

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

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

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**FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITORS' REPORT**

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**YEARS ENDED SEPTEMBER 30, 2019 AND 2018**

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

Years Ended September 30, 2019 and 2018

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## **INDEPENDENT AUDITORS' REPORT**

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

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the Republic of the Marshall Islands Office of Commerce, Investment and Tourism (OCIT), a component unit of the Republic of the Marshall Islands, which comprise the statements of net position as of September 30, 2019 and 2018, 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 OCIT as of September 30, 2019 and 2018, 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.

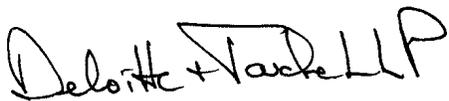
## **Other Matters**

### *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 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, 2020, on our consideration of OCIT's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of OCIT's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering OCIT's internal control over financial reporting and compliance.



January 23, 2020

**REPUBLIC OF THE MARSHALL ISLANDS  
OFFICE OF COMMERCE, INVESTMENT AND TOURISM  
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Management's Discussion and Analysis  
Years Ended September 30, 2019 and 2018

This section of the Republic of the Marshall Islands (RMI) Office of Commerce, Investment and Tourism annual financial report presents our discussion and analysis of OCIT's financial performance during the fiscal year that ended September 30, 2019. 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.

**OCIT Functions**

OCIT 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."

In March 2018, the Marshall Islands Visitor's Authority combined with the RMI Office of Commerce and Investment, renaming the organization the RMI Office of Commerce, Investment and Tourism (OCIT). Its functions now combine the roles of a tourism agency, investment promotion agency, a government investment corporation - i.e. to encourage and develop tourism and investments and to operate business enterprises on behalf of the RMI 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 OCIT annual financial report presents our discussion and analysis of OCIT's financial performance for the fiscal year ended September 30, 2019. 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 OCIT for fiscal years 2019, 2018 and 2017.

**Statement of Net Position Analysis:**

OCIT has been in operation for over five years and continues to set out to achieve its mission of being a catalyst for economic and social development. In order to achieve this, it has to attract potential foreign direct investments as well as boost local economic growth by assisting local investors to expand and reinvest in the country and further encourage and develop tourism. With the MIVA merger in March of 2018, operational costs have increased. A summary of the movements in OCIT's statement of net position is as follows:

	<u>2019</u>	<u>2018</u>	<u>% Change 2019-2018</u>	<u>2017</u>
Current and other assets	\$ 107,284	\$ 121,020	(11)%	\$ 142,960
Capital assets	<u>69,655</u>	<u>62,900</u>	11%	<u>15,604</u>
<b>Total assets</b>	<b><u>176,939</u></b>	<b><u>183,920</u></b>	<b>(4)%</b>	<b><u>158,564</u></b>
<b>Liabilities</b>	<b><u>118,106</u></b>	<b><u>104,307</u></b>	<b>13%</b>	<b><u>133,288</u></b>
Net position:				
Net investment in capital assets	69,655	62,900	11%	15,604
Unrestricted	<u>(10,822)</u>	<u>16,713</u>	(165)%	<u>9,672</u>
<b>Total net position</b>	<b><u>\$ 58,833</u></b>	<b><u>\$ 79,613</u></b>	<b>(26)%</b>	<b><u>\$ 25,276</u></b>

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Net investment in capital assets increased from \$62,900 to \$69,655, which is an 11% increase from prior year due to acquisition of capital additions required for new staff, and additional equipment needed for office operation. Current and other assets decrease due to the collection of prior year's hotel taxes receivable from RepMar. Increase in liabilities by 13% is due to the increase in payable to local vendors and annual leave accrual.

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

For the year ended September 30, 2019, OCIT incurred operating deficit of \$20,780, a 138% decrease from prior year, resulting to a net position of \$58,833 at year end (a 26% decrease). This was mainly due to the decrease in RepMar subsidy while operating expenses increased by 5%. The increase in operating expenses is mostly from professional/contractual fees (98%) due to the consultancy fees to develop the OCIT 3-year business plan, and advertising (139%) for the first Miss Marshall Islands pageant. A summary of the movement in the various statement of revenues, expenses and net position over 2019, 2018 and 2017 are as follows:

	<u>2019</u>	<u>2018</u>	% Change 2019-2018	<u>2017</u>
<b>Revenues:</b>				
Nitijela appropriations	\$ 835,000	\$ 920,994	(9)%	\$ 829,685
Contributions	58,369	-	100%	-
Hotel Taxes	13,378	10,630	26%	9,600
Other revenues	<u>861</u>	<u>6,129</u>	(86)%	<u>57,164</u>
<b>Total revenues</b>	<b><u>907,608</u></b>	<b><u>937,753</u></b>	<b>(3)%</b>	<b><u>896,449</u></b>
<b>Expenses:</b>				
Salaries and wages	455,471	474,687	(4)%	453,191
Professional/contractual fees	156,831	79,350	98%	28,125
Advertising	99,908	41,795	139%	38,990
Travel and per diem	47,317	122,078	(61)%	120,758
Other	<u>168,861</u>	<u>165,506</u>	2%	<u>182,294</u>
<b>Total expenses</b>	<b><u>928,388</u></b>	<b><u>883,416</u></b>	<b>5%</b>	<b><u>823,358</u></b>
<b>Change in net position</b>	<b>(20,780)</b>	<b>54,337</b>	<b>(138)%</b>	<b>73,091</b>
<b>Net position, beginning of year</b>	<b><u>79,613</u></b>	<b><u>25,276</u></b>	<b>215%</b>	<b><u>(47,815)</u></b>
<b>Net position, end of year</b>	<b><u>\$ 58,833</u></b>	<b><u>\$ 79,613</u></b>	<b>(26)%</b>	<b><u>\$ 25,276</u></b>

Management's Discussion and Analysis for the year ended September 30, 2018 is set forth in OCIT's report on the audit of financial statements, which is dated March 4, 2019. Such Management's Discussion and Analysis explains the major factors impacting the 2018 financial statements and can be obtained from OCIT's Chief Executive Officer via the contact information below:

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Management's Discussion and Analysis  
Years Ended September 30, 2019 and 2018

A summary of OCIT's other expenses is as follows:

	<u>2019</u>		<u>2018</u>	%		<u>2017</u>
				Change		
				2019-2018		
Other expenses:						
Utilities and communications	\$ 38,048	\$	23,790	60%	\$	19,965
Rent	30,088		31,546	(5)%		38,550
Office supplies	18,562		31,139	(40)%		14,418
Depreciation	17,910		10,243	75%		14,051
Subscriptions and dues	15,542		24,034	(35)%		-
Fuel and vehicle maintenance	13,686		8,884	54%		-
Training	10,349		10,110	2%		14,572
Board member fees and expenses	8,922		591	1410%		-
Printing	2,778		206	1249%		-
Miscellaneous	12,976		22,393	(42)%		80,738
Bad debt expense	-		2,570	(100)%		-
<b>Total expenses</b>	<b>\$ 168,861</b>	<b>\$</b>	<b>165,506</b>	<b>2%</b>	<b>\$</b>	<b>182,294</b>

Despite the increase in responsibilities due to the SBDC-OCIT merger in 2017, and MIVA-OCIT merger in 2018, OCIT management was able to accomplish results and targets with the achievement of several key objectives especially in assisting SMEs to access capital financing from lending institutions for business startups and expansion of existing businesses. With OCIT's engagement with additional professional services, the expenditures increased, resulting in operating deficit of \$20,780.

### Capital Assets

Capital assets for OCIT in 2019 were \$69,655, compared to \$62,900 in 2018, which is an 11% increase from prior year due to new additions in terms of acquisition of office equipment and furniture and fixtures.

Below is a summary of OCIT's investment in capital assets as of 30 September, 2019, 2018 and 2017:

	<u>2019</u>		<u>2018</u>	%		<u>2017</u>
				Change		
				2019-2018		
Motor vehicles	\$ 32,350	\$	32,350	0%	\$	27,000
Furniture and fixtures	73,797		49,132	50%		14,043
	106,147		81,482	30%		41,043
Less accumulated depreciation	(36,492)		(18,582)	96%		(25,439)
	<b>\$ 69,655</b>	<b>\$</b>	<b>62,900</b>	<b>11%</b>	<b>\$</b>	<b>15,604</b>

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Years Ended September 30, 2019 and 2018

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

**Additional Financial Information**

This discussion and analysis is designed to provide an overview of OCIT'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, Investment and Tourism at 625-4624 or in writing to P. O. Box 898, Majuro, Marshall Islands 96960

