MAJURO RESORT, INC.

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

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

YEARS ENDED SEPTEMBER 30, 2019 AND 2018

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

Years Ended September 30, 2019 and 2018
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INDEPENDENT AUDITORS' REPORT

Board of Directors
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, 2019 and 2018, and the related statements of revenues, expenses and changes in net position and of cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Majuro Resort, Inc. as of September 30, 2019 and 2018, 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 July 9, 2020, 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.

Deloitte & Touche LLP

July 9, 2020

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

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

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, 2019. The discussion and analysis should be read in conjunction with the audited financial statements, which follow this section.

Financial Highlights

Total assets increased by $136,470 or 7% from $1,940,961 in 2018 to $2,077,431 in 2019. Even with the increase in receivables by $284,020 or 29% from $969,347 in 2018 to $1,253,367 in 2019, such was significantly offset by an increase in the allowance for doubtful accounts by $300,605 or 70% from $430,916 in 2018 to $731,521 in 2019. In addition, there was an increase in cash reserves by $208,155 or 87% from $239,852 in 2018 to $448,007 in 2019 and an increase in inventory by $6,791 or 35% from $19,265 in 2018 to $26,056 in 2019. Total liabilities increased by $241,396 or 17% from $1,424,101 in 2018 to $1,665,497 in 2019, which resulted in a decrease in net position by $104,926 or 20% from $516,860 in 2018 to $411,934 in 2019.

Gross operating revenues for 2019 were $4,463,064, which represented an increase of $601,458 or 16% compared to $3,861,606 for 2018. Compared to FY2017, total operating revenues were higher by $569,984 or 15%. Room revenues increased by $252,726 or 15% from $1,703,627 for 2018 to $1,956,353 for 2019 while food and beverage revenue increased by $306,384 or 15% from $2,035,136 for 2018 to $2,341,520 for 2019. Correspondingly, cost of sales for 2019 was $2,412,570, which represented an increase of $234,205 or 11% compared to $2,178,365 for 2018. Considering the provision for bad debts of $317,032, this resulted in a gross profit for 2019 of $1,733,462 including management fee of $46,330, which represented a decrease of $119,185 or 6% compared to $1,852,647 for 2018.

Operating expenses for 2019 were $1,835,613, which represented an increase of $41,932 or 2% compared to $1,793,681 for 2018. As a percentage of total revenues, operating expenses for 2019 were at 43%, a decrease of 3% from 2018. The increase in operating expenses during the year was primarily attributable to the increase in general and administrative expenses.

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

	2019	2018	$ Change 2019-2018	% Change 2019-2018	2017
Assets:					
Current and other assets	$ 1,028,090	$ 828,240	$ 199,850	24.1%	$ 544,524
Capital assets	1,049,341	1,112,721	(63,380)	(5.7)%	1,284,101
Total assets	2,077,431	1,940,961	136,470	7.0%	1,828,625
Liabilities:					
Current and other liabilities	1,665,497	1,424,101	241,396	17.0%	1,435,894
Net position:					
Net investment in capital assets	1,049,341	1,112,721	(63,380)	(5.7)%	1,284,101
Restricted	-	45,649	(45,649)	(100.0)%	34,193
Unrestricted	(637,407)	(641,510)	4,103	(0.6)%	(925,563)
Total net position	$ 411,934	$ 516,860	$ (104,926)	(20.3)%	$ 392,731

Total assets increased by $136,470 from $1,940,961 in 2018 to $2,077,431 in 2019. On the other hand, total liabilities increased by $241,396 from $1,424,101 in 2018 to $1,665,497 in 2019. MRI's liabilities increased due to an increase 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

