

MAJURO RESORT, INC.

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

**FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT**

YEARS ENDED SEPTEMBER 30, 2014 AND 2013

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

Years Ended September 30, 2014 and 2013
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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, 2014 and 2013, 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, 2014 and 2013, 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.

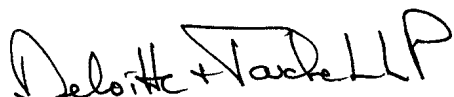
Other Matters

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 7 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 September 21, 2015, 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.



September 21, 2015

MAJURO RESORT, INC.

Management's Discussion and Analysis Years Ended September 30, 2014 and 2013

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, 2014. The discussion and analysis should be read in conjunction with the audited financial statements, which follow this section.

Financial Highlights

Total assets decreased by \$235,157 or 10% from \$2,286,258 in 2013 to \$2,051,101 in 2014.

Gross operating revenues for 2014 were \$2,992,728 and represent an increase of \$285,499 or 11% compared to 2013. Compared to FY2012, total operating revenues was higher by \$820,619 or 38%.

Total departmental operating profit for the full twelve-month period was \$1,257,651 compared to 2013, which was \$874,765 or an increase of \$382,886 or 44%. This also represents an increase over 2012 departmental profit by \$781,091. As a percentage of total revenues, overall departmental operating profit for 2014 was at 42%, which represents 10% and 20% higher than 2013 and 2012, respectively.

Operating expenses for 2014 amounted to \$1,656,290 compared to 2013, which was \$1,669,549 or a decrease of \$13,259 or 1%. As a percentage of total revenues, overall operating expenses for 2014 were at 55%, which represents a decrease of 7% and 15% in 2013 and 2012, respectively.

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 reflects the difference between assets and liabilities. A summary of MRI's Statement of Net Position is presented below:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Current and other assets			
	\$ 474,474	\$ 495,430	\$ 390,087
Capital assets	<u>1,576,627</u>	<u>1,790,828</u>	<u>1,485,197</u>
Total assets	\$ <u>2,051,101</u>	\$ <u>2,286,258</u>	\$ <u>1,875,284</u>
Current liabilities	\$ 1,403,307	\$ 1,321,873	\$ 2,798,267
Net position:			
Net investment in capital assets	1,576,627	1,790,828	1,485,197
Unrestricted	<u>(928,833)</u>	<u>(826,443)</u>	<u>(2,408,180)</u>
Total net position	<u>647,794</u>	<u>964,385</u>	<u>(922,983)</u>
Total liabilities and net position	\$ <u>2,051,101</u>	\$ <u>2,286,258</u>	\$ <u>1,875,284</u>

Total assets decreased by \$235,157 or 10% from \$2,286,258 in 2013 to \$2,051,101 in 2014. The decrease in total assets is the result of a net decrease in capital assets of \$214,201, representing capital asset additions of \$152,814 offset by depreciation expense of \$367,015, and a net decrease in current assets of \$20,956. The decrease in current assets is primarily the result of a net decrease in receivables of \$59,956, representing an increase in overall receivables of \$104,512 offset by an increase in the allowance for doubtful accounts of \$164,468, and an increase in cash reserves at the end of the fiscal year of \$47,552.

On the other hand, total liabilities increased by \$81,434 or 6% from \$1,321,873 in 2013 to \$1,403,307 in 2014. MRI's liabilities increased due to increase in utilities and due to its affiliates.

MAJURO RESORT, INC.

