MARSHALL ISLANDS VISITORS AUTHORITY

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

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

YEARS ENDED SEPTEMBER 30, 2014 AND 2013

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

Years Ended September 30, 2014 and 2013
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Deloitte & Touche LLP
361 South Marine Corps Drive
Tamuning, GU 96913-3911
USA

Tel: (671)646-3884
Fax: (671)649-4932
www.deloitte.com

INDEPENDENT AUDITORS' REPORT

Board of Directors
Marshall Islands Visitors Authority:

Report on the Financial Statements

We have audited the accompanying financial statements of the Marshall Islands Visitors Authority (MIVA), a component unit of the Republic of the Marshall Islands, which comprise the statements of net position as of September 30, 2014 and 2013, and the related statements of revenues, expenses and changes in net position and of cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Marshall Islands Visitors Authority as of September 30, 2014 and 2013, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 5 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 28, 2015, 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* in considering MIVA's internal control over financial reporting and compliance.

Deloitte + Touche LLP

September 28, 2015

FINANCIAL HIGHLIGHTS

MIVA's net position decreased by $111,280 or 71% from $156,193 in 2012 to $44,913 in 2013 and decreased by $7,941 or 18% from $44,913 in 2013 to $36,972 in 2014. Operating revenues decreased by $46,357 or 11% from $422,127 in 2013 to $375,770 in 2014.

FINANCIAL ANALYSIS OF MIVA

The Statements of Net Position (page 6) and the Statements of Revenues, Expenses, and Changes in Net Position (page 7) provide an indication of MIVA's financial condition. MIVA's net position reflects the difference between assets and liabilities. An increase in net position over time typically indicates an improvement in the financial condition of the organization.

A summary of MIVA's Statements of Net Position is presented below:

	2014	2013	2012
Current assets	$ 68,607	$ 19,724	$ 139,104
Capital assets	28,232	45,943	32,843
Total assets	$ 96,839	$ 65,667	$ 171,947
Current liabilities	$ 59,867	$ 20,754	$ 15,754
Net investment in capital assets	28,232	45,943	32,843
Unrestricted	8,740	(1,030)	123,350
Total net position	36,972	44,913	156,193
Total liabilities and net position	$ 96,839	$ 65,667	$ 171,947

As indicated above, total assets decreased by $106,280 or 62% from $171,947 in 2012 to $65,667 in 2013 and increased by $31,172 or 47% from $65,667 in 2013 to $96,839 in 2014. The net decrease from 2012 to 2013 is comprised of decrease of $119,380 in current assets and an increase of $13,100 in capital assets. The net increase from 2013 to 2014 is comprised of increase of $48,883 in current assets and a decrease of $17,711 in capital assets. The increase in current assets from 2013 to 2014 is comprised of increase in receivables from RepMar and hotel taxes.

Total liabilities reflect an increase of $5,000 or 32% from $15,754 in 2012 to $20,754 in 2013 and an increase of $39,113 or 188% from $20,754 in 2013 to $59,867 in 2014. These amounts comprise mostly of the accrual of expenses paid after the fiscal year and employees' leave pay.

A summary of MIVA's Statements of Revenues, Expenses, and Changes in Net Position is presented below:

	2014	2013	2012
Operating revenues	$ 375,770	$ 422,127	$ 260,090
Operating expenses	383,711	533,407	341,635
Change in net assets	(7,941)	(111,280)	(81,545)
Net position at beginning of year	44,913	156,193	237,738
Net position at end of year	$ 36,972	$ 44,913	$ 156,193

The Statements of Revenues, Expenses, and Changes in Net Position identify the various revenue and expense items that implicit the change in net position. As indicated above, MIVA's total operating revenues increased by $162,037 or 62% from $260,090 in 2012 to $422,127 in 2013 and decreased by $46,357 or 11% from $422,127 in 2013 to $375,770 in 2014. The increase in 2012 and 2013 was mainly due to increase in contributions from RepMar, hotel tax and other operating revenues. The decrease in 2013 and 2014 was mainly due to decrease in contributions from RepMar, hotel tax and other operating revenues.

	2014	2013	2012
Nitijela appropriation	$ 322,400	$ 373,479	$ 245,816
Grants and contributions	28,990	-	-
Hotel room tax	11,715	16,389	4,422
Others	12,665	32,259	9,852
	$ 375,770	$ 422,127	$ 260,090

MIVA's total expenses increased by $191,772 or 56% from $341,635 in 2012 to $533,407 in 2013 and decreased by $149,696 or 28% from $533,407 in 2013 to $383,711 in 2014. The decrease in 2014 was due to decreased promotional materials, overseas tourism related events and miscellaneous.

