

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

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

**FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT**

**YEAR ENDED SEPTEMBER 30, 2015 AND
THE PERIOD FROM INCEPTION (NOVEMBER 25, 2013)
THROUGH SEPTEMBER 30, 2014**

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

Year Ended September 30, 2015 and the Period From
Inception (November 25, 2013) Through September 30, 2014

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Republic of the Marshall Islands Office of Commerce and Investment (OCI), a component unit of the Republic of the Marshall Islands, which comprise the statements of net position as of September 30, 2015 and 2014, and the related statements of revenues, expenses and changes in net position and of cash flows for the year ended September 30, 2015 and for the period from inception (November 25, 2013) through September 30, 2014, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of OCI as of September 30, 2015 and 2014, and the changes in its financial position and its cash flows for the year ended September 30, 2015 and for the period from inception (November 25, 2013) through September 30, 2014 in accordance with accounting principles generally accepted in the United States of America.

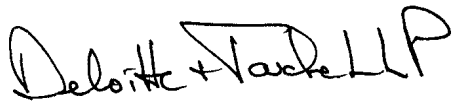
Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 6 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 23, 2017, on our consideration of OCI's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering OCI's internal control over financial reporting and compliance.



January 23, 2017

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

Management's Discussion and Analysis
Year Ended September 30, 2015 and the Period From
Inception (November 25, 2013) Through September 30, 2014

This section of the Office of Commerce and Investment (OCI) annual financial report presents our discussion and analysis of OCI's financial performance during the fiscal year that ended September 30, 2015. This section is to be read in conjunction with the financial statements that follow this section and the accompanying notes to our financial statements in this report.

OCI Functions

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

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

Financial Highlights

This section of the OCI annual financial report presents our discussion and analysis of OCI's financial performance for the fiscal year ending September 30, 2015. Please read it and verify any clarification to the financial statements, which follow this section. The below table summarizes the financial condition and operations of OCI for fiscal years 2015 and 2014.

Statement of Net Position Analysis:

At September 30, 2015, OCI had a net investment in capital assets of \$32,022 which is a 9% decline from prior year due to annual depreciation, with additions of \$4,655 made during the year for furniture and fixtures. Cash increased by 8% mainly due to the increase in operating grant given by Government. Advances from affiliates declined by 50% due to loan repayment and increase in both payables and accrued rent are due to increase in operations in 2015 as compared to prior year. Net position also increased by 26% mainly due to the operating surplus of \$29,188 made in 2015.

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

Management's Discussion and Analysis
Year Ended September 30, 2015 and the Period From
Inception (November 25, 2013) Through September 30, 2014

	<u>2015</u>	<u>2014</u>	<u>% Change</u>
<u>ASSETS</u>			
Current assets:			
Cash	\$ 140,050	\$ 129,994	8%
Advance to employee	<u>2,750</u>	<u>-</u>	100%
Total current assets	142,800	129,994	10%
Capital assets, net	<u>32,022</u>	<u>35,197</u>	-9%
	\$ <u>174,822</u>	\$ <u>165,191</u>	
<u>LIABILITIES AND NET POSITION</u>			
Liabilities:			
Payable to affiliate	\$ 4,261	\$ 1,986	115%
Accrued rent	3,168	-	100%
Advance from affiliate	<u>25,000</u>	<u>50,000</u>	-50%
Total liabilities	<u>32,429</u>	<u>51,986</u>	
Commitment and contingency			
Net position:			
Net investment in capital assets	32,022	35,197	-9%
Unrestricted	<u>110,371</u>	<u>78,008</u>	41%
Total net position	<u>142,393</u>	<u>113,205</u>	26%
	\$ <u>174,822</u>	\$ <u>165,191</u>	

Advance from Affiliate

Loan given by the Marshall Islands Marine Resources Authority (MIMRA) to assist in the start-up of the OCI of \$100,000 on the 2nd of February 2014. OCI has since made repayments of \$50,000 during the 9 month period ending 30 September 2014 as well as \$25,000 during the 2015 financial year. Please refer to note 4 to the financial statements for additional information relating to OCI's long-term debt.

