

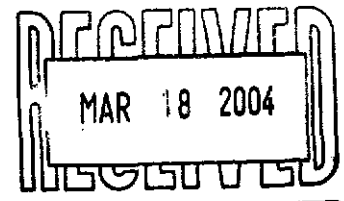
**Marianas Visitors Authority**  
**(a component unit of the CNMI Government)**

**Financial Statements**

**September 30, 2003**

**(With Independent Auditors' Report Thereon)**

OFFICE OF THE PUBLIC AUDITOR  
COMMONWEALTH OF THE  
NORTHERN MARIANA ISLANDS  
P.O. BOX 1399 C.K.  
SAIPAN, MP 96950



## 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	10-18
Budgetary Comparison Schedule	19
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>	20-21

**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, 2003 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, 2003 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 provision 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 page 2 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, 2004 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.

*Burg & Conn, P.C.*

Saipan, MP 96950  
February 11, 2004

**Marianas Visitors Authority**  
**Management's Discussion and Analysis**  
**Year Ended September 30, 2003**

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, 2003. 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, 2003 and 2002 are as follows:

	<u>2003</u>	<u>2002</u>
Capital Assets	\$ 126,711	163,887
Other Assets	<u>1,952,040</u>	<u>3,650,524</u>
Total Assets	2,078,751	3,814,411
Total Liabilities	572,082	1,391,796
Net Assets Invested in Capital Assets	126,711	163,887
Unrestricted Net Assets	<u>1,379,958</u>	<u>2,258,728</u>
Total Net Assets	\$ <u>1,506,669</u>	<u>2,422,615</u>
Program Revenues	\$ 6,461,908	8,158,407
General Revenues	<u>1,152,115</u>	<u>418,921</u>
Total Revenues	7,614,023	8,577,328
Promotion and Advertising Expenses	4,912,670	4,310,498
Personnel Expenses	1,829,530	2,036,300
Other Expenses	<u>1,741,172</u>	<u>1,104,074</u>
Total Expenses	<u>8,483,372</u>	<u>7,450,872</u>
Excess (Deficiencies) before Other Items	(869,349)	1,126,456
Loss on Disposal of Capital Assets	<u>(46,597)</u>	<u>(8,064)</u>
Change in Net Assets	(915,946)	1,118,392
Beginning Net Assets	<u>2,422,615</u>	<u>1,304,223</u>
Ending Net Assets	\$ <u>1,506,669</u>	<u>2,422,615</u>

**Marianas Visitors Authority**  
**Management's Discussion and Analysis**  
**Year Ended September 30, 2003**

**COMPARISON OF RESULTS**

The Statement of Activities for Fiscal Year 2003 (FY03) shows that net assets decreased by more than \$915,000, as opposed to the Fiscal Year 2002 (FY02) increase of \$1.1 million. 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 FY03 approximately \$1.8 million of this supplemental appropriation was spent, in addition to the \$800,000 spent in FY02. As explained in FY02 MD&A, the FY03 operations resulted in a significant excess of expenditures over revenues (a decrease in net assets), as the remaining \$1.8 million of the supplemental appropriation was expensed in fiscal year 2003 with no corresponding revenue.

MVA's traditional source of funding, an appropriation of room occupancy and container taxes, increased by approximately \$1.1 million in FY03. This represents an increase of 19%. This was due to the increase in the CNMI's actual revenue collections of hotel room occupancy and beer container taxes from \$5,667,568 in FY02 to \$6,720,000 in FY03.

**BUDGET AND ACTUAL FIGURES**

The original budget for MVA's revenues totaled \$7,000,000, and the revised budget totaled \$6,528,526. The original budget was reduced by \$338,239, which was transferred to Department of Lands and Natural Resources, through its Division of Parks and Recreation. The budget was further reduced by \$133,235 representing a 2% deficit reduction. In accordance with Public Law 13-24, which created the budget for FY03, 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 FY03 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 for the purpose of launching aggressive promotional campaigns aimed at reversing the declining trend in the number of tourist arrivals to the CNMI. The 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 11<sup>th</sup> 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 \$7.0 million, and the revised budget totaled \$7.7 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 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, 2003**

**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, 2002 were reflected in the financial statements net of depreciation at \$163,887. During the fiscal year ended September 30, 2003, MVA disposed of capital assets with a book value of \$46,597. This was reflected in the financial statements as a loss on disposal of capital assets. MVA recognized depreciation expense of \$73,930 during fiscal year 2003, and purchased new capital assets at a cost of \$83,351.