Below is a list of the major components of operating expenses for MIVA in 2014 compared to 2013 and 2012:

	2014	2013	2012
Salaries and Wages	$ 145,118	$ 133,618	$ 126,127
Rent	$ 8,400	$ 8,400	$ 8,373
Media Trips	$ 14,033	$ 6,762	$ 5,880
Communications	$ 10,284	$ 11,275	$ 11,119
Overseas tourism related events	$ 17,461	$ 58,485	$ 26,038
Promotional materials	$ 39,300	$ 143,319	$ 27,168
Tourism and environmental awareness	$ 57,985	$ 54,952	$ 22,805
Other	$ 91,130	$ 116,596	$ 114,125

The Discussion and Analysis for the year ended September 30, 2013, is set forth in MIVA's report on the audit of financial statements, which is dated September 11, 2014. This Discussion and Analysis explains the major factors impacting the 2013 financial statements and can be obtained from MIVA's Finance Manager via the contact information below.

CAPITAL ASSETS

Net capital assets increased by $13,100 or 40% from $32,843 in 2012 to $45,943 in 2013 and decreased by $17,711 or 39% from $45,943 in 2013 to $28,232 in 2014. The decrease is a result in the retirement of image library, computer and other equipment.

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

	2014	2013	2012
Image library, motor vehicles, and equipment	$ 76,516	$ 110,793	$ 86,796
Less accumulated depreciation	(48,284)	(64,850)	(53,953)
Net Capital Assets	$ 28,232	$ 45,943	$ 32,843

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

ADDITONAL 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 Position
September 30, 2014 and 2013

ASSETS	2014	2013
Current assets:		
Cash	$ 1,392	$ 1,392
Receivables:		
Due from RepMar	41,083	-
Hotel taxes	21,285	16,981
Other	3,496	-
Other current assets	1,351	1,351
Total current assets	68,607	19,724
Capital assets, net	28,232	45,943
	$ 96,839	$ 65,667
LIABILITIES AND NET POSITION		
Liabilities:		
Payable to affiliates	$ 47,501	$ 9,167
Other liabilities and accruals	12,366	11,587
Total liabilities	59,867	20,754
Commitments and contingencies		
Net position:		
Net investment in capital assets	28,232	45,943
Unrestricted	8,740	(1,030)
Total net position	36,972	44,913
	$ 96,839	$ 65,667

See accompanying notes to financial statements.

MARSHALL ISLANDS VISITORS AUTHORITY

Statements of Revenues, Expenses, and Changes in Net Position
Years Ended September 30, 2014 and 2013

	2014	2013
Operating revenues:		
Nitijela appropriation	$ 322,400	$ 373,479
Grants and contributions	28,990	-
Hotel taxes	11,715	16,389
Other	12,665	32,259
Total operating revenues	375,770	422,127
Operating expenses:		
Salaries, wages and employee benefits	145,118	133,618
Tourism and environmental awareness	57,985	54,952
Promotional materials	39,300	143,319
Depreciation	18,406	15,388
Overseas tourism related events	17,461	58,485
Media trips	14,033	6,762
Communications	10,284	11,275
Office supplies	9,560	17,409
Rent	8,400	8,400
Marketing support	4,426	4,044
Housing	2,250	9,000
Advertising	2,078	4,169
Miscellaneous	54,410	66,586
Total operating expenses	383,711	533,407
Change in net position	(7,941)	(111,280)
Net position at beginning of year	44,913	156,193
Net position at end of year	$ 36,972	$ 44,913

See accompanying notes to financial statements.

