

*Financial Statements and Required Supplementary  
Information*

**Republic of the Marshall Islands Office of Commerce,  
Investment and Tourism**

(A Component Unit of the Republic of the Marshall Islands)

*Year Ended September 30, 2022  
with Report of Independent Auditors*



Republic of the Marshall Islands Office of Commerce,  
Investment and Tourism  
(A Component Unit of the Republic of the Marshall Islands)

Financial Statements and Required Supplementary Information

Year Ended September 30, 2022

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## Report of Independent Auditors

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

### **Report on the Audit of the Financial Statements**

#### ***Opinion***

We have audited the financial statements of the Republic of the Marshall Islands Office of Commerce, Investment and Tourism (OCIT), a component unit of the Republic of the Marshall Islands, which comprise the statement of net position as of September 30, 2022, and the related statements of revenues, expenses and changes in net position and of cash flows for the year then ended, and the related notes to the financial statements, which collectively comprise OCIT's financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of OCIT as of September 30, 2022, and the changes in financial position, and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

#### ***Basis for Opinion***

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of OCIT and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### ***Responsibilities of Management for the Financial Statements***

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about OCIT's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

### ***Auditor's Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 OCIT's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about OCIT's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 9 be presented to supplement the financial statements. Such information is the responsibility of management and, 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 GAAS, 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 February 5, 2024, on our consideration of OCIT's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of OCIT's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering OCIT's internal control over financial reporting and compliance.

*Ernst + Young LLP*

February 5, 2024

Republic of the Marshall Islands Office of Commerce,  
Investment and Tourism  
(A Component Unit of the Republic of the Marshall Islands)

Management's Discussion and Analysis

Year Ended September 30, 2022

This section of the Republic of the Marshall Islands (RMI) Office of Commerce, Investment and Tourism (OCIT) annual financial report presents our discussion and analysis of OCIT's financial performance during the fiscal year that ended September 30, 2022 with comparative information provided for 2021 and 2020. This section is to be read in conjunction with the financial statements that follow this section and the accompanying notes to our financial statements in this report.

**OCIT FUNCTIONS**

OCIT has wide-ranging functions and powers designed to make it a catalyst for economic and social development. Its primary function is to "... develop and implement social and economic development programs and projects...for the betterment of the economic and social conditions of the inhabitants of the Republic." In March 2018, the Marshall Islands Visitor's Authority combined with the RMI Office of Commerce and Investment, renaming the organization the RMI Office of Commerce, Investment and Tourism. Its functions now combine the roles of a tourism agency, investment promotion agency, a government investment corporation - i.e. to encourage and develop tourism and investments and to operate business enterprises on behalf of the RMI government. It is empowered to perform its functions alone or in conjunction with other government agencies and private enterprises.

**FINANCIAL ANALYSIS OF OCIT**

OCIT has been in operation for over six years and continues to set out to achieve its mission of being a catalyst for economic and social development. In order to achieve this, it has to attract potential foreign direct investments as well as boost local economic growth by assisting local investors to expand and reinvest in the country and further encourage and develop tourism. With the MIVA merger in March of 2018, operational costs have increased.

The Statements of Net Position and the Statements of Revenues, Expenses and Changes in Net Position provide an indication of OCIT's financial condition. OCIT's net position reflects the difference between assets and liabilities. An increase in net position over time typically indicates an improvement in financial condition.

