

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

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

**FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT**

YEARS ENDED SEPTEMBER 30, 2020 AND 2019

**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, 2020 and 2019

Table of Contents

	<u>Page No.</u>
I. INDEPENDENT AUDITORS' REPORT	1
II. MANAGEMENT'S DISCUSSION AND ANALYSIS	3
III. FINANCIAL STATEMENTS:	
Statements of Net Position	7
Statements of Revenues, Expenses and Changes in Net Position	8
Statements of Cash Flows	9
Notes to Financial Statements	10
IV. INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH LAWS AND REGULATIONS	
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 <i>Government Auditing Standards</i>	18
Unresolved Prior Year Findings	20

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, 2020 and 2019, 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, 2020 and 2019, 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.

Emphasis-of-Matter

COVID-19

As discussed in Note 7 to the financial statements, OCIT has determined that the COVID-19 pandemic may negatively impact its business, results of operations and net position. OCIT is unable to reasonably estimate its ultimate financial impact. Our opinion is not modified with respect to this matter.

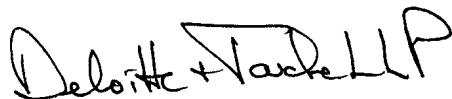
Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 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 May 12, 2021, 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.

A handwritten signature in black ink that reads "Deloitte & Touche LLP". The signature is fluid and cursive, with "Deloitte" on the top line and "& Touche LLP" on the bottom line.

May 12, 2021

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

**Management's Discussion and Analysis
Years Ended September 30, 2020 and 2019**

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, 2020. 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.

Statement of Net Position Analysis:

OCIT has been in operation for over six 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 OCIT's Statements of Net Position at September 30, 2020 compared with 2019 and 2018 is presented below:

**Summary Statements of Net Position
As of September 30**

	2020	2019	\$ Change 2020-2019	% Change 2020-2019	2018
Assets:					
Current and other assets	\$ 103,339	\$ 107,284	\$ (3,945)	(3.7)%	\$ 121,020
Capital assets	99,352	69,655	29,697	42.6%	62,900
Total assets	202,691	176,939	25,752	14.6%	183,920
Liabilities:					
Current and other liabilities	91,082	118,106	(27,024)	(22.9)%	104,307
Net position:					
Net investment in capital assets	99,352	69,655	29,697	42.6%	62,900
Unrestricted	12,257	(10,822)	23,079	(213.3)%	16,713
Total net position	\$ 111,609	\$ 58,833	\$ 52,776	89.7%	\$ 79,613

Net investment in capital assets increased from \$69,655 to \$99,352, which is a 43% increase from prior year due to capital improvements to the Natural Resources and Commerce (NRC) building, and additional equipment needed for office operations. Current and other assets decreased due to the collection of prior year's hotel taxes receivable from RepMar. Decrease in liabilities by 23% is due to the timely payments to local vendors in FY20 and settlement of liabilities to the Miss Marshall Islands pageant organizer incurred in the prior year.

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

Management's Discussion and Analysis
Years Ended September 30, 2020 and 2019

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

For the year ended September 30, 2020, OCIT incurred an operating surplus of \$52,776, a 354% increase from prior year, resulting in a net position of \$111,609 at year end (90% increase). This was due primarily to the decrease in operating expenses. The decrease in operating expenses is primarily due to a decrease in professional/contractual fees (58%) due to the consultancy fees and a decrease in advertising expense (60%) relating to the first Miss Marshall Islands Pageant held in 2019. On the other hand, travel expenses increased primarily due to expenses incurred for Miss Pacific Islands delegation in Papua New Guinea last November 2019. A summary of OCIT's Statements of Revenues, Expenses and Changes in Net Position for the year ended September 30, 2020 compared with 2019 and 2018 is presented below:

