

MARSHALL ISLANDS VISITORS AUTHORITY

**FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT**

YEAR ENDED SEPTEMBER 30, 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 statement of net assets of the Marshall Islands Visitors Authority (MIVA), a component unit of the Republic of the Marshall Islands (RepMar), as of September 30, 2003, and the related statements of revenues, expenses and changes in net assets and of cash flows 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 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 audit provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of MIVA as of September 30, 2003, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in note 2 to the accompanying financial statements, MIVA adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*.

The Management's Discussion and Analysis on pages 3 through 6 is not a required part of the basic financial statements but is supplementary information required by GASB. 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
Year Ended September 30, 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, 2003. Please read it in conjunction with the financial statements, which follow this section:

FINANCIAL HIGHLIGHTS

MIVA's net assets increased by \$23,848 or 9% from \$253,847 in 2002 to \$277,695 in 2003. Operating revenues also increased by \$19,637 or 7% from \$300,465 in 2002 to \$320,102 in 2003. Operating Expenses had increased by \$70,131 or 31% from \$226,123 in 2002 to \$296,254 in 2003.

FINANCIAL ANALYSIS OF MIVA

The statement of Net Assets (page 7) and the Statement of Revenues, Expenses, and Changes in Net Assets (page 8) provide an indication of MIVA's financial condition. MIVA's net assets reflect the difference between assets and liabilities. Any change in net assets over time typically indicates either an improvement or a problem in the financial condition of the organization.

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

	<u>2003</u>	<u>2002</u>
Current assets	\$ 276,883	\$ 247,748
Capital assets	<u>21,011</u>	<u>17,161</u>
Total assets	<u>\$ 297,894</u>	<u>\$ 264,909</u>
Current liabilities	<u>\$ 20,199</u>	<u>\$ 11,062</u>
Invested in capital assets	21,011	17,161
Unrestricted	<u>256,684</u>	<u>236,686</u>
Total net assets	<u>277,695</u>	<u>253,847</u>
Total liabilities and net assets	<u>\$ 297,894</u>	<u>\$ 264,909</u>

As indicated above, total assets increased by \$32,985 or 12% from \$264,909 in 2002 to \$297,894 in 2003. This is comprised of an increase of \$29,135 in current and other assets and an increase of \$3,850 in capital assets. The increase in current and other assets was due to the increase in government appropriations that were remitted to MIVA subsequent to year end.

Total liabilities reflect an increase of \$9,137 or 83% from \$11,062 in 2002 to \$20,199 in 2003. 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>2003</u>	<u>2002</u>
Operating revenues	\$ 320,102	\$ 300,465
Operating expenses	<u>296,254</u>	<u>226,123</u>
Change in net assets	23,848	74,342
Net assets at beginning of year	<u>253,847</u>	<u>179,505</u>
Net assets at end of year	<u>\$ 277,695</u>	<u>\$ 253,847</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 \$19,637 or 7% from \$300,465 in 2002 to \$320,102 in 2003. This increase was mainly due to the increase in funding from grants.

Below is a summary of the major components of operating revenues for MIVA in 2003 compared to 2002:

<u>Operating revenues</u>	<u>2003</u>	<u>2002</u>
Nitijela appropriation	\$ 299,000	\$ 298,500
Grants	21,001	-
Other	101	1,965
Total	<u>\$ 320,102</u>	<u>\$ 300,465</u>

Total expenses increased by \$70,131 or 31% from \$226,123 in 2002 to \$296,254 in 2003 resulting in an increase of \$23,848 or 9% in Change of Net Assets. This increase was mainly due to the increase of grant revenue funding, from \$-0- in 2002 to \$21,001 in 2003.

Below is a list of the main contributors to the increase in operating expenses for MIVA in 2003 compared to 2002:

	<u>2003</u>	<u>2002</u>
Marketing support fund Increased marketing scheme backed up with promo materials like travel guides and posters, trade shows visits, and commercials.	\$ 20,411	\$ 6,749
Trade fair and show participation Increased trade fair and show participations, notably, the JATA World Travel Fair in Japan, the Japan Diving Festival, the European Dive Show Tour and the International Travel Fair in Taipei, Taiwan.	\$ 20,254	\$ 8,192
Capital outlays Purchase of one Mitsubishi Canter.	\$ 20,638	\$ 1,920
Tourism and environmental awareness The community clean-up and mobile unit operations pursued vigorously.	\$ 19,848	\$ 7,081

CAPITAL ASSETS

Net Capital Assets increased by \$3,850 as a result of the acquisition of a new Mitsubishi Canter under Image Library, Motor Vehicles, and Equipment. A summary of MIVA's current Investment in Capital Assets is presented below:

Image library, motor vehicles, and equipments	\$ 91,596	\$ 71,666
Less accumulated depreciation	(70,585)	(54,505)
	<u>\$ 21,011</u>	<u>\$ 17,161</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

Statement of Net Assets
September 30, 2003

ASSETS

Current assets:	
Cash	\$ 200,782
Due from the Republic of the Marshall Islands	74,750
Prepayments	1,351
Total current assets	<u>276,883</u>
Capital assets, net	21,011
	<u>\$ 297,894</u>

LIABILITIES AND NET ASSETS

Current liabilities:	
Accounts payable	\$ 10,456
Payable to affiliates	9,743
Total liabilities	<u>20,199</u>
Commitments and contingencies	
Net assets:	
Invested in capital assets	21,011
Unrestricted	256,684
Total net assets	<u>277,695</u>
	<u>\$ 297,894</u>

See accompanying notes to financial statements.

MARSHALL ISLANDS VISITORS AUTHORITY

**Statement of Revenues, Expenses and Changes in Net Assets
Year Ended September 30, 2003**

Operating revenues:	
Nitijela appropriation	\$ 299,000
Grants	21,001
Other	101
	<hr/>
Total operating revenues	320,102
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Operating expenses:	
Salaries and wages	103,268
Depreciation	24,795
Marketing support	20,411
Trade fair and show participation	20,254
Rent	16,215
Tourism and environmental awareness	19,848
Employee benefits	11,303
Familiarization/media trips	9,736
Local events support	5,092
Communications	4,997
Advertising	3,905
Office supplies	3,782
Pacific Asia Travel Association meetings	3,035
Postage	1,816
Fees	1,060
Insurance	250
Miscellaneous	44,427
	<hr/>
Total operating expenses	296,254
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Change in net assets	23,848
	<hr/>
Net assets at beginning of year	253,847
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Net assets at end of year	\$ 277,695
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See accompanying notes to financial statements.

MARSHALL ISLANDS VISITORS AUTHORITY

Statement of Cash Flows
Year Ended September 30, 2003

Cash flows from operating activities:	
Operating grants received	\$ 233,250
Cash payments to suppliers for goods and services	(148,683)
Cash payments to employees for services	(101,638)
Other operating revenues	<u>101</u>
Net cash used in operating activities	<u>(16,970)</u>
Cash flows from capital and related financing activities:	
Acquisition of capital assets	<u>(28,645)</u>
Net cash used in capital and related financing activities	<u>(28,645)</u>
Net decrease in cash	(45,615)
Cash at beginning of year	<u>246,397</u>
Cash at end of year	<u><u>\$ 200,782</u></u>
Reconciliation of change in net assets to net cash used in operating activities:	
Change in net assets	\$ 23,848
Adjustments to reconcile change in net assets to net cash used in operating activities:	
Depreciation	24,795
Increase in assets:	
Due from the Republic of the Marshall Islands	(74,750)
Increase (decrease) in liabilities:	
Accounts payable	7,507
Payable to affiliates	3,412
Other liabilities and accruals	<u>(1,782)</u>
Net cash used in operating activities	<u><u>\$ (16,970)</u></u>

See accompanying notes to financial statements.

MARSHALL ISLANDS VISITORS AUTHORITY

Notes to Financial Statements
September 30, 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, 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 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.

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.

MARSHALL ISLANDS VISITORS AUTHORITY

Notes to Financial Statements
September 30, 2003

(2) Summary of Significant Accounting Policies, Continued

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, 2003, the carrying amount of cash was \$200,782 and the corresponding bank balance was \$214,784, which is maintained in a financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 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, 2003, the accumulated vacation leave liability totals \$1,782, and is included within the statement of net assets as other liabilities and accruals.

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 2003, MIVA implemented 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*, and modified by Statement No. 38, *Certain Financial Statement 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.

MARSHALL ISLANDS VISITORS AUTHORITY

Notes to Financial Statements
September 30, 2003

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

To conform to the requirements of GASB 34, the following changes have been made to MIVA's financial statements for fiscal year 2003:

- Fund balance has been reclassified into 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.
- The statement of cash flows has been presented using the direct method.

For fiscal year 2004, MIVA will be implementing GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*. 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*. 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 Statement No. 45, *Accounting and Financial Reporting by Employers for Post employment Benefits Other Than Pensions*. GASB Statement No. 45 establishes standards for the measurement, recognition, and display of other post employment 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.

(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.

MARSHALL ISLANDS VISITORS AUTHORITY

Notes to Financial Statements
September 30, 2003

(4) Fixed Assets

Capital assets activity for the year ended September 30, 2003, was as follows:

	<u>October 1,</u> <u>2002</u>	<u>Additions</u>	<u>Retirements</u>	<u>September 30,</u> <u>2003</u>
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 1991-109 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 year ended September 30, 2003 is as follows:

	<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.