Republic of the Marshall Islands Office of Commerce,  
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Management's Discussion and Analysis, continued

**FINANCIAL ANALYSIS OF OCIT, CONTINUED**

**Net Position**

A summary of OCIT's Statements of Net Position as of September 30, 2022 compared with 2021 and 2020 is presented below:

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

	2022	2021	\$ Change 2022-2021	% Change 2022-2021	2020
<b>Assets:</b>					
Current and other assets	\$ 161,495	\$ 152,401	\$ 9,094	6.0%	\$ 103,339
Capital assets	<u>105,552</u>	<u>149,936</u>	<u>(44,384)</u>	(29.6)%	<u>99,352</u>
Total assets	<u>267,047</u>	<u>302,337</u>	<u>(35,290)</u>	(11.7)%	<u>202,691</u>
<b>Liabilities:</b>					
Current and other liabilities	<u>80,332</u>	<u>80,045</u>	<u>287</u>	0.4%	<u>91,082</u>
<b>Net position:</b>					
Net investment in capital assets	105,552	149,936	(44,384)	(29.6)%	99,352
Unrestricted	<u>81,163</u>	<u>72,356</u>	<u>8,807</u>	12.2%	<u>12,257</u>
Total net position	<u>\$ 186,715</u>	<u>\$ 222,292</u>	<u>\$ (35,577)</u>	(16.0)%	<u>\$ 111,609</u>

OCIT's total assets have decreased by \$35,290 (or 11.7%) from \$302,337 in 2021 to \$267,047 in 2022. This was due to the decrease in capital assets of \$44,384 (or 29.6%) offset by an increase in current and other assets of \$9,094 (or 6%).

OCIT's capital assets have decreased by \$44,384 from \$149,936 in 2021 to \$105,552 in 2022, representing the net effect of current year depreciation and current year additions of \$48,686 and \$4,302, respectively.

OCIT's current and other assets have increased by \$9,094 from \$152,401 in 2021 to \$161,495 in 2022, which represents an increase in cash of \$3,839 and receivables of \$5,285.

OCIT's total net position has decreased by \$35,577 (or 16%) from \$222,292 in 2021 to \$186,715 in 2022. This decrease was due to the decrease in net investment in capital assets of \$44,384 offset by the increase in unrestricted net position of \$8,807.

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Management's Discussion and Analysis, continued

**FINANCIAL ANALYSIS OF OCIT, CONTINUED**

**Change in Net Position**

A summary of OCIT'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

	2022	2021	\$ Change 2022-2021	% Change 2022-2021	2020
Operating revenues:					
Nitijela appropriation	\$ 625,124	\$ 759,423	\$ (134,299)	(17.7)%	\$ 793,600
Contributions and other	-	26,975	(26,975)	(100.0)%	27,724
Hotel tax	10,358	6,716	3,642	54.2%	17,465
Other	8,331	5,978	2,353	39.4%	2,813
Less: Allowance for doubtful accounts	<u>(10,358)</u>	<u>-</u>	<u>(10,358)</u>	100.0%	<u>-</u>
Total revenues	<u>633,455</u>	<u>799,092</u>	<u>(165,637)</u>	(20.7)%	<u>841,602</u>
Operating expenses:					
Salaries, wages and benefits	435,843	439,604	(3,761)	(0.9)%	461,314
Professional/contractual fees	25,869	4,642	21,227	457.3%	62,868
Travel and per diem	14,689	15,388	(699)	(4.5)%	74,081
Advertising	36,450	70,107	(33,657)	(48.0)%	39,915
Other expenses	<u>156,181</u>	<u>158,668</u>	<u>(2,487)</u>	(1.6)%	<u>150,648</u>
	<u>669,032</u>	<u>688,409</u>	<u>(19,377)</u>	(2.8)%	<u>788,826</u>
Change in net position	<u>\$ (35,577)</u>	<u>\$ 110,683</u>	<u>\$ (146,260)</u>	(132.1)%	<u>\$ 52,776</u>

OCIT's revenues decreased by \$165,637 (or 20.7%) from \$799,092 in 2021 to \$633,455 in 2022 whilst operating expenses decreased by \$19,377 (or 2.8%) from \$688,409 in 2021 to \$669,032 in 2022.



