

MARSHALL ISLANDS VISITORS AUTHORITY

**FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT**

YEARS ENDED SEPTEMBER 30, 2004 AND 2003



REPUBLIC OF THE MARSHALL ISLANDS
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INDEPENDENT AUDITORS' REPORT

Board of Directors
Marshall Islands Visitors Authority:

We have audited the accompanying statements of net assets of the Marshall Islands Visitors Authority (MIVA), a component unit of the Republic of the Marshall Islands, as of September 30, 2004 and 2003, and the related statements of revenues, expenses and changes in net assets and of cash flows for the years then ended. These financial statements are the responsibility of MIVA's management. Our responsibility is to express an opinion on these financial statements based on our audits.

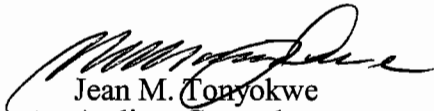
We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan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

In our opinion, such financial statements present fairly, in all material respects, the financial position of the Marshall Islands Visitors Authority as of September 30, 2004 and 2003, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 3 through 5 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of MIVA's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 9, 2005, on our consideration of MIVA's internal control over financial reporting and our tests of its compliance and other matters. The purpose of that report is to describe the scope of our testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

June 9, 2005



Jean M. Tonyokwe
Auditor-General

MARSHALL ISLANDS VISITORS AUTHORITY

Management's Discussion and Analysis September 30, 2004 and 2003

This section of Marshall Islands Visitors Authority's annual financial report presents our discussion and analysis for MIVA's financial performance during the fiscal year that ended on September 30, 2004. Please read it in conjunction with the financial statements, which follow this section:

FINANCIAL HIGHLIGHTS

MIVA's net assets increased by \$59,501 or 21% from \$277,695 in 2003 to \$337,196 in 2004. Operating revenues also increased by \$39,495 or 12% from \$320,102 in 2003 to \$359,597 in 2004. Operating Expenses had increased by \$3,842 or 1% from \$296,254 in 2003 to \$300,096 in 2004.

FINANCIAL ANALYSIS OF MIVA

The statement of Net Assets (Pg 6) and the Statement of Revenues, Expenses, and Changes in Net Assets (Pg 7) provide an indication of MIVA's financial condition. MIVA's net assets reflect the difference between assets and liabilities. An increase in net assets over time typically indicates either an improvement in the financial condition of the organization.

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

	<u>2004</u>	<u>2003</u>
Current assets	\$ 330,158	\$ 276,883
Capital assets	<u>19,933</u>	<u>21,011</u>
Total assets	<u>\$ 350,091</u>	<u>\$ 297,894</u>
Current liabilities	<u>\$ 12,895</u>	<u>\$ 20,199</u>
Invested in capital assets	19,933	21,011
Unrestricted	<u>317,263</u>	<u>256,684</u>
Total net assets	<u>337,196</u>	<u>277,695</u>
Total liabilities and net assets	<u>\$ 350,091</u>	<u>\$ 297,894</u>

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Management's Discussion and Analysis
September 30, 2004 and 2003

As indicated above, total assets increased by \$52,197 or 18% from \$297,894 in 2003 to \$350,091 in 2004. This is comprised of an increase of \$53,275 in current and other assets and a decrease of \$1,078 in capital assets. The increase in current and other assets was due to increased government funding for fiscal year 2004.

Total liabilities reflect a decrease of \$7,304 or 36% from \$20,199 in 2003 to \$12,895 in 2004. No major liabilities exist as at the end of the fiscal year. This amount comprises mostly of accrual of expenditures paid after the fiscal year and employees' leave pay.

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

	<u>2004</u>	<u>2003</u>
Operating revenues	\$ 359,597	\$ 320,102
Operating expenses	<u>300,096</u>	<u>296,254</u>
<i>Change in net assets</i>	59,501	23,848
Net assets at beginning of year	<u>277,695</u>	<u>253,847</u>
<i>Net assets at end of year</i>	<u>\$ 337,196</u>	<u>\$ 277,695</u>

The Statement of Revenues, Expenses, and Change in Net Assets identifies the various revenue and expense items that implicit the change in net assets. As indicated above, MIVA's total revenues increased by \$39,495 or 12% from \$320,102 in 2003 to \$359,597 in 2004. This increase was mainly due to the increase in funding from the RMI Government.