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

Statements of Net Position  
September 30, 2019 and 2018

<u>ASSETS</u>	<u>2019</u>	<u>2018</u>
Current assets:		
Cash	\$ 75,640	\$ 84,396
Receivables:		
Hotel taxes	13,378	29,463
Other	18,183	12,166
	<u>31,561</u>	<u>41,629</u>
Less allowance for doubtful accounts	(5,005)	(5,005)
Total receivables, net	<u>26,556</u>	<u>36,624</u>
Prepayment	5,088	-
Total current assets	<u>107,284</u>	<u>121,020</u>
Capital assets, net	69,655	62,900
	<u>\$ 176,939</u>	<u>\$ 183,920</u>
<u>LIABILITIES AND NET POSITION</u>		
Liabilities:		
Payable to affiliate	\$ 45,072	\$ 70,185
Other liabilities and accrual	73,034	34,122
Total liabilities	<u>118,106</u>	<u>104,307</u>
Net position:		
Net investment in capital assets	69,655	62,900
Unrestricted	(10,822)	16,713
Total net position	<u>58,833</u>	<u>79,613</u>
	<u>\$ 176,939</u>	<u>\$ 183,920</u>

See accompanying notes to financial statements.

**REPUBLIC OF THE MARSHALL ISLANDS**  
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Statements of Revenues, Expenses, and Changes in Net Position  
Years Ended September 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Operating revenues:		
Nitijela appropriation	\$ 835,000	\$ 920,994
Contributions	58,369	-
Hotel taxes	13,378	10,630
Other	861	6,129
Total operating revenues	<u>907,608</u>	<u>937,753</u>
Bad debt expense	<u>-</u>	<u>(2,570)</u>
Net operating revenues	<u>907,608</u>	<u>935,183</u>
Operating expenses:		
Salaries, wages and employee benefits	455,471	474,687
Professional/contractual fees	156,831	79,350
Advertising	99,908	41,795
Travel and per diem	47,317	122,078
Utilities and communications	38,048	23,790
Rent	30,088	31,546
Office supplies	18,562	31,139
Depreciation	17,910	10,243
Subscriptions and dues	15,542	24,034
Fuel and vehicle maintenance	13,686	8,884
Training	10,349	10,110
Board member fees and expenses	8,922	591
Printing	2,778	206
Miscellaneous	12,976	22,393
Total operating expenses	<u>928,388</u>	<u>880,846</u>
Change in net position	<u>(20,780)</u>	<u>54,337</u>
Net position at beginning of year, as previously reported	79,613	22,193
Government merger (note 6)	<u>-</u>	<u>3,083</u>
Net position at beginning of year, as restated	<u>79,613</u>	<u>25,276</u>
Net position at end of year	<u>\$ 58,833</u>	<u>\$ 79,613</u>

See accompanying notes to financial statements.

**REPUBLIC OF THE MARSHALL ISLANDS**  
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Statements of Cash Flows  
Years Ended September 30, 2019 and 2018

	2019	2018
Cash flows from operating activities:		
Operating grants received	\$ 893,369	\$ 920,994
Other cash received from customers	24,307	14,189
Cash payments to suppliers for goods and services	(460,635)	(363,555)
Cash payments to employees for services	(441,132)	(459,378)
Net cash provided by operating activities	15,909	112,250
Cash flows from noncapital financing activities:		
Contributions from government merger	-	3,083
Cash flows from capital and related financing activities:		
Acquisition of capital assets	(24,665)	(67,439)
Proceeds from disposal of capital assets	-	8,000
Net cash used for capital and related financing activities	(24,665)	(59,439)
Net change in cash	(8,756)	55,894
Cash at beginning of year	84,396	28,502
Cash at end of year	\$ 75,640	\$ 84,396
Reconciliation of change in net position to net cash provided by operating activities:		
Change in net position	\$ (20,780)	\$ 54,337
Adjustments to reconcile change in net position to net cash provided by operating activities:		
Depreciation	17,910	10,243
Loss on disposal of capital assets	-	1,900
Bad debt expense	-	2,570
Decrease (increase) in assets:		
Hotel taxes	16,085	(29,463)
Other receivables	(6,017)	(6,231)
Prepayment	(5,088)	-
Increase (decrease) in liabilities:		
Other liabilities and accrual	38,912	34,122
Payable to affiliates	(25,113)	44,772
Net cash provided by operating activities	\$ 15,909	\$ 112,250
Summary disclosure of noncash capital and related financing activities:		
Capital asset trade-in:		
Additions to capital assets	\$ -	\$ 8,000
Disposal of capital assets	-	(9,900)
Loss on trade-in	-	1,900
	\$ -	\$ -

See accompanying notes to financial statements.