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Management's Discussion and Analysis, continued

**FINANCIAL ANALYSIS OF OCIT, CONTINUED**

**Change in Net Position, continued**

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

**Summary Schedule of Other Expenses**  
Years Ended September 30

	2022	2021	\$ Change 2022-2021	% Change 2022-2021	2020
Other expenses:					
Utilities and communications	\$ 38,236	\$ 35,417	\$ 2,819	8.0%	\$ 34,635
Rent	7,992	7,416	576	7.8%	20,868
Depreciation	48,686	36,089	12,597	34.9%	20,217
Office supplies	13,125	26,507	(13,382)	(50.5)%	15,925
Subscriptions and dues	13,539	15,467	(1,928)	(12.5)%	14,652
Training	4,864	7,945	(3,081)	(38.8)%	9,177
Miscellaneous	29,739	29,827	(88)	(0.3)%	35,174
	<u>\$ 156,181</u>	<u>\$ 158,668</u>	<u>\$ (2,487)</u>	(1.6)%	<u>\$ 150,648</u>

Despite the increase in responsibilities due to the SBDC-OCIT merger in 2017, and MIVA-OCIT merger in 2018, OCIT management was able to accomplish results and targets with the achievement of several key objectives especially in assisting SMEs to access capital financing from lending institutions for business startups and expansion of existing businesses.

Management's Discussion and Analysis for the year ended September 30, 2021 is set forth in OCIT's report on the audit of the financial statements, which is dated September 30, 2022. That Discussion and Analysis explains the major factors impacting the 2021 financial statements and can be obtained from the OCIT's Chief Executive Officer at the contact information provided below.

**CAPITAL ASSETS AND LONG-TERM DEBT**

Capital assets for OCIT in 2022 were \$105,552, compared to \$149,936 in 2021, which is a (29.6%) decrease from prior year due to limited need to acquire assets for the reporting period as well as an increase in accumulated depreciation.

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Management's Discussion and Analysis, continued

**CAPITAL ASSETS AND LONG-TERM DEBT, CONTINUED**

A summary of OCIT's capital assets as of September 30, 2022 compared with 2021 and 2020 is presented below:

	2022	2021	\$ Change 2022-2021	% Change 2022-2021	2020
Depreciable capital assets:					
Motor vehicles	\$ 64,345	\$ 64,345	\$ -	0.0%	\$ 32,350
Leasehold improvements	56,289	56,289	-	0.0%	36,753
Furnitures and fixtures	<u>126,402</u>	<u>122,100</u>	<u>4,302</u>	3.5%	<u>86,958</u>
	247,036	242,734	4,302	1.8%	156,061
Accumulated depreciation	<u>(141,484)</u>	<u>(92,798)</u>	<u>(48,686)</u>	52.5%	<u>(56,709)</u>
	<u>\$ 105,552</u>	<u>\$ 149,936</u>	<u>\$ (44,384)</u>	(29.6)%	<u>\$ 99,352</u>

Please refer to note 3 to the accompanying financial statements for additional information regarding OCIT's capital assets. OCIT did not incur long-term debt activity during the period.

**EXTERNAL FACTORS AND CURRENT ECONOMIC OUTLOOK**

Akin to other Ministries and agencies of and within the Republic of the Marshall Islands (RMI), the Coronavirus Pandemic did continue to affect the Office of Commerce, Investment and Tourism services. Due to poor outlook on RMI General Fund revenues, OCIT's budget allocation underwent an 15% budget cut causing a slight shift in operations for the reporting year.

Although budget allocation from RepMar had declined, OCIT continued to streamline as well as fine-tune its services to focus more on improving domestic travel and markets in the RMI. This is evident by the domestic travel ventures incurred to scout out potential areas in the neighboring island that are ideal to market as well as re-establishing connections with tour operators to help strengthen its services and promotion for the eventual return of foreign visitors. The closing of borders also created a way for OCIT to re-identify sustainable activities that can be mutually beneficial to the RMI government and private sectors.

