

**MAJURO RESORT, INC.**  
**(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, 2020 AND 2019**

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

Years Ended September 30, 2020 and 2019  
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## INDEPENDENT AUDITORS' REPORT

Board of Directors  
Majuro Resort, Inc.:

### Report on the Financial Statements

We have audited the accompanying financial statements of Majuro Resort, Inc. (MRI), a component unit of the Republic of the Marshall Islands, which comprise the statements of net position as of September 30, 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 Majuro Resort, Inc. as of September 30, 2020 and 2019, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## ***Emphasis-of-Matters***

### *Going Concern*

The accompanying financial statements have been prepared assuming that MRI will continue as a going concern. As discussed in Note 6 to the financial statements, MRI's recurring losses from operations and continuing working capital deficiencies raise substantial doubt about its ability to continue as a going concern. Management's plans concerning these matters are also discussed in Note 6 to the financial statements. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

### *COVID-19*

As discussed in Note 7 to the financial statements, MRI determined that the COVID-19 pandemic may negatively impact its business, results of operations and net position. MRI is unable to reasonably estimate its ultimate financial impact.

Our opinion is not modified with respect to these matters.

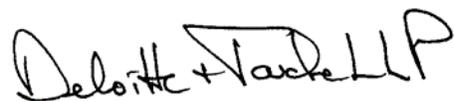
## ***Other Matters***

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 to 7 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

## ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 18, 2021, on our consideration of MRI's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of MRI's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering MRI's internal control over financial reporting and compliance.



October 18, 2021

**MAJURO RESORT, INC.**  
**(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 Majuro Resort, Inc. (MRI) annual financial report presents our discussion and analysis of MRI's financial performance for the fiscal year that ended on September 30, 2020. The discussion and analysis should be read in conjunction with the audited financial statements, which follow this section.

**Financial Highlights**

Total assets decreased by \$164,442 or 8% from \$2,077,431 in 2018 to \$1,912,989 in 2020. Even with the decreased in receivables by \$446,706 or 36% from \$1,253,367 in 2019 to \$806,661 in 2020, such was significantly offset by a decreased in the allowance for doubtful accounts by \$315,009 or 43% from \$731,521 in 2019 to \$416,512 in 2020. In addition, there was an increased in cash reserves by \$18,793 or 4% from \$448,007 in 2019 to \$466,800 in 2020 and an decreased in inventory by \$2,020 or 8% from \$26,056 in 2019 to \$24,036 in 2020. Total liabilities decreased by \$268,083 or 16% from \$1,665,497 in 2019 to \$1,397,414 in 2020, which resulted in an increased in net position by \$103,641 or 25% from \$411,934 in 2019 to \$515,575 in 2020.

Gross operating revenues for 2020 were \$3,533,622, which represented a decrease of \$929,442 or 21% compared to \$4,463,064 for 2019. Compared to FY2018, total operating revenues were lower by \$277,153 or 7%. Rooms revenue decreased by \$708,707 or 36% from \$1,956,353 for 2019 to \$1,247,646 for 2020 while food and beverage revenue decreased by \$214,743 or 9% from \$2,341,520 for 2019 to \$2,126,777 for 2020. Correspondingly, cost of sales for 2020 was \$2,096,223 which represented a decrease of \$316,347 or 13% compared to \$2,412,570 for 2019. Considering the recovery for bad debts of \$86,752, this resulted in a gross profit for 2020 of \$1,524,151 including management fee of \$35,931, which represented a decrease of \$209,311 or 12% compared to \$1,733,462 for 2019.

Operating expenses for 2020 were \$1,649,020, which represented a decrease of \$186,593 or 10% compared to \$1,835,613 for 2019. As a percentage of total revenues, operating expenses for 2020 were at 46%, an increase of 2% from 2019. The increase in operating expenses during the year was primarily attributable to the decrease in operating revenues.

**Financial Analysis**

The Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Position provide an indication of MRI's financial condition. MRI's net position reflects the difference between assets and liabilities. A summary of MRI's Statements of Net Position is presented below:

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

	2020	2019	\$ Change 2020-2019	% Change 2020-2019	2018
<b>Assets:</b>					
Current and other assets	\$ 910,492	\$ 1,028,090	\$ (117,598)	(11.4)%	\$ 828,240
Capital assets	1,002,497	1,049,341	(46,844)	(4.5)%	1,112,721
<b>Total assets</b>	<b>1,912,989</b>	<b>2,077,431</b>	<b>(164,442)</b>	<b>(7.9)%</b>	<b>1,940,961</b>
<b>Liabilities:</b>					
Current and other liabilities	1,397,414	1,665,497	(268,083)	(16.1)%	1,424,101
<b>Net position:</b>					
Net investment in capital assets	1,002,497	1,049,341	(46,844)	(4.5)%	1,112,721
Restricted	-	-	-	100.0%	45,649
Unrestricted	(486,922)	(637,407)	150,485	(23.6)%	(641,510)
<b>Total net position</b>	<b>\$ 515,575</b>	<b>\$ 411,934</b>	<b>\$ 103,641</b>	<b>25.2%</b>	<b>\$ 516,860</b>

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

Total assets decreased by \$164,442 from \$2,077,431 in 2019 to \$1,912,989 in 2020. On the other hand, total liabilities decreased by \$268,083 from \$1,665,497 in 2019 to \$1,397,414 in 2020. MRI's liabilities decreased due to a decreased in accrued expenses, payable to affiliates and accounts payable trade.

