MAJURO RESORT, INC.

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

FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT

YEARS ENDED SEPTEMBER 30, 2015 AND 2014

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

Years Ended September 30, 2015 and 2014
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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, 2015 and 2014, 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 Majuro Resort, Inc. as of September 30, 2015 and 2014, 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 August 18, 2016, on our consideration of MRI's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financing reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering MRI's internal control over financial reporting and compliance.

Deloitte + Touche LLP

August 18, 2016

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, 2015. The discussion and analysis should be read in conjunction with the audited financial statements, which follow this section.

Financial Highlights

Total assets decreased by $187,746 or 9% from $2,051,101 in 2014 to $1,863,355 in 2015.

Gross operating revenues for 2015 were $3,134,606 and represent an increase of $141,878 or 5% compared to 2014. Compared to FY2013, total operating revenues was higher by $427,377 or 16%. The increase in FY2015 operating revenues was the combined effect of the increased revenue performance in the rooms by $36,918, which can be largely attributed to the increase in average room rate; increase in food and beverage revenue by $165,451; and decrease in other revenue by $64,480.

Total departmental operating profit for the full twelve-month period was $1,572,311 compared to 2014, which was $1,257,651 or an increase of $314,660 or 25%. This also represents an increase over 2013 departmental profit by $697,546 or 80%. As a percentage of total revenues, overall departmental operating profit for 2015 was at 50%, which represents 8% and 18% higher than 2014 and 2013, respectively.

Operating expenses for 2015 amounted to $1,663,473 compared to 2014, which was $1,656,290 or an increase of $7,183 or 0.4%. As a percentage of total revenues, overall operating expenses for 2015 was at 53%, which represents a decrease of 2% and 9% in 2014 and 2013, respectively. The slight increase in operating expenses during the year was primarily attributable to the increase in maintenance costs offset by a decrease in utility and sales and marketing costs.

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:

	2015	2014	2013
Current and other assets	$ 507,615	$ 474,474	$ 495,430
Capital assets	1,355,740	1,576,627	1,790,828
Total assets	$ 1,863,355	$ 2,051,101	$ 2,286,258
Current liabilities	$ 1,310,794	$ 1,403,307	$ 1,321,873
Net position:			
Net investment in capital assets	1,355,740	1,576,627	1,790,828
Unrestricted	(803,179)	(928,833)	(826,443)
Total net position	552,561	647,794	964,385
Total liabilities and net position	$ 1,863,355	$ 2,051,101	$ 2,286,258

Total assets decreased by $187,746 or 9% from $2,051,101 in 2014 to $1,863,355 in 2015. The decrease in the total assets was the effect of the decrease in allowance for doubtful accounts by $52,399 and decrease in receivables by $78,385 from both food and beverage and hotel rooms. Receivables mainly comprise government and government-related agencies in which the hotel experienced a slow turnover over the past years. There has been a decrease in net book value of capital assets by $220,887. Inventories and prepayments increased by $13,439 and $9,993, respectively.

