Marianas Visitors Authority
(a component unit of the CNMI Government)

Financial Statements

September 30, 2002

(With Independent Auditors' Report Thereon)

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BURGER & COMER, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditors' Report

The Board of Directors
Marianas Visitors Authority:

We have audited the accompanying balance sheet/statement of net assets of the Marianas Visitors Authority (a component unit of the CNMI Government) as of September 30, 2002 and the related statements of revenues, expenditures and changes in fund balances/activities for the year then ended. These financial statements are the responsibility of the management of the Marianas Visitors Authority. 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 the Marianas Visitors Authority as of September 30, 2002 and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Notes 1 and 2, MVA has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*, as of September 30, 2002.

The management's discussion and analysis on pages 3 through 7 and budgetary comparison information on page 19 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. 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.

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In accordance with *Government Auditing Standards*, we have also issued a report dated February 18, 2003 on our consideration of the Marianas Visitors Authority'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.

Burger & Comer, P.C.

Saipan, MP 96950
February 18, 2003

Marianas Visitors Authority

Management's Discussion and Analysis

Year ended September 30, 2002

Our discussion and analysis of the Marianas Visitors Authority's (MVA) financial performance provides an overview of MVA's financial activities for the fiscal year ended September 30, 2002. Please read it in conjunction with the transmittal letter in the Introductory section of MVA's annual report and MVA's financial statements, following this section.

FINANCIAL STATEMENTS

Marianas Visitors Authority's financial statements include a Balance Sheet/Statement of Net Assets and a Statement of Revenues, Expenditures and Changes in Fund Balance/Statement of Activities. The Statement of Net Assets reflects MVA's assets and liabilities using the modified accrual basis of accounting, which measures cash and all other financial assets that can readily be converted to cash. The difference between the assets and liabilities is shown as net assets. Part of the net assets represents MVA's investment in capital assets, and the remainder is considered unrestricted.

The Statement of Activities shows the revenues received and the expenses incurred by MVA, regardless of when cash is actually received or paid. The excess of revenues over expenses represents an increase in MVA's net assets.

Some of the more significant financial information included in the financial statements is as follows:

Capital Assets	$ 163,887
Other Assets	3,650,524
Total Assets	3,814,411
Total Liabilities	1,391,796
Net Assets Invested in Capital Assets	163,887
Unrestricted Net Assets	2,258,728
Total Net Assets	$ 2,422,615
Program Revenues	$ 8,158,407
General Revenues	418,921
Total Revenues	8,577,328

Promotion and Advertising Expenses	4,310,498
Personnel Expenses	2,036,300
Other Expenses	1,104,074
Total Expenses	7,450,872
Excess before Other Items	1,126,456
Loss on Disposal of Capital Assets	(8,064)
Change in Net Assets	1,118,392
Beginning Net Assets	1,304,225
Ending Net Assets	$ 2,422,617

COMPARISON OF RESULTS

The Statement of Activities for Fiscal Year 2002 (FY02) shows that net assets increased by more than $1.1 million, as opposed to the Fiscal Year 2001 (FY01) increase of $66,685. The primary reason for this change is that, during FY02 MVA received a supplemental appropriation of $2.6 million from the CNMI government. MVA had previously identified how these funds were to be utilized, and during FY02 approximately $800,000 of this supplemental appropriation was spent. This also means that the Fiscal Year 2003 result will be a significant excess of expenditures over revenues (a decrease in net assets), as the remaining $1.8 million of the supplemental appropriation will be expensed in fiscal year 2003 with no corresponding revenue.

MVA's traditional source of funding, an appropriation of room occupancy and container taxes, fell by more than $800,000 in fiscal year 2002. This represents a decrease of 13%. This was due to the decrease in the CNMI's actual revenue collections of hotel room occupancy and beer container taxes from $6,890,647 in FY01 to $5,667,568 in FY02, necessitating a decrease in MVA's appropriations. The contributing factor to the decrease in tourism related revenue collections was the aftermath of the terrorism attacks on September 11, 2001.

Another significant decrease was felt in the area of concession and vendor fees. These revenues dropped from $208,000 to less than $60,000. This is due to the decision made by then Superior Court Associate Judge John A. Manglona stating that the MVA does not have the statutory authority to regulate commercial activity on tourist sites (Civil Action No. 00-0078D). The concession fees that MVA used to collect were subsequently transferred to the Marianas Public Lands Authority.

