MARSHALL ISLANDS VISITORS AUTHORITY

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

FINANCIAL STATEMENT
AND
INDEPENDENT AUDITORS' REPORT

YEARS ENDED SEPTEMBER 30, 2006 AND 2005

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, 2006 and 2005, 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, 2006 and 2005, 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 2 through 4 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of MIVA's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit such information and we do not express an opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 24, 2009, 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 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 considered in assessing the results of our audit.

March 24, 2009

Atmita Jonathan
Acting Auditor-General

MARSHALL ISLANDS VISITORS AUTHORITY

Management's Discussion and Analysis
September 30, 2006 and 2005

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, 2006. Please read it in conjunction with the financial statements, which follow this section:

FINANCIAL HIGHLIGHTS

MIVA's net assets slightly decreased by $1,894 or 0.8% from $240,025 in 2005 to $238,131 in 2006. Operating revenues increased by $11,055 or 5% from $244,867 in 2005 to $255,922 in 2006. Operating expenses had tremendously decreased by $84,222 or 25% from $342,038 in 2005 to $257,816 in 2006.

FINANCIAL ANALYSIS OF MIVA

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

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

	2006	*2005*	*2004*
Current assets	$ 234,790	$ 229,830	$ 330,158
Capital assets	15,910	28,805	19,933
Total assets	$ 250,700	$ 258,635	$ 350,091
Current liabilities	$ 12,569	$ 18,610	$ 12,895
Invested in capital assets	15,910	28,805	19,933
Unrestricted	222,221	211,220	317,263
Total net assets	238,131	240,025	337,196
Total liabilities and net assets	$ 250,700	$ 258,635	$ 350,091

As indicated above, total assets decreased by $7,935 or 3% from $258,635 in 2005 to $250,700 in 2006. This is comprised of a decrease of $12,895 in capital assets and an increase of $4,960 in current and other assets. The increase in current and other assets was due to increased government funding for fiscal year 2006.

Total liabilities reflect a decrease of $6,041 or 33% from $18,610 in 2005 to $12,569 in 2006. No major liabilities exist as at the end of fiscal year. This amount comprises mostly of accrual of expenses paid after the fiscal year and employees' leave pay.

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

	2006	*2005*	*2004*
Operating revenues	$ 255,922	$ 244,867	$ 359,597
Operating expenses	257,816	342,038	300,096
Change in net assets	$ (1,894)	$ (97,171)	$ 59,501
Net assets at beginning of year	240,025	337,196	277,695
Net assets at end of year	$ 238,131	$ 240,025	$ 337,196

The Statements 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 $11,055 or 5% from $244,867 in 2005 to $255,922 in 2006. 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 2006 compared to 2005 and 2004:

	2006	*2005*	*2004*
Nitijela appropriation	$ 249,100	$ 222,763	$ 298,500
Hotel room tax	4,955	14,059	53,779
Grants	-	-	3,880
Other	1,867	8,045	3,438
Totals	$ 255,922	$ 244,867	$ 359,597

Total expenses decreased by $84,222 or 25% from $342,038 in 2005 to $257,816 in 2006. This decrease was mainly due to decreased advertising and promotional expenses.

Below is a list of the main contributors to the decrease in operating expenses for MIVA in 2006 compared to 2005 and 2004:

	2006	*2005*	*2004*
Promotional materials	$ 8,122	$ 39,438	$ 11,585
Trade fair and show participation	19,214	28,348	16,998
Advertising	12,085	20,495	5,929
Media trips	88	14,487	-
Arno and Majuro mooring buoy project	-	10,000	-
Local events support	-	7,800	-

Management's Discussion and Analysis for the year ended September 30, 2005 is set forth in MIVA's report on the audit of financial statements, which is dated August 30, 2006. That Discussion and Analysis explains the major factors impacting the 2005 financial statements and can be obtained from MIVA's Finance Manager via the contact information below.

CAPITAL ASSETS

Net Capital Assets decreased by $12,895 as a result of depreciation charges. A summary of MIVA's current investment in Capital Assets presented below:

	2006	*2005*	*2004*
Image library, motor vehicles, and equipments	$ 93,090	$ 93,090	$ 98,738
Less accumulated depreciation	(77,180)	(64,285)	(78,805)
Net Capital Assets	$ 15,910	$ 28,805	$ 19,933

Refer footnote 3 to the accompanying financial statements for additional information concerning capital assets.

DEBT

MIVA has no long-term outstanding debt obligations as at September 30, 2006 nor during the years ended September 30, 2006 and 2005.

