

**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**

YEARS ENDED SEPTEMBER 30, 2016 AND 2015

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

Years Ended September 30, 2016 and 2015

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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, 2016 and 2015, and the related statements of revenues, expenses and changes in net position and of cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of OCI as of September 30, 2016 and 2015, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

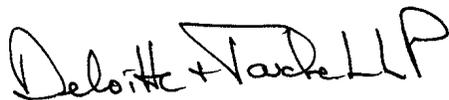
Other Matters

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 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 20, 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.

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

June 20, 2017

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

Management's Discussion and Analysis
Years Ended September 30, 2016 and 2015

This section of the Office of Commerce and Investment annual financial report presents our discussion and analysis of OCI's financial performance during the fiscal year that ended September 30, 2016. 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."

OCI's 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, 2016. 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 2016, 2015 and 2014.

Statement of Net Position Analysis:

This was the 3rd year of operations for OCI and it has now settled into its operations and is now fully fledged and setting out to achieve its mission of being a catalyst for economic and social development via the marketing of the RMI as a feasible investment opportunity for both local and international investors. As such, it has scaled up on operations, resulting in increased costs whilst its RMI Government grant had remained fairly the same from prior year.

Investment in capital assets stood at \$23,813, which is a 26% decline from prior year due to annual depreciation and no capital additions during the financial year, compared to 2015 given that it has now settled into its 3rd year of operations. Cash also decreased by 86% mainly due to increased operational activity of OCI whilst government grant remained the same. Advances from affiliates declined by 100% due to OCI fully clearing its debt with MIMRA. Payable to affiliates increased due to increased payable to MISSA as a result of increased payroll costs and other 2016 costs settled in 2017 financial year. As a result of the above, net position decreased by 85% due to reasons outlined above and OCI's increased operations. Summary of the movements in OCI's statements of financial position for 2016, 2015 and 2014 is as follows:

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Management's Discussion and Analysis
Years Ended September 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>	<u>% Change</u>	<u>2014</u>
ASSETS				
Current assets:				
Cash	\$20,283	\$140,050	-86%	\$129,994
Advances to employees	<u>5,750</u>	<u>2,750</u>	109%	-
Total current assets	26,033	142,800	-82%	129,994
Capital assets, net	<u>23,813</u>	<u>32,022</u>	-26%	<u>35,197</u>
TOTAL ASSETS	<u>\$49,846</u>	<u>\$174,822</u>	-71%	<u>\$165,191</u>
<u>LIABILITIES AND NET POSITION</u>				
Liabilities:				
Accounts Payable	\$ 14,557	\$ -	0%	\$ -
Payable to affiliates	10,853	4,261	155%	1,986
Accrued rent	3,168	3,168	0%	-
Advance from affiliate	-	<u>25,000</u>	-100%	<u>50,000</u>
Total liabilities	<u>28,578</u>	<u>32,429</u>	-12%	<u>51,986</u>
Net position:				
Net investment in capital assets	23,813	32,022	-26%	35,197
Unrestricted	<u>(2,545)</u>	<u>110,371</u>	-102%	<u>78,008</u>
Total net position	<u>21,268</u>	<u>142,393</u>	-85%	<u>113,205</u>
TOTAL LIABILITIES & NET POSITION	<u>\$49,846</u>	<u>\$174,822</u>	-71%	<u>\$165,191</u>

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

Management's Discussion and Analysis
Years Ended September 30, 2016 and 2015

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

At September 30, 2016, OCI made an operating loss of \$121,125, a 515% decline from prior year, giving a net position of \$21,268 at year end (85% drop). This was mainly due to an increase in operating expenses by 35% whilst income in the form of the RMI government grant remained fairly the same (-1%) over the two periods. Large movements in expenses were due to increased travel (increase of 112%) to attending of workshops, international trade missions and other consultations needed for OCI to achieve its key performance indicators in 2016. This was also aided by 113% increase in professional and contractual fees mainly due to hire of consultants for conducting of feasibility studies and research in identified economic growth sectors in RMI for potential investment. Salaries and wages also increased by 29% due to new appointments made during the year such as the Manager Investment and IT and other positions. Other increases noted in rent (20%), and miscellaneous expenses which includes office renovation repairs and maintenance (55%). A tabulated summary of the movement in the various statements of revenues, expenses and net position over the 2016, 2015 and 2014 are as follows:

	2016	2015	% Change	2014
Operating revenues:				
Nitijela appropriation	\$420,801	\$425,889	-1%	\$253,550
Other	<u>5,670</u>	<u>4,208</u>	35%	-
Total operating revenues	<u>426,471</u>	<u>430,097</u>	-1%	<u>253,550</u>
Operating expenses:				
Salaries, wages and employee benefits	347,764	269,355	29%	21,834
Travel and per diem	69,846	32,947	112%	21,847
Professional/Contractual fees	47,059	22,061	113%	43,681
Rent	12,716	10,560	20%	3,250
Office supplies	8,262	8,883	-7%	7,293
Depreciation	8,209	7,830	5%	1,191
Advertising	6,860	17,019	-60%	8,118
Utilities and communication	4,780	5,040	-5%	3,519
Miscellaneous	<u>42,100</u>	<u>27,214</u>	55%	<u>29,612</u>
Total operating expenses	<u>547,596</u>	<u>400,909</u>	37%	<u>140,345</u>
Change in net position	(121,125)	29,188	-515%	113,205
Net position at beginning of year	<u>142,393</u>	<u>113,205</u>	26%	-
Net position at end of year	<u>\$ 21,268</u>	<u>\$142,393</u>	-85%	<u>\$113,205</u>

Management's Discussion and Analysis for the year ended September 30, 2015 is set forth in OCI's report on the audit of financial statements, which is dated January 23, 2017. That Management's Discussion and Analysis explains the major factors impacting the 2015 financial statements and can be obtained from OCI's CEO via the contact information on page 7.

REPUBLIC OF THE MARSHALL ISLANDS
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Management's Discussion and Analysis
Years Ended September 30, 2016 and 2015

Despite the increased operational costs above, OCI is proud to have achieved the key listed projects:

- i) Trade Mission to Taiwan with 23 business and government representatives where trade shows, one to one meetings and technical/industrial site visits;
- ii) Local workshops with the Task Force for the Universal Form to create changes on the project drive for the World Bank "Ease of Doing Business" among Govt Tier 1 agents and private sector reps. The project has allowed to reduce the current FIBL application form from 38 pages to about 5 which would be proposed to RMI Cabinet in June, 2017 with Legislation changes;
- iii) Formulation of the Task Force of the Data Harmonization project for all RMI clearing/receiving agents for import and export of products where the positive result of the project in UNDP's funding support of the Feasibility Study that would be starting in Majuro & Ebeye ports by mid June, 2017;
- iv) Joint Project support by PNA & OCI for the Regional Cannery training that was supposed to start in Sep, 2016 but moved to Oct the same year. The training program allowed 13 reps from Palau, Kiribati, PNG and RMI who attended the week long seminar that resulted in 10 reps being technically certified for cannery start-up features. This same program has allowed the Local JV Company of KMI to have the first RMI Small/medium cannery proposed to be in full operation by late June, 2017;
- v) Joint sponsorship Marketing & Export training program between OCI and the Forum Secretariat arm of Pacific Trade & Invest (PT & I) that conducted a one day work-shop in Majuro by July 2016 where over 20 Govt and private sector representatives attended. The follow-up of the seminar was the RMI representatives of Tobolar & OCI attendance to the Market to Start Expo in Auckland, NZ from March, 2017;
- vi) Review/modification of its Website to be more friendly and creation of the links to almost all Govt SOE/Dept Websites plus key private companies;
- vii) Formulation and research work executed of the high cost of vegetables import into RMI where the OCI Board agreed on the Hydroponic Feasibility study that was conducted in late 2015 and carried on to early 2016 by the expert from Joes Farm of Fiji. The follow-up to this project was the search of Hydroponic suppliers in Taiwan when the Trade Mission was executed in Oct, 2017. OCI reps met the Taiwan Hydroponic Development Company (THDC) during the Trade mission and has been working with OCI & R & Division of Agriculture where their products should be ready for implementation plus technical training by July 2017.
- viii) Feasibility support on renewable energy on liaison with the Energy Division of the Ministry of R & D and Tobolar, where the OCI Board agreed for the project study on Synthetic Gas and an MOU was signed between OCI & Knoodis Ltd who did the feasibility study on Syn Gas. The project follow-up was the signing of the MOU between Tobolar, OCI & Knodis in the generation of 250Kwatts of electricity through the use of coconut shells. The pilot project is planned to start by late 2017 with two major phases.

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Management's Discussion and Analysis
Years Ended September 30, 2016 and 2015

- ix) Assistance to the RMI Deep Sea Mining (DSM) Board's formulation of its Policy & Regulation. The follow-up of the project, was that OCI CEO being appointed as the RMI sole representative to the 2016 International Seabed Authority in Kingston, Jamaica by April, 2016 where the RMI DSM project update was tabled.