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

	2020	2019	\$ Change 2020-2019	% Change 2020-2019	2018
Operating revenues:					
Nitijela appropriation	\$ 793,600	\$ 828,600	\$ (35,000)	(4.2)%	\$ 920,994
Contributions and other	30,537	59,230	(28,693)	(48.4)%	3,559
Hotel tax	<u>17,465</u>	<u>13,378</u>	<u>4,087</u>	30.6%	<u>10,630</u>
Total revenues	<u>841,602</u>	<u>901,208</u>	<u>(59,606)</u>	(6.6)%	<u>935,183</u>
Operating expenses:					
Salaries, wages and benefits	461,314	455,471	5,843	1.3%	474,687
Professional/contractual fees	62,868	150,431	(87,563)	(58.2)%	79,350
Travel and per diem	74,081	47,317	26,764	56.6%	122,078
Advertising	39,915	99,908	(59,993)	(60.0)%	41,795
Other expenses	<u>150,648</u>	<u>168,861</u>	<u>(18,213)</u>	(10.8)%	<u>166,019</u>
	<u>788,826</u>	<u>921,988</u>	<u>(133,162)</u>	(14.4)%	<u>883,929</u>
Change in net position	<u>\$ 52,776</u>	<u>\$ (20,780)</u>	<u>\$ 73,556</u>	(354.0)%	<u>\$ 51,254</u>

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

Summary Schedule of Other Expenses
Years Ended September 30

	2020	2019	\$ Change 2020-2019	% Change 2020-2019	2018
Other expenses:					
Utilities and communications	\$ 34,635	\$ 38,048	\$ (3,413)	(9.0)%	\$ 23,790
Rent	20,868	30,088	(9,220)	(30.6)%	31,546
Depreciation	20,217	17,910	2,307	12.9%	10,243
Office supplies	15,925	18,562	(2,637)	(14.2)%	31,139
Subscriptions and dues	14,652	15,542	(890)	(5.7)%	24,034
Training	9,177	10,349	(1,172)	(11.3)%	10,110
Miscellaneous	<u>35,174</u>	<u>38,362</u>	<u>(3,188)</u>	(8.3)%	<u>35,157</u>
	<u>\$ 150,648</u>	<u>\$ 168,861</u>	<u>\$ (18,213)</u>	(10.8)%	<u>\$ 166,019</u>

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

Management's Discussion and Analysis
Years Ended September 30, 2020 and 2019

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.

Management's Discussion and Analysis for the year ended September 30, 2019 is set forth in OCIT's report on the audit of the financial statements, which is dated January 23, 2020. That Discussion and Analysis explains the major factors impacting the 2019 financial statements and can be obtained from the OCIT's Chief Executive Officer at the contact information provided below.

Capital Assets and Debt

Capital assets for OCIT in 2020 were \$99,352, compared to \$69,655 in 2019, which is a 43% increase from prior year due to additional furniture and fixtures and leasehold improvements for new office space in the NRC building.

A summary of OCIT's capital assets at September 30, 2020 compared with 2019 and 2018 is presented below:

	2020	2019	\$ Change 2020-2019	% Change 2020-2019	2018
Depreciable capital assets:					
Motor vehicles	\$ 32,350	\$ 32,350	\$ -	0.0%	\$ 32,350
Leasehold improvements	36,753	-	36,753		-
Furnitures and fixtures	86,958	73,797	13,161	17.8%	49,132
	156,061	106,147	49,914	47.0%	81,482
Accumulated depreciation	(56,709)	(36,492)	(20,217)	55.4%	(18,582)
	<u>\$ 99,352</u>	<u>\$ 69,655</u>	<u>\$ 29,697</u>	<u>42.6%</u>	<u>\$ 62,900</u>

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

OCIT did not incur long-term debt activity during the period.

External Factors and Current Economic Outlook

Akin to other Ministries and agencies of and within the Republic of the Marshall Islands (RMI), the Coronavirus Pandemic did affect the Office of Commerce, Investment and Tourism services. It must be noted, though, that Fiscal Year 2020 budget allocation was not affected; however, the budget allocation for FY2021 underwent an across-the-board budget cut of 7%, due mainly to poor outlook on RMI General Fund revenues that was forecasted to drop from \$79.2 million in FY2020 to \$65.6 million in FY2021.

In terms of services, for the earlier part of FY2020 and before travel restrictions, OCIT was able to participate in international conferences, promotional activities and training, almost exhausting its international travel budget. Since then, all international travel has been placed on hold, causing a significant decrease in the related expense. As well, all national training previously planned and scheduled, has been re-strategized to take into account the COVID-19 preparation and safety measures enforced.