Management's Discussion and Analysis Years Ended September 30, 2014 and 2013

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

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Revenues:			
Rooms	\$ 1,589,032	\$ 1,313,827	\$ 1,141,179
Food and beverage	1,278,067	1,336,733	1,013,946
Telephone	2,473	4,045	2,872
Others	<u>123,156</u>	<u>52,624</u>	<u>14,112</u>
	2,992,728	2,707,229	2,172,109
Less bad debts expense	<u>(185,452)</u>	<u>(93,227)</u>	<u>(108,616)</u>
	<u>2,807,276</u>	<u>2,614,002</u>	<u>2,063,493</u>
Cost of sales and services:			
Rooms	383,411	397,641	364,189
Food and beverage	1,125,466	1,294,779	1,191,878
Telephone	15,800	26,727	17,580
Others	<u>24,948</u>	<u>20,090</u>	<u>13,286</u>
	<u>1,549,625</u>	<u>1,739,237</u>	<u>1,586,933</u>
Department gross profit (loss):			
Rooms	1,020,169	822,959	668,374
Food and beverage	152,601	41,954	(177,932)
Telephone	(13,327)	(22,682)	(14,708)
Others	<u>98,208</u>	<u>32,534</u>	<u>826</u>
Total gross profit	<u>1,257,651</u>	<u>874,765</u>	<u>476,560</u>
Operating expenses	1,656,290	1,669,549	1,509,924
Non-operating revenues (expenses), net	82,048	316,517	287,600
Forgiveness of debt	-	<u>2,365,635</u>	-
Change in net position	\$ <u>(316,591)</u>	\$ <u>1,887,368</u>	\$ <u>(745,764)</u>

The Statement of Revenues, Expenses and Changes in Net Position identify various revenue and expense items that impact the change in net position. Gross operating revenues for 2014 were \$2,992,728 and represent an increase of \$285,499 or 11% compared to 2013. Compared to FY2012, total operating revenues was higher by \$820,619 or 38%. The increase over FY2014 operating revenues is the combined effect of the increased revenue performance in rooms by \$275,205, which can be largely attributed to the increase in average room rate, and an increase in other revenue of \$70,532 offset by a decrease in food and beverage revenue of \$58,666.

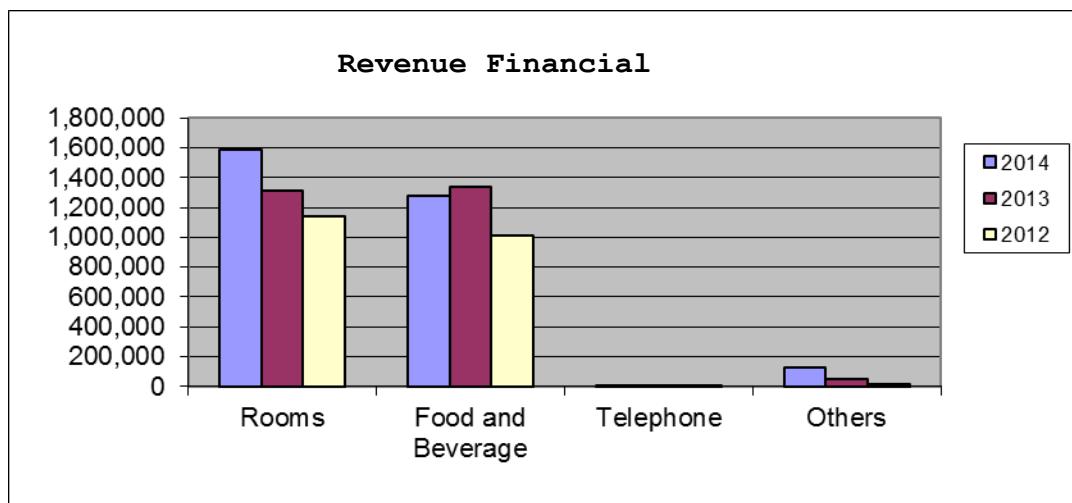
Operating revenues for 2014 showed an increase of \$285,499 from \$2,707,229 in 2013 to \$2,992,728 in 2014. Room revenues for 2014 increased by \$275,205 or 21% from 2013 and increased by \$447,853 or 39% from 2012. The occupancy ratio in 2014 and 2013 increased to 49% with a \$6 increase in average room rate from \$55 in 2013 to \$61 in 2014. Food and beverage revenue for 2014 was \$1,278,067, which showed a decrease of \$58,666 over 2013 and an increase of \$264,121 over 2012. Meanwhile, telephone revenues and revenues from other operating departments posted a net increase of \$68,960 as compared to last year.