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Notes to Financial Statements  
September 30, 2019 and 2018

(1) Organization

The Republic of the Marshall Islands Office of Commerce, Investment and Tourism (OCIT), a component unit of the Republic of the Marshall Islands (RepMar) and formerly known as the Republic of the Marshall Islands Office of Commerce and Investment (OCI), was established pursuant to the Office of Commerce, Investment and Tourism (Amendment) Act 2018 (Public Law No. 2018-57), which amended the OCI Act of 2013 (Public Law 2013-21). OCI began operations as a statutory corporation on November 25, 2013 upon receiving its first operational budget. The objectives of OCI were 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 RepMar Cabinet directs, on such terms and conditions as were agreed to between OCI and the RepMar Cabinet; provided, however, in all decisions of the Board or the RepMar Cabinet, the protection of existing enterprises shall be given highest consideration. OCI was primarily funded through operational appropriations from the Nitijela (the RepMar Legislature).

In accordance with Cabinet Minute 212 (2016), the RepMar Cabinet approved the merger of the Small Business Development Center (SBDC) within RepMar's Ministry of Resources and Development with OCI to streamline the processes and procedures of establishing Small and Medium Enterprise (SME) and to stimulate economic growth in the country to be effective by January 2017.

In accordance with Cabinet Minute 017 (2018), the RepMar Cabinet approved the merger of the Marshall Islands Visitor's Authority (MIVA), a component unit of the Republic of the Marshall Islands, with OCI to streamline initiatives and functions of organizations towards the development of tourism industry and to stimulate economic growth. Subsequently, the Nitijela enacted Public Law 2018-57, which amended certain provisions of Public Law 2013-21, repealed the MIVA Act of 1997, and approved the merger of MIVA and OCI effective March 15, 2018.

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

OCIT'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*, as amended by GASB Statement No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus*, GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, and GASB Statement No. 61, *The Financial Reporting Entity: Omnibus - an amendment of GASB Statements No. 14 and 34*, 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.

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Notes to Financial Statements  
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(2) Summary of Significant Accounting Policies, Continued

To conform to these requirements, 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.

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. OCIT considers Nitijela appropriations and operational grants and costs that are directly related to OCIT'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, OCIT'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. OCIT does not have a deposit policy for custodial credit risk.

For purposes of the statements of net position and of cash flows, cash is defined as cash on hand and cash held in demand deposits. As of September 30, 2019 and 2018, the carrying amount of cash was \$75,640 and \$84,396, respectively, and the corresponding bank balances were \$91,200 and \$108,558, respectively. Of the bank balances, \$67,568 and \$14,567, respectively were maintained in a financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance. The remaining amounts of \$23,632 and \$93,991, respectively, were maintained in a financial institution not subject to depository insurance. OCIT does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized. Accordingly, these deposits are exposed to custodial credit risk.

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Notes to Financial Statements  
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(2) Summary of Significant Accounting Policies, Continued

Receivables

All receivables are due from government agencies, businesses and individuals located within the Republic of the Marshall Islands and are interest free and uncollateralized. The allowance for doubtful accounts is stated at an amount which management believes will be adequate to absorb possible losses on receivables that may become uncollectible based on evaluations of the collectability of these receivables and prior collection experience. The allowance is established through a provision for losses on receivables charged to expense.

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 OCIT 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. OCIT has no items that qualify for reporting in this category.

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, 2019 and 2018, accumulated vacation leave liability was \$23,781 and \$7,499, respectively.

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. OCIT has no items that qualify for reporting in this category.

Taxes

Corporate profits are not subject to income tax in RepMar. The Government of RepMar imposes a gross receipts tax of 3% on revenues. OCIT 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.

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Notes to Financial Statements  
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(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards

During the year ended September 30, 2019, OCIT implemented the following pronouncements:

- GASB Statement No. 83, *Certain Asset Retirement Obligations*, which addresses accounting and financial reporting for certain asset retirement obligations (AROs) associated with the retirement of a tangible capital asset.
- GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, which improves the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements.

The implementation of these statements did not have a material effect on OCIT's financial statements.

