

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Management's Discussion and Analysis, Continued
Years Ended September 30, 2017 and 2016

Particulars	2017	2016	% Change	2015
ASSETS				
Current assets:				
Cash	\$ 28,502	\$ 20,283	41%	\$ 140,050
Advances to employees	-	5,750	0%	2,750
Other Receivables	<u>3,500</u>	<u>-</u>	100%	<u>-</u>
Total current assets	32,002	26,033	23%	142,800
Capital assets, net	<u>15,604</u>	<u>23,813</u>	-34%	<u>32,022</u>
TOTAL ASSETS	\$ <u>47,606</u>	\$ <u>49,846</u>	-4%	\$ <u>174,822</u>
<u>LIABILITIES AND NET POSITION</u>				
Liabilities:				
Accounts Payable	\$ -	\$ 14,557	0%	\$ -
Payable to affiliate	25,413	10,853	134%	4,261
Accrued rent	-	3,168	0%	3,168
Advance from affiliate	<u>-</u>	<u>-</u>	-	<u>25,000</u>
Total liabilities	<u>25,413</u>	<u>28,578</u>	-11%	<u>32,429</u>
Commitment and contingency				
Net position:				
Net investment in capital assets	15,604	23,813	-34%	32,022
Unrestricted	<u>6,589</u>	<u>(2,545)</u>	358%	<u>110,371</u>
Total net position	<u>22,193</u>	<u>21,268</u>	4%	<u>142,393</u>
TOTAL LIABILITIES & NET POSITION	\$ <u>47,606</u>	\$ <u>49,846</u>	-4%	\$ <u>174,822</u>

Statement of Revenues, Expenses, and Changes in Net Position Analysis:

At September 30, 2017, OCI made an operating surplus of \$925, a 101% increase from prior year, giving a net position of \$22,193 at year end (4% increase). This was mainly due to the slight increase in REPMAR subsidy by 13% and a decrease in operating expenses by 10%. The decrease in operating expenses is from almost all line item categories. Salaries and wages decreased by 2% due to the CEO post being vacant from July to September while travel expenses decreased by 12% mainly due to decrease in travel by staff during the year. Office supplies, Professional fees and miscellaneous categories also decreased due to improved control and management. Although there is still a need for consultants to assist OCI achieve its goals and objectives in terms of project implementation, most of the studies and consultancies that occurred during the FY17 were paid by external donors (i.e UNDP and USDA).

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Management's Discussion and Analysis, Continued
Years Ended September 30, 2017 and 2016

A tabulated summary of the movement in the various statement of revenues, expenses and net position over 2017, 2016 and 2015 are as follows:

			% Change	
Operating revenues:				
Nitijela appropriation	\$ 477,285	\$ 420,801	13%	\$ 425,889
Other	<u>14,918</u>	<u>5,670</u>	163%	<u>4,208</u>
Total operating revenues	<u>492,203</u>	<u>426,471</u>	15%	<u>430,097</u>
Operating expenses:				
Salaries, wages and employee benefits	342,058	347,764	-2%	269,355
Travel and per diem	61,662	69,846	-12%	32,947
Professional/Contractual fees	28,125	47,059	-40%	22,061
Rent	24,570	12,716	93%	10,560
Depreciation	8,209	8,209	0%	7,830
Utilities and communication	4,313	4,780	-10%	5,040
Advertising	3,386	6,860	-51%	17,019
Office supplies	2,818	8,262	-66%	8,883
Miscellaneous	<u>16,137</u>	<u>42,100</u>	-62%	<u>27,214</u>
Total operating expenses	<u>491,278</u>	<u>547,596</u>	-10%	<u>400,909</u>
Change in net position	925	(121,125)	101%	29,188
Net position at beginning of year	<u>21,268</u>	<u>142,393</u>	-85%	<u>113,205</u>
Net position at end of year	\$ <u>22,193</u>	\$ <u>21,268</u>	4%	\$ <u>142,393</u>

Despite the increase in responsibilities due to the SBDC-OCI merger, OCI management was able to accomplish results and targets with the achievement of several key objectives especially in assisting SMEs to access capital financing from lending institutions for business startups and expansion of existing businesses. OCI was also able to improve its management and control of its operating expenses which resulted in a surplus at year end.