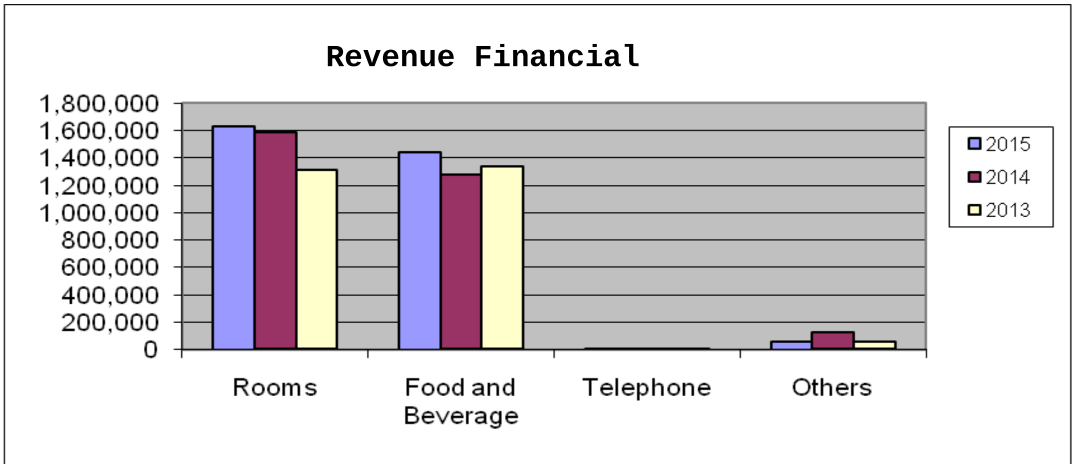
On the other hand, total liabilities decreased by $92,513 or 7% from $1,403,307 in 2014 to $1,310,794 in 2015. MRI's liabilities decreased due to an increase in its ability to pay utilities and amounts due to affiliates.

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

	2015	2014	2013
Revenues:			
Rooms	$ 1,625,950	$ 1,589,032	$ 1,313,827
Food and beverage	1,443,518	1,278,067	1,336,733
Telephone	6,462	2,473	4,045
Others	58,676	123,156	52,624
	3,134,606	2,992,728	2,707,229
Less bad debts recovery (expense)	52,399	(185,452)	(93,227)
	3,187,005	2,807,276	2,614,002
Cost of sales and services:			
Rooms	388,367	383,411	397,641
Food and beverage	1,184,275	1,125,466	1,294,779
Telephone	9,469	15,800	26,727
Others	32,583	24,948	20,090
	1,614,694	1,549,625	1,739,237
Department gross profit (loss):			
Rooms	1,020,169	822,959	1,289,983
Food and beverage	259,243	152,601	41,954
Telephone	(3,007)	(13,327)	(22,682)
Others	26,092	98,208	32,534
Total gross profit	1,572,311	1,257,651	874,765
Operating expenses	1,663,473	1,656,290	1,669,549
Non-operating revenues (expenses), net	(4,071)	82,048	316,517
Forgiveness of debt	-	-	2,365,635
Change in net position	$ (95,233)	$ (316,591)	$ 1,887,368

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 2015 were $3,134,606 and represent an increase of $141,878 or 5% compared to 2014. Room revenues for 2015 increased by $36,918 or 2% from 2014 and increased by $312,123 or 24% from 2013. The average occupancy ratio increased in 2015 to 50.75% from 49.41% in 2014 while average room rate decreased from $61.23 in 2014 to $60.73 in 2015. Food and beverage revenue for 2015 was $1,443,518, which showed an increase of $165,451 over 2014 and an increase of $106,785 over 2013. Meanwhile, telephone revenues and revenues from other operating departments posted a net decrease of $60,491 as compared to last year.

The following graph shows the major components of revenue for financial periods 2015, 2014 and 2013, 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 room revenue performance for the years 2015, 2014, 2013, 2012 and 2011.

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

Occupancy Performance	2015	2014	2013	2012	2011
% of total occupancy	50.75%	49.41%	45.04%	47.96%	47.56%
Average rate	$ 60.73	$ 61.23	$ 55.50	$ 45.27	$ 50.75
% of paid occupancy	50.66%	49.33%	44.97%	47.87%	47.46%
Average rate	$ 61.06	$ 61.33	$ 55.59	$ 45.35	$ 50.86
Group rooms	-	-	-	-	-
% of total occupancy	-	-	-	-	-
Average rate	-	-	-	-	-

Paid occupancy ratio in 2015 was 51% as compared to 49% in 2014 and 45% in 2013.

