MAJURO RESORT, INC.

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

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

YEARS ENDED SEPTEMBER 30, 2018 and 2017

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

Years Ended September 30, 2018 and 2017
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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, 2018 and 2017, 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, 2018 and 2017, 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 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 June 14, 2019, 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 14, 2019

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, 2018. The discussion and analysis should be read in conjunction with the audited financial statements, which follow this section.

Financial Highlights

Total assets increased by $112,336 or 6% from $1,828,625 in 2017 to $1,940,961 in 2018 with net receivables increasing by $391,619. Collection of long outstanding receivables resulted in the decrease in the allowance for doubtful accounts by $200,645.

Gross operating revenue for 2018 was $3,861,606 and represents a decrease of $51,314 or 1% compared to 2017. Compared to 2016, total operating revenues was higher by $333,233 or 9%. Room and food and beverage revenues decreased by $42,755 and $7,967, respectively, from 2017 to 2018.

Operating expenses for 2018 amounted to $1,793,681 compared to 2017, which was $1,785,163 or an increase of $8,518. As a percentage of total revenues, overall operating expenses for 2018 and 2017 were both at 46%. The increase in operating expenses during the year was primarily attributable to the increase in maintenance 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:

	2018	2017	2016
Current and other assets	$ 828,240	$ 544,524	$ 574,649
Capital assets (depreciable)	1,013,969	1,248,293	1,315,501
Capital assets (non-depreciable)	98,752	35,808	-
Total assets	$ 1,940,961	$ 1,828,625	$ 1,890,150
Current liabilities	$ 1,424,101	$ 1,435,894	$ 1,430,515
Net position:			
Net investment in capital assets	1,112,721	1,284,101	1,315,501
Unrestricted	(641,510)	(925,563)	(855,866)
Restricted	45,649	34,193	-
Total net position	516,860	392,731	459,635
Total liabilities and net position	$ 1,940,961	$ 1,828,625	$ 1,890,150

MRI was granted by Republic of the Marshall Islands (RepMar) a sum of $150,000 to facilitate the seawall reinforcement operation in 2017. MRI received $74,400 of this in 2017 and a further $74,400 in 2018.

On the other hand, total liabilities decreased by $11,793 from $1,435,894 in 2017 to $1,424,101 in 2018. MRI's liabilities decreased due to the decrease in payable to affiliates.

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

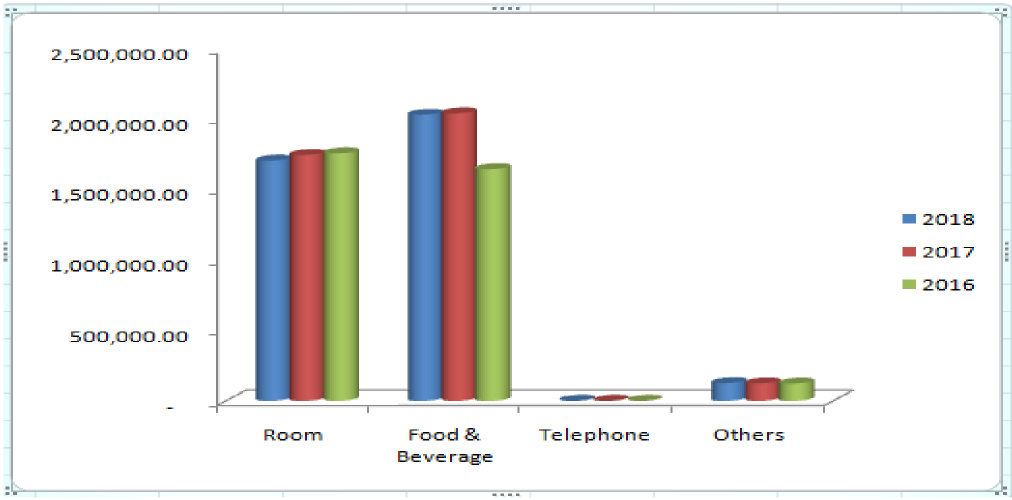
	2018	2017	2016
Revenues:			
Rooms	$ 1,703,627	$ 1,746,382	$ 1,759,452
Food and beverage	2,035,136	2,043,103	1,644,989
Telephone	831	751	1,943
Other	122,012	122,684	121,989
	3,861,606	3,912,920	3,528,373
Less: Bad debts recovery (expense)	169,406	(92,638)	(73,108)
	4,031,012	3,820,282	3,455,265
Cost of sales and services:			
Rooms	452,034	467,719	415,157
Food and beverage	1,673,162	1,634,416	1,315,101
Telephone	18,879	17,452	20,370
Other	34,290	49,804	53,693
	2,178,365	2,169,391	1,804,321
Departmental gross profits (losses):			
Rooms*	1,420,999	1,186,025	1,271,187
Food and beverage	361,974	408,687	329,888
Telephone	(18,048)	(16,701)	(18,427)
Other	87,722	72,880	68,296
Total gross profit	1,852,647	1,650,891	1,650,944
Operating expenses	1,793,681	1,785,163	1,730,605
Non operating revenues (expenses)	(9,237)	(7,032)	(13,265)
Capital contributions	74,400	74,400	-
Change in net position	$ 124,129	$ (66,904)	$ (92,926)