**REPUBLIC OF THE MARSHALL ISLANDS
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Management's Discussion and Analysis
Year Ended September 30, 2015 and the Period From
Inception (November 25, 2013) Through September 30, 2014

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

At September 30, 2015, OCI made an operating surplus of \$29,188. This was mainly due to the 68% increase in the 2015 Government grant to \$425,889 compared to \$253,550 in prior year. It must be noted that the 2015 financial year is a full 12 month period while the 2014 financial year reflects OCI's infant operations for 9 months (January to September 2014), hence the % changes for certain expense items would seem excessive, which is not necessarily the case. In addition, due to the expansion of OCI by way of hiring of new staff to carry out OCI's objectives, salary expenses increased by \$247,521 as compared to prior year. As a result of the additional staff, professional and contractual fees declined by 50% as those tasks were now done in-house. Due to increased operations in 2015, travel costs, advertising, rent, office supplies, utilities and miscellaneous expenses all increased while office renovation and R&M decreased mostly due to the one-off repairs and maintenance done to the office space in 2014. As such, total expenses increased by \$260,564 (186%) as compared to prior year, giving a change in net position of \$29,188 and taking the net position at end of the period to \$142,393 which is a 26% increase. (See table below).

			<u>% Change</u>
Operating revenues:			
Nitijela appropriation	\$ 425,889	\$ 253,550	68%
Other	<u>4,208</u>	<u>-</u>	100%
Total operating revenues	<u>430,097</u>	<u>253,550</u>	
Operating expenses:			
Salaries, wages and employee benefits	269,355	21,834	1134%
Travel and per diem	32,947	21,847	51%
Professional/Contractual fees	22,061	43,681	-49%
Advertising	17,019	8,118	110%
Rent	10,560	3,250	225%
Office supplies	8,883	7,293	22%
Depreciation	7,830	1,191	557%
Utilities and communication	5,040	3,519	43%
Office renovation and repair and maintenance	2,071	24,727	-92%
Miscellaneous	<u>25,143</u>	<u>4,885</u>	415%
Total operating expenses	<u>400,909</u>	<u>140,345</u>	186%
Change in net position	29,188	113,205	
Net position at beginning of period	<u>113,205</u>	<u>-</u>	
Net position at end of period	\$ <u>142,393</u>	\$ <u>113,205</u>	26%

The above results show that OCI has performed well against budget, utilizing 93%¹ of the budget to date to fund its operations. Overall, with only a 7% variance of budget to actuals, OCI's spending for the 2015 FY has been efficient in sticking with approved budget by Board and proper planning by management.

¹ Approved Budgeted Total Expenses of \$428,525 with Actual Total Expenses of \$400,909

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

Management's Discussion and Analysis
Year Ended September 30, 2015 and the Period From
Inception (November 25, 2013) Through September 30, 2014

Capital Assets

Capital assets for OCI in 2015 was \$32,022, compared to \$35,197 in 2014 which is a 9% decline from prior year due to annual depreciation, with additions of \$4,655 made during the year for furniture and fixtures.

Below is a summary of OCI's investment in capital assets for 30 September, 2015 and 2014:

	<u>2015</u>	<u>2014</u>	<u>% Change</u>
Motor vehicles	\$ 27,000	27,000	-
Furniture and fixtures	14,043	9,388	50%
	41,043	36,388	
Less accumulated depreciation	<u>(9,021)</u>	<u>(1,191)</u>	657%
	\$ <u>32,022</u>	\$ <u>35,197</u>	(9%)