Below is a summary of the major components of operating revenues for MIVA in 2004 compared to 2003:

	<u>2004</u>	<u>2003</u>
Nitijela appropriation	\$ 199,000	\$ 299,000
Compact funding	99,500	-
Hotel room tax	53,779	-
Grants	3,880	21,001
Other	<u>3,438</u>	<u>101</u>
	<u>\$ 359,597</u>	<u>\$ 320,102</u>

MARSHALL ISLANDS VISITORS AUTHORITY

Management's Discussion and Analysis September 30, 2004 and 2003

Total expenses increased by \$3,842 or 1% from \$296,254 in 2003 to \$300,096 in 2004 resulting in an increase of \$59,501 or 21% in Net Assets. This increase was mainly due to the increase of hotel room taxes, from \$0 in 2003 to \$53,779 in 2004.

Below is a list of the main contributors to the increase in operating expenses for MIVA in 2004 compared to 2003:

	<u>2004</u>	<u>2003</u>
Printing	\$45,001	\$18,332
Increased commercials, promotional materials, trade show banners, calendars, and other promotional costs.		

CAPITAL ASSETS

Net Capital Assets decreased by \$1,078 as a result of minor additions to Office Equipments: Computers and Upgrade. A summary of MIVA's current Investment in Capital Assets is presented below:

	<u>2004</u>	<u>2003</u>
Image library, motor vehicles, and equipments	\$ 98,737	\$ 91,596
Less accumulated depreciation	<u>(78,804)</u>	<u>(70,585)</u>
	<u>\$ 19,933</u>	<u>\$ 21,011</u>

ADDITIONAL FINANCIAL INFORMATION

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

MARSHALL ISLANDS VISITORS AUTHORITY

**Statements of Net Assets
September 30, 2004 and 2003**

<u>ASSETS</u>	<u>2004</u>	<u>2003</u>
Current assets:		
Cash	\$ 245,891	\$ 200,782
Due from the Republic of the Marshall Islands	82,916	74,750
Prepayments	1,351	1,351
Total current assets	<u>330,158</u>	<u>276,883</u>
Capital assets, net	<u>19,933</u>	<u>21,011</u>
	<u>\$ 350,091</u>	<u>\$ 297,894</u>
 <u>LIABILITIES AND NET ASSETS</u> 		
Current liabilities:		
Accounts payable	\$ 3,430	\$ 10,456
Payable to affiliates	9,465	9,743
Total liabilities	<u>12,895</u>	<u>20,199</u>
Commitments and contingencies		
Net assets:		
Invested in capital assets	19,933	21,011
Unrestricted	317,263	256,684
Total net assets	<u>337,196</u>	<u>277,695</u>
	<u>\$ 350,091</u>	<u>\$ 297,894</u>

See accompanying notes to financial statements.

MARSHALL ISLANDS VISITORS AUTHORITY

Statements of Revenues, Expenses, and Changes in Net Assets
Years Ended September 30, 2004 and 2003

	<u>2004</u>	<u>2003</u>
Operating revenues:		
Nitijela appropriation	\$ 199,000	\$ 299,000
Compact Fund	99,500	-
Hotel tax income	53,779	-
Grants	3,880	21,001
Other	3,438	101
	<hr/>	<hr/>
Total operating revenues	359,597	320,102
Operating expenses:		
Salaries and wages	105,040	103,268
Trade fair and show participation	16,998	20,254
Rent	16,215	16,215
Marketing support	14,720	20,411
Tourism and environmental awareness	14,678	19,848
Japan Trade Mission	11,585	-
Employee benefits	9,829	11,303
Pacific Asia Travel Association meetings	9,320	3,035
Depreciation	8,219	24,795
Local events support	7,000	5,092
Office supplies	6,628	3,782
Advertising	5,929	3,905
Communications	5,481	4,997
Postage	764	1,816
Fees	550	1,060
Insurance	250	250
Familiarization/media trips	228	9,736
Miscellaneous	66,662	46,487
	<hr/>	<hr/>
Total operating expenses	300,096	296,254
Change in net assets	59,501	23,848
Net assets at beginning of year	<hr/>	<hr/>
	277,695	253,847
Net assets at end of year	<hr/>	<hr/>
	\$ 337,196	\$ 277,695

See accompanying notes to financial statements.