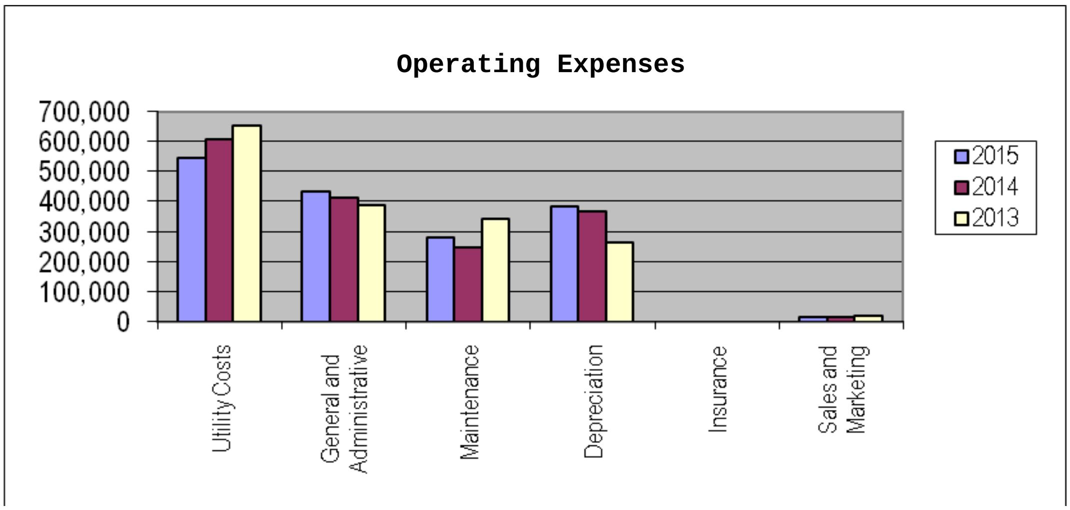
The hotel paid occupancy ratio for the current year has increased over the past two (2) years while the average paid room rate for the current year has slightly decreased.

Operating Expenses

Total operating expenses increased by $7,183 from $1,656,290 in 2014 to $1,663,473 in 2015 as a result of the increase in maintenance expense offset by the decrease in utilities and marketing expenses. As a percentage of total revenues, operating expenses for 2015 represents 53% or a decrease of 2% compared to 2014 and 9% decrease over 2013.

Utility costs showed a substantial decrease of $65,559 from $610,606 in 2014 to $545,047 in 2015. The decrease was primarily contributed by the efforts of MRI 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 $23,027, depreciation posted an increase of $19,126 while the maintenance cost increased by $32,359.

The following graph shows the major components of operating expenses for financial periods 2015, 2014 and 2013, all of which cover a twelve (12) month period ending September 30.



Capital Assets and Debt

Net capital assets decreased by $220,887 due to increase in accumulated depreciation from its acquisitions and building improvement. Certain capital equipment was purchased to replace damaged equipment due to wear and tear. MRI had various capital projects such as relocation of the hotel lobby, additional purchase of air conditioning units and other reinforcements. There was also an increase in motor vehicles with the purchase of a pick-up truck used by the General Manager during the year.

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

	2015	2014	2013
Building and structure	$ 2,580,460	$ 2,547,970	$ 2,543,390
Furniture and fixtures	1,438,871	1,342,770	1,238,720
Office equipment	244,090	241,105	228,226
Other equipment	113,638	109,838	104,983
Motor vehicles	229,916	200,038	173,588
At Cost	4,606,975	4,441,721	4,288,907
Accumulated depreciation	(3,251,235)	(2,865,094)	(2,498,079)
Net Book Value	$ 1,355,740	$ 1,576,627	$ 1,790,828

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

MRI did not incur any long-term debt during 2015 nor was any such debt due and outstanding at year end.

Management's Discussion and Analysis for the year ended September 30, 2014 is set forth in the report on the audit of MRI's financial statements dated September 21, 2015. That Discussion and Analysis explains the major factors impacting the 2014 financial statements and may be obtained from the contact information below.

Economic Factors and Next Year's Performance

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

MRI has been aggressively promoting the destination through outside sales agents such as Booking.com. It has also opened its doors to Japanese tourists and other countries to continually promote the tourism industry. Exposure to travel magazines, 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.