In FY02, total assets increased by nearly fifty percent (50%) as compared to FY01. Cash and equivalents increased by more than $1.1 million due to the supplemental appropriation. The amount due from the CNMI government increased from $742,272 at September 30, 2001 to $1 million at September 30, 2002. This increase was due mainly to the timing of payments from the CNMI government and the decrease in cash flow being experienced by the CNMI government.

BUDGET AND ACTUAL FIGURES

The original budget for MVA's revenues totaled $6,015,986 and the revised budget totaled $5,533,747. The decrease of $482,239 is a result of the 8.02% reduction in the fiscal year budget. In March 2002, Acting Governor Diego T. Benavente issued a memorandum advising all agencies that there would be a 6.57% decrease in the total projected revenues. Pursuant to 1CMC Section 7204 (e), decreases in projected revenues require that there be a proportional reduction in funds made available to agencies in order to maintain a balanced budget. Because the Public School System will be exempt from any budget cuts, all other agencies, including the MVA, will have to absorb a slightly higher reduction of 8.02%. The decision to spare PSS from any reduction is in line with the Administration's commitment to supporting the children's education.

A significant variance between the final budget and the actual revenues for FY02 is attributed to the $2.6 million supplemental appropriation enacted by the Legislature under Public Law 13-16. The funds were derived from the fees collected for the Managaha Island Landing and User Fees. This supplemental appropriation was given to the MVA with the purpose of launching aggressive promotional campaigns aimed at reversing the declining trend in the number of tourist arrivals to the CNMI. The MVA has developed the "CNMI Tourism Strategy Plan" detailing its comprehensive program to attract more Japanese visitors. MVA has also formulated a promotional program targeted at the China and Korea markets. These plans were designed to stimulate the tourism trade and ultimately to revitalize the economy of the CNMI which continues to decline due to competition from other Asia-Pacific destinations, the region's sluggish economy, and the aftermath of the September 11th terrorist attacks. The appropriation constitutes a one-time appropriation to the MVA and shall be available without fiscal year limitation.

The original budget for MVA's expenses totaled $5.5 million, and the revised budget totaled $8.3 million. This again was mainly due to the 2.6 million supplemental appropriation.

Major variances between the final budget and the actual expenses for fiscal year 2002 (and the reasons therefore) included the following: (1) An increase in promotion and advertising budget due to the $2.6 million supplemental appropriation; (2) A negative variance in the personnel account is a result of the 8.02% reduction in the budget account with no corresponding decrease in the number of personnel; (3) Tourist site maintenance, including security services and trash collection services, which remains unfunded in FY02, and (4) Rental expense shows a positive variance due to elimination of offices in Japan resulting in cost savings for the MVA.

CAPITAL ASSETS

MVA's capital assets do not include general infrastructure assets, but do include vehicles, machinery and equipment, leasehold improvements, and furniture. Capital assets at September 30, 2001 were reflected in the financial statements net of depreciation at $283,872. During the fiscal year ended September 30, 2002, MVA disposed of capital assets with a book value of $8,064. This was reflected in the financial statements as a loss on disposal of capital assets. MVA recognized depreciation expense of $125,885 during fiscal year 2002, and purchased new capital assets at a cost of $13,966.

ECONOMIC FACTORS AND FISCAL YEAR 2003 BUDGET

In FY02 the population in the CNMI decreased from FY01. Visitor arrivals were 497,685 in FY01 and 424,932 in FY02. Further, the value of garment industry exports decreased from approximately $965 million in 2001 to approximately $785 million in 2002. These factors combined to produce a decline in overall government revenues, necessitating a 13% decrease in appropriations to MVA.

Unemployment in the CNMI is estimated to be 4.5% as of April 2002, based on the most recent survey conducted by Department of Commerce. Inflation is estimated to be .035% for FY02. The CNMI Government derives its revenues from Business Gross Revenue Tax (BGRT), payroll taxes, income taxes, user fees on garment industry exports, and various excise taxes and other fees. There has been no change in the rates for BGRT and payroll taxes. Income tax rates were reduced slightly in calendar year 2001 by the United States Congress. Excise taxes were recently increased on tobacco and alcohol products. Some of the excise tax increases were as high as 250%.