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

**Management's Discussion and Analysis
Years Ended September 30, 2020 and 2019**

In addition, the RMI received the most number of visitors in the year 2019 with a total of 10,771 arrivals overtaking previous years that hovered around 8,000-9,000 on average. This resulted in an increase in OCIT's share of the Hotel Tax revenue received at the end of FY2020, amounting to \$17,465 (an increase of 31% from previous year's \$13,378) and the most received over the fiscal years since the enactment of the Hotel Tax. This is one of the core areas that the COVID-19 Coronavirus Pandemic will have on OCIT's services and finances. From 2015 to 2019, the number of visitors to the RMI averaged from 800 to 1,000 per month. However, with the global COVID-19 Coronavirus Pandemic, the RMI experienced no visitors since April 2020 with the closing of the RMI borders to international travelers. As well, all potential investment visits planned were indefinitely placed on hold. There were two potential investors whom had confirmed establishing businesses in the RMI in FY2020, but postponed all plans until borders are re-opened and travel is safe. There is still interest in future potential investment projects as inquiries continue to be addressed by the Investment Promotion Unit.

Furthermore, a shift in policy from targeting international visitors to targeting domestic residents and prioritizing nearby island developments as a result of the COVID-19 Coronavirus Pandemic compelled OCIT to re-focus and re-strategize the direction of efforts and resources. Over FY2020, the development of a booklet promoting available tour operators and activities was compiled to help promote services for the local market. As well, more domestic travel was carried out in support of the new directive in promoting and developing nearby islands.

OCIT has seconded one of its staff from the Investment Support Services to assist in the Pandemic COVID-19 Economic Relief (PCERP) Technical Group and also sits as one of the Committee members in evaluating and determining relief assistance to private businesses that are affected by the COVID-19 Coronavirus Pandemic.

The COVID-19 Coronavirus Pandemic has provided us with the opportunity to focus and prioritize development of our own domestic existing and potential investments. In this way, we not only polish our services, but more importantly, have identified sustainable activities that can be mutually beneficial to the RMI Government and the private sector.

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, 2020 and 2019

	<u>ASSETS</u>	<u>2020</u>	<u>2019</u>
Current assets:			
Cash	\$ 93,187	\$ 75,640	
Receivables:			
Hotel taxes	-	13,378	
Affiliates	9,000	-	
Other	<u>13,708</u>	<u>18,183</u>	
	22,708	31,561	
Less allowance for doubtful accounts	<u>(12,556)</u>	<u>(5,005)</u>	
Total receivables, net	<u>10,152</u>	<u>26,556</u>	
Prepayment	-	5,088	
Total current assets	103,339	107,284	
Capital assets, net	<u>99,352</u>	<u>69,655</u>	
	<u>\$ 202,691</u>	<u>\$ 176,939</u>	

LIABILITIES AND NET POSITION

Liabilities:			
Payable to affiliates	\$ 35,696	\$ 45,072	
Other liabilities and accruals	<u>55,386</u>	<u>73,034</u>	
Total liabilities	<u>91,082</u>	<u>118,106</u>	
Net position:			
Net investment in capital assets	99,352	69,655	
Unrestricted	<u>12,257</u>	<u>(10,822)</u>	
Total net position	<u>111,609</u>	<u>58,833</u>	
	<u>\$ 202,691</u>	<u>\$ 176,939</u>	

See accompanying notes to financial statements.

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

Statements of Revenues, Expenses, and Changes in Net Position
Years Ended September 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Operating revenues:		
Nitijela appropriation	\$ 793,600	\$ 828,600
Contributions	27,724	58,369
Hotel taxes	17,465	13,378
Other	2,813	861
Total operating revenues	841,602	901,208
Operating expenses:		
Salaries, wages and employee benefits	461,314	455,471
Travel and per diem	74,081	47,317
Professional/contractual fees	62,868	150,431
Advertising	39,915	99,908
Utilities and communications	34,635	38,048
Rent	20,868	30,088
Depreciation	20,217	17,910
Office supplies	15,925	18,562
Subscriptions and dues	14,652	15,542
Training	9,177	10,349
Fuel and vehicle maintenance	7,825	13,686
Bad debts	7,551	-
Board member fees and expenses	7,550	8,922
Printing	4,299	2,778
Miscellaneous	7,949	12,976
Total operating expenses	788,826	921,988
Change in net position	52,776	(20,780)
Net position at beginning of year	58,833	79,613
Net position at end of year	\$ 111,609	\$ 58,833

See accompanying notes to financial statements.

