

**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 AUDITOR'S REPORT**

YEARS ENDED SEPTEMBER 30, 2021 AND 2020

**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, 2021 and 2020

Table of Contents

	<u>Page No.</u>
I. INDEPENDENT AUDITOR’S 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 AUDITOR’S REPORT ON COMPLIANCE WITH LAWS AND REGULATIONS	
Independent Auditor’s 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 AUDITOR'S 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, 2021 and 2020, 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.

Auditor's 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, 2021 and 2020, 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. 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 September 30, 2022, 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.

The signature of Deloitte & Touche LLP is written in a cursive, handwritten style.

September 30, 2022

**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, 2021 and 2020

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, 2021. 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 as of September 30, 2021 compared with 2020 and 2019 is presented below:

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

	2021	2020	\$ Change 2021-2020	% Change 2021-2020	2019
Assets:					
Current and other assets	\$ 152,401	\$ 103,339	\$ 49,062	47.5%	\$ 107,284
Capital assets	149,936	99,352	50,584	50.9%	69,655
Total assets	302,337	202,691	99,646	49.2%	176,939
Liabilities:					
Current and other liabilities	80,045	91,082	(11,037)	(12.1)%	118,106
Net position:					
Net investment in capital assets	149,936	99,352	50,584	50.9%	69,655
Unrestricted	72,356	12,257	60,099	490.3%	(10,822)
Total net position	\$ 222,292	\$ 111,609	\$ 110,683	99.2%	\$ 58,833

Net investment in capital assets increased from \$99,352 to \$149,936, which is a 51% increase from prior year due to capital improvements for the Natural Resources and Commerce (NRC) building, the acquisition of a new office vehicle, and additional equipment needed for office operations. Current and other assets increased by 47% due to an increase in cash balances offset by a decrease in receivable balances. Current and other liabilities decreased by 12% due to the timely payments to local vendors in FY21 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, 2021 and 2020

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

For the year ended September 30, 2021, OCIT incurred an operating surplus of \$110,683, a 110% increase from prior year, resulting in a net position of \$222,292 at year end (99% increase). This was due primarily to the decrease in operating expenses. The decrease in operating expenses is primarily due to: (1) a decrease in travel expenses (79%) directly related to the RMI government's response to COVID-19 through travel restrictions and the closure of the border; and (2) a decrease in professional/contractual fees (93%) indirectly related to the border closure and the inability to bring in off-island professional services. A summary of OCIT's Statements of Revenues, Expenses and Changes in Net Position for the year ended September 30, 2021 compared with 2020 and 2019 is presented below:

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

	2021	2020	\$ Change 2021-2020	% Change 2021-2020	2019
Operating revenues:					
Nitijela appropriation	\$ 759,423	\$ 793,600	\$ (34,177)	(4.3)%	\$ 828,600
Contributions and other	32,953	30,537	2,416	7.9%	59,230
Hotel tax	6,716	17,465	(10,749)	(61.5)%	13,378
Total revenues	799,092	841,602	(42,510)	(5.1)%	901,208
Operating expenses:					
Salaries, wages and benefits	439,604	461,314	(21,710)	(4.7)%	455,471
Professional/contractual fees	4,642	62,868	(58,226)	(92.6)%	150,431
Travel and per diem	15,388	74,081	(58,693)	(79.2)%	47,317
Advertising	70,107	39,915	30,192	75.6%	99,908
Other expenses	158,668	150,648	8,020	5.3%	168,861
	688,409	788,826	(100,417)	(12.7)%	921,988
Change in net position	\$ 110,683	\$ 52,776	\$ 57,907	109.7%	\$ (20,780)

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

Summary Schedule of Other Expenses
Years Ended September 30

	2021	2020	\$ Change 2021-2020	% Change 2021-2020	2019
Other expenses:					
Utilities and communications	\$ 35,417	\$ 34,635	\$ 782	2.3%	\$ 38,048
Rent	7,416	20,868	(13,452)	(64.5)%	30,088
Depreciation	36,089	20,217	15,872	78.5%	17,910
Office supplies	26,507	15,925	10,582	66.4%	18,562
Subscriptions and dues	15,467	14,652	815	5.6%	15,542
Training	7,945	9,177	(1,232)	(13.4)%	10,349
Miscellaneous	29,827	35,174	(5,347)	(15.2)%	38,362
	\$ 158,668	\$ 150,648	\$ 8,020	5.3%	\$ 168,861

**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, 2021 and 2020

Despite the increase in responsibilities due to the SBDC-OCIT merger in 2017, and the 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, 2020 is set forth in OCIT's report on the audit of the financial statements, which is dated May 12, 2021. That Discussion and Analysis explains the major factors impacting the 2020 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 2021 were \$149,936, compared to \$99,352 in 2020, which is a 51% increase from prior year due to the acquisition of a new office vehicle, additional furniture and fixtures and leasehold improvements for new office space in the NRC building.