MARSHALL ISLANDS VISITORS AUTHORITY

Statements of Cash Flows
Years Ended September 30, 2014 and 2013

	2014	2013
Cash flows from operating activities:		
Operating grants received	$ 281,317	$ 434,932
Other operating revenues	45,570	60,886
Cash payments to suppliers for goods and services	(204,766)	(380,097)
Cash payments to employees for services	(121,426)	(132,922)
Net cash provided by (used for) operating activities	695	(17,201)
Cash flows from capital and related financing activities:		
Acquisition of fixed assets	(695)	(47,947)
Proceeds from sale of fixed assets	-	13,550
Net cash used for capital and related financing activities	(695)	(34,397)
Net change in cash	-	(51,598)
Cash at beginning of year	1,392	52,990
Cash at end of year	$ 1,392	$ 1,392
Reconciliation of change in net position to net cash provided by (used for) operating activities:		
Change in net position	$ (7,941)	$ (111,280)
Adjustments to reconcile change in net position to net cash provided by (used for) operating activities:		
Depreciation	18,406	15,388
Loss on disposal of fixed assets	-	5,909
(Increase) decrease in assets:		
Receivables:		
Due from RepMar	(41,083)	61,453
Hotel taxes	(4,304)	(3,630)
Other	(3,496)	9,959
Increase in liabilities:		
Accounts payable	779	4,304
Payable to affiliates	38,334	696
Net cash provided by (used for) operating activities	$ 695	$ (17,201)

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

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 position categories:

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

- Unrestricted; net position that is not subject to externally imposed stipulations. Unrestricted net position may be designated for specific purposes by action of management or the Board of Directors or may otherwise be limited by contractual agreements with outside parties.

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.

(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 liabilities associated with the operation of the fund are included in the statements of net position. Proprietary fund operating statements present increases and decreases in net position. The accrual basis of accounting is utilized by proprietary funds. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. 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 position and cash flows, cash is defined as cash on hand and cash held in demand accounts. As of September 30, 2014 and 2013, the carrying amounts of cash were $1,392 and $1,392, respectively, and the corresponding bank balances were $36,334 and $8,369, respectively, which are maintained in a financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2014 and 2013, 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.

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

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, deferred outflows of resources 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. MIVA has no items that qualify for reporting in this category.

(2) Summary of Significant Accounting Policies, Continued

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, 2014 and 2013, there is no accumulated vacation leave liability.

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, deferred inflows of resources 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. MIVA 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 of 3% on revenues. MIVA is specifically exempt from this tax.

New Accounting Standards

During fiscal year 2014, MIVA implemented the following pronouncements:

- GASB 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 implementation of this statement did not have a material effect on the accompanying financial statements.

- GASB Statement No. 67, *Financial Reporting for Pension Plans,* which revises existing guidance for the financial reports of most pension plans. The implementation of this statement did not have a material effect on the accompanying financial statements.

- GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, which requires a state or local government guarantor that offers a nonexchange financial guarantee to another organization or government to recognize a liability on its financial statements when it is more likely than not that the guarantor will be required to make a payment to the obligation holders under the agreement. The implementation of this statement did not have a material effect on the accompanying financial statements.

In June 2012, GASB issued 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 68 are effective for fiscal years beginning after June 15, 2014. 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 January 2013, GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations,* which improves accounting and financial reporting for state and local governments' combinations and disposals of government operations. Government combinations include mergers, acquisitions, and transfers of operations. A disposal of government operations can occur through a transfer to another government or a sale. The provisions in Statement 69 are effective for fiscal years beginning after December 15, 2013. Management has not yet determined the effect of implementation of this statement on the financial statements of MIVA.

In November 2013, GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68,* which addresses an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. The provisions in Statement 71 are effective for fiscal years beginning after June 15, 2014. Management does not believe that the implementation of this statement will have a material effect on the financial statements of MIVA.

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, 2014 and 2013 was as follows:

	October 1, 2013	Additions and Transfers	Retirements	September 30, 2014
Motor vehicles	$ 42,950	$ -	$ -	$ 42,950
Image library	29,896	-	(29,159)	737
Computer and other equipment	37,947	695	(5,813)	32,829
	110,793	695	(34,972)	76,516
Less accumulated depreciation	(64,850)	(18,406)	34,972	(48,284)
	$ 45,943	$ (17,711)	$ -	$ 28,232

(3) Capital Assets, Continued

	October 1, 2012	Additions and Transfers	Retirements	September 30, 2013
Motor vehicles	$ 23,950	$ 42,950	$ (23,950)	$ 42,950
Image library	29,896	-	-	29,896
Computer and other equipment	32,950	4,997	-	37,947
	86,796	47,947	(23,950)	110,793
Less accumulated depreciation	(53,953)	(15,388)	4,491	(64,850)
	$ 32,843	$ 32,559	$ (19,459)	$ 45,943

(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, 2014 and 2013 is as follows:

	2014	
	Expenses	Payables
Marshall Islands Social Security Administration	$ 11,005	$ 24,904
Marshall Islands National Telecommunications Authority	10,284	-
Marshalls Energy Company, Inc.	8,400	8,400
RepMar	-	14,197
	$ 29,689	$ 47,501

	2013	
	Expenses	Payables
Marshall Islands Social Security Administration	$ 10,847	$ 8,938
Marshall Islands National Telecommunications Authority	11,275	-
Marshalls Energy Company, Inc.	8,400	-
RepMar	-	229
	$ 30,522	$ 9,167

During the years ended September 30, 2014 and 2013, the operations of MIVA were funded by appropriations from RepMar in the amounts of $322,400 and $373,479, respectively. As of September 30, 2014 and 2013, balances due and receivable from RepMar relative to these appropriations amount to $41,083 and nil, respectively.