MARSHALL ISLANDS VISITORS AUTHORITY

Statements of Cash Flows
Years Ended September 30, 2004 and 2003

	<u>2004</u>	<u>2003</u>
Cash flows from operating activities:		
Operating grants received	\$ 294,214	\$ 233,250
Other operating revenues	57,217	101
Cash payments to suppliers for goods and services	(193,863)	(148,683)
Cash payments to employees for services	<u>(105,318)</u>	<u>(101,638)</u>
Net cash provided by (used in) operating activities	<u>52,250</u>	<u>(16,970)</u>
Cash flows from capital and related financing activities:		
Acquisition of capital assets	<u>(7,141)</u>	<u>(28,645)</u>
Net change in cash	45,109	(45,615)
Cash at beginning of year	<u>200,782</u>	<u>246,397</u>
Cash at end of year	<u>\$ 245,891</u>	<u>\$ 200,782</u>
Reconciliation of change in net assets to net cash provided by (used in) operating activities:		
Change in net assets	\$ 59,501	\$ 23,848
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	8,219	24,795
Increase in assets:		
Due from the Republic of the Marshall Islands	(8,166)	(74,750)
Increase (decrease) in liabilities:		
Accounts payable	(7,026)	7,507
Payable to affiliates	(278)	3,412
Other liabilities and accruals	<u>-</u>	<u>(1,782)</u>
Net cash provided by (used in) operating activities	<u>\$ 52,250</u>	<u>\$ (16,970)</u>

See accompanying notes to financial statements.

MARSHALL ISLANDS VISITORS AUTHORITY

Notes to Financial Statements
September 30, 2004 and 2003

(1) Organization

The Marshall Islands Visitors Authority (MIVA), a component unit of the Republic of the Marshall Islands (RepMar), was established pursuant to the Tourism Act 1991 (Public Law 1991-109) and the MIVA Act (Public Law 1997-43, the Act). During the year ended September 30, 2004, Public Law 1991-109 was repealed in its entirety. MIVA began operations as a statutory corporation on October 1, 1997, in accordance with the Act, 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 funded through operational appropriations from the Nitijela (the RepMar Legislature).

MIVA is regarded as having a two-level structure comprising a Board of Directors with seven (7) Members responsible for setting policy, strategy and financial guidelines for the operation of MIVA and a Secretariat responsible for the day-to-day operation of the organization.

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

(2) Summary of Significant Accounting Policies

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

Estimates

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

Basis of Accounting

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

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Notes to Financial Statements
September 30, 2004 and 2003

(2) Summary of Significant Accounting Policies, Continued

Basis of Accounting, Continued

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All other revenues are reported as nonoperating. Operating expenses includes the cost of sales and services, administrative expenses, and depreciation on capital assets. Expenses not meeting this definition are reported as nonoperating expenses.

Cash

For purposes of the statements of net assets and cash flows, cash is defined as cash on hand and cash held in demand accounts. As of September 30, 2004 and 2003, the carrying amount of cash was \$245,891 and \$200,782, respectively, and the corresponding bank balance was \$251,033 and \$214,784, respectively, which is maintained in a financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2004 and 2003, bank deposits in the amount of \$100,000 were FDIC insured. MIVA does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized.

Fixed Assets

Fixed 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	3 years
Image library	3 years
Computer equipment	3 years
Media equipment	3 years
Other equipment	4 years

Compensated Absences

Vested or accumulated vacation leave is recorded as an expense and liability as the benefits accrue to employees. No liability is recorded for nonvesting accumulating rights to receive sick pay benefits. As of September 30, 2004 and 2003, there is no accumulated vacation leave liability.

Taxes

Corporate profits are not subject to income tax in the Republic of the Marshall Islands. The Government of the Republic of the Marshall Islands imposes a gross receipts tax of 3% on revenues. MIVA is specifically exempt from this tax.

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Notes to Financial Statements
September 30, 2004 and 2003

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards

During fiscal year 2004, MIVA implemented GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units* an amendment of GASB Statement 14, and GASB Statement No. 46, *Net Assets Restricted by Enabling Legislation*. GASB Statement No. 39 provides additional guidance on GASB Statement No.14, in determining whether an entity should be reported as a component unit based on the nature and significance of their relationship with a primary government. GASB Statement No. 46 establishes and modifies requirements of GASB Statement No. 34 related to restrictions of net assets resulting from enabling legislation.

For fiscal year 2005, MIVA will be implementing GASB Statement No. 40, *Deposit and Investment Risk Disclosures* (an amendment of GASB Statement No. 3), and GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. GASB Statement No. 40 addresses common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. As an element of interest risk, GASB Statement No. 40 requires certain disclosures of investments that have fair values that are highly sensitive to changes in interest rates. GASB Statement No. 42 establishes standards for impairment of capital assets when its service utility has declined significantly and unexpectedly. Management does not believe that the implementation of these statements will have a material effect on the financial statements of MIVA.

In May 2004, GASB issued Statement No. 44, *Economic Condition Reporting: The Statistical Section, an amendment to NCGA Statement 1*. GASB Statement No. 44 improves the understandability and usefulness of statistical section information and adds information from the new financial reporting model for state and local governments required by GASB Statement No. 34. The provisions of this Statement are effective for periods beginning after June 15, 2005. Management does not believe that the implementation of this statement will have a material effect on the financial statements of MIVA.

