

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

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITOR'S REPORT

YEARS ENDED SEPTEMBER 30, 2021 AND 2020

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

Years Ended September 30, 2021 and 2020
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INDEPENDENT AUDITOR'S 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, 2021 and 2020, and the related statements of revenues, expenses and changes in net position and of cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Majuro Resort, Inc. as of September 30, 2021 and 2020, 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 7 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 7 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 8 to the financial statements, MRI determined that the COVID-19 pandemic may negatively impact its business, results of operations and net position.

Our opinion is not modified with respect to these matters.

Other Matters

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated October 24, 2022, on our consideration of MRI's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of MRI's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering MRI's internal control over financial reporting and compliance.



October 24, 2022

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

Management's Discussion and Analysis
Years Ended September 30, 2021 and 2020

This section of the 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, 2021. The discussion and analysis should be read in conjunction with the audited financial statements, which follow this section.

Financial Highlights

Total assets decreased by \$99,509 or 5.2% from \$1,912,989 in 2020 to \$1,813,480 in 2021. This decrease was brought about by a decrease in net receivables of \$95,080 or 24% from \$390,149 in 2020 to \$295,069 in 2021 together with a decrease in capital assets of \$110,911 or 11.1% from \$1,002,497 in 2020 to \$891,586 in 2021 offset by an increase in cash balances of \$54,012 or 12% from \$466,800 in 2020 to \$520,812 in 2021 and an increase in deposits for capital assets of \$41,310 in 2021. Total liabilities increased by \$204,348 or 15% from \$1,397,414 in 2020 to \$1,601,762 in 2021. This increase was brought about by an increase in long-term debt of \$303,000 in 2021 offset by a decrease in payable to affiliates balances of \$119,470 or 17% from \$714,908 in 2020 to \$595,438 in 2021. As a result of these movements, there was a decrease in net position of \$303,857 or 59% from \$515,575 in 2020 to \$211,718 in 2021.

Total operating revenues for 2021 were \$3,059,622, which represented a decrease of \$560,752 or 15.5% compared to \$3,620,374 for 2020. Compared to 2019, total operating revenues were lower by \$1,086,410 or 26%. Rooms revenue decreased by \$491,598 or 39% from \$1,247,646 for 2020 to \$756,048 for 2021 while food and beverage revenue increased by \$218,086 or 10% from \$2,126,777 for 2020 to \$2,344,863 for 2021. Total operating expenses for 2021 were \$3,659,125, which represented a decrease of \$86,118 or 2.3% compared to \$3,745,243 for 2020. The decrease in utility costs of \$136,175 or 26% from \$515,173 for 2020 to \$378,998 for 2021 together with the decrease in cost of sales of \$19,727 or 1% from \$2,096,223 for 2020 to \$2,076,496 for 2021 were the main drivers in the reduction of operating expenses. Nonoperating revenues for 2021 were \$298,766, which represented an increase of \$59,701 or 25% compared to \$239,065 for 2020. These revenues represented cash subsidies from the RMI Government to assist MRI's operations impacted by the COVID-19 pandemic.

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

	2021	2020	\$ Change 2021-2020	% Change 2021-2020	2019
Assets:					
Current and other assets	\$ 921,894	\$ 910,492	\$ 11,402	1.3%	\$ 1,028,090
Capital assets	891,586	1,002,497	(110,911)	(11.1)%	1,049,341
Total assets	1,813,480	1,912,989	(99,509)	(5.2)%	2,077,431
Liabilities:					
Current and other liabilities	1,298,762	1,397,414	(98,652)	(7.1)%	1,665,497
Long-term debt	303,000	-	303,000		-
Total liabilities	1,601,762	1,397,414	204,348	14.6%	1,665,497
Net position:					
Net investment in capital assets	932,896	1,002,497	(69,601)	(6.9)%	1,049,341
Unrestricted	(721,178)	(486,922)	(234,256)	48.1%	(637,407)
Total net position	\$ 211,718	\$ 515,575	\$ (303,857)	(58.9)%	\$ 411,934

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Management's Discussion and Analysis
Years Ended September 30, 2021 and 2020

Total assets decreased by \$99,509 from \$1,912,989 in 2020 to \$1,813,480 in 2021 whilst total liabilities increased by \$204,348 from \$1,397,414 in 2020 to \$1,601,762 in 2021. MRI's liabilities increased due to an increase in long-term debt of \$303,000 offset by the decrease in payable to affiliates balances of \$119,470.