In terms of visitation rate for the RMI, recent data has shown a significant decline in visitors mainly due to flight restrictions, as numbers continue to plummet from 2,304 in FY2021 to just 711 in FY2022 compared to FY2019 when it had reached its peak of 10,771 arrivals, the most the RMI has ever received thus far. These were the type of impacts that OCIT's Tourism sector along with the Investment Promotion unit had struggled with during the reporting year as foreign clients were reluctant to invest in a country that was closed off.

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Management's Discussion and Analysis, continued

**EXTERNAL FACTORS AND CURRENT ECONOMIC OUTLOOK, CONTINUED**

Furthermore, OCIT made preparations on other matters concerning the upcoming Miss Marshall Islands pageant where they had hoped to crown a new reigning RMI ambassador who would spear its goals and pave way to expand its promotional influence in the Pacific.

The reporting year had served as a means for OCIT to prepare for the eventual return of incoming visitors and clients as well as reflect on ways to enhance its services domestically and tap into other grant opportunities to supplement its operational programs. OCIT had successfully been awarded the U.S Economic Development Grant which will soon kick off the following year to come. This grant will offer many developments that will surely benefit the RMI as well as shape the very existence of OCIT for years to come.

**ADDITIONAL FINANCIAL INFORMATION**

This discussion and analysis is designed to provide an overview of OCIT's financial operations and financial condition. Should the reader have any questions regarding information included in this report or wish to request additional information, please contact the CEO of the Office of Commerce, Investment and Tourism at 625-4624 or in writing to P. O. Box 898, Majuro, Marshall Islands 96960.

Republic of the Marshall Islands Office of Commerce,  
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Statement of Net Position

September 30, 2022

<b>Assets</b>	
Current assets:	
Cash	\$ 154,484
Receivables:	
Hotel taxes	10,358
Other	19,567
	<u>29,925</u>
Less allowance for doubtful accounts	(22,914)
Receivables, net	<u>7,011</u>
Total current assets	161,495
Capital assets, net of accumulated depreciation	105,552
	<u>\$ 267,047</u>
<b>Liabilities and Net Position</b>	
Current liabilities:	
Payable to affiliates	\$ 28,647
Other liabilities and accruals	51,685
Total liabilities	<u>80,332</u>
Commitment and contingency	
Net position:	
Net investment in capital assets	105,552
Unrestricted	81,163
Total net position	<u>186,715</u>
	<u>\$ 267,047</u>

*See accompanying notes.*

Republic of the Marshall Islands Office of Commerce,  
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Statement of Revenues, Expenses and Changes in Net Position

Year Ended September 30, 2022

Operating revenues:	
Nitijela appropriations	\$ 625,124
Hotel taxes	10,358
Other	8,331
Bad debt expense	<u>(10,358)</u>
Total operating revenues	<u>633,455</u>
Operating expenses:	
Salaries, wages and employee benefits	435,843
Depreciation	48,686
Utilities and communications	38,236
Advertising	36,450
Professional/contractual fees	25,869
Travel and per diem	14,689
Subscriptions and dues	13,539
Office supplies	13,125
Board member fees and expenses	11,040
Fuel and vehicle maintenance	9,113
Rent	7,992
Training	4,864
Printing	4,210
Miscellaneous	<u>5,376</u>
Total operating expenses	<u>669,032</u>
Change in net position	(35,577)
Net position at beginning of year	<u>222,292</u>
Net position at end of year	<u><u>\$ 186,715</u></u>

*See accompanying notes.*

Republic of the Marshall Islands Office of Commerce,  
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Statement of Cash Flows

Year Ended September 30, 2022

Cash flows from operating activities:	
Operating grants received	\$ 625,124
Cash received from customers	3,047
Cash payments to suppliers for goods and services	(184,035)
Cash payments to employees for services	(436,024)
Net cash provided by operating activities	<u>8,112</u>
Cash flows from capital and related financing activities:	
Acquisition of property and equipment	<u>(4,302)</u>
Net change in cash	3,810
Cash at beginning of year	<u>150,674</u>
Cash at end of year	<u><u>\$ 154,484</u></u>
Reconciliation of loss from operations to net cash provided by operating activities:	
Loss from operations	\$ (35,577)
Adjustments to reconcile loss from operations to net cash provided by operating activities:	
Depreciation	48,686
Bad debt expense	10,358
Increase in assets:	
Receivables:	
Hotel taxes	(3,642)
Other	(12,000)
Increase (decrease) in liabilities:	
Other liabilities and accruals	(252)
Payable to affiliates	<u>539</u>
Net cash provided by operating activities	<u><u>\$ 8,112</u></u>