As indicated earlier, operating expenses for 2014 amounted to \$1,656,290 compared to 2013, which was \$1,669,549 or a decrease of \$13,259 or 1%. As a percentage of total revenues, overall operating expenses for 2014 were at 55%, which represents a decrease of 7% and 15% in 2013 and 2012, respectively. The decrease in operating expenses during the year was primarily attributable to the decrease in utility, sales and marketing as well as maintenance cost.

MAJURO RESORT, INC.

Management's Discussion and Analysis Years Ended September 30, 2014 and 2013

The following graph shows the major components of revenue for financial periods 2014, 2013 and 2012, 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 2014, 2013, 2012, 2011 and 2010.

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

Occupancy Performance	2014	2013	2012	2011	2010
% of total occupancy	49.41%	45.04%	47.96%	47.56%	40.59%
Average rate	\$ 61.23	\$ 55.50	\$ 45.27	\$ 50.75	\$ 50.34
% of paid occupancy	49.33%	44.97%	47.87%	47.46%	40.49%
Average rate	\$ 61.33	\$ 55.59	\$ 45.35	\$ 50.86	\$ 50.47
Group rooms	-	-	-	-	-
% of total occupancy	-	-	-	-	-
Average rate	-	-	-	-	-

Paid occupancy ratio in 2014 was 49% as compared to 45% in 2013 and 48% in 2012.

The hotel paid occupancy ratio for the current year has increased over the past two (2) years while the average paid room rate for the current year has increased due to increase in room rate and number of guests.

Operating Expenses

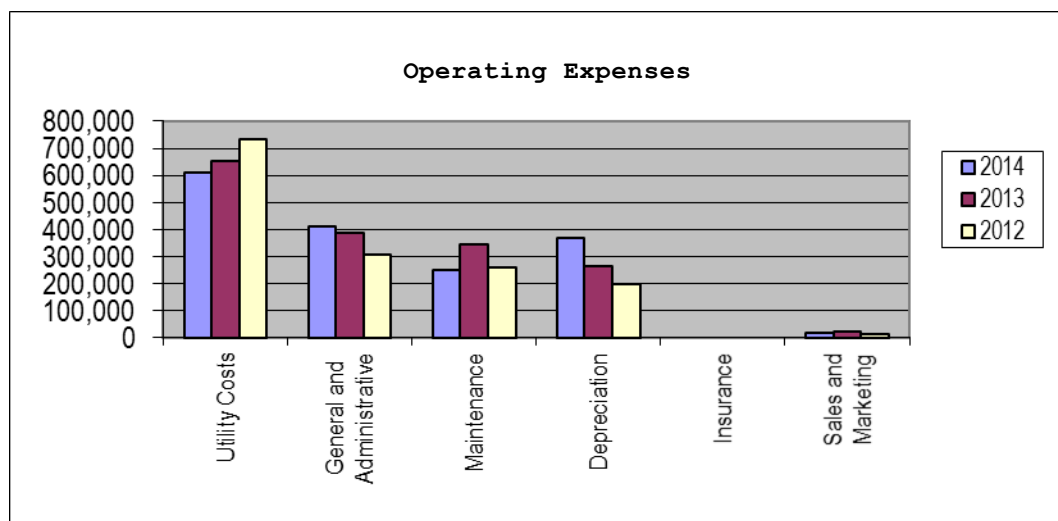
Total operating expenses decreased by \$13,259 from \$1,669,549 in 2013 to \$1,656,290 in 2014 as a result of the decrease mainly in maintenance and utility components of operating expenses. As a percentage of total revenues, operating expenses for 2014 represents 55% or a decrease of 7% compared to 2013 and 15% decrease over 2012.

