

*Financial Statements, Required Supplementary  
Information, and Report on Internal Control and  
Compliance*

**Majuro Resort, Inc.**

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

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



Majuro Resort, Inc.  
(A Component Unit of the Republic of the Marshall Islands)

Financial Statements, Required Supplementary Information, and  
Report on Internal Control and Compliance

Year ended September 30, 2022

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## Report of Independent Auditors

Board of Directors  
Majuro Resort, Inc.

### Report on the Audit of the Financial Statements

#### *Opinion*

We have audited the financial statements of the business-type activities of Majuro Resort, Inc. (MRI), a component unit of the Republic of the Marshall Islands, as of and for the year ended September 30, 2022, and the related notes to the financial statements, which collectively comprise MRI's basic 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 the business-type activities of MRI 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 MRI 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 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.

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 MRI'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 MRI'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 MRI'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.

## ***Emphasis-of-Matter***

### ***Dependency on the Republic of the Marshall Islands***

As discussed in Note 7 to the financial statements, MRI has incurred recurring losses and negative cash flows from operations which heightens MRI's dependency on the Republic of the Marshall Islands to support its operations. Management's plans concerning these matters are described in Note 7. Our opinion is not modified with respect to this matter.

## ***Other Matters***

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

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 9 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic 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 basic financial statements, and other knowledge we obtained during our audit of the basic 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 16, 2024, 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.

*Ernst + Young LLP*

October 16, 2024

**Majuro Resort, Inc.**  
(A Component Unit of the Republic of the Marshall Islands)

**Management's Discussion and Analysis, continued**

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, 2022. The discussion and analysis should be read in conjunction with the audited financial statements, which follow this section.

**Financial Highlights**

Total assets increased by \$333,559 or 18.4% from \$1,813,480 in 2021 to \$2,147,039 in 2022, which represented an increase in current and other assets of \$355,022 or 38.5% from \$921,894 in 2021 to \$1,276,916 in 2022 offset by a decrease in capital assets of \$21,463 or 2.4% from \$891,586 in 2021 to \$870,123 in 2022. The increase in current and other assets primarily represents an increase in cash balances of \$420,051 or 81% from \$520,812 in 2021 to \$940,863 in 2022, and an increase in deposits for capital assets of \$41,310 in 2022 offset by a decrease in gross receivables of \$79,840 or 12% from \$662,746 in 2021 to \$582,906 in 2022.

Total liabilities increased by \$646,986 or 40.4% from \$1,601,762 in 2021 to \$2,248,748 in 2022, which represented an increase in current and other liabilities of \$429,986 or 33.1% from \$1,298,762 in 2021 to \$1,728,748 in 2022 and an increase in long-term debt of \$217,000 or 71.6% from \$303,000 in 2021 to \$520,000 in 2022. The increase in current and other liabilities included an increase in unearned revenues of \$278,918 and an increase in payable to affiliates balances of \$164,542 or 28% from \$595,438 in 2021 to \$759,980 in 2022. As a result of these movements, there was a decrease in net position of \$313,427 or 148% from positive net position of \$211,718 in 2021 to negative net position of \$101,709 in 2022.

Total operating revenues for 2022 were \$3,942,494, an increase of \$882,872 or 28.9% compared to \$3,059,622 for 2021. The increase in operating revenues is due to an increase in rooms revenue, which increased by \$386,460 or 51.1% from \$756,048 for 2021 to \$1,142,508 for 2022, while food and beverage revenue increased by \$271,887 or 11.6% from \$2,344,863 for 2021 to \$2,616,750 for 2022.

Total operating expenses for 2022 were \$4,637,984, which represented an increase of \$978,859 or 26.8% compared to \$3,659,125 for 2021. The increase in operating expenses is due, in part, to an increase in maintenance costs of \$447,910 or 122% from \$366,621 for 2021 to \$814,531 for 2022, an increase in utility costs of \$204,818 or 54% from \$378,998 for 2021 to \$583,816 for 2022, and an increase in cost of sales of \$263,978 or 12.7% from \$2,076,496 for 2021 to \$2,340,474 for 2022.

Total nonoperating revenues for 2022 were \$417,100, which represented an increase of \$118,334 or 39.6% compared to \$298,766 for 2021. These revenues represented cash subsidies from the RepMar government to assist MRI in building repairs amounting to \$297,600 and COVID 19 assistance of \$119,500.