Capital Assets

Capital assets for OCI in 2016 was \$23,813, compared to \$32,022 in 2015 which is a 26% decline from prior year due to annual depreciation as well as no new additions in the 2016 FY with the company settling into its third year of operations.

Below is a summary of OCI's investment in capital assets for year ending 30 September, 2016:

	2016	2015	% Change	2014
Motor vehicles	\$27,000	\$27,000	0%	\$27,000
Furniture and fixtures	<u>14,043</u>	<u>14,043</u>	0%	<u>9,388</u>
	41,043	41,043		36,388
Less accumulated	<u>(17,230)</u>	<u>(9,021)</u>		<u>(1,191)</u>
Net position at end of year	<u>\$23,813</u>	<u>\$32,022</u>		<u>\$35,197</u>

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, 2016 and 2015

<u>ASSETS</u>	<u>2016</u>	<u>2015</u>
Current assets:		
Cash	\$ 20,283	\$ 140,050
Advances to employees	5,750	2,750
Total current assets	26,033	142,800
Capital assets, net	23,813	32,022
Total assets	\$ 49,846	\$ 174,822
<u>LIABILITIES AND NET POSITION</u>		
Liabilities:		
Accounts payable	\$ 14,557	\$ -
Payable to affiliates	10,853	4,261
Accrued rent	3,168	3,168
Advance from affiliate	-	25,000
Total liabilities	28,578	32,429
Commitment and contingency		
Net position:		
Net investment in capital assets	23,813	32,022
Unrestricted	(2,545)	110,371
Total net position	21,268	142,393
Total liabilities and net position	\$ 49,846	\$ 174,822

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
Years Ended September 30, 2016 and 2015

	2016	2015
Operating revenues:		
Nitijela appropriation	\$ 420,801	\$ 425,889
Other	5,670	4,208
Total operating revenues	426,471	430,097
Operating expenses:		
Salaries, wages and employee benefits	347,764	269,355
Travel and per diem	69,846	32,947
Professional/contractual fees	47,059	22,061
Rent	12,716	10,560
Office supplies	8,262	8,883
Depreciation	8,209	7,830
Advertising	6,860	17,019
Utilities and communications	4,780	5,040
Office renovation, repairs and maintenance	-	2,071
Miscellaneous	42,100	25,143
Total operating expenses	547,596	400,909
Change in net position	(121,125)	29,188
Net position at beginning of year	142,393	113,205
Net position at end of year	\$ 21,268	\$ 142,393

See accompanying notes to financial statements.

REPUBLIC OF THE MARSHALL ISLANDS
OFFICE OF COMMERCE AND INVESTMENT

Statements of Cash Flows
Years Ended September 30, 2016 and 2015

	2016	2015
Cash flows from operating activities:		
Operating grants received	\$ 420,801	\$ 425,889
Other cash received from customers	5,670	4,208
Cash payments to suppliers for goods and services	(177,066)	(120,556)
Cash payments to employees for services	(344,172)	(269,830)
Net cash provided by (used for) operating activities	(94,767)	39,711
Cash flows from noncapital financing activities:		
Repayment of advance from affiliate	(25,000)	(25,000)
Cash flows from capital and related financing activities:		
Acquisition of fixed assets	-	(4,655)
Net change in cash	(119,767)	10,056
Cash at beginning of year	140,050	129,994
Cash at end of year	\$ 20,283	\$ 140,050
Reconciliation of change in net position to net cash provided by (used for) operating activities:		
Change in net position	\$ (121,125)	\$ 29,188
Adjustments to reconcile change in net position to net cash provided by (used for) operating activities:		
Depreciation	8,209	7,830
Increase in receivables:		
Advance to employee	(3,000)	(2,750)
Increase in liabilities:		
Accounts payable	14,557	-
Accrued rent	-	3,168
Payable to affiliate	6,592	2,275
Net cash provided (used for) by operating activities	\$ (94,767)	\$ 39,711

See accompanying notes to financial statements.

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

Notes to Financial Statements
September 30, 2016 and 2015

(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*, establishes 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 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.

