

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

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

**FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT**

YEAR ENDED SEPTEMBER 30, 2018

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

Year Ended September 30, 2018

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

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

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 audit. We conducted our audit 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, 2018 and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis-of-Matter

Restatement

As discussed in note 6 to the financial statements, the beginning net position has been restated to reflect a government merger. Our opinion is not modified with respect to this matter.

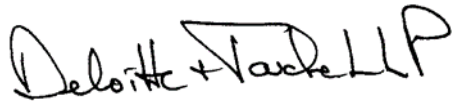
Other Matters

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 March 4, 2019, 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.



March 4, 2019

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

This section of the Republic of the Marshall Islands (RMI) Office of Commerce, Investment and Tourism annual financial report presents our discussion and analysis of OCIT's financial performance during the fiscal year that ended September 30, 2018. This section is to be read in conjunction with the financial statements that follow this section and the accompanying notes to our financial statements in this report.

OCIT Functions

OCIT has wide-ranging functions and powers designed to make it a catalyst for economic and social development. Its primary function is to "... develop and implement social and economic development programs and projects...for the betterment of the economic and social conditions of the inhabitants of the Republic."

In March 2018, the Marshall Islands Visitor's Authority combined with the RMI Office of Commerce and Investment, renaming the organization the RMI Office of Commerce, Investment and Tourism (OCIT). Its functions now combine the roles of a tourism agency, investment promotion agency, a government investment corporation - i.e. to encourage and develop tourism and investments and to operate business enterprises on behalf of the RMI government. It is empowered to perform its functions alone or in conjunction with other government agencies and private enterprises.

Financial Highlights

This section of the OCIT annual financial report presents our discussion and analysis of OCIT's financial performance for the fiscal year ending September 30, 2018. Please read it and verify any clarification to the financial statements, which follow this section. The below table summarizes the financial condition and operations of OCIT for fiscal years 2018 and 2017.

Statement of Net Position Analysis:

OCIT has been in operation for over four 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 earlier this year, both operational costs and RepMar subsidy have increased. A summary of the movements in OCIT's statement of net position is as follows:

	2018	2017 (Restated)	% Change 2018-2017
Current and other assets	\$ 121,020	\$ 142,960	(15)%
Capital assets	62,900	15,604	303%
Total assets	183,920	158,564	16%
Other liabilities	104,307	133,288	(22)%
Net position:			
Net investment in capital assets	62,900	15,604	303%
Unrestricted	16,713	9,672	73%
Total net position	\$ 79,613	\$ 25,276	215%

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Year Ended September 30, 2018

Net investment in capital assets increased from \$15,604 to \$62,900, which is a 303% increase from prior year due to acquisition of capital additions required for new staff and the purchase of an office vehicle. Current and other assets decreased by 15% due to a reduction in receivable balances of \$37,063 offset by an increase in cash balances of \$19,044. The decrease in receivable balances was due to a reduction in receivables due from RepMar for Nitijela appropriations and hotel taxes. The increase in cash balances was mainly due to the merger with MIVA since the operational budget of MIVA was transferred to OCIT plus the increase of subsidy from RepMar. Other liabilities decreased by 22% due to a reduction in payable to affiliates of \$54,360 offset by an increase in accounts payable of \$25,379. The decrease in payable to affiliates was due to a decrease in payables to MISSA and RepMar. As a result of the above, total liabilities and net position increased by 16%.

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

For the year ended September 30, 2018, OCIT made an operating surplus of \$54,337, a 26% decrease from prior year, giving a net position of \$79,613 at year end (215% increase). This was mainly due to the increase in RepMar subsidy while operating expenses increased by 7%. The increase in operating expenses is from almost all line item categories, except advertising, rent, depreciation, tourism and environmental awareness expenses. Salaries and wages increased by 4% due to the additional staff. Travel expenses increased by 1% mainly due to increase in travel by staff during the year. Professional fees increased by 166% due to consultancy fees needed to develop the OCIT 3-year business plan. A summary of the movement in the various statement of revenues, expenses and net position over 2018 and 2017 are as follows:

	2018	2017 (Restated)	% Change 2018-2017
Revenues:			
Nitijela appropriations	\$ 920,994	\$ 829,685	11%
Other revenues	14,189	66,764	(79)%
Total revenues	935,183	896,449	4%
Expenses:			
Salaries and wages	470,877	453,191	4%
Travel and per diem	122,078	120,758	1%
Professional/contractual fees	74,775	28,125	166%
Other	213,116	221,284	(4)%
Total expenses	880,846	823,358	7%
Change in net position	54,337	73,091	(26)%
Net position, beginning of year	25,276	(47,815)	(153)%
Net position, end of year	\$ 79,613	\$ 25,276	215%

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Year Ended September 30, 2018

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

	2018	2017 (Restated)	% Change 2018-2017
Other expenses:			
Advertising	\$ 33,058	\$ 38,990	(15)%
Rent	31,546	38,550	(18)%
Office supplies	31,139	14,418	116%
Utilities and communications	23,790	19,965	19%
Depreciation	10,243	14,051	(27)%
Environmental awareness	1,730	14,572	(88)%
Other	81,610	80,738	1%
Total expenses	\$ 213,116	\$ 221,284	(4)%

Despite the increase in responsibilities due to the SBDC-OCIT merger in 2017, and MIVA-OCIT merger in 2018, OCIT management was able to accomplish results and targets with the achievement of several key objectives especially in assisting SMEs to access capital financing from lending institutions for business startups and expansion of existing businesses. OCIT was also able to improve its management and control of its operating expenses, which resulted in a surplus at year end.

The summarized financial information presented above for 2017 has been restated to reflect the government merger between OCI and MIVA approved by the RepMar Cabinet, which was effective from October 1, 2017. Refer to note 6 to the financial statements for additional information relating to this government merger.

Capital Assets

Capital assets for OCIT in 2018 were \$62,900, compared to \$15,604 in 2017, which is a 303% increase from prior year due to new additions in terms of acquisition of a new vehicle and furniture and fixtures.

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

	2018	2017	% Change 2018-2017
Motor vehicles	\$ 32,350	\$ 27,000	20%
Furniture and fixtures	49,132	14,043	250%
	81,482	41,043	99%
Less accumulated depreciation	(18,582)	(25,439)	(27)%
	\$ 62,900	\$ 15,604	303%

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

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Management's Discussion and Analysis
Year Ended September 30, 2018

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
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Statement of Net Position
September 30, 2018

ASSETS

Current assets:	
Cash	\$ <u>84,396</u>
Receivables:	
Hotel taxes	29,463
Other	<u>12,166</u>
	41,629
Less allowance for doubtful accounts	<u>(5,005)</u>
Total receivables, net	<u>36,624</u>
Total current assets	121,020
Capital assets, net	<u>62,900</u>
	<u>\$ 183,920</u>

LIABILITIES AND NET POSITION

Liabilities:	
Payable to affiliate	\$ 70,185
Other liabilities and accrual	<u>34,122</u>
Total liabilities	<u>104,307</u>
Net position:	
Net investment in capital assets	62,900
Unrestricted	<u>16,713</u>
Total net position	<u>79,613</u>
	<u>\$ 183,920</u>

See accompanying notes to financial statements.

REPUBLIC OF THE MARSHALL ISLANDS
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Statement of Revenues, Expenses, and Changes in Net Position
Year Ended September 30, 2018

Operating revenues:	
Nitijela appropriation	\$ 920,994
Hotel taxes	10,630
Other	6,129
Total operating revenues	<u>937,753</u>
Bad debt expense	<u>(2,570)</u>
Net operating revenues	<u>935,183</u>
Operating expenses:	
Salaries, wages and employee benefits	470,877
Travel and per diem	122,078
Professional/contractual fees	74,775
Advertising	33,058
Rent	31,546
Office supplies	31,139
Utilities and communications	23,790
Subscriptions and dues	11,320
Depreciation	10,243
Training	7,810
POL	4,531
Tourism and environmental awareness	1,730
Miscellaneous	57,949
Total operating expenses	<u>880,846</u>
Change in net position	<u>54,337</u>
Net position at beginning of year, as previously reported	22,193
Government merger (note 6)	<u>3,083</u>
Net position at beginning of year, as restated	<u>25,276</u>
Net position at end of year	<u><u>\$ 79,613</u></u>

See accompanying notes to financial statements.

