MARSHALL ISLANDS VISITORS AUTHORITY

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

**FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT**

YEARS ENDED SEPTEMBER 30, 2013 AND 2012

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

Years Ended September 30, 2013 and 2012
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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, 2013 and 2012, 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, 2013 and 2012, 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 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 11, 2014, 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 11, 2014

FINANCIAL HIGHLIGHTS

MIVA's net position decreased by $81,545 or 34% from $237,738 in 2011 to $156,193 in 2012 and decreased by $111,280 or 71% from $156,193 to $44,913. Operating revenues increased by $162,037 or 62% from $260,090 in 2012 to $422,127 in 2013.

FINANCIAL ANALYSIS OF MIVA

The Statement of Net Position (Page 6) and the Statement of Revenues, Expenses, and Changes in Net Position (page 7) provide an indication of MIVA's financial condition. MIVA's net position reflect 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:

	2013	2012	2011
Current Assets	$ 19,724	$ 139,104	$ 216,758
Capital Assets	45,943	32,843	32,572
Total assets	$ 65,667	$ 171,947	$ 249,330
Current liabilities	$ 20,754	$ 15,754	$ 11,592
Net investment in capital assets	45,943	32,843	32,572
Unrestricted	(1,030)	123,350	205,166
Total net position	44,913	156,193	237,738
Total liabilities and net position	$ 65,667	$ 171,947	$ 249,330

As indicated above, total assets decreased by $77,383 or 31% from $249,330 in 2011 to $171,947 in 2012 and decreased by $106,280 or 61% from $171,947 to $65,667 in 2013. 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 from 2012 to 2013 is comprised of $119,380 in current assets and an increase of $13,100 in capital assets. The decrease in current assets from 2012 to 2013 was due to a decrease in grants receivables from RepMar.

Total liabilities reflects an increase of $4,162 or 35% from $11,592 in 2011 to $15,754 in 2012 and an increase of $5,000 or 31% from $15,754 to $20,754 in 2013. 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:

	2013	2012	2011
Operating revenues	$ 422,127	$ 260,090	$ 250,190
Operating expenses	533,407	341,635	279,444
Change in net position	(111,280)	(81,545)	(29,254)
Net position at beginning of year	156,193	237,738	266,992
Net position at end of year	$ 44,913	$ 156,193	$ 237,738

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 $9,900 or 4% from $250,190 in 2011 to $260,090 in 2012 and increased by $162,037 or 62% from $260,090 in 2012 to $422,127 in 2013. The increase in 2011 was mainly due to the increase in Hotel Tax. The increase in 2012 and 2013 was mainly due to increase in contributions from RepMar, Hotel Tax and other operating revenues.

	2013	2012	2011
Nitijela appropriation	$ 373,479	$ 245,816	$ 246,170
Hotel room tax	16,389	4,422	-
Others	32,259	9,852	4,020
	$ 422,127	$ 260,090	$ 250,190

MIVA's total expenses increased by $62,191 or 22% from $279,444 in 2011 to $341,635 in 2012 and an increase of $191,772 or 56% from $341,635 in 2012 to $533,407 in 2013.The increase in 2011 was due mainly to the increase in Promotional Materials, Overseas Tourism Related Events, 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 2013 compared to 2012 and 2011:

	2013	2012	2011
Salaries and Wages	$ 133,618	$ 126,127	$ 120,262
Rent	$ 8,400	$ 8,373	$ 16,475
Media Trips	$ 6,762	$ 5,880	$ 40,802
Communications	$ 11,275	$ 11,119	$ 9,196
Overseas tourism related events	$ 58,485	$ 26,038	$ 28,405
Promotional materials	$ 143,319	$ 27,168	$ 15,465
Tourism and environmental awareness	$ 54,952	$ 22,805	$ 4,182
Other	$ 116,596	$ 114,125	$ 44,657

The Discussion and Analysis for the year ended September 30, 2012, is set forth in MIVA's report on the audit of financial statements, which is dated August 13, 2013. That Discussion and Analysis explains the major factors impacting the 2012 financial statements and can be obtained from MIVA's Finance Manager via the contact information below.

CAPITAL ASSETS

Net capital assets increased by $271 from $32,572 in 2011 to $32,843 in 2012 and increased by $13,100 or 40% from $32,843 in 2012 to $45,943 in 2013. These increases are the result of capital asset additions in motor vehicles and computer and other equipment.