MAJURO RESORT, INC.

Management's Discussion and Analysis Years Ended September 30, 2014 and 2013

Utility costs showed a substantial decrease of \$42,355 from \$652,691 in 2013 to \$610,606 in 2014. The decrease was primarily contributed by the efforts of MIR to change old equipment to energy saver, change of water heater even with the increase in energy rate. General and administrative expenses showed an increase of \$24,490, depreciation posted an increase of \$101,500 while the maintenance cost decreased by of \$93,498.

The following graph shows the major components of operating expenses for financial periods 2014, 2013 and 2012, all of which cover a twelve (12) month period ending September 30.



Management's Discussion and Analysis for the year ended September 30, 2013 is set forth in the report on the audit of MRI's financial statements dated September 8, 2014. That Discussion and Analysis explains the major factors impacting the 2013 financial statements and may be obtained from the contact information below.

Capital Assets and Debt

Net capital assets decreased by \$214,201 due mainly to less acquisitions and building improvement compared to 2013. Certain capital equipment was purchased to replace damaged equipment due to wear and tear. MRI had various capital projects such as replacement of TV and air conditioning units. There was also an increase in motor vehicles with the purchase of a van to be used for catering services for Food and Beverage during the year.

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

	2014	2013	2012
Building and structure	\$ 2,547,970	\$ 2,543,390	\$ 2,362,004
Furniture and fixtures	1,342,770	1,238,720	924,297
Office equipment	241,105	228,226	221,545
Other equipment	109,838	104,983	96,153
Motor vehicles	200,038	173,588	113,762
At Cost	<u>4,441,721</u>	<u>4,288,907</u>	<u>3,717,761</u>
Accumulated depreciation	<u>(2,865,094)</u>	<u>(2,498,079)</u>	<u>(2,232,564)</u>
Net Book Value	<u>\$ 1,576,627</u>	<u>\$ 1,790,828</u>	<u>\$ 1,485,197</u>

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

MAJURO RESORT, INC.

Management's Discussion and Analysis Years Ended September 30, 2014 and 2013

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. This loan was paid in full on December 13, 2013. 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 2015. Upcoming conferences and seminars that will be hosted by RMI for 2015 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, 2014 and 2013

<u>ASSETS</u>	<u>2014</u>	<u>2013</u>
Current assets:		
Cash	\$ 126,828	\$ 79,276
Receivables:		
Trade	375,418	365,796
Affiliates	386,388	293,890
Other	30,430	28,038
	<u>792,236</u>	<u>687,724</u>
Less allowance for doubtful accounts	<u>(518,214)</u>	<u>(353,746)</u>
Total receivables, net	<u>274,022</u>	<u>333,978</u>
Inventories	<u>44,397</u>	<u>48,514</u>
Prepaid expenses	<u>29,227</u>	<u>33,662</u>
Total current assets	474,474	495,430
Property, plant and equipment, net	<u>1,576,627</u>	<u>1,790,828</u>
	<u>\$ 2,051,101</u>	<u>\$ 2,286,258</u>
 <u>LIABILITIES AND NET POSITION</u> 		
Current liabilities:		
Note payable	\$ -	\$ 95,000
Accounts payable	148,431	346,441
Payable to affiliates	684,946	361,243
Accrued expenses	569,930	519,189
Total current liabilities	<u>1,403,307</u>	<u>1,321,873</u>
Commitment and contingencies		
Net position:		
Net investment in capital assets	1,576,627	1,790,828
Unrestricted	<u>(928,833)</u>	<u>(826,443)</u>
Total net position	<u>647,794</u>	<u>964,385</u>
	<u>\$ 2,051,101</u>	<u>\$ 2,286,258</u>

See accompanying notes to financial statements.

MAJURO RESORT, INC.