	2019	2018	$ Change 2019-2018	% Change 2019-2018	2017
Operations:					
Operating revenues	$ 4,146,032	$ 4,031,012	$ 115,020	2.9%	$ 3,820,282
Cost of sales and service	(2,412,570)	(2,178,365)	(234,205)	10.8%	(2,169,391)
Gross profit	1,733,462	1,852,647	(119,185)	(6.4)%	1,650,891
Operating expenses	1,835,613	1,793,681	41,932	2.3%	1,785,163
Operating income (loss)	(102,151)	58,966	(161,117)	(273.2)%	(134,272)
Nonoperating expenses	(2,775)	(9,237)	6,462	(70.0)%	(7,032)
	(104,926)	49,729	(154,655)		(141,304)
Capital contributions	-	74,400	(74,400)	(100.0)%	74,400
Change in net position	$ (104,926)	$ 124,129	$ (229,055)	(184.5)%	$ (66,904)

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:

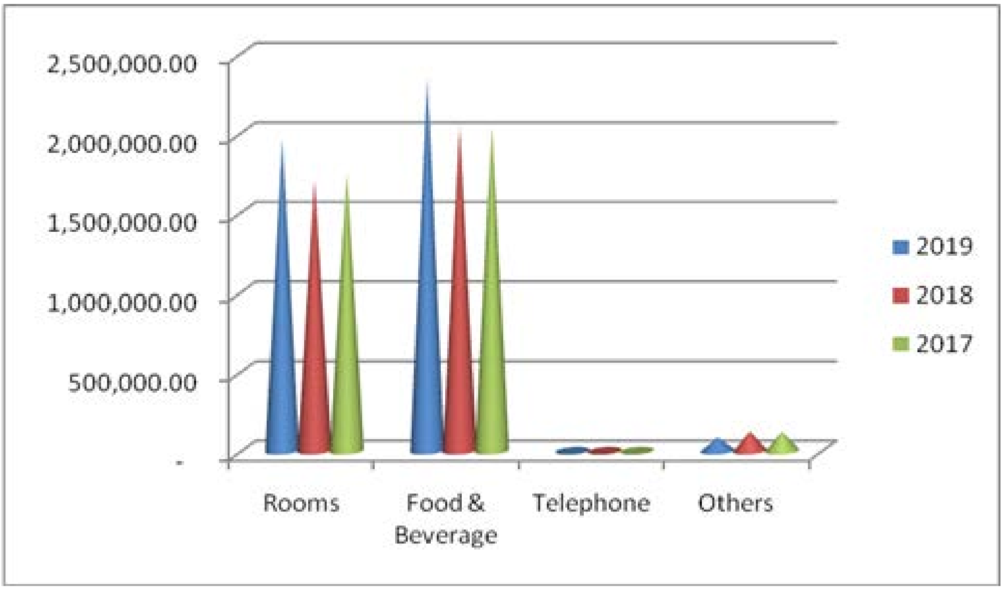
	2019	2018	$ Change 2019-2018	% Change 2019-2018	2017
Food and beverage	$ 2,341,520	$ 2,035,136	$ 306,384	15.1%	$ 2,043,103
Room	1,956,353	1,703,627	252,726	14.8%	1,746,382
Management fee	46,330	-	46,330		-
Telephone	566	831	(265)	(31.9)%	751
Other	118,295	122,012	(3,717)	(3.0)%	122,684
Total operating revenues	4,463,064	3,861,606	601,458	15.6%	3,912,920
Bad debts (recovery)	317,032	(169,406)	486,438	(287.1)%	92,638
Net operating revenues	$ 4,146,032	$ 4,031,012	$ 115,020	2.9%	$ 3,820,282

Gross operating revenues for 2019 showed an increase of $601,458 from $3,861,606 in 2018 to $4,463,064 in 2019. Room revenues for 2019 increased by $252,726 or 15% from 2018 and decreased by $42,755 or 3% from 2017 to 2018. The occupancy ratio in 2019 increased to 52.32% with an increase in average room rate from $63.91 in 2018 to $71.14 in 2019. Food and beverage revenue for 2019 was $2,341,520, which showed an increase of $306,384 or 15% over 2018 and a decrease of $7,967 or 0.4% from 2017 to 2018. 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, 2018 is set forth in the report on the audit of MRI's financial statements dated June 14, 2019. The Discussion and Analysis explains the major factors impacting the 2018 financial statements and may be obtained from the contact information below.