**REPUBLIC OF THE MARSHALL ISLANDS
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Statement of Cash Flows
Year Ended September 30, 2018

Cash flows from operating activities:	
Operating grants received	\$ 920,994
Other cash received from customers	14,189
Cash payments to suppliers for goods and services	(367,365)
Cash payments to employees for services	<u>(455,568)</u>
Net cash provided by operating activities	<u>112,250</u>
Cash flows from noncapital financing activities:	
Contributions from government merger	<u>3,083</u>
Cash flows from capital and related financing activities:	
Acquisition of capital assets	(67,439)
Proceeds from disposal of capital assets	<u>8,000</u>
Net cash used for capital and related financing activities	<u>(59,439)</u>
Net change in cash	55,894
Cash at beginning of year	<u>28,502</u>
Cash at end of year	<u><u>\$ 84,396</u></u>
Reconciliation of change in net position to net cash provided by operating activities:	
Change in net position	\$ 54,337
Adjustments to reconcile change in net position to net cash provided by operating activities:	
Depreciation	10,243
Loss on disposal of capital assets	1,900
Bad debt expense	2,570
Increase in assets:	
Hotel taxes	(29,463)
Other receivables	(6,231)
Increase in liabilities:	
Other liabilities and accrual	34,122
Payable to affiliates	<u>44,772</u>
Net cash provided by operating activities	<u><u>\$ 112,250</u></u>
Summary disclosure of noncash capital and related financing activities:	
Capital asset trade-in:	
Additions to capital assets	\$ 8,000
Disposal of capital assets	(9,900)
Loss on trade-in	<u>1,900</u>
	<u><u>\$ -</u></u>

See accompanying notes to financial statements.

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Notes to Financial Statements
September 30, 2018

(1) Organization

The Republic of the Marshall Islands Office of Commerce, Investment and Tourism (OCIT), a component unit of the Republic of the Marshall Islands (RepMar) and formerly known as the Republic of the Marshall Islands Office of Commerce and Investment (OCI), was established pursuant to the Office of Commerce, Investment and Tourism (Amendment) Act 2018 (Public Law No. 2018-57), which amended the OCI Act of 2013 (Public Law 2013-21). OCI began operations as a statutory corporation on November 25, 2013 upon receiving its first operational budget. The objectives of OCI were to: (1) to investigate, study, develop and implement social and economic development programs and projects, alone or in conjunction with other governmental, private organizations, or agencies, for the betterment of the economic and social conditions of the inhabitants of the Republic; (2) encourage and develop, and manage, businesses of economic or social importance to the Republic, such as tourism, poultry farming and piggeries; and (3) conduct, on behalf of RepMar, such business enterprises as the RepMar Cabinet directs, on such terms and conditions as were agreed to between OCI and the RepMar Cabinet; provided, however, in all decisions of the Board or the RepMar Cabinet, the protection of existing enterprises shall be given highest consideration. OCI was primarily funded through operational appropriations from the Nitijela (the RepMar Legislature).

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

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

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

OCIT's financial statements are incorporated into the financial statements of RepMar as a component unit.

(2) Summary of Significant Accounting Policies

GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as amended by GASB Statement No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus*, GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, and GASB Statement No. 61, *The Financial Reporting Entity: Omnibus - an amendment of GASB Statements No. 14 and 34*, establish financial reporting standards for governmental entities, which require that management's discussion and analysis of the financial activities be included with the basic financial statements and notes and modifies certain other financial statement disclosure requirements.

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(2) Summary of Significant Accounting Policies, Continued

To conform to these requirements, equity is presented in the following net position categories:

- Net investment in capital assets - capital assets, net of accumulated depreciation, plus construction or improvement of those assets.
- Unrestricted - net position that is not subject to externally imposed stipulations. Unrestricted net position may be designated for specific purposes by action of management or the Board of Directors or may otherwise be limited by contractual agreements with outside parties.

Estimates

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

Basis of Accounting

Proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and deferred outflows of resources, and liabilities and deferred inflows of resources associated with the operation of the fund are included in the statements of net position. Proprietary fund operating statements present increases and decreases in net position. The accrual basis of accounting is utilized by proprietary funds. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. OCIT considers Nitijela appropriations and operational grants and costs that are directly related to OCIT's operations to be operating revenues and expenses. Revenues and expenses related to financing and other activities are reflected as nonoperating.