MIVA occupies certain office space owned by the Marshalls Energy Company, Inc. with monthly rent expense of $700 inclusive of all utilities and other maintenance costs.

(5) Contingency

MIVA receives a substantial amount of its revenue from annual RepMar appropriations. A significant reduction in the level of budgetary support from RepMar, if this were to occur, may have an effect on MIVA's tourism programs and activities. For the year ended September 30, 2015, RepMar appropriated funding to MIVA in the amount of $242,500 for the purpose of funding tourism activities.

Deloitte.

Deloitte & Touche LLP
361 South Marine Corps Drive
Tamuning, GU 96913-3911
USA

Tel: (671)646-3884
Fax: (671)649-4932
www.deloitte.com

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

Board of Directors
Marshall Islands Visitors Authority:

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 Marshall Islands Visitors Authority (MIVA), which comprise the statement of net position as of September 30, 2014, and the related statements of revenues, expenses and changes in net position and of cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated September 28, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered MIVA's internal control over financial reporting (internal control) to determine the 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 MIVA's internal control. Accordingly, we do not express an opinion on the effectiveness of MIVA's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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. However, as described in the accompanying Schedule of Findings and Responses, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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. We consider the deficiencies described in the accompanying Schedule of Findings and Responses as items 2014-1 through 2014-6 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether MIVA'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 determination of financial statement amounts. 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 items 2014-7 and 2014-8.

MIVA's Response to Findings

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

Purpose of this Report

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

Deloitte + Touche LLP

September 28, 2015

Finding No. 2014-1

Financial Reporting

Criteria: Timely financial reporting should be facilitated by an internal control structure conducive to the preparation and independent review of reconciliations of all significant general ledger accounts.

Condition: MIVA did not close fiscal year September 30, 2014 financial information (trial balance and subsidiary ledgers) until May 19, 2015. In addition, certain expenses were not accrued in the correct accounting period as follows:

Check #	Amount
8087	$ 6,220
8966	$ 8,400
9009	$ 2,300
9330	$ 4,704

Audit adjustments were proposed to record these expenses in the correct accounting period.

Cause: The cause of the above condition is the lack of timely closing at year-end and the absence of timely reviews and reconciliations of significant general ledger accounts and the recording of expenses in the correct accounting period.

Effect: The trial balance was not timely provided for audit purposes and accrued expenses were misstated.

Recommendation: We recommend that MIVA implement internal control procedures to facilitate more timely general ledger reconciliation processes and require that expenses be recorded in the correct accounting period.

Prior Year Status: The lack of timely preparation and reconciliation of general ledger was reported as a finding in the audit of MIVA for fiscal year 2013.

Auditee Response and Corrective Action Plan: MIVA will implement internal control procedures to facilitate more timely general ledger reconciliation processes and will recommend MIVA Board to approve Government Procedures in place.

Finding No. 2014-2

Hotel Taxes Receivable

Criteria: Generally Accepted Accounting Principles (GAAP) in the United States uses the accrual basis of accounting for proprietary funds in which revenues are recorded when they are earned. MIVA records 1/8 of the total hotel tax collected by RepMar (from all the hotels in the Marshall Islands) as hotel revenue each year.

Condition: As of September 30, 2014, MIVA had not recorded hotel taxes receivable as the Ministry of Finance had not provided the total amount of hotel taxes collected during fiscal year 2014. The recorded receivable was for fiscal years 2012 and 2013. Fiscal year 2012 was remitted to MIVA during the year ended September 30, 2014. An audit adjustment was proposed to reduce the recorded receivable for fiscal year 2012 and to recognize an additional accrual for fiscal year 2014.

Cause: MIVA does not have policies in place requiring that receivables be properly accrued.

Effect: The effect is a possible misstatement of receivables. However, this matter was corrected by proposed audit adjustments.