A summary of MRI's Statements of Revenues, Expenses, and Changes in Net Position 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:					
Operating revenues	\$ 3,620,374	\$ 4,146,032	\$ (525,658)	(12.7)%	\$ 4,031,012
Operating expenses	3,745,243	4,248,183	(502,940)	(11.8)%	3,972,046
Operating income (loss)	(124,869)	(102,151)	(22,718)	22.2%	58,966
Nonoperating:					
Nonoperating revenues	239,065	-	239,065		-
Nonoperating expenses	10,555	2,775	7,780	280.4%	9,237
	228,510	(2,775)	231,285	(8334.6)%	(9,237)
	103,641	(104,926)	208,567	(198.8)%	49,729
Capital contributions	-	-	-	100.0%	74,400
Change in net position	<u>\$ 103,641</u>	<u>\$ (104,926)</u>	<u>\$ 208,567</u>	(198.8)%	<u>\$ 124,129</u>

The Statements of Revenues, Expenses and Changes in Net Position identify various revenue and expense items that impact the change in net position. A summary of operating revenues follows:

	2020	2019	\$ Change 2020-2019	% Change 2020-2019	2018
Food and beverage	\$ 2,126,777	\$ 2,341,520	\$ (214,743)	(9.2)%	\$ 2,035,136
Room	1,247,646	1,956,353	(708,707)	(36.2)%	1,703,627
Management fee	35,931	46,330	(10,399)	(22.4)%	-
Telephone	147	566	(419)	(74.0)%	831
Other	123,121	118,295	4,826	4.1%	122,012
	3,533,622	4,463,064	(929,442)	(20.8)%	3,861,606
Bad debts (recovery)	(86,752)	317,032	(403,784)	(127.4)%	(169,406)
	<u>\$ 3,620,374</u>	<u>\$ 4,146,032</u>	<u>\$ (525,658)</u>	(12.7)%	<u>\$ 4,031,012</u>

Gross operating revenues for 2020 showed a decrease of \$929,442 from \$4,463,064 in 2019 to \$3,533,622 in 2020. Rooms revenue for 2020 decreased by \$708,707 or 36% from 2019 and decreased by \$455,981 or 27% from 2018. The occupancy ratio in 2020 decreased to 34.79% with a decrease in average room rate from \$71.14 in 2019 to \$68.22 in 2020. Food and beverage revenue for 2020 was \$2,126,777, which showed an increase of \$91,641 over 2018 and a decrease of \$214,743 over 2019. No additional capital subsidy was received from the government after the seawall project that had been completed in December 2018.

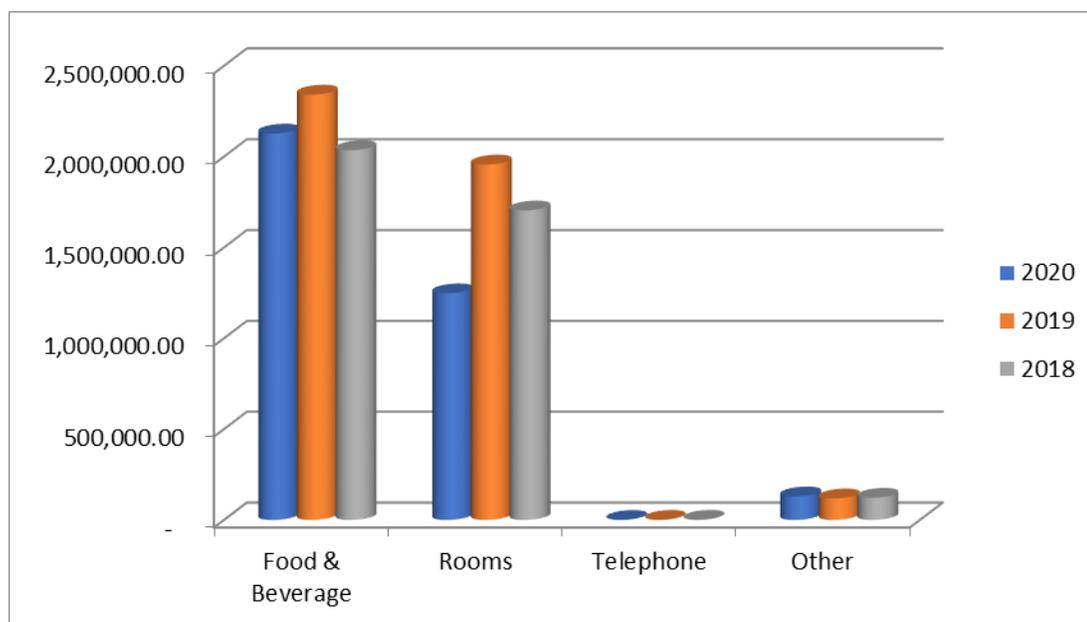
Management Discussion and Analysis for the year ended September 30, 2019 is set forth in the report on the audit of MRI's financial statements dated July 9, 2020. The Discussion and Analysis explains the major factors impacting the 2019 financial statements and may be obtained from the contact information below.

