MAJURO RESORT, INC.

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

FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT

YEARS ENDED SEPTEMBER 30, 2017 and 2016

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

Years Ended September 30, 2017 and 2016
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INDEPENDENT AUDITORS' REPORT

Board of Directors
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, 2017 and 2016, and the related statements of revenues, expenses and changes in net position and of cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Deloitte.

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, 2017 and 2016, 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 6 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 6 to the financial statements. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 to 8 be presented to supplement the 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 June 25, 2018, 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 solely 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 the effectiveness of MRI's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering MRI's internal control over financial reporting and compliance.

Deloitte & Touche LLP

June 25, 2018

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, 2017. The discussion and analysis should be read in conjunction with the audited financial statements, which follow this section.

Financial Highlights

Total assets decreased by $61,525 or 3% from $1,890,150 in 2016 to $1,828,625 in 2017. Even with the increase in receivables by $53,801 and an increase in cash reserve by $28,221 from 2016 to 2017, there was also a decrease in inventory from $53,424 to $24,303 and an increase in allowance for doubtful accounts of $92,638 which made the net receivables decrease from $185,649 in 2016 to $146,812 in 2017.

Gross operating revenue for 2017 were $3,912,920 and represent an increase of $384,547 or 11% compared to 2016. Compared to FY2015, total operating revenues was higher by $778,314 or 25%. Although room revenue decreased by $13,070 or 1%, food and beverage contributed to a large portion of the increase in total operating revenues by $398,114 or 25% from $1,644,989 to $2,043,103.

Operating expenses for 2017 amounted to $1,785,163 compared to 2016, which was $1,730,605 or an increase of $54,558. As a percentage of total revenues, overall operating expense for 2017 was at 46% which represents a decrease of 3% and 7% in 2016 and 2015 respectively. The increase in operating expenses during the year was primarily attributable to the increase in maintenance, marketing, general and administrative expenses.

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 the company's Statement of Net Position is presented below:

	2017	2016	2015
Current and other assets	$ 544,524	$ 574,649	$ 507,615
Capital assets (depreciable)	1,248,293	1,315,501	1,355,740
Capital assets (non-depreciable)	35,808	-	-
Total assets	$ 1,828,625	$ 1,890,150	$ 1,863,355
Current liabilities	$ 1,435,894	$ 1,430,515	$ 1,310,794
Net position:			
Net invested in capital assets	1,284,101	1,315,501	1,355,740
Unrestricted	(925,563)	(855,866)	(803,179)
Restricted	34,193	-	-
Total net position	392,731	459,635	552,561
Total liabilities and net position	$ 1,828,625	$ 1,890,150	$ 1,863,355

MRI was granted by Republic of the Marshall Islands (RepMar) a sum of $150,000 to facilitate the seawall reinforcement operation in FY2017. Initial disbursement was $74,400 net of audit fees.

On the other hand, total liabilities increased by $5,379 from $1,430,515 in 2016 to $1,435,894 in 2017. MRI's liabilities increased due to an increase in accrued expenses and payable to affiliates.

