MARSHALL ISLANDS VISITORS AUTHORITY

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

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

YEARS ENDED SEPTEMBER 30, 2010 AND 2009

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Marshall Islands Visitors Authority:

We have audited the accompanying statements of net assets of the Marshall Islands Visitors Authority (MIVA), a component unit of the Republic of the Marshall Islands, as of September 30, 2010 and 2009, and the related statements of revenues, expenses and changes in net assets and of cash flows for the years then ended. These financial statements are the responsibility of MIVA's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of MIVA's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Marshall Islands Visitors Authority as of September 30, 2010 and 2009, and its changes in net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 2 through 4 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of MIVA's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit such information and we do not express an opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 25, 2011 on our consideration of MIVA'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 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Deloitte & Touche LLP

July 25, 2011

MARSHALL ISLANDS VISITORS AUTHORITY

Management's Discussion and Analysis
September 30, 2010 and 2009

This section of Marshall Islands Visitors Authority's (MIVA) annual financial report presents our discussion and analysis for MIVA's financial performance during the fiscal year that ended on September 30, 2010. Please read it in conjunction with the financial statements, which follow this section:

FINANCIAL HIGHLIGHTS

MIVA's net assets decreased by $12,528 or 6% from $221,945 in 2008 to $209,417 in 2009, and increased by $57,575 or 27% from $209,417 in 2009 to $266,992 in 2010. Operating revenues decreased by $3,944 or 2% from $267,160 in 2008 to $263,216 in 2009, and increased by $167,093 or 63% from $263,216 in 2009 to $430,309 in 2010.

Operating expenses decreased by $12,322 or 4% from $288,066 in 2008 to $275,744 in 2009, and increased by $96,990 or 35% from $275,744 in 2009 to $372,734 in 2010.

FINANCIAL ANALYSIS OF MIVA

The Statement of Net Assets (page 5) and the Statement of Revenues, Expenses, and Changes in Net Assets (page 6) provide an indication of MIVA's financial condition. MIVA's net assets reflect the difference between assets and liabilities. An increase in net assets over time typically indicates an improvement in the financial condition of the organization.

A summary of MIVA's net assets is presented below:

	2010	2009	2008
Current assets	$ 274,874	$ 217,503	$ 237,723
Capital assets	1,148	1,571	2,209
Total assets	$ 276,022	$ 219,074	$ 239,932
Current liabilities	$ 9,030	$ 9,657	$ 17,987
Invested in capital assets	1,148	1,571	2,209
Unrestricted	265,844	207,846	219,736
Total net assets	266,992	209,417	221,945
Total liabilities and net assets	$ 276,022	$ 219,074	$ 239,932

As indicated above, total assets decreased by $20,858 or 9% from $239,932 in 2008 to $219,074 in 2009, and increased by $56,948 or 26% from $219,074 in 2009 to $276,022 in 2010. The decrease from 2008 to 2009 is comprised of a decrease of $20,220 in current assets and a decrease of $638 in capital assets. The decrease in current assets was due to a decrease in federal grants receivable. The increase from 2009 to 2010 is comprised of an increase of $57,371 in current assets and a decrease of $423 in capital assets. The increase in current assets was due primarily to an increase in grants receivable from RepMar and South Pacific Tourism Organization of $104,370 and $82,868, respectively, offset by a decrease in cash balances of $123,790.

Total liabilities reflect a decrease of $8,330 or 46% from $17,987 in 2008 to $9,657 in 2009, and a further decrease of $627 or 6% from $9,657 in 2009 to $9,030 in 2010. No major liabilities exist as at the end of the fiscal years 2009 and 2010. These amounts comprises mostly of the accrual of expenses paid after the fiscal year and employees' leave pay.