Capital Assets

Capital assets for OCI in 2017 was \$15,604, compared to \$23,813 in 2016, which is a 34% decline from prior year due to annual depreciation as well as no new additions in the 2017 fiscal year as the company has been in operation for over three years.

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Management's Discussion and Analysis, Continued
Years Ended September 30, 2017 and 2016

Below is a summary of OCI's investment in capital assets for year ending 30 September, 2017:

Particulars	2017	2016	% Change	2015
Motor vehicles	\$ 27,000	\$ 27,000	0%	\$ 27,000
Furniture and fixtures	<u>14,043</u>	<u>14,043</u>	0%	<u>14,043</u>
	41,043	41,043	0%	41,043
Less accumulated depreciation	<u>(25,439)</u>	<u>(17,230)</u>	48%	<u>(9,021)</u>
	<u>\$ 15,604</u>	<u>\$ 23,813</u>	(34%)	<u>\$ 32,022</u>

Please refer to note 3 to the financial statements for additional information relating to OCI's capital assets.

Management's Discussion and Analysis for the year ended September 30, 2016 is set forth in OCI's report on the audit of financial statements, which is dated June 20, 2017. That Management's Discussion and Analysis explains the major factors impacting the 2016 financial statements and can be obtained from OCI's CEO via the contact information below.

Additional Financial Information

This discussion and analysis is designed to provide an overview of OCI's financial operations and financial condition. Should the reader have any questions regarding information included in this report or wish to request additional information, please contact the CEO of the Office of Commerce and Investment at 625-4624 or in writing to P. O. box 898, Majuro, Marshall Islands 96960.

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Statements of Net Position
September 30, 2017 and 2016

<u>ASSETS</u>	<u>2017</u>	<u>2016</u>
Current assets:		
Cash	\$ 28,502	\$ 20,283
Advances to employees	-	5,750
Other receivables	3,500	-
Total current assets	32,002	26,033
Capital assets, net	15,604	23,813
Total assets	\$ 47,606	\$ 49,846
<u>LIABILITIES AND NET POSITION</u>		
Current liabilities:		
Accounts payable	\$ -	\$ 14,557
Payable to affiliates	25,413	10,853
Accrued rent	-	3,168
Total liabilities	25,413	28,578
Contingency		
Net position:		
Net investment in capital assets	15,604	23,813
Unrestricted	6,589	(2,545)
Total net position	22,193	21,268
Total liabilities and net position	\$ 47,606	\$ 49,846

See accompanying notes to financial statements.

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Statements of Revenues, Expenses, and Changes in Net Position
Years Ended September 30, 2017 and 2016

	2017	2016
Operating revenues:		
Nitijela appropriation	\$ 477,285	\$ 420,801
Other	14,918	5,670
Total operating revenues	492,203	426,471
Operating expenses:		
Salaries, wages and employee benefits	342,058	347,764
Travel and per diem	61,662	69,846
Professional/contractual fees	28,125	47,059
Rent	24,570	12,716
Depreciation	8,209	8,209
Utilities and communications	4,313	4,780
Advertising	3,386	6,860
Office supplies	2,818	8,262
Miscellaneous	16,137	42,100
Total operating expenses	491,278	547,596
Change in net position	925	(121,125)
Net position at beginning of year	21,268	142,393
Net position at end of year	\$ 22,193	\$ 21,268

See accompanying notes to financial statements.

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Statements of Cash Flows
Years Ended September 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities:		
Operating grants received	\$ 477,285	\$ 420,801
Other cash received from customers	11,418	5,670
Cash payments to suppliers for goods and services	(158,736)	(177,066)
Cash payments to employees for services	<u>(321,748)</u>	<u>(344,172)</u>
Net cash provided by (used for) operating activities	<u>8,219</u>	<u>(94,767)</u>
Cash flows from noncapital financing activities:		
Repayment of advance from affiliate	<u>-</u>	<u>(25,000)</u>
Net change in cash	8,219	(119,767)
Cash at beginning of year	<u>20,283</u>	<u>140,050</u>
Cash at end of year	<u>\$ 28,502</u>	<u>\$ 20,283</u>
Reconciliation of change in net position to net cash provided by (used for) operating activities:		
Change in net position	\$ 925	\$ (121,125)
Adjustments to reconcile change in net position to net cash provided by (used for) operating activities:		
Depreciation	8,209	8,209
Decrease (increase) in assets:		
Advances to employees	5,750	(3,000)
Other receivables	(3,500)	-
Increase (decrease) in liabilities:		
Accounts payable	(14,557)	14,557
Accrued rent	(3,168)	-
Payable to affiliates	<u>14,560</u>	<u>6,592</u>
Net cash provided by (used for) operating activities	<u>\$ 8,219</u>	<u>\$ (94,767)</u>