Per Public Law 13-24, the MVA's budgeted appropriation for fiscal year 2003 is $6,930,000, representing an increase of $1,451,590 from fiscal year 2002. The Administration set goals to rebuild the tourism economy and to focus on promotion and destination enhancement by increased funding for the MVA. In order to operate within this budget figure, MVA plans to implement progressive campaigns and promotions targeting niche markets, such as golf groups, office ladies, diving, weddings, silvers and families. Each segment of these campaigns will contribute to the increase of total visitor arrivals to the CNMI.

For the CNMI to focus more in its marketing efforts, as mandated by law, the Field Operations Division of the MVA is being transferred to the Division of Parks and Recreation of the Department of Lands & Natural Resources. This is in accordance with Executive Order No. 03-02.

The Department of Finance shall reserve 2% of the total fiscal year appropriation for the purpose of retiring the government's accumulated deficit. In addition, there is a possibility that the MVA's appropriation for fiscal year 2003 will be further reduced in the event that CNMI estimated revenue collections of $213 million for fiscal year 2003 are not realized.

CONTACTING MVA

This financial report is designed to provide CNMI residents and taxpayers with an overview of MVA's finances and to show MVA's accountability for the money it receives. If you have question about this report or need additional financial information, contact MVA at (670) 664-3200 or visit our office on Beach Road, next to the San Jose intersection.

Marianas Visitors Authority
(a component unit of the CNMI Government)

Governmental Funds Balance Sheet/Statement of Net Assets

September 30, 2002

	General Fund	Adjustments	Statement of Net Assets
ASSETS			
Cash and investments	$ 2,585,601	-	2,585,601
Appropriations receivable	1,000,000	-	1,000,000
Other receivables	53,081	-	53,081
Prepaid expenses	11,842	-	11,842
Capital assets, net of accumulated	-	-	-
depreciation and amortization	-	163,887	163,887
Total assets	$ 3,650,524	163,887	3,814,411
LIABILITIES			
Accounts payable	1,134,179	-	1,134,179
Salaries and benefits payable	171,647	-	171,647
Deferred revenues	9,299	-	9,299
Deposits and other liabilities	76,671	-	76,671
Total liabilities	1,391,796	-	1,391,796
FUND BALANCES/NET ASSETS			
Fund balances:			
Reserved for encumbrances	54,237	(54,237)	-
Unreserved, reported in:			
General fund	2,204,491	(2,204,491)	-
Total fund balances	2,258,728	(2,258,728)	-
Total liabilities and fund balances	$ 3,650,524		
Net assets:			
Invested in capital assets		163,887	163,887
Unrestricted		2,258,728	2,258,728
Total net assets		$ 2,422,615	2,422,615

See accompanying notes to financial statements.

Marianas Visitors Authority
(a component unit of the CNMI Government)

Statement of Governmental Fund Revenues, Expenditures, and
Changes in Fund Balances/Statement of Activities

For the Year Ended September 30, 2002

	General Fund	Adjustments	Statement of Activities
Revenues:			
Room occupancy and container taxes appropriated	$ 5,478,407	-	5,478,407
Supplemental appropriation - Managaha concession and landing fees	2,600,000	-	2,600,000
In-kind contribution of promotion and advertising	196,475	-	196,475
Appropriations redirected to MVA	80,000	-	80,000
Grant income	63,500	-	63,500
Other income	59,327	-	59,327
Concession and vendor fees	59,124	-	59,124
Membership dues	20,045	-	20,045
Interest income	11,560	-	11,560
Memorials and trust income	8,890	-	8,890
Total revenues	8,577,328	-	8,577,328
Expenditures/expenses:			
Current expenditures/expenses:			
Promotion and advertising	4,310,498	-	4,310,498
Personnel	2,036,300	-	2,036,300
Tourist site maintenance and supplies	222,740	-	222,740
In-kind contribution of promotion and advertising	196,475	-	196,475
Depreciation	-	125,885	125,885
Rentals	92,400	-	92,400
Travel	66,024	-	66,024
Professional fees	58,051	-	58,051
Repairs and maintenance	57,540	-	57,540
Maintenance and equipment rental	54,207	-	54,207
Communication	48,921	-	48,921
Printing and publications	48,529	-	48,529
Office expenses	35,811	-	35,811
Fuel and lubrication	34,838	-	34,838
Capital outlay-current expenditures	13,966	(13,966)	-
Utilities	26,728	-	26,728
Insurance	18,556	-	18,556
Dues and subscription	9,024	-	9,024
Staff development training	8,345	-	8,345
Total expenditures/expenses	7,338,953	111,919	7,450,872
Excess (deficiency) of revenues over expenditures	1,238,375	(111,919)	-
Other financing sources/uses:			
Loss on disposal of capital assets	-	(8,064)	(8,064)
Excess (deficiency) of revenues and transfers in over expenditures and transfers out	1,238,375	(1,238,375)	-
Change in net assets	-	1,118,392	1,118,392
Fund balances/net assets:			
Beginning of the year	1,020,353	-	1,304,223
End of the year	$ 2,258,728	-	2,422,615

See accompanying notes to financial statements.