The RMI Government is now playing an active role in promoting the Marshall Islands to generate sufficient numbers of visitors through conferences, workshops, trainings and seminars that is being sponsored and hosted by the RMI.

There is a continuous growth in guest arrivals brought about by the service provided by Nauru Airlines between Majuro, FSM 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 2016. Upcoming conferences and seminars that will be hosted by RMI for 2016 will also give us an advantage in hotel room occupancy as well as the food and beverage operations.

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

Statements of Net Position
September 30, 2015 and 2014

ASSETS	2015	2014
Current assets:		
Cash	$ 162,523	$ 126,828
Receivables:		
Trade	342,206	375,418
Affiliates	356,245	386,388
Other	15,400	30,430
	713,851	792,236
Less allowance for doubtful accounts	(465,815)	(518,214)
Total receivables, net	248,036	274,022
Inventories	57,836	44,397
Prepaid expenses	39,220	29,227
Total current assets	507,615	474,474
Property, plant and equipment, net	1,355,740	1,576,627
	$ 1,863,355	$ 2,051,101
LIABILITIES AND NET POSITION		
Current liabilities:		
Accounts payable	$ 132,694	$ 148,431
Payable to affiliates	605,963	684,946
Accrued expenses	572,137	569,930
Total current liabilities	1,310,794	1,403,307
Commitment and contingencies		
Net position:		
Net investment in capital assets	1,355,740	1,576,627
Unrestricted	(803,179)	(928,833)
Total net position	552,561	647,794
	$ 1,863,355	$ 2,051,101

See accompanying notes to financial statements.

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

Statements of Revenues, Expenses and Changes in Net Position
Years Ended September 30, 2015 and 2014

	2015	2014
Revenues:		
Rooms	$ 1,625,950	$ 1,589,032
Food and beverage	1,443,518	1,278,067
Telephone	6,462	2,473
Other	58,676	123,156
Total revenues	3,134,606	2,992,728
Less recovery from (provision for) doubtful accounts	52,399	(185,452)
Net revenues	3,187,005	2,807,276
Cost of sales:		
Rooms	388,367	383,411
Food and beverage	1,184,275	1,125,466
Telephone	9,469	15,800
Other	32,583	24,948
Total cost of sales	1,614,694	1,549,625
Gross profit	1,572,311	1,257,651
Operating expenses:		
Utility costs	545,047	610,606
General and administrative	435,294	412,267
Depreciation	386,141	367,015
Maintenance	281,656	249,297
Sales and marketing	15,335	17,105
Total operating expenses	1,663,473	1,656,290
Operating loss	(91,162)	(398,639)
Nonoperating revenues (expenses):		
Operating subsidies	-	95,000
Interest expense	(4,071)	(12,952)
Total nonoperating (expenses) revenues, net	(4,071)	82,048
Change in net position	(95,233)	(316,591)
Net position at beginning of year	647,794	964,385
Net position at end of year	$ 552,561	$ 647,794

See accompanying notes to financial statements.

