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**MARIANAS VISITORS AUTHORITY**  
(A Component Unit of the CNMI Government)

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**FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION**  
**WITH INDEPENDENT AUDITORS' REPORT THEREON**

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**YEAR ENDED SEPTEMBER 30, 2008**  
(with comparative figures for 2007)

**MARIANAS VISITORS AUTHORITY**  
(A Component Unit of the CNMI Government)

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YEAR ENDED SEPTEMBER 30, 2008  
(with comparative figures for 2007)

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**BURGER & COMER, P.C.**  
**CERTIFIED PUBLIC ACCOUNTANTS**

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Marianas Visitors Authority

We have audited the accompanying financial statements of the governmental activities, and governmental funds of the Marianas Visitors Authority (MVA), a component unit of the Commonwealth of the Northern Mariana Islands government, as of September 30, 2008 and for the year then ended. These financial statements are the responsibility of MVA's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of Marianas Visitors Authority as of September 30, 2007 were audited by other auditors, whose report dated January 8, 2008 expressed an unqualified opinion on those statements.

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 the 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, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and governmental funds of the MVA as of September 30, 2008, and the respective changes in financial position thereof, and the respective budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 20, 2009, on our consideration of the MVA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

The Management's Discussion and Analysis (MD&A) on pages 3 through 10 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. 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.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The introductory section and statistical tables are presented for the purposes of additional analysis and are not a required part of the basic financial statements. This supplementary information is the responsibility of Marianas Visitors Authority's management. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Burns & Combs, P.C.*

Commonwealth of the Northern Mariana Islands  
January 20, 2009

## MARIANAS VISITORS AUTHORITY

### MANAGEMENT'S DISCUSSION AND ANALYSIS

#### INTRODUCTION

The objective of management's discussion and analysis (MD&A) is to provide readers of the Marianas Visitors Authority (MVA) financial statements an overview and better understanding of its financial position and results of activities for the fiscal year ended September 30, 2008. Management has prepared this overview as required supplemental information to the financial statements and the footnotes that follow. This MD&A should be read in conjunction with the financial statements and accompanying footnotes.

#### **FINANCIAL HIGHLIGHTS**

- ▶ Pursuant to Public Law 15-28 and Continuing Resolution per Public Law 16-2, the MVA's budgeted appropriation for fiscal year 2008 is \$6,046,317. The budgeted appropriation was reduced by \$72,632 per Public Law 16-2 Reduction. The net appropriations for FY 2008 will amount to \$5,973,685 further reduced by a 1% allocation for the Office of the Public Auditor (OPA) in the amount of \$60,545.
- ▶ MVA's total assets exceeded liabilities at the end of FY 2008 by \$710,709 compared to \$1,580,455 and \$875,990 at the end of FY 2007 and 2006, respectively. Unrestricted net assets for the fiscal years 2008, 2007 and 2006 were \$642,740, \$1,525,645 and \$797,690, respectively.
- ▶ MVA experienced a decrease in net assets in fiscal year 2008. This is due primarily to a decrease in appropriations from the CNMI Government.
- ▶ MVA received \$515,299 of in-kind contributions in 2008. In-kind contributions increased by approximately 42% or \$296,457 compared to the previous year.

#### **BASIC FINANCIAL STATEMENTS**

Governmental Accounting Standards Board (GASB) Statement No. 34 requires the presentation of the Management's Discussion and Analysis (MD&A) and the basic financial statements. The basic financial statements consist of agency-wide statements, fund financial statements, notes to the financial statements, and a budgetary comparison statement for the general fund.

#### **MD&A**

The MD&A is a narrative section that introduces the basic financial statements. It should give readers an objective and easily understood, readable analysis of the MVA's financial performance for the year.

#### **Agency-Wide Statements**

The MVA's agency-wide financial report includes two financial statements: the Statement of Net Assets and the Statement of Activities. The Marianas Visitors Authority prepared these financial statements in accordance with Governmental Accounting Standards Board (GASB) principles.

## Management's Discussion and Analysis

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### **Statement of Net Assets**

The Statement of Net Assets presents information similar to a balance sheet. It reflects the MVA's assets, liabilities and the resources remaining after liabilities are satisfied. The statement is an indicator of overall financial condition, and whether the management's financial health has improved or deteriorated during the fiscal year.

### **Statement of Activities**

The Statement of Activities is the operating statement for the MVA as a whole. It is based on full accrual accounting rather than the traditional modified accrual basis. Depreciation of capital assets is recognized as an expense.

### **Fund Financial Statements**

The financial reporting package includes the fund financial statements. Fund reporting focuses on showing how money flows into and out of funds and the balance left at year-end that is available for spending. A fund is a grouping of related accounts that is used to maintain control over specific activities.

The MVA, like other state and local governments, uses fund accounting to demonstrate and ensure compliance with finance related legal requirements.

