

MARSHALL ISLANDS VISITORS AUTHORITY

**FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT**

YEAR ENDED SEPTEMBER 30, 2001



INDEPENDENT AUDITORS' REPORT

Board of Directors
Marshall Islands Visitors Authority:

We have audited the accompanying combined balance sheet of the Marshall Islands Visitors Authority (MIVA), a component unit of the Republic of the Marshall Islands, as of September 30, 2001, and the related statement of revenues, expenditures and changes in fund balance for the year 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 audit.

We conducted our audit 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of MIVA as of September 30, 2001, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 4, 2002, 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 grants. 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.

A handwritten signature in cursive script that reads "Deloitte & Touche".

January 4, 2002

MARSHALL ISLANDS VISITORS AUTHORITY

Combined Balance Sheet - All Fund Types and Account Groups
September 30, 2001

(With comparative totals as of September 30, 2000)

<u>ASSETS</u>	<u>Governmental</u>	<u>Account</u>	<u>Totals</u>	
	<u>Fund Type</u>	<u>Group</u>	<u>(Memorandum Only)</u>	
	<u>Special</u>	<u>General</u>	<u>2001</u>	<u>2000</u>
	<u>Revenue</u>	<u>Fixed Assets</u>		
Cash	\$ 95,492	\$ -	\$ 95,492	\$ 113,218
Due from the Republic of the Marshall Islands (note 5)	80,368	-	80,368	17,375
Prepaid items	1,351	-	1,351	1,351
Fixed assets, net (note 4)	<u>-</u>	<u>34,782</u>	<u>34,782</u>	<u>50,188</u>
	<u>\$ 177,211</u>	<u>\$ 34,782</u>	<u>\$ 211,993</u>	<u>\$ 182,132</u>
 <u>LIABILITIES AND FUND EQUITY</u> 				
Liabilities:				
Accounts payable - affiliates (note 5)	\$ 8,456	\$ -	\$ 8,456	\$ 4,808
Accounts payable	2,852	-	2,852	2,962
Other liabilities and accruals	<u>3,559</u>	<u>-</u>	<u>3,559</u>	<u>2,500</u>
Total liabilities	<u>14,867</u>	<u>-</u>	<u>14,867</u>	<u>10,270</u>
Fund equity:				
Investment in general fixed assets (note 4)	-	34,782	34,782	50,188
Fund balance	<u>162,344</u>	<u>-</u>	<u>162,344</u>	<u>121,674</u>
Total fund equity	<u>162,344</u>	<u>34,782</u>	<u>197,126</u>	<u>171,862</u>
Commitment (note 6)	<u>\$ 177,211</u>	<u>\$ 34,782</u>	<u>\$ 211,993</u>	<u>\$ 182,132</u>

See accompanying notes to financial statements.

MARSHALL ISLANDS VISITORS AUTHORITY

Statement of Revenues, Expenditures and Changes in
Fund Balance - All Governmental Fund Types
Year Ended September 30, 2001

(With comparative totals for the year ended September 30, 2000)

	<u>2001</u>	<u>2000</u>
Revenues:		
Nitijela appropriation (note 5)	\$ 299,993	\$ 273,625
Interest	-	644
Other	-	21,172
	<hr/>	<hr/>
Total revenues	299,993	295,441
	<hr/>	<hr/>
Expenditures:		
Salaries and wages	96,974	74,636
Familiarization/media trips	26,536	24,056
Printing	20,263	59,815
Rent (note 6)	16,215	16,215
Trade fair and show participation	12,646	32,666
Marketing support fund	9,911	-
Pacific Asia Travel Association meetings	9,671	4,175
Tourism and environmental awareness	9,021	3,602
Employee benefits	7,698	5,121
Local events support	7,525	-
Communications	6,868	8,066
Office supplies	5,336	9,052
Capital outlays	5,171	28,882
Advertising	4,955	8,292
Postage	3,983	11,124
Insurance	1,460	1,423
Fees	550	580
Fish Aggregating Device project	-	13,351
New Zealand Millenium Dawn Ceremony	-	10,584
Majuro Lagoon Buoy Project	-	7,500
Miscellaneous	14,540	29,123
	<hr/>	<hr/>
Total expenditures	259,323	348,263
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Excess (deficiency) of revenues over (under) expenditures	40,670	(52,822)
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Fund balance at beginning of year	121,674	174,496
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Fund balance at end of year	\$ 162,344	\$ 121,674
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See accompanying notes to financial statements.

MARSHALL ISLANDS VISITORS AUTHORITY

Notes to Financial Statements September 30, 2001

(1) Organization

The Marshall Islands Visitors Authority (MIVA), a component unit of the Republic of the Marshall Islands (RepMar), was established by the Tourism Act of 1991 (Public Law 1991-109, the Act). 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 recreation attractions of the Republic of the Marshall Islands. MIVA is funded through operational appropriations from the Nitijela (the RepMar Legislature).

(2) Summary of Significant Accounting Policies

The financial statements of MIVA have been prepared in conformity with accounting principles generally accepted in the United States of America, as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. MIVA's financial statements are incorporated into the general purpose financial statements of RepMar as a component unit. The more significant of MIVA's accounting policies are described below.

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 expenditures during the reporting period. Actual results could differ from those estimates.