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

Statements of Cash Flows
Years Ended September 30, 2015 and 2014

	2015	2014
Cash flows from operating activities:		
Cash received from customers	$ 3,212,991	$ 2,867,232
Cash payments to suppliers for goods and services	(2,163,717)	(1,819,999)
Cash payments to employees for services	(844,254)	(833,915)
Net cash provided by operating activities	205,020	213,318
Cash flows from noncapital financing activities:		
Operating subsidies received	-	95,000
Interest paid	(4,071)	(6,302)
Net cash (used for) provided by noncapital financing activities	(4,071)	88,698
Cash flows from capital and related financing activities:		
Acquisition of capital assets	(165,254)	(152,814)
Principal paid on note payable	-	(95,000)
Interest paid on note payable	-	(6,650)
Net cash used for capital and related financing activities	(165,254)	(254,464)
Net change in cash	35,695	47,552
Cash at beginning of year	126,828	79,276
Cash at end of year	$ 162,523	$ 126,828
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	$ (91,162)	$ (398,639)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation	386,141	367,015
Bad debt (recovery) expense	(52,399)	185,452
(Increase) decrease in assets:		
Receivables:		
Trade	33,212	(30,606)
Affiliates	30,143	(92,498)
Other	15,030	(2,392)
Inventories	(13,439)	4,117
Prepaid expenses	(9,993)	4,435
Increase (decrease) in liabilities:		
Accounts payable	(15,737)	(198,010)
Payable to affiliates	(78,983)	323,703
Accrued expenses	2,207	50,741
Net cash provided by operating activities	$ 205,020	$ 213,318

See accompanying notes to financial statements.

(1) Organization

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

(2) Summary of Significant Accounting Policies

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

GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, which was subsequently amended by Statement No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus*, and modified by Statement No. 38, *Certain Financial Statement Note Disclosures,* establish financial reporting standards for governmental entities, which require that management's discussion and analysis of the financial activities be included with the basic financial statements and notes, and modify certain other financial statement disclosure requirements.

To conform to the requirements of GASB Statement No. 34, equity is presented in the following net 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, deferred outflows of resources, 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. MRI considers room and related food, beverage and telephone revenues and costs directly related to such revenues to be operating revenues and expenses. Revenues and expenses related to financing and other activities are reflected as nonoperating.

Cash

Custodial risk is the risk that in the event of a bank failure, MRI's deposits may not be returned to it. Such deposits are not covered by depository insurance and are either uncollateralized or collateralized with securities held by the pledging financial institution or held by the pledging financial institution but not in the depositor-government's name. MRI does not have a deposit policy for custodial credit risk.

(2) Summary of Significant Accounting Policies, Continued

Cash, Continued

For purpose of the statements of net position and cash flows, cash is defined as cash on hand and cash held in demand accounts. As of September 30, 2015 and 2014, the carrying amount of cash was $162,523 and $126,828, respectively, and the corresponding bank balances were $239,088 and $155,298 respectively. As of September 30, 2015 and 2014, bank balances in the amount of $218,872 and $148,310, respectively, were maintained in a financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance with the remainder being maintained in a non-FDIC insured financial institution. Accordingly, these deposits are exposed to custodial credit risk. MRI does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized.

Receivables

All receivables are uncollateralized and are due from hotel customers and others located within the Republic of the Marshall Islands and the South Pacific region.

Allowance for Doubtful Accounts

The allowance for doubtful accounts is stated at an amount which management believes will be adequate to absorb possible losses on accounts receivable that may become uncollectible based on evaluations of the collectability of these accounts and prior collection experience. The allowance is established through a provision for bad debts charged to expense.

Inventories

Inventories are stated at the lower of cost (average costing) or market (net realizable value).

Operating Supplies

China, glass, linen, silverware and uniforms are charged to expense in the year of purchase.

Property, Plant and Equipment

Property, plant and equipment with a cost that equals or exceeds $100 are capitalized. Such assets are stated at cost. Depreciation is calculated using the straight-line method based on the estimated useful lives of the respective assets.

Deferred Outflows of Resources

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

(2) Summary of Significant Accounting Policies, Continued

Deferred Inflows of Resources

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

Taxes

Corporate profits are not subject to income tax in the Republic of the Marshall Islands. The Government of the Republic of the Marshall Islands imposes a gross receipts tax of 3% on revenues. MRI, being a component unit of the Republic of the Marshall Islands as defined in the State-Owned Enterprises Act, 2015, is exempt from payment of GRT.

Advertising Costs

MRI expenses advertising costs as incurred. During the years ended September 30, 2015 and 2014, MRI incurred advertising costs of $9,422 and $11,703, 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, 2015 and 2014, the accumulated vacation leave liability amounted to $54,100 and $44,571, respectively, and is included within the statements of net position as accrued expenses.