Statements of Revenues, Expenses and Changes in Net Position
Years Ended September 30, 2014 and 2013

	2014	2013
Revenues:		
Rooms	\$ 1,589,032	\$ 1,313,827
Food and beverage	1,278,067	1,336,733
Telephone	2,473	4,045
Other	123,156	52,624
Total revenues	2,992,728	2,707,229
Less provision for doubtful accounts	(185,452)	(93,227)
Net revenues	2,807,276	2,614,002
Cost of sales:		
Rooms	383,411	397,641
Food and beverage	1,125,466	1,294,779
Telephone	15,800	26,727
Other	24,948	20,090
Total cost of sales	1,549,625	1,739,237
Gross profit	1,257,651	874,765
Operating expenses:		
Utility costs	610,606	652,961
General and administrative	412,267	387,777
Depreciation	367,015	265,515
Maintenance	249,297	342,795
Sales and marketing	17,105	20,501
Total operating expenses	1,656,290	1,669,549
Operating loss	(398,639)	(794,784)
Nonoperating revenues (expenses):		
Operating subsidies	95,000	321,900
Interest expense	(12,952)	(5,383)
Total nonoperating revenues (expenses), net	82,048	316,517
	(316,591)	(478,267)
Special item:		
Forgiveness of debt through transfer of liability to RepMar	-	2,365,635
Changes in net position	(316,591)	1,887,368
Net position at beginning of year	964,385	(922,983)
Net position at end of year	\$ 647,794	\$ 964,385

See accompanying notes to financial statements.

MAJURO RESORT, INC.

Statements of Cash Flows
Years Ended September 30, 2014 and 2013

	2014	2013
Cash flows from operating activities:		
Cash received from customers	\$ 2,867,232	\$ 2,469,499
Cash payments to suppliers for goods and services	(1,819,999)	(1,544,046)
Cash payments to employees for services	(833,915)	(819,643)
Net cash provided by operating activities	213,318	105,810
Cash flows from noncapital financing activities:		
RepMar subsidy received	95,000	321,900
Interest paid	(6,302)	(5,383)
Net cash provided by noncapital financing activities	88,698	316,517
Cash flows from capital and related financing activities:		
Acquisition of capital assets	(152,814)	(571,146)
Proceeds from note payable	-	95,000
Principal paid on note payable	(95,000)	-
Interest paid on note payable	(6,650)	-
Net cash used for capital and related financing activities	(254,464)	(476,146)
Net change in cash	47,552	(53,819)
Cash at beginning of year	79,276	133,095
Cash at end of year	\$ 126,828	\$ 79,276
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	\$ (398,639)	\$ (794,784)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation	367,015	265,515
Bad debt expense	185,452	93,227
(Increase) decrease in assets:		
Receivables:		
Trade	(30,606)	(95,303)
Affiliates	(92,498)	(140,473)
Other	(2,392)	(1,954)
Inventories	4,117	(17,247)
Prepaid expenses	4,435	2,588
Increase (decrease) in liabilities:		
Accounts payable	(198,010)	167,698
Payable to affiliates	323,703	572,966
Accrued expenses	50,741	53,577
Net cash provided by operating activities	\$ 213,318	\$ 105,810
Supplemental disclosure of cash flow information:		
Transfer of utility liability 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.

Notes to Financial Statements
September 30, 2014 and 2013

(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 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.

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.

MAJURO RESORT, INC.

Notes to Financial Statements
September 30, 2014 and 2013

(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, 2014 and 2013, the carrying amount of cash was \$126,828 and \$79,276, respectively, and the corresponding bank balances were \$155,298 and \$116,080 respectively. As of September 30, 2014 and 2013, bank balances in the amount of \$148,310 and \$110,358, 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.

MAJURO RESORT, INC.

Notes to Financial Statements
September 30, 2014 and 2013

(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, 2014 and 2013, MRI incurred advertising costs of \$11,703 and \$12,980, 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, 2014 and 2013, the accumulated vacation leave liability amounted to \$44,571 and \$37,861, respectively, and is included within the statements of net position as accrued expenses.