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

	2021	2020	\$ Change 2021-2020	% Change 2021-2020	2019
Operating:					
Operating revenues	\$ 3,059,622	\$ 3,620,314	\$ (560,752)	(15.5)%	\$ 4,146,032
Operating expenses	3,659,125	3,745,243	(86,118)	(2.3)%	4,248,183
Operating loss	(599,503)	(124,869)	(474,634)	380.1%	(102,151)
Nonoperating:					
Nonoperating revenues	298,166	239,065	59,101		-
Nonoperating expenses	(3,120)	(10,555)	7,435	(70.4)%	(2,775)
	295,646	228,510	67,136	29.4%	(2,775)
Change in net position	\$ (303,857)	\$ 103,641	\$ (407,498)	(393.2)%	\$ (104,926)

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:

	2021	2020	\$ Change 2021-2020	% Change 2021-2020	2019
Food and beverage	\$ 2,344,863	\$ 2,126,111	\$ 218,086	10.3%	\$ 2,341,520
Room	156,048	1,241,646	(491,598)	(39.4)%	1,956,353
Management fee	-	35,931	(35,931)	(100.0)%	46,330
Telephone	-	147	(147)	(100.0)%	566
Other	53,446	123,121	(69,675)	(56.6)%	118,295
	3,154,357	3,533,622	(379,265)	(10.7)%	4,463,064
Bad debts (recovery)	94,735	(86,752)	181,487	(209.2)%	317,032
	\$ 3,059,622	\$ 3,620,374	\$ (560,752)	(15.5)%	\$ 4,146,032

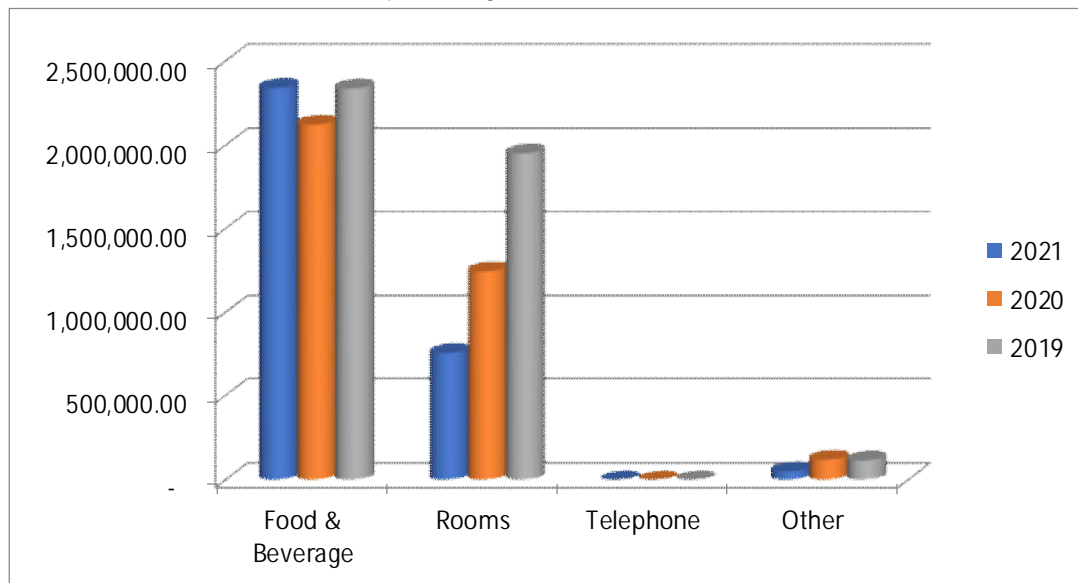
Gross operating revenues for 2021 showed a decrease of \$379,265 from \$3,533,622 in 2020 to \$3,154,357 in 2021. Room revenue for 2021 decreased by \$491,598 or 39% from 2020 whilst food and beverage revenue for 2021 increased by \$218,086 or 10% from 2020. The occupancy ratio in 2021 decreased from 34.79% in 2020 to 32.89% in 2021 with a decrease in average room rate from \$68.22 in 2020 to \$43.43 in 2021. The overall decrease in operating revenues resulted from the negative impact of the COVID19 pandemic. The decrease in operating revenues were partially offset by cash subsidies from the RMI Government to assist MRI's operations impacted by COVID-19.

The following graph shows the major components of revenue for financial periods 2021, 2020 and 2019, all of which cover a twelve (12) month period ending September 30.

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Management's Discussion and Analysis
Years Ended September 30, 2021 and 2020

Operating Revenues Financials



Statement of Hotel Occupancy Performance

The following table shows a comparison of financial and statistical information affecting the room revenue performance for the years 2021, 2020, 2019, 2018 and 2017.