New Accounting Standards

During the year ended September 30, 2015, MRI implemented the following pronouncements:

- GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*, which revise and establish new financial reporting requirements for most governments that provide their employees with pension benefits. The implementation of these statements did not have a material effect on the accompanying financial statements.

- GASB 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 implementation of this statement did not have a material effect on the accompanying financial statements.

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In February 2015, GASB issued Statement No. 72, *Fair Value Measurement and Application*, which addresses accounting and financial reporting issues related to fair value measurements and requires entities to expand their fair value disclosures by determining major categories of debt and equity securities within the fair value hierarchy on the basis of the nature and risk of the investment. The provisions in Statement 72 are effective for fiscal years beginning after June 15, 2015. Management believes that the implementation of this statement only requires additional disclosures to be made about fair value measurements, the level of fair value hierarchy, and valuation techniques and will not have a material effect on the financial statements of MRI.

In June 2015, GASB issued 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. The provisions in Statement No. 73 are effective for fiscal years beginning after June 15, 2015, with the exception of the provisions that address employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement 68, which are effective for fiscal years beginning after June 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the financial statements of MRI.

In June 2015, GASB issued 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). The provisions in Statement No. 74 are effective for fiscal years beginning after June 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the financial statements of MRI.

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 of MRI.

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In June 2015, GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, which eliminates two of the four categories of authoritative GAAP that exist under the existing hierarchy prescribed by Statement 55. The two categories that will remain under the new standard are (1) GASB Statements and (2) GASB technical bulletins and implementation guides in addition to AICPA guidance that the GASB clears. The provisions in Statement No. 76 are effective for fiscal years beginning after June 15, 2015. Management does not believe that the implementation of this statement will have a material effect on the financial statements of MRI.

In August 2015, GASB issued Statement No. 77, *Tax Abatement Disclosures*, which requires governments that enter into tax abatement agreements to disclose certain information about the agreements. The provisions in Statement No. 77 are effective for fiscal years beginning after December 15, 2015. Management does not believe that the implementation of this statement will have a material effect on the financial statements of MRI.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, 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.

(3) Risk Management

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

(4) Property, Plant and Equipment

Capital asset activity for the years ended September 30, 2015 and 2014 was as follows:

	Estimated Useful Lives	Balance at October 1, 2014	Additions	Balance at September 30, 2015
Building and structure	17 years	$ 2,547,970	$ 32,490	$ 2,580,460
Furniture and fixtures	3 years	1,342,770	96,101	1,438,871
Office equipment	3 years	241,105	2,985	244,090
Other equipment	3 years	109,838	3,800	113,638
Motor vehicles	3 years	200,038	29,878	229,916
		4,441,721	165,254	4,606,975
Less accumulated depreciation		(2,865,094)	(386,141)	(3,251,235)
		$ 1,576,627	$ (220,887)	$ 1,355,740

	Estimated Useful Lives	Balance at October 1, 2013	Additions	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	173,588	26,450	200,038
		4,288,907	152,814	4,441,721
Less accumulated depreciation		(2,498,079)	(367,015)	(2,865,094)
		$ 1,790,828	$ (214,201)	$ 1,576,627

(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 year ended September 30, 2014 is as follows:

	Balance October 1,	Drawdowns	Repayment	Balance September 30,
Loan payable	$ 95,000	$ -	$ (95,000)	$ -

(6) Related Party Transactions

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

MRI's hotel service is provided to RepMar and all RepMar-owned and affiliated entities. Services are provided to these entities at the same rates charged to third parties; however, MRI provides more favorable payment terms to its affiliates than those afforded to third parties.

MRI utilizes services from certain affiliated entities at substantially more favorable terms than those incurred from third parties.