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

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

In June 2018, GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, which requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. The provisions in Statement No. 89 are effective for fiscal years beginning after December 15, 2019. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In August 2018, GASB issued Statement No. 90, *Majority Equity Interests - an Amendment of GASB Statements No. 14 and No. 61*, which improves the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and the relevance of financial statement information for certain component units. The provisions in Statement No. 90 are effective for fiscal years beginning after December 15, 2018. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In May 2019, GASB issued Statement No. 91, *Conduit Debt Obligations*, which clarifies the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures. The provisions in Statement No. 91 are effective for fiscal years beginning after December 15, 2020. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

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Notes to Financial Statements  
September 30, 2019 and 2018

(2) Summary of Significant Accounting Policies, Continued

Risk Management

OCIT 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. OCIT 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 in any of the past three years.

Reclassifications

Certain balances in the 2018 financial statements have been reclassified to conform to the 2019 presentation. These reclassifications had no impact on operating income, net position or cash flows as previously reported.

(3) Capital Assets

Capital asset activity for the years ended September 30, 2019 and 2018 is as follows:

	<u>2019</u>			
	<u>October 1,</u> <u>2018</u>	<u>Additions</u> <u>and Transfers</u>	<u>Retirements</u>	<u>September 30,</u> <u>2019</u>
Motor vehicles	\$ 32,350	\$ -	\$ -	\$ 32,350
Furniture and fixtures	<u>49,132</u>	<u>24,665</u>	<u>-</u>	<u>73,797</u>
Less accumulated depreciation	81,482 <u>(18,582)</u>	24,665 <u>(17,910)</u>	- <u>-</u>	106,147 <u>(36,492)</u>
	<u>\$ 62,900</u>	<u>\$ 6,755</u>	<u>\$ -</u>	<u>\$ 69,655</u>
	<u>2018</u>			
	<u>October 1,</u> <u>2017</u>	<u>Additions</u> <u>and Transfers</u>	<u>Retirements</u>	<u>September 30,</u> <u>2018</u>
Motor vehicles	\$ 27,000	\$ 32,350	\$ (27,000)	\$ 32,350
Furniture and fixtures	<u>14,043</u>	<u>35,089</u>	<u>-</u>	<u>49,132</u>
Less accumulated depreciation	41,043 <u>(25,439)</u>	67,439 <u>(10,243)</u>	(27,000) <u>17,100</u>	81,482 <u>(18,582)</u>
	<u>\$ 15,604</u>	<u>\$ 57,196</u>	<u>\$ (9,900)</u>	<u>\$ 62,900</u>

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September 30, 2019 and 2018

(4) Related Party Transactions

OCIT is a component unit of RepMar and is thus affiliated with all RepMar-owned and affiliated entities, including the Marshalls Energy Company, Inc. (MEC) and the Marshall Islands Development Bank (MIDB). OCIT utilizes services from certain affiliated entities at substantially the same terms and conditions as those incurred from third parties. A summary of related party balances and transactions as of and for the years ended September 30, 2019 and 2018 is as follows:

	2019	
	<u>Expenses</u>	<u>Payables</u>
Marshall Islands Social Security Administration	\$ 39,240	\$ 22,470
Marshall Islands National Telecommunications Authority	36,318	3,820
Majuro Resort, Inc.	24,518	3,951
Marshalls Energy Company, Inc.	8,400	-
RMI Ports Authority	1,600	-
National Training Council	-	7,913
RepMar	-	5,063
Others	-	<u>1,855</u>
	<u>\$ 110,076</u>	<u>\$ 45,072</u>
	2018	
	<u>Expenses</u>	<u>Payables</u>
Marshall Islands Social Security Administration	\$ 35,053	\$ 27,607
Marshall Islands National Telecommunications Authority	23,790	-
Marshalls Energy Company, Inc.	7,021	-
RMI Ports Authority	1,560	-
National Training Council	-	7,913
RepMar	-	32,810
Others	-	<u>1,855</u>
	<u>\$ 67,424</u>	<u>\$ 70,185</u>

During the years ended September 30, 2019 and 2018, the operations of OCIT were funded by \$835,000 and \$920,994, respectively, of appropriations, from the Nitijela of RepMar. During the year ended September 30, 2019, OCIT also received contributions of \$28,500 from RepMar-owned and affiliated entities to fund the Miss Marshall Islands Pageant.

RepMar levies a Hotel and Resort Facilities tax of 8% of the daily room rate on hotels and resort facilities in the Marshall Islands, of which 1/8 is dedicated for OCIT. The tax is collected by RepMar on a monthly basis. During the years ended September 30, 2019 and 2018, OCIT recognized hotel tax revenues of \$13,378 and \$10,630, respectively. As of September 30, 2019 and 2018, hotel taxes receivable from RepMar amounted to \$13,378 and \$29,463, respectively.