Cash

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

For purposes of the statements of net position and of cash flows, cash is defined as cash on hand and cash held in demand deposits. As of September 30, 2018, the carrying amount of cash was \$84,396 and the corresponding bank balance was \$108,558. Of the bank balance amount, \$14,467 was maintained in a financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance. The remaining bank deposit of \$93,991 was maintained in a financial institution not subject to depository insurance. OCIT does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized. Accordingly, these deposits are exposed to custodial credit risk.

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(2) Summary of Significant Accounting Policies, Continued

Capital Assets

Capital assets with a cost that equals or exceeds \$250 are capitalized. Such assets are stated at cost. Depreciation for all fixed assets is calculated using the straight-line method over a standard estimated useful life of 5 years. When the need arises and on a case-by-case basis only, management of OCIT may adjust the estimated useful life of 5 years.

Deferred Outflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (deduction of net position) until then. OCIT has no items that qualify for reporting in this category.

Compensated Absences

Vested or accumulated vacation leave is recorded as an expense and liability as the benefits accrue to employees. No liability is recorded for nonvesting accumulating rights to receive sick pay benefits. As of September 30, 2018, the accumulated vacation leave liability totals \$7,499.

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.

New Accounting Standards

During the year ended September 30, 2018, OCIT implemented the following pronouncements:

- GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, and provides guidance on reporting by governments that provide OPEB to their employees and for governments that finance OPEB for employees of other governments.

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(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

- GASB Statement No. 81, *Irrevocable Split-Interest Agreements*, which improves accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement.
- GASB Statement No. 85, *Omnibus 2017*, which address practice issues that have been identified during implementation and application of certain GASB Statements including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits).
- GASB Statement No. 86, *Certain Debt Extinguishment Issues*, which improves consistency in accounting and financial reporting for in-substance defeasance of debt.

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

In November 2016, GASB issued Statement No. 83, *Certain Asset Retirement Obligations*, which addresses accounting and financial reporting for certain asset retirement obligations (AROs) associated with the retirement of a tangible capital asset. The provisions in Statement No. 83 are effective for fiscal years beginning after June 15, 2018. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

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

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

In April 2018, GASB issued Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, which improves the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. The provisions in Statement No. 88 are effective for fiscal years beginning after June 15, 2018. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

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

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(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

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

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.

(3) Capital Assets

Capital asset activity for the year ended September 30, 2018 was as follows:

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

(4) Related Party Transactions

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

	<u>Expenses</u>	<u>Payables</u>
Marshall Islands Social Security Administration	\$ 35,053	\$ 27,607
Marshall Islands National Telecommunications Authority	23,790	-
Marshalls Energy Company, Inc.	7,021	-
RMI Ports Authority	1,560	-
National Training Council	-	7,913
RepMar	-	32,809
Others	-	<u>1,855</u>
	<u>\$ 67,424</u>	<u>\$ 70,185</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, 2018

(4) Related Party Transactions, Continued

For the year ended September 30, 2018, OCIT's operations were funded RepMar appropriations of \$920,994.

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 year ended September 30, 2018, OCIT recognized hotel tax revenues of \$10,630. As of September 30, 2018, hotel taxes receivable from RepMar amounted to \$29,463.

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

OCIT entered into an office lease with MIDB for a term of two years commencing September 1, 2014. On August 23, 2018, OCIT extended this lease for another two years commencing on September 1, 2018 and ending on August 31, 2020. Annual rent payments are \$12,672.

OCIT entered into an office lease with MIDB for a term of five years commencing February 25, 2017 and ending on February 24, 2022. Annual payments are \$7,416.

(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, 2019, RepMar appropriated \$800,000 for the purpose of funding OCIT's programs and activities.

(6) Government Merger

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

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

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Republic of the Marshall Islands Office of Commerce, Investment and Tourism (OCIT), a component unit of the Republic of the Marshall Islands, which comprise the statement of net position as of September 30, 2018, 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 March 4, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered OCIT's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of OCIT's internal control. Accordingly, we do not express an opinion on the effectiveness of OCIT's internal control.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether OCIT's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.



Purpose of this Report

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

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

March 4, 2019

**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, 2018

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