

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

Financial Statements

September 30, 2004

(With Independent Auditors' Report Thereon)

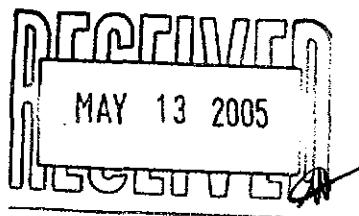


TABLE OF CONTENTS

<u>Description</u>	<u>Page Number</u>
Independent Auditors' Report	1-2
Management's Discussion and Analysis	3-5
Governmental Funds Balance Sheet/Statement of Net Assets	6
Statement of Governmental Fund Revenues, Expenditures, and Changes in Fund Balances/Statement of Activities	7
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets	8
Reconciliation of the Statement of Revenues, Expenditures and changes in Fund Balance of Governmental Funds to the Statement of Activities	9
Notes to Financial Statements	10-17
Budgetary Comparison Schedule	18
Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	19-20

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, 2004 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 of America. 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, 2004 and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's discussion and analysis on pages 3 through 5 and budgetary comparison 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 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 a report dated February 11, 2005 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.

Burgin & Coors, P.C.

Saipan, MP 96950
February 11, 2005

Marianas Visitors Authority
Management's Discussion and Analysis

Year Ended September 30, 2004

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, 2004. 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

The Marianas Visitors Authority's (MVA) 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 expenses over revenues represents a decrease in MVA's net assets.

Some of the more significant financial information included in the financial statements in fiscal years ending September 30, 2004 and 2003 are as follows:

	<u>2004</u>	<u>2003</u>
Capital Assets	\$ 136,133	126,711
Other Assets	<u>2,352,293</u>	<u>1,952,040</u>
Total Assets	2,488,426	2,078,751
Total Liabilities (not Long-term)	659,472	572,082
Net Assets Invested in Capital Assets	136,113	126,711
Unrestricted Net Assets	<u>1,692,841</u>	<u>1,379,958</u>
Total Net Assets	\$ <u>1,828,954</u>	<u>1,506,669</u>
Program Revenues	\$ 5,961,426	6,461,908
General Revenues	<u>906,483</u>	<u>1,152,115</u>
Total Revenues	6,867,909	7,614,023
Promotion and Advertising Expenses	3,894,515	4,912,670
Personnel Expenses	1,625,603	1,829,530
Other Expenses	<u>1,025,506</u>	<u>1,741,172</u>
Total Expenses	<u>6,545,624</u>	<u>8,483,372</u>
Excess (Deficiencies) before Other Items	322,285	(869,349)
Loss on Disposal of Capital Assets	-	<u>(46,597)</u>
Change in Net Assets	322,285	(915,946)
Beginning Net Assets	<u>1,506,669</u>	<u>2,422,615</u>
Ending Net Assets	\$ <u>1,828,954</u>	<u>1,506,669</u>

Marianas Visitors Authority
Management's Discussion and Analysis
Year Ended September 30, 2004

COMPARISON OF RESULTS

The Statement of Activities for Fiscal Year 2004 (FY04) shows that net assets increased by more than \$322,000, as opposed to the Fiscal Year 2003 (FY03) decrease of \$915,000. The primary reason for this change is that, during FY04 MVA received a supplemental appropriation of \$360,000 from the CNMI Governor's office. A reduction of actual expenses in promotion and advertising of more than \$1 million, a reduction of personnel expenses of more than \$203,000, and a reduction of other expenses of more than \$715,000 all contributed to the positive result.

MVA's traditional source of funding, an appropriation of room occupancy and container taxes, decreased by approximately \$500,000 in FY04. This represents a decrease of 8%. This was due mainly to a transfer of certain MVA functions to the Department of Lands and Natural Resources.