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

The following graph shows the major components of revenue for financial periods 2020, 2019 and 2018, all of which cover a twelve (12) month period ending September 30.

**Revenue Financial**



**Statement of Hotel Occupancy Performance**

The following table shows a comparison of financial and statistical information affecting the room revenue performance for the years 2020, 2019, 2018, 2017 and 2016.

Occupancy Performance	2020	2019	2018	2017	2016
% of total occupancy	34.79%	52.32%	50.78%	54.92%	53.45%
Average rate	\$ 68.22	\$ 71.14	\$ 63.91	\$ 60.53	\$ 62.63
% of paid occupancy	34.68%	52.15%	50.57%	54.77%	53.33%
Average rate	\$ 68.45	\$ 71.34	\$ 64.07	\$ 60.69	\$ 62.77

Paid occupancy ratio in 2020 was 34.68% as compared 52.15% in 2019 and 50.57% in 2018.

The hotel paid occupancy ratio for the current year has increased compared to last year while the average paid room rate for the current year has also increased by \$7.27.

**Operating Expenses**

Total operating expenses decreased by \$186,593 from \$1,835,613 in 2019 to \$1,649,020 in 2020 as a result of the decrease in general and administrative, utility and maintenance expense components. As a percentage of total revenues, operating expenses for 2020 represents 46% compared to 44% and 44% for 2019 and 2018, a decrease of 2%.

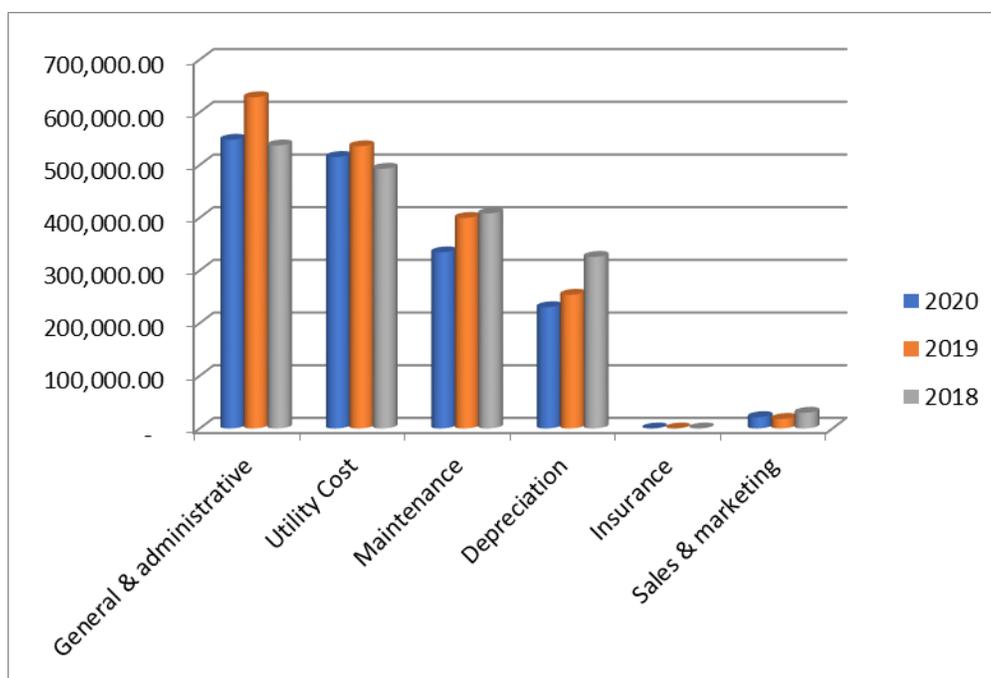
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Management's Discussion and Analysis  
 Years Ended September 30, 2020 and 2019

Utility costs showed a decrease of \$20,362 from \$535,535 in 2019 to \$515,173 in 2020. The decrease was primarily due to the decrease of customers occupying the room and the management manage to turn off all the air-condition in every room when it is necessary to save energy. General and administrative expenses showed a decrease of \$80,653 from \$628,602 in 2019 to \$547,949 in 2020. For general and administrative expense decrease due to the decrease on salaries, because of the COVID-19 management decided to cut the hours of some of the employees in other department like security. Other changes in operating expenses showed depreciation expense, which posted a decrease of \$23,582 while the maintenance costs decreased by \$65,349.

The following graph shows the major components of operating expenses for financial periods 2020, 2020 and 2019, all of which cover a twelve (12) month period ending September 30.

**Operating Expenses**



**Capital Assets and Debt**

Net capital assets decreased by \$46,844 primarily due to current year depreciation expense exceeding current year acquisitions. Capital asset acquisitions during the year ended September 30, 2020, included \$36,685 in furniture and fixtures purchases to replace damaged items due to wear and tear, \$74,612 for certain new vehicles. Purchase of new vehicles is intended to be used for hotel guests and a truck used for hauling water from the airport to the hotel. Due to lack of rain, the supply of water from MWSC is not enough for hotel needs.