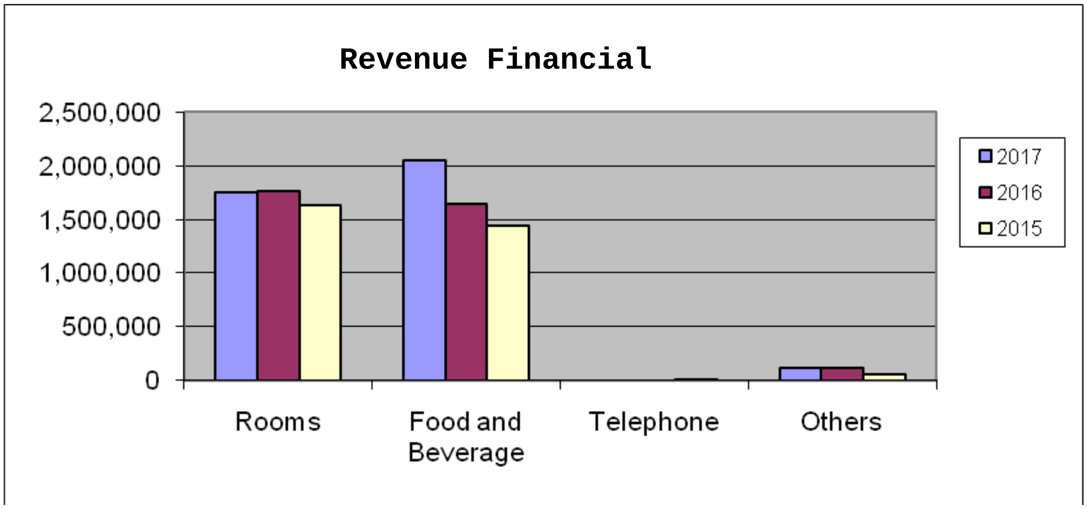
A summary of MRI's Statement of Revenues, Expenses and Changes in Net Position is presented below:

	2017	2016	2015
Revenues:			
Rooms	$ 1,746,382	$ 1,759,452	$ 1,625,950
Food and beverage	2,043,103	1,644,989	1,443,518
Telephone	751	1,943	6,462
Others	122,684	121,989	58,676
	3,912,920	3,528,373	3,134,606
Less: Bad debts expense	(92,638)	(73,108)	52,399
	3,820,282	3,455,265	3,187,005
Cost of sales and services:			
Rooms	467,719	415,157	388,367
Food and beverage	1,634,416	1,315,101	1,184,275
Telephone	17,452	20,370	9,469
Others	49,804	53,693	32,583
	2,169,391	1,804,321	1,614,694
Departmental gross profits (losses):			
Rooms*	1,186,025	1,271,187	1,289,982
Food and beverage	408,687	329,888	259,243
Telephone	(16,701)	(18,427)	(3,007)
Others	72,880	68,296	26,093
Total gross profit	1,650,891	1,650,944	1,572,311
Operating expenses	1,785,163	1,730,605	1,663,473
Nonoperating revenues (net)	67,368	(13,265)	(4,071)
Change in net position	$ (66,904)	$ (92,926)	$ (92,533)

*includes the bad debt expense

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 2017 showed an increase of $384,547 from $3,528,373 in 2016 to $3,912,920 in 2017. Room revenues for 2017 decreased by $13,070 or 1% from 2016 and increased by $120,432 or 7% from 2015. The occupancy ratio in 2017 increased to 54.92% with a decrease in average room rate from $62.63 in 2016 to $60.53 in 2017. Food and beverage revenue for 2017 was $2,043,103 which showed an increase of $398,114 over 2016 and an increase of $599,585 over 2015. Nonoperating revenue increase was contributed mainly by the subsidy received from the RepMar to facilitate the seawall reinforcement project.

The following graph shows the major components of revenue for financial periods 2017, 2016 and 2015, 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 2017, 2016, 2015, 2014 and 2013.

Occupancy Performance	**2017**	**2016**	**2015**	**2014**	**2013**
% of total occupancy	54.92%	53.45%	50.75%	49.41%	45.04%
Average rate	$ 60.53	$ 62.63	$ 60.73	$ 61.23	$ 55.50
% of paid occupancy	54.77%	53.33%	50.66%	49.33%	44.97%
Average rate	$ 60.69	$ 62.77	$ 61.06	$ 61.33	$ 55.59
Group rooms	-	-	-	-	-
% of total occupancy	-	-	-	-	-
Average rate	-	-	-	-	-

Paid occupancy ratio in 2017 was 54.77% as compared to 53.33% in 2016 and 50.66% in 2015.