**ECONOMIC FACTORS AND FISCAL YEAR 2004 BUDGET**

In FY03 the population in the CNMI decreased from FY02. Visitor arrivals were 458,443 in FY03 and 424,932 FY02. Further, the value of garment industry exports decreased from approximately \$822 million in 2002 to approximately \$796 million in 2003. These factors combined to produce a decline in overall government revenues, necessitating a 2% decrease in appropriations to MVA.

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 Department of Lands and Natural Resources and the 2% deficit reduction, respectively. The net appropriations for FY04 will amount to \$6,018,964. 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 will 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, 2003

	General Fund	Adjustments	Statement of Net Assets
<b>ASSETS</b>			
Cash and investments	\$ 533,053	-	533,053
Appropriations receivable	1,231,724	-	1,231,724
Other receivables	98,342	-	98,342
Prepaid expenses	88,921	-	88,921
Capital assets, net of accumulated depreciation and amortization	-	126,711	126,711
	-	126,711	126,711
Total assets	\$ 1,952,040	126,711	2,078,751
<b>LIABILITIES</b>			
Accounts payable	436,131	-	436,131
Salaries and benefits payable	131,452	-	131,452
Deferred revenues	4,499	-	4,499
	572,082	-	572,082
Total liabilities	572,082	-	572,082
<b>FUND BALANCES/NET ASSETS</b>			
Fund balances:			
Reserved for encumbrances	183,398	(183,398)	-
Unreserved, reported in:			
General fund	1,196,560	(1,196,560)	-
	1,379,958	(1,379,958)	-
Total fund balances	1,379,958	(1,379,958)	-
Total liabilities and fund balances	\$ 1,952,040		
Net assets:			
Invested in capital assets		126,711	126,711
Unrestricted		1,379,958	1,379,958
		1,506,669	1,506,669
Total net assets		\$ 1,506,669	1,506,669

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, 2003

	General Fund	Adjustments	Statement of Activities
<b>Revenues:</b>			
Room occupancy and container taxes appropriated	\$ 6,461,908	-	6,461,908
In-kind contribution of promotion and advertising	784,056	-	784,056
Grant income	90,000	-	90,000
Other income	157,480	-	157,480
Concession and vendor fees	86,234	-	86,234
Membership dues	19,100	-	19,100
Interest income	8,324	-	8,324
Memorials and trust income	6,921	-	6,921
<b>Total revenues</b>	<b>7,614,023</b>	<b>-</b>	<b>7,614,023</b>
<b>Expenditures/expenses:</b>			
Current expenditures/expenses:			
Promotion and advertising	4,912,670	-	4,912,670
Personnel	1,829,530	-	1,829,530
In-kind contribution of promotion and advertising	784,056	-	784,056
Tourist site maintenance and supplies	279,605	-	279,605
Repairs and maintenance	106,265	-	106,265
Rentals	92,400	-	92,400
Capital outlay-current expenditures	83,351	(83,351)	-
Printing and publications	82,726	-	82,726
Travel	63,348	-	63,348
Professional fees	58,023	-	58,023
Office expenses	42,217	-	42,217
Communication	39,079	-	39,079
Fuel and lubrication	29,557	-	29,557
Utilities	23,636	-	23,636
Dues and subscriptions	19,106	-	19,106
Insurance	18,850	-	18,850
Maintenance and equipment rental	16,095	-	16,095
Staff development training	12,279	-	12,279
Depreciation	-	73,930	73,930
<b>Total expenditures/expenses</b>	<b>8,492,793</b>	<b>(9,421)</b>	<b>8,483,372</b>
Excess (deficiency) of revenues over expenditures	(878,770)	9,421	
<b>Other financing sources/uses:</b>			
Loss on disposal of capital assets	-	(46,597)	(46,597)
Excess (deficiency) of revenues and transfers in over expenditures and transfers out	(878,770)	878,770	-
Change in net assets	-	(915,946)	(915,946)
<b>Fund balances/net assets:</b>			
Beginning of the year	2,258,728		2,422,615
End of the year	<b>\$ 1,379,958</b>		<b>1,506,669</b>