*See accompanying notes.*

Republic of the Marshall Islands Office of Commerce,  
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Notes to Financial Statements

September 30, 2022

**1. Organization**

The Republic of the Marshall Islands Office of Commerce, Investment and Tourism (OCIT), a component unit of the Republic of the Marshall Islands (RepMar), was established pursuant to the Office of Commerce, Investment and Tourism (Amendment) Act 2018, which amended the Office of Commerce and Investment Act of 2013. OCIT began operations as a statutory corporation on November 25, 2013 upon receiving its first operational budget. The objectives of OCIT were to: (1) to investigate, study, develop and implement social and economic development programs and projects, alone or in conjunction with other governmental, private organizations, or agencies, for the betterment of the economic and social conditions of the inhabitants of the Republic; (2) encourage and develop, and manage, businesses of economic or social importance to the Republic, such as tourism, poultry farming and piggeries; and (3) conduct, on behalf of RepMar, such business enterprises as the RepMar Cabinet directs, on such terms and conditions as were agreed to between OCIT and the RepMar Cabinet; provided, however, in all decisions of the Board or the RepMar Cabinet, the protection of existing enterprises shall be given highest consideration. In addition, the operations of OCIT include the Small Business Development Center (SBDC) and the Marshall Islands Visitor's Authority (MIVA), which streamlines the processes and procedures of establishing Small and Medium Enterprises (SME), streamlines initiatives and functions of organizations towards the development of tourism industry, and to stimulate economic growth in the country. OCIT is primarily funded through operational appropriations from the Nitijela (the RepMar Legislature).

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

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

**2. Summary of Significant Accounting Policies**

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

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Notes to Financial Statements, continued

**2. Summary of Significant Accounting Policies, continued**

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

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

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

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

**Basis of Accounting**

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

**Cash**

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



Republic of the Marshall Islands Office of Commerce,  
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Notes to Financial Statements, continued

**2. Summary of Significant Accounting Policies, continued**

**Cash, continued**

For purposes of the statements of net position and cash flows, cash is defined as cash on hand and cash held in demand and savings accounts. As of September 30, 2022, the carrying amount of cash was \$154,484 and the corresponding bank balance was \$201,251. Of the bank balance amount, \$198,537 was maintained in a financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance. The remaining amount of \$2,714 was maintained in a financial institution not subject depository insurance.

As of September 30, 2022, bank deposits in the amount of \$198,537 were FDIC insured. OCIT does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized. Accordingly, these deposits are exposed to custodial credit risk.

**Receivables**

All receivables are due from government agencies, businesses and individuals located within the Republic of the Marshall Islands and are interest free and uncollateralized. The allowance for 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.

**Property and Equipment**

OCIT generally capitalizes individual items with a cost that equals or exceeds \$250 and has estimated useful life of more than one year. Property and equipment is recorded at cost. Depreciation of property and equipment is calculated using the straight-line method over the estimated useful lives of the assets.

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Notes to Financial Statements, continued

**2. Summary of Significant Accounting Policies, continued**

**Property and Equipment, continued**

The estimated useful lives of these assets are as follows:

	<b>Estimated Useful Lives</b>
Motor vehicles	5 years
Leasehold improvements	5 years
Furniture and fixtures	3 - 5 years

**Deferred Outflows of Resources**

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

**Compensated Absences**

Vested or accumulated vacation leave is recorded as an expense and liability as the benefits accrue to employees. No liability is recorded for non-vesting accumulating rights to receive sick benefits. As of September 30, 2022, the accumulated vacation leave liability amounted to \$20,103, and is included within the statement of net position as payroll liabilities.