**Majuro Resort, Inc.**  
(A Component Unit of the Republic of the Marshall Islands)

**Management's Discussion and Analysis, continued**

**Financial Analysis**

The Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Position provides 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

	2022	2021	2022-2021	2022-2021	2020
Assets:					
Current and other assets	\$ 1,276,916	\$ 921,894	\$ 355,022	38.5%	\$ 910,492
Capital assets	<u>870,123</u>	<u>891,586</u>	<u>(21,463)</u>	(2.4)%	<u>1,002,497</u>
Total assets	<u>2,147,039</u>	<u>1,813,480</u>	<u>333,559</u>	18.4%	<u>1,912,989</u>
Liabilities:					
Current and other liabilities	1,728,748	1,298,762	429,986	33.1%	1,397,414
Long-term debt	<u>520,000</u>	<u>303,000</u>	<u>217,000</u>	71.6%	<u>-</u>
Total liabilities	<u>2,248,748</u>	<u>1,601,762</u>	<u>646,986</u>	40.4%	<u>1,397,414</u>
Net position:					
Net investment in capital assets	870,123	891,586	(21,463)	(2.4)%	1,002,497
Unrestricted	<u>(971,832)</u>	<u>(679,868)</u>	<u>(291,964)</u>	42.9%	<u>(486,922)</u>
Total net position	<u>\$ (101,709)</u>	<u>\$ 211,718</u>	<u>\$ (313,427)</u>	(148.0)%	<u>\$ 515,575</u>

Total assets increased by \$333,559 from \$1,813,480 in 2021 to \$2,147,039 in 2022 while total liabilities increased by \$646,986 from \$1,601,762 in 2021 to \$2,248,748 in 2022. MRI's liabilities increased due to an increase in long-term debt to \$520,000, including processing fees, in 2022 from \$303,000 in 2021. 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

	2022	2021	\$ Change 2022-2021	% Change 2022-2021	2020
Operating:					
Operating revenues	\$ 3,942,494	\$ 3,059,622	\$ 882,872	28.9%	\$ 3,620,374
Operating expenses	<u>4,637,984</u>	<u>3,659,125</u>	<u>978,859</u>	26.8%	<u>3,745,243</u>
Operating loss	<u>(695,490)</u>	<u>(599,503)</u>	<u>(95,987)</u>	16.0%	<u>(124,869)</u>
Nonoperating:					
Nonoperating revenues	417,100	298,766	118,334	39.6%	239,065
Nonoperating expenses	<u>35,037</u>	<u>3,120</u>	<u>31,917</u>	1023.0%	<u>10,555</u>
	<u>382,063</u>	<u>295,646</u>	<u>86,417</u>	29.2%	<u>249,620</u>
Change in net position	<u>\$ (313,427)</u>	<u>\$ (303,857)</u>	<u>\$ (9,570)</u>	3.1%	<u>\$ 124,751</u>

**Majuro Resort, Inc.**  
(A Component Unit of the Republic of the Marshall Islands)

**Management's Discussion and Analysis, continued**

**Financial Analysis, continued**

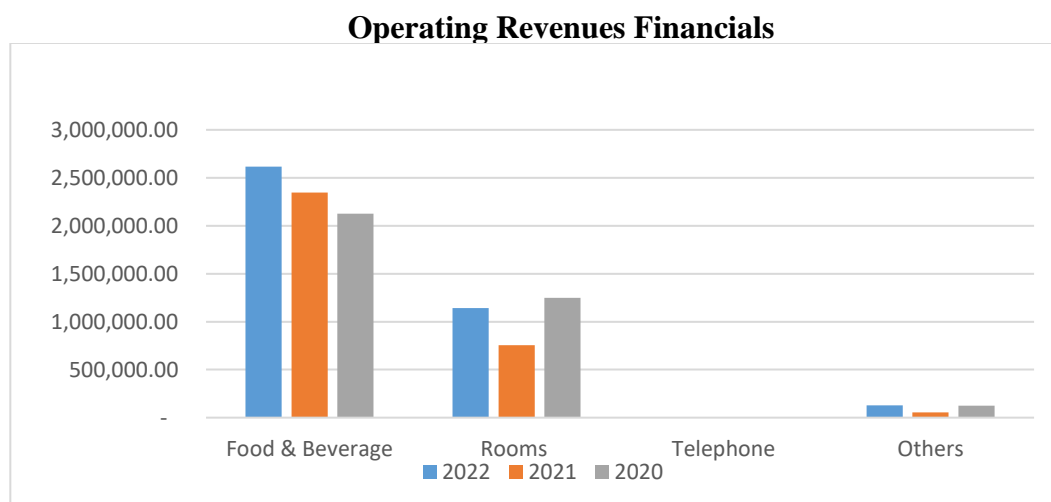
The Statements of Revenues, Expenses and Changes in Net Position identify various revenue and expense items that impact the change in net position. A summary of operating revenues follows:

**Summary Schedule of Operating Revenues**  
Years Ended September 30

	2022	2021	\$ Change 2022-2021	% Change 2022-2021	2020
Food and beverage	\$ 2,616,750	\$ 2,344,863	\$ 271,887	11.6%	\$ 2,126,777
Room	1,142,508	756,048	386,460	51.1%	1,247,646
Management fee	-	-	-		35,931
Telephone	-	-	-		147
Other	127,734	53,446	74,288	139.0%	123,121
	3,886,992	3,154,357	732,635	23.2%	3,533,622
Recovery (bad debts)	(55,502)	94,735	150,237	(158.6)%	(86,752)
	<u>\$ 3,942,494</u>	<u>\$ 3,059,622</u>	<u>\$ 882,872</u>	28.9%	<u>\$ 3,620,374</u>

Net operating revenues for 2022 showed an increase of \$882,872 from \$3,059,622 in 2021 to \$3,942,494 in 2022. Room revenue for 2022 increased by \$386,460 or 51.1% from 2021 while food and beverage revenue for 2022 increased by \$271,887 or 11.6% from 2021. The occupancy ratio in 2022 increased to 51.25% from 32.89% in 2021 with a decrease in average room rate from \$43.73 in 2021 to \$42.43 in 2022.

The following graph shows the major components of revenue for financial periods 2022, 2021 and 2020, all of which cover a twelve (12) month period ending September 30.





Majuro Resort, Inc.  
(A Component Unit of the Republic of the Marshall Islands)

Management's Discussion and Analysis, continued

**Financial Analysis, continued**

**Statement of Hotel Occupancy Performance**

The following table shows a comparison of financial and statistical information affecting the room revenue performance for the years 2022, 2021, 2020, 2019 and 2018.

Occupancy Performance	2022	2021	2020	2019	2018
% of total occupancy	51.25%	32.89%	34.79%	52.32%	50.78%
Average rate	\$ 42.41	\$ 43.73	\$ 68.20	\$ 71.14	\$ 63.91
% of paid occupancy	51.23%	23.53%	34.58%	52.17%	50.66%
Average rate	\$ 42.43	\$ 31.21	\$ 68.45	\$ 71.35	\$ 63.99

Total occupancy ratio in 2022 was 51.25% as compared 32.89% in 2021 and 34.79% in 2020. The hotel paid occupancy rate for 2022 of 51.23% has increased compared to 23.53% for 2021 while the average paid room rate for 2022 of \$42.43 has increased compared to \$31.21 for 2021.

**Operating Expenses**

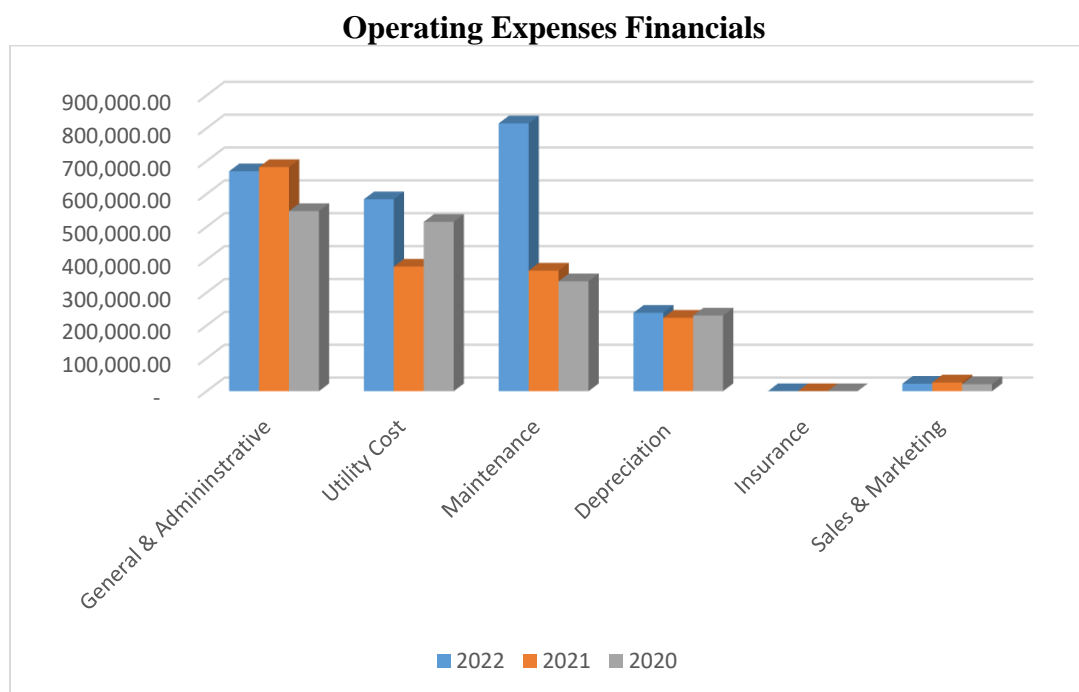
Total operating expenses for 2022 were \$4,637,984, which represented an increase of \$978,859 or 26.8% compared to \$3,659,125 for 2021. Excluding cost of sales, operating expenses for 2022 were \$1,582,629, with an increase of \$745,096 or 47.13% compared to \$1,582,629 for 2021. This increase was the result of a Marshalls Energy Company, Inc. (MEC) utility adjustment made for utility costs of \$287,377 or 58% from \$302,886 for 2021 to \$490,318 for 2022. There was also an increase in maintenance costs of \$447,910 from 366,620 for 2021 to \$814,531 for 2022 due to the building crack project, which was subsidized by the RepMar government through cash subsidy. As a percentage of net operating revenues, operating expenses (excluding cost of sales) for 2022 represents 58% compared to 52% and 46% for 2021 and 2020, respectively, an increase of 6%.