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

Additional Financial Information

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

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

Statements of Net Position
September 30, 2015 and 2014

<u>ASSETS</u>	<u>2015</u>	<u>2014</u>
Current assets:		
Cash	\$ 140,050	\$ 129,994
Advance to employee	2,750	-
Total current assets	142,800	129,994
Capital assets, net	32,022	35,197
	\$ 174,822	\$ 165,191
<u>LIABILITIES AND NET POSITION</u>		
Liabilities:		
Payable to affiliate	\$ 4,261	\$ 1,986
Accrued rent	3,168	-
Advance from affiliate	25,000	50,000
Total liabilities	32,429	51,986
Commitment and contingency		
Net position:		
Net investment in capital assets	32,022	35,197
Unrestricted	110,371	78,008
Total net position	142,393	113,205
	\$ 174,822	\$ 165,191

See accompanying notes to financial statements.

REPUBLIC OF THE MARSHALL ISLANDS
OFFICE OF COMMERCE AND INVESTMENT

Statements of Revenues, Expenses, and Changes in Net Position
Year Ended September 30, 2015 and The Period From
Inception (November 25, 2013) Through September 30, 2014

	2015	2014
Operating revenues:		
Nitijela appropriation	\$ 425,889	\$ 253,550
Other	4,208	-
Total operating revenues	430,097	253,550
Operating expenses:		
Salaries, wages and employee benefits	269,355	21,834
Travel and per diem	32,947	21,847
Professional/contractual fees	22,061	43,681
Advertising	17,019	8,118
Rent	10,560	3,250
Office supplies	8,883	7,293
Depreciation	7,830	1,191
Utilities and communications	5,040	3,519
Office renovation, repairs and maintenance	2,071	24,727
Miscellaneous	25,143	4,885
Total operating expenses	400,909	140,345
Change in net position	29,188	113,205
Net position at beginning of year	113,205	-
Net position at end of year	\$ 142,393	\$ 113,205

See accompanying notes to financial statements.

**REPUBLIC OF THE MARSHALL ISLANDS
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Statements of Cash Flows
Year Ended September 30, 2015 and The Period From
Inception (November 25, 2013) Through September 30, 2014

	<u>2015</u>	<u>2014</u>
Cash flows from operating activities:		
Operating grants received	\$ 425,889	\$ 253,550
Other cash received from customers	4,208	-
Cash payments to suppliers for goods and services	(120,556)	(118,833)
Cash payments to employees for services	(269,830)	(18,335)
Net cash provided by operating activities	<u>39,711</u>	<u>116,382</u>
Cash flows from noncapital financing activities:		
Net advance (repayment of advance) from affiliate	<u>(25,000)</u>	<u>50,000</u>
Cash flows from capital and related financing activities:		
Acquisition of fixed assets	<u>(4,655)</u>	<u>(36,388)</u>
Net change in cash	10,056	129,994
Cash at beginning of year	129,994	-
Cash at end of year	<u>\$ 140,050</u>	<u>\$ 129,994</u>
Reconciliation of change in net position to net cash provided by operating activities:		
Change in net position	\$ 29,188	\$ 113,205
Adjustments to reconcile change in net position to net cash provided by operating activities:		
Depreciation	7,830	1,191
Increase in receivables:		
Advance to employee	(2,750)	-
Increase in liabilities:		
Accrued rent	3,168	-
Payable to affiliate	2,275	1,986
Net cash provided by operating activities	<u>\$ 39,711</u>	<u>\$ 116,382</u>

See accompanying notes to financial statements.

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

Notes to Financial Statements
September 30, 2015 and 2014

(1) Organization

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

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

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

(2) Summary of Significant Accounting Policies

GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, 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 modifies certain other financial statement disclosure requirements.

To conform to the requirements of GASB Statement 34, equity is presented in the following net position categories:

- Net investment in capital assets; capital assets, net of accumulated depreciation, plus construction or improvement of those assets.
- Unrestricted; net position that is not subject to externally imposed stipulations. Unrestricted net position may be designated for specific purposes by action of management or the Board of Directors or may otherwise be limited by contractual agreements with outside parties.