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

	2013	2012	2011
Image library, motor vehicles, and equipments	$ 110,793	$ 86,796	$ 96,840
Less accumulated depreciation	(64,850)	(53,953)	(64,268)
Net Capital Assets	$ 45,943	$ 32,843	$ 32,572

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, 2013 and 2012

ASSETS	2013	2012
Current assets:		
Cash	$ 1,392	$ 52,990
Receivables:		
Due from RepMar	-	61,453
Hotel taxes	16,981	13,351
Other	-	9,959
Other current assets	1,351	1,351
Total current assets	19,724	139,104
Capital assets, net	45,943	32,843
	$ 65,667	$ 171,947
LIABILITIES AND NET POSITION		
Liabilities:		
Payable to affiliates	$ 9,167	$ 8,471
Other liabilities and accruals	11,587	7,283
Total liabilities	20,754	15,754
Commitments and contingencies		
Net position:		
Net investment in capital assets	45,943	32,843
Unrestricted	(1,030)	123,350
Total net position	44,913	156,193
	$ 65,667	$ 171,947

See accompanying notes to financial statements.

MARSHALL ISLANDS VISITORS AUTHORITY

Statements of Revenues, Expenses, and Changes in Net Position
Years Ended September 30, 2013 and 2012

	2013	2012
Operating revenues:		
Nitijela appropriation	$ 373,479	$ 245,816
Hotel taxes	16,389	4,422
Other	32,259	9,852
Total operating revenues	422,127	260,090
Operating expenses:		
Promotional materials	143,319	27,168
Salaries, wages and employee benefits	133,618	126,127
Overseas tourism related events	58,485	26,038
Tourism and environmental awareness	54,952	22,805
Office supplies	17,409	11,817
Depreciation	15,388	9,963
Communications	11,275	11,119
Housing	9,000	10,500
Rent	8,400	8,373
Media trips	6,762	5,880
Advertising	4,169	-
Marketing support	4,044	28,109
Miscellaneous	66,586	53,736
Total operating expenses	533,407	341,635
Change in net position	(111,280)	(81,545)
Net position at beginning of year	156,193	237,738
Net position at end of year	$ 44,913	$ 156,193

See accompanying notes to financial statements.

MARSHALL ISLANDS VISITORS AUTHORITY

Statements of Cash Flows
Years Ended September 30, 2013 and 2012

	2013	2012
Cash flows from operating activities:		
Operating grants received	$ 434,932	$ 340,813
Other operating revenues	60,886	7,331
Cash payments to suppliers for goods and services	(380,097)	(205,059)
Cash payments to employees for services	(132,922)	(122,451)
Net cash provided by (used for) operating activities	(17,201)	20,634
Cash flows from capital and related financing activities:		
Acquisition of fixed assets	(47,947)	(28,667)
Proceeds from sale of fixed assets	13,550	10,995
Net cash used for capital and related financing activities	(34,397)	(17,672)
Net change in cash	(51,598)	2,962
Cash at beginning of year	52,990	50,028
Cash at end of year	$ 1,392	$ 52,990
Reconciliation of change in net position to net cash provided by (used for) operating activities:		
Change in net position	$ (111,280)	$ (81,545)
Adjustments to reconcile change in net position to net cash provided by (used for) operating activities:		
Depreciation	15,388	9,963
Loss on disposal of fixed assets	5,909	7,438
(Increase) decrease in assets:		
Receivables:		
Due from RepMar	61,453	94,997
Hotel taxes	(3,630)	(4,422)
Other	9,959	(9,959)
Increase in liabilities:		
Accounts payable	4,304	486
Payable to affiliates	696	3,676
Net cash provided by (used for) operating activities	$ (17,201)	$ 20,634

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, 2013 and 2012, the carrying amounts of cash were $1,392 and $52,990, respectively, and the corresponding bank balances were $8,369 and $59,084, respectively, which are maintained in a financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2013 and 2012, 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, 2013 and 2012, 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 2013, MIVA implemented the following pronouncements:

- GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements,* which addressed 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 implementation of this statement did not have a material effect on the accompanying financial statements.

- GASB Statement No. 61, *The Financial Reporting Entity: Omnibus,* which improved 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 implementation of this statement did not have a material effect on the accompanying financial statements.

- GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which enhanced the usefulness of its Codification by incorporating guidance that previously could only be found in certain Financial Accounting Standards Board (FASB) and American Institute of Certified Public Accountants (AICPA) pronouncements issued on or before November 30, 1989, which does not conflict or contradict GASB pronouncements. GASB Statement No. 62 superseded GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*. The implementation of this statement did not have a material effect on the accompanying financial statements.

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

- GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which established guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position, and GASB 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. These Statements amend the net asset reporting requirements in Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments,* and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. With the implementation of GASB Statement No. 63 and Statement No. 65, the Statement of Net Assets was renamed the Statement of Net Position.

