# MARSHALL ISLANDS VISITORS AUTHORITY

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

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## FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT

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## YEARS ENDED SEPTEMBER 30, 2016 AND 2015

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

Years Ended September 30, 2016 and 2015
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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, 2016 and 2015, 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.

### *Basis for Qualified Opinion*

Because of the inadequacy of accounting records, we are unable to form an opinion regarding the amounts at which operating expenses are recorded in the accompanying statement of revenues, expenses, and changes in net position for the year ended September 30, 2016 (stated at $356,142).

Deloitte.

***Opinion***

In our opinion, except for the matter described in the "Basis for Qualified Opinion" paragraph, 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, 2016 and 2015, 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.

***Emphasis-of-matter***

*Going Concern*

The accompanying financial statements have been prepared assuming that MIVA will continue as a going concern. As discussed in Note 6 to the financial statements, MIVA's recurring losses from operations and deficit net position raise substantial doubt about its ability to continue as a going concern. Management's plans concerning these matters are also discussed in Note 6 to the financial statements. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

***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 financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the 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 financial statements, and other knowledge we obtained during our audit of the 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 June 22, 2018, 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 solely 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 effectiveness of MIVA's 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

June 22, 2018

## FINANCIAL HIGHLIGHTS

MIVA's net position decreased by $63,402 or 171% from $36,972 in 2014 to a net deficiency of $26,430 in 2015 and decreased by $42,653 or 161% from a net deficiency of $26,430 in 2015 to $69,083 in 2016. Net operating revenues decreased by $85,961 or 23% from $375,770 in 2014 to $289,809 in 2015 and increased by $23,680 or 8% from $289,809 in 2015 to $313,489 in 2016.

## FINANCIAL ANALYSIS OF MIVA

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

| Assets: | 2016 | 2015 | 2014 |
|---|---|---|---|
| Current assets | $ 31,509 | $ 20,301 | $ 68,607 |
| Capital assets | 5,842 | 17,860 | 28,232 |
| Total assets | $ 37,351 | $ 38,161 | $ 96,839 |
| Current liabilities | $ 106,434 | $ 64,591 | $ 59,867 |
| Net Position: | | | |
| Net investment in capital assets | 5,842 | 17,860 | 28,232 |
| Unrestricted | (74,925) | (44,290) | 8,740 |
| Total net position | (69,083) | (26,430) | 36,972 |
| Total liabilities and net position | $ 37,351 | $ 38,161 | $ 96,839 |

As indicated above, total assets decreased by $58,678 or 61% from $96,839 in 2014 to $38,161 in 2015 and decreased by $810 or 2% from $38,161 in 2015 to $37,351 in 2016. The net decrease from 2014 to 2015 is comprised of a decrease of $48,306 in current assets and a decrease of $10,372 in capital assets. The net decrease from 2015 to 2016 is comprised of an increase of $11,208 in current assets and a decrease of $12,018 in capital assets. The increase in current assets from 2015 to 2016 is comprised of increase in hotel taxes receivable.

Total liabilities reflect an increase of $4,724 or 8% from $59,867 in 2014 to $64,591 in 2015 and an increase of $41,843 or 65% from $64,591 in 2015 to $106,434 in 2016. These amounts comprise mostly of the accrual of expenses paid after the fiscal year together with social security and employee withholding taxes payable.

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

| | 2016 | 2015 | 2014 |
|---|---|---|---|
| Net operating revenues | $ 313,489 | $ 289,809 | $ 375,770 |
| Operating expenses | 356,142 | 353,211 | 383,711 |
| Change in net position | (42,653) | (63,402) | (7,941) |
| Net position at beginning of year | (26,430) | 36,972 | 44,913 |
| Net position at end of year | $ (69,083) | $ (26,430) | $ 36,972 |

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 net operating revenues decreased by $85,961 or 23% from $375,770 in 2014 to $289,809 in 2015 and increased by $23,680 or 8% from $289,809 in 2015 to $313,489 in 2016. The decrease in 2014 and 2015 was mainly due to decrease in contributions from RepMar and hotel taxes. The increase in 2015 to 2016 was mainly due to an increase in contributions from RepMar.

| | 2016 | 2015 | 2014 |
|---|---|---|---|
| Nitijela appropriation | $ 290,160 | $ 240,560 | $ 322,400 |
| Grants and contributions | - | 31,000 | 28,990 |
| Hotel room tax | 11,208 | 8,451 | 11,715 |
| Others | 10,341 | 16,684 | 12,665 |
| Provision (recovery) for bad debts | 1,780 | (6,886) | - |
| | $ 313,489 | $ 289,809 | $ 375,770 |

MIVA's total expenses decreased by $30,500 or 8% from $383,711 in 2014 to $353,211 in 2015 and increased by $2,931 or 1% from $353,211 in 2015 to $356,142 in 2016. The increase in 2016 was mainly due to salaries and wages and miscellaneous expenses.