The following graph shows the major components of operating expenses for financial periods 2022, 2021 and 2020, all of which cover a twelve (12) month period ending September 30.

**Majuro Resort, Inc.**  
(A Component Unit of the Republic of the Marshall Islands)

**Management's Discussion and Analysis, continued**

**Financial Analysis, continued**



**Capital Assets and Debt**

Net capital assets decreased by \$21,463 or 2.4% from \$891,586 in 2021 to \$870,123 in 2022. This decrease was the result of an increase in accumulated depreciation of \$238,504 offset by capital asset additions of \$217,041. A summary of MRI's capital assets is presented below:

**Summary Schedule of Capital Assets**

As of September 30

	2022	2021	\$ Change 2022-2021	% Change 2022-2021	2020
Buildings and structures	\$ 2,975,276	\$ 2,975,276	\$ -	0.0%	\$ 2,912,342
Furniture and fixtures	2,188,470	1,972,035	216,435	11.0%	1,879,337
Office equipment	265,522	265,366	156	0.1%	263,306
Other equipment	109,878	109,428	450	0.4%	114,425
Motor vehicles	487,423	487,423	-	0.0%	456,003
	6,026,569	5,809,528	217,041	3.7%	5,625,413
Accumulated depreciation	(5,156,446)	(4,917,942)	(238,504)	4.8%	(4,694,673)
	870,123	891,586	(21,463)	(2.4)%	930,740
Construction in progress	-	-	-		71,757
	<u>\$ 870,123</u>	<u>\$ 891,586</u>	<u>\$ (21,463)</u>	<u>(2.4)%</u>	<u>\$ 1,002,497</u>

**Majuro Resort, Inc.**  
(A Component Unit of the Republic of the Marshall Islands)

**Management's Discussion and Analysis, continued**

**Capital Assets and Debt, continued**

Capital asset acquisitions during the year ended September 30, 2022, included \$216,435 in furniture and fixtures purchases 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.

In 2022, MRI entered into a \$520,000 loan with the Marshall Islands Development Bank (MIDB) for the purpose of building 25 room apartments to cater for its the customers. In addition, MRI paid off a \$303,000 loan from MIDB previously entered into for the purpose of funding operations. Please refer to Note 4 to the accompanying financial statements for additional information associated with this debt.

**Economic Factors and Next Year's Performance**

Subsequent to the opening of the RMI border, MRI is widely open to expecting more local and international travelers to return on the Islands to stay in the hotel.

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

- 1.) This coming November 25-29, 2024, Taiwan Cultural exchange delegation is coming to the RMI and they have already reserved 80 rooms for the delegation.
- 2.) Bank of Guam also reserved 12 rooms for their delegation and will stay in the Hotel from September 19 to November 15, 2024.
- 3.) The Olympic games is scheduled to be held in the Marshall Islands in June 2024 where many athletes from different Pacific Islands will be participating. Management is expecting that they will occupy most of our rooms resulting in a positive impact on room revenue as well as on restaurant revenue.