OCIT occupies certain office space owned by MEC and RMI Ports Authority with monthly rent expense of \$700 and \$130, respectively, inclusive of all utilities and maintenance costs.

OCIT has entered into two office leases with MIDB for a two year term commencing September 1, 2014 and a five year term commencing February 25, 2017. On August 23, 2018, OCIT extended the two year term lease for an additional two years commencing September 1, 2018. Annual rent payments on these two leases are \$20,088.

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Notes to Financial Statements  
September 30, 2019 and 2018

(5) Contingency

OCIT 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 OCIT's programs and activities. For the year ended September 30, 2020, RepMar appropriated \$800,000 for the purpose of funding OCIT's programs and activities.

(6) Government Merger

OCIT began operations on October 1, 2017, and was formed from the merger of OCI and MIVA to take advantage of streamlined initiatives and functions of organizations towards the development of the tourism industry and to stimulate economic growth. The merger was approved by the RepMar Cabinet pursuant to Cabinet Minute 017 (2018) and as enacted by Public Law 2018-57. The initial opening balances of OCIT's assets, liabilities, and net position, as of the beginning of the year were determined on the basis of the carrying values reported in the separate financial statements of OCI and MIVA as of September 30, 2017, which resulted in the restatement of beginning net position as of September 30, 2017 in the amount of \$3,083 as follows:

	<u>OCI</u>	<u>MIVA</u>	<u>Total</u>
Assets:			
Current assets	\$ 32,002	\$ 110,958	\$ 142,960
Capital assets	<u>15,604</u>	<u>-</u>	<u>15,604</u>
Total assets	<u>47,606</u>	<u>110,958</u>	<u>158,564</u>
Liabilities:			
Current liabilities	<u>25,413</u>	<u>107,875</u>	<u>133,288</u>
Net position:			
Net investment in capital assets	15,604	-	15,604
Unrestricted	<u>6,589</u>	<u>3,083</u>	<u>9,672</u>
Total net position	\$ <u>22,193</u>	\$ <u>3,083</u>	\$ <u>25,276</u>

**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  
Republic of the Marshall Islands  
Office of Commerce, Investment and Tourism:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Republic of the Marshall Islands Office of Commerce, Investment and Tourism (OCIT), a component unit of the Republic of the Marshall Islands, which comprise the statement of net position as of September 30, 2019, 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, 2020.

### **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered OCIT'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 OCIT's internal control. Accordingly, we do not express an opinion on the effectiveness of OCIT'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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **Compliance and Other Matters**

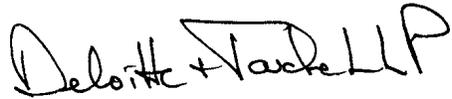
As part of obtaining reasonable assurance about whether OCIT's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect 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 2019-01.

## OCIT's Response to Findings

OCIT's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. OCIT'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 + Tuckers LLP". The signature is written in a cursive, stylized font.

January 23, 2020

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Schedule of Findings and Responses  
Year Ended September 30, 2019

Finding No. 2019-01

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 126.7 – award shall be made to the responsible offeror whose proposal is determined in writing to be the most advantageous to the Government taking into consideration price and the evaluation factors set forth in the Request for Proposals. No other factors or criteria shall be used in the evaluation. The contract file shall contain the basis on which the award is made.
- (d) 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: For the following items, supporting documentation was inadequate to evidence the procurement process:

Item #	Description	Check No.	Amount
1	Consultancy agreement for Miss Marshall Islands Pageant	various	\$57,094
2	Consultancy agreement for tourism development plan	various	29,159
3	Travel	TA 8/028 and 3784	12,797
4	Fuel	3244	1,577

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

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

Recommendation: We recommend management establish adequate internal control policies and procedures requiring compliance with RepMar’s Procurement Code. Specifically, documentation should indicate the history of procurement including rationale for contractor selection and documentation of sole provider.

Auditee Response and Corrective Action Plan: Management agrees with the finding identified in the audit. Management will make sure all future contracts go through the bidding process before OCIT engages with them. Finance and Administration division will take the lead in procuring daily needs of the office and maintaining all procurement documents in file. It will make sure that all transaction are authorized (PR/PO) before processing payments.

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Unresolved Prior Year Findings  
Year Ended September 30, 2019

There were no unresolved audit findings from prior year audits of OCIT.