Below is a list of the major components of operating expenses for MIVA in 2016 compared to 2015 and 2014:

| | 2016 | 2015 | 2014 |
|---|---|---|---|
| Salaries and Wages | $ 176,142 | $ 162,704 | $ 145,118 |
| Rent | 8,400 | 8,400 | 8,400 |
| Media Trips | - | 350 | 14,033 |
| Communications | 5,748 | 7,992 | 10,284 |
| Overseas tourism related events | 16,057 | 28,958 | 17,461 |
| Promotional materials | 14,062 | 20,493 | 39,300 |
| Tourism and environmental awareness | 28,146 | 53,267 | 57,985 |
| Others | 107,587 | 71,047 | 91,130 |
| | $ 356,142 | $ 353,211 | $ 383,711 |

The Management's Discussion and Analysis for the year ended September 30, 2015, is set forth in MIVA's report on the audit of financial statements, which is dated October 4, 2016. This Management's Discussion and Analysis explains the major factors impacting the 2015 financial statements and can be obtained from MIVA's Finance Officer via the contact information below.

## CAPITAL ASSETS

Net capital assets decreased by $10,372 or 37% from $28,232 in 2014 to $17,860 in 2015 and decreased by $12,018 or 67% from $17,860 in 2015 to $5,842 in 2016. The decrease is a result of current year depreciation.

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

| | 2016 | 2015 | 2014 |
|---|---|---|---|
| Image library, motor vehicles, and equipment | $ 79,746 | $ 79,746 | $ 76,516 |
| Less accumulated depreciation | (73,904) | (61,886) | (48,284) |
| Net Capital Assets | $ 5,842 | $ 17,860 | $ 28,232 |

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 Officer, at P.O. Box 5, Majuro, MH 96960.

## MARSHALL ISLANDS VISITORS AUTHORITY

Statements of Net Position
September 30, 2016 and 2015

| ASSETS | | 2016 | | 2015 |
|---|---|---|---|---|
| Current assets: | | | | |
| Receivables: | | | | |
| Hotel taxes | $ | 30,158 | $ | 18,950 |
| Other | | 5,106 | | 6,886 |
| | | 35,264 | | 25,836 |
| Less allowance for doubtful accounts | | (5,106) | | (6,886) |
| Total receivables, net | | 30,158 | | 18,950 |
| Other current assets | | 1,351 | | 1,351 |
| Total current assets | | 31,509 | | 20,301 |
| Capital assets, net | | 5,842 | | 17,860 |
| | $ | 37,351 | $ | 38,161 |
| LIABILITIES AND NET POSITION | | | | |
| Liabilities: | | | | |
| Payable to affiliates | $ | 91,702 | $ | 54,865 |
| Other liabilities and accruals | | 14,732 | | 9,726 |
| Total liabilities | | 106,434 | | 64,591 |
| Commitments and contingencies | | | | |
| Net position: | | | | |
| Net investment in capital assets | | 5,842 | | 17,860 |
| Unrestricted | | (74,925) | | (44,290) |
| Total net position | | (69,083) | | (26,430) |
| | $ | 37,351 | $ | 38,161 |

See accompanying notes to financial statements.

## MARSHALL ISLANDS VISITORS AUTHORITY

Statements of Revenues, Expenses, and Changes in Net Position
Years Ended September 30, 2016 and 2015