Measurement Focus and Basis of Accounting

MIVA uses a fund and an account group to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain MIVA functions or activities.

A fund is a separate accounting entity with a self-balancing set of accounts. An account group, on the other hand, is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources. They are concerned only with the measurement of financial position and are not involved with measurement of results of operations.

In the accompanying financial statements, MIVA's fund is classified as a governmental fund type.

Governmental funds are used to account for all or most of a government's general activities, including the collection and disbursement of earmarked monies (special revenue funds).

MARSHALL ISLANDS VISITORS AUTHORITY

Notes to Financial Statements
September 30, 2001

(2) Summary of Significant Accounting Policies, Continued

Basis of Presentation

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included in the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

The modified accrual basis of accounting is used by all governmental fund types. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures are recorded when the related fund liability is incurred, except for certain compensated absences and claims and judgments which are recognized when the obligations are expected to be liquidated with expendable available financial resources.

Budgetary Information

An annual appropriated budget has not been adopted by the Nitijela for the operations of MIVA for the year ended September 30, 2001. Accordingly, a budget to actual presentation is not required or presented.

Cash

For the purpose of the balance sheet, cash is defined as cash on hand and cash held in demand accounts. As of September 30, 2001, the carrying amount of cash was \$95,492 and the corresponding bank balance was \$97,897, which is maintained in one financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2001, bank deposits were fully FDIC insured.

Receivables

Receivables are due from RepMar and include operational subsidies appropriated by the Nitijela that have not been received as of September 30, 2001.

Fixed Assets

The accounting and reporting treatment applied to fixed assets associated with a fund are determined by its measurement focus. Fixed assets used in governmental fund type operations (general fixed assets) are accounted for in the General Fixed Assets Account Group rather than in governmental funds.

MARSHALL ISLANDS VISITORS AUTHORITY

Notes to Financial Statements September 30, 2001

(2) Summary of Significant Accounting Policies, Continued

Fixed Assets, Continued

Depreciation is charged as a reduction in the investment in general fixed assets and an increase in accumulated depreciation. Depreciation is calculated on the straight-line method based on the estimated useful lives of the respective assets. The estimated useful lives of these assets are as follows:

Image library	3 years
Motor vehicles	4 years
Computer equipment	3 years
Media equipment	5 years
Other equipment	5 years

Compensated Absences

Vested or accumulated vacation leave that is expected to be liquidated with expendable available financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay it. No liability is recorded for nonvesting accumulating rights to receive sick pay benefits. As of September 30, 2001, the accumulated vacation leave liability totals \$3,559 and is included within the balance sheet as other liabilities and accruals. The accumulated estimated amount of unused sick leave as at September 30, 2001, is presently indeterminable.

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 revenue tax of 3% on revenues. MIVA is specifically exempt from this tax.

Memorandum Only-Total Columns

Total columns on the financial statements are captioned as "memorandum only" because they do not represent consolidated financial information and are presented only to facilitate financial analysis. The columns do not present information that reflects financial position or results of operations in accordance with accounting principles generally accepted in the United States of America. Interfund eliminations have not been made in the aggregation of this data.

(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 the past three years.

MARSHALL ISLANDS VISITORS AUTHORITY

Notes to Financial Statements
September 30, 2001

(4) Fixed Assets

Activity in the general fixed assets account group for the year ended September 30, 2001, was as follows:

	<u>Balance October 1, 2000</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance September 30, 2001</u>
Image library	\$ 24,211	\$ 3,028	\$ -	\$ 27,239
Motor vehicles	22,689	-	-	22,689
Computer equipment	9,493	1,610	-	11,103
Media equipment	5,113	-	-	5,113
Other equipment	<u>3,602</u>	<u>-</u>	<u>-</u>	<u>3,602</u>
	65,108	4,638	-	69,746
Less accumulated depreciation	<u>(14,920)</u>	<u>(20,044)</u>	<u>-</u>	<u>(34,964)</u>
	<u>\$ 50,188</u>	<u>\$ (15,406)</u>	<u>\$ -</u>	<u>\$ 34,782</u>

(5) Related Party Transactions

During the year ended September 30, 2001, the operations of MIVA were funded by an appropriation, totaling \$299,993, from the Nitijela of RepMar. As of September 30, 2001, receivables from RepMar totaled \$80,368, including \$73,868 owing from this appropriation.

MIVA is a component unit of RepMar and is therefore affiliated with all RepMar-owned and affiliated entities. Transactions with RepMar-owned and affiliated entities are conducted at the same terms and conditions afforded to third parties. Total transactions for the year ended September 30, 2001, and the related accounts payable to affiliates, are as follows:

	<u>Expenditures</u>	<u>Payables</u>
RepMar	\$ -	\$ 581
Marshall Islands Social Security Administration	7,698	3,783
Marshalls Energy Company, Inc.	16,215	2,703
Others	<u>11,777</u>	<u>1,389</u>
	<u>\$ 35,690</u>	<u>\$ 8,456</u>

(6) Commitment

On October 1, 1997, MIVA entered into a contract with the Marshalls Energy Company, Inc. to lease office space for five years, which expires on September 30, 2002. Rental payments under this lease agreement for the year ended September 30, 2001, amounted to \$16,215. Future minimum lease payments under this noncancellable operating lease as of September 30, 2001 amount to \$16,215.