A summary of MIVA's Statement of Revenues, Expenses, and Change in Net Assets is presented below:

	2010	2009	2008
Operating revenues	$ 430,309	$ 263,216	$ 294,172
Operating expenses	372,734	275,744	288,066
Change in net assets	57,575	(12,528)	6,106
Net assets at beginning of year	209,417	221,945	215,839
Net assets at end of year	$ 266,992	$ 209,417	$ 221,945

The Statement of Revenues, Expenses, and Change in Net Assets identifies the various revenue and expense items that implicit the change in net assets. As indicated above, MIVA's total revenues decreased by $30,956 or 11% from $294,172 in 2008 to $263,216 in 2009, and increased by $167,093 or 63% from $263,216 in 2009 to $430,309 in 2010. The decrease in 2009 was mainly due to the decrease in funding from the U.S. Federal Government whereas the increase in 2010 was mainly due to the increase in contributions associated with the Shanghai World Expo.

Below is a summary of the major components of operating revenues for MIVA in 2010 compared to 2009 and 2008:

	2010	2009	2008
Nitijela appropriation	$ 248,500	$ 248,500	$ 249,245
Hotel room tax	8,929	8,364	8,691
Grants	172,226	-	27,012
Others	654	6,352	9,224
	$ 430,309	$ 263,216	$ 294,172

MIVA's total expenses decreased by $12,322 or 4% from $288,066 in 2008 to $275,744 in 2009, and increased by $96,990 or 35% from $275,744 in 2009 to $372,734 in 2010. The decrease in 2009 was directly related to the reduction in U.S. Federal Government funded projects whereas the increase in 2010 was mainly due to expenses associated with the Shanghai World Expo.

Below is a summary of the major components of operating expenses for MIVA in 2010 compared to 2009 and 2008:

	2010	2009	2008
Shanghai World Expo	$ 173,067	$ -	$ -
Salaries and wages	109,149	114,986	96,689
Rent	16,475	16,475	16,475
Media trips	10,906	11,168	11,108
Communications	9,653	10,703	7,701
Overseas tourism related events	9,503	32,925	32,877
Japan Office	7,425	21,535	29,654
RMI Tourism Master Plan	-	-	24,512
Other	36,556	67,952	69,050
	$ 372,734	$ 275,744	$ 288,066

The Discussion and Analysis for the year ended September 30, 2009, is set forth in MIVA's report on the audit of financial statements, which is dated January 24, 2011. That Discussion and Analysis explains the major factors impacting the 2009 financial statements and can be obtained from MIVA's Finance Manager via the contact information below.

CAPITAL ASSETS

Net capital assets decreased by $638 or 29% from $2,209 in 2008 to $1,571 in 2009, and decreased by $423 or 27% from $1,571 in 2009 to $1,148 in 2010. The decreases are the result of capital asset additions in 2009 and 2010 or $995 and $451, respectively, offset by depreciation charged in 2009 and 2010 of $1,633 and $874, respectively.

A summary of MIVA's investment in capital assets is presented below:

	2010	2009	2008
Image library, motor vehicles, and equipments	$ 71,406	$ 70,955	$ 89,455
Less accumulated depreciation	(70,258)	(69,384)	(87,246)
Net Capital Assets	$ 1,148	$ 1,571	$ 2,209

Please refer to note 3 to the accompanying financial statements for additional information concerning MIVA's capital assets.

ADDITIONAL FINANCIAL INFORMATION

This discussion and analysis is designed to provide MIVA's counterparts with an overview of MIVA's financial operations and financial condition. Should the reader have questions regarding the information included in this report or wish to request for additional information, please contact the Marshall Islands Visitors Authority, Finance Manager, at P.O. Box 5, Majuro, MH 96960.