Estimates

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

REPUBLIC OF THE MARSHALL ISLANDS
OFFICE OF COMMERCE AND INVESTMENT

Notes to Financial Statements
September 30, 2015 and 2014

(2) Summary of Significant Accounting Policies, Continued

Basis of Accounting

Proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and deferred outflows of resources, and liabilities and deferred inflows of resources associated with the operation of the fund are included in the statements of net position. Proprietary fund operating statements present increases and decreases in net position. The accrual basis of accounting is utilized by proprietary funds. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. OCI considers Nitijela appropriations and operational grants and costs that are directly related to OCI's operations to be operating revenues and expenses. Revenues and expenses related to financing and other activities are reflected as nonoperating.

Cash

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

For purposes of the statements of net position and cash flows, cash is defined as cash on hand and cash held in demand accounts. As of September 30, 2015 and 2014, the carrying amount of cash was \$140,050 and \$129,994, respectively, and the corresponding bank balances were \$153,953 and \$132,383, respectively. Of the bank balance amounts, \$11,005 and \$0, respectively, were maintained in a financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance. The remaining bank deposits of \$142,948 and \$132,383, respectively, were maintained in a financial institution not subject to depository insurance. OCI does not require collateralization of its cash deposits; therefore, deposit levels in excess of Federal Deposit Insurance Corporation insurance coverage are uncollateralized. Accordingly, these deposits are exposed to custodial credit risk.

Capital Assets

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

Deferred Outflows of Resources

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

REPUBLIC OF THE MARSHALL ISLANDS
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Notes to Financial Statements
September 30, 2015 and 2014

(2) Summary of Significant Accounting Policies, Continued

Compensated Absences

Vested or accumulated vacation leave is recorded as an expense and liability as the benefits accrue to employees. No liability is recorded for nonvesting accumulating rights to receive sick pay benefits. As of September 30, 2015 and 2014, there is no accumulated vacation leave liability.

Deferred Inflows of Resources

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

Taxes

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

New Accounting Standards

During fiscal year 2015, OCI implemented the following pronouncements:

- *GASB Statement No. 68, Accounting and Financial Reporting for Pensions*, which revises and establishes new financial reporting requirements for most governments that provide their employees with pension benefits. The implementation of this statement did not have a material effect on the accompanying financial statements.
- *GASB Statement No. 69, Government Combinations and Disposals of Government Operations*, which improves accounting and financial reporting for state and local governments' combinations and disposals of government operations. Government combinations include mergers, acquisitions, and transfers of operations. A disposal of government operations can occur through a transfer to another government or a sale. The implementation of this statement did not have a material effect on the accompanying financial statements.
- *GASB Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*, which addresses an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. The implementation of this statement did not have a material effect on the accompanying financial statements.

REPUBLIC OF THE MARSHALL ISLANDS
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Notes to Financial Statements
September 30, 2015 and 2014

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

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

In June 2015, GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, which aligns the reporting requirements for pensions and pension plans not covered in GASB Statements 67 and 68 with the reporting requirements in Statement 68. The provisions in Statement No. 73 are effective for fiscal years beginning after June 15, 2015, with the exception of the provisions that address employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement 68, which are effective for fiscal years beginning after June 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the financial statements of OCI.

In June 2015, GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, and addresses financial reporting requirements for governments whose employees are provided with postemployment benefits other than pensions (other postemployment benefits or OPEB). The provisions in Statement No. 74 are effective for fiscal years beginning after June 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the financial statements of OCI.

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

**REPUBLIC OF THE MARSHALL ISLANDS
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Notes to Financial Statements
September 30, 2015 and 2014

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

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

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

Risk Management

OCI is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. OCI has elected to purchase commercial insurance from independent third parties for the risks of loss to which it is exposed. Settled claims from these risks have not exceeded commercial insurance coverage for the year ended September 30, 2015 and for the period from inception (November 25, 2013) through September 30, 2014.