**Deferred Inflows of Resources**

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

Republic of the Marshall Islands Office of Commerce,  
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Notes to Financial Statements, continued

**2. Summary of Significant Accounting Policies, continued**

**Recently Adopted Accounting Pronouncements**

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, OCIT's management has elected to postpone implementation of these statements.

During the year ended September 30, 2022, OCIT implemented the following pronouncements:

- GASB Statement No. 87, *Leases*, which 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. The implementation of this statement did not have a material effect on the accompanying financial statements.
- GASB Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*, which enhances the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and simplifies accounting for interest cost incurred before the end of a construction period. The implementation of this statement did not have a material effect on the accompanying financial statements.
- GASB Statement No. 92, *Omnibus 2020*, which enhances comparability in accounting and financial reporting and improves the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. The implementation of this statement did not have a material effect on the accompanying financial statements.
- GASB 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*, which increases consistency and comparability related to the reporting of fiduciary component units; mitigates costs associated with the reporting of certain pension plans and other postemployment benefit (OPEB) plans as fiduciary component units; and enhances 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. The implementation of this statement did not have a material effect on the accompanying financial statements.

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Notes to Financial Statements, continued

**2. Summary of Significant Accounting Policies, continued**

**Recently Adopted Accounting Pronouncements, continued**

- GASB Statement No. 98, *The Annual Comprehensive Financial Report*, which establishes the term annual comprehensive financial report and its acronym ACFR. That new term and acronym replace instances of comprehensive annual financial report and its acronym in generally accepted accounting principles for state and local governments. The implementation of this statement did not have a material effect on the accompanying financial statements.
- GASB Statement No. 99, *Omnibus 2022*, which provides clarification guidance on several of its recent statements that addresses different accounting and financial reporting issues identified during implementation of the new standards and during the GASB's review of recent pronouncements. GASB Statement No. 99:
  - 1) Amends guidance in GASB Statement No. 24, *Accounting and Financial Reporting for Certain Grants and Other Financial Assistance*, requiring that the accounting and financial reporting of Supplemental Nutrition Assistance Program (SNAP) transactions should follow the provisions of GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, as amended. These provisions were effective upon issuance and implementation did not have a material effect on the accompanying financial statements.
  - 2) Requires disclosures related to nonmonetary transactions, in the notes to financial statements, of the measurement attribute(s) applied to the assets transferred rather than the basis of accounting for those assets. These provisions were effective upon issuance and implementation did not have a material effect on the accompanying financial statements.
  - 3) Provides guidance on accounting for pledges of future revenues when resources are not received by the pledging government. The guidance addresses the process of blending a component unit created to issue debt on behalf of a primary government when that component unit is required to be presented as a blended component unit. This guidance was effective upon issuance and implementation did not have a material effect on the accompanying financial statements.
  - 4) Provides clarification of provisions in GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as amended, related to the focus of the government-wide financial statements. This guidance was effective upon issuance and implementation did not have a material effect on the accompanying financial statements.

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Notes to Financial Statements, continued

**2. Summary of Significant Accounting Policies, continued**

**Recently Adopted Accounting Pronouncements, continued**

- 5) Provides terminology updates related to certain provisions of GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and terminology used in GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. These updates were effective upon issuance and implementation did not have a material effect on the accompanying financial statements.
- 6) GASB Statement No. 93, *Replacement of Interbank Offered Rates*, which amended GASB Statement No. 53 to address transition away from the London Interbank Offered Rate (LIBOR). GASB Statement No. 99 extends the period during which the LIBOR is considered an appropriate benchmark interest rate to when LIBOR ceases to be determined using methodology in place as of December 31, 2021. This guidance was effective upon issuance and implementation did not have a material effect on the accompanying financial statements.