(1) Summary of Significant Accounting Policies

Introduction

The accounting and reporting framework and the more significant accounting principles and practices of the Marianas Visitors Authority (MVA) are discussed in the following sections of this note. The remaining notes provide explanations and required disclosures relating to MVA's financial activities for the fiscal year ended September 30, 2002. MVA implemented a new reporting model standard beginning October 1, 2001. Comparability with reports of all prior fiscal years will be affected. Also see note 2.

Basis of Presentation

MVA's basic financial statements consist of government-wide statements, including a statement of net assets and a statement of activities, and fund financial statements which provide a more detailed level of financial information.

The financial statements of MVA are prepared in accordance with generally accepted accounting principles (GAAP). MVA applies all relevant Governmental Accounting Standards Board (GASB) pronouncements. MVA, as a component unit of the CNMI Government, applies Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails.

Government-wide Financial Statements

The statement of net assets and the statement of activities display information about MVA as a whole.

The statement of net assets presents the financial condition of the governmental activities of MVA at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of MVA's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function.

Program revenues include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on grants that is required to be used to support a particular program. Revenues which are not classified as program revenues are presented as general revenues, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental program is self-financing or draws from the general revenues of MVA.

(1) Summary of Significant Accounting Policies, continued

Fund Financial Statements

During the year, MVA accounts for its financial activities in a single governmental fund. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. Governmental funds are those through which most governmental functions are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. The difference between governmental fund assets and liabilities is reported as fund balance. MVA's only governmental fund is the general fund which accounts for all financial resources.

The general fund balance is available to MVA for any purpose provided it is expended according to the general laws of the CNMI.

Measurement Focus

Government-wide Financial Statements

The government-wide financial statements are prepared using a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of MVA are included on the statement of net assets.

Fund Financial Statements

The general fund is accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balance reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for the general fund.

The modified accrual basis of accounting is used by governmental funds. 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 that the amount of the transaction can be determined and "available" means that the amount of the transaction is collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. A one-year availability period is used for revenue recognition for all governmental fund type revenues. Expenditures are recorded when the related fund liability is incurred.

(1) Summary of Significant Accounting Policies, continued

Budgets

MVA submits its annual budget to the CNMI Legislature for approval. MVA's budget is prepared on a detailed line item basis. Revenues are budgeted by major source. Expenditures are budgeted by class. During FY02, revisions were made to the budget due to lower than expected revenue collections at the CNMI Government level.

Accounting principles used in developing data on a budgetary basis differ from those used in preparing financial statements in conformity with generally accepted accounting principles (GAAP). Amounts included in the Budgetary Comparison Schedule reconcile to the unreserved fund balance on the accompanying Balance Sheet/Statement of Net Assets.

Cash and Cash Equivalents and Investments

For purposes of the balance sheet, MVA considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents. Investments consist of time certificates of deposit, for which cost approximates market value, with initial maturities greater than three months.

The CNMI does not require collateralization of FDIC insured bank accounts, and therefore, amounts in excess of insurable limits are uncollateralized.

MVA has two certificates of deposit issued by The Bank of Saipan, Inc. (dba Bank of Saipan) in the amount of $404,849 and $90,950. Bank of Saipan (BOS) was placed into receivership by the CNMI Banking Commissioner on April 29, 2002 for failing to adequately collateralize CNMI Government deposits and for other reasons.

BOS was still in receivership as of September 30, 2002 and was operating with limited hours and limited staff. The receiver plans to ask the shareholders to invest additional capital and to re-open the bank as a full service bank. The likelihood of success of these plans can not be determined as of September 30, 2002. Accordingly, the value of these certificates of deposit can not be determined as of September 30, 2002.

No adjustments have been made to the accompanying financial statements for the possible impairment of value of these certificates of deposit.