Recommendation: We recommend that management set policies and procedures in accordance with GAAP requiring that revenues be recorded when earned.

Prior Year Status: The lack of accruing hotel taxes receivable when earned was reported as a finding in the audits of MIVA for fiscal years 2006 through 2013.

Auditee Response and Corrective Action Plan: MIVA Management has established policies and procedures in accordance with GAAP to ensure that revenue are recorded as earned as indicated in the 2011 MIVA Employee Handbook. Additionally, internal policies and procedures have also been established to ensure that hotel taxes are requested in a timely manner.

Finding No. 2014-3

Fixed Assets

Criteria: The fixed asset register should be timely updated to reflect current year additions and disposals and the register should be reviewed by management.

Condition: The fixed asset register is not reconciled with the general ledger. Furthermore, depreciation expense was not recorded. Also, certain assets were written-off as they could not be located.

Cause: Policies and procedures in place requiring that the fixed asset register be timely updated and reviewed by management and be reconciled with the general ledger.

Effect: The effect is a possible misstatement of fixed assets. This matter was corrected by proposed audit adjustments.

Recommendation: We recommend that MIVA follow established policies and procedures requiring timely updates of the fixed asset register and reconciliation with the general ledger. Also, MIVA should designate a person responsible for overseeing, safeguarding and monitoring assets disposals.

Prior Year Status: The lack of timely update and reconciliation of the fixed asset register was reported as a finding in the audits of MIVA for fiscal years 2008 through 2013.

Auditee Response and Corrective Action Plan: MIVA Management has established policies and procedures to ensure that the fixed asset register is updated in a timely manner and is reviewed by the General Manager as indicated in the 2011 MIVA Employee Handbook.

Finding No. 2014-4

Non-payroll Expenses

Criteria: Non-payroll expenses should be supported by transactional source documentation.

Condition: Of nineteen non-payroll expenses tested (totaling $87,106), the source documentation was not made available for the following:

Check #	Account	Amount
8754	Travel expense	$ 3,147
8562	Travel expense	$ 2,025
8053	Travel expense	$ 1,910
8362	Travel expense	$ 1,640
8095	Tourism and environmental awareness expense	$ 1,595
8168	Tourism and environmental awareness expense	$ 1,000

Cause: The cause of the above condition is the lack of established policies and procedures requiring that source documentation be maintained.

Effect: The effect of the above condition is a possible misstatement of non-payroll expenses.

Recommendation: We recommend that policies and procedures be established pertaining to non-payroll expenses.

Prior Year Status: The lack of transactional source documentation was reported as a finding in the audit of MIVA for fiscal year 2013.

Auditee Response and Corrective Action Plan: MIVA Management has established policies and procedures to ensure proper implementation of the 2011 MIVA Employee Handbook pertaining to non-payroll expense or Post Trip Reports of Expenses.

Finding No. 2014-5

Bank Reconciliations

Criteria: Duly recorded transactions should be timely posted. Reconciliations of key accounts, including bank reconciliations, and review of such reconciliations, should be performed monthly.

Condition: MIVA does not have established policies, procedures and controls in place requiring timely processing and posting of transactions, and timely preparation and review of reconciliations. Bank accounts were not reconciled monthly, and were not reviewed by the General Manager. The September 30, 2014 reconciliation was completed in June 2015. Unrecorded transactions of $8,546 were noted. The September 30, 2014 bank reconciliation also included $3,400 of checks outstanding for more than three months.

Cause: The cause of the above condition appears to be noncompliance with the criteria.

Effect: The effect of the above is the delayed identification and correction of errors and misstatements in the financial statements.

Recommendation: We recommend that management implement procedures requiring timely posting of daily transactions and a checklist of accounts that should be reconciled and reviewed on a monthly basis.

Prior Year Status: The lack of established policies, procedures and controls requiring timely processing and posting of transactions, and timely preparation and review of reconciliations was reported as a finding in the audit of MIVA for fiscal year 2013.

Auditee Response and Corrective Action Plan: MIVA Management has established policies and procedures to ensure proper implementation of the 2011 MIVA Employee Handbook to reconcile timely and review and approve monthly by the General Manager.

Finding No. 2014-6

Payroll

Criteria: Employee time cards should be authorized and reviewed. Also, check vouchers should be reviewed prior to payment approval.