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, 2003**

Unreserved fund balance	\$ 1,196,560
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:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds	126,711
Encumbrances are not reported as expenditures in the funds	<u>183,398</u>
Total net assets	<u>\$ 1,506,669</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, 2003

Net change in fund balances - governmental funds	\$ (878,770)
Amounts reported for governmental activities in the statement of revenues, expenditures and changes in fund balance differs 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.	9,421
Governmental funds report the proceeds from the disposal of capital assets as an other financing source. In the statement of activities, the gain or loss on disposal is reported	<u>(46,597)</u>
Change in net assets of governmental activities	<u>\$ (915,946)</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, 2003

(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, 2003.

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. The

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

Notes to Financial Statements, continued

September 30, 2003

(1) Summary of Significant Accounting Policies, continued

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, 2003

(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 FY 03, 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) in the amount of \$92,998 and a restricted checking account in the amount of \$308,319. 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, 2003 and was operating with reduced facilities and staff. The receiver had the shareholders invest additional capital and has reopened the bank as a full service bank. The likelihood of success of these plans can not be determined as of September 30, 2003. Accordingly, the value of the certificate of deposit and the checking account can not be determined as of September 30, 2003.

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

Notes to Financial Statements, continued

September 30, 2003

(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 checking account.

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

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

Notes to Financial Statements, continued

September 30, 2003

(1) Summary of Significant Accounting Policies, continued

Act of 1988, is the authority under which benefit provisions are established. MVA's total personnel expense, inclusive of pension cost, for fiscal year 2003 was \$1,829,530 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 \$374,000 for the year ended September 30, 2003.

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:

<u>Fiscal Year Ended</u>	<u>Required Contribution</u>	<u>Percentage of Required Contribution Contributed</u>
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.



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

Notes to Financial Statements, continued

September 30, 2003

(1) Summary of Significant Accounting Policies, continued

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, 2001 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	\$ 70,297,727	93,839,771	164,137,498
Terminated with vested benefits	3,322,702	2,422,943	5,745,645
Retired and beneficiaries	36,521,748	454,030,829	490,552,577
Non-vested accrued benefits	<u>58,374,819</u>	<u>45,026,451</u>	<u>103,401,270</u>
Total present value of accrued benefits	168,516,996	595,319,994	763,836,990
Net assets available for benefits, At market value	<u>134,895,346</u>	<u>240,193,712</u>	<u>375,089,058</u>
Unfunded benefit obligation	\$ <u>33,621,650</u>	<u>355,126,282</u>	<u>388,747,932</u>

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.

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

Notes to Financial Statements, continued

September 30, 2003

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

During the fiscal year ended September 30, 2002, MVA 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 Nonexchanged Revenues", GASB Statement No. 37, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Government: Omnibus", GASB Statement No. 38, "Certain Financial Statement Note Disclosure", and GASB Interpretation No. 6, "Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements."

GASB Statement 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 Statement No. 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 standard for modified accrual recognition of certain liabilities and expenditures in areas where differences have arisen, or potentially could arise, in interpretation and practice.

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

Notes to Financial Statements, continued

September 30, 2003

(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.

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, 2003 was \$5,430,000 for hotel room tax and \$1,290,000 for beer container tax. Applying the applicable percentages, MVA's maximum appropriation would be \$4,082,265 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 \$6,461,908 after a deduction of one percent for the Office of the Public Auditor and a deduction of two percent for deficit reduction of about \$133,000.