MARSHALL ISLANDS VISITORS AUTHORITY

Statements of Net Assets

September 30, 2010 and 2009

ASSETS	2010	2009
Current assets:		
Cash	$ 68,089	$ 191,879
Receivables:		
Due from RepMar	104,370	-
Due from South Pacific Tourism Organization	82,868	-
Hotel taxes	18,196	9,267
Federal grants	-	15,006
Other current assets	1,351	1,351
Total current assets	274,874	217,503
Capital assets, net	1,148	1,571
	$ 276,022	$ 219,074
LIABILITIES AND NET ASSETS		
Liabilities:		
Payable to affiliates	$ 4,299	$ 4,926
Other liabilities and accruals	4,731	4,731
Total liabilities	9,030	9,657
Commitments and contingencies		
Net assets:		
Invested in capital assets	1,148	1,571
Unrestricted	265,844	207,846
Total net assets	266,992	209,417
	$ 276,022	$ 219,074

See accompanying notes to financial statements.

MARSHALL ISLANDS VISITORS AUTHORITY

Statements of Revenues, Expenses, and Changes in Net Assets
Years Ended September 30, 2010 and 2009

	2010	2009
Operating revenues:		
Nitijela appropriation	$ 248,500	$ 248,500
Shanghai World Expo Contributions:		
South Pacific Tourism Organization	82,868	-
Republic of the Marshall Islands	50,000	-
Other	39,358	-
Hotel taxes	8,929	8,364
Other	654	6,352
Total operating revenues	430,309	263,216
Operating expenses:		
Shanghai World Expo - RMI National Day	173,067	-
Salaries, wages and employee benefits	109,149	114,986
Rent	16,475	16,475
Media trips	10,906	11,168
Communications	9,653	10,703
Overseas tourism related events	9,503	32,925
MIVA Japan Office	7,425	21,535
Promotional materials	4,383	6,474
Housing	3,750	6,771
Tourism and environmental awareness	3,030	8,851
Office supplies	2,741	4,943
Advertising	2,300	13,150
Marketing support	1,147	4,802
Depreciation	874	1,633
Pacific Asia Travel Association meetings	-	5,820
Miscellaneous	18,331	15,508
Total operating expenses	372,734	275,744
Operating income (loss)	57,575	(12,528)
Net assets at beginning of year	209,417	221,945
Net assets at end of year	$ 266,992	$ 209,417

See accompanying notes to financial statements.

MARSHALL ISLANDS VISITORS AUTHORITY

Statements of Cash Flows
Years Ended September 30, 2010 and 2009

	2010	2009
Cash flows from operating activities:		
Operating grants received	$ 144,130	$ 248,500
Other operating revenues	90,012	14,040
Cash payments to suppliers for goods and services	(262,711)	(167,793)
Cash payments to employees for services	(109,776)	(114,648)
Net cash used in operating activities	(138,345)	(19,901)
Cash flows from noncapital financing activities:		
Federal grants received	15,006	12,006
Cash flows from capital and related financing activities:		
Purchase of fixed assets	(451)	(995)
Net change in cash	(123,790)	(8,890)
Cash at beginning of year	191,879	200,769
Cash at end of year	$ 68,089	$ 191,879
Reconciliation of operating income (loss) to net cash used in operating activities:		
Operating income (loss)	$ 57,575	$ (12,528)
Adjustments to reconcile operating income (loss) to net cash used in operating activities:		
Depreciation	874	1,633
Increase in assets:		
Receivables:		
Due from RepMar	(104,370)	-
Due from South Pacific Tourism Organization	(82,868)	-
Hotel taxes	(8,929)	(676)
Increase (decrease) in liabilities:		
Accounts payable	-	(8,668)
Payable to affiliates	(627)	338
Net cash used in operating activities	$ (138,345)	$ (19,901)

See accompanying notes to financial statements.

(1) Organization

The Marshall Islands Visitors Authority (MIVA), a component unit of the Republic of the Marshall Islands (RepMar), was established pursuant to the MIVA Act 1997 (Public Law No. 1997-43) and began operations as a statutory corporation on October 1, 1997 upon receiving its first operational budget. The objectives of MIVA are to develop and promote the natural, scenic, cultural, historical and recreational attractions of the Republic of the Marshall Islands. MIVA is primarily funded through operational appropriations from the Nitijela (the RepMar Legislature).