Management Discussion and Analysis for the year ended September 30, 2021 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 2021 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.

Majuro Resort, Inc.  
(A Component Unit of the Republic of the Marshall Islands)

Statement of Net Position

September 30, 2022

ASSETS

Current assets:	
Cash	\$ 940,863
Receivables:	
Trade	242,211
Affiliates	322,604
Other	18,091
	<u>582,906</u>
Less allowance for doubtful accounts	( 312,175 )
Total receivables, net	<u>270,731</u>
Inventories	36,735
Prepaid expenses	28,587
Total current assets	<u>1,276,916</u>
Capital assets, net of accumulated depreciation	870,123
	<u>\$ 2,147,039</u>

LIABILITIES AND NET POSITION

Current liabilities:	
Accounts payable	\$ 82,054
Payable to affiliates	759,980
Accrued taxes payable	491,839
Unearned revenues	278,918
Other accrued liabilities	115,957
Total current liabilities	<u>1,728,748</u>
Loan payable	520,000
	<u>2,248,748</u>
Commitment and contingencies	
Net position:	
Net investment in capital assets	870,123
Unrestricted	( 971,832 )
Total net position	<u>( 101,709 )</u>
	<u>\$ 2,147,039</u>

*See accompanying notes.*

Majuro Resort, Inc.  
(A Component Unit of the Republic of the Marshall Islands)  
Statement of Revenues, Expenses and Changes in Net Position

Year ended September 30, 2022

Hotel operations:	
Operating revenues:	
Food and beverage	\$ 2,616,750
Rooms	1,142,508
Other	<u>127,734</u>
Total revenues	3,886,992
Bad debt recovery	<u>55,502</u>
Net revenues	<u>3,942,494</u>
Cost of sales:	
Food and beverage	1,959,369
Rooms	364,063
Telephone	<u>17,042</u>
Total cost of sales	<u>2,340,474</u>
Gross profit	<u>1,602,020</u>
Operating expenses:	
Maintenance	814,531
General and administrative	669,049
Utility costs	583,816
Depreciation	238,504
Sales and marketing	<u>22,636</u>
Total operating expenses	<u>2,328,536</u>
Operating loss from hotel operations	( 726,516 )
Nonhotel operations:	
Operating revenues:	
Management fee	<u>31,026</u>
Operating loss	( <u>695,490</u> )
Nonoperating revenues (expenses):	
Contributions from Repmar	417,100
Interest expense	( <u>35,037</u> )
Total nonoperating revenues, net	<u>382,063</u>
Change in net position	( 313,427 )
Net position at beginning of year	<u>211,718</u>
Net position at end of year	\$ ( <u><u>101,709</u></u> )

See accompanying notes.

Majuro Resort, Inc.  
(A Component Unit of the Republic of the Marshall Islands)

Statement of Cash Flows

Year ended September 30, 2022

Cash flows from operating activities:	
Cash received from customers	\$ 4,276,776
Cash payments to suppliers for goods and services	( 2,833,400 )
Cash payments to employees for services	( 1,446,657 )
Net cash used in operating activities	( 3,281 )
Cash flows from noncapital financing activities:	
Contributions from RepMar	417,100
Net change in loans payable	217,000
Interest paid	( 35,037 )
Net cash provided by noncapital financing activities	599,063
Cash flows from capital and related financing activities:	
Acquisition of capital assets	( 175,731 )
Net change in cash	420,051
Cash at beginning of year	520,812
Cash at end of year	\$ 940,863
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ ( 695,490 )
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation	238,504
Bad debts recovery	( 55,502 )
Changes in assets and liabilities:	
Receivables:	
Trade	53,166
Affiliates	26,735
Other	( 61 )
Inventories	( 5,103 )
Prepaid expenses	4,484
Accounts payable	257,545
Payable to affiliates	164,542
Other accrued liabilities	7,899
Net cash used in operating activities	\$ ( 3,281 )

*See accompanying notes.*

Majuro Resort, Inc.  
(A Component Unit of the Republic of the Marshall Islands)

Notes to Financial Statements

Year ended September 30, 2022

**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 Majuro Atoll in the Republic of the Marshall Islands. MRI is governed by a seven-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 - 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.
- Restricted - net position whose use by MRI is subject to externally imposed stipulations that can be fulfilled by actions of the MRI pursuant to those stipulations or that expire with the passage of time. MRI has no restricted net position as of September 30, 2022.
- Unrestricted - net position that is not subject to externally imposed stipulations. Unrestricted net position may be designated for specific purposes by action of management or the Board of Directors or may otherwise be limited by contractual agreements with outside parties.