A summary of OCIT's capital assets as of September 30, 2021 compared with 2020 and 2019 is presented below:

	2021	2020	\$ Change 2021-2020	% Change 2021-2020	2019
Depreciable capital assets:					
Motor vehicles	\$ 64,345	\$ 32,350	\$ 31,995	98.9%	\$ 32,350
Leasehold improvements	56,289	36,753	19,536		-
Furnitures and fixtures	<u>122,100</u>	<u>86,958</u>	<u>35,142</u>	40.4%	<u>73,797</u>
	242,734	156,061	86,673	55.5%	106,147
Accumulated depreciation	<u>(92,798)</u>	<u>(56,709)</u>	<u>(36,089)</u>	63.6%	<u>(36,492)</u>
	<u>\$ 149,936</u>	<u>\$ 99,352</u>	<u>\$ 50,584</u>	50.9%	<u>\$ 69,655</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

Due to the 11% budget cut allocation for Fiscal Year 2021, OCIT shifted its services towards domestic tourism and business development, as this became the new government focus due to closed borders and the attracting of visitors and foreign investors became a challenge. From recent arrivals data, the number of visitors that the Republic of the Marshall Islands received plummeted dramatically due to the closing of the borders from 13,750 total arrivals in FY2020 to 2,304 by the end of FY2021.

In spite of all this, OCIT remained active in providing its services in the Marshall Islands as the level of operations remained the same. By cutting down the budget for travel, OCIT was able to use these funds to host various training workshops and promotional activities to introduce as well as to expand domestic markets. Reestablishing communications to create contingency measures and packages with tourism hotel operators was one of the aims of the Tourism Division during the Fiscal Year.

Aside from this, OCIT's Investment Promotion and Business Development Unit remained productive in providing training services, capacity building in business plan developments, and re-establishing the partnership with the Pacific Islands Small Business Development Center Network based in Guam.

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, 2021 and 2020

Two of OCIT's personnel from the Investment Promotion and Business Development Unit remain active members as to the committee which oversees, evaluates and determines affected businesses that may need relief assistance due to COVID-19 Coronavirus Pandemic.

As the RMI closed its borders to the rest of the world and allowed in only citizens, this border closure gave OCIT an opportunity to work with other Government Ministries, Agencies and the private sector to better cater towards the domestic market and look at safe protocols in preparing for the eventual re-opening of borders.

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

Statements of Net Position
September 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
<u>ASSETS</u>		
Current assets:		
Cash	\$ 150,674	\$ 93,187
Receivables:		
Hotel taxes	6,716	-
Affiliates	-	9,000
Other	7,567	13,708
	<u>14,283</u>	<u>22,708</u>
Less allowance for doubtful accounts	<u>(12,556)</u>	<u>(12,556)</u>
Total receivables, net	<u>1,727</u>	<u>10,152</u>
Total current assets	152,401	103,339
Capital assets, net	<u>149,936</u>	<u>99,352</u>
	<u>\$ 302,337</u>	<u>\$ 202,691</u>
<u>LIABILITIES AND NET POSITION</u>		
Liabilities:		
Payable to affiliates	\$ 28,108	\$ 35,696
Other liabilities and accruals	<u>51,937</u>	<u>55,386</u>
Total liabilities	<u>80,045</u>	<u>91,082</u>
Commitments and contingencies		
Net position:		
Net investment in capital assets	149,936	99,352
Unrestricted	<u>72,356</u>	<u>12,257</u>
Total net position	<u>222,292</u>	<u>111,609</u>
	<u>\$ 302,337</u>	<u>\$ 202,691</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)

Statements of Revenues, Expenses, and Changes in Net Position
Years Ended September 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Operating revenues:		
Nitijela appropriation	\$ 759,423	\$ 793,600
Contributions	26,975	27,724
Hotel taxes	6,716	17,465
Other	5,978	2,813
Total operating revenues	<u>799,092</u>	<u>841,602</u>
Operating expenses:		
Salaries, wages and employee benefits	439,604	461,314
Advertising	70,107	39,915
Depreciation	36,089	20,217
Utilities and communications	35,417	34,635
Office supplies	26,507	15,925
Subscriptions and dues	15,467	14,652
Travel and per diem	15,388	74,081
Fuel and vehicle maintenance	11,361	7,825
Board member fees and expenses	9,132	7,550
Training	7,945	9,177
Rent	7,416	20,868
Professional/contractual fees	4,642	62,868
Printing	2,784	4,299
Bad debts	-	7,551
Miscellaneous	6,550	7,949
Total operating expenses	<u>688,409</u>	<u>788,826</u>
Change in net position	110,683	52,776
Net position at beginning of year	<u>111,609</u>	<u>58,833</u>
Net position at end of year	<u>\$ 222,292</u>	<u>\$ 111,609</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)