(1) Summary of Significant Accounting Policies, continued

Capital Assets, Depreciation, and Amortization

MVA's property and equipment with useful lives of more than one year are stated at historical cost. The costs of normal maintenance and repairs that do not add to the asset value or materially extend useful lives are not capitalized. Capital assets are depreciated using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts, and the resulting gain or loss is recorded in operations.

Estimated useful lives, in years, for depreciable assets are as follows:

Vehicles and equipment	3 - 5 years
Maintenance equipment	2 - 10 years
Leasehold improvements	10 - 20 years
Office furniture, fixtures and equipment	3 - 10 years

Compensated Absences

Vested or accumulated vacation leave is recorded as an expense and liability as the benefits accrue to employees. In accordance with the provisions of Governmental Accounting Standards Board Statement No. 16 - Accounting for Compensated Absences, no liability is recorded for nonvesting accumulating rights to receive sick pay benefits. Unused leave is payable to employees upon resignation or termination of employment if the employee has completed one year or more of service. An employee cannot carry over to the following calendar year accumulated annual leave in excess of three hundred sixty (360) hours. However, any annual leave accumulated in excess of 360 hours as of the end of the calendar year can be converted to sick leave on the last day of such calendar year.

Retirement Plan

MVA contributes to the Northern Mariana Islands Retirement Fund (NMIRF), a defined benefit, cost-sharing multi-employer pension plan established and administered by the CNMI. NMIRF provides retirement, security and other benefits to employees of the CNMI government and CNMI agencies, instrumentalities and public corporations, and to their spouses and dependents. Benefits are based on the average annual salary of the beneficiary over the term of credited service. Generally, benefits vest after three years of credited service. Members who retire at or after age 60, or with 25 years of vesting service, are entitled to retirement benefits. CNMI Public Law 6-17, the Northern Mariana Islands Retirement Fund Act of 1988, is the authority under which benefit provisions are established.

(1) Summary of Significant Accounting Policies, continued

Retirement Plan, continued

MVA's total personnel expense, inclusive of pension cost, for fiscal year 2002 was $1,989,639 which was covered in total by the NMIRF's pension plan. As a result of the NMIRF's actuarial valuation, it has been determined that for the year ended September 30, 2002, funding requirements for employers are 24% of covered payroll, and funding requirements for employees are 6.5% and 9.0% for Class I and Class II members, respectively, of covered payroll. The cost to MVA for retirement contributions was approximately $365,000 for the year ended September 30, 2002.

NMIRF utilized the actuarial cost method termed "entry age normal cost" with actuarial assumptions used to compute the pension benefit obligation as follows: (a) a rate of return of 7.5% per year on the investment of present and future assets, (b) a 5% increase in employee salaries compounded annually until retirement, (c) expenses at 1.1% of total payroll, and (d) early retirement age of 52 and 10 years of vesting service or upon completion of 25 years of service (for Class I members only).

Required contributions and the percentage actually contributed for the current year and for the preceding two years are as follows:

Fiscal Year Ended	Required Contribution	Percentage of Required Contribution Contributed
9/30/02	$365,000	100%
9/30/01	368,000	100%
9/30/00	365,000	100%

The pension benefit obligation, which is the actuarial present value of credited projected benefits, is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and any step-rate benefits, estimated to be payable in the future as a result of employment service to date.

The measure is intended to assist users to evaluate the NMIRF's funding status on a going-concern basis, and evaluate progress made in accumulating adequate assets to pay benefits when due.

(1) Summary of Significant Accounting Policies, continued

Retirement Plan, continued

The NMIRF's October 1, 1999 actuarial valuation determined the unfunded pension benefit obligation as follows:

	Class I	Class II	Total
Present value of vested accrued benefits:			
Active participant	$ 49,367,038	121,839,255	171,206,293
Terminated with vested benefits	2,102,784	1,973,769	4,076,553
Retired and beneficiaries	28,639,484	404,062,731	432,702,215
Non-vested accrued benefits	20,372,281	32,794,880	53,167,161
Total present value of accrued benefits	100,481,587	560,670,635	661,152,222
Net assets available for benefits, At market value	133,495,802	240,910,574	374,406,376
Unfunded (overfunded) benefit Obligation	$ (33,014,215)	319,760,061	286,745,846

Ten year historical trend information designed to provide information about the NMIRF's progress in accumulating adequate assets to meet payment of benefits when due is included within the NMIRF's audited financial statements.