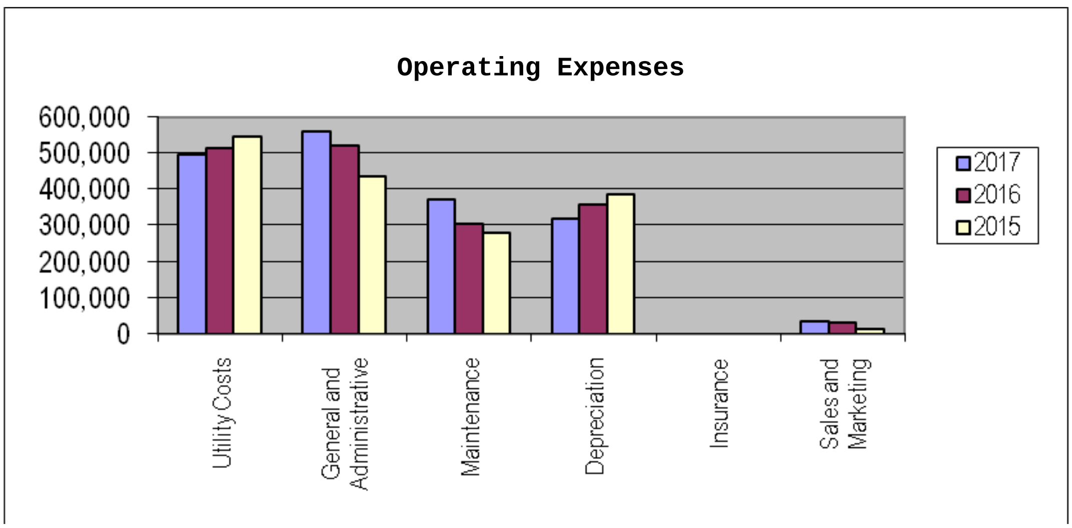
The hotel paid occupancy ratio for the current year has increased over the past two (2) years while the average paid room rate for the current year has slightly decreased by $ 2.08.

Operating Expenses

Total operating expenses increased by $54,558 from $1,730,605 in 2016 to $1,785,163 in 2017 as a result of the decrease in utility components and increase in maintenance expenses. As a percentage of total revenues, operating expenses for 2017 represents 46% or a decrease of 3% compared to 2016 and 7% decrease over 2015.

Utility costs showed a decrease of $17,111 from $513,349 in 2016 to $496,238 in 2017. The decrease was primarily contributed by the efforts of MRI to change old equipment to energy saver ones, change of water heater even with the increase in energy rate as well as the continuous efforts to closely monitor consumption. General and administrative expenses showed an increase of $37,745, depreciation posted a decrease of $36,629 while the maintenance cost increased by of $66,127.

The following graph shows the major components of operating expenses for financial periods 2017, 2016 and 2015, all of which cover a twelve (12) month period ending September 30.



Capital Assets and Debt

Net capital assets decreased by $31,400 due to increase in accumulated depreciation of its acquisitions and building improvement that also had the same effect in 2016. Various equipment was purchased to replace damaged items due to wear and tear. MRI capital projects for FY2017 include the remodeling of ENRA bathroom, purchase of air conditioning units, kitchen equipment and seawall project. There was also an increase in motor vehicles with the purchase of a new transportation vehicles for the maintenance and executive departments.

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

	2017	2016	2015
Building and structure	$ 2,775,406	$ 2,714,168	$ 2,580,460
Furniture and fixtures	1,685,716	1,547,086	1,438,871
Office equipment	251,846	249,296	244,090
Other equipment	113,938	113,638	113,638
Motor vehicles	349,154	299,953	229,916
At Cost	5,176,160	4,924,141	4,606,975
Accumulated depreciation	(3,927,503)	(3,608,640)	(3,251,235)
Net Book Value	$ 1,248,293	$ 1,315,501	$ 1,355,740

Non-depreciable capital asset additions during the year amounting to $35,808 pertains to the seawall under construction as of September 30, 2017.

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

Long-Term Debt

MRI did not incur any long-term debt during 2017, nor was any such debt due and outstanding at year end.