New Accounting Standards

During fiscal year 2014, MRI implemented the following pronouncements:

- GASB 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 implementation of this statement did not have a material effect on the accompanying financial statements.
- GASB Statement No. 67, *Financial Reporting for Pension Plans*, which revises existing guidance for the financial reports of most pension plans. The implementation of this statement did not have a material effect on the accompanying financial statements.
- GASB 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 implementation of this statement did not have a material effect on the accompanying financial statements.

MAJURO RESORT, INC.

Notes to Financial Statements
September 30, 2014 and 2013

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In June 2012, GASB issued 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 68 are effective for fiscal years beginning after June 15, 2014. Management does not believe that the implementation of this statement will have a material effect 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 this statement on the financial statements of MRI.

In November 2013, GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*, which addresses an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. The provisions in Statement 71 are effective for fiscal years beginning after June 15, 2014. Management has not yet determined the effect of implementation of this statement 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.

MAJURO RESORT, INC.

Notes to Financial Statements
September 30, 2014 and 2013

(4) Property, Plant and Equipment

Capital asset activity for the years ended September 30, 2014 and 2013 was as follows:

	<u>Estimated Useful Lives</u>	Balance at October 1, 2013	<u>Additions</u>	Balance at September 30, 2014
Building and structure	17 years	\$ 2,543,390	\$ 4,580	\$ 2,547,970
Furniture and fixtures	3 years	1,238,720	104,050	1,342,770
Office equipment	3 years	228,226	12,879	241,105
Other equipment	3 years	104,983	4,855	109,838
Motor vehicles	3 years	<u>173,588</u>	<u>26,450</u>	<u>200,038</u>
		4,288,907	152,814	4,441,721
Less accumulated depreciation		<u>(2,498,079)</u>	<u>(367,015)</u>	<u>(2,865,094)</u>
		\$ <u>1,790,828</u>	\$ <u>(214,201)</u>	\$ <u>1,576,627</u>
	<u>Estimated Useful Lives</u>	Balance at October 1, 2012	<u>Additions</u>	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	<u>113,762</u>	<u>59,826</u>	<u>173,588</u>
		3,717,761	571,146	4,288,907
Less accumulated depreciation		<u>(2,232,564)</u>	<u>(265,515)</u>	<u>(2,498,079)</u>
		\$ <u>1,485,197</u>	\$ <u>305,631</u>	\$ <u>1,790,828</u>

(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.

Short-term debt changes during the years ended September 30, 2014 and 2013 are as follows:

	<u>Balance October 1,</u>	<u>Drawdowns</u>	<u>Repayment</u>	<u>Balance September 30,</u>
2014:				
Loan payable	\$ <u>95,000</u>	\$ <u>-</u>	\$ <u>(95,000)</u>	\$ <u>-</u>
2013:				
Loan payable	\$ <u>-</u>	\$ <u>95,000</u>	\$ <u>-</u>	\$ <u>95,000</u>

MAJURO RESORT, INC.

Notes to Financial Statements
September 30, 2014 and 2013

(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.

A summary of related party balances and transactions as of September 30, 2014 and 2013 and for the years then ended are as follows:

	2014			
	<u>Revenues</u>	<u>Expenses</u>	<u>Receivables</u>	<u>Payables</u>
RepMar	\$ 227,458	\$ 54,563	\$ 280,078	\$ 240,125
Marshalls Energy Company, Inc.	58,287	206,931	12,582	374,309
Marshall Islands National Telecommunications Authority	7,408	81,717	2,903	9,021
Marshall Islands Social Security Administration	1,550	135,725	-	46,692
Majuro Water and Sewer Company, Inc.	19,293	34,866	920	14,694
Other	<u>220,820</u>	<u>7,375</u>	<u>89,905</u>	<u>105</u>
	<u>\$ 534,816</u>	<u>\$ 521,177</u>	<u>\$ 386,388</u>	<u>\$ 684,946</u>
	2013			
	<u>Revenues</u>	<u>Expenses</u>	<u>Receivables</u>	<u>Payables</u>
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	<u>167,323</u>	<u>3,692</u>	<u>32,959</u>	<u>1,891</u>
	<u>\$ 734,495</u>	<u>\$ 856,737</u>	<u>\$ 293,890</u>	<u>\$ 361,243</u>

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

The operations of MRI were funded by appropriations, totaling \$95,000 and \$321,900, respectively, from the Nitijela of RepMar during the years ended September 30, 2014 and 2013.

