MARSHALL ISLANDS VISITORS AUTHORITY

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

FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT

YEARS ENDED SEPTEMBER 30, 2012 AND 2011

Deloitte.

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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, 2012 and 2011, 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, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 13, 2013 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.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 5 be presented to supplement the basic financial statements. Such information, 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 auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the 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.

Deloitte + Touche LLP

August 13, 2013

FINANCIAL HIGHLIGHTS

MIVA's net assets decreased by $29,254 or 12% from $266,992 in 2010 to $237,738 in 2011 and decreased by $81,545 or 52% from $237,738 in 2011 to $156,193. Operating revenues increased by $9,900 or from $250,190 in 2011 to $260,090 in 2012.

FINANCIAL ANALYSIS OF MIVA

The statement of Net Assets (Page 6) and the Statement of Revenues, Expenses, and Changes in Net Assets (page 7) 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:

	2012	2011	2010
Current Assets	$ 139,104	$ 216,758	$ 274,874
Capital Assets	32,843	32,572	1,148
Total assets	$ 171,947	$ 249,330	$ 276,022
Current liabilities	$ 15,754	$ 11,592	$ 9,030
Invested in capital assets	32,843	32,572	1,148
Unrestricted	123,350	205,166	265,844
Total net assets	156,193	237,738	266,992
Total liabilities and net assets	$ 171,947	$ 249,330	$ 276,022

As indicated above, total assets decreased by $26,692 or 10% from $276,022 in 2010 to $249,330 in 2011, and decreased by $77,383 or 45% from $249,330 in 2011 to $171,947 in 2012.The decrease from 2010 to 2011 is comprised of a decrease of $58,116 in current assets and an increase of $31,424 in capital assets. The decrease in assets from 2010 to 2011 was due to a decrease in grants receivable from SPTO and Hotel Tax, respectively, offset by an increase in receivable from RepMar. The decrease from 2011 to 2012 is comprised of a decrease of $77,645 in current assets and an increase of $271 in capital assets. The decrease in current assets from 2011 to 2012 was due to a decrease in grants receivable from RepMar.

Total liabilities reflect an increase in liabilities of $2,562 or 22% from $9,030 in 2010 to $11,592 in 2011, and an increase in liabilities of $4,162 or 26% from $11,592 in 2011 to $15,754 in 2012. These amounts comprise 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 Changes in Net Assets is presented below:

	2012	2011	2010
Operating revenues	$ 260,090	$ 250,190	$ 430,309
Operating expenses	341,635	279,444	372,734
Change in net assets	(81,545)	(29,254)	57,575
Net assets at beginning of year	237,738	266,992	209,417
Net assets at end of year	$ 156,193	$ 237,738	$ 266,992

The Statement of Revenues, Expenses, and Changes in Net Assets identify the various revenue and expense items that implicit the change in net assets. As indicated above, MIVA's total revenues decreased by $180,115 or 72% from $430,309 in 2010 to $250,190 in 2011 and increased by $9,900 or 4% from $250,190 in 2011 to $260,090 in 2012. The increase in 2010 was mainly due to the increase in contributions associated with the Shanghai World Expo. The decrease in 2011 was mainly due to the decrease in contribution from South Pacific Tourism Organization and Hotel Tax. The increase in 2012 was mainly due to increase contribution from RepMar, Hotel Tax and other operating revenues.

	2012	2011	2010
Nitijela appropriation	$ 245,816	$ 246,170	$ 248,500
Hotel room tax	4,422	-	8,929
Grants	-	-	172,226
Others	9,852	4,020	654
	$ 260,090	$ 250,190	$ 430,309

MIVA's total expenses decreased by $93,290 or 33% from $372,734 in 2010 to $279,444 in 2011 and an increase of $62,191 or 18% from $279,444 in 2011 to $341,635 in 2012. The decrease in 2011 notably in Marketing Support and also to Shanghai World Expo whereas the increase was due mainly to the increase in Salaries, Wages and employee benefit, Tourism and environmental awareness and Miscellaneous.

Below is a list of the major components of operating expenses for MIVA in 2012 compared to 2011 and 2010:

	2012	2011	2010
Shanghai World Expo	$ -	$ -	$ 173,067
Salaries and Wages	$ 126,127	$ 120,262	$ 109,149
Rent	$ 8,373	$ 16,475	$ 16,475
Media Trips	$ 5,880	$ 40,802	$ 10,906
Communications	$ 11,119	$ 9,196	$ 9,653
Overseas tourism related events	$ 26,038	$ 28,405	$ 9,503
Promotional materials	$ 27,168	$ 15,465	$ 4,383
Tourism and environmental awareness	$ 22,805	$ 4,182	$ 3,030
Other	$ 114,125	$ 44,657	$ 36,568

The Discussion and Analysis for the year ended September 30, 2011, is set forth in MIVA's report on the audit of financial statements, which is dated September 27, 2012. This Discussion and Analysis explains the major factors impacting the 2011 financial statements and can be obtained from MIVA's Finance Manager via the contact information below.