See accompanying notes to financial statements.

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Notes to Financial Statements
September 30, 2017 and 2016

(1) Organization

The Republic of the Marshall Islands Office of Commerce and Investment (OCI), a component unit of the Republic of the Marshall Islands (RepMar), was established pursuant to the Office of Commerce and Investment Act 2013 (Public Law No. 2013-21) and began operations as a statutory corporation on November 25, 2013 upon receiving its first operational budget. The objectives of OCI are to: (1) to investigate, study, develop and implement social and economic development programs and projects, alone or in conjunction with other governmental, private organizations, or agencies, for the betterment of the economic and social conditions of the inhabitants of the Republic; (2) encourage and develop, and manage, businesses of economic or social importance to the Republic, such as tourism, poultry farming and piggeries; and (3) conduct, on behalf of RepMar, such business enterprises as the Cabinet directs, on such terms and conditions as are agreed on between OCI and the Cabinet; provided, however, in all decisions of the Board or the Cabinet, the protection of existing enterprises shall be given highest consideration. OCI is primarily funded through operational appropriations from the Nitijela (the RepMar Legislature).

In accordance with Cabinet Minute 212 (2016), the RepMar Cabinet approved the merger of the Small Business Development Center (SBDC) within RepMar's Ministry of Resources and Development with OCI to streamline the processes and procedures of establishing Small and Medium Enterprise (SME) and to stimulate economic growth in the country to be effective by January 2017.

OCI is governed by a seven-member Board of Directors appointed by the Cabinet of RepMar.

OCI's financial statements are incorporated into the financial statements of RepMar as a component unit.

(2) Summary of Significant Accounting Policies

GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as amended by GASB Statement No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus*, GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, and GASB Statement No. 61, *The Financial Reporting Entity: Omnibus - an amendment of GASB Statements No. 14 and 34*, 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 modifies certain other financial statement disclosure requirements.

To conform to these requirements, equity is presented in the following net position 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.

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September 30, 2017 and 2016

(2) Summary of Significant Accounting Policies, Continued

Estimates

The preparation of financial statements in accordance 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 deferred outflows of resources, liabilities and deferred inflows of resources, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Basis of Accounting

Proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and deferred outflows of resources, and liabilities and deferred inflows of resources 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. OCI considers Nitijela appropriations and operational grants and costs that are directly related to OCI's operations to be operating revenues and expenses. Revenues and expenses related to financing and other activities are reflected as nonoperating.

Cash

Custodial credit risk is the risk that in the event of a bank failure, OCI'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. OCI does not have a deposit policy for custodial credit risk.

For purposes of the statements of net position and of cash flows, cash is defined as cash on hand and cash held in demand deposits. As of September 30, 2017 and 2016, the carrying amount of cash was \$28,502 and \$20,283, respectively, and the corresponding bank balances were \$32,093 and \$32,556, respectively. Of the bank balance amounts, \$11,037 and \$11,019, respectively, were maintained in a financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance. The remaining bank deposits of \$21,056 and \$21,537, respectively, were maintained in a financial institution not subject to depository insurance. OCI does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized. Accordingly, these deposits are exposed to custodial credit risk.

Capital Assets

Capital assets with a cost that equals or exceeds \$250 are capitalized. Such assets are stated at cost. Depreciation for all fixed assets is calculated using the straight-line method over a standard estimated useful life of 5 years. When the need arises and on a case-by-case basis only, management of OCI may adjust the estimated useful life of 5 years.

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(2) Summary of Significant Accounting Policies, Continued

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 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. OCI has no items that qualify for reporting in this category.