BUDGET AND ACTUAL FIGURES

The original budget for MVA's revenues totaled \$7,000,000, and the revised budget totaled \$6,141,800. The original budget was reduced by \$858,200, which was transferred to Department of Lands and Natural Resources, through its Division of Parks and Recreation. The budget was further reduced by \$122,836 representing a 2% deficit reduction. In accordance with Public Law 13-24, which created the budget for FY04, Section 521 states that "The Secretary of Finance shall reserve at least 2% of the total fiscal year appropriation for the purpose of retiring the government's accumulated deficit. Provided further that notwithstanding any provision of law, in the event of a continuing appropriation, this 2% requirement shall remain in effect until the passage of appropriation act(s) providing budget authority for a subsequent fiscal year."

A significant variance between the final budget and the actual revenues for FY04 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 MVA for the purpose of launching aggressive promotional campaigns aimed at reversing the declining trend in the number of tourist arrivals to the CNMI. MVA developed the "CNMI Tourism Strategy Plan" detailing its comprehensive program to attract more Japanese visitors. MVA 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.

Major variances between the final budget and the actual expenses for fiscal year 2003 (and the reasons therefore) included the following: An increase in promotion and advertising budget due to the \$2.6 million supplemental appropriation (\$1.8 million was spent in FY03 and \$800,000 in FY02); positive variance in the personnel account is a result of the transfer of the field operations' division employees to the Division of Parks and Recreation of the Department of Land and Natural Resources.

Marianas Visitors Authority
Management's Discussion and Analysis
Year Ended September 30, 2004

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, 2003 were reflected in the financial statements net of depreciation at \$126,711. MVA recognized depreciation expense of \$38,031 during fiscal year 2004, and purchased new capital assets at a cost of \$71,098, (\$47,433 was charged directly to capital expenditure and \$23,665 was charged directly to fixed assets).

ECONOMIC FACTORS AND FISCAL YEAR 2004 BUDGET

Visitor arrivals were 530,935 in FY04 and 458,443 FY03. Further, the value of garment industry exports increased from approximately \$796 million in 2003 to approximately \$821 million in 2004. These factors combined to produce an increase in overall government revenues.

Unemployment in the CNMI is estimated to be 4.5% as of April 2002, 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 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 in excess of 250%.

Operating under a Continuing Resolution per Public Law 13-24, the MVA's budgeted appropriation for fiscal year 2004 is \$7 million. The \$7 million will be reduced by \$858,200 and \$122,836, which represent funding to be reprogrammed to the Department of Lands and Natural Resources and the 2% deficit reduction, respectively. The net appropriations for FY04 will amount to \$6,018,964, further reduced by 1% allocation for the Office of the Public Auditors (OPA) in the amount of \$61,418. The CNMI Government leadership set goals to rebuild the tourism economy and to focus on promotion and marketing efforts. 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 is expected to contribute to the increase of total visitor arrivals to the CNMI.

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 questions 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, 2004

	General Fund	Adjustments	Statement of Net Assets
ASSETS			
Cash and investments	\$ 468,795	-	468,795
Appropriations receivable	1,855,966	-	1,855,966
Other receivables	23,356	-	23,356
Prepaid expenses	4,196	-	4,196
Capital assets, net of accumulated depreciation and amortization	-	136,113	136,113
Total assets	\$ 2,352,313	136,113	2,488,426
LIABILITIES			
Accounts payable	455,718	-	455,718
Salaries and benefits payable	200,354	-	200,354
Deferred revenues	3,400	-	3,400
Total liabilities	659,472	-	659,472
FUND BALANCES/NET ASSETS			
Fund balances:			
Reserved for encumbrances	90,500	(90,500)	-
Unreserved, reported in:			
General fund	1,602,341	(1,602,341)	-
Total fund balances	1,692,841	(1,692,841)	-
Total liabilities and fund balances	\$ 2,352,313		
Net assets:			
Invested in capital assets		136,113	136,113
Unrestricted		1,692,841	1,692,841
Total net assets		\$ 1,828,954	1,828,954

The accompanying notes are an integral part of these 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, 2004