**REPUBLIC OF THE MARSHALL ISLANDS
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Notes to Financial Statements
September 30, 2016 and 2015

(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, 2016 and 2015, the carrying amount of cash was \$20,283 and \$140,050, respectively, and the corresponding bank balances were \$32,556 and \$153,953, respectively. Of the bank balance amounts, \$11,019 and \$11,005, respectively, were maintained in a financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance. The remaining bank deposits of \$21,537 and \$142,948, 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 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, 2016 and 2015

(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, 2016 and 2015, 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 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 the year ended September 30, 2016, OCI implemented the following pronouncements:

- GASB 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.
- GASB 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 No. 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.
- GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*, which addresses for certain external investment pools and their participants the accounting and financial reporting implications that result from changes in the regulatory provisions referenced by previous accounting and financial reporting standards. Those provisions were based on the Investment Company Act of 1940, Rule 2a7. Rule 2a7 contains the Securities and Exchange Commission's regulations that apply to money market funds and were significantly amended in 2014.

The implementation of these statements 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, 2016 and 2015

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

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 No. 68, and Amendments to Certain Provisions of GASB Statements No. 67 and No. 68*, which aligns the reporting requirements for pensions and pension plans not covered in GASB Statements No. 67 and No. 68 with the reporting requirements in Statement No. 68. The provisions in Statement No. 73 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.

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.

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

In 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.

In December 2015, GASB issued Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, which addresses a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The provisions in Statement No. 78 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.

In January 2016, GASB issued Statement No. 80, *Blending Requirements for Certain Component Units - an amendment of GASB Statement No. 14*, which improves financial reporting by clarifying the financial statement presentation requirements for certain component units. The provisions in Statement No. 80 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.

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

Notes to Financial Statements
September 30, 2016 and 2015

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

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

In March 2016, GASB issued Statement No. 82, *Pension Issues - an amendment of GASB Statements No. 67, No. 68, and No. 73*, which addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The provisions in Statement No. 82 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.

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 years ended September 30, 2016 and 2015.

(3) Capital Assets

Capital asset activity for the year ended September 30, 2016 and 2015 was as follows:

	October 1, <u>2015</u>	Additions and Transfers	Retirements	September 30, <u>2016</u>
Motor vehicles	\$ 27,000	\$ -	\$ -	\$ 27,000
Furniture and fixtures	<u>14,043</u>	<u>-</u>	<u>-</u>	<u>14,043</u>
	41,043	-	-	41,043
Less accumulated depreciation	<u>(9,021)</u>	<u>(8,209)</u>	<u>-</u>	<u>(17,230)</u>
	\$ <u>32,022</u>	\$ <u>(8,209)</u>	\$ <u>-</u>	\$ <u>23,813</u>
	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>

**REPUBLIC OF THE MARSHALL ISLANDS
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Notes to Financial Statements
September 30, 2016 and 2015

(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, 2016 and 2015, is as follows:

	2016	
	<u>Expenses</u>	<u>Payables</u>
Marshall Islands Social Security Administration	\$ 15,680	\$ 8,190
Marshall Islands National Telecommunications Authority	4,781	-
RepMar	<u>1,212</u>	<u>2,663</u>
	<u>\$ 21,673</u>	<u>\$ 10,853</u>
	2015	
	<u>Expenses</u>	<u>Payables</u>
Marshall Islands Social Security Administration	\$ 13,653	\$ 4,261
Marshall Islands National Telecommunications Authority	5,040	-
RepMar	<u>5,776</u>	<u>-</u>
	<u>\$ 24,469</u>	<u>\$ 4,261</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 years ended September 30, 2016 and 2015, OCI made payments of \$25,000 to MIMRA for each year. As of September 30, 2016 and 2015, payable to MIMRA is \$0 and \$25,000, respectively.

For the years ended September 30, 2016 and 2015, OCI's operations were funded by \$420,801 and \$425,889, 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. On July 2, 2016, OCI extended this lease for another two years commencing on September 1, 2016 and ending on August 31, 2018. 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, 2017, RepMar appropriated \$480,680 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, 2016, 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 June 20, 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 items 2016-001, 2016-003, and 2016-004 that we consider to be material weaknesses.

Compliance and Other Matters

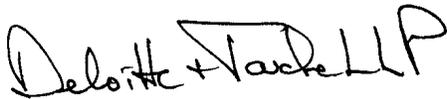
As part of obtaining reasonable assurance about whether OCI's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect 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 2016-002.

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.



June 20, 2017

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

Schedule of Findings and Responses
Year Ended September 30, 2016

Finding No. 2016-001

Journal Vouchers

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

Condition: Journal vouchers were not prepared and therefore, such were 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 audits of OCI for fiscal years 2014 and 2015.

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: Management has put in place a clear internal process on the Journal voucher where the Officer preparing the Vouchers should know the role he/she is producing and at the same time his/her Supervisor to cross-check before the Manager in charge of Finance approves the Voucher. The final check and approval for the voucher to be executed by the CEO.