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

Majuro Resort, Inc.  
(A Component Unit of the Republic of the Marshall Islands)

Notes to Financial Statements, continued

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

**Basis of Accounting**

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

**Revenue Recognition**

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

**Cash**

Custodial credit 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 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 \$940,863 and the corresponding bank balance was \$780,300. Of the bank balance amount, \$608,849, was maintained in a financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance. The remaining amount of \$171,451, was maintained in a financial institution not subject to depository insurance.

As of September 30, 2022, bank deposits in the amount of \$250,000 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.



Majuro Resort, Inc.  
(A Component Unit of the Republic of the Marshall Islands)

Notes to Financial Statements, continued

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

**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 income. 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.

The estimated useful lives of these assets are as follows:

	<u>Estimated Useful Lives</u>
Building and structure	24 years
Furniture and fixtures	3 years
Office equipment	3 years
Other equipment	3 years
Motor vehicles	3 years

Majuro Resort, Inc.  
(A Component Unit of the Republic of the Marshall Islands)

Notes to Financial Statements, continued

**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.

**Unearned Revenues**

Unearned revenues include amounts received for room and meal services prior to the end of the fiscal year but related to the subsequent accounting period.

**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 \$115,957 and is included within the statement of net position as other accrued 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. MRI has no items that qualify for reporting in this category.

**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.

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

Majuro Resort, Inc.  
(A Component Unit of the Republic of the Marshall Islands)

Notes to Financial Statements, continued

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

**Recently Adopted Accounting Pronouncements, continued**

During the year ended September 30, 2022, MRI 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.
- 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.
- 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.
- 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.
- 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.
- 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.

Majuro Resort, Inc.  
(A Component Unit of the Republic of the Marshall Islands)

Notes to Financial Statements, continued

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

**Recently Adopted Accounting Pronouncements, continued**

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.
- 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.
- 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.
- 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.
- 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.
- 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.

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

Majuro Resort, Inc.  
(A Component Unit of the Republic of the Marshall Islands)

Notes to Financial Statements, continued

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

**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 the 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 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 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.

Majuro Resort, Inc.  
(A Component Unit of the Republic of the Marshall Islands)

Notes to Financial Statements, continued

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

**Upcoming Accounting Pronouncements, continued**

- 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.
- 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.

Majuro Resort, Inc.  
(A Component Unit of the Republic of the Marshall Islands)

Notes to Financial Statements, continued

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

**Upcoming Accounting Pronouncements, continued**

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.

**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. Property, Plant and Equipment**

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>
Building and structure	\$2,975,276	\$ ---	\$ ---	\$2,975,276
Furniture and fixtures	1,972,035	216,435	---	2,188,470
Office equipment	265,366	156	---	265,522
Other equipment	109,428	---	---	109,428
Motor vehicles	<u>487,423</u>	<u>450</u>	<u>---</u>	<u>487,873</u>
	5,809,528	217,041	---	6,026,569
Less accumulated depreciation	<u>(4,917,942)</u>	<u>(238,504)</u>	<u>---</u>	<u>(5,156,446)</u>
	<u>\$ 891,586</u>	<u>\$ ( 21,463)</u>	<u>\$ ---</u>	<u>\$ 870,123</u>

**Majuro Resort, Inc.**  
(A Component Unit of the Republic of the Marshall Islands)

**Notes to Financial Statements, continued**

**4. Long-term Debt**

Long-term debt as of September 30, 2022 is as follows:

Note payable to the Marshall Islands Development Bank (MIDB), in the amount of \$520,000, with interest rate of 4% per annum. Interest only payments commence October 30, 2022 in monthly installments of \$1,710 through February 29, 2024. Principal and interest payments in monthly installments of \$4,154 commence on March 31, 2024, and continue through September 28, 2037. The note is collateralized by a chattel mortgage over \$1.8 million in assets by MRI, the assignment of apartment rental revenues, and a guarantee from RepMar. The purpose of the loan is to provide working capital and to fund certain building structure renovations.

\$520,000

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

<u>Year ending</u> <u>September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2023	\$ ---	\$ 20,857	\$ 20,857
2024	17,054	20,685	37,739
2025	30,394	19,454	49,848
2026	31,522	18,326	49,848
2027	32,806	17,042	49,848
2028-2032	185,124	64,115	249,239
2033-2037	<u>223,100</u>	<u>23,133</u>	<u>246,233</u>
	<u>\$520,000</u>	<u>\$183,612</u>	<u>\$703,612</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.