In June 2004, GASB issued Technical Bulletin 2004-1, *Tobacco Settlement Recognition and Financial Reporting Entity Issues*. GASB Technical Bulletin No. 2004-1 clarifies guidance on whether a Tobacco Settlement Authority that is created to obtain the rights to all or a portion of future tobacco settlement resources is a component unit of the government that created it. In addition, this Technical Bulletin clarifies recognition guidance for these transactions and for payments made to settling governments pursuant to the Master Settlement Agreement with the major tobacco companies. The provisions of this Technical Bulletin are effective for periods beginning after June 15, 2004. Management does not believe that the implementation of this statement will have a material effect on the financial statements of MIVA.

In June 2004, GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. GASB Statement No. 45 establishes standards for the measurement, recognition, and display of other postemployment benefits expense/expenditures and related liabilities, note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers. The provisions of this Statement are effective for periods beginning after December 15, 2008. Management does not believe that the implementation of this statement will have a material effect on the financial statements of MIVA.

MARSHALL ISLANDS VISITORS AUTHORITY

Notes to Financial Statements
September 30, 2004 and 2003

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

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

- Invested in capital assets; capital assets, net of accumulated depreciation and related debt, plus construction or improvement of those assets.
- Unrestricted; net assets that are not subject to externally imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of management or the Board of Directors or may otherwise be limited by contractual agreements with outside parties.

(3) 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.

(4) Fixed Assets

Capital assets activity for the years ended September 30, 2004 and 2003, was as follows:

	October 1, <u>2003</u>	<u>2004</u>		September 30, <u>2004</u>
		<u>Additions</u>	<u>Retirements</u>	
Motor vehicles	\$ 42,184	\$ -	\$ -	\$ 42,184
Image library	29,896	-	-	29,896
Computer equipment	19,516	2,474	-	21,990
Media equipment	5,113	-	-	5,113
Other equipment	<u>3,602</u>	<u>4,667</u>	<u>-</u>	<u>8,269</u>
	100,311	7,141	-	107,452
Less accumulated depreciation	<u>(79,300)</u>	<u>(8,219)</u>	<u>-</u>	<u>(87,519)</u>
	\$ <u>21,011</u>	\$ <u>(1,078)</u>	\$ <u>-</u>	\$ <u>19,933</u>

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Notes to Financial Statements
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(4) Fixed Assets, Continued

	2003			September 30, 2003
	October 1, 2002	Additions	Retirements	
Motor vehicles	\$ 22,689	\$ 19,495	\$ -	\$ 42,184
Image library	29,159	737	-	29,896
Computer equipment	11,103	8,413	-	19,516
Media equipment	5,113	-	-	5,113
Other equipment	<u>3,602</u>	<u>-</u>	<u>-</u>	<u>3,602</u>
	71,666	28,645	-	100,311
Less accumulated depreciation	<u>(54,505)</u>	<u>(24,795)</u>	<u>-</u>	<u>(79,300)</u>
	<u>\$ 17,161</u>	<u>\$ 3,850</u>	<u>\$ -</u>	<u>\$ 21,011</u>

(5) Related Party Transactions

MIVA was created by the Nitijela of RepMar under Public Law 1997-43 and is thus considered a component unit of RepMar. Accordingly, MIVA is affiliated with all RepMar-owned and affiliated entities.

MIVA utilizes services from certain affiliated entities at substantially the same terms and conditions as those incurred from third parties. A summary of related party transactions for the years ended September 30, 2004 and 2003 is as follows:

	2004	
	<u>Expenses</u>	<u>Payables</u>
Marshall Islands Social Security Administration	\$ 9,829	\$ 7,741
Marshall Islands National Telecommunications Authority	5,481	-
Marshalls Energy Company, Inc.	16,215	-
RepMar	<u>-</u>	<u>1,724</u>
	<u>\$ 31,525</u>	<u>\$ 9,465</u>
	2003	
	<u>Expenses</u>	<u>Payables</u>
Marshall Islands Social Security Administration	\$ 11,303	\$ 8,254
Marshall Islands National Telecommunications Authority	4,997	-
Marshalls Energy Company, Inc.	16,215	-
RepMar	<u>-</u>	<u>1,489</u>
	<u>\$ 32,515</u>	<u>\$ 9,743</u>

MIVA has entered into an office lease agreement with the Marshalls Energy Company, Inc. for a term of three years commencing October 1, 2002. Annual rent expense amounts to \$16,215.