In addition to the above process, a monthly report to be produced on monthly basis for the issuing officer where reconciliation to be cross-checked by his/her Manager on monthly basis before the report is reviewed and cross checked by the CEO.

**REPUBLIC OF THE MARSHALL ISLANDS
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Schedule of Findings and Responses, Continued
Year Ended September 30, 2016

Finding No. 2016-002

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>
1245	10/19/15	Travel	\$ 4,765
1526	04/13/16	Travel	\$ 4,468
1576	05/25/16	Travel	\$ 4,083
1630	06/17/16	Travel	\$ 3,524
1786	09/29/16	Travel	\$ 5,503
1273	11/02/15	Professional fee	\$ 7,413
1421	02/19/16	Professional fee	\$ 8,750
1455	03/04/16	Professional fee	\$ 3,340
1651	07/04/16	Professional fee	\$ 6,738
1521	04/15/16	Miscellaneous	\$ 1,915
1560	04/26/16	Miscellaneous	\$ 4,000
1574	05/24/16	Miscellaneous	\$ 2,100
1683	07/27/16	Miscellaneous	\$ 1,600

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 audits of OCI for fiscal years 2014 and 2015.

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

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

Schedule of Findings and Responses, Continued
Year Ended September 30, 2016

Finding No. 2016-002, Continued

Auditee Response (OCI Management) and Corrective Action Plan: OCI Management had already put in place policies and procedures to conform to RepMar's Procurement process but has not been followed. The internal control policies and procedures should be adhered to by all OCI staff and management. In order that OCI staff do not have any more non-compliance to RepMar's Procurement process, Management will execute the following corrective actions points:

- i) Management will also ensure that copies of the Procurement process & policy will be printed for all staff to have copies;
- ii) At the same time a workshop for all staff will be conducted before end of June, 2017. The workshop will highlight the key corrective measures that should be adopted and abided with;
- iii) For any further support all staff and in case of doubt the Manager in charge of Finance and CEO need to be referred to for clarity and assistance;
- iv) Disciplinary action will be fostered in future negative action by staff for non-compliances to the Procurement process & policy.

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

Schedule of Findings and Responses, Continued
Year Ended September 30, 2016

Finding No. 2016-003

Monitoring of Credit Card Transactions

Criteria: Internal control over monitoring of credit card transactions should be established and implemented.

Condition: As of September 30, 2016, OCI did not accrue the outstanding balance on the credit card billing of \$8,330. Further, invoices and receipts were not attached supporting such transactions.

Cause: The cause of the above condition is the lack of internal control policies and procedures over monitoring of credit card transactions.

Effect: The effect of the above condition is potential misstatements of expenses and liabilities being incorrectly accounted for.

Recommendation: We recommend that management require the timely monitoring and recording of credit card transactions and ensure invoices and receipts supporting the transactions are kept in file.

Auditee Response (OCI Management) and Corrective Action Plan: The 'gap' as identified above was one that Management overlooked as it should have been noticed and reported in our monthly financial report. The error or fault has now been reported in our monthly financial report as of May 2017 and will be monitored on monthly basis by Management.

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

Schedule of Findings and Responses, Continued
Year Ended September 30, 2016

Finding No. 2016-004

Accounts Payable and Payroll Liabilities

Criteria: Accounts payable and payroll liabilities should be reconciled against its subsidiary ledger (SL) and vendor statements. Timely reconciliation of recorded payables and the SL against vendor statements should occur throughout the year.

Condition: At September 30, 2016, OCI did not have a SL for payroll liabilities (GL Code 2200) and that balances was not reconciled.

Cause: The cause of the above condition is due to lack of monitoring invoices and payment against statements throughout the year and lack of policies and procedures requiring period account reconciliation.

Effect: The effect of the above condition is misstatements of accounts payable and accrued liabilities would not be timely detected. The non-accrual of expenses was corrected through proposed audit adjustments.

Recommendation: We recommend that management establish policies and procedures requiring periodic review and reconciliation of liabilities.

Auditee Response (OCI Management) and Corrective Action Plan: Management have established procedures for periodic review of reconciliation of liabilities on monthly basis where Manager in charge of Finance will be assisted by another Manager or CEO to act as the internal auditor of the process.

The SL for payroll liabilities will be reconciled on monthly basis with effect from 1st week July 2017 for the month of June and other previous and new months.

OFFICE OF COMMERCE AND INVESTMENT

Unresolved Prior Year Findings
Year Ended September 30, 2016

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