Management's Discussion and Analysis for the year ended September 30, 2016 is set forth in the report on the audit of MRI's financial statements dated June 9, 2017. That Discussion and Analysis explains the major factors impacting the 2016 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:

1. The President of Republic of China (ROC) Taiwan will be visiting the Republic of the Marshall Islands. The President and entourage will stay at the Marshall Islands Resort. This visit will be part of MRI's relationship building with outside countries and in keeping the "Yokwe Spirit."

2. MRI continues to promote the destination through outside sales agents such as Booking.com and through social media in order to cater to various tourists within and outside the Pacific.

3. RepMar is 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 RepMar.

4. 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 2018.

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, 2017 and 2016

ASSETS	2017	2016
Current assets:		
Cash	$ 326,073	$ 297,852
Receivables:		
Trade	388,254	345,846
Affiliates	339,124	351,778
Other	50,995	26,948
	778,373	724,572
Less allowance for doubtful accounts	(631,561)	(538,923)
Total receivables, net	146,812	185,649
Inventories	24,303	53,424
Prepaid expenses	47,336	37,724
Total current assets	544,524	574,649
Property, plant and equipment		
Depreciable, net of accumulated depreciation	1,248,293	1,315,501
Non-depreciable	35,808	-
	$ 1,828,625	$ 1,890,150
LIABILITIES AND NET POSITION		
Current liabilities:		
Accounts payable	$ 141,533	$ 167,628
Payable to affiliates	720,949	702,583
Accrued expenses	573,412	560,304
Total current liabilities	1,435,894	1,430,515
Commitment and contingencies		
Net position:		
Net investment in capital assets	1,284,101	1,315,501
Restricted	34,193	-
Unrestricted	(925,563)	(855,866)
Total net position	392,731	459,635
	$ 1,828,625	$ 1,890,150

See accompanying notes to financial statements.

MAJURO RESORT, INC.

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

	2017	2016
Revenues:		
Rooms	$ 1,746,382	$ 1,759,452
Food and beverage	2,043,103	1,644,989
Telephone	751	1,943
Other	122,684	121,989
Total revenues	3,912,920	3,528,373
Less provision for doubtful accounts	(92,638)	(73,108)
Net revenues	3,820,282	3,455,265
Cost of sales:		
Rooms	467,719	415,157
Food and beverage	1,634,416	1,315,101
Telephone	17,452	20,370
Other	49,804	53,693
Total cost of sales	2,169,391	1,804,321
Gross profit	1,650,891	1,650,944
Operating expenses:		
General and administrative	559,716	521,971
Utility costs	496,238	513,349
Maintenance	371,246	305,119
Depreciation	320,776	357,405
Sales and marketing	37,187	32,761
Total operating expenses	1,785,163	1,730,605
Operating loss	(134,272)	(79,661)
Nonoperating revenues (expenses):		
Operating subsidies	74,400	-
Interest expense	(7,398)	(13,265)
Gain on sale of asset	366	-
Total nonoperating revenues (expenses), net	67,368	(13,265)
Change in net position	(66,904)	(92,926)
Net position at beginning of year	459,635	552,561
Net position at end of year	$ 392,731	$ 459,635

See accompanying notes to financial statements.

MAJURO RESORT, INC.