CAPITAL ASSETS

Net capital assets and increased by 97% from $1,148 in 2010 to $32,572 in 2011 and increased by 1% from $32,572 to $32,843 in 2012. The net increase in 2011 is the result of capital asset additions in motor vehicles and computer and other equipment. The net decrease in 2012 is the result of acquisition and disposal of motor vehicles.

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

	2012	2011	2010
Image library, motor vehicles, And equipments	$ 86,796	$ 96,840	$ 71,406
Less accumulated depreciation	(53,953)	(64,268)	(70,258)
Net Capital Assets	$ 32,843	$ 32,572	$ 1,148

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, 2012 and 2011

ASSETS	2012	2011
Current assets:		
Cash	$ 52,990	$ 50,028
Receivables:		
Due from RepMar	61,453	156,450
Hotel taxes	13,351	8,929
Other	9,959	-
Other current assets	1,351	1,351
Total current assets	139,104	216,758
Capital assets, net	32,843	32,572
	$ 171,947	$ 249,330
LIABILITIES AND NET ASSETS		
Liabilities:		
Payable to affiliates	$ 8,471	$ 4,795
Other liabilities and accruals	7,283	6,797
Total liabilities	15,754	11,592
Commitments and contingencies		
Net assets:		
Invested in capital assets	32,843	32,572
Unrestricted	123,350	205,166
Total net assets	156,193	237,738
	$ 171,947	$ 249,330

See accompanying notes to financial statements.

MARSHALL ISLANDS VISITORS AUTHORITY

Statements of Revenues, Expenses, and Changes in Net Assets
Years Ended September 30, 2012 and 2011

	2012	2011
Operating revenues:		
Nitijela appropriation	$ 245,816	$ 246,170
Hotel taxes	4,422	-
Other	9,852	4,020
Total operating revenues	260,090	250,190
Operating expenses:		
Salaries, wages and employee benefits	126,127	120,262
Marketing support	28,109	331
Promotional materials	27,168	15,465
Overseas tourism related events	26,038	28,405
Tourism and environmental awareness	22,805	4,182
Office supplies	11,817	7,439
Communications	11,119	9,196
Housing	10,500	9,000
Depreciation	9,963	4,073
Rent	8,373	16,475
Media trips	5,880	40,802
Advertising	-	1,693
Miscellaneous	53,736	22,121
Total operating expenses	341,635	279,444
Change in net assets	(81,545)	(29,254)
Net assets at beginning of year	237,738	266,992
Net assets at end of year	$ 156,193	$ 237,738

See accompanying notes to financial statements.

MARSHALL ISLANDS VISITORS AUTHORITY

Statements of Cash Flows
Years Ended September 30, 2012 and 2011

	2012	2011
Cash flows from operating activities:		
Operating grants received	$ 340,813	$ 194,090
Other operating revenues	7,331	96,155
Cash payments to suppliers for goods and services	(205,059)	(155,109)
Cash payments to employees for services	(122,451)	(117,700)
Net cash provided by operating activities	20,634	17,436
Cash flows from capital and related financing activities:		
Acquisition of fixed assets	(28,667)	(35,497)
Proceeds from sale of fixed assets	10,995	-
Net cash used for capital and related financing activities	(17,672)	(35,497)
Net change in cash	2,962	(18,061)
Cash at beginning of year	50,028	68,089
Cash at end of year	$ 52,990	$ 50,028
Reconciliation of change in net assets to net cash provided by operating activities:		
Change in net assets	$ (81,545)	$ (29,254)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	9,963	4,073
Loss on disposal of fixed assets	7,438	-
(Increase) decrease in assets:		
Receivables:		
Due from RepMar	94,997	(52,080)
Due from South Pacific Tourism Organization	-	82,868
Hotel taxes	(4,422)	9,267
Other	(9,959)	-
Increase in liabilities:		
Accounts payable	486	2,066
Payable to affiliates	3,676	496
Net cash provided by operating activities	$ 20,634	$ 17,436

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, 2012 and 2011, the carrying amounts of cash were $52,990 and $50,028, respectively, and the corresponding bank balances were $59,084 and $57,720, respectively, which are maintained in a financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2012 and 2011, bank deposits were fully FDIC insured.