**Majuro Resort, Inc.**  
(A Component Unit of the Republic of the Marshall Islands)

Notes to Financial Statements, continued

**4. Long-term Debt, continued**

A summary of changes in long-term debt for the year ended September 30, 2022, was as follows:

	Balance October 1, <u>2021</u>	<u>Additions</u>	<u>Reductions</u>	Balance September 30, 2022	Due Within <u>One Year</u>
Note payable: MIDB	\$ <u>303,000</u>	\$ <u>520,000</u>	\$( <u>303,000</u> )	\$ <u>520,000</u>	\$ <u>---</u>

**5. Related Party Transactions**

MRI is a component unit of RepMar and is therefore affiliated with all RepMar-owned and affiliated entities, including the Marshall Islands Development Bank (MIDB). MRI's hotel service is provided to RepMar and all RepMar-owned and affiliated entities. Services are provided to these entities at the same rates charged to third parties; however, MRI provides more favorable payment terms to its affiliates than those afforded to third parties. MRI utilizes services from certain affiliated entities at substantially more favorable terms than those incurred from third parties.

A summary of related party balances and transactions as of September 30, 2022 and for the year then ended are as follows:

	<u>Revenues</u>	<u>Expenses</u>	<u>Receivables</u>	<u>Payables</u>
RepMar	\$ 478,956	\$ 171,548	\$149,791	\$ 31,985
Marshall's Energy Company, Inc.	146,100	531,500	335	581,382
Marshall Islands Social Security Administration	11,631	311,756	237	112,563
College of Marshall Islands	765,107	---	24,550	---
Other	<u>148,428</u>	<u>217,762</u>	<u>147,691</u>	<u>34,050</u>
	<u>\$1,550,222</u>	<u>\$1,232,566</u>	<u>\$322,604</u>	<u>\$759,980</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 year ended September 30, 2022, MRI recognized management fee revenue associated with this agreement of \$31,026.

**Majuro Resort, Inc.**  
(A Component Unit of the Republic of the Marshall Islands)

**Notes to Financial Statements, continued**

**5. Related Party Transactions, continued**

On January 3, 2022, MRI executed a facility use agreement with College of Marshall Islands (CMI) for the provision of room and meal services to CMI students for the months of January 2022 through December 2022. During the year ended September 30, 2022, CMI prepaid a total of \$938,432 under this agreement with MRI recognizing revenues of \$686,160. As of September 30, 2022, MRI recorded unearned revenue associated with this agreement of \$252,272.

During the year ended September 30, 2022, MRI received cash operating subsidies from RepMar of \$417,000.

**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, 2022.

**Contingencies**

The accompanying financial statements have been prepared in accordance with GAAP, which contemplates the continuation of MRI as a going concern. During the year ended September 30, 2022, MRI reported an operating loss of \$695,490, and used a substantial amount of working capital in its operations resulting in a working capital deficiency of \$451,832 as of September 30, 2022. Management acknowledges that it is currently dependent on RepMar for cash funding 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.

Majuro Resort, Inc.  
(A Component Unit of the Republic of the Marshall Islands)

Notes to Financial Statements, continued

**7. Commitment and Contingencies, continued**

**Contingencies, continued**

In view of these matters, realization of a major portion of the assets in the accompanying statement of net position as of September 30, 2022, 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 follow Majuro Atoll Local Government (Malgov) ordinances. As of September 30, 2022, sales taxes of \$147,892, and local government taxes of \$343,947, remain outstanding of which \$491,839 is included as accrued taxes payable in the accompanying statement of net position. Unfavorable resolution of this matter could expose MRI to additional penalties and interest. Penalties and interest are estimated to be \$162,569 at September 30, 2022. No such action has yet been filed. As of September 30, 2022, 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.

## 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*

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 the business-type activities of Majuro Resort, Inc. (MRI), as of and for the year ended September 30, 2022, and the related notes to the financial statements, which collectively comprise MRI's basic financial statements, and have issued our report thereon dated October 16, 2024.

### Report on 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. *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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified certain deficiencies in internal control, described in the accompanying Schedule of Findings and Responses as items 2022-002 and 2022-003 that we consider to be material weaknesses.