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

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

	2020	2019	\$ Change 2020-2019	% Change 2020-2019	2018
Buildings and structures	\$ 2,912,342	\$ 2,912,342	\$ -	0.0%	\$ 2,798,116
Furniture and fixtures	1,879,337	1,842,652	36,685	2.0%	1,745,717
Office equipment	263,306	255,532	7,774	3.0%	252,942
Other equipment	114,425	114,425	-	0.0%	114,425
Motor vehicles	456,003	395,391	60,612	15.3%	333,257
	<u>5,625,413</u>	<u>5,520,342</u>	<u>105,071</u>	<u>1.9%</u>	<u>5,244,457</u>
Accumulated depreciation	<u>(4,694,673)</u>	<u>(4,472,705)</u>	<u>(221,968)</u>	<u>5.0%</u>	<u>(4,230,488)</u>
	930,740	1,047,637	(116,897)	(11.2)%	1,013,969
Construction in progress	<u>71,757</u>	<u>1,704</u>	<u>70,053</u>	<u>4111.1%</u>	<u>98,752</u>
	<u>\$ 1,002,497</u>	<u>\$ 1,049,341</u>	<u>\$ (46,844)</u>	<u>(4.5)%</u>	<u>\$ 1,112,721</u>

Non depreciable capital assets amounted to \$71,757, which pertain to the ongoing bar renovation as of September 30, 2020. For additional information concerning the capital assets, please see note 3 to the financial statements.

MRI did not incur any long-term debt during 2020 nor was any such debt due and outstanding at year end.

**Economic Factors and Next Year's Performance**

The following factors may have a great impact on next year's operations:

- 1.) The new bar is already finished and officially opened on October 2020. With fully air-conditioned room, karaoke and pool table to be used by the customers, the management are expecting more customers and will generate a much higher bar revenue.
- 2.) Since pandemic still continues, borders are not yet open and people are still scared to travel, no big events coming up for this fiscal year. In view of this the company just launched a room discount during the weekend to encourage more local customers to check in at the hotel, food and beverage department prepared an alternative marketing campaigns such as home food delivery, mass text for other services offered like laundry & cleaning services and improved the quality of customers services so customers will keep on patronizing MIR and at the same time to general more revenue.

**Additional Financial Information**

The discussion and analysis is designed to provide MRI's customers and other interested parties with an overview of MRI's financial operations and financial condition. Should the reader have questions regarding the information included in this report or wish to request additional financial information, please contact the Majuro Resort, Inc. General Manager at P.O. Box 3279, Majuro, MH 96960.

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Statements of Net Position  
September 30, 2020 and 2019

	2020	2019
<u>ASSETS</u>		
Current assets:		
Cash	\$ 466,800	\$ 448,007
Receivables:		
Trade	337,575	535,573
Affiliates	435,672	668,806
Other	33,414	48,988
	806,661	1,253,367
Less allowance for doubtful accounts	(416,512)	(731,521)
Total receivables, net	390,149	521,846
Inventories	24,036	26,056
Prepaid expenses	29,507	32,181
Total current assets	910,492	1,028,090
Capital assets:		
Nondepreciable capital assets	71,757	1,704
Other capital assets, net of accumulated depreciation	930,740	1,047,637
Total noncurrent assets	1,002,497	1,049,341
	\$ 1,912,989	\$ 2,077,431
<u>LIABILITIES AND NET POSITION</u>		
Current liabilities:		
Accounts payable	\$ 76,706	\$ 252,816
Payable to affiliates	714,908	804,856
Accrued taxes payable	488,319	486,660
Other accrued liabilities	117,481	121,165
Total current liabilities	1,397,414	1,665,497
Commitment and contingencies		
Net position:		
Net investment in capital assets	1,002,497	1,049,341
Unrestricted	(486,922)	(637,407)
Total net position	515,575	411,934
	\$ 1,912,989	\$ 2,077,431

See accompanying notes to financial statements.

**MAJURO RESORT, INC.**  
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Statements of Revenues, Expenses and Changes in Net Position  
Years Ended September 30, 2020 and 2019

	2020	2019
Hotel operations:		
Operating revenues:		
Food and beverage	\$ 2,126,777	\$ 2,341,520
Rooms	1,247,646	1,956,353
Telephone	147	566
Other	123,121	118,295
Total revenues	3,497,691	4,416,734
Recovery of (provision for) doubtful accounts	86,752	(317,032)
Net revenues	3,584,443	4,099,702
Cost of sales:		
Food and beverage	1,637,875	1,845,373
Rooms	431,350	513,766
Telephone	21,144	18,756
Other	5,854	34,675
Total cost of sales	2,096,223	2,412,570
Gross profit	1,488,220	1,687,132
Operating expenses:		
General and administrative	547,949	628,602
Utility costs	515,173	535,535
Maintenance	334,281	399,630
Depreciation	230,135	253,717
Sales and marketing	21,482	18,129
Total operating expenses	1,649,020	1,835,613
Operating loss from hotel operations	(160,800)	(148,481)
Nonhotel operations:		
Operating revenues:		
Management fee	35,931	46,330
Operating loss	(124,869)	(102,151)
Nonoperating revenues (expenses):		
Contributions from Repmar	239,065	-
Interest expense	(9,222)	(7,275)
Gain (loss) on sale of asset	(1,333)	4,500
Total nonoperating revenues (expenses), net	228,510	(2,775)
Change in net position	103,641	(104,926)
Net position at beginning of year	411,934	516,860
Net position at end of year	\$ 515,575	\$ 411,934

See accompanying notes to financial statements.