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

		2017		2016
Cash flows from operating activities:				
Cash received from customers	$	3,859,120	$	3,517,652
Cash payments to suppliers for goods and services		(2,350,811)		(2,071,594)
Cash payments to employees for services		(1,258,081)		(980,298)
Net cash provided by operating activities		250,228		465,760
Cash flows from noncapital financing activities:				
RepMar subsidy received		74,400		-
Interest paid		(7,398)		(13,265)
Net cash provided by (used for) noncapital financing activities		67,002		(13,265)
Cash flows from capital and related financing activities:				
Acquisition of capital assets		(289,925)		(317,166)
Sale of capital assets		916		-
Net cash used for capital and related financing activities		(289,009)		(317,166)
Net change in cash		28,221		135,329
Cash at beginning of year		297,852		162,523
Cash at end of year	$	326,073	$	297,852
Reconciliation of operating loss to net cash provided by operating activities:				
Operating loss	$	(134,272)	$	(79,661)
Adjustments to reconcile operating loss to net cash provided by operating activities:				
Depreciation		320,776		357,405
Bad debt expense		92,638		73,108
(Increase) decrease in assets:				
Receivables:				
Trade		(42,408)		(3,640)
Affiliates		12,654		4,467
Other		(24,047)		(11,548)
Inventories		29,121		4,412
Prepaid expenses		(9,612)		1,496
Increase (decrease) in liabilities:				
Accounts payable		(26,095)		34,934
Payable to affiliates		18,366		96,620
Accrued expenses		13,108		(11,833)
Net cash provided by operating activities	$	250,228	$	465,759

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.
- Restricted – net position that is constrained for specific purposes which are externally imposed by providers, such as creditors, or amounts constrained due to constitutional provisions or enabling legislature.
- 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 deferred outflows of resources, and liabilities and deferred inflows of resources associated with the operation of the fund are included in the statements of net position. Proprietary fund operating statements present increases and decreases in net position. The accrual basis of accounting is utilized by proprietary funds. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. MRI considers room and related food, beverage and telephone revenues and costs directly related to such revenues to be operating revenues and expenses. Revenues and expenses related to financing and other activities are reflected as nonoperating.

(2) Summary of Significant Accounting Policies, Continued

Cash

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

For purpose of the statements of net position and cash flows, cash is defined as cash on hand and cash held in demand accounts. As of September 30, 2017 and 2016, the carrying amount of cash was $326,073 and $297,852, respectively, and the corresponding bank balances were $360,770 and $330,287 respectively. Of the bank balances, $276,256 and $263,116, respectively, were maintained in a financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance with the remaining amounts of $84,514 and $67,171, respectively, being maintained in a financial institution not subject to depository insurance. As of September 30, 2017 and 2016, bank deposits in the amount of $250,000 were FDIC insured. MRI does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized. Accordingly, these deposits are exposed to custodial credit risk.

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 that 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.

(2) Summary of Significant Accounting Policies, Continued

Deferred Outflows of Resources

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

Deferred Inflows of Resources

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (additions to net position) until then. 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 (GRT) 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, 2017 and 2016, MRI incurred advertising costs of $18,750 and $10,702, 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, 2017 and 2016, the accumulated vacation leave liability amounted to $48,389 and $46,632, respectively, and is included within the statements of net position as accrued expenses.

New Accounting Standards

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

- GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, which aligns the reporting requirements for pensions and pension plans not covered in GASB Statements 67 and 68 with the reporting requirements in Statement 68.

- GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, as amended,* and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, and addresses financial reporting requirements for governments whose employees are provided with postemployment benefits other than pensions (other postemployment benefits or OPEB).

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

- GASB Statement No. 77, *Tax Abatement Disclosures*, which requires governments that enter into tax abatement agreements to disclose certain information about the agreements.

- GASB Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, which addresses a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*.

- GASB Statement No. 80, *Blending Requirements for Certain Component Units - an amendment of GASB Statement No. 14*, which improves financial reporting by clarifying the financial statement presentation requirements for certain component units.

- GASB Statement No. 82, *Pension Issues - an amendment of GASB Statements No. 67, No. 68, and No. 73*, which addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

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

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

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

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

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

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

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

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

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

Estimates

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

Reclassifications

Certain balances in the 2016 financial statements have been reclassified to conform to the 2017 presentation.