**includes the effect of the bad debts recovery (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 2018 showed a decrease of $51,314 from $3,912,920 in 2017 to $3,861,606 in 2018. Room revenues for 2018 decreased by $42,755 or 2% from 2017 and increased by $384,547 or 11% from 2016 to 2017. The occupancy ratio in 2018 decreased to 50.78% with an increase in average room rate from $60.53 in 2017 to $63.91 in 2018. Food and beverage revenue for 2018 was $2,035,136, which showed a decrease of $7,967 from 2017 and an increase of $390,147 compared to 2016.

The following graph shows the major components of revenue for financial periods 2018, 2017 and 2016, all of which cover a twelve (12) month period ending September 30.

Revenue Financial



Statement of Hotel Occupancy Performance

The following table shows a comparison of financial and statistical information affecting the room revenue performance for the years 2018, 2017, 2016, 2015 and 2014.

Occupancy Performance	2018	2017	2016	2015	2014
% of total occupancy	50.78%	54.92%	53.45%	50.75%	49.41%
Average rate	$ 63.91	$ 60.53	$ 62.63	$ 60.73	$ 61.23
% of paid occupancy	50.57%	54.77%	53.33%	50.66%	49.33%
Average rate	$ 64.07	$ 60.69	$ 62.77	$ 61.06	$ 61.33

Paid occupancy ratio in 2018 was 50.57% as compared to 54.77% in 2017 and 53.33% in 2016.

Operating Expenses

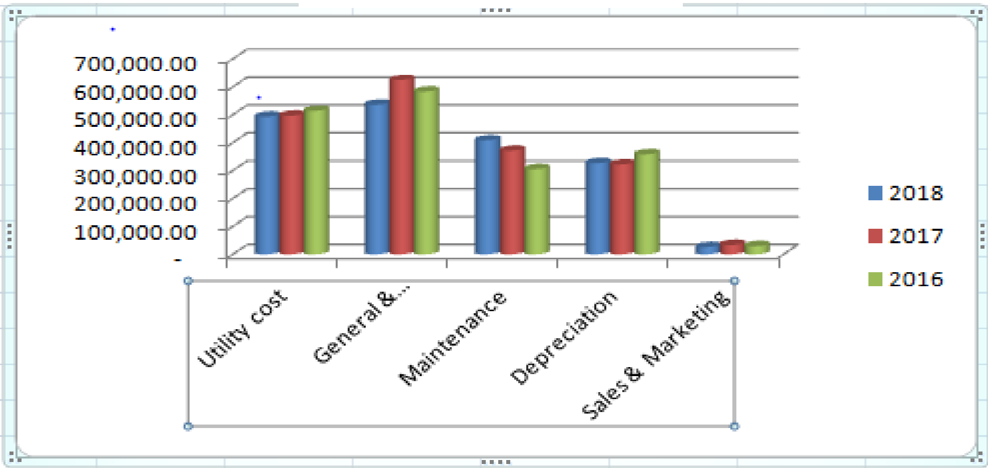
Total operating expenses increased by $8,518 from $1,785,163 in 2017 to $1,793,681 in 2018 as a result of the increase in maintenance expenses offset by the decrease in utility costs, general and administrative and sales and marketing.