MIVA is regarded as having a two-level structure comprising an eight-member Board of Directors responsible for setting policy, strategy and financial guidelines for the operation of MIVA and a Secretariat responsible for the day-to-day operations of the organization.

MIVA's financial statements are incorporated into the financial statements of RepMar as a discretely presented component unit.

(2) Summary of Significant Accounting Policies

The accounting policies of MIVA conform to accounting principles generally accepted in the United States of America, as applicable to governmental entities, specifically proprietary funds. Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, requires that proprietary activities apply all applicable GASB pronouncements as well as Statements and Interpretations issued by the Financial Accounting Standards Board (FASB), Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedures issued on or before November 30, 1989. MIVA has implemented GASB 20 and elected not to apply FASB Statements and Interpretations issued after November 30, 1989.

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

To conform to the requirements of GASB Statement 34, equity is presented in the following net asset categories:

- Invested in capital assets; capital assets, net of accumulated depreciation, plus construction or improvement of those assets.

- Unrestricted; net assets that are not subject to externally imposed stipulations. Unrestricted net assets 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.

(2) Summary of Significant Accounting Policies, Continued

Estimates

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

Basis of Accounting

Proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operation of the fund are included in the statements of net assets. Proprietary fund operating statements present increases and decreases in net total assets. 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. MIVA considers Nitijela appropriations and operational grants and costs that are directly related to MIVA operations to be operating revenues and expenses. Revenues and expenses related to financing and other activities are reflected as nonoperating.

Cash

Custodial credit risk is the risk that in the event of a bank failure, MIVA'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. MIVA does not have a deposit policy for custodial credit risk.

For purposes of the statements of net assets and cash flows, cash is defined as cash on hand and cash held in demand accounts. As of September 30, 2010 and 2009, the carrying amounts of cash were $68,089 and $191,879, respectively, and the corresponding bank balances were $68,726 and $197,097, respectively, which are maintained in a financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2010 and 2009, bank deposits in the amount of $68,726 and $197,097, respectively, were FDIC insured. Accordingly, there deposits are exposed to custodial credit risk. MIVA does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized.

Receivables

All receivables are uncollateralized and are due from customers, both governmental agencies and hotelier businesses, located within the Republic of the Marshall Islands as well as inter-governmental organizations associated with the promotion of tourism in the Pacific region.

(2) Summary of Significant Accounting Policies, Continued

Capital Assets

Capital assets with a cost that equals or exceeds $300 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:

Motor vehicles	4 years
Image library	3 years
Computer equipment	3 years
Media equipment	3 years
Other equipment	5 years

Compensated Absences

Vested or accumulated vacation leave is recorded as an expense and liability as the benefits accrue to employees. No liability is recorded for nonvesting accumulating rights to receive sick pay benefits. As of September 30, 2010 and 2009, there is no accumulated vacation leave liability.

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 of 3% on revenues. MIVA is specifically exempt from this tax.

New Accounting Standards

During fiscal year 2010, MIVA implemented the following pronouncements:

- GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, which addresses whether and when intangible assets should be considered capital assets for financial reporting purposes.

- GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, which is intended to improve how state and local governments report information about derivative instruments - financial arrangements used by governments to manage specific risks or make investments - in their financial statements.

- GASB Technical Bulletin No. 2008-1, *Determining the Annual Required Contribution Adjustment for Postemployment Benefits*, which clarifies the requirements of GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers,* and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions,* for calculating the annual required contribution (ARC) adjustment.

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

- GASB Statement No. 58, *Accounting and Financial Reporting for Chapter 9 Bankruptcies*, which provides guidance for governments that have petitioned for protection from creditors by filing for bankruptcy under Chapter 9 of the United States Bankruptcy Code, and establishes requirements for recognizing and measuring the effects of the bankruptcy process on assets and liabilities, and for classifying changes in those items and related costs.