**MAJURO RESORT, INC.**  
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Statements of Cash Flows  
Years Ended September 30, 2020 and 2019

	2020	2019
Cash flows from operating activities:		
Cash received from customers	\$ 3,752,071	\$ 4,162,617
Cash payments to suppliers for goods and services	(2,254,092)	(2,427,857)
Cash payments to employees for services	(1,524,405)	(1,531,893)
Net cash (used in) provided by operating activities	(26,426)	202,867
Cash flows from noncapital financing activities:		
Contributions from RepMar	239,065	198,400
Interest paid	(9,222)	(7,275)
Net cash provided by noncapital financing activities	229,843	191,125
Cash flows from capital and related financing activities:		
Acquisition of capital assets	(189,124)	(190,337)
Proceeds from sale of capital assets	4,500	4,500
Net cash used for capital and related financing activities	(184,624)	(185,837)
Net change in cash	18,793	208,155
Cash at beginning of year	448,007	239,852
Cash at end of year	\$ 466,800	\$ 448,007
Reconciliation of operating loss to net cash (used in) provided by operating activities:		
Operating loss	\$ (124,869)	\$ (102,151)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities:		
Depreciation	230,135	253,717
Provision for (recovery of) doubtful accounts	(86,752)	317,032
(Increase) decrease in assets:		
Receivables:		
Trade	14,528	(48,201)
Affiliates	188,347	(268,792)
Other	15,574	16,546
Inventories	2,020	(6,791)
Prepaid expenses	2,674	(1,489)
Increase (decrease) in liabilities:		
Accounts payable	(176,110)	87,530
Payable to affiliates	(89,948)	(59,978)
Other accrued liabilities	(2,025)	15,444
Net cash (used in) provided by operating activities	\$ (26,426)	\$ 202,867

See accompanying notes to financial statements.

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Notes to Financial Statements  
September 30, 2020 and 2019

(1) Organization

Majuro Resort, Inc. (MRI) dba Marshall Islands Resort, a component unit of the Republic of the Marshall Islands (RepMar), was formed on November 8, 1995, as a corporation. The primary business of MRI is the operation of a 150-room hotel on the atoll of Majuro in the Republic of the Marshall Islands. MRI is governed by a five-member Board of Directors appointed by the Cabinet of RepMar. MRI's financial statements are incorporated into the financial statements of RepMar as a component unit.

(2) Summary of Significant Accounting Policies

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 - 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 No. 34*, establish standards for external financial reporting for state and local governments and requires that resources be classified for accounting and reporting purposes into the following three net position categories:

- Net investment in capital assets - capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.
- Restricted - net position whose use by MRI is subject to externally imposed stipulations that can be fulfilled by actions of MRI pursuant to those stipulations or that expire by the passage of time. MRI has no restricted net position at September 30, 2020 and 2019.
- Unrestricted - net position that is not subject to externally imposed stipulations. Unrestricted net position may be designated for specific purposes by action by 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 MRI'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 liabilities are incurred.

Revenue Recognition

MRI considers room and related food, beverage and telephone revenues and costs directly related to such revenues to be operating revenues and expenses. Revenues and expenses related to financing and other activities are reflected as nonoperating.

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Notes to Financial Statements  
September 30, 2020 and 2019

(2) Summary of Significant Accounting Policies, Continued

Cash

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

For purpose of the statements of net position and cash flows, cash is defined as cash on hand and cash held in demand accounts. As of September 30, 2020 and 2019, the carrying amount of cash were \$466,800 and \$448,007, respectively, and the corresponding bank balances were \$472,832 and \$451,770, respectively. Of the bank balances, \$238,122 and \$195,327, respectively, were maintained in a financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance with the remaining amounts of \$234,710 and \$256,443, respectively, being maintained in a financial institution not subject to depository insurance. As of September 30, 2020 and 2019, bank deposits in the amount of \$238,122 and \$195,327, respectively, were FDIC insured. MRI does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized. Accordingly, these deposits are exposed to custodial credit risk.

Receivables

All receivables are uncollateralized and are due from hotel customers and others located within the Republic of the Marshall Islands and the South Pacific region. The allowance for uncollectible accounts is stated at an amount which management believes will be adequate to absorb possible losses on accounts receivable that may become uncollectible based on evaluations of the collectability of these accounts and prior collection experience. Management determines the adequacy of the allowance for uncollectible accounts based upon review of the aged accounts receivable. The allowance is established through a provision for bad debts charged to expense. Bad debts are written off against the allowance on the specific identification method.