In-Kind Contributions

In-kind contributions, consisting primarily of travel, hotel accommodations and services contributed by members of MVA, are recorded as revenue with corresponding charges to promotion and advertising expenses. In-kind contributions are solicited by MVA and tabulated based on verified reports submitted by its members.

(2) Change in Accounting Principles and Implementation of New Reporting Model

For 2002, MVA has implemented GASB Statement No. 33, "Accounting and Financial Reporting for Nonexchange Transactions", GASB Statement No. 34, "Basic Financial Statements – and Management's Discussion and Analysis - for State and Local Governments", GASB Statement No. 36, "Recipient Reporting for Certain Shared Nonexchange Revenues", GASB Statement No. 37, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus", GASB Statement No. 38, "Certain Financial Statement Note Disclosure", and GASB Interpretation No. 6, "Recognition and Measurement of Certain

(2) Change in Accounting Principles and Implementation of New Reporting Model, continued

Liabilities and Expenditures in Governmental Fund Financial Statements."

GASB Statements No. 33 and 36 establish accounting and financial reporting standards for nonexchange transactions involving financial or capital resources. The timing for the recognition of assets, liabilities, and expenditures/expenses resulting from nonexchange transactions will be the same whether the accrual or modified accrual basis of accounting is required. For revenue recognition to occur on the modified accrual basis, however, the criteria established for accrual basis revenue recognition must be met and the revenue must be available.

GASB 34 creates new basic financial statements for reporting on MVA'S financial activities. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type.

GASB Statement No. 37 clarifies certain provisions of Statement No. 34, including the required content of the MD&A, the classification of program revenues and the criteria for determining major funds. GASB Statement No. 38 modifies, establishes and rescinds certain financial statement note disclosures. GASB Interpretation No. 6 clarifies the application of standards for modified accrual recognition of certain liabilities and expenditures in areas where differences have arisen, or potentially could arise, in interpretation and practice.

(3) Organization

Pursuant to District Law 4-145 (4CMC §2101), the Marianas Visitors Bureau (MVB), now the Marianas Visitors Authority (MVA), a component unit of the government of the Commonwealth of the Northern Mariana Islands (CNMI), was established on February 11, 1976, as a legal entity for the promotion and development of the tourism industry in the CNMI.

Public Law 11-15 vacated a section of Executive Order 94-3 dealing with, among other things, the Board of Directors for MVA. P.L. 11-15 requires a Board of nine members, five of whom are appointed by the Governor with the advice and consent of the Senate. The four members not appointed by the Governor are to be elected by the members of MVA.

(3) Organization, continued

In accordance with its enabling legislation and subsequent amendments, MVA receives an appropriation of the hotel room occupancy taxes and the alcoholic beverage container taxes collected by the CNMI Government.

Actual revenue collected by the CNMI Government from these taxes for the year ended September 30, 2002 was $4,866,485 for hotel room tax and $801,083 for beer container tax. MVA is operating under continuing resolution (P.L. 13-24), and received a total allotment of $5,478,409 after a deduction of one percent for the Office of the Public Auditor. In addition, two members of the CNMI Legislature redirected a portion of their approved budgets to MVA, amounting to $80,000.

In addition, Under P.L. 13-16, MVA also received a supplemental appropriation of $2,600,000 from the Marianas Public Lands Authority (MPLA) trust account, representing collection of Managaha Island Landing and User's Fees. The funding will be used for the implementation of the CNMI Tourism Strategic Plan and marketing programs for China and Korea.

(4) Changes in Capital Assets

The following is a summary of changes in capital assets for the fiscal year ended September 30, 2000:

	Balance October 1, 2001	Additions/ Transfers	Retirements	Balance September 30, 2002
Vehicles and equipment	$ 516,114	-	(57,079)	459,035
Office furniture, fixtures and equipment	375,573	5,404	(35,738)	345,239
Leasehold improvements	276,465		(91,663)	184,802
Maintenance equipment	630,879	8,562	(8,306)	631,135
	1,799,031	13,966	(192,786)	1,620,211
Less accumulated depreciation and amortization	(1,515,159)	(125,887)	184,722	(1,456,324)
	$ 283,872	(111,921)	(8,064)	163,887
Investment in capital assets	$ 283,872	(111,486)	(8,064)	163,887

(5) Risk Management

MVA is subject to certain risks (e.g., liability claims, motor vehicle accidents) in the normal course of operations. MVA protects itself against these risks by purchasing insurance coverage from private companies.