	General Fund	Adjustments	Statement of Activities
Revenues:			
Room occupancy and container taxes appropriated	\$ 5,961,426	-	5,961,426
Supplemental appropriation	360,000	-	360,000
In-kind contribution of promotion and advertising	354,688	-	354,688
Other income	135,639	-	135,639
Concession and vendor fees	24,028	-	24,028
Membership dues	20,350	-	20,350
Memorials and trust income	8,978	-	8,978
Interest income	2,800	-	2,800
Total revenues	6,867,909	-	6,867,909
Expenditures/expenses:			
Current expenditures/expenses:			
Promotion and advertising	3,894,515	-	3,894,515
Personnel	1,625,603	-	1,625,603
In-kind contribution of promotion and advertising	354,688	-	354,688
Tourist site maintenance and supplies	111,465	-	111,465
Rentals	92,400	-	92,400
Repairs and maintenance	57,572	-	57,572
Travel	58,760	-	58,760
Communication	53,402	-	53,402
Capital outlay-current expenditures	49,190	(49,190)	-
Professional fees	43,280	-	43,280
Printing and publications	40,664	-	40,664
Office expenses	39,272	-	39,272
Dues and subscriptions	29,974	-	29,974
Utilities	20,627	-	20,627
Fuel and lubrication	20,052	-	20,052
Staff development training	19,341	-	19,341
Maintenance and equipment rental	19,029	-	19,029
Insurance	14,659	-	14,659
Bad debts	5,354	-	5,354
Recruitment and repatriation	5,179	-	5,179
Depreciation	-	39,788	39,788
Total expenditures/expenses	6,555,026	(9,402)	6,545,624
Excess of revenues over expenditures	312,883	9,402	322,285
Excess of revenues and transfers in over expenditures and transfers out	312,883	(312,883)	-
Change in net assets	-	-	322,285
Fund balances/net assets:			
Beginning of the year	1,379,958		1,506,669
End of the year	\$ 1,692,841		1,828,954

The accompanying notes are an integral part of these financial statements.

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

Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Assets

September 30, 2004

Unreserved fund balance	\$ 1,602,341
Amounts reported for governmental activities in the Balance Sheet, differ from the amounts reported in the Statement of Net Asset because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds	136,113
Encumbrances are not reported as expenditures in the funds	<u>90,500</u>
Total net assets	<u>\$ 1,828,954</u>

The accompanying notes are an integral part of these financial statements.

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

Reconciliation of the Statement of Revenues, Expenditures,
and Changes in Fund Balance of Governmental Funds
to the Statement of Activities

September 30, 2004

Net change in fund balances - governmental funds	\$ 312,883
Amounts reported for governmental activities in the Statement of Revenues, Expenditures and Changes in Fund Balance differ from the amounts reported in the Statement of Activities because:	
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the costs of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which the capital outlays exceeded depreciation in the current period.	<u>9,402</u>
Change in net assets of governmental activities	<u>\$ 322,285</u>

The accompanying notes are an integral part of these financial statements.

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

Notes to Financial Statements

September 30, 2004

(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, 2004.

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 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.

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

Notes to Financial Statements, continued

September 30, 2004

(1) Summary of Significant Accounting Policies, continued

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.

Fund Financial Statements

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 a 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 governmental 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

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

Notes to Financial Statements, continued

September 30, 2004

(1) Summary of Significant Accounting Policies, continued

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.

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 the year ended September 30, 2003, 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 a certificate of deposit issued by The Bank of Saipan, Inc. (dba Bank of Saipan), a non-FDIC insured bank, in the amount of \$92,998, a restricted checking account in the amount of \$11,568 and a savings account in the amount of \$75,139. 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. When the receivership was imposed, MVA had approximately \$500,000 on deposit with BOS. MVA has been withdrawing funds from BOS in accordance with limitations imposed by BOS.

BOS was still in receivership as of September 30, 2004 and was operating with reduced facilities and staff. The receiver had the shareholders invest additional capital and has re-opened the bank as a full service bank. The likelihood of success of these plans can not be determined as of September 30, 2004. Accordingly, the value of the certificate of deposit and the checking account and savings account can not be determined as of September 30, 2004.