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

Statements of Cash Flows
Years Ended September 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Cash flows from operating activities:		
Operating grants received	\$ 812,324	\$ 886,969
Other cash received from customers	47,131	24,307
Cash payments to suppliers for goods and services	(323,987)	(442,052)
Cash payments to employees for services	(468,007)	(453,315)
Net cash provided by operating activities	<u>67,461</u>	<u>15,909</u>
Cash flows from capital and related financing activities:		
Acquisition of capital assets	(49,914)	(24,665)
Net change in cash	<u>17,547</u>	<u>(8,756)</u>
Cash at beginning of year	<u>75,640</u>	<u>84,396</u>
Cash at end of year	<u>\$ 93,187</u>	<u>\$ 75,640</u>
Reconciliation of change in net position to net cash provided by operating activities:		
Change in net position	\$ 52,776	\$ (20,780)
Adjustments to reconcile change in net position to net cash provided by operating activities:		
Depreciation	20,217	17,910
Bad debts	7,551	-
Decrease (increase) in assets:		
Receivables:		
Hotel taxes	13,378	16,085
Affiliates	(9,000)	-
Other	4,475	(6,017)
Prepayment	5,088	(5,088)
Increase (decrease) in liabilities:		
Payable to affiliates	(9,376)	(25,113)
Other liabilities and accruals	(17,648)	38,912
Net cash provided by operating activities	<u>\$ 67,461</u>	<u>\$ 15,909</u>

See accompanying notes to financial statements.

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

Notes to Financial Statements
September 30, 2020 and 2019

(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. Furthermore, Cabinet Minute 017 (2018) 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

The accounting policies of OCIT conform to accounting principles generally accepted in the United States of America (GAAP), as applicable to governmental entities, specifically proprietary funds.

GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, 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. 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.

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

Notes to Financial Statements
September 30, 2020 and 2019

(2) Summary of Significant Accounting Policies

- 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.

When both restricted and unrestricted resources are available for use for the same purpose, it is OCIT's policy to use unrestricted resources first, then restricted resources as they are needed.

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 that 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, 2020 and 2019, the carrying amount of cash was \$93,187 and \$75,640, respectively, and the corresponding bank balances were \$94,365 and \$91,200, respectively. Of the bank balances, \$91,624 and \$67,568, respectively were maintained in a financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance. The remaining amounts of \$2,741 and \$23,632, 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.

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.

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

Notes to Financial Statements
September 30, 2020 and 2019

(2) Summary of Significant Accounting Policies, Continued

Deferred Outflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (deduction of net position) until then. 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, 2020 and 2019, the accumulated vacation leave liability was \$24,762 and \$23,781, 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.

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.

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 reclassifications have been made to the 2019 financial statements to conform to the 2020 presentation. These classifications had no impact on change in net position, net position or cash flows as previously reported.

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

Notes to Financial Statements
September 30, 2020 and 2019

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards

During the year ended September 30, 2020, GASB issued Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, which postpones the effective dates of GASB Statement No. 84, 89, 90, 91, 92 and 93 by one year and GASB Statement No. 87 by 18 months; however, earlier application of the provisions addressed in GASB Statement No. 95 is encouraged and is permitted to the extent specified in each pronouncement as originally issued. In accordance with GASB Statement No. 95, management has elected to postpone implementation of these statements.

In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*. This Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The requirements of this Statement will enhance consistency and comparability by (1) establishing specific criteria for identifying activities that should be reported as fiduciary activities and (2) clarifying whether and how business-type activities should report their fiduciary activities. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 84 will be effective for fiscal year ending September 30, 2021.