Occupancy Performance	2021	2020	2019	2018	2017
% of total occupancy	32.89%	34.79%	52.32%	50.78%	54.92%
Average rate	\$ 43.73	\$ 68.22	\$ 71.14	\$ 63.91	\$ 60.53
% of paid occupancy	23.53%	34.58%	52.17%	50.66%	54.77%
Average rate	\$ 31.21	\$ 68.45	\$ 71.35	\$ 63.99	\$ 60.66

Total occupancy ratio in 2021 was 32.89% as compared 34.79% in 2020 and 52.32% in 2019. The hotel paid occupancy rate for 2021 of 23.53% has decreased compared to 34.58% for 2020 while the average paid room rate for 2021 of \$31.32 has also decreased compared to \$68.45 for 2020.

Operating Expenses

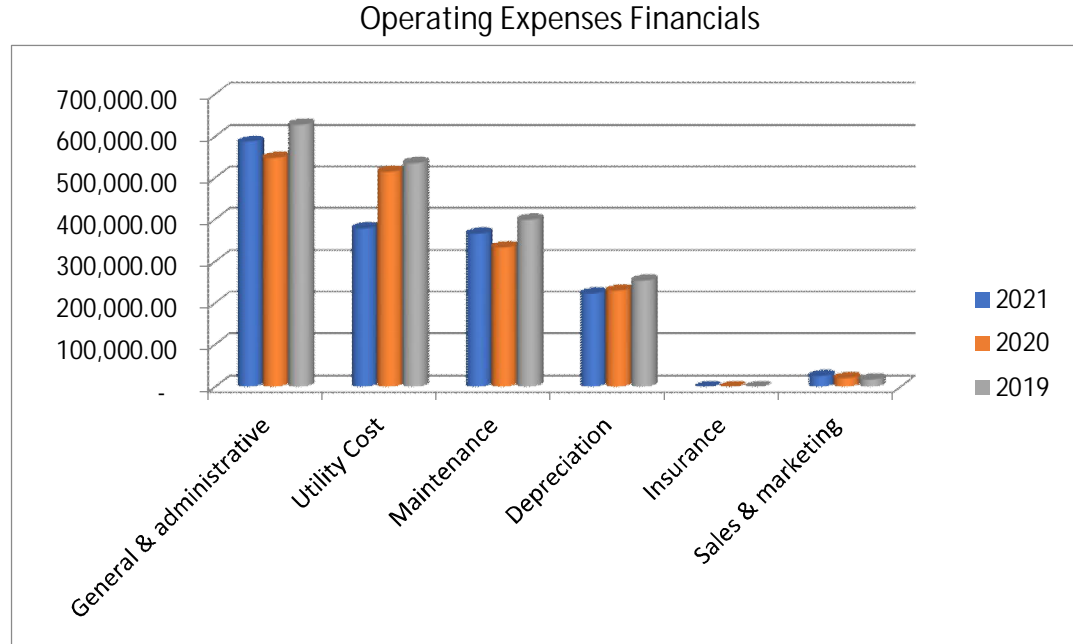
Total operating expenses for 2021 were \$3,659,125, which represented a decrease of \$86,118 or 2.3% compared to \$3,745,243 for 2020. Excluding cost of sales, operating expenses for 2021 were \$1,582,629, which represented a decrease of \$66,391 or 4% compared to \$1,649,020 for 2020. This decrease was primarily the result of a decrease in utility costs of \$136,175 or 26% from \$515,173 for 2020 to \$378,998 for 2021 offset by an increase in maintenance costs of \$32,340 or 10% from 334,281 for 2020 to \$366,621 for 2021. As a percentage of net operating revenues, operating expenses (excluding cost of sales) for 2021 represents 52% compared to 46% and 44% for 2020 and 2019, respectively, an increase of 6%.

Utility costs showed a decrease of \$136,175 from \$515,173 in 2020 to \$378,998 in 2021. The decrease was primarily due to the continued decrease of room occupancy by customers and management's decision to turn off air-conditioners in unoccupied rooms when it is necessary to save energy. Maintenance costs increased by \$32,340 from 334,281 in 2020 to \$366,621 in 2021. The increase was primarily due to repairs and maintenance costs associated with the building crack repair project.

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Management's Discussion and Analysis
Years Ended September 30, 2021 and 2020

The following graph shows the major components of operating expenses for financial periods 2021, 2020 and 2019, all of which cover a twelve (12) month period ending September 30.