| | 2016 | 2015 |
|---|---|---|
| Operating revenues: | | |
| Nitijela appropriation | $ 290,160 | $ 240,560 |
| Hotel taxes | 11,208 | 8,451 |
| Grants and contributions | - | 31,000 |
| Other | 10,341 | 16,684 |
| Total operating revenues | 311,709 | 296,695 |
| Recovery of (provision for) bad debts | 1,780 | (6,886) |
| Net operating revenues | 313,489 | 289,809 |
| Operating expenses: | | |
| Salaries, wages and employee benefits | 176,142 | 162,704 |
| Tourism and environmental awareness | 28,146 | 53,267 |
| Overseas tourism related events | 16,057 | 28,958 |
| Promotional materials | 14,062 | 20,493 |
| Depreciation | 12,018 | 13,602 |
| Rent | 8,400 | 8,400 |
| Office supplies | 6,369 | 9,873 |
| Communications | 5,748 | 7,992 |
| Housing | 3,000 | - |
| Marketing support | 800 | - |
| Advertising | 635 | - |
| Media trips | - | 350 |
| Miscellaneous | 84,765 | 47,572 |
| Total operating expenses | 356,142 | 353,211 |
| Change in net position | (42,653) | (63,402) |
| Net position at beginning of year | (26,430) | 36,972 |
| Net position at end of year | $ (69,083) | $ (26,430) |

See accompanying notes to financial statements.

## MARSHALL ISLANDS VISITORS AUTHORITY

Statements of Cash Flows
Years Ended September 30, 2016 and 2015

| | 2016 | 2015 |
|---|---|---|
| Cash flows from operating activities: | | |
| Operating grants received | $ 290,160 | $ 281,643 |
| Other operating revenues | 12,121 | 55,080 |
| Cash payments to suppliers for goods and services | (1,731) | (171,876) |
| Cash payments to employees for services | (300,550) | (163,009) |
| Net cash provided by operating activities | - | 1,838 |
| Cash flows from capital and related financing activities: | | |
| Acquisition of fixed assets | - | (3,230) |
| Net change in cash | - | (1,392) |
| Cash at beginning of year | - | 1,392 |
| Cash at end of year | $ - | $ - |
| Reconciliation of change in net position to net cash provided by operating activities: | | |
| Change in net position | $ (42,653) | $ (63,402) |
| Adjustments to reconcile change in net position to net cash provided by operating activities: | | |
| Depreciation | 12,018 | 13,602 |
| (Recovery of) provision for bad debts | (1,780) | 6,886 |
| (Increase) decrease in assets: | | |
| Receivables: | | |
| Due from RepMar | - | 41,083 |
| Hotel taxes | (11,208) | 2,335 |
| Other | 1,780 | (3,390) |
| Increase (decrease) in liabilities: | | |
| Accounts payable | 5,006 | (2,640) |
| Payable to affiliates | 36,837 | 7,364 |
| Net cash provided by operating activities | $ - | $ 1,838 |

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*, as amended by GASB Statement No. 37, *Basic Financial Statements - Management's Discussion and Analysis - for State and Local Governments: Omnibus*, GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, and GASB Statement No. 61, *The Financial Reporting Entity: Omnibus - an amendment of GASB Statements No. 14 and No. 34*, establish standards for external financial reporting for state and local governments and requires that resources be classified for accounting and reporting purposes into the following three net position categories:

- Net investment in capital assets - capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.

- Restricted - net position whose use by MIVA is subject to externally imposed stipulations that can be fulfilled by actions of MIVA pursuant to those stipulations or that expire by the passage of time. MIVA has no restricted net position at September 30, 2016 and 2015.

- Unrestricted - net position that is not subject to externally imposed stipulations. Unrestricted net position may be designated for specific purposes by action by 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 (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and deferred outflows of resources, liabilities and deferred inflows of resources, 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.

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. The allowance for doubtful receivables is stated at an amount which management believes will be adequate to absorb possible losses on receivables that may become uncollectible based on evaluations of the collectability of these receivables and prior collection experience. The allowance is established through a provision for losses on receivables charged to expense.

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 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.

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, 2016 and 2015, there is no accumulated vacation leave liability.

## (2) Summary of Significant Accounting Policies, Continued

### 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 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 the year ended September 30, 2016, MIVA implemented the following pronouncements:

- GASB Statement No. 72, *Fair Value Measurement and Application,* which addresses accounting and financial reporting issues related to fair value measurements and requires entities to expand their fair value disclosures by determining major categories of debt and equity securities within the fair value hierarchy on the basis of the nature and risk of the investment.

- GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, which eliminates two of the four categories of authoritative GAAP that exist under the existing hierarchy prescribed by Statement No. 55. The two categories that will remain under the new standard are (1) GASB Statements and (2) GASB technical bulletins and implementation guides in addition to AICPA guidance that the GASB clears.

- GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*, which addresses for certain external investment pools and their participants the accounting and financial reporting implications that result from changes in the regulatory provisions referenced by previous accounting and financial reporting standards. Those provisions were based on the Investment Company Act of 1940, Rule 2a7. Rule 2a7 contains the Securities and Exchange Commission's regulations that apply to money market funds and were significantly amended in 2014.

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

In June 2015, GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statements No. 67 and No. 68*, which aligns the reporting requirements for pensions and pension plans not covered in GASB Statements No. 67 and No. 68 with the reporting requirements in Statement No. 68. The provisions in Statement No. 73 are effective for fiscal years beginning after June 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In June 2015, GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, and addresses financial reporting requirements for governments whose employees are provided with postemployment benefits other than pensions (other postemployment benefits or OPEB). The provisions in Statement No. 74 are effective for fiscal years beginning after June 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, and provides guidance on reporting by governments that provide OPEB to their employees and for governments that finance OPEB for employees of other governments. The provisions in Statement No. 75 are effective for fiscal years beginning after June 15, 2017. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In August 2015, GASB issued Statement No. 77, *Tax Abatement Disclosures*, which requires governments that enter into tax abatement agreements to disclose certain information about the agreements. The provisions in Statement No. 77 are effective for fiscal years beginning after December 15, 2015. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In December 2015, GASB issued Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans,* which addresses a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The provisions in Statement No. 78 are effective for fiscal years beginning after December 15, 2015. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In January 2016, GASB issued Statement No. 80, *Blending Requirements for Certain Component Units - an amendment of GASB Statement No. 14,* which improves financial reporting by clarifying the financial statement presentation requirements for certain component units. The provisions in Statement No. 80 are effective for fiscal years beginning after June 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In March 2016, GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements,* which improves accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The provisions in Statement No. 81 are effective for fiscal years beginning after December 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

## (2) Summary of Significant Accounting Policies, Continued

### New Accounting Standards, Continued

In March 2016, GASB issued Statement No. 82, *Pension Issues - an amendment of GASB Statements No. 67, No. 68, and No. 73,* which addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The provisions in Statement No. 82 are effective for fiscal years beginning after June 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

### 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, 2016 and 2015 is as follows:

| | October 1, 2015 | Additions and Transfers | September 30, 2016 |
|---|---|---|---|
| Motor vehicles | $ 42,950 | $ - | $ 42,950 |
| Image library | 737 | - | 737 |
| Computer and other equipment | 36,059 | - | 36,059 |
| | 79,746 | - | 79,746 |
| Less accumulated depreciation | (61,886) | (12,018) | (73,904) |
| | $ 17,860 | $ (12,018) | $ 5,842 |

| | October 1, 2014 | Additions and Transfers | September 30, 2015 |
|---|---|---|---|
| Motor vehicles | $ 42,950 | $ - | $ 42,950 |
| Image library | 737 | - | 737 |
| Computer and other equipment | 32,829 | 3,230 | 36,059 |
| | 76,516 | 3,230 | 79,746 |
| Less accumulated depreciation | (48,284) | (13,602) | (61,886) |
| | $ 28,232 | $ (10,372) | $ 17,860 |

## (4) Social Security Taxes Payable

At September 30, 2016 and 2015, MIVA was liable for taxes, including certain delinquent taxes, payable to the Marshall Islands Social Security Administration (MISSA) in the amount of $33,189 and $24,599, respectively. On October 7, 2015, MIVA and MISSA entered into a promissory note agreement for delinquent taxes in the initial amount of $24,244. The terms of this agreement included monthly payments of $2,100, inclusive of interest at 12% per annum, commencing October 30, 2015. As of September 30, 2016, amounts owed to MISSA under this promissory note agreement total $9,255.

## (5) 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, 2016 and 2015 is as follows:

| | 2016 | |
|---|---|---|
| | Expenses | Payables |
| Marshall Islands Social Security Administration | $ 14,141 | $ 33,189 |
| Marshall Islands National Telecommunications Authority | 5,748 | - |
| Marshalls Energy Company, Inc. | 8,400 | 16,800 |
| RepMar | 8,223 | 39,858 |
| Others | - | 1,855 |
| | $ 36,512 | $ 91,702 |

| | 2015 | |
|---|---|---|
| | Expenses | Payables |
| Marshall Islands Social Security Administration | $ 11,592 | $ 24,599 |
| Marshall Islands National Telecommunications Authority | 9,136 | - |
| Marshalls Energy Company, Inc. | 8,400 | 8,400 |
| RepMar | 95 | 20,011 |
| Others | 7,241 | 1,855 |
| | $ 36,464 | $ 54,865 |