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 pay benefits. As of September 30, 2017 and 2016, there is no accumulated vacation leave liability.

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 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. OCI has no items that qualify for reporting in this category.

Taxes

Corporate profits are not subject to income tax in RepMar. The Government of RepMar imposes a gross receipts tax of 3% on revenues. OCI is specifically exempt from this tax; however, gross receipts associated with business enterprise operations as directed by the Cabinet are subject to gross receipts tax.

New Accounting Standards

During the year ended September 30, 2017, OCI implemented the following pronouncements:

- GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, which aligns the reporting requirements for pensions and pension plans not covered in GASB Statements 67 and 68 with the reporting requirements in Statement 68.
- GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, as amended*, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, and addresses financial reporting requirements for governments whose employees are provided with postemployment benefits other than pensions (other postemployment benefits or OPEB).
- GASB Statement No. 77, *Tax Abatement Disclosures*, which requires governments that enter into tax abatement agreements to disclose certain information about the agreements.

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Notes to Financial Statements
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(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

- GASB Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, which addresses a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*.
- GASB Statement No. 80, *Blending Requirements for Certain Component Units - an amendment of GASB Statement No. 14*, which improves financial reporting by clarifying the financial statement presentation requirements for certain component units.
- GASB Statement No. 82, *Pension Issues - an amendment of GASB Statements No. 67, No. 68, and No. 73*, which addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

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

In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, and provides guidance on reporting by governments that provide OPEB to their employees and for governments that finance OPEB for employees of other governments. The provisions in Statement No. 75 are effective for fiscal years beginning after June 15, 2017. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In March 2016, GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*, which improves accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The provisions in Statement No. 81 are effective for fiscal years beginning after December 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In November 2016, GASB issued Statement No. 83, *Certain Asset Retirement Obligations*, which addresses accounting and financial reporting for certain asset retirement obligations (AROs) associated with the retirement of a tangible capital asset. The provisions in Statement No. 83 are effective for fiscal years beginning after June 15, 2018. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*, which establishes criteria for identifying fiduciary activities of all state and local governments. The provisions in Statement No. 84 are effective for fiscal years beginning after December 15, 2018. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

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Notes to Financial Statements
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(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In March 2017, GASB issued Statement No. 85, *Omnibus 2017*, which addresses practice issues that have been identified during implementation and application of certain GASB Statements including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits). The provisions in Statement No. 85 are effective for fiscal years beginning after June 15, 2017. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In May 2017, GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*, which improves consistency in accounting and financial reporting for in-substance defeasance of debt. The provisions in Statement No. 86 are effective for fiscal years beginning after June 15, 2017. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In June 2017, GASB issued Statement No. 87, *Leases*, which establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The provisions in Statement No. 87 are effective for fiscal years beginning after December 15, 2019. Management has yet to determine whether the implementation of this statement will have a material effect on the financial statements.

Risk Management

OCI 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. OCI 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 in any of the past three years.

(3) Capital Assets

Capital asset activity for the years ended September 30, 2017 and 2016 was as follows:

	October 1, <u>2016</u>	Additions and Transfers	Retirements	September 30, <u>2017</u>
Motor vehicles	\$ 27,000	\$ -	\$ -	\$ 27,000
Furniture and fixtures	<u>14,043</u>	-	-	<u>14,043</u>
	41,043	-	-	41,043
Less accumulated depreciation	<u>(17,230)</u>	<u>(8,209)</u>	-	<u>(25,439)</u>
	<u>\$ 23,813</u>	<u>\$ (8,209)</u>	\$ -	<u>\$ 15,604</u>
	October 1, <u>2015</u>	Additions and Transfers	Retirements	September 30, <u>2016</u>
Motor vehicles	\$ 27,000	\$ -	\$ -	\$ 27,000
Furniture and fixtures	<u>14,043</u>	-	-	<u>14,043</u>
	41,043	-	-	41,043
Less accumulated depreciation	<u>(9,021)</u>	<u>(8,209)</u>	-	<u>(17,230)</u>
	<u>\$ 32,022</u>	<u>\$ (8,209)</u>	\$ -	<u>\$ 23,813</u>

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Notes to Financial Statements
September 30, 2017 and 2016