The following graph shows the major components of revenue for financial periods 2019, 2018 and 2017, all of which cover a twelve (12) month period ending September 30.

Revenue Financial Performance



Statement of Hotel Occupancy Performance

The following table shows a comparison of financial and statistical information affecting the room revenue performance for the years 2019, 2018, 2017, 2016 and 2015.

Occupancy Performance	2019	2018	2017	2016	2015
% of total occupancy	52.32%	50.78%	54.92%	53.45%	50.75%
Average rate	$ 71.14	$ 63.91	$ 60.53	$ 62.63	$ 60.73
% of paid occupancy	52.15%	50.57%	54.77%	53.33%	50.66%
Average rate	$ 71.34	$ 64.07	$ 60.69	$ 62.77	$ 61.06

Paid occupancy ratio in 2019 was 52.15% as compared 50.57% in 2018 and 54.77% in 2017.

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.

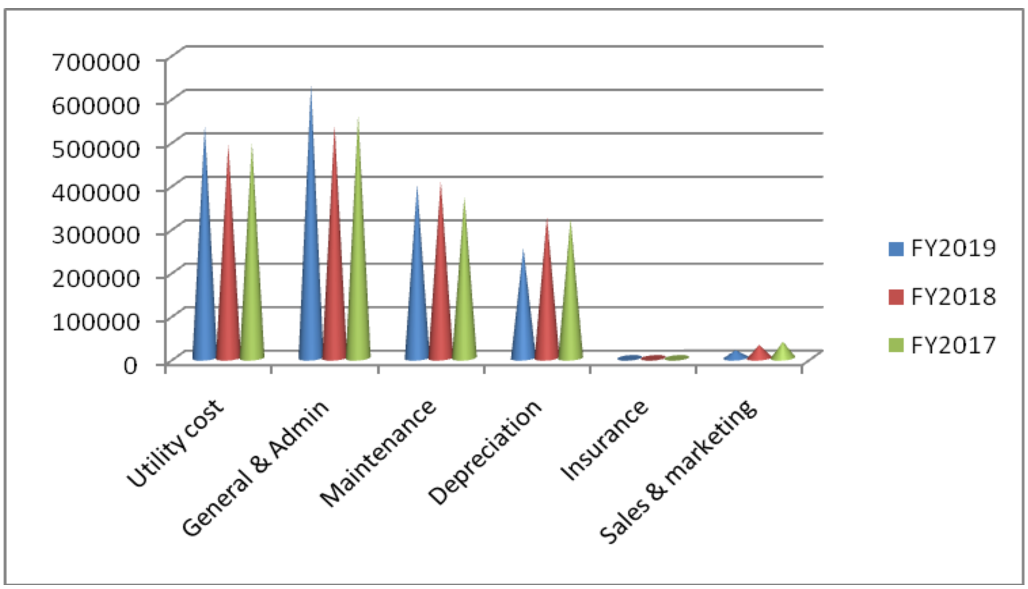
Operating Expenses

Total operating expenses increased by $41,932 from $1,793,681 in 2018 to $1,835,613 in 2019 as a result of the increase in utility components and increase in general and administrative expenses. As a percentage of total revenues, operating expenses for 2019 represents 41% compared to 46% for 2018 and 2017, a decrease of 5%.

Utility costs showed an increase of $42,622 from $492,913 in 2018 to $535,535 in 2019. The increase was primarily due to: (1) an increase in number of hotel guests and room occupancy; (2) an increase in water purchases due to lack of rain during the year thus the need to buy extra water for the hotel guests; (3) the need to install air conditioning to our utility room, per NTA's advice, for the NTA fiber optic utility for improving the company's internet facility; and (4) installation of air conditioning in the kitchen for the employees to have a better working environment based on food safety standards and overall kitchen sanitation. General and administrative expenses showed an increase of $91,538 from $537,064 in 2018 to $628,602 in 2019. The increase was primarily due to: (1) an increase in customer demands for banquets and other big events; and (2) the involvement of management executives and other staff in the operation of Pacific Wellness and Hotel Ebeye. Other changes in operating expenses showed depreciation expense, which posted a decrease of $71,984 while the maintenance costs decreased by $8,537.