A summary of related party balances and transactions as of September 30, 2015 and 2014 and for the years then ended are as follows:

	2015			
	Revenues	Expenses	Receivables	Payables
RepMar	$ 345,029	$ 76,944	$ 297,330	$ 184,305
Marshalls Energy Company, Inc.	68,800	485,974	5,362	340,623
Marshall Islands National Telecommunications Authority	21,121	86,721	9,843	9,621
Marshall Islands Social Security Administration	409	170,315	-	60,336
Majuro Water and Sewer Company, Inc.	1,617	62,583	576	5,690
Other	229,974	79,637	43,134	5,388
	$ 666,950	$ 962,174	$ 356,245	$ 605,963

	2014			
	Revenues	Expenses	Receivables	Payables
RepMar	$ 227,458	$ 54,563	$ 280,078	$ 240,125
Marshalls Energy Company, Inc.	58,287	558,893	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	220,820	7,375	89,905	105
	$ 534,816	$ 873,139	$ 386,388	$ 684,946

In 2015, MRI purchased a used Toyota van from the General Manager in the amount of $8,000.

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

The operations of MRI were funded by appropriations of $95,000 from the Nitijela of RepMar during the year ended September 30, 2014.

(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, 2015 and 2014.

MRI leases out business space to a commercial entity in the island at a rate of $1,750/month expiring on December 31, 2016, 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, 2015 and 2014 of $91,162 and $398,639, respectively, and used a substantial amount of working capital in its operations resulting in a working capital deficiency of $803,179 and $928,833 during the years ended September 30, 2015 and 2014, respectively. 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, 2015, 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, 2015 and 2014, 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 $334,382 and $331,866 and local government taxes of $345,055 and $346,414 as of September 30, 2015 and 2014, respectively, remain outstanding and of which $492,857 and $494,720, 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 $163,065 and $162,787 as of September 30, 2015 and 2014, respectively. No such action has yet been filed. At September 30, 2015 and 2014, 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.

(7) Commitment and Contingencies, Continued

Contingencies, Continued

At September 30, 2015 and 2014, MRI is liable for delinquent withholding taxes, totaling $184,305 and $240,125, 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, 2015, MRI was able to pay current withholding taxes.

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

Board of Directors
Majuro Resort, Inc.:

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Majuro Resort, Inc. (MRI), which comprise the statement of net position as of September 30, 2015, 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 August 18, 2016. 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.

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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Responses as item 2015-002, that we consider 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 2015-001 and 2015-003.

MRI's Response to Findings

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

Purpose of this Report

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

Deloitte & Touche LLP

August 18, 2016

Finding No.: 2015-001
Area: Prior Year 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: Management was accruing and filing sales and local taxes for FY15. However, potential interest and penalties for prior year unrecorded sales taxes and unfiled sales and local taxes have not been recorded as management believes that the amount can be negotiated with Malgov.

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 2014.

Recommendation: We recommend that MRI makes settlement agreement with Malgov regarding potential interest and penalties on prior year unrecorded sales taxes and unfiled sales and local taxes.

Auditee Response and Corrective Action Plan:

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

MRI is closely working with the representatives of Majuro Atoll Local Government to resolve this matter.

Finding No.: 2015-002
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, 2015 financial statements (trial balance and subsidiary ledgers) until March 31, 2016, 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 through 2014.

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 for 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 is trying to look at employing additional accounting staff to ease the workload within the department and implemented internal control procedures and facilitated preparations of reports on a timely matter. 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.

Finding No.: 2015-003
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
09-Dec-14	1 Unit of Teppanyaki Burner	15-0635	$ 3,290
04-Jul-15	Gabion for seawall	12275	$ 1,657

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.

Prior Year Status: The lack of compliance with RepMar's Procurement Code was reported as a finding in the audits of MRI for fiscal years 2013 and 2014.

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

Finding No.: 2015-003, Continued
Area: Procurement

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 are 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 procedures is in compliance with RepMar's procurement code.

Unresolved Prior Year Findings
Year Ended September 30, 2015

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