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

Notes to Financial Statements, continued

September 30, 2004

(1) Summary of Significant Accounting Policies, continued

No adjustments have been made to the accompanying financial statements for the possible impairment of value of this certificate of deposit and this restricted savings and checking account.

As required by GASB Statement No. 3, MVA'S investments are classified in three categories of custodial credit risk. Category one includes investments that are insured or registered, or securities held by MVA or its agent in MVA's name. Category two includes uninsured and unregistered investments, with securities held by the counterparty's trust department or agent in MVA's name. Category three includes uninsured and unregistered securities held by the counterparty or by its trust department or agent but not in MVA's name.

At September 30, 2004, MVA's cash and investment balances were as follows:

	<u>Carrying Amount</u>	<u>Market Value</u>
Investments subject to categorization:	\$ -	\$ -
Investments not subject to categorization:		
Petty Cash and Cash Drawers	\$ 1,688	\$ 1,688
Checking accounts	<u>467,107</u>	<u>467,107</u>
Total Cash and Investments	<u>\$ 468,795</u>	<u>\$ 468,795</u>

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

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

Notes to Financial Statements, continued

September 30, 2004

(1) Summary of Significant Accounting Policies, continued

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. MVA's total personnel expense, inclusive of pension cost, for fiscal years 2004 and 2003 was \$1,625,603 and \$1,829,530, respectively, 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, 2003, 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 \$294,000 and \$374,000 for the years ended September 30, 2004 and 2003, respectively.

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).

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

Notes to Financial Statements, continued

September 30, 2004

(1) Summary of Significant Accounting Policies, continued

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

<u>Fiscal Year Ended</u>	<u>Required Contribution</u>	<u>Percentage of Required Contribution Contributed</u>
9/30/04	\$ 294,000	100%
9/30/03	374,000	100%
9/30/02	365,000	100%
9/30/01	368,000	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.

The NMIRF's October 1, 2003 actuarial valuation determined the unfunded pension benefit obligation as follows:

	<u>Class I</u>	<u>Class II</u>	<u>Total</u>
Present value of vested accrued benefits:			
Active participants	\$ 70,427,414	73,686,780	144,114,194
Terminated with vested benefits	5,003,466	2,641,834	7,645,300
Retired and beneficiaries	54,456,932	506,356,482	560,813,414
Non-vested accrued benefits	<u>76,462,013</u>	<u>39,868,765</u>	<u>116,330,778</u>
Total present value of accrued benefits	206,349,825	622,553,861	828,903,686
Net assets available for benefits, At market value	<u>173,808,226</u>	<u>211,863,801</u>	<u>385,672,027</u>
Unfunded benefit obligation	\$ <u>32,541,599</u>	<u>410,690,060</u>	<u>443,231,659</u>

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

Notes to Financial Statements, continued

September 30, 2004

(1) Summary of Significant Accounting Policies, continued

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) 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.

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, 2004 was \$5,692,433 for hotel room tax and \$1,308,654 for beer container tax. Applying the applicable percentages, MVA's maximum appropriation would be \$4,268,747 after a deduction of one percent for the Office of the Public Auditor. MVA is operating under continuing resolution (P.L. 13-24), and received a total allotment of \$5,961,426 after a deduction of one percent for the Office of the Public Auditor and a deduction of two percent for deficit reduction of about \$184,000.

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

Notes to Financial Statements, continued

September 30, 2004

(3) Changes in Capital Assets

The following is a summary of changes in capital assets for the fiscal year ended September 30, 2004:

	Balance October 1, <u>2003</u>	Additions/ <u>Transfers</u>	<u>Retirements</u>	Balance September 30, <u>2004</u>
Vehicles and equipment	\$ 224,487	27,144	(24,590)	227,041
Office furniture, fixtures and equipment	318,425	20,789	(15,908)	323,306
Leasehold improvements	184,802	-	-	184,802
Maintenance equipment	<u>86,783</u>	<u>1,257</u>	<u>(28,359)</u>	<u>59,681</u>
	814,497	49,190	(68,857)	794,830
Less accumulated deprecia- tion and amortization	<u>(687,786)</u>	<u>(39,788)</u>	<u>68,857</u>	<u>(658,717)</u>
	<u>\$ 126,711</u>	<u>9,402</u>	<u>-</u>	<u>136,113</u>

(4) 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.