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.

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 these statements on the financial statements of MIVA.

In April 2013, GASB issued 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 provisions in Statement 70 are effective for fiscal years beginning after June 15, 2013. 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, 2013 and 2012 was as follows:

	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

	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

(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, 2013 and 2012 is as follows:

	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

	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

During the years ended September 30, 2013 and 2012, the operations of MIVA were funded by appropriations from RepMar in the amounts of $373,479 and $245,816, respectively. As of September 30, 2013 and 2012, balances due and receivable from RepMar relative to these appropriations amount to nil and $61,453, 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, 2014, RepMar appropriated funding to MIVA in the amount of $325,000 for the purpose of funding tourism activities.

Deloitte.

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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, 2013, 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 11, 2014.

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 and significant deficiencies.

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 2013-1 through 2013-8 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 2013-9 through 2013-11.

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 11, 2014

Finding No. 2013-1

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, 2013 financial information (trial balance and subsidiary ledgers) until May 19, 2014.

Cause: The cause of the above condition is the lack of timely closing of the year-end with reviews and reconciliations of all significant general ledger accounts.

Effect: The trial balance was not provided for audit in a timely manner.

Recommendation: We recommend that MIVA implement internal control procedures to facilitate more timely general ledger reconciliation processes.

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. 2013-2

Journal Vouchers

Criteria: Journal vouchers should be prepared and reviewed by the General Manager.

Condition: Journal vouchers are not prepared and therefore, such are not reviewed by the General Manager.

Cause: There are no policies and procedures in place for the review and approval of journal entries.

Effect: The effect is that we cannot determine the appropriateness of the journal entries.

Recommendation: We recommend that the entity put policies and procedures in place requiring the review and approval of journal vouchers.

Prior Year Status: The lack of preparation of and independent review of journal entries was reported as a finding in the audits of MIVA for fiscal years 2010 through 2012.

Auditee Response and Corrective Action Plan: MIVA Finance Manager has produced the journal voucher for the General Manager's review for adjusting entries.

Finding No. 2013-3

Hotel Taxes Receivable

Criteria: Generally Accepted Accounting Principles (GAAP) in the United States uses the accrual basis of accounting for propriety funds in which revenues are recorded when they are earned. MIVA records 3% 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, 2013, MIVA had not recorded hotel taxes receivables as the Ministry of Finance had not provided the total amount of hotel taxes collected during FY2013. The receivable shown on MIVA's books ($8,929) is from FY2011. An audit adjustment was proposed in the amount of $8,052 to recognize an additional accrual.

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

Effect: The effect is the 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 2012.

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. 2013-4

Fixed Assets

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

Condition: The fixed asset register included $47,947 of acquisitions and $23,950 of disposals that were not recorded in Quickbooks. Furthermore, depreciation expense was not recorded. Finally, loss on disposal of motor vehicle of $5,909 was not recorded.

Cause: There are no 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 the possible misstatement of fixed assets. This matter was corrected by proposed audit adjustments.

Recommendation: We recommend that MIVA establish policies and procedures to require timely updates of the fixed asset register and its reconciliation with the general ledger.

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 2012.

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. 2013-5

Fund Balance Reconciliation

Criteria: The current year's beginning fund balance should agree with the prior year's ending balance.

Condition: At September 30, 2013, MIVA's beginning fund balance did not agree to the FY2012 ending fund balance. This condition was corrected through proposed audit adjustments.

Cause: The cause of the above condition is the lack of knowledge on how to record and reconcile accounts.

Effect: The effect of the above condition may lead to misstatement of prior year amounts, or possible misstatement of other accounts.

Recommendation: We recommend that management properly record transactions and accounts and timely review the financial statements.

Prior Year Status: The lack of fund balance reconciliation was reported as a finding in the audit of MIVA for fiscal year 2012.

Auditee Response and Corrective Action Plan: MIVA Finance Manager will properly record transactions and accounts and timely review the financial statements.

Finding No. 2013-6

Non-payroll Expenses

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

Condition: Of eighteen non-payroll expense items tested (totaling $84,705), the source documentation was not made available for the following items:

Check #	Account	Amount
7524	Travel expense	$ 2,570
7525	Travel expense	$ 2,570
7887	Travel expense	$ 2,380
7888	Travel expense	$ 1,580
7886	Miscellaneous	$ 955

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 proper policies and procedures be established pertaining to non-payroll expenses.

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. The said expense has been located but was late in submitting.