(3) Capital Assets

Capital asset activity for the year ended September 30, 2015 and for the period from inception (November 25, 2013) through September 30, 2014 was as follows:

	October 1, <u>2014</u>	Additions and Transfers	Retirements	September 30, <u>2015</u>
Motor vehicles	\$ 27,000	\$ -	\$ -	\$ 27,000
Furniture and fixtures	<u>9,388</u>	<u>4,655</u>	<u>-</u>	<u>14,043</u>
	36,388	4,655	-	41,043
Less accumulated depreciation	<u>(1,191)</u>	<u>(7,830)</u>	<u>-</u>	<u>(9,021)</u>
	\$ <u>35,197</u>	\$ <u>(3,175)</u>	\$ <u>-</u>	\$ <u>32,022</u>
	November 25, <u>2013</u>	Additions and Transfers	Retirements	September 30, <u>2014</u>
Motor vehicles	\$ -	\$ 27,000	\$ -	\$ 27,000
Computers and other equipment	<u>-</u>	<u>9,388</u>	<u>-</u>	<u>9,388</u>
	-	36,388	-	36,388
Less accumulated depreciation	<u>-</u>	<u>(1,191)</u>	<u>-</u>	<u>(1,191)</u>
	\$ <u>-</u>	\$ <u>35,197</u>	\$ <u>-</u>	\$ <u>35,197</u>

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

Notes to Financial Statements
September 30, 2015 and 2014

(4) Related Party Transactions

OCI is a component unit of RepMar and is thus affiliated with all RepMar-owned and affiliated entities, including the Marshall Islands Marine Resources Authority (MIMRA) and the Marshall Islands Development Bank (MIDB). OCI utilizes services from certain affiliated entities at substantially the same terms and conditions as those incurred from third parties. A summary of related party transactions as of September 30, 2015 and 2014, for the year ended September 30, 2015 and for the period from inception (November 25, 2013) through September 30, 2014 is as follows:

	2015	
	<u>Expenses</u>	<u>Payables</u>
Marshall Islands Social Security Administration	\$13,653	\$ 4,261
Marshall Islands National Telecommunications Authority	5,040	-
Marshall's Energy Company, Inc.	-	-
	<u>\$19,693</u>	<u>\$ 4,261</u>
	2014	
	<u>Expenses</u>	<u>Payables</u>
Marshall Islands Social Security Administration	\$ -	\$ 1,986
Marshall Islands National Telecommunications Authority	1,214	-
Marshall's Energy Company, Inc.	<u>2,305</u>	-
	<u>\$ 3,519</u>	<u>\$ 1,986</u>

On February 14, 2014, MIMRA advanced \$100,000 to finance office start-up operations. The advance is uncollateralized and is non-interest bearing and is due and payable in April 2014. During the year ended September 30, 2015, OCI made payments of \$25,000 to MIMRA. During the period from inception (November 25, 2013) through September 30, 2014, OCI made payments of \$50,000 to MIMRA. As of September 30, 2015 and 2014, payable to MIMRA is \$25,000 and \$50,000, respectively.

For the year ended September 30, 2015 and for the period from inception (November 25, 2013) through September 30, 2014, OCI's operations were funded by \$425,889 and \$253,550, respectively, of RepMar appropriations.

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

(5) Contingency

OCI receives a substantial amount of its revenue from annual RepMar appropriations. A significant reduction in the level of budgetary support from RepMar, if this were to occur, may have an effect on OCI's programs and activities. For the year ended September 30, 2016, RepMar appropriated \$429,325 for the purpose of funding OCI's programs and activities.

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

Board of Directors
Office of Commerce and Investment:

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Republic of the Marshall Islands Office of Commerce and Investment (OCI), which comprise the statement of net position as of September 30, 2015, and the related statements of revenues, expenses and changes in net position and of cash flows for the year then ended, and the related notes to the financial statements., and have issued our report thereon dated January 23, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered OCI's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of OCI's internal control. Accordingly, we do not express an opinion on the effectiveness of OCI's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Responses as item 2015-01, that we consider to be material weaknesses.