(5) Commitments and Contingencies

MVA is leasing its office in Saipan under a lease that originally expired on May 14, 2002 with an option to renew for another five years. The lease provides for a minimum increase of 10% in the monthly rental upon renewal. On January 19, 2001, MVA exercised the option to renew. The lessor mutually agreed with MVA to waive the increase and retain the monthly rental of \$7,700.

Future minimum lease payments are as follows:

Years ending September 30:	
2005	\$ 92,400
2006	92,400
2007	<u>57,750</u>
Total future payments	<u>\$242,550</u>

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

Budgetary Comparison Schedule

For the Year ended September 30, 2004

	Budgeted Amounts		<u>Actual</u>	Variance
	<u>Original</u>	<u>Final</u>		Final Budget Positive (Negative)
Revenues:				
Room occupancy and container taxes	\$ 7,000,000	5,957,546	5,961,426	3,880
Supplemental appropriation	-	-	360,000	360,000
In-kind contribution of promotion and advertising	-	-	354,688	354,688
Other	-	-	135,639	135,639
Concession/vendor fees	-	-	24,028	24,028
Membership dues	-	-	20,350	20,350
Memorials and trusts	-	-	8,978	8,978
Interest	-	-	2,800	2,800
Total revenues	<u>7,000,000</u>	<u>5,957,546</u>	<u>6,867,909</u>	<u>910,363</u>
Expenditures:				
Promotion and advertising	3,860,000	3,720,000	3,894,515	(174,515)
Personnel	2,217,255	1,528,055	1,625,603	(97,548)
In-kind contribution of promotion and advertising	-	-	354,688	(354,688)
Tourist site maintenance and supplies	121,000	102,164	111,465	(9,301)
Rentals	122,400	92,400	92,400	-
Repairs and maintenance	65,000	29,000	59,329	(30,329)
Travel	65,000	65,000	58,760	6,240
Communication	69,500	67,000	53,402	13,598
Capital outlay-current expenditures	45,500	45,500	47,433	(1,933)
Professional fees	130,000	68,582	43,280	25,302
Printing and publications	88,845	88,845	40,664	48,181
Office expenses	48,500	45,000	39,272	5,728
Dues and subscription	20,000	20,000	29,974	(9,974)
Staff development training	20,000	20,000	24,520	(4,520)
Utilities	27,500	20,000	20,627	(627)
Fuel and lubrication	35,000	20,000	20,052	(52)
Maintenance and equipment rental	43,000	10,000	19,029	(9,029)
Insurance	21,500	16,000	14,659	1,341
Bad debts	-	-	5,354	(5,354)
Total expenditures	<u>7,000,000</u>	<u>5,957,546</u>	<u>6,555,026</u>	<u>(597,480)</u>
Excess of revenues over expenditures	-	-	312,883	312,883
Decrease in reserve for encumbrances	-	-	92,898	92,898
Unreserved fund balance, beginning of year	<u>1,196,560</u>	<u>1,196,560</u>	<u>1,196,560</u>	-
Unreserved fund balance, end of year	<u>\$ 1,196,560</u>	<u>1,196,560</u>	<u>1,602,341</u>	<u>405,781</u>

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, 2004

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 as of and for the year ended September 30, 2004, and have issued our report thereon dated February 11, 2005. We conducted our audit in accordance with generally accepted auditing standards 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 the financial statements are free of material misstatement, we performed tests of MVA's 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 reportable 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.

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.

Burgin & Connor, P.C.

Saipan, MP 96950
February 11, 2005