Inventories

Inventories are stated at the lower of cost (average costing) or market (net realizable value).

Prepaid Expenses

Certain payments to vendors or persons for goods and services reflect costs applicable to future accounting periods and are recorded as prepaid expenses in the accompanying financial statements.

Operating Supplies

China, glass, linen, silverware and uniforms are charged to expense in the year of purchase.

Property, Plant and Equipment

Property, plant and equipment with a cost that equals or exceeds \$100 are capitalized. Such assets are stated at cost. Depreciation is calculated using the straight-line method based on the estimated useful lives of the respective assets.

**MAJURO RESORT, INC.**  
**(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. MRI has no items that qualify for reporting in this category.

Deferred Inflows of Resources

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

Compensated Absences

Vested or accumulated vacation leave is recorded as an expense and liability as the benefits accrue to employees. No liability is recorded for nonvesting accumulating rights to receive sick benefits. As of September 30, 2020 and 2019, the accumulated vacation leave liability amounted to \$88,160 and \$74,789, respectively, and is included within the statements of net position as accrued expenses.

Advertising Costs

MRI expenses advertising costs as incurred. During the years ended September 30, 2020 and 2019, MRI incurred advertising costs of \$4,361 and \$10,252, respectively.

Taxes

Corporate profits are not subject to income tax in the Republic of the Marshall Islands. The Government of the Republic of the Marshall Islands imposes a gross receipts tax (GRT) of 3% on revenues. MRI is specifically exempt from this tax.

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.

**MAJURO RESORT, INC.**  
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Notes to Financial Statements  
September 30, 2020 and 2019

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

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.

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.

**MAJURO RESORT, INC.**  
**(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 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.

**MAJURO RESORT, INC.**  
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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.

Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and deferred outflows of resources, liabilities and deferred inflows of resources, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(3) Property, Plant and Equipment

Capital asset activities for the years ended September 30, 2020 and 2019 were as follows:

		2020			
	<u>Estimated Useful Lives</u>	<u>October 1, 2019</u>	<u>Additions</u>	<u>Disposals</u>	<u>September 30, 2020</u>
Depreciable assets:					
Building and structure	24 years	\$ 2,912,342	\$ -	\$ -	\$ 2,912,342
Furniture and fixtures	3 years	1,842,652	36,685	-	1,879,337
Office equipment	3 years	255,532	7,774	-	263,306
Other equipment	3 years	114,425	-	-	114,425
Motor vehicles	3 years	<u>395,391</u>	<u>74,612</u>	<u>(14,000)</u>	<u>456,003</u>
		5,520,342	119,071	(14,000)	5,625,413
Less accumulated depreciation		<u>(4,472,705)</u>	<u>(230,135)</u>	<u>8,167</u>	<u>(4,694,673)</u>
		1,047,637	(111,064)	(5,833)	930,740
Nondepreciable assets:					
Construction-in-progress		<u>1,704</u>	<u>70,053</u>	-	<u>71,757</u>
		<u>\$ 1,049,341</u>	<u>\$ (41,011)</u>	<u>\$ (5,833)</u>	<u>\$ 1,002,497</u>

**MAJURO RESORT, INC.**  
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Notes to Financial Statements  
September 30, 2020 and 2019

**(3) Property, Plant and Equipment, Continued**

		2019			
	Estimated Useful Lives	October 1, 2018	Additions	Disposals	September 30, 2019
Depreciable assets:					
Building and structure	24 years	\$ 2,798,116	\$ 114,226	\$ -	\$ 2,912,342
Furniture and fixtures	3 years	1,745,717	96,935	-	1,842,652
Office equipment	3 years	252,942	2,590	-	255,532
Other equipment	3 years	114,425	-	-	114,425
Motor vehicles	3 years	<u>333,257</u>	<u>79,634</u>	<u>(17,500)</u>	<u>395,391</u>
		5,244,547	293,385	(17,500)	5,520,342
Less accumulated depreciation		<u>(4,230,488)</u>	<u>(253,717)</u>	<u>11,500</u>	<u>(4,472,705)</u>
		1,013,969	39,668	(6,000)	1,047,637
Nondepreciable assets:					
Construction-in-progress		<u>98,752</u>	<u>5,200</u>	<u>(102,248)</u>	<u>1,704</u>
		\$ <u>1,112,721</u>	\$ <u>44,868</u>	\$ <u>(108,248)</u>	\$ <u>1,049,341</u>

In May 8, 2019, RepMar's Ministry of Works, Infrastructure and Utilities Project Management Unit released an assessment of MIR's building and annexes remaining useful life, extending the estimated useful life of the asset from 17 to 24 years beginning October 1, 2018.

**(4) Related Party Transactions**

MRI is a component unit of RepMar and is therefore affiliated with all RepMar-owned and affiliated entities, including the Marshall Islands Development Bank (MIDB). MRI's hotel service is provided to RepMar and all RepMar-owned and affiliated entities. Services are provided to these entities at the same rates charged to third parties; however, MRI provides more favorable payment terms to its affiliates than those afforded to third parties. MRI utilizes services from certain affiliated entities at substantially more favorable terms than those incurred from third parties.