(6) Commitments and Contingencies

MVA is leasing its office in Saipan under a five year lease, with an option to renew for an additional five years, expiring on May 14, 2002 with an option to renew for additional five-year term. The lease provides minimum increase of 10% in the monthly rental from $7,700 to $8,470. On January 19, 2001, MVA exercised the option to renew for another five-year term. The lessor mutually agreed with MVA to waive the increase and remain at the monthly rental of $7,700.

Future minimum lease payments are as follows:

Years ending September 30:	
2003	$ 92,400
2004	92,400
2005	92,400
2006	92,400
2007	57,750
Total future payments	$427,350

Marianas Visitors Authority
(a component unit of the CNMI Government)

Budgetary Comparison Schedule

Year ended September 30, 2002

	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts Budgetary Basis	Budget to GAAP Difference	Actual Amounts GAAP Basis	Variance with Final Budget - Favorable (Unfavorable)
Revenues:						
Room occupancy and container taxes	$ 6,015,986	5,478,407	5,478,407	-	5,478,407	-
Supplemental	-	-	2,600,000	-	2,600,000	2,600,000
In-kind contribution of promotion and advertising	-	196,475	196,475	-	196,475	-
Appropriations redirected to MVA		80,000	80,000	-	80,000	-
Grants	-	-	63,500	-	63,500	63,500
Other	-	-	59,327	-	59,327	59,327
Concession/vendor fees	-	-	59,124	-	59,124	59,124
Membership dues	-	-	20,045	-	20,045	20,045
Memorials and trusts	-	-	8,890	-	8,890	8,890
Interest	-	-	11,560	-	11,560	11,560
Total revenues	6,015,986	5,754,882	8,577,328	-	8,577,328	2,822,446
Expenditures:						
Promotion and advertising	3,203,821	5,547,003	3,827,694	482,804	4,310,498	1,236,505
Personnel	1,920,527	1,766,578	2,036,300	-	2,036,300	(269,722)
Tourist site maintenance and supplies	-	-	218,739	4,001	222,740	(222,740)
In-kind contribution of promotion and advertising	-	196,475	196,475	-	196,475	-
Rentals	228,603	210,278	92,400	-	92,400	117,878
Travel	68,581	63,084	53,024	13,000	66,024	(2,940)
Professional fees	123,827	113,901	48,151	9,900	58,051	55,850
Repairs and maintenance	45,807	42,135	35,540	22,000	57,540	(15,405)
Maintenance and equipment rental	59,056	54,322	35,607	18,600	54,207	115
Communication	45,980	42,295	43,621	5,300	48,921	(6,626)
Printing and publications	103,911	95,581	4,829	43,700	48,529	47,052
Office expenses	61,220	56,313	35,811	-	35,811	20,502
Fuel and lubrication	42,690	39,268	34,838	-	34,838	4,430
Capital outlay-current expenditures	5,628	5,177	13,966	-	13,966	(8,789)
Utilities	36,542	33,613	26,728	-	26,728	6,885
Insurance	20,436	18,798	14,356	4,200	18,556	242
Dues and subscription	32,039	29,471	9,024	-	9,024	20,447
Staff development training	17,318	15,930	8,345	-	8,345	7,585
Total expenditures	6,015,986	8,330,222	6,735,448	603,505	7,338,953	991,269
Excess (deficiency) of revenues over expenditures	-	(2,575,340)	1,841,880	(603,505)	1,238,375	3,813,715
Decrease in reserve for encumbrances	-	-	-	-	603,505	603,505
Unreserved fund balance, beginning of year	362,611	362,611	362,611	-	362,611	-
Unreserved fund balance, end of year	$ 362,611	(2,212,729)	2,204,491	(603,505)	2,204,491	4,417,220

See accompanying notes to financial statements.

Marianas Visitors Authority
(a component unit of the CNMI Government)

Independent Auditors' Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Year Ended September 30, 2002

BURGER & COMER, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

The Board of Directors
Marianas Visitors Authority:

We have audited the financial statements of Marianas Visitors Authority (MVA) as of and for the year ended September 30, 2002, and have issued our report thereon dated February 18, 2003. 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.

Compliance

As part of obtaining reasonable assurance about whether Marianas Visitors Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, 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 no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Marianas Visitors Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

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This report is intended for the information of the management and the Board of Directors of Marianas Visitors Authority. However, this report is a matter of public record and its distribution is not limited.

Burger & Comer, P.C.

Saipan, MP 96950
February 18, 2003