The following graph shows the major components of operating expenses for financial periods 2019, 2018 and 2017, all of which cover a twelve (12) month period ending September 30.

Operating Expenses



Capital Assets and Debt

Net capital assets decreased by $63,380 primarily due to current year depreciation expense exceeding current year acquisitions. Capital asset acquisitions during the year ended September 30, 2019, included $96,935 in miscellaneous capital equipment purchases to replace damaged items due to wear and tear, $79,634 for certain new vehicles for transportation of hotel guests, and $11,978 in swimming pool roofing improvements. In addition, the seawall project was completed at a total cost of $102,248.

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

	2019	2018	$ Change 2019-2018	% Change 2019-2018	2017
At Cost:					
Building and structure	$ 2,912,342	$ 2,798,116	$ 114,226	4.1%	$ 2,775,406
Furniture and fixtures	1,842,652	1,745,717	96,935	5.6%	1,685,716
Office equipment	255,532	252,942	2,590	1.0%	251,846
Other equipment	114,425	114,425	-	0.0%	113,938
Motor vehicles	395,391	333,257	62,134	18.6%	349,154
	5,520,342	5,244,457	275,885	5.3%	5,176,060
Accumulated depreciation	(4,472,705)	(4,230,488)	(242,217)	5.7%	(3,927,503)
	1,047,637	1,013,969	33,668	3.3%	1,248,557
CWIP	1,704	98,752	(97,048)	(98.3)%	35,544
	$ 1,049,341	$ 1,112,721	$ (63,380)	(5.7)%	$ 1,284,101

Nondepreciable capital assets amounted to $1,704, which pertain to the ongoing bar renovation as of September 30, 2019. For additional information concerning capital assets, please see note 4 to the financial statements.

MRI did not incur any long-term debt during 2019 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.) Due to the ongoing covid19 pandemic issues this factor will be a great impact on the company's economic performance especially with regards to the room revenue which was highly affected due to International travel ban issues. All of our early bookings have been cancelled, no tourist coming in, no government hosted conference and no long weekend workshop. We don't know yet how long will be the effect of the said pandemic issue it may be months or a year we cannot tell, it will depend on the instructions that will be given by the RMI Disaster Committee. We are hoping for the best.

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.

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

Statements of Net Position
September 30, 2019 and 2018

	2019	2018
ASSETS		
Current assets:		
Cash	$ 448,007	$ 239,852
Receivables:		
Trade	535,573	503,799
Affiliates	668,806	400,014
Other	48,988	65,534
	1,253,367	969,347
Less allowance for doubtful accounts	(731,521)	(430,916)
Total receivables, net	521,846	538,431
Inventories	26,056	19,265
Prepaid expenses	32,181	30,692
Total current assets	1,028,090	828,240
Capital assets:		
Nondepreciable capital assets	1,704	98,752
Other capital assets, net of accumulated depreciation	1,047,637	1,013,969
Total noncurrent assets	1,049,341	1,112,721
	$ 2,077,431	$ 1,940,961
LIABILITIES AND NET POSITION		
Current liabilities:		
Accounts payable	$ 252,816	$ 165,286
Payable to affiliates	804,856	666,434
Accrued taxes payable	486,660	486,660
Other accrued liabilities	121,165	105,721
Total current liabilities	1,665,497	1,424,101
Commitment and contingencies		
Net position:		
Net investment in capital assets	1,049,341	1,112,721
Restricted	-	45,649
Unrestricted	(637,407)	(641,510)
Total net position	411,934	516,860
	$ 2,077,431	$ 1,940,961

See accompanying notes to financial statements.