Finding No. 2013-7

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 also not reviewed by the General Manager. The September 30, 2013 reconciliation was completed in June 2014. Unaccounted for transactions amounting to $2,815 were also noted. The September 30, 2013 bank reconciliation also included $765 outstanding checks greater than three months old.

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.

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. 2013-8

Payroll

Criteria: Employee time cards and overtime hours worked should be authorized and reviewed periodically.

Condition: During the year ended September 30, 2013, we noted that the Finance Manager or the General Manager did not review or approve the timecards and overtime hours of employees. Two employees (Employee #s 208683 and 210523) charged an aggregate of 162 overtime hours in one pay period but the hours worked could not be traced to supporting time cards.

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

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

Recommendation: We recommend that internal control policies and procedures be established requiring the authorization and review of employee time cards.

Auditee Response and Corrective Action Plan: MIVA Finance and General Manager reviewed the said payroll for Employee#208683 & 210523 timecard. This needs to take into account because staffs were required to stay on during the preparation of the hosting of Forum Ministers Meeting in 2013.

Finding No. 2013-9

Local Noncompliance

Criteria: Sections 131 and 215 of the RepMar Social Security Act of 1990 and the Social Security Health Fund Act of 1991, respectively, state that no later than the tenth day after the end of each quarter, each employer shall submit to Social Security Administration report of wages and salaries paid by the employer, and the contributions due from the employer, under Sections 129 and 130, and 213, and 214, respectively, and pay into the Fund the contributions due.

Condition: MIVA did not prepare and file Employer's Quarterly Tax Returns nor remit social security employer and employee contributions for the quarters ended December 31, 2012 and September 30, 2013.

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 Social Security Health Fund Act of 1991.

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

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

Prior Year Status: The lack of compliance with the criteria was reported as a finding in the audit of MIVA for fiscal year 2012.

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 filing and payment was due to insufficient funding in MIVA account, due to lateness in disbursing quarterly funding from government on a timely manner.

Finding No. 2013-10

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, 2013 in a manner inconsistent with the criteria. Specifically, no withholding tax returns were filed and paid after the four-week periods ended June 17, 2013.

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 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.

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.

Finding No. 2013-11

Local Non-Noncompliance

Criteria: RepMar's Procurement Code states the following:

(a) Section 124 - unless otherwise authorized by law, all Government contracts shall be awarded by competitive sealed bidding.

(b) Section 127 - procurement of goods and services not exceeding $25,000 may be made in accordance with small purchase procedures promulgated by RepMar's Policy Office. Small purchase procedures are those relatively simple and informal methods for securing services, supplies, or other property that do not cost more than $25,000. RepMar's Ministry of Finance has previously declared that if small purchase procedures are used, price or rate quotations shall be obtained from an adequate number of qualified sources.

(c) Section 128 - a contract may be awarded for a supply, service, or construction item without competition when it is determined in writing that there is only one source for the required supply, service, or construction item.

In addition, RepMar's Policy on Official Purchasing of Mobile or Cellphone and Card states that an upper limit of $500 for purchase of mobile or cellphone for official use.

Condition: RepMar requires that procurement actions for goods and services provide full and open competition and compliance with this provision should be appropriately documented in procurement files. We noted the following items where documentation in file was inadequate to evidence the procurement process:

Description	Amount	Comment
2011 Kia Bongo Truck	$ 21,950	Price quotations from vendors were not available
Hyundai Elantra	$ 21,000	Price quotations from vendors were not available
Software - Quickbook POS 2013	$ 2,441	Price quotations from vendors were not available
Four Cell Phones -Iphone 4s 16GB	$ 3,200	Price quotations from vendors were not available

RepMar also requires that the set limit for mobile or cell phone purchase to be complied with. We have also noted that the four cell phones purchased above amounted to $800 each, which exceeded the upper limit of $500.

Cause: The cause of the above condition is the lack of adequate internal control policies and procedures requiring documentation of procedures to comply with RepMar's Procurement Requirements and RepMar's Policy on Official Purchasing of Mobile or Cellphone and Card.

Effect: The effect of the above condition is potential noncompliance with RepMar's Procurement Code and RepMar's Policy on Official Purchasing of Mobile or Cellphone and Card.

Finding No. 2013-11, Continued

Local Non-Noncompliance

Recommendation: We recommend that management establish policies and procedures to comply with RepMar's Procurement Code.

Auditee Response and Corrective Action Plan: MIVA Management provided four cell phones for the non-government board members replacing a sitting fee of $75 for the years of service they provided for MIVA. These were bought for them as incentives.

MARSHALL ISLANDS VISITORS AUTHORITY

Unresolved Prior Year Findings
Year Ended September 30, 2013

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