(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

Depreciable capital asset activities for the years ended September 30, 2017 and 2016 were as follows:

	Estimated Useful Lives	2017 October 1, 2016	Additions	Disposals	September 30, 2017
Building and structure	17 years	$ 2,714,168	$ 61,238	$ -	$ 2,775,406
Furniture and fixtures	3 years	1,547,086	140,828	(2,198)	1,685,716
Office equipment	3 years	249,296	2,550	-	251,846
Other equipment	3 years	113,638	300	-	113,938
Motor vehicles	3 years	299,953	49,201	-	349,154
		4,924,141	254,117	(2,198)	5,176,060
Less accumulated depreciation		(3,608,640)	(320,776)	1,649	(3,927,767)
		$ 1,315,501	$ (66,659)	$ (549)	$ 1,248,293

	Estimated Useful Lives	2016 October 1, 2015	Additions	Disposals	September 30, 2016
Building and structure	17 years	$ 2,580,460	$ 133,708	$ -	$ 2,714,168
Furniture and fixtures	3 years	1,438,871	108,215	-	1,547,086
Office equipment	3 years	244,090	5,206	-	249,296
Other equipment	3 years	113,638	-	-	113,638
Motor vehicles	3 years	229,916	70,037	-	299,953
		4,606,975	317,166	-	4,924,141
Less accumulated depreciation		(3,251,235)	(357,405)	-	(3,608,640)
		$ 1,355,740	$ (40,239)	$ -	$ 1,315,501

Non-depreciable capital asset additions of $35,808 during the year ended September 30, 2017, pertain to a seawall under construction.

(5) Related Party Transactions

MRI is a component unit of RepMar and is therefore affiliated with all RepMar-owned and affiliated entities.

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

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

(5) Related Party Transactions, Continued

A summary of related party balances and transactions as of September 30, 2017 and 2016 and for the years then ended are as follows:

	2017			
	Revenues	Expenses	Receivables	Payables
RepMar	$ 518,677	$ 105,614	$ 282,267	$ 43,931
Marshalls Energy Company, Inc.	12,000	447,279	7,499	539,354
Marshall Islands National Telecommunications Authority	20,381	99,744	634	4,263
Marshall Islands Social Security Administration	536	249,632	289	121,516
Majuro Water and Sewer Company, Inc.	1,724	47,305	624	4,434
Other	173,069	96,507	47,811	7,451
	$ 726,387	$ 1,046,081	$ 339,124	$ 720,949

	2016			
	Revenues	Expenses	Receivables	Payables
RepMar	$ 366,828	$ 89,913	$ 269,756	$ 134,540
Marshalls Energy Company, Inc.	15,698	453,333	8,529	492,126
Marshall Islands National Telecommunications Authority	16,644	102,306	7,418	8,736
Marshall Islands Social Security Administration	867	195,714	10	53,820
Majuro Water and Sewer Company, Inc.	1,546	59,592	795	5,746
Other	131,191	90,053	65,270	7,615
	$ 532,774	$ 990,911	$ 351,778	$ 702,583

During the year ended September 30, 2017, MRI received a $74,400 appropriation from RepMar for the construction of a seawall. As of September 30, 2017, MRI has yet to expend $34,193 of this appropriation. Accordingly, this amount is restricted within net position.

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

(6) Commitment and Contingencies

Commitment

MRI leases the land on which the hotel is situated at $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 also requires that 5% of the initial outstanding shares of the lessee or its successor be issued to the lessor. Neither MRI nor RepMar have issued shares to the lessor at September 30, 2017 and 2016.

MRI leases business space to a commercial entity at $2,000/month expiring on November 30, 2017, subject to an annual renewal.