During the years ended September 30, 2016 and 2015, the operations of MIVA were funded by appropriations of $290,160 and $240,560, respectively, from the Nitijela of RepMar. A summary of RepMar appropriations by funding source received by MIVA for the years ended September 30, 2016 and 2015 is as follows:

| | 2016 | 2015 |
|---|---|---|
| General Fund | $ 49,600 | $ - |
| ROC Taiwan | 240,560 | 240,560 |
| | $ 290,160 | $ 240,560 |

## (5) Related Party Transactions, Continued

RepMar levies a Hotel and Resort Facilities tax of 8% of the daily room rate on hotels and resort facilities in the Marshall Islands, of which 1/8 is dedicated for MIVA. The tax is collected by RepMar on a monthly basis. During the years ended September 30, 2016 and 2015, MIVA recognized hotel tax revenues of $11,208 and $8,451, respectively. As of September 30, 2016 and 2015, hotel taxes receivable from RepMar amounted to $30,158 and $18,950, 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.

## (6) Contingency

The accompanying financial statements have been prepared in conformity with GAAP, which contemplates the continuation of MIVA as a going concern. During the years ended September 30, 2016 and 2015, MIVA incurred losses from operations of $42,653 and $63,402, respectively, and used a substantial amount of working capital in its operations resulting in a working capital deficiency of $74,925 at September 30, 2016. Furthermore, at September 30, 2016, total liabilities exceeded total assets by $69,083. Management acknowledges that it is currently dependent on RepMar for cash funding in order to maintain MIVA as a going concern. Although RepMar has provided funding in the past, MIVA does not have a formal agreement with RepMar to provide funds in the future.

In view of these matters, realization of a major portion of the assets in the accompanying statement of net position at September 30, 2016, is dependent upon continued operations of MIVA, which, in turn, is dependent upon MIVA's ability to develop and promote tourism programs and activities in RepMar and the success in the future operations. Management believes that the continuation of MIVA's operations is dependent upon the future financial support of RepMar. In the event that the annual appropriations are reduced or eliminated, the board and management of MIVA will take appropriate action to improve tourism activities. For the year ended September 30, 2017, RepMar appropriated $325,000 to fund MIVA operations.

## (7) Subsequent Events

On March 20, 2017, the RepMar Cabinet authorized a $30,000 payment directly to the Marshall Islands Social Security Administration on behalf of MIVA for the purpose of settling delinquent contributions.

On January 17, 2018, the RepMar Cabinet approved the merger of MIVA with the RMI Office of Commerce and Investment. On February 20, 2018, the Nitijela of RepMar enacted the Office of Commerce, Investment and Tourism (Amendment) Act, 2018, which repealed MIVA's enabling legislation and authorized the merger of MIVA with the RMI Office of Commerce and Investment.

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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 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, 2016, 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 June 22, 2018. Our report was qualified for the inadequacy of accounting records over operating expenses and included an emphasis-of-matter paragraph regarding going concern.

## 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.

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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section 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. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Responses as items 2016-001 through 2016-003, which we consider to be material weaknesses.

Deloitte.

## 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 2016-004 through 2016-006.

## 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

June 22, 2018

Finding No. 2016-1

Checks issued for duplicate payroll and unidentified disbursements

Criteria: Adequate internal control policies and procedures should be established and implemented requiring timely review of payment of payroll and disbursements.

Condition: Based on an investigation conducted by MIVA management, expenses with no accompanying authoritative evidence approximate $27,538 during FY16.

Cause: The cause of the above condition is inadequate internal control policies and procedures that resulted in checks issued for possible duplicate payroll and for unidentified disbursements.

Effect: The effect of the above condition is exposure to possible misstatements in related accounts and an increased risk of fraud, cash theft or checks issued for duplicate payroll and for other unidentified and/or unauthorized disbursements.

Recommendation: We recommend that MIVA establish and implement internal control policies and procedures over check preparation and issuance to minimize the risk of fraud or misappropriation.

Auditee Response and Corrective Action Plan: MIVA has established and implemented internal control policies and procedures over check preparation and issuance to minimize the risk of fraud or misappropriation.

Finding No. 2016-2

Financial Reporting

Criteria: Timely financial reporting should be facilitated by internal control conducive to the preparation and independent review of reconciliations of significant general ledger accounts.