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

Statements of Revenues, Expenses and Changes in Net Position
Years Ended September 30, 2019 and 2018

	2019	2018
Hotel operations:		
Operating revenues:		
Food and beverage	$ 2,341,520	$ 2,035,136
Rooms	1,956,353	1,703,627
Telephone	566	831
Other	118,295	122,012
Total revenues	4,416,734	3,861,606
Recovery of (provision for) doubtful accounts	(317,032)	169,406
Net revenues	4,099,702	4,031,012
Cost of sales:		
Food and beverage	1,845,373	1,673,162
Rooms	513,766	452,034
Telephone	18,756	18,879
Other	34,675	34,290
Total cost of sales	2,412,570	2,178,365
Gross profit	1,687,132	1,852,647
Operating expenses:		
General and administrative	628,602	537,064
Utility costs	535,535	492,913
Maintenance	399,630	408,167
Depreciation	253,717	325,701
Sales and marketing	18,129	29,836
Total operating expenses	1,835,613	1,793,681
Operating income (loss) from hotel operations	(148,481)	58,966
Nonhotel operations:		
Operating revenues:		
Management fee	46,330	-
Operating income (loss)	(102,151)	58,966
Nonoperating revenues (expenses):		
Interest expense	(7,275)	(12,237)
Gain on sale of asset	4,500	3,000
Total nonoperating revenues (expenses), net	(2,775)	(9,237)
Income (loss) before capital contributions	(104,926)	49,729
Capital contributions	-	74,400
Change in net position	(104,926)	124,129
Net position at beginning of year	516,860	392,731
Net position at end of year	$ 411,934	$ 516,860

See accompanying notes to financial statements.

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

Statements of Cash Flows
Years Ended September 30, 2019 and 2018

		2019		2018
Cash flows from operating activities:				
Cash received from customers	$	4,162,617	$	3,639,393
Cash payments to suppliers for goods and services		(2,427,857)		(2,253,546)
Cash payments to employees for services		(1,531,893)		(1,382,910)
Net cash provided by operating activities		202,867		2,937
Cash flows from noncapital financing activities:				
Contributions from RepMar		198,400		-
Interest paid		(7,275)		(12,237)
Net cash provided by (used for) noncapital financing activities		191,125		(12,237)
Cash flows from capital and related financing activities:				
Capital contributions		-		74,400
Acquisition of capital assets		(190,337)		(154,321)
Proceeds from sale of capital assets		4,500		3,000
Net cash used for capital and related financing activities		(185,837)		(76,921)
Net change in cash		208,155		(86,221)
Cash at beginning of year		239,852		326,073
Cash at end of year	$	448,007	$	239,852
Reconciliation of operating income (loss) to net cash provided by operating activities:				
Operating income (loss)	$	(102,151)	$	58,966
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation		253,717		325,701
Provision for (recovery of) doubtful accounts		317,032		(169,406)
(Increase) decrease in assets:				
Receivables:				
Trade		(48,201)		(146,784)
Affiliates		(268,792)		(60,890)
Other		16,546		(14,539)
Inventories		(6,791)		5,038
Prepaid expenses		(1,489)		16,644
Increase (decrease) in liabilities:				
Accounts payable		87,530		23,753
Payable to affiliates		(59,978)		(54,515)
Other accrued liabilities		15,444		18,969
Net cash provided by operating activities	$	202,867	$	2,937

See accompanying notes to financial statements.

(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

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

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

To conform to the requirements of GASB Statement No. 34, equity is presented in the following net position categories:

- Net investment in capital assets - capital assets, net of accumulated depreciation and related debt, plus construction or improvement of those assets.

- Restricted: Nonexpendable net position subject to externally imposed stipulations that require the Authority to maintain such permanently. As of September 30, 2019 and 2018, MRI does not have nonexpendable restricted net position.

- Restricted: Expendable net position whose use by the Authority is subject to externally imposed stipulations that can be fulfilled by actions of the Authority pursuant to those stipulations or that expire with the passage of time. As of September 30, 2018, MRI has expendable restricted net position of $45,649 for a seawall construction project. This project was completed and placed into service during the year ended September 30, 2019.