(6) Commitment and Contingencies, Continued

Commitment, Continued

MRI entered an agreement with Marshall Islands Development Bank (MIDB) for the management of Hotel Ebeye and Restaurant that is owned by MIDB. The agreement is from October 13, 2017 to October 14, 2019. Per agreement, MRI shall operate, manage and maintain the hotel and shall be paid an operator fee in an amount equal to 5% of the aggregate cost to MIDB for materials, equipment, and labor with respect to the renovations to be made in the hotel, except for cost of soft goods, such as linens, bed spreads, curtains, draperies and case goods such as furniture, television sets and wall decorations. MIDB shall also advance to MRI an amount not exceeding $15,000 as startup cost for the operation of the hotel. On the other hand, MRI shall pay MIDB 1) $4,150 within 6 months after taking over the operation of the hotel, or during the renovation, 2) $5,000 monthly after 6 months or renovation, whichever is earlier and 3) 5% of the net revenue of the hotel after deducting the adjusted gross revenue, payable at the end of the twelve-month period.

Contingencies

The accompanying financial statements have been prepared in accordance 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, 2017 and 2016 of $134,272 and $79,661, respectively, and used a substantial amount of working capital in its operations resulting in a working capital deficiency of $891,370 and $855,866 during the years ended September 30, 2017 and 2016, 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, 2017, 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, 2017 and 2016, 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 $334,415 and $334,415 and local government taxes of $345,391 and $345,580 as of September 30, 2017 and 2016, respectively, remain outstanding and of which $493,715 and $493,414, 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 $163,153 and $163,199 as of September 30, 2017 and 2016, respectively. No such action has yet been filed. At September 30, 2017 and 2016, the financial statements do not include any adjustments that might result from the outcome of this uncertainty. Management is currently negotiating the settlement of sales and local government taxes with Malgov.

(6) Commitment and Contingencies, Continued

Contingencies, Continued

At September 30, 2017 and 2016, MRI is liable for delinquent withholding taxes, totaling $43,931 and $126,883, 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 as long as MRI remains current on withholding taxes payable commencing October 2013. As of September 30, 2017 and 2016, MRI has remitted 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 the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Majuro Resort, Inc. (MRI), which comprise the statement of net position as of September 30, 2017, 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 June 25, 2018. 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Deloitte.

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 2017-001 and 2017-002.

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

Deloitte & Touche LLP

June 25, 2018

Finding No.: 2017-001
Area: Prior Year Sales and Local Government Tax

Criteria: Majuro Atoll Local Government (Malgov) local ordinances require payment of 4% sales tax and three dollar per night room tax by consumers and these taxes are to be remitted to Malgov on a monthly basis.

Condition: Management accrued and filed sales and local taxes during FY17. 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 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: Noncompliance 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 2016.

Recommendation: We recommend that MRI initiate discussions with Malgov regarding interest and penalties on prior year unrecorded sales taxes and unfiled sales and local taxes.

Auditee Response and Corrective Action Plan:

In August 2015, MRI management made efforts in discussing the matter with Malgov. Since then, MRI paid its obligations on a regular basis, leaving the prior year balances which are being discussed between the Ministry of Finance (MOF) & Malgov.

We are still waiting for updates based on discussions between Malgov and MOF.

Finding No.: 2017-002
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 documented to evidence compliance with the procurement process set forth in the criteria:

No documentation or evaluation form to justify the vendor choice:
1) Automobile purchases ($31,500)
2) Southbound convection oven ($12,450)
3) Various operating supplies ($3,507)

Noncompliance with the minimum 3 vendor quotations requirement/documentation of sole provider:
1) Various operating expenses, maintenance and automobile expenses ($3,402)
2) Airfare for employees' trips to Manila ($2,057 and $3,264)
3) Purchase of huts ($1,925)
4) Purchase of laptops ($1,900)

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 through 2016.

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

Finding No.: 2017-002, Continued
Area: Procurement

Auditee Response and Corrective Action Plan:

The evaluation/selection of quotations obtained from at least three vendors was discussed in various meetings but was not indicated/specified on the purchase order.

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.

(3) Limited airlines – only 1 airline on island that can service direct flights to Manila.

MRI management designated a Property Service Manager who oversees the purchase to make sure that documentation of procurement procedures is in compliance with RepMar's procurement code.

Unresolved Prior Year Findings
Year Ended September 30, 2017

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