Statements of Cash Flows
Years Ended September 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Cash flows from operating activities:		
Operating grants received	\$ 786,398	\$ 812,324
Other cash received from customers	12,119	47,131
Cash payments to suppliers for goods and services	(209,723)	(323,987)
Cash payments to employees for services	<u>(444,634)</u>	<u>(468,007)</u>
Net cash provided by operating activities	<u>144,160</u>	<u>67,461</u>
Cash flows from capital and related financing activities:		
Acquisition of capital assets	<u>(86,673)</u>	<u>(49,914)</u>
Net change in cash	57,487	17,547
Cash at beginning of year	<u>93,187</u>	<u>75,640</u>
Cash at end of year	<u>\$ 150,674</u>	<u>\$ 93,187</u>
Reconciliation of change in net position to net cash provided by operating activities:		
Change in net position	\$ 110,683	\$ 52,776
Adjustments to reconcile change in net position to net cash provided by operating activities:		
Depreciation	36,089	20,217
Bad debts	-	7,551
Decrease (increase) in assets:		
Receivables:		
Hotel taxes	(6,716)	13,378
Affiliates	9,000	(9,000)
Other	6,141	4,475
Prepayment	-	5,088
Decrease in liabilities:		
Payable to affiliates	(7,588)	(9,376)
Other liabilities and accruals	<u>(3,449)</u>	<u>(17,648)</u>
Net cash provided by operating activities	<u>\$ 144,160</u>	<u>\$ 67,461</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, 2021 and 2020

(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), was established pursuant to the Office of Commerce, Investment and Tourism (Amendment) Act 2018, which amended the Office of Commerce and Investment Act of 2013. OCIT began operations as a statutory corporation on November 25, 2013 upon receiving its first operational budget. The objectives of OCIT 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 OCIT 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. In addition, the operations of OCIT include the Small Business Development Center (SBDC) and the Marshall Islands Visitor's Authority (MIVA), which streamlines the processes and procedures of establishing Small and Medium Enterprises (SME), streamlines initiatives and functions of organizations towards the development of tourism industry, and to stimulate economic growth in the country. OCIT is primarily funded through operational appropriations from the Nitijela (the RepMar Legislature).

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. The Governmental Accounting Standards Board (GASB) is the recognized standard-setting body for establishing governmental accounting and financial reporting principles.

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.
- Restricted - net position whose use by OCIT is subject to externally imposed stipulations that can be fulfilled by actions of OCIT pursuant to those stipulations or that expire by the passage of time. OCIT has no restricted net position as of September 30, 2021 and 2020.

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, 2021 and 2020

(2) Summary of Significant Accounting Policies, Continued

- 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, 2021 and 2020, the carrying amount of cash was \$150,674 and \$93,187, respectively, and the corresponding bank balances were \$154,097 and \$94,365, respectively. Of the bank balances, \$151,346 and \$91,624, respectively were maintained in a financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance. The remaining amounts of \$2,751 and \$2,741, 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, 2021 and 2020

(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 non-vesting accumulating rights to receive sick pay benefits. As of September 30, 2021 and 2020, the accumulated vacation leave liability was \$22,259 and \$24,762, 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.

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, 2021 and 2020

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards

In 2020, GASB issued Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, which postponed 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.

During the year ended September 30, 2021, OCIT implemented the following pronouncements:

- GASB Statement No. 84, *Fiduciary Activities*, which improves guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported.
- GASB Statement No. 90, *Majority Equity Interests - An Amendment of GASB Statements No. 14 and 61*, which improves 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.
- GASB Statement No. 93, *Replacement of Interbank Offered Rates*, which establishes accounting and reporting requirements related to the replacement of Interbank Offered Rates such as the London Interbank Offered Rate (LIBOR) for hedging derivative instruments. The provision removing LIBOR as an appropriate benchmark interest rate for the evaluation of the effectiveness of derivative instruments is effective for the year ending September 30, 2022.

The implementation of these statements did not have a material effect on the accompanying financial statements.

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 the 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 the fiscal year ending September 30, 2022.

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, 2021 and 2020

(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 the 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 are effective for the fiscal year ending 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 the 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 the 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, 2021 and 2020

(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. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. GASB Statement No. 97 will be effective for the fiscal year ending September 30, 2022.