Capital Assets and Debt

Net capital assets decreased by \$110,911 or 11% from \$1,002,497 in 2020 to \$891,586 in 2021. This decrease was the result of an increase in accumulated depreciation of \$223,269 offset by capital asset additions of \$112,358. A summary of MRI's capital assets is presented below:

	2021	2020	\$ Change 2021-2020	% Change 2021-2020	2019
Buildings and structures	\$ 2,975,276	\$ 2,912,342	\$ 62,934	2.2%	\$ 2,912,342
Furniture and fixtures	1,972,035	1,879,337	92,698	4.9%	1,842,652
Office equipment	265,366	263,306	2,060	0.8%	255,532
Other equipment	109,428	114,425	(4,997)	(4.4)%	114,425
Motor vehicles	487,423	456,003	31,420	6.9%	395,391
	5,809,528	5,625,413	184,115	3.3%	5,520,342
Accumulated depreciation	(4,917,942)	(4,694,673)	(223,269)	4.8%	(4,472,705)
	891,586	930,740	(39,154)	(4.2)%	1,047,637
Construction in progress	-	71,757	(71,757)	(100.0)%	1,704
	<u>\$ 891,586</u>	<u>\$ 1,002,497</u>	<u>\$ (110,911)</u>	<u>(11.1)%</u>	<u>\$ 1,049,341</u>

Capital asset acquisitions during the year ended September 30, 2021, included \$92,698 in furniture and fixtures purchases for the opening of the new "Tulok in AI" bar, and to replace damaged items in rooms, the restaurant and the kitchen. For additional information concerning the capital assets, please see Note 3 to the accompanying financial statements.

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In 2021, MRI entered into a \$303,000 loan with the Marshall Islands Development Bank for the purpose of funding certain building repairs and maintenance. Please refer to Note 4 to the accompanying financial statements for additional information associated with this debt.

Economic Factors and Next Year's Performance

MRI continues to deal with the impact of the global COVID19 pandemic with the RMI Government border closure impacting the Hotel operations for the entire fiscal year 2021 with very limited opportunities for international customers being able to visit the Marshall Islands for work or pleasure. With the onset of community transmission in August 2022, and the subsequent opening of the borders, MRI expects business to slowly recover to pre-COVID19 conditions.

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

- 1.) Since the border is already open and slowly returning to the new normal, there should be a positive impact on MRI's performance especially with regards to the room revenue. Management is expecting local and international travelers to return on island as well as increasing government hosted conferences and workshops.
- 2.) In January 2022, MRI entered into an agreement with the College of the Marshall Islands wherein they rented 40 rooms, including three meals a day, for off-island students and instructors for the duration of January 2022 to July 2022. This contract was then extended up through December 2022. This will have a positive impact on cash flow especially when services are paid for in advance.
- 3.) MRI is looking forward to the months of May and June next year as there will be back-to-back church conferences. It is anticipated that hotel rooms and restaurant will be utilized by attendees.
- 4.) Before the Micronesian Olympic Games in July 2023, there will be a Micronesian Presidential Summit during this coming summer of 2023. The Olympic games is scheduled to be held in the Marshall Islands where many athletes from different Pacific Islands will be participating. Management are expecting that they will occupy most of our rooms resulting in a positive impact on room revenue as well as on restaurant revenue.
- 5.) An Australian high-level delegation will be staying at the hotel for four days and will be occupying 10 rooms on October 12-14, 2022. Management expects that multiple functions in venue rooms will be utilized by the delegation.
- 6.) In September 2023, there will be RMI and Taiwan Cultural Exchange. Delegations from Taiwan are expected to use the hotel facilities, function room and restaurants.

Management Discussion and Analysis for the year ended September 30, 2020 is set forth in the report on the audit of MRI's financial statements dated October 18, 2021. The Discussion and Analysis explains the major factors impacting the 2020 financial statements and may be obtained from the contact information below.

Additional Financial Information

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

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Statements of Net Position
September 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
<u>ASSETS</u>		
Current assets:		
Cash	\$ 520,812	\$ 466,800
Receivables:		
Trade	295,377	337,575
Affiliates	349,339	435,672
Other	18,030	33,414
	662,746	806,661
Less allowance for doubtful accounts	(367,677)	(416,512)
Total receivables, net	295,069	390,149
Inventories	31,632	24,036
Prepaid expenses	33,071	29,507
Total current assets	880,584	910,492
Capital assets:		
Nondepreciable capital assets	-	71,757
Other capital assets, net of accumulated depreciation	891,586	930,740
	891,586	1,002,497
Deposit for capital asset acquisition	41,310	-
Total noncurrent assets	932,896	1,002,497
	\$ 1,813,480	\$ 1,912,989
<u>LIABILITIES AND NET POSITION</u>		
Current liabilities:		
Current portion of loan payable	\$ 3,765	\$ -
Accounts payable	103,427	76,706
Payable to affiliates	595,438	714,908
Accrued taxes payable	488,304	488,319
Other accrued liabilities	111,593	117,481
Total current liabilities	1,302,527	1,397,414
Loan payable, net of current portion	299,235	-
	1,601,762	1,397,414
Commitment and contingencies		
Net position:		
Net investment in capital assets	932,896	1,002,497
Unrestricted	(721,178)	(486,922)
Total net position	211,718	515,575
	\$ 1,813,480	\$ 1,912,989

See accompanying notes to financial statements.