In June 2017, GASB issued Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and as inflows of resources or outflows of resources recognized based on the payment provisions of the contract. Management believes that this statement, upon implementation, will have a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 87 will be effective for fiscal year ending September 30, 2022.

In June 2018, GASB issued Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 89 will be effective for fiscal year ending September 30, 2022.

In March 2018, GASB issued Statement No. 90, *Majority Equity Interests - An Amendment of GASB Statements No. 14 and 61*. The primary objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 90 will be effective for fiscal year ending September 30, 2021.

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

Notes to Financial Statements
September 30, 2020 and 2019

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In May 2019, GASB issued Statement No. 91, *Conduit Debt Obligations*. The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying 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. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 91 will be effective for fiscal year ending September 30, 2023.

In January 2020, GASB issued statement No. 92, *Omnibus 2020*. The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics and includes specific provisions about the effective date of Statement No. 87, *Leases*, and Implementation Guide No. 2019-3, *Leases*, for interim financial reports, the terminology used to refer to derivative instruments and the applicability of certain requirements of Statement No. 84, *Fiduciary Activities*, to postemployment benefits. The requirements related to the effective date of GASB Statement No. 87 and Implementation Guide 2019-3, reissuance recoveries and terminology used to refer to derivative instruments are effective upon issuance. In accordance with GASB Statement No. 95, the remaining requirements of GASB Statement No. 92 is effective for the fiscal year ending September 30, 2022.

In March 2020, GASB issued Statement No. 93, *Replacement of Interbank Offered Rates*. The primary objective of this statement is to address those and other accounting and financial reporting implications of the replacement of an IBOR. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. Except for paragraphs 11b, 13, and 14, GASB Statement No. 93 will be effective for fiscal year ending September 30, 2021. The requirement in paragraphs 11b, 13, and 14 are effective for fiscal year September 30, 2022.

In March 2020, GASB issued Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. The primary objective of this statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements. This statement also provides guidance for accounting and financial reporting for availability payment arrangements. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. GASB Statement No. 94 will be effective for fiscal year ending September 30, 2023.

In May 2020, GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements*. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset - an intangible asset - and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. GASB Statement No. 96 will be effective for fiscal year ending September 30, 2023.

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

Notes to Financial Statements
September 30, 2020 and 2019

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In June 2020, GASB issued Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans - an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32*. The primary objectives of this Statement are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans. GASB Statement No. 97 will be effective for fiscal year ending September 30, 2022.

(3) Capital Assets

Capital asset activity for the years ended September 30, 2020 and 2019 is as follows:

	<u>2020</u>		
	<u>October 1, 2019</u>	<u>Additions and Transfers</u>	<u>Retirements</u>
Motor vehicles	\$ 32,350	\$ -	\$ -
Leasehold improvements	-	36,753	-
Furniture and fixtures	<u>73,797</u>	<u>13,161</u>	<u>-</u>
	<u>106,147</u>	<u>49,914</u>	<u>-</u>
Less accumulated depreciation	<u>(36,492)</u>	<u>(20,217)</u>	<u>-</u>
	<u>\$ 69,655</u>	<u>\$ 29,697</u>	<u>\$ -</u>
			<u>\$ 99,352</u>
	<u>2019</u>		
	<u>October 1, 2018</u>	<u>Additions and Transfers</u>	<u>Retirements</u>
Motor vehicles	\$ 32,350	\$ -	\$ -
Furniture and fixtures	<u>49,132</u>	<u>24,665</u>	<u>-</u>
	<u>81,482</u>	<u>24,665</u>	<u>-</u>
Less accumulated depreciation	<u>(18,582)</u>	<u>(17,910)</u>	<u>-</u>
	<u>\$ 62,900</u>	<u>\$ 6,755</u>	<u>\$ -</u>
			<u>\$ 69,655</u>

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

Notes to Financial Statements
September 30, 2020 and 2019

(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, 2020 and 2019 is as follows:

	<u>2020</u>		
	<u>Expenses</u>	<u>Receivables</u>	<u>Payables</u>
Marshall Islands Social Security Administration	\$ 40,365	\$ -	\$ 23,369
Marshall Islands National Telecommunications Authority	32,388	9,000	7,346
Majuro Resort, Inc.	5,250	-	599
RMI Ports Authority	780	-	-
RepMar	-	-	<u>4,382</u>
	<u>\$ 78,783</u>	<u>\$ 9,000</u>	<u>\$ 35,696</u>
	<u>2019</u>		
	<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>

During the years ended September 30, 2020 and 2019, the operations of OCIT were funded by \$793,600 and \$828,600, respectively, of appropriations, from the Nitijela of RepMar.