**Upcoming Accounting Pronouncements**

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

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

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Notes to Financial Statements, continued

**2. Summary of Significant Accounting Policies, continued**

**Upcoming Accounting Pronouncements, continued**

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

In April 2022, GASB issued Statement No. 99, *Omnibus 2022*. This Statement contains guidance whose effective dates are in future periods. Management is evaluating the effect that this Statement, upon implementation, will have on the financial statements. GASB Statement No. 99:

- 1) Modifies guidance in GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, to bring all guarantees under the same financial reporting requirements and disclosures effective for fiscal year ending September 30, 2024.
- 2) Provides guidance on classification and reporting of derivative instruments within the scope of GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, effective for fiscal year ending September 30, 2024.
- 3) Provides clarification of provisions in GASB Statement No. 87 related to the determination of the lease term, classification of a lease as a short-term lease, recognition and measurement of a lease liability and a lease asset, and identification of lease incentives effective for fiscal year ending September 30, 2023.
- 4) Provides clarification of provisions in GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, related to (a) the determination of the public-private and public-public partnership (PPP) term and (b) recognition and measurement of installment payments and the transfer of the underlying PPP asset. Effective for fiscal year ending September 30, 2023.

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Notes to Financial Statements, continued

**2. Summary of Significant Accounting Policies, continued**

**Upcoming Accounting Pronouncements, continued**

- 5) Provides clarification of provisions in GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*, related to the subscription-based information technology arrangement (SBITA) term, classification of a SBITA as a short-term SBITA, and recognition and measurement of a subscription liability. Effective for fiscal year ending September 30, 2023.
- 6) Modifies accounting and reporting guidance in GASB Statement No. 53 related to termination of hedge. Guidance is effective for fiscal year ending September 30, 2023.

In June 2022, GASB issued Statement No. 100, *Accounting Changes and Error Corrections - An Amendment of GASB Statement No. 62*. This Statement enhances accounting and financial reporting requirements for accounting changes and error corrections and requires that (a) changes in accounting principles and error corrections be reported retroactively by restating prior periods, (b) changes to or within the financial reporting entity be reported by adjusting beginning balances of the current period, and (c) changes in accounting estimates be reported prospectively by recognizing the change in the current period. Requirements applicable to changes in accounting principles apply to the implementation of a new pronouncement if there is no specific transition guidance in the new pronouncement. The Statement also requires that aggregate amounts of adjustments to, and restatements of, beginning net position, fund balance, or fund net position, as applicable, be displayed by reporting unit in the financial statements. Management is evaluating the effect that this Statement, upon implementation, will have on the financial statements. GASB Statement No. 100 will be effective for fiscal year ending September 30, 2024.

In June 2022, GASB issued Statement No. 101, *Compensated Absences*. The primary objective of the Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. This Statement requires that liabilities for compensated absences be recognized for leave that has not been used and leave that has been used but not yet paid, provided the services have occurred, the leave accumulates, and the leave is more likely than not to be used for time off or otherwise paid in cash or noncash means. In estimating the leave that is more likely than not to be used or otherwise paid or settled, a government should consider relevant factors such as employment policies related to compensated absences and historical information about the use or payment of compensated absences. Leave that is more likely than not to be settled through conversion to defined benefit postemployment benefits should not be included in a liability for compensated absences. Management is evaluating the effect that this Statement, upon implementation, will have on the financial statements. GASB Statement No. 101 will be effective for fiscal year ending September 30, 2025.

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Notes to Financial Statements, continued

**2. Summary of Significant Accounting Policies, continued**

**Taxes**

Corporate profits are not subject to income tax in RepMar. The Government of RepMar imposes a gross receipts tax of 3% on revenues. OCIT is specifically exempt from this tax; however, gross receipts associated with business enterprise operations as directed by the Cabinet are subject to gross receipts tax.