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

In March 2009, GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. The provisions of this statement are effective for periods beginning after June 15, 2010. Management does not believe that the implementation of this statement will have a material effect on the financial statements of MIVA.

In December 2009, GASB issued Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, which amends Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans,* and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, and addresses issues related to measurement of OPEB obligations by certain employers participating in agent multiple-employer OPEB plans. The provisions of Statement 57 related to the use and reporting of the alternative measurement method are effective immediately. The provisions related to the frequency and timing of measurements are effective for actuarial valuations first used to report funded status information in OPEB plan financial statements for periods beginning after June 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of MIVA.

In June 2010, GASB issued Statement No. 59, *Financial Instruments Omnibus*, which updates and improves existing standards regarding financial reporting of certain financial instruments and external investment pools. The provisions of this statement are effective for periods beginning after June 15, 2010. Management has not evaluated the effect that the implementation of this statement will have on the financial statements of MIVA.

Reclassifications

Certain reclassifications have been made to the 2009 financial statements to confirm with the 2010 presentation.

Risk Management

MIVA 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. MIVA has elected to purchase commercial insurance from independent third parties for the risks of loss to which it is exposed. Settled claims from these risks have not exceeded commercial insurance coverage for past three years.

(3) Capital Assets

Capital asset activity for the years ended September 30, 2010 and 2009 was as follows:

	October 1, 2009	Additions	Retirements	September 30, 2010
Motor vehicles	$ 20,495	$ -	$ -	$ 20,495
Image library	29,896	-	-	29,896
Computer equipment	9,143	-	-	9,143
Media equipment	4,405	-	-	4,405
Other equipment	2,349	451	-	2,800
Network hardware services	4,667	-	-	4,667
	70,955	451	-	71,406
Less accumulated depreciation	(69,384)	(874)	-	(70,258)
	$ 1,571	$ (423)	$ -	$ 1,148

	October 1, 2008	Additions	Retirements	September 30, 2009
Motor vehicles	$ 39,990	$ -	$ (19,495)	$ 20,495
Image library	29,896	-	-	29,896
Computer equipment	9,143	-	-	9,143
Media equipment	4,405	-	-	4,405
Other equipment	1,354	995	-	2,349
Network hardware services	4,667	-	-	4,667
	89,455	995	(19,495)	70,955
Less accumulated depreciation	(87,246)	(1,633)	19,495	(69,384)
	$ 2,209	$ (638)	$ -	$ 1,571

(4) Related Party Transactions

MIVA is a component unit of RepMar and is thus affiliated with all RepMar-owned and affiliated entities. MIVA 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 for the years ended September 30, 2010 and 2009 is as follows:

	2010	
	Expenses	Payables
Marshall Islands Social Security Administration	$ 8,530	$ 3,597
Marshall Islands National Telecommunications Authority	9,653	-
Marshalls Energy Company, Inc.	16,475	-
RepMar	-	702
	$ 34,658	$ 4,299

(4) Related Party Transactions

	2009	
	Expenses	Payables
Marshall Islands Social Security Administration	$ 8,811	$ 4,176
Marshall Islands National Telecommunications Authority	10,703	-
Marshalls Energy Company, Inc.	16,475	-
RepMar	-	750
	$ 35,989	$ 4,926

During the years ended September 30, 2010 and 2009, the operations of MIVA were funded by appropriations from RepMar in the amounts of $248,500 and $248,500, respectively. As of September 30, 2010 and 2009, balances due and receivable from RepMar relative to these appropriations amount to $104,370 and $0, respectively. Furthermore, RepMar provided additional funding in the amount of $50,000 during the year ended September 30, 2010 to assist with MIVA's participation at the Shanghai World Expo.

MIVA has entered into an office lease agreement with the Marshalls Energy Company, Inc. for a term of three years commencing October 1, 2008. Annual rent expense amounts to $16,475.