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 and other equipment	3-5 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, 2012 and 2011, 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 2012, MIVA implemented the following pronouncements:

- GASB 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 the frequency and timing of measurements for actuarial valuations first used to report funded status information in OPEB plan financial statements. The implementation of this pronouncement did not have a material effect on the accompanying financial statements.

- GASB Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions* (an amendment of GASB Statement No. 53), which will improve financial reporting by state and local governments by clarifying the circumstances in which hedge accounting continues to be applied when a swap counterparty, or a swap counterparty's credit support provider, is replaced. The implementation of this pronouncement did not have a material effect on the accompanying financial statements.

In December 2010, GASB issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements,* which addresses how to account for and report service concession arrangements (SCAs), a type of public-private or public-public partnership that state and local governments are increasingly entering into. The provisions of this statement are effective for periods beginning after December 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of MIVA.

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In December 2010, GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus*, which is designed to improve financial reporting for governmental entities by amending the requirements of Statements No. 14, *The Financial Reporting Entity,* and No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, to better meet user needs and address reporting entity issues that have come to light since those Statements were issued in 1991 and 1999, respectively. The provisions of this statement are effective for periods beginning after June 15, 2012. Management does not believe that the implementation of this statement will have a material effect on the financial statements of MIVA.

In December 2010, GASB issued Statement No. 62, Codification of Accounting and *Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which is intended to enhance the usefulness of its Codification by incorporating guidance that previously could only be found in certain FASB and American Institute of Certified Public Accountants (AICPA) pronouncements. The provisions of this statement are effective for periods beginning after December 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of MIVA.

In July 2011, GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which establishes guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position. The provisions of this statement are effective for periods beginning after December 15, 2011. Management has not yet determined the effect of implementation of this statement on the financial statements of MIVA.

In April 2012, GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities,* which clarifies the appropriate reporting of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. The provisions of this statement are effective for periods beginning after December 15, 2012. Management has not yet determined the effect of implementation of this statement on the financial statements of MIVA.

In April 2012, GASB issued Statement No. 66, *Technical Corrections - 2012*, which enhances the usefulness of financial reports by resolving conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting. The provisions of this statement are effective for periods beginning after December 15, 2012. Management has not yet determined the effect of implementation of this statement on the financial statements of MIVA.

In June 2012, GASB issued Statement No. 67, *Financial Reporting for Pension Plans,* which revises existing guidance for the financial reports of most pension plans, and Statement No. 68, *Accounting and Financial Reporting for Pensions,* which revises and establishes new financial reporting requirements for most governments that provide their employees with pension benefits. The provisions in Statement 67 are effective for financial statements for periods beginning after June 15, 2013. The provisions in Statement 68 are effective for fiscal years beginning after June 15, 2014. Management has not yet determined the effect of implementation of these statements on the financial statements of MIVA.

(2) Summary of Significant Accounting Policies, Continued

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, 2012 and 2011 was as follows:

	October 1, 2011	Additions and Transfers	Retirements	September 30, 2012
Motor vehicles	$ 33,490	$ 23,950	$ (33,490)	$ 23,950
Image library	29,896	-	-	29,896
Computer and other equipment	33,454	4,717	(5,221)	32,950
	96,840	28,667	(38,711)	86,796
Less accumulated depreciation	(64,268)	(9,963)	20,278	(53,953)
	$ 32,572	$ 18,704	$ (18,433)	$ 32,843

	October 1, 2010	Additions and Transfers	Retirements	September 30, 2011
Motor vehicles	$ 20,495	$ 12,995	$ -	$ 33,490
Image library	29,896	-	-	29,896
Computer and other equipment	21,015	22,502	(10,063)	33,454
	71,406	35,497	(10,063)	96,840
Less accumulated depreciation	(70,258)	(4,073)	10,063	(64,268)
	$ 1,148	$ 31,424	$ -	$ 32,572

(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 as of and for the years ended September 30, 2012 and 2011 is as follows:

	2012	
	Expenses	Payables
Marshall Islands Social Security Administration	$ 10,466	$ 8,027
Marshall Islands National Telecommunications Authority	11,119	-
Marshalls Energy Company, Inc.	8,373	-
RepMar	-	444
	$ 29,958	$ 8,471

	2011	
	Expenses	Payables
Marshall Islands Social Security Administration	$ 7,889	$ 4,769
Marshall Islands National Telecommunications Authority	9,196	-
Marshalls Energy Company, Inc.	16,475	-
RepMar	-	26
	$ 33,560	$ 4,795

During the years ended September 30, 2012 and 2011, the operations of MIVA were funded by appropriations from RepMar in the amounts of $245,816 and $246,170, respectively. As of September 30, 2012 and 2011, balances due and receivable from RepMar relative to these appropriations amount to $61,453 and $156,450, respectively.

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.