A summary of related party balances and transactions as of September 30, 2020 and 2019 and for the years then ended are as follows:

	2020			
	<u>Revenues</u>	<u>Expenses</u>	<u>Receivables</u>	<u>Payables</u>
RepMar	\$ 436,909	\$ 180,982	\$ 277,228	\$ 32,807
Marshalls Energy Company, Inc.	34,773	485,957	19,949	558,655
Marshall Islands National Telecommunications Authority	20,102	71,019	7,416	26,248
Marshall Islands Social Security Administration	6,438	291,684	319	76,750
Majuro Water and Sewer Company, Inc.	776	58,235	1,676	9,520
Marshall Islands Marine Resources Authority	24,355	-	3,296	-
College of Marshall Islands	99,151	-	10,600	-
Marshall Islands Development Bank	39,291	120,334	95,435	5,238
Other	<u>130,108</u>	<u>75,268</u>	<u>19,753</u>	<u>5,690</u>
	\$ <u>791,903</u>	\$ <u>1,283,479</u>	\$ <u>435,672</u>	\$ <u>714,908</u>

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

Notes to Financial Statements  
September 30, 2020 and 2019

(4) Related Party Transactions, Continued

	2019			
	<u>Revenues</u>	<u>Expenses</u>	<u>Receivables</u>	<u>Payables</u>
RepMar	\$ 561,155	\$ 144,727	\$ 486,390	\$ 223,158
Marshalls Energy Company, Inc.	38,044	490,575	28,438	457,195
Marshall Islands National Telecommunications Authority	23,566	89,881	10,272	13,993
Marshall Islands Social Security Administration	582	309,133	289	91,913
Majuro Water and Sewer Company, Inc.	1,723	53,787	1,751	2,156
Marshall Islands Marine Resources Authority	33,308	-	12,118	-
College of Marshall Islands	73,872	-	21,586	-
Marshall Islands Development Bank	49,198	77,763	79,321	4,204
Other	<u>37,109</u>	<u>107,982</u>	<u>28,641</u>	<u>12,237</u>
	<u>\$ 818,557</u>	<u>\$ 1,273,848</u>	<u>\$ 668,806</u>	<u>\$ 804,856</u>

Receivables from affiliates are uncollateralized, interest free and have no set repayment terms.

On October 13, 2017, MRI entered into a two year revenue sharing agreement with MIDB for the operation and management of Hotel Ebeve and Restaurant, which is owned by MIDB. In accordance with the agreement, MRI shall pay MIDB \$5,000 per month plus 5% of net revenue as calculated in accordance with the agreement. MRI shall receive 95% of net revenue as calculated in accordance with the agreement as a management fee. In addition, MRI shall be reimbursed for certain eligible costs incurred in rendering services under the agreement. As of September 30, 2020 and 2019, MRI recognized management fee revenue associated with this agreement of \$35,931 and \$46,330, respectively. On March 9, 2020, MRI and MIDB agreed to exercise the option to renew the Operation agreement with MIDB for another 2 years. As of September 30, 2020, MRI recorded unreimbursed costs of \$26,036 due from MIDB associated with operations under the agreement.

During the year ended September 30, 2019, MRI received RepMar appropriations of \$198,400 on behalf of Pacific Wellness Center, Inc. (PWC) for the Ebeve Wellness program. MRI and PWC entered into a Memorandum of Agreement with RepMar, effective October 1, 2018, whereby MRI has certain administrative involvement in the program for which MRI will be entitled to a 10% management fee. During the years ended September 30, 2020 and 2019, no services were rendered by MRI and no funds were expended under this program. Accordingly, MRI repaid \$178,560 to RepMar. As of September 30, 2020, MRI recorded a \$19,840 payable to RepMar in the accompanying financial statements.

During the year ended September 30, 2020, MRI received RepMar COVID care assistance totaling \$239,065, which was utilized to settle liabilities.

(5) Risk Management

MRI is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions, injuries to employees; and natural disasters. MRI has elected to purchase commercial insurance from independent third parties for the risks of loss to which it is exposed. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years. MRI does not maintain general liability insurance; property insurance; and fire, lightning and typhoon insurance for its hotel building and contents. In the event of an insurable loss, MRI may be self-insured to a material extent.

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

Notes to Financial Statements  
September 30, 2020 and 2019

**(6) Commitment and Contingencies**

**Commitment**

MRI leases the land on which the hotel is situated at \$10,212 per year plus 2.5% of gross revenue earned. These payments are suspended until such time as any person or entity other than RepMar or any agency thereof holds 75% of the ownership of the lessee, or its successor in the interest in the hotel. The lease also requires that 5% of the initial outstanding shares of the lessee or its successor be issued to the lessor. Neither MRI nor RepMar have issued shares to the lessor at September 30, 2020 and 2019.