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

	2021	2020
Hotel operations:		
Operating revenues:		
Food and beverage	\$ 2,344,863	\$ 2,126,777
Rooms	756,048	1,247,646
Telephone	-	147
Other	53,446	123,121
Total revenues	3,154,357	3,497,691
Recovery of (provision for) doubtful accounts	(94,735)	86,752
Net revenues	3,059,622	3,584,443
Cost of sales:		
Food and beverage	1,730,600	1,637,875
Rooms	328,427	431,350
Telephone	17,469	21,144
Other	-	5,854
Total cost of sales	2,076,496	2,096,223
Gross profit	983,126	1,488,220
Operating expenses:		
General and administrative	587,101	547,949
Utility costs	378,998	515,173
Maintenance	366,621	334,281
Depreciation	223,269	230,135
Sales and marketing	26,640	21,482
Total operating expenses	1,582,629	1,649,020
Operating loss from hotel operations	(599,503)	(160,800)
Nonhotel operations:		
Operating revenues:		
Management fee	-	35,931
Operating loss	(599,503)	(124,869)
Nonoperating revenues (expenses):		
Contributions from Repmar	298,766	239,065
Interest expense	(3,120)	(9,222)
Loss on sale of asset	-	(1,333)
Total nonoperating revenues (expenses), net	295,646	228,510
Change in net position	(303,857)	103,641
Net position at beginning of year	515,575	411,934
Net position at end of year	\$ 211,718	\$ 515,575

See accompanying notes to financial statements.

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

	2021	2020
Cash flows from operating activities:		
Cash received from customers	\$ 3,154,702	\$ 3,752,071
Cash payments to suppliers for goods and services	(2,163,460)	(2,254,092)
Cash payments to employees for services	(1,382,208)	(1,524,405)
Net cash used for operating activities	<u>(390,966)</u>	<u>(26,426)</u>
Cash flows from noncapital financing activities:		
Contributions from RepMar	298,766	239,065
Proceeds from long-term debt	303,000	-
Interest paid	(3,120)	(9,222)
Net cash provided by noncapital financing activities	<u>598,646</u>	<u>229,843</u>
Cash flows from capital and related financing activities:		
Acquisition of capital assets	(153,668)	(189,124)
Proceeds from sale of capital assets	-	4,500
Net cash used for capital and related financing activities	<u>(153,668)</u>	<u>(184,624)</u>
Net change in cash	54,012	18,793
Cash at beginning of year	466,800	448,007
Cash at end of year	\$ <u>520,812</u>	\$ <u>466,800</u>
Reconciliation of operating loss to net cash used for operating activities:		
Operating loss	\$ (599,503)	\$ (124,869)
Adjustments to reconcile operating loss to net cash used for operating activities:		
Depreciation	223,269	230,135
Provision for (recovery of) doubtful accounts	94,735	(86,752)
(Increase) decrease in assets:		
Receivables:		
Trade	(101,372)	14,528
Affiliates	86,333	188,347
Other	15,384	15,574
Inventories	(7,596)	2,020
Prepaid expenses	(3,564)	2,674
Increase (decrease) in liabilities:		
Accounts payable	26,721	(176,110)
Payable to affiliates	(119,470)	(89,948)
Other accrued liabilities	(5,903)	(2,025)
Net cash used for operating activities	\$ <u>(390,966)</u>	\$ <u>(26,426)</u>

See accompanying notes to financial statements.

MAJURO RESORT, INC.
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Notes to Financial Statements
September 30, 2021 and 2020

(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 (GAAP), as applicable to governmental entities, specifically proprietary funds. The Governmental Accounting Standards Board (GASB) is the recognized standard-setting body for establishing governmental accounting and financial reporting principles.