(3) Capital Assets

Capital asset activity for the years ended September 30, 2021 and 2020 is as follows:

	2021			
	October 1, 2020	Additions and Transfers	Retirements	September 30, 2021
Motor vehicles	\$ 32,350	\$ 31,995	\$ -	\$ 64,345
Leasehold improvements	36,753	19,536	-	56,289
Furniture and fixtures	<u>86,958</u>	<u>35,142</u>	<u>-</u>	<u>122,100</u>
	156,061	86,673	-	242,734
Less accumulated depreciation	<u>(56,709)</u>	<u>(36,089)</u>	<u>-</u>	<u>(92,798)</u>
	<u>\$ 99,352</u>	<u>\$ 50,584</u>	<u>\$ -</u>	<u>\$ 149,936</u>
	2020			
	October 1, 2019	Additions and Transfers	Retirements	September 30, 2020
Motor vehicles	\$ 32,350	\$ -	\$ -	\$ 32,350
Leasehold improvements	-	36,753	-	36,753
Furniture and fixtures	<u>73,797</u>	<u>13,161</u>	<u>-</u>	<u>86,958</u>
	106,147	49,914	-	156,061
Less accumulated depreciation	<u>(36,492)</u>	<u>(20,217)</u>	<u>-</u>	<u>(56,709)</u>
	<u>\$ 69,655</u>	<u>\$ 29,697</u>	<u>\$ -</u>	<u>\$ 99,352</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, 2021 and 2020

(4) Related Party Transactions

OCIT is a component unit of RepMar and is thus affiliated with all RepMar-owned and affiliated entities, including the Marshall Islands Development Bank (MIDB) and the RMI Ports Authority. 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, 2021 and 2020 is as follows:

	2021		
	<u>Expenses</u>	<u>Receivables</u>	<u>Payables</u>
Marshall Islands Social Security Administration	\$ 36,663	\$ -	\$ 18,937
Marshall Islands National Telecommunications Authority	35,377	-	2,652
Majuro Resort, Inc.	12,593	-	599
RepMar	-	-	2,994
Other	<u>-</u>	<u>-</u>	<u>2,926</u>
	<u>\$ 84,633</u>	<u>\$ -</u>	<u>\$ 28,108</u>
	2020		
	<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
RepMar	<u>-</u>	<u>-</u>	<u>4,382</u>
	<u>\$ 78,003</u>	<u>\$ 9,000</u>	<u>\$ 35,696</u>

During the years ended September 30, 2021 and 2020, the operations of OCIT were funded by \$759,423 and \$793,600, respectively, of appropriations, from the Nitijela of RepMar.

During the years ended September 30, 2021 and 2020, OCIT received the following contributions from related party entities to fund OCIT programs and activities:

	<u>2021</u>	<u>2020</u>
Marshall Islands National Telecommunications Authority	\$ -	\$ 11,000
National Training Council	-	9,000
College of the Marshall Islands	<u>-</u>	<u>1,000</u>
	<u>\$ -</u>	<u>\$ 21,000</u>

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, 2021 and 2020, OCIT recognized hotel tax revenues of \$6,716 and \$17,465, respectively. As of September 30, 2021 and 2020, hotel taxes receivable from RepMar amounted to \$6,716 and \$0, respectively.

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, 2021 and 2020

(4) Related Party Transactions, Continued

During the years ended September 30, 2021 and 2020, OCIT occupied 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.

During the year ended September 30, 2020, OCIT occupied certain office space owned by RMI Ports Authority with rent expense of \$780, inclusive of utilities and maintenance costs. OCIT vacated this office space in 2020.

During the years ended September 30, 2021 and 2020, OCIT occupied certain office space owned by MIDB under two separate lease agreements with rent expense of \$7,416 and \$20,088, respectively, inclusive of utilities and maintenance costs. OCIT vacated a portion of this office space in 2020 with the remaining portion occupied under a five-year lease commencing February 25, 2017. Remaining commitments under this lease are \$3,090 in 2022.

(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, 2022, RepMar appropriated \$630,165 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, 2021 and 2020, OCIT contributed \$11,550 and \$10,854, respectively, to Plan participant accounts. As of September 30, 2021 and 2020, total Plan assets were \$85,194 and \$59,706, 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 containment and mitigation measures worldwide. During the year ended September 30, 2021, four confirmed cases were identified in the Marshall Islands that were isolated and contained. On August 8, 2022, community transmission was identified and OCIT has determined that such 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 AUDITOR'S 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, 2021, 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 September 30, 2022.

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.

Deloitte & Touche LLP

September 30, 2022

**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, 2021

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