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, 2006 and 2005

ASSETS	2006	2005
Current assets:		
Cash	$ 192,869	$ 138,324
Time certificate of deposit	20,724	20,000
Due from the Republic of the Marshall Islands	-	56,096
Other receivables	210	-
Hotel tax receivable	19,014	14,059
Accrued interest receivable	622	-
Other current assets	1,351	1,351
Total current assets	234,790	229,830
Capital assets, net	15,910	28,805
	$ 250,700	$ 258,635
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable	$ 3,084	$ 8,307
Payable to affiliates	5,517	10,303
Other liabilities and accruals	3,968	-
Total liabilities	12,569	18,610
Commitments and contingencies		
Net assets:		
Invested in capital assets	15,910	28,805
Unrestricted	222,221	211,220
Total net assets	238,131	240,025
	$ 250,700	$ 258,635

See accompanying notes to financial statements.

MARSHALL ISLANDS VISITORS AUTHORITY

Statements of Revenues, Expenses, and Changes in Net Assets
Years Ended September 30, 2006 and 2005

	2006	2005
Operating revenues:		
Nitijela appropriation	$ 249,100	$ 222,763
Hotel tax	4,955	14,059
Other	1,867	8,045
Total operating revenues	255,922	244,867
Operating expenses:		
Salaries, wages and employee benefits	108,342	105,453
Trade fair and show participation	19,214	28,348
Rent	16,908	16,215
Depreciation	12,895	12,571
Advertising	12,085	20,495
Marketing support	11,914	15,076
Promotional materials	8,122	39,438
Communications	6,766	6,156
Pacific Asia Travel Association meetings	5,454	10,407
Tourism and environmental awareness	5,107	7,796
Office supplies	1,813	1,933
Media trips	88	14,487
Arno and Majuro mooring buoy project	-	10,000
Local events support	-	7,800
Miscellaneous	49,108	45,863
Total operating expenses	257,816	342,038
Change in net assets	(1,894)	(97,171)
Net assets at beginning of year	240,025	337,196
Net assets at end of year	$ 238,131	$ 240,025

See accompanying notes to financial statements.

MARSHALL ISLANDS VISITORS AUTHORITY

Statements of Cash Flows
Years Ended September 30, 2006 and 2005

	2006	2005
Cash flows from operating activities:		
Operating grants received	$ 304,986	$ 249,583
Other operating revenues	1,245	8,045
Cash payments to suppliers for goods and services	(141,802)	(219,137)
Cash payments to employees for services	(109,160)	(104,615)
Net cash (used in) provided by operating activities	55,269	(66,124)
Cash flows from capital and related financing activities:		
Acquisition of capital assets	-	(21,443)
Cash flows from investing activities:		
Transfer to time certificate of deposit	(724)	(20,000)
Net change in cash	54,545	(107,567)
Cash at beginning of year	138,324	245,891
Cash at end of year	$ 192,869	$ 138,324
Reconciliation of change in net assets to net cash provided by (used in) operating activities:		
Change in net assets	$ (1,894)	$ (97,171)
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation	12,895	12,571
(Increase) decrease in assets:		
Due from the Republic of the Marshall Islands	55,886	26,820
Hotel tax receivable	(4,955)	(14,059)
Accrued interest receivable	(622)	-
Increase (decrease) in liabilities:		
Accounts payable	(5,223)	4,877
Payable to affiliates	(4,786)	838
Other liabilities and accruals	3,968	-
Net cash (used in) provided by operating activities	$ 55,269	$ (66,124)

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 funded through operational appropriations from the Nitijela (the RepMar Legislature).

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

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

(2) Summary of Significant Accounting Policies

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

GASB issued 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*. These statements 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, retained earnings are presented in the following net asset categories:

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

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

(2) Summary of Significant Accounting Policies, Continued

Estimates

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

Basis of Accounting

Proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operation of the fund are included in the statements of net assets. Proprietary fund operating statements present increases and decreases in net total assets. The accrual basis of accounting is utilized by proprietary funds. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. MIVA considers Nitijela appropriations and operational grants and costs that are directly related to MIVA operations to be operating revenues and expenses. Revenues and expenses related to financing and other activities are reflected as nonoperating.

Cash and Time Certificates of Deposit

Custodial credit risk is the risk that in the event of a bank failure, MIVA's deposits may not be returned to it. Such deposits are not covered by depository insurance and are either uncollateralized or collateralized with securities held by the pledging financial institution or held by the pledging financial institution but not in the depositor-government's name. MIVA does not have a deposit policy for custodial credit risk.

For purposes of the statements of net assets and cash flows, cash is defined as cash on hand and cash held in demand accounts and time certificates of deposit with initial maturity of ninety days or less. Time certificates of deposit with initial maturities exceeding ninety days are separately classified. As of September 30, 2006 and 2005, the carrying amount of cash and time certificates was \$213,593 and \$158,324, respectively, and the corresponding bank balance was \$220,279 and \$159,542, respectively, which is maintained in a financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2006 and 2005, bank deposits in the amount of \$100,000 were FDIC insured. Accordingly, there deposits are exposed to custodial credit risk. MIVA does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized.