GASB Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments, as amended by GASB Statement No. 37, Basic Financial Statements - Management's Discussion and Analysis - for State and Local Governments: Omnibus, GASB Statement No. 38, Certain Financial Statement Note Disclosures, and GASB Statement No. 61, The Financial Reporting Entity: Omnibus - an amendment of GASB Statements No. 14 and No. 34, establish standards for external financial reporting for state and local governments and requires that resources be classified for accounting and reporting purposes into the following three net position categories:

- Net investment in capital assets - capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.
- Restricted - net position whose use by MRI is subject to externally imposed stipulations that can be fulfilled by actions of MRI pursuant to those stipulations or that expire by the passage of time. MRI has no restricted net position as of September 30, 2021 and 2020.
- Unrestricted - net position that is not subject to externally imposed stipulations. Unrestricted net position may be designated for specific purposes by action by management or the Board of Directors or may otherwise be limited by contractual agreements with outside parties.

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

Basis of Accounting

Proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and deferred outflows of resources, and liabilities and deferred inflows of resources associated with the operation of the fund are included in the statements of net position. Proprietary fund operating statements present increases and decreases in net position. The accrual basis of accounting is utilized by proprietary funds. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

Revenue Recognition

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

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Notes to Financial Statements
September 30, 2021 and 2020

(2) Summary of Significant Accounting Policies, Continued

Cash

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

For purpose of the statements of net position and cash flows, cash is defined as cash on hand and cash held in demand accounts. As of September 30, 2021 and 2020, the carrying amount of cash were \$520,812 and \$466,800, respectively, and the corresponding bank balances were \$561,661 and \$472,832, respectively. Of the bank balances, \$253,653 and \$238,122, respectively, were maintained in a financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance with the remaining amounts of \$308,008 and \$234,710, respectively, being maintained in a financial institution not subject to depository insurance. As of September 30, 2021 and 2020, bank deposits in the amount of \$250,000 and \$238,122, respectively, were FDIC insured. MRI does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized. Accordingly, these deposits are exposed to custodial credit risk.

Receivables

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

Inventories

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

Prepaid Expenses

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

Operating Supplies

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

Property, Plant and Equipment

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

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

Notes to Financial Statements
September 30, 2021 and 2020

(2) Summary of Significant Accounting Policies, Continued

Deferred Outflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (deduction of net position) until then. 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 non-vesting accumulating rights to receive sick benefits. As of September 30, 2021 and 2020, the accumulated vacation leave liability amounted to \$112,718 and \$88,160, 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, 2021 and 2020, MRI incurred advertising costs of \$4,996 and \$4,361, respectively.

Taxes

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

New Accounting Standards

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

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

- GASB Statement No. 84, Fiduciary Activities, which improves guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported.
- GASB Statement No. 90, Majority Equity Interests - An Amendment of GASB Statements No. 14 and 61, which improves the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units.

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

Notes to Financial Statements
September 30, 2021 and 2020

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

- GASB Statement No. 93, Replacement of Interbank Offered Rates, which establishes accounting and reporting requirements related to the replacement of Interbank Offered Rates such as the London Interbank Offered Rate (LIBOR) for hedging derivative instruments. The provision removing LIBOR as an appropriate benchmark interest rate for the evaluation of the effectiveness of derivative instruments is effective for the year ending September 30, 2022.

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

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

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

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

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

MAJURO RESORT, INC.
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Notes to Financial Statements
September 30, 2021 and 2020

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

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

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

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

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.

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

Notes to Financial Statements
September 30, 2021 and 2020

(3) Property, Plant and Equipment

Capital asset activities for the years ended September 30, 2021 and 2020 were as follows:

		2021			
	Estimated Useful Lives	October 1, 2020	Additions	Disposals	September 30, 2021
Depreciable assets:					
Building and structure	24 years	\$ 2,912,342	\$ 62,934	\$ -	\$ 2,975,276
Furniture and fixtures	3 years	1,879,337	92,698	-	1,972,035
Office equipment	3 years	263,306	2,060	-	265,366
Other equipment	3 years	114,425	-	(4,997)	109,428
Motor vehicles	3 years	456,003	26,450	4,970	487,423
		5,625,413	184,142	(27)	5,809,528
Less accumulated depreciation		(4,694,673)	(223,269)	-	(4,917,942)
		930,740	(39,127)	(27)	891,586
Nondepreciable assets:					
Construction-in-progress		71,757	-	(71,757)	-
		\$ 1,002,497	\$ (39,127)	\$ (71,784)	\$ 891,586
		2020			
	Estimated Useful Lives	October 1, 2019	Additions	Disposals	September 30, 2020
Depreciable assets:					
Building and structure	24 years	\$ 2,912,342	\$ -	\$ -	\$ 2,912,342
Furniture and fixtures	3 years	1,842,652	36,685	-	1,879,337
Office equipment	3 years	255,532	7,774	-	263,306
Other equipment	3 years	114,425	-	-	114,425
Motor vehicles	3 years	395,391	74,612	(14,000)	456,003
		5,520,342	119,071	(14,000)	5,625,413
Less accumulated depreciation		(4,472,705)	(230,135)	8,167	(4,694,673)
		1,047,637	(111,064)	(5,833)	930,740
Nondepreciable assets:					
Construction-in-progress		1,704	70,053	-	71,757
		\$ 1,049,341	\$ (41,011)	\$ (5,833)	\$ 1,002,497