MAJURO RESORT, INC.

Notes to Financial Statements
September 30, 2014 and 2013

(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, 2014 and 2013.

MRI leases out business space to a commercial entity in the island at a rate of \$1,750/month expiring on February 28, 2015, subject for annual renewal.

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, 2014 and 2013 of \$398,639 and \$794,784, respectively, and used a substantial amount of working capital in its operations resulting in a working capital deficiency of \$928,833 and \$826,443 during the years ended September 30, 2014 and 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, 2014, 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.

At September 30, 2014 and 2013, MRI did not file sales and local government taxes until August 2014, which may not be in compliance with Majuro Atoll Local Government (Malgov) local ordinances. As a result, sales taxes of \$331,866 and \$283,764 and local government taxes of \$346,414 and \$301,535 as of September 30, 2014 and 2013, 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 \$162,787 and \$140,472 as of September 30, 2014 and 2013, respectively. No such action has yet been filed. At September 30, 2014 and 2013, the financial statements do not include any adjustments that might result from the outcome of this uncertainty. Management is currently negotiating the settlement of the sales and local government taxes with Malgov.

MAJURO RESORT, INC.

Notes to Financial Statements
September 30, 2014 and 2013

(7) Commitment and Contingencies, Continued

Contingencies, Continued

At September 30, 2014 and 2013, MRI is liable for delinquent withholding taxes, totaling \$240,125 and \$273,616, respectively. 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. As of September 30, 2014, MRI was able to pay current withholding taxes.

At September 30, 2014 and 2013, MRI did not file gross receipts taxes (GRT) as required under the Income Tax Act of 1989. Management is of the opinion that MRI is exempt from payment of GRT as MRI is considered a component unit of RepMar. Accordingly, no GRT liability is recorded in the accompanying financial statements. Management is currently working with RepMar's Ministry of Finance and Office of the Attorney General to formalize this understanding.

**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, 2014, 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 21, 2015. Our report included an emphasis-of-matter paragraph regarding a going concern uncertainty.

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 item 2014-003 to be material weaknesses.

Compliance and Other Matters

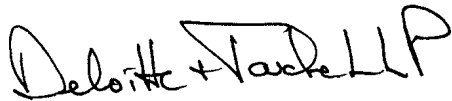
As part of obtaining reasonable assurance about whether MRI's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect 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 2014-001, 2014-002, and 2014-004.

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.

A handwritten signature in black ink that reads "Deloitte + Tatchell LLP". The signature is written in a cursive, stylized font.

September 21, 2015

MAJURO RESORT, INC.

Schedule of Findings and Responses
Year Ended September 30, 2014

Finding No.: 2014-001
Area: Sales and Local Government Tax

Criteria: Majuro Atoll Local Government (Malgov) has local ordinances that require the payment of 4% 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 sales and local government tax returns from 2006 through July 2014. However, these taxes have been accrued but only until May 2009. From then on, the entity stopped accruing these taxes until July 2014 when management decided to start accruing these taxes again.

Cause: MRI did not pay these taxes as management believes that they have already paid for the sales tax when MRI purchased items. Management believes paying the sales tax would result in double taxation. Local government hotel room taxes were not paid since management believes that MRI is owned by RepMar.

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 taxes was reported as a finding in the audits of MRI for fiscal years 2006 through 2013.

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:

Effective August 2014, MRI started paying its sales tax and local government taxes in compliance with MALGOV local ordinances and is now currently paying its taxes.