During the years ended September 30, 2020 and 2019, OCIT received the following contributions from related party entities to fund OCIT programs and activities:

	<u>2020</u>	<u>2019</u>
Marshall Islands National Telecommunications Authority	\$ 11,000	\$ 10,000
Air Marshall Islands, Inc.	-	10,000
National Training Council	9,000	-
Marshall Islands Development Bank	-	5,000
College of the Marshall Islands	<u>1,000</u>	<u>3,500</u>
	<u>\$ 21,000</u>	<u>\$ 28,500</u>

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

Notes to Financial Statements
September 30, 2020 and 2019

(4) Related Party Transactions, Continued

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, 2020 and 2019, OCIT recognized hotel tax revenues of \$17,465 and \$13,378, respectively. As of September 30, 2020 and 2019, hotel taxes receivable from RepMar amounted to \$0 and \$13,378, respectively.

During the years ended September 30, 2020 and 2019, OCIT occupied certain office space owned by RMI Ports Authority with monthly rent expense of \$130, inclusive of utilities and maintenance costs. During the year ended September 30, 2019, OCIT occupied certain office space owned by MEC with monthly rent expense of \$700, inclusive of utilities and maintenance costs. In addition, OCIT occupies certain RepMar office space within the Ministry of Natural Resources and Commerce at no cost. The fair value of this contribution is presently not determinable. Accordingly, the contributed facility use has not been recognized as revenue and expense in the accompanying financial statements.

OCIT has entered into a two year and five year office lease with MIDB, commencing September 1, 2014 and February 25, 2017, respectively. 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.

(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, 2021, RepMar appropriated \$744,000 for the purpose of funding OCIT's programs and activities.

(6) Employee Retirement Plan

OCIT has implemented a defined contribution retirement savings plan (the Plan) for its employees who have completed at least three (3) months of service. Plan participants may contribute 5% up to 10% of their gross salaries to be matched 100% by OCIT. Withdrawal from the Plan occurs upon termination of employment, retirement at age 65, permanent disability or death. Plan assets are held in a trust fund administered by a trustee in accordance with the trust agreement. Management has the authority to establish or amend Plan provisions and contribution requirements. During the years ended September 30, 2020 and 2019, OCIT contributed \$10,854 and \$16,561, respectively, to Plan participant accounts. As of September 30, 2020 and 2019, total Plan assets were \$59,709 and \$32,359, respectively.

(7) COVID-19

On March 11, 2020, the World Health Organization declared the novel strain of coronavirus (COVID-19) a global pandemic and recommended the containment and mitigation measures worldwide. On October 28, 2020, one confirmed case was identified in the Marshall Islands that was subsequently isolated and contained. On November 17, 2020, an additional three cases were identified and which were isolated and contained. As of May 12, 2021, no community transmission has been identified. OCIT has determined that should community transmission occur within the Marshall Islands, it may negatively impact OCIT's business, results of operations, and financial position and OCIT may become dependent upon the financial support of RepMar. However, the effect of the pandemic on RepMar is also uncertain and future available funding to RepMar component units may be limited. Therefore, while OCIT expects this matter to potentially have a negative impact on its business, results of operations, and financial position, the related financial impact cannot be reasonably estimated at this time.

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, 2020, 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 May 12, 2021.

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) as a basis for designing 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.

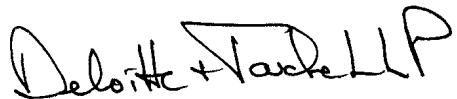
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not 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 financial statements. 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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 & Touche LLP". The signature is fluid and cursive, with "Deloitte" on the first line and "& Touche LLP" on the second line.

May 12, 2021

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

Unresolved Prior Year Findings
Year Ended September 30, 2020

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