(4) Long-term Debt

Long-term debt as of September 30, 2021 and 2020 is as follows:

	2021	2020
Note payable to Marshall Islands Development Bank (MIDB) in the amount of \$303,000, interest at 7% per annum, with principal and interest payable in monthly installments of \$4,886 commencing February 28, 2022 through January 28, 2029, collateralized by a chattel mortgage over the 150-room hotel and the assignment of business operations payments. The purpose of the loan is to provide working capital and to fund certain building structure renovations.	\$ 303,000	\$ -

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Notes to Financial Statements
September 30, 2021 and 2020

(4) Long-term Debt, Continued

Annual debt service requirements to maturity for principal and interest are as follows:

<u>Year ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2022	\$ 3,765	\$ 35,324	\$ 39,089
2023	38,924	19,708	58,632
2024	41,690	16,943	58,633
2025	44,752	13,881	58,633
2026	47,987	10,645	58,632
2027-2029	<u>125,882</u>	<u>10,925</u>	<u>205,767</u>
	<u>\$ 303,000</u>	<u>\$ 107,426</u>	<u>\$ 410,426</u>

Debt Covenants

The Loan Agreement, dated February 3, 2021, sets forth covenants to ensure payment of debt service. The primary requirements of the agreement are summarized below:

Events of default with finance related consequences - the Loan Agreement specifies a number of Events of Default and related Remedies.

Acceleration - Upon the occurrence of an Event of Default and is continuing, the bank may, without notice or demand, declare all unpaid principal of and all interest accrued on the loan to be immediately due and payable and, upon such declaration, all such principal and interest shall become immediately due and payable.

A summary of changes in long-term debt for the year ended September 30, 2021, was as follows:

	<u>Balance October 1, 2020</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance September 30, 2021</u>	<u>Due Within One Year</u>
Note payable:					
MIDB	\$ <u>-</u>	\$ <u>303,000</u>	\$ <u>-</u>	\$ <u>303,000</u>	\$ <u>3,765</u>

(5) Related Party Transactions

MRI is a component unit of RepMar and is therefore affiliated with all RepMar-owned and affiliated entities, including 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.

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Notes to Financial Statements
September 30, 2021 and 2020

(5) Related Party Transactions, Continued

A summary of related party balances and transactions as of September 30, 2021 and 2020 and for the years then ended are as follows:

	2021			
	<u>Revenues</u>	<u>Expenses</u>	<u>Receivables</u>	<u>Payables</u>
RepMar	\$ 379,612	\$ 134,537	\$ 166,444	\$ 40,888
Marshalls Energy Company, Inc.	97,314	336,935	26,468	428,450
Marshall Islands National Telecommunications Authority	12,110	54,091	9,968	20,380
Marshall Islands Social Security Administration	1,378	250,060	578	83,574
Majuro Water and Sewer Company, Inc.	1,907	47,113	-	14,481
Marshall Islands Marine Resources Authority	5,248	-	1,674	-
College of Marshall Islands	100,995	-	8,243	-
Marshall Islands Development Bank	10,368	104,841	114,643	-
Other	<u>122,223</u>	<u>62,864</u>	<u>21,321</u>	<u>7,665</u>
	<u>\$ 731,155</u>	<u>\$ 990,441</u>	<u>\$ 349,339</u>	<u>\$ 595,438</u>
	2020			
	<u>Revenues</u>	<u>Expenses</u>	<u>Receivables</u>	<u>Payables</u>
RepMar	\$ 436,909	\$ 180,982	\$ 277,228	\$ 32,807
Marshalls Energy Company, Inc.	34,773	485,957	19,949	558,655
Marshall Islands National Telecommunications Authority	20,102	71,019	7,416	26,248
Marshall Islands Social Security Administration	6,438	291,684	319	76,750
Majuro Water and Sewer Company, Inc.	776	58,235	1,676	9,520
Marshall Islands Marine Resources Authority	24,355	-	3,296	-
College of Marshall Islands	99,151	-	10,600	-
Marshall Islands Development Bank	39,291	120,334	95,435	5,238
Other	<u>130,108</u>	<u>75,268</u>	<u>19,753</u>	<u>5,690</u>
	<u>\$ 791,903</u>	<u>\$ 1,283,479</u>	<u>\$ 435,672</u>	<u>\$ 714,908</u>

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

MRI has entered into a 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 years ended September 30, 2021 and 2020, MRI recognized management fee revenue associated with this agreement of \$0 and \$35,931, respectively. As of September 30, 2020, MRI recorded unreimbursed costs of \$26,036 due from MIDB associated with operations under the agreement.