Compliance and Other Matters

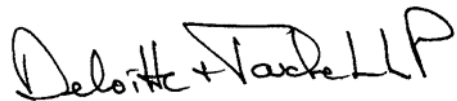
As part of obtaining reasonable assurance about whether OCI's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Responses as item 2015-02.

OCI's Response to Findings

OCI's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. OCI'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.

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

January 23, 2017

OFFICE OF COMMERCE AND INVESTMENT

Schedule of Findings and Responses
Year Ended September 30, 2015

Finding No. 2015-01

Journal Vouchers

Criteria: Journal vouchers should be prepared and reviewed by supervisory personnel independent of the preparation process.

Condition: Journal vouchers are not prepared and therefore, such are not reviewed by the Chief Executive Officer (CEO).

Cause: The cause of the above condition is due to the lack of policies and procedures in place governing the review and approval of journal entries.

Effect: The effect of the above condition is the inability to determine the appropriateness of journal entries.

Prior Year Status: The lack of policies and procedures requiring review and approval of journal entries was reported as a finding in the audit of OCI for fiscal year 2014.

Recommendation: We recommend that the Office establish policies and procedures in place requiring the review and approval of journal vouchers.

Auditee (OCI Management) Response and Corrective Action Plan:

Audit's comments are noted. Moving forward, the OCI Management will work to ensure that the Finance Manual/Policy which was approved by the Board to ensure that all staff to document the necessary processes and controls governing OCI's financial and administrative operations.

The new policy has already established procedures that are in place requiring the review and approval of journal vouchers by supervisory personnel independent of the preparation process. In addition it will also cover the following:

- QuickBooks and timely reconciliation of its GL Accounts, approval with report to be provided to Management by first week of new month;
- Approval and accounting of travel related expenditures with report be tabulated by first week of each month; and
- Timelines for payments of recurring expenses including MISSA Tax contributions and employee contribution payments.

OFFICE OF COMMERCE AND INVESTMENT

Schedule of Findings and Responses, Continued
Year Ended September 30, 2015

Finding No. 2015-02

Criteria: RepMar's Procurement Code states the following:

- (a) Section 124 – unless otherwise authorized by law, all Government contracts shall be awarded by competitive sealed bidding.
- (b) Section 127 – procurement of goods and services not exceeding \$25,000 may be made in accordance with small purchase procedures promulgated by RepMar's Policy Office. Small purchase procedures are those relatively simple and informal methods for securing services, supplies, or other property that do not cost more than \$25,000. RepMar's Ministry of Finance has previously declared that if small purchase procedures are used, price or rate quotations shall be obtained from an adequate number of qualified sources.
- (c) Section 128 – a contract may be awarded for supply, service, or construction item without completion when it is determined in writing that there is only one source for the required supply, service, or construction item.

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

<u>Check no.</u>	<u>Date</u>	<u>Description</u>	<u>Amount</u>
154	11/18/14	Advertising	\$ 4,359
142	11/18/14	Office supplies	\$ 2,201
1022	04/30/15	Miscellaneous	\$ 2,321
1011	04/24/15	Professional fee	\$ 2,400
1179	09/07/15	Professional fee	\$ 600

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

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

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

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

Auditee Response (OCI Management) and Corrective Action Plan:

Audit's comments are noted. Moving forward OCI Management will work to develop a formal procurement policy which will document the necessary processes and controls to be in place for a transparent and accountable procurement process. We will also work with RepMar's Policy Office to ensure compliance with RepMar's Procurement Code as well as best practice.

For the above mentioned expenses, these were approved by Management as well as the Board for material contracts/agreements and for smaller expenses, by way of approval of OCI's budget for the 2015 Financial Year.

OFFICE OF COMMERCE AND INVESTMENT

Unresolved Prior Year Findings
Year Ended September 30, 2015

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