Condition: During the year ended September 30, 2014, we noted the following:

A. There is no evidence of review and approval of employee timecards.
B. There is inconsistency in the computation of hours worked.
C. There is inconsistency in input of time on timecards; some are manually written with erasures, while some are type-written using bundy clock.
D. Of sixteen samples, four instances occurred where incorrect rates per hour were used.

Cause: The cause of the above condition appears to be lack of established policies and procedures pertaining to review processes over payroll.

Effect: The effect of the above condition is the possibility of unauthorized payroll expense occurring that may not be timely detected and a possibility of overpayments.

Recommendation: We recommend that internal control policies and procedures be established requiring the authorization and review of employee time cards and requiring the review of check vouchers prior to check preparation and payment.

Prior Year Status: The lack of established policies and procedures pertaining to review process on payroll preparation was reported as a finding in the audit of MIVA for fiscal year 2013.

Auditee Response and Corrective Action Plan: MIVA Finance and General Manager reviewed the said timecards that were entered manually was due to mostly outfield. MIVA will establish policies pertaining to payroll preparation.

Finding No. 2014-7

Local Noncompliance

Criteria: 49 MIRC Chapter 1, Social Security Act of 1990, Section 131 state that no later than the tenth (10th) day after the end of each quarter, every employer, including every self-employed worker, shall (a) submit to the Administrator a report of the wages and salaries paid by him and the contributions due from him; and (b) pay into the Fund the contributions due.

Condition: MIVA filed and paid employer and employee contributions withheld for the year ended September 30, 2014 in a manner inconsistent with the criteria. Specifically, MIVA remitted social security employer and employee contributions for the quarters ended December 31, 2013, March 30, 2014, June 30, 2014, and September 30, 2014 as follows:

Quarter Ended	Amount Owed	Due Date	Date Paid
December 31, 2013	$ 5,534	01/10/2014	10/09/2014
March 31, 2014	$ 5,764	04/10/2014	10/09/2014
June 30, 2014	$ 5,740	07/10/2014	10/09/2014
September 30, 2014	$ 6,246	10/10/2014	03/05/2015

Cause: The cause of the above condition is lack of established policies and procedures that meet compliance with the Social Security Act of 1990 and the Social Security Health Fund Act of 1991.

Effect: The effect of the above condition is noncompliance with the Social Security Act of 1990 and the Social Security Health Fund Act of 1991.

Recommendation: We recommend that management establish policies and procedures to comply with the Social Security Act of 1990 and the Social Security Health Fund Act of 1991.

Prior Year Status: The lack of compliance with the criteria was reported as a finding in the audits of MIVA for fiscal years 2012 and 2013.

Auditee Response and Corrective Action Plan: MIVA Management will comply with the Social Security Act of 1990 and Social Security Health Fund Act of 1991. The lateness in payment was due to insufficient funding in MIVA account, due to lateness in disbursing quarterly funding from government on a timely manner.

Finding No. 2014-8

Local Noncompliance

Criteria: 48 MIRC Chapter 1, Income Tax Act of 1989, Section 105, states that the employer shall once every four (4) weeks or thirteen times per year, pay taxes withheld under Section 104 under Chapter 1. The employer shall, along with the taxes, within two (2) weeks following the preceding four (4) week period make a full, true and correct return showing all wages and salaries paid by the employer to the employees during the preceding four (4) week period and showing the tax due and withheld thereon as provided in Section 104 of the Chapter.

Condition: MIVA filed and paid income taxes withheld for the year ended September 30, 2014 in a manner inconsistent with the criteria wherein withholding tax returns were not timely filed and paid during fiscal year 2014. Specifically, unpaid tax returns for the period 9/10/2013 to 12/31/2013 were not filed until August 5, 2014. In addition, unpaid tax returns for the period 1/1/2014 to 10/07/2014 were not filed until June 29, 2015.

Cause: The cause of the above condition is the lack of policies and procedures to monitor timely filing of returns and payment of withheld income taxes.

Effect: The effect of the above condition is noncompliance with the RepMar Income Tax Act of 1989, as amended.

Recommendation: We recommend that management establish policies and procedures to comply with the RepMar Income Tax Act of 1989, as amended.

Prior Year Status: The lack of compliance with the criteria was reported as a finding in the audit of MIVA for fiscal year 2013.

Auditee Response and Corrective Action Plan: MIVA Management will ensure that MIVA file and pay income taxes withheld in a timely manner. This is also due to lateness in disbursement of funding from government on a timely manner.

Unresolved Prior Year Findings
Year Ended September 30, 2014

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