- 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 MRI's policy to use unrestricted resources first, then restricted resources as they are needed.

(2) Summary of Significant Accounting Policies, Continued

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.

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, 2019 and 2018, the carrying amount of cash were $448,007, and $239,852, respectively, and the corresponding bank balances were $451,769 and $244,753, respectively. Of the bank balances, $195,327 and $169,524, respectively, were maintained in a financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance with the remaining amounts of $256,443 and $75,229, respectively, being maintained in a financial institution not subject to depository insurance. As of September 30, 2019 and 2018, bank deposits in the amount of $195,327 and $169,524, 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).

(2) Summary of Significant Accounting Policies, Continued

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.

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, 2019 and 2018, the accumulated vacation leave liability amounted to $74,789 and $73,712, 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, 2019 and 2018, MRI incurred advertising costs of $10,252 and $14,336, 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, being a component unit of the Republic of the Marshall Islands as defined in the State-Owned Enterprises Act, 2015, is exempt from payment of GRT.

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards

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

- GASB Statement No. 83, *Certain Asset Retirement Obligations*, which addresses accounting and financial reporting for certain asset retirement obligations (AROs) associated with the retirement of a tangible capital asset.

- GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, which improves the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements.

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

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

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

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

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

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

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In May 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 and 91 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. Management has yet to ascertain whether implementation of these statements will be postponed as provided in GASB Statement No. 95.

Reclassifications

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

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, 2019 and 2018 were as follows:

		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	333,257	79,634	(17,500)	395,391
		5,244,547	293,385	(17,500)	5,520,342
Less accumulated depreciation		(4,230,488)	(253,717)	11,500	(4,472,705)
		1,013,969	39,668	(6,000)	1,047,637
Nondepreciable assets:					
Construction-in-progress		98,752	5,200	(102,248)	1,704
		$ 1,112,721	$ 44,868	$ (108,248)	$ 1,049,341

(3) Property, Plant and Equipment, Continued

	2018				
	Estimated Useful Lives	October 1, 2017	Additions	Disposals	September 30, 2018
Depreciable assets:					
Building and structure	17 years	$ 2,775,406	$ 22,710	$ –	$ 2,798,116
Furniture and fixtures	3 years	1,685,716	65,481	(5,480)	1,745,717
Office equipment	3 years	251,846	1,096	–	252,942
Other equipment	3 years	113,938	487	–	114,425
Motor vehicles	3 years	349,154	1,603	(17,500)	333,257
		5,176,060	91,377	(22,980)	5,244,457
Less accumulated depreciation		(3,927,767)	(325,701)	22,980	(4,230,488)
		1,248,293	(234,324)	-	1,013,969
Nondepreciable assets:					
Construction-in-progress		35,808	62,944	-	98,752
		$ 1,284,101	$ (171,380)	$ –	$ 1,112,721

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. This change in accounting estimate resulted in a reduction in depreciation expense of $95,530 for the year ended September 30, 2019.

(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, 2019 and 2018 and for the years then ended are as follows:

	2019			
	Revenues	Expenses	Receivables	Payables
RepMar	$ 561,155	$ 144,727	$ 486,390	$ 253,158
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	37,109	107,982	28,641	12,237
	$ 818,557	$ 1,273,848	$ 668,806	$ 804,856

(4) Related Party Transactions, Continued

	2018			
	Revenues	Expenses	Receivables	Payables
RepMar	$ 475,269	$ 122,148	$ 281,145	$ 9,034
Marshalls Energy Company, Inc.	15,048	459,365	12,735	563,243
Marshall Islands National Telecommunications Authority	12,764	104,693	4,405	14,799
Marshall Islands Social Security Administration	520	278,822	289	65,270
Majuro Water and Sewer Company, Inc.	1,414	46,588	1,653	2,767
Marshall Islands Marine Resources Authority	44,465	-	23,971	-
College of Marshall Islands	97,242	-	22,854	-
Marshall Islands Development Bank	3,125	59,425	21,070	3,072
Other	41,007	97,439	31,892	8,249
	$ 690,855	$ 1,168,480	$ 400,014	$ 666,434

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 Ebeye 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. During the year ended September 30, 2019, MRI recognized management fee revenue associated with this agreement of $46,330, which is due from MIDB at September 30, 2019. As of September 30, 2019, MRI recorded unreimbursed costs of $30,885 due from MIDB associated with operations under the agreement.