## **Report on 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 2022-001.

## **MRI's Response to Findings**

*Government Auditing Standards* requires the auditor to perform limited procedures on MRI's response to the findings identified in our audit and described in the accompanying Schedule of Findings and Responses. MRI's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

## **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.

*Ernst + Young LLP*

October 16, 2024

Majuro Resort, Inc.  
(A Component Unit of the Republic of the Marshall Islands)

Schedule of Findings and Responses

Year ended September 30, 2022

Finding No.: 2022-001

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, 2022. 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.

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

Auditee Response and Corrective Action Plan: In August 2015, MIR management made efforts in discussing the matter with MALGOV. Since then, MIR paid its obligations on a regular basis, leaving prior year balances which are being discussed between MOF and Malgov. On May 27, 2022, one of the Senators coordinated a meeting for MIR and Malgov together with Ministry of Finance. After the meeting, since Malgov could not give the exact amount of how much MIR owed, they agreed to used MIR's book balance amounting to \$486,660 as principal balance to be paid by MIR. They also agreed that the clerk of Malgov will work with the Secretary of Finance to negotiate an offsetting option. The Secretary of Finance and the clerk of Malgov will work on the MOU and will share it to MIR CEO for review.

On the other hand, MIR management also made a proposal to Malgov wherein MIR would pay \$5,000 dollars monthly and will increase the payment amount based on cash flows. Unfortunately, Malgov did not reply to this proposal.

Majuro Resort, Inc.  
(A Component Unit of the Republic of the Marshall Islands)

Schedule of Findings and Responses, continued

Finding No.: 2022-002  
Area: Untimely Deposits to Bank

Criteria: Incoming checks received from customers or other sources should be timely deposited into the organization's bank account.

Condition: During the year ended September 30, 2022, MRI obtained a \$500,000 loan from the Marshall Islands Development Bank (MIDB). Loan proceeds were made available to MRI in the form of a check; however, the check was not deposited to bank until October 18, 2022. At September 30, 2022, loan payable to MIDB was not recorded. An audit adjustment was proposed to recognize bank deposit in transit and related loan payable.

Cause: Inadequate internal control policies and procedures over the cash receipts and financial reporting processes.

Effect: Delayed bank deposit led to incomplete and inaccurate financial reporting.

Recommendation: We recommend management improve internal control policies and procedures over the cash receipts process requiring that checks be deposited on a timely basis to reduce the risk of financial loss.

Auditee Response and Corrective Action Plan: Initially, the Company plan was to create and open a new bank account solely for the purpose of the bank loan proceeds. The rationale behind this decision was to prevent the loan proceeds from mixing with operational funds for easy monitoring of the said fund.

Unfortunately, since the whole process was taking quite a long time due to some documents that were needed for the opening of the new account. Further, the bank advised us that we could not open another bank account due to the Company already having 3 existing accounts. Management eventually decided to deposit the check to the Company's existing savings account.

The management is committed to creating and establishing new internal control policies that put emphasis on clear and efficient process on handling bank deposits. Through this we are ensuring the clarity on each process that eventually helps the management in simplifying the financial report on a timely manner.

Majuro Resort, Inc.  
(A Component Unit of the Republic of the Marshall Islands)

Schedule of Findings and Responses, continued

Finding No.: 2022-003

Area: Capitalization of Repairs and Maintenance Costs

Criteria: Generally accepted accounting principles (GAAP) stipulates that repairs and maintenance costs do not increase the value of the property. Instead, they simply bring the property back to the original state and thus do not qualify as a capitalizable cost.

Condition: During year ended September 30, 2022, MRI capitalized \$445,120 of repairs and maintenance costs that did not qualify as building improvements. An audit adjustment was proposed to recognize capitalized costs as repairs and maintenance expense.

Cause: Lack of sufficient procedures over expenditure classification leading to erroneous capitalization of items that should be treated as expenses.

Effect: Noncompliance with GAAP through incorrect capitalization of repairs and maintenance costs leads to inaccurate presentation of financial statements, particularly the overstatement of capital assets and underreporting of operating expenses.

Recommendation: We recommend management establish internal control policies and procedures over classification of project related expenditures as either expense or capital improvements.

Auditee Response and Corrective Action Plan: Regarding the recording of the building repairs and maintenance previously classified as special cracked project, since such was a major repair involving a large amount of money and was also concerned with repairs of the structure of the building, which the funds were invested for, was the reason why it was posted as an asset and not expense.

The management will make sure to establish a new set of policies that simplifies the process for repairs and maintenance costs, or capital improvements of the Company. This will help the Company in ensuring the efficacy of every repair and maintenance project should the Company decide to do so in the future.