**Estimates**

The preparation of financial statements in accordance with GAAP 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. Capital Assets**

Capital asset activities for the year ended September 30, 2022, were as follows:

	October <u>1, 2021</u>	<u>Additions</u>	Transfers and <u>Disposals</u>	September <u>30, 2022</u>
Motor vehicles	\$ 64,345	\$ -	\$ -	\$ 64,345
Leasehold improvements	56,289	-	-	56,289
Furniture and fixtures	<u>122,100</u>	<u>4,302</u>	<u>-</u>	<u>126,402</u>
	242,734	4,302	-	247,036
Less accumulated depreciation	( <u>92,798</u> )	<u>(48,686)</u>	<u>-</u>	<u>(141,484)</u>
	<u>\$ 149,936</u>	<u>\$ (44,384)</u>	<u>\$ -</u>	<u>\$ 105,552</u>



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Notes to Financial Statements, continued

**4. Related Party Transactions**

OCIT is a component unit of RepMar and is therefore affiliated with all RepMar-owned and affiliated entities, including the Marshall Islands Development Bank (MIDB) and the RMI Ports Authority. OCIT utilizes services from certain affiliated entities at substantially the same terms and conditions as those incurred from third parties. A summary of related party transactions as of and for the year ended September 30, 2022 are as follows:

	<u>Expenses</u>	<u>Payables</u>
Marshall Islands Social Security Administration	\$ 35,966	\$ 22,194
Marshall Islands National Telecommunications Authority	38,236	-
Majuro Resort, Inc.	10,003	-
RepMar	-	6,333
Air Marshall Islands, Inc.	2,324	-
Marshall Islands Development Bank	7,992	-
Other	<u>-</u>	<u>120</u>
	<u>\$ 94,521</u>	<u>\$ 28,647</u>

RepMar levies a Hotel and Resort Facilities tax of 8% of the daily room rate on hotels and resort facilities in the Marshall Islands, of which 1/8 is dedicated for OCIT. The tax is collected by RepMar on a monthly basis. During the year ended September 30, 2022, OCIT recognized hotel tax revenues of \$10,358, which remains uncollected as of September 30, 2022 and is recorded as a receivable from RepMar.

During the year ended September 30, 2022, the operations of OCIT were funded by \$625,124 of appropriations from the Nitijela of RepMar.

During the year ended September 30, 2022, OCIT occupied certain office space owned by MIDB under two separate lease agreements with rent expense of \$7,992, inclusive of utilities and maintenance costs, and which expired on February 25, 2023. Remaining commitments under this lease are \$4,572.

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Notes to Financial Statements, continued

**5. Contingency**

OCIT receives a substantial amount of its revenue from annual RepMar appropriations. A significant reduction in the level of budgetary support from RepMar, if this were to occur, may have an effect on OCIT's programs and activities. For the year ended September 30, 2023, RepMar appropriated \$630,165 for the purpose of funding the 2023 programs and activities of OCIT.

**6. Employee Retirement Plan**

OCIT has implemented a defined contribution retirement savings plan (the Plan) for its employees who have completed at least three (3) months of service. Plan participants may contribute 5% up to 10% of their gross salaries to be matched 100% by OCIT. Withdrawal from the Plan occurs upon termination of employment, retirement at age 65, permanent disability or death. Plan assets are held in a trust fund administered by a trustee in accordance with the trust agreement. Management has the authority to establish or amend Plan provisions and contribution requirements. During the year ended September 30, 2022, OCIT contributed \$11,050 to Plan participant accounts. As of September 30, 2022, total Plan assets were \$89,448.

## Report of Independent Auditors 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*

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Republic of the Marshall Islands Office of Commerce, Investment and Tourism (OCIT), which comprise the statement of net position as of September 30, 2022, 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 February 5, 2024.

### **Report on Internal Control Over Financial Reporting**

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

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

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 or significant deficiencies may exist that were not identified.

## **Report on Compliance and Other Matters**

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

### **Purpose of this Report**

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

*Ernst + Young LLP*

February 5, 2024