Maintenance expenses continue to increase due to the normal wear and tear of MRI's capital assets and the day-to-day maintenance of the resort's facilities.

Utility costs showed a decrease of $17,111 from $513,349 in 2016 to $496,238 in 2017. The decrease was primarily caused 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 procedures efforts to closely monitor consumption. Utility costs continue to decrease by $3,325 in 2018.

The following graph shows the major components of operating expenses for financial periods 2018, 2017 and 2016, all of which cover a twelve (12) month period ending September 30.

Operating Expenses



Capital Assets and Debt

Net depreciable capital assets decreased by $234,324 due to the increase in accumulated depreciation. Major additions during the year were made under the building and structure and furniture and fixtures while disposal of some furniture and vehicle contributed to the net decrease in the depreciable capital assets.

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

	2018	2017	2016
Building and structure	$ 2,798,116	$ 2,775,406	$ 2,714,168
Furniture and fixtures	1,745,717	1,685,716	1,547,086
Office equipment	252,942	251,846	249,296
Other equipment	114,425	113,938	113,638
Motor vehicles	333,257	349,154	299,953
	5,244,457	5,176,160	4,924,141
Accumulated depreciation	(4,230,488)	(3,927,767)	(3,608,640)
Net Book Value	$ 1,013,969	$ 1,248,293	$ 1,315,501

Non-depreciable capital asset amounted to $98,752 pertains to the seawall under construction as of September 30, 2018.

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 2018 nor was any such debt due and outstanding at year end.

Management Discussion and Analysis for the year ended September 30, 2017 is set forth in the report on the audit of MRI's financial statements dated June 25, 2018. The Discussion and Analysis explains the major factors impacting the 2017 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 its 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 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 2019.

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, 2018 and 2017

	2018	2017
ASSETS		
Current assets:		
Cash	$ 239,852	$ 326,073
Receivables:		
Trade	503,799	388,254
Affiliates	400,014	339,124
Other	65,534	50,995
	969,347	778,373
Less allowance for doubtful accounts	(430,916)	(631,561)
Total receivables, net	538,431	146,812
Inventories	19,265	24,303
Prepaid expenses	30,692	47,336
Total current assets	828,240	544,524
Capital assets:		
Nondepreciable capital assets	98,752	35,808
Other capital assets, net of accumulated depreciation	1,013,969	1,248,293
Total noncurrent assets	1,112,721	1,284,101
	$ 1,940,961	$ 1,828,625
LIABILITIES AND NET POSITION		
Current liabilities:		
Accounts payable	$ 165,286	$ 141,533
Payable to affiliates	666,434	720,949
Accrued expenses	592,381	573,412
Total current liabilities	1,424,101	1,435,894
Commitment and contingencies		
Net position:		
Net investment in capital assets	1,112,721	1,284,101
Restricted	45,649	34,193
Unrestricted	(641,510)	(925,563)
Total net position	516,860	392,731
	$ 1,940,961	$ 1,828,625

See accompanying notes to financial statements.

MAJURO RESORT, INC.

Statements of Revenues, Expenses and Changes in Net Position
Years Ended September 30, 2018 and 2017

	2018	2017
Revenues:		
Food and beverage	$ 2,035,136	$ 2,043,103
Rooms	1,703,627	1,746,382
Telephone	831	751
Other	122,012	122,684
Total revenues	3,861,606	3,912,920
Recovery of (provision for) doubtful accounts	169,406	(92,638)
Net revenues	4,031,012	3,820,282
Cost of sales:		
Food and beverage	1,673,162	1,634,416
Rooms	452,034	467,719
Telephone	18,879	17,452
Other	34,290	49,804
Total cost of sales	2,178,365	2,169,391
Gross profit	1,852,647	1,650,891
Operating expenses:		
General and administrative	537,064	559,716
Utility costs	492,913	496,238
Maintenance	408,167	371,246
Depreciation	325,701	320,776
Sales and marketing	29,836	37,187
Total operating expenses	1,793,681	1,785,163
Operating income (loss)	58,966	(134,272)
Nonoperating revenues (expenses):		
Interest expense	(12,237)	(7,398)
Gain on sale of asset	3,000	366
Total nonoperating expenses, net	(9,237)	(7,032)
Income (loss) before capital contributions	49,729	(141,304)
Capital contributions	74,400	74,400
Change in net position	124,129	(66,904)
Net position at beginning of year	392,731	459,635
Net position at end of year	$ 516,860	$ 392,731

See accompanying notes to financial statements.