In addition, in fiscal year 2002, under P.L. 13-16, MVA received a supplemental budget of \$2,600,000 from Marianas Public Lands Authority trust account (MPLA) collected from the fees for the Managaha Island Landing and User's Fee. The funding was used for the implementation of the CNMI Tourism Strategic Plan and marketing programs for China and Korea in fiscal year 2003.

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

Notes to Financial Statements, continued

September 30, 2003

(4) Changes in Capital Assets

The following is a summary of changes in capital assets for the fiscal year ended September 30, 2003:

	Balance October 1, <u>2002</u>	Additions/ <u>Transfers</u>	<u>Retirements</u>	Balance September 30, <u>2003</u>
Vehicles and equipment	\$ 459,035	42,250	(276,798)	224,487
Office furniture, fixtures and equipment	345,239	33,024	(59,838)	318,425
Leasehold improvements	184,802	-	-	184,802
Maintenance equipment	<u>631,135</u>	<u>7,125</u>	<u>(551,477)</u>	<u>86,783</u>
	1,620,211	82,399	(888,113)	814,497
Less accumulated deprecia- tion and amortization	<u>(1,456,324)</u>	<u>(73,930)</u>	<u>842,468</u>	<u>(687,786)</u>
	<u>\$ 163,887</u>	<u>8,469</u>	<u>(45,645)</u>	<u>126,711</u>

(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 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:

2004	\$ 92,400
2005	92,400
2006	92,400
2007	<u>57,750</u>
Total future payments	<u>\$334,950</u>

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

Budgetary Comparison Schedule

For the Year ended September 30, 2003

	Budgeted Amounts			Variance
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	Final Budget Positive (Negative)
<b>Revenues:</b>				
Room occupancy and container taxes	\$ 7,000,000	6,461,908	6,461,908	-
In-kind contribution of promotion and advertising	-	-	784,056	784,056
Grants	-	-	90,000	90,000
Other	-	-	157,480	157,480
Concession/vendor fees	-	-	86,234	86,234
Membership dues	-	-	19,100	19,100
Memorials and trusts	-	-	6,921	6,921
Interest	-	-	8,324	8,324
Total revenues	<u>7,000,000</u>	<u>6,461,908</u>	<u>7,614,023</u>	<u>1,152,115</u>
<b>Expenditures:</b>				
Promotion and advertising	3,750,000	5,399,843	4,912,670	487,173
Personnel	2,217,255	1,963,865	1,829,530	134,335
In-kind contribution of promotion and advertising	-	-	784,056	(784,056)
Tourist site maintenance and supplies	190,000	200,210	279,605	(79,395)
Repairs and maintenance	51,000	101,460	106,265	(4,805)
Rentals	122,400	92,400	92,400	-
Capital outlay-current expenditures	84,645	83,351	83,351	-
Printing and publications	91,000	85,443	82,726	2,717
Travel	68,000	79,737	63,348	16,389
Professional fees	130,000	102,763	58,023	44,740
Office expenses	46,800	40,790	42,217	(1,427)
Communication	60,000	37,079	39,079	(2,000)
Fuel and lubrication	42,900	34,418	29,557	4,861
Utilities	30,000	27,017	23,636	3,381
Dues and subscription	20,000	18,927	19,106	(179)
Insurance	20,000	18,850	18,850	-
Maintenance and equipment rental	56,000	17,491	16,095	1,396
Staff development training	20,000	12,279	12,279	-
Total expenditures	<u>7,000,000</u>	<u>8,315,923</u>	<u>8,492,793</u>	<u>(176,870)</u>
Excess (deficiency) of revenues over expenditures	-	(1,854,015)	(878,770)	975,245
Increase in reserve for encumbrances	-	-	(129,161)	(129,161)
Unreserved fund balance, beginning of year	<u>2,204,491</u>	<u>2,204,491</u>	<u>2,204,491</u>	-
Unreserved fund balance, end of year	<u>\$ 2,204,491</u>	<u>350,476</u>	<u>1,196,560</u>	<u>846,084</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, 2003**

**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, 2003, and have issued our report thereon dated February 11, 2004. 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.

*Bung & Conner, P.C.*

Saipan, MP 96950

February 11, 2004