During the years ended September 30, 2021 and 2020, MRI received cash operating subsidies from RepMar of \$298,766 and \$239,065, respectively.

MAJURO RESORT, INC.
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Notes to Financial Statements
September 30, 2021 and 2020

(6) 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 general liability and 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 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.

(7) Commitment and Contingencies

Commitment

MRI leases the land on which the hotel is situated at \$10,212 per year plus 2.5% of gross revenue earned. These payments are suspended until such time as any person or entity other than RepMar or any agency thereof holds 75% of the ownership of the lessee, or its successor in the interest in the hotel. The lease also requires that 5% of the initial outstanding shares of the lessee or its successor be issued to the lessor. Neither MRI nor RepMar have issued shares to the lessor as of September 30, 2021 and 2020.

Contingencies

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America, which contemplates the continuation of MRI as a going concern. During the years ended September 30, 2021 and 2020, MRI reported an operating loss of \$599,503 and \$124,869, respectively, and used a substantial amount of working capital in its operations resulting in a working capital deficiency of \$421,943 and \$486,922 as of September 30, 2021 and 2020, 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 as of September 30, 2021, 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 before August 2014, which may not be in compliance with Majuro Atoll Local Government (Malgov) ordinances. As of September 30, 2021 and 2020, sales taxes of \$145,347 and \$145,354, respectively, and local government taxes of \$342,957 and \$342,965, respectively, remain outstanding of which \$488,304 and \$488,319, respectively, is included as accrued taxes payable in the accompanying statements of net position. Unfavorable resolution of this matter could expose MRI to additional penalties and interest. Penalties and interest are estimated to be \$162,571 and \$162,343 as of September 30, 2021 and 2020, respectively. No such action has yet been filed. As of September 30, 2021 and 2020, 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.

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Notes to Financial Statements
September 30, 2021 and 2020

(8) COVID-19 Pandemic

On March 11, 2020, the World Health Organization declared the novel strain of coronavirus (COVID-19) a global pandemic and recommended containment and mitigation measures worldwide. During the year ended September 30, 2021, four confirmed cases were identified in the Marshall Islands that were isolated and contained. On August 8, 2022, community transmission was identified and MRI has determined that such may negatively impact MRI's business, results of operations, and financial position and MRI may become dependent upon the financial support of RepMar. However, the effect of the pandemic on RepMar is also uncertain and future available funding to RepMar component units may be limited. Therefore, while MRI expects this matter to potentially have a negative impact on its business, results of operations, and financial position, the related financial impact cannot be reasonably estimated at this time.

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

Board of Directors
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, 2021, and the statements of revenues, expenses and changes in net position and of cash flows for the year then ended and the related notes to the financial statements, and have issued our report thereon dated October 24, 2022.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether MRI's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying Schedule of Findings and Responses as Item 2021-001.

MRI's Response to Findings

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

Purpose of this Report

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

A handwritten signature in black ink that reads "Deloitte + Touche LLP". The signature is written in a cursive, flowing style.

October 24, 2022

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

Schedule of Findings and Responses
Year Ended September 30, 2021

Finding No.: 2021-001
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, 2021. 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 2020.

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

Auditee Response and Corrective Action Plan: MALGOV finding; To discuss and resolve issues about MRI's audit findings pertaining to outstanding debts (room & sales tax) to Malgov, the company never stop reaching out with MALGOV. On May 27, 2022 one of the senators coordinated the meeting for MRI and MALGOV together with Ministry of Finance. On the meeting since MALGOV cannot give the exact amount of how much MRI owes to them, they agreed to used MRI's book balance amounting to \$486,660 as principal balance to be paid by MRI. Both parties also agreed that no penalties and interest will be charge, only the principal amount will be paid by MRI. On this meeting they also agreed that the clerk of Malgov will be working with Secretary of Finance to work on the offsetting options. The secretary of finance and the clerk from Malgov will work on the MOU and will share it with MRI's CEO for review.

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Unresolved Prior Year Findings
Year Ended September 30, 2021

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