MAJURO RESORT, INC.

Statements of Cash Flows
Years Ended September 30, 2018 and 2017

		2018		2017
Cash flows from operating activities:				
Cash received from customers	$	3,639,393	$	3,859,119
Cash payments to suppliers for goods and services		(2,506,599)		(2,515,668)
Cash payments to employees for services		(1,129,857)		(1,093,222)
Net cash provided by operating activities		2,937		250,229
Cash flows from noncapital financing activities:				
Interest paid		(12,237)		(7,398)
Cash flows from capital and related financing activities:				
Capital contributions		74,400		74,400
Acquisition of capital assets		(154,321)		(289,926)
Sale of capital assets		3,000		916
Net cash used for capital and related financing activities		(76,921)		(214,610)
Net change in cash		(86,221)		28,221
Cash at beginning of year		326,073		297,852
Cash at end of year	$	239,852	$	326,073
Reconciliation of operating income (loss) to net cash provided by operating activities:				
Operating income (loss)	$	58,966	$	(134,272)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation		325,701		320,776
(Recovery of) provision for doubtful accounts		(169,406)		92,638
(Increase) decrease in assets:				
Receivables:				
Trade		(146,784)		(42,408)
Affiliates		(60,890)		12,654
Other		(14,539)		(24,047)
Inventories		5,038		29,121
Prepaid expenses		16,644		(9,612)
Increase (decrease) in liabilities:				
Accounts payable		23,753		(26,095)
Payable to affiliates		(54,515)		18,366
Accrued expenses		18,969		13,108
Net cash provided by operating activities	$	2,937	$	250,229

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 - nonexpendable net position subject to externally imposed stipulations that require MRI to maintain such permanently. As of September 30, 2018 and 2017, MRI does not have nonexpendable restricted net position. Expendable net position whose use by MRI is subject to externally imposed stipulations that can be fulfilled by actions of MRI pursuant to those stipulations or that expire with the passage of time. As of September 30, 2018 and 2017, MRI has expendable restricted net position of $45,649 and $34,193, respectively, for a seawall construction project.

- 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, 2018 and 2017, the carrying amount of cash were $239,852 and $326,073, respectively, and the corresponding bank balances were $244,753 and $360,770 respectively. Of the bank balances, $169,524 and $276,256, respectively, were maintained in a financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance with the remaining amounts of $75,229 and $84,514, respectively, being maintained in a financial institution not subject to depository insurance. As of September 30, 2018 and 2017, bank deposits in the amount of $169,524 and $250,000, respectively, 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, 2018 and 2017, MRI incurred advertising costs of $14,336 and $18,750, 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, 2018 and 2017, the accumulated vacation leave liability amounted to $73,712 and $48,389, respectively, and is included within the statements of net position as accrued expenses.

New Accounting Standards

During the year ended September 30, 2018, MRI implemented the following pronouncements:

- GASB 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.

- GASB 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.

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

- GASB Statement No. 85, *Omnibus 2017*, which address 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).

- GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*, which improves consistency in accounting and financial reporting for in-substance defeasance of debt.

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

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.

In April 2018, GASB issued Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, which improves the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. The provisions in Statement No. 88 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 June 2018, GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, which requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. The provisions in Statement No. 89 are effective for fiscal years beginning after December 15, 2019. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In August 2018, GASB issued Statement No. 90, *Majority Equity Interests – an Amendment of GASB Statements No. 14 and No. 61,* which improves the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and the relevance of financial statement information for certain component units. The provisions in Statement No. 90 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

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.