**Contingencies**

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America, which contemplates the continuation of MRI as a going concern. During the years ended September 30, 2020 and 2019, MRI reported an operating loss of \$124,869 and \$102,151, respectively, and used a substantial amount of working capital in its operations resulting in a working capital deficiency of \$486,922 and \$637,407 as of September 30, 2020 and 2019, respectively. Management acknowledges that it is currently dependent on RepMar for cash funding in order to maintain MRI as a going concern. Although RepMar has provided funding in the past, MRI does not have a formal agreement with RepMar to provide funds in the future. Management believes that the continuation of MRI's operations is dependent upon the future financial support of RepMar, deferment in payment of certain liabilities, and/or significant improvements in operations.

In view of these matters, realization of a major portion of the assets in the accompanying statement of net position at September 30, 2020, is dependent upon continued operations of MRI, which, in turn, is dependent upon MRI's ability to provide service to its customers and the success of future operations. Management believes that actions presently being undertaken to revise MRI's operating requirements, including the generation of positive cash flows from operations, and increasing occupancy rates and average room rates, provide the opportunity for MRI to continue as a going concern.

MRI did not file sales and local government taxes until August 2014, which may not be in compliance with Majuro Atoll Local Government (Malgov) local ordinances. As of September 30, 2020 and 2019, sales taxes of \$145,354 and \$144,648, respectively, and local government taxes of \$342,965 and \$342,012, respectively, remain outstanding and of which \$488,319 and \$486,660, respectively, is included as accrued taxes payable in the accompanying statements of net position. Unfavorable resolution of this matter could expose MRI to additional penalties and interest. Penalties and interest are estimated to be \$162,343 and \$162,175 as of September 30, 2020 and 2019, respectively. No such action has yet been filed. At September 30, 2020 and 2019, the financial statements do not include any adjustments that might result from the outcome of this uncertainty. Management is currently negotiating the settlement of sales and local government taxes with Malgov.

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

Notes to Financial Statements  
September 30, 2020 and 2019

(7) COVID-19 Pandemic

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, once 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 October 18, 2021, no community transmission has been identified. MRI has determined that should community transmission occur within the Marshall Islands, it may negatively impact the MRI's business, results of operations, financial position and MRI 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 maybe limited. Therefore, while MRI expects this matter to potentially have a negative impact on its business, results of operations, and financial position, the related financial impact cannot reasonably estimated at this time.

(8) Subsequent Event

On February 2, 2021, MRI entered into a \$300,000 loan with the Marshall Islands Development Bank for building structure renovation, interest at 7% per annum, with principal and interest due in monthly installments of \$4,886 commencing February 28, 2022, due January 28, 2029. The loan is collateralized by a chattel mortgage over the 150-room hotel.

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

Board of Directors  
Majuro Resort, Inc.:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Majuro Resort, Inc. (MRI), which comprise the statement of net position as of September 30, 2020, and the statements of revenues, expenses and changes in net position and of cash flows for the year then ended and the related notes to the financial statements, and have issued our report thereon dated October 18, 2021.

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

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

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

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**

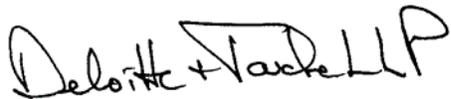
As part of obtaining reasonable assurance about whether MRI's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the 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 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 2020-001.

## MRI's Response to Findings

MRI's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. MRI's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

## Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

October 18, 2021

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

Schedule of Findings and Responses  
Year Ended September 30, 2020

Finding No.: 2020-001  
Area: Prior Year Sales and Local Government Tax

Criteria: Majuro Atoll Local Government (Malgov) local ordinances require payment of 4% sales tax and three dollar per night room tax by consumers and these taxes are to be remitted to Malgov on a monthly basis.

Condition: Management accrued and filed sales and local taxes during the year ended September 30, 2019. However, potential interest and penalties for prior year unrecorded sales taxes and unfiled sales and local taxes have not been recorded as management believes that the amount can be negotiated with Malgov.

Cause: MRI did not pay these taxes as management believes that they paid for the sales tax when MRI purchased items. Management believes paying the sales tax would result in double taxation. Local government hotel room taxes were not paid since management believes that MRI is owned by RepMar.

Effect: Noncompliance with local laws and regulations could result from this condition which may result in penalties and interest.

Prior Year Status: Non-filing of sales and local government taxes was reported as a finding in the audits of MRI for fiscal years 2006 through 2019.

Recommendation: We recommend that MRI initiate discussions with Malgov regarding interest and penalties on prior year unrecorded sales taxes and unfiled sales and local taxes.

Auditee Response and Corrective Action Plan: MALGOV findings - On March 20, 2021 we had a meeting with them on how to resolve the issue. In the meeting we discussed how much we owe from them, our suggestion is we can pay 5,000 monthly and we will increase the monthly payment based on our cash flow or they can give us a specific amount how much we will pay them on a monthly basis. They told us that they will review the real balances of how much we owe them and they will update us. Our last follow on our email is on November 26, 2020 with Russin Abraham but as of date no feedback from their end.

**MAJURO RESORT, INC.**  
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Unresolved Prior Year Findings  
Year Ended September 30, 2020

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