Condition: MIVA did not close fiscal year September 30, 2016 financial information (trial balance and subsidiary ledgers) until December 15, 2017.

Cause: The cause of the above condition is the lack of timely closing of the year-end financial statements with review and reconciliation of significant general ledger accounts.

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

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

Prior Year Status: The lack of timely preparation and reconciliation of the general ledger was reported as a finding in the audit of MIVA for fiscal years 2013 through 2015.

Auditee Response and Corrective Action Plan: MIVA will implement internal control procedures to facilitate timely general ledger reconciliation processes and will recommend MIVA Board to approve Government procedures in place.

Finding No. 2016-3

Operating Expenses

Criteria: Operating expenses (payroll and non-payroll expenses) should be supported by transactional source documentation.

Condition: Source documentation was not available for the following:

| | |
|---|---|
| Payroll Expenses | $14,643 |
| Promotional materials | $ 8,478 |
| Overseas Tourism Related Events | $ 8,159 |
| Tourism and Environmental Awareness | $ 8,064 |
| Miscellaneous | $25,907 |

Cause: The cause of the above condition is the lack of established policies and procedures requiring that source documentation be maintained. Additionally, the former finance manager resigned without a proper turn-over of documents.

Effect: The effect of the above condition is a possible misstatement of operating expenses and a report modification.

Recommendation: We recommend that policies and procedures be established pertaining to operating expenses.

Prior Year Status: The lack of transactional source documentation was reported as a finding in the audit of MIVA for fiscal years 2013 through 2015.

Auditee Response and Corrective Action Plan: MIVA Management has established policies and procedures pertaining to filing of transactional and operations documentation.

Finding No. 2016-4

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 filed and paid employer and employee contributions withheld for the year ended September 30, 2016 in a manner inconsistent with the criteria. Specifically, MIVA filed social security employer and employee contributions for the following quarters ended December 31, 2015, March 30, 2016, June 30, 2016, and September 30, 2016 as follows:

| Quarter Ended | Amount Owed | Due Date | Date Filed |
|---|---|---|---|
| December 31, 2015 | $ 6,544 | 01/10/2016 | 04/20/2016 |
| March 31, 2016 | $ 5,866 | 04/10/2016 | 06/08/2016 |
| June 30, 2016 | $ 5,701 | 07/10/2016 | 11/16/2016 |
| September 30, 2016 | $ 5,543 | 10/10/2016 | 11/16/2016 |

MIVA made no payments pertaining to social security employer and employee contributions during the year ended September 30, 2016 for the above mentioned quarters.

In addition, MIVA owed certain contributions covered under a promissory note dated October 7, 2015. The promissory note was negotiated by the former Finance Officer on behalf of MIVA. No documentation was provided authorizing the Finance Officer to negotiate on behalf of MIVA.

Cause: The cause of the above condition is a lack of established policies and procedures that meet compliance with the Social Security Act of 1990 and the Social Security Health Fund Act of 1991.

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

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

Prior Year Status: Lack of compliance with the criteria was reported as a finding in the audit of MIVA for fiscal years 2012 through 2015.

Auditee Response and Corrective Action Plan: MIVA Management will comply with the Social Security Act of 1990 and Social Health Fund of 1991. The delays of payments were due to insufficient funding to MIVA and delayed subsidy quarterly collections from RepMar.

Finding No. 2016-5

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, 2016 in a manner inconsistent with the criteria.

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.

Prior Year Status: The lack of compliance with the criteria was reported as a finding in the audit of MIVA for fiscal years 2013 through 2015.

Auditee Response and Corrective Action Plan: MIVA Management will ensure to file and pay income taxes withheld in a timely manner. This is also due to delays on disbursing subsidies from RepMar.

Finding No. 2016-06

Local 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 supply, service, or construction item without completion when it is determined in writing that there is only one source for the required supply, service, or construction them.

Condition: MIVA does not have a formal procurement policy requiring documentation indicating the history of procurement to be maintained on file.

Cause: The cause of the above condition is the lack of established policies and procedures requiring documentation of procurement procedures to comply with RepMar's Procurement Code.

Effect: The effect of the above condition is noncompliance with RepMar's Procurement Code.

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

Prior Year Status: The lack of compliance with the criteria was reported as a finding in the audit of MIVA for fiscal year 2015.

Auditee Response and Corrective Action Plan: MIVA Management will establish policies and procedures to be in compliance with RepMar's Procurement code.

Unresolved Prior Year Findings
Year Ended September 30, 2016

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