(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, 2018 and 2017 were as follows:

		2018			
	Estimated Useful Lives	October 1, 2017	Additions	Disposals	September 30, 2018
Building and structure	17 years	$ 2,775,406	$ 22,710	$ -	$ 2,798,116
Furniture and fixtures	3 years	1,685,716	65,481	(5,480)	1,745,717
Office equipment	3 years	251,846	1,096	-	252,942
Other equipment	3 years	113,938	487	-	114,425
Motor vehicles	3 years	349,154	1,603	(17,500)	333,257
		5,176,060	91,377	(22,980)	5,244,457
Less accumulated depreciation		(3,927,767)	(325,701)	22,980	(4,230,488)
		$ 1,248,293	$ (234,324)	$ -	$ 1,013,969

		2017			
	Estimated Useful Lives	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

Non-depreciable capital asset activities for the years ended September 30, 2018 and 2017 included additions of $62,944 and $35,808, respectively, pertain to the construction of a seawall still under construction as of September 30, 2018 and 2017.

(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.

A summary of related party balances and transactions as of September 30, 2018 and 2017 and for the years then ended are as follows:

	2018			
	Revenues	Expenses	Receivables	Payables
RepMar	$ 475,269	$ 122,148	$ 281,145	$ 9,034
Marshalls Energy Company, Inc.	15,048	459,365	12,735	563,243
Marshall Islands National Telecommunications Authority	12,764	104,693	4,405	14,799
Marshall Islands Social Security Administration	520	278,822	289	65,270
Majuro Water and Sewer Company, Inc.	1,414	46,588	1,653	2,767
Marshall Islands Marine Resources Authority	44,465	-	23,971	-
College of Marshall Islands	97,242	-	22,854	-
Marshall Islands Development Bank	3,125	59,425	21,070	3,072
Other	41,007	97,439	31,892	8,249
	$ 690,855	$ 1,168,480	$ 400,014	$ 666,434

	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
Marshall Islands Marine Resources Authority	42,086	-	6,802	-
College of Marshall Islands	60,395	-	6,966	-
Marshall Islands Development Bank	1,208	-	1,840	-
Other	69,380	96,507	32,203	7,451
	$ 726,387	$ 1,046,081	$ 339,124	$ 720,949

(5) Related Party Transactions, Continued

During each of the years ended September 30, 2018 and 2017, MRI received $74,400 appropriations from RepMar for the construction of a seawall. As of September 30, 2018 and 2017, MRI has yet to expend $45,649 and $34,193, respectively, of these appropriations, which 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, 2018 and 2017.

MRI leases business space to a commercial entity at $2,000/month expiring on November 30, 2018, subject to an annual renewal.

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 reported an operating loss of $134,272 during the year ended September 30, 2017, and used a substantial amount of working capital in its operations resulting in a working capital deficiency of $595,861 and $891,370 as of September 30, 2018 and 2017, 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, 2018, 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.

(6) Commitment and Contingencies, Continued

Contingencies, Continued

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 in both years and local government taxes of $341,315 and $345,391 as of September 30, 2018 and 2017, respectively, remain outstanding and of which $486,660 and $486,928, are included as accrued expenses in the accompanying statements of net position. Unfavorable resolution of this matter could expose MRI to additional penalties and interest. Penalties and interest are estimated to be $162,175 and $163,153 as of September 30, 2018 and 2017, respectively. No such action has yet been filed. At September 30, 2018 and 2017, 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.

At September 30, 2018 and 2017, MRI is liable for delinquent withholding taxes, totaling $9,034 and $43,931, 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, 2018 and 2017, 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, 2018, 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 14, 2019. 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Responses as item 2018-004 that we consider to be significant deficiencies.

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 2018-001 through 2018-003.

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 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 14, 2019

Finding No.: 2018-001
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 FY18. 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 2017.

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.

There is an ongoing proposal from MRI management to deduct 20% from all the incoming collections from MOF and to apply this against MRI's payable to Malgov, until such time the liabilities have been fully paid off. This is same as what have been done from the prior years account between MOF & MRI to pay off the unpaid withholding taxes.