Receivables

All receivables are uncollateralized and are due from customers, both governmental agencies and hotelier businesses, located within the Republic of the Marshall Islands.

(2) Summary of Significant Accounting Policies, Continued

Capital Assets

Capital assets with a cost that equals or exceeds $300 are capitalized. Such assets are stated at cost. Depreciation is calculated using the straight-line method based on the estimated useful lives of the respective assets. The estimated useful lives of these assets are as follows:

Motor vehicles	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, 2006 and 2005, there is no accumulated vacation leave liability.

Taxes

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

New Accounting Pronouncements

During fiscal year 2006, MIVA implemented the following pronouncements:

- GASB Statement No. 44, *Economic Condition Reporting: The Statistical Section,* an amendment to NCGA Statement 1, which 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.

- GASB Statement No. 46, *Net Assets Restricted by Enabling Legislation (an amendment to GASB Statement No. 34)*, which requires that limitations on the use of net assets imposed by enabling legislation be reported as restricted net assets.

- GASB Statement No. 47, *Accounting for Termination Benefits*, which establishes guidance for state and local governmental employers on accounting and financial reporting for termination of benefits.

- GASB Technical Bulletin No. 2004-2, *Recognition of Pension and Other Postemployment Benefit Expenditures/Expense and Liabilities by Cost-Sharing Employers*, which clarifies the requirements of GASB Statement Nos. 27 and 45 for recognition of pension and other postemployment benefit expenditures/expense and liabilities by cost-sharing employers.

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

(2) Summary of Significant Accounting Policies, Continued

New Accounting Pronouncements, Continued

In April 2004, GASB issued Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which establishes uniform financial reporting for other postemployment benefit plans by state and local governments. The provisions of this statement are effective for periods beginning after December 15, 2006. 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*, which 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, 2007. Management does not believe that the implementation of this statement will have a material effect on the financial statements of MIVA.

In September 2006, GASB issued Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfer of Assets and Future Revenues.* GASB Statement No. 48 establishes criteria that governments will use to ascertain whether certain transactions should be regarded as a sale or a collateralized borrowing. The statement also includes a provision that stipulates that governments should not revalue assets that are transferred between financial reporting entity components. The provisions of this Statement are effective for periods beginning after December 15, 2006. Management does not believe that the implementation of this statement will have a material effect on the financial statements of MIVA.

(3) Capital Assets

Capital asset activity for the years ended September 30, 2006 and 2005 was as follows:

	2006			
	October 1, 2005	Additions	Retirements	September 30, 2006
Motor vehicles	$ 39,990	$ -	$ -	$ 39,990
Image library	29,896	-	-	29,896
Computer equipment	9,176	-	-	9,176
Media equipment	4,405	-	-	4,405
Other equipment	4,956	-	-	4,956
Network hardware services	4,667	-	-	4,667
	93,090	-	-	93,090
Less accumulated depreciation	(64,285)	(12,895)	-	(77,180)
	$ 28,805	$ (12,895)	$ -	$ 15,910

(3) Capital Assets, Continued

	2005			
	October 1, 2004	Additions	Retirements	September 30, 2005
Motor vehicles	$ 42,184	$ 20,495	$ (22,689)	$ 39,990
Image library	29,896	-	-	29,896
Computer equipment	13,578	-	(4,402)	9,176
Media equipment	4,405	-	-	4,405
Other equipment	4,008	948	-	4,956
Network hardware services	4,667	-	-	4,667
	98,738	21,443	(27,091)	93,090
Less accumulated depreciation	(78,805)	(12,571)	27,091	(64,285)
	$ 19,933	$ 8,872	$ -	$ 28,805

(4) Related Party Transactions

MIVA is a component unit of RepMar and is thus affiliated with all RepMar-owned and affiliated entities. MIVA utilizes services from certain affiliated entities at substantially the same terms and conditions as those incurred from third parties. A summary of related party transactions for the years ended September 30, 2006 and 2005 is as follows:

	2006	
	Expenses	Payables
Marshall Islands Social Security Administration	$ 9,006	$ 4,355
Marshall Islands National Telecommunications Authority	6,766	-
Marshalls Energy Company, Inc.	16,908	-
RepMar	-	1,162
	$ 32,680	$ 5,517

	2005	
	Expenses	Payables
Marshall Islands Social Security Administration	$ 8,782	$ 1,695
Marshall Islands National Telecommunications Authority	6,046	-
Marshalls Energy Company, Inc.	16,215	-
RepMar	-	8,608
	$ 31,043	$ 10,303

(4) Related Party Transactions, Continued

During the years ended September 30, 2006 and 2005, the operations of MIVA were funded by appropriations from RepMar in the amounts of $249,100 and $222,763, respectively, of which $100,000 and $100,000, respectively, represented funding received under the Compact of Free Association.

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 $17,512.

(5) 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.