During the year ended September 30, 2019, MRI received RepMar appropriations totaling $198,400 on behalf of Pacific Wellness Center, Inc. (PWC) for the Ebeye 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 year ended September 30, 2019, no services were rendered by MRI and no funds were expended under this program. As of September 30, 2019, MRI has recognized this pass-through grant as a liability payable to RepMar in the accompanying financial statements.

During the year ended September 30, 2018, MRI received RepMar appropriations totaling $74,400 for the construction of a seawall. As of September 30, 2018, MRI had yet to expend $45,649 of this appropriation, which is restricted within net position. This project was completed and placed into service during the year ended September 30, 2019.

(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.

(6) Commitments and Contingencies

Commitments

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, 2019 and 2018.

MRI leases business space to a commercial entity at $2,000/month expiring on November 30, 2019, subject to an annual renewal.

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. MRI reported an operating loss of $102,151 during the year ended September 30, 2019, and used a substantial amount of working capital in its operations resulting in a working capital deficiency of $637,407 and $595,861 as of September 30, 2019 and 2018, 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, 2019, 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 a result, sales taxes of $334,415 in both years and local government taxes of $347,661 and $341,315 as of September 30, 2019 and 2018, respectively, remain outstanding and of which $486,660 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 $162,175 in both years. No such action has yet been filed. At September 30, 2019 and 2018, 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.

At September 30, 2019 and 2018, MRI is liable for delinquent withholding taxes, totaling $13,435 and $9,034, respectively. On November 12, 2013, MRI entered into an agreement with RepMar to resolve the settlement of certain delinquent withholding taxes whereby RepMar will deduct 20% from all payments due to MRI until such time that the delinquent withholding taxes liability has been fully satisfied. In addition, RepMar agreed to waive the payment of penalties and interest as long as MRI remains current on withholding taxes payable commencing October 2013. As of September 30, 2019 and 2018, MRI has remitted current withholding taxes.

(7) Subsequent Event

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. As of July 9, 2020, there have been no confirmed cases of COVID-19 in the Marshall Islands. MRI has determined that should the pandemic reach the Marshall Islands, it may negatively impact MRI's business, results of operations, and financial position and MRI would become dependent upon the financial support of RepMar. However, the effect of the pandemic to RepMar is also uncertain and future available funding to component units may be limited. Therefore, while MRI expects this matter to negatively impact its business, results of operations, and financial position, the related financial impact cannot be reasonably estimated at this time.

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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, 2019, 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 July 9, 2020.

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) 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 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 determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Responses as item 2019-001.

Deloitte.

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.

Deloitte & Touche LLP

July 9, 2020

Finding No.: 2019-001
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 2018.

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: In August 2015, MRI management made efforts in discussing the matter with Malgov. Since then, MRI paid its obligations on a regular basis, leaving the prior year balances which are being discussed between the Ministry of Finance (MOF) & Malgov.

There is an ongoing proposal from MRI management to deduct 20% from all the incoming collections from MOF and to apply this against MRI's payable to Malgov, until such time the liabilities have been fully paid off. This is same as what have been done from the prior years account between MOF & MRI to pay off the unpaid withholding taxes.

A meeting between MIR and Malgov was held on March 20, 2020 to finally resolve the issue on outstanding taxes with Malgov. MIR and Malgov agreed to review the real balance of what we owe to each other. MIR provided a draft memorandum of understanding (MOU) to Malgov for review but both parties didn't come up yet with the final decision on the total amount due.

Unresolved Prior Year Findings
Year Ended September 30, 2019

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