MRI had been accruing room taxes up to July 2014 and sales tax up to May 2009. MRI is closely working with the representative of Majuro Atoll Local Government to resolve this matter.

MAJURO RESORT, INC.

Schedule of Findings and Responses, Continued
Year Ended September 30, 2014

Finding No.: 2014-002
Area: Gross Revenue Tax

Criteria: The Government of the Republic of the Marshall Islands imposes a gross receipts tax of 3% on revenues.

Condition: MRI has not paid gross revenue taxes since its inception. It is not accruing possible GRT liabilities.

Cause: MRI did not pay GRT since MRI is owned by RepMar and therefore no tax payment is considered necessary.

Effect: Noncompliance with laws and regulations could result from this condition, which may result in penalties and interest.

Recommendation: We recommend that the tax returns be timely filed to minimize potential penalties and interest.

Auditee Response and Corrective Action Plan:

MRI believes that it is owned by RepMar and is not subject to GRT of 3% under C.M. 018(2004) and is therefore exempt from paying gross receipts tax.

MRI is currently working with the Ministry of Finance as well as verifying with the Attorney General's office regarding this concern.

MAJURO RESORT, INC.

Schedule of Findings and Responses, Continued
Year Ended September 30, 2014

Finding No.: 2014-003
Area: Financial Reporting

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

Condition: MRI did not close its fiscal year September 30, 2014 financial statements (trial balance and subsidiary ledgers) until April 17, 2015, which delayed the incorporation of MRI's financial statements into the Republic of the Marshall Islands.

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

Effect: The trial balance was not timely provided.

Prior Year Status: The lack of timely financial reporting was reported as a finding in the audits of MRI for fiscal years 2012 and 2013.

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 of monthly reconciliations of Subsidiary Ledgers and General Ledgers. Based on our review of variances, the differences are mostly attributable to timing differences in postings therefore, adjusting entries have been made.

Management recently employed additional accounting staff to ease the workload within the department and implemented internal control procedures and facilitated preparations of reports on a timely manner. Timely review and reconciliations are performed regularly to ensure that any variances are resolved in an orderly manner and adjustments, if any, are reflected in the proper period.

MAJURO RESORT, INC.

Schedule of Findings and Responses, Continued
Year Ended September 30, 2014

Finding No.: 2014-004
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: The following payments were not adequately documented to evidence compliance with the procurement process set forth in the criteria:

Date of Invoice	Description	Invoice No.	Acquired cost
21-Apr-14	1 Unit Brand New H-1 Hyudai Van	1342	\$ 26,450
4-Mar-14	1 unit washer & 1 unit dryer	C14262	\$ 2,184
5-Mar-14	50 pcs Water heater	1428	\$ 4,790
2-Apr-14	Toner Cartridges	129918/129818	\$ 3,197
	Labor/service charge for installation of ultra violet lamps	3465	\$ 1,563
17-Mar-14			
15-Jul-14	Lumber,alum roofing tin, and rebar epoxy	111798	\$ 2,012

Cause: The cause of the above condition is a 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.

MAJURO RESORT, INC.

Schedule of Findings and Responses, Continued
Year Ended September 30, 2014

Finding No.: 2014-004, Continued
Area: Procurement

Prior Year Status: The lack of compliance with RepMar's Procurement Code was reported as a finding in the audit of MRI for fiscal year 2013.

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's lack of compliance with the procurement procedure were caused by various factors such as (1) Limited product availability on island- not all vendors on island provide the products/services that the establishment needs (2) Time Constraint – there were purchases that are needed urgently from various repairs due to wear and tear especially when it comes to hotel maintenance.

MRI management recently designated a Property Service Manager who will oversee these purchases to make sure that documentation of procurement is in compliance with RepMar's procurement code.

MAJURO RESORT, INC.

Unresolved Prior Year Findings
Year Ended September 30, 2014

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