There is no final decision yet and MRI management is still waiting for the updates based on the discussions between MOF & Malgov.

Finding No.: 2018-002
Area: Local Noncompliance

Criteria: Sections 131 and 215 of the RepMar Social Security Act of 1990 and the Social Security Health Fund Act of 1991, respectively, state that no later than the tenth day after the end of each quarter, each employer shall submit to Social Security Administration report of wages and salaries paid by the employer, and the contributions due from the employer, under Sections 129 and 130, and 213, and 214, respectively, and pay into the Fund the contributions due.

Condition: MRI filed and paid employer and employee contributions withheld for the year ended September 30, 2018 in a manner inconsistent with the criteria. For the quarter ended September 30, 2018, MRI filed the return on 11/5/2018; however, payment of contributions were as follows:

1. Partial payment on 11/20/2018 (cash receipt # 89382) of $15,000
2. Partial payment on 1/3/2019 (cash receipt # 89745) of $15,000
3. Final payment on 1/3/2019 (cash receipt # 89898) of $34,954

Cause: The cause of the above condition is lack of established policies and procedures that meet compliance with the Social Security Act of 1990 and the Social Security Health Fund Act of 1991.

Effect: The effect of the above condition is noncompliance with the Social Security Act of 1990 and the Social Security Health Fund Act of 1991.

Recommendation: We recommend that management comply with the Social Security Act of 1990 and the Social Security Health Fund Act of 1991.

Auditee Response and Corrective Action Plan: MRI is not in compliance with the Social security Act of 1990 and the Social Security Health Fund Act of 1991 mainly due to insufficiency of cash collection. MRI's net receivables as of September 30, 2018 amounted to $538,431 and mostly are due from the government agencies that if MRI was able to collect from, MISSA contributions can be paid off on time.

The installment payment (non-contract payment plan) is agreed upon by MRI and MISSA through quarterly tax status reports wherein MRI is allowed to pay quarterly contribution on or before filing of the next quarterly report.

Finding No.: 2018-003
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 documented to evidence compliance with the procurement process set forth in the criteria:

1) Cost of sales ($33,376)
2) Capital asset additions ($16,640)
3) Other operating expenses ($11,703)

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 2017.

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

Finding No.: 2018-003, Continued
Area: Procurement

Auditee Response and Corrective Action Plan: MRI is not in compliance with the procurement procedure of RepMar mainly due to factors such as:

1. Food purchases and operating expenses are mainly bought from the suppliers who gave MRI a credit line, an agreement between the company managers which is payable within thirty days.

1. Time constraint – there are purchases that are needed urgently from various repairs due to wear and tear especially when it comes to hotel maintenance

2. Availability of the product on island – not all vendors on island provide the products or services that the company needs

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

Finding No.: 2018-004
Area: Revenues and expenses

Criteria: MRI earns construction management service revenue and revenue share for operating Hotel Ebeye and Restaurant, which is owned by the Marshall Islands Development Bank.

Condition: The following estimated revenues were unrecorded:

1. Construction Management Service Revenue- $1,700 (5% of the $34,000 incurred expenses for renovation of the hotel)

2. Revenue share for operating Hotel Ebeye- $35,000 (95% of the annualized net revenue of $36,500)

Cause: The cause of the above condition is a lack of planning and adequate internal control policies and procedures requiring timely identification and recording of revenues related to management of Hotel Ebeye and Restaurant.

Effect: The effect of the above condition is understatement of revenues.

Recommendation: We recommend management timely reconcile and record revenues from operating Hotel Ebeye and Restaurant.

Auditee Response and Corrective Action Plan: The untimely reconciliation and recording of revenues from operating Hotel Ebeye and Restaurant is due to the immediate resignation of the former accounting manager and this unexpected turn of events had affected the process of recording all the necessary transactions for FY2018.

Subsequently, MRI hired an additional accounting staff to ease the workload within the department, implemented internal control procedures and facilitated preparations of reports on a timely matter. Timely review and reconciliations are now being performed regularly to ensure all the necessary adjustments are posted in an orderly manner and to ensure that everything are reflected in the proper period.

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

Unresolved Prior Year Findings
Year Ended September 30, 2018

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