(4) Related Party Transactions

OCI is a component unit of RepMar and is thus affiliated with all RepMar-owned and affiliated entities, including the Marshall Islands Marine Resources Authority (MIMRA) and the Marshall Islands Development Bank (MIDB). OCI utilizes services from certain affiliated entities at substantially the same terms and conditions as those incurred from third parties. A summary of related party balances and transactions as of and for the years ended September 30, 2017 and 2016, is as follows:

	2017	
	<u>Expenses</u>	<u>Payables</u>
Marshall Islands Social Security Administration	\$ 21,573	\$ 12,953
Marshall Islands National Telecommunications Authority	4,313	-
MIMRA	-	7,887
RepMar	-	<u>4,573</u>
	<u>\$ 25,886</u>	<u>\$ 25,413</u>
	2016	
	<u>Expenses</u>	<u>Payables</u>
Marshall Islands Social Security Administration	\$ 15,680	\$ 8,190
Marshall Islands National Telecommunications Authority	4,780	-
RepMar	<u>1,212</u>	<u>2,663</u>
	<u>\$ 21,672</u>	<u>\$ 10,853</u>

For the years ended September 30, 2017 and 2016, OCI's operations were funded by \$477,285 and \$420,801, respectively, of RepMar appropriations.

OCI entered into an office lease with MIDB for a term of two years commencing September 1, 2014. On July 2, 2016, OCI extended this lease for another two years commencing on September 1, 2016 and ending on August 31, 2018. Annual rent payments are \$12,672.

RMI SBDC entered into an office lease with MIDB for a term of five years commencing February 25, 2017 and ending on February 24, 2022. Annual payments are \$7,416.

(5) Contingency

OCI receives a substantial amount of its revenue from annual RepMar appropriations. A significant reduction in the level of budgetary support from RepMar, if this were to occur, may have an effect on OCI's programs and activities. For the year ended September 30, 2018, RepMar appropriated \$684,524 for the purpose of funding OCI's programs and activities.

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
Republic of the Marshall Islands
Office of Commerce and Investment:

We have audited, in accordance with the 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 the Republic of the Marshall Islands Office of Commerce and Investment (OCI), a component unit of the Republic of the Marshall Islands, which comprise the statement of net position as of September 30, 2017, and the related 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 December 13, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered OCI'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 OCI's internal control. Accordingly, we do not express an opinion on the effectiveness of OCI's internal control.

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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

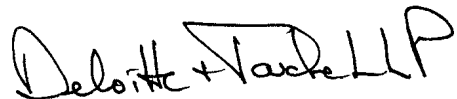
As part of obtaining reasonable assurance about whether OCI's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect 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 item 2017-001.

OCI's Response to Findings

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

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 results 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.



December 13, 2017

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Schedule of Findings and Responses
Year Ended September 30, 2017

Finding No. 2017-001

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. 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 supply, service, or construction item without completion when it is determined in writing that there is only one source for the required supply, service, or construction item.

Condition: OCI does not have a formal procurement policy requiring documentation indicating the history of procurement to be maintained on file. For the following items, supporting documentation was inadequate to evidence the procurement process:

<u>Check no.</u>	<u>Date</u>	<u>Description</u>	<u>Amount</u>
2351	08/18/17	Professional fee	\$ 6,929
2187	05/18/17	Professional fee	\$ 5,750
2128	04/19/17	Professional fee	\$ 4,750
2211	06/02/17	Professional fee	\$ 2,437
1836	11/01/16	Travel	\$ 2,000
1818	10/26/16	Travel	\$11,105
1837	11/01/16	Travel	\$ 2,226

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

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

Prior Year Status: The lack of compliance with RepMar's Procurement Code was reported as a finding in the audits of OCI for fiscal years 2014 through 2016.

Recommendation: We recommend that management establish adequate internal control policies and procedures to conform to RepMar's Procurement Code.

Auditee Response (OCI Management) and Corrective Action Plan: OCI Management has recruited a chief accountant for FY18 who will be responsible for ensuring that all internal control policies and procedures are adhered to by all OCI staff and management. It will be the responsibility of the chief accountant and the CEO to ensure that all OCI staff and management are well versed with RepMar's procurement code.

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Unresolved Prior Year Findings
Year Ended September 30, 2017

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