### **Balance Sheet**

#### **Statement of Revenues, Expenditures, and Changes in Fund Balance**

These statements present MVA's major funds. MVA has only one fund, the general fund. The fund statements are prepared using the traditional government model of modified accrual basis, which measures cash and all financial assets that can be readily converted to cash. These statements provide a detailed short-term view of the MVA's operations.

### **Reconciliation from Agency-Wide to Fund Statements**

Because the numbers on these statements do not agree to the numbers on the agency-wide statements, a reconciliation schedule is presented.

### **Statements of Revenues, Expenditures, and Changes in Fund Balance-Budget and Actual**

A budgetary comparison statement for the general fund is considered to be required supplementary information and is included in the basic financial statements.

**COMPARISON OF RESULTS**

**Assets, Liabilities and Net Assets**

The MVA's net assets on an agency-wide basis decreased by \$869,746 from the previous year. The decrease was the result of declining CNMI government revenues and appropriations, coupled with increased marketing and promotional expenditures.

**SUMMARY OF CHANGE IN NET ASSETS (STATEMENT OF ACTIVITIES)**

	<u>2008</u>	<u>2007</u>	<u>Increase (decrease)</u>
Net assets, beginning	\$ <u>1,580,455</u>	\$ <u>875,990</u>	\$ <u>704,465</u>
Revenues	6,609,989	6,678,935	(68,946)
Expenditures	<u>7,279,735</u>	<u>5,974,470</u>	<u>1,305,265</u>
Increase (decrease) in net assets	(669,746)	704,465	1,374,211
Restatement, reduction for uncollectible receivable	<u>(200,000)</u>	<u>-</u>	<u>(200,000)</u>
Net assets, ending	\$ <u>710,709</u>	\$ <u>1,580,455</u>	\$ <u>(869,746)</u>

**SUMMARY OF CHANGE IN NET ASSETS**

	<u>2007</u>	<u>2006</u>	<u>Increase (decrease)</u>
Net assets, beginning	\$ <u>875,990</u>	\$ <u>2,084,019</u>	\$ <u>(1,208,029)</u>
Revenues	6,678,935	6,860,875	(181,940)
Expenditures	<u>5,974,470</u>	<u>8,043,158</u>	<u>(2,068,688)</u>
Increase (decrease) in net assets	704,465	(1,182,283)	1,886,748
Prior period adjustment	<u>-</u>	<u>(25,746)</u>	<u>25,746</u>
Net assets, ending	\$ <u>1,580,455</u>	\$ <u>875,990</u>	\$ <u>704,465</u>

**SUMMARY OF STATEMENT OF NET ASSETS**

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Current assets	\$ 2,812,159	\$ 2,620,074	\$ 2,413,470
Capital assets	<u>67,969</u>	<u>54,810</u>	<u>78,300</u>
Total assets	\$ <u>2,880,128</u>	\$ <u>2,674,884</u>	\$ <u>2,491,770</u>
Current liabilities	\$ 2,005,085	\$ 930,095	\$ 1,446,340
Non-current liabilities	<u>164,334</u>	<u>164,334</u>	<u>169,440</u>
Total liabilities	\$ <u>2,169,419</u>	\$ <u>1,094,429</u>	\$ <u>1,615,780</u>
Invested in capital assets	\$ 67,969	\$ 54,810	\$ 78,300
Unrestricted	<u>642,740</u>	<u>1,525,645</u>	<u>797,690</u>
Total net assets	\$ <u>710,709</u>	\$ <u>1,580,455</u>	\$ <u>875,990</u>
Total liabilities and net assets	\$ <u>2,880,128</u>	\$ <u>2,674,884</u>	\$ <u>2,491,770</u>

## Management's Discussion and Analysis

The \$642,740 in unrestricted net assets represents the accumulated results of all past years' operations. It means that if MVA is able to collect all its receivables and pay off all of its bills today, including all of its non-capital liabilities and compensated absences, it would have \$642,740 of unrestricted assets left.

If, however, the receivable from the CNMI government appropriation is not collected, MVA would have a fund deficit of \$1,496,810 as reflected in the fund-level balance sheet and statement of revenues, expenditures, and changes in fund balance.

**Assets.** Assets consist primarily of cash and cash equivalents (20%) and receivables, which include local government appropriations (77%), others (1%) and capital assets (2%).

**Liabilities.** These are composed primarily of accounts payable for marketing activities, deferred revenue, accrued employee annual and sick leave and others. The net increase in liabilities of \$1,074,990 is due primarily to joint airline promotion activities.

**Net assets.** Net assets represent the MVA's residual interest in its assets net of liabilities. The unrestricted component of net assets decreased by \$882,905. At the end of FY 2008, net assets decreased by \$869,746 primarily due to a decrease in CNMI appropriations of \$633,929 from the prior year, an increase in expenditures of \$740,782 and a restatement for uncollectible appropriations receivable of \$200,000.

### **Revenues**

General revenues for FY 2008 amounted to \$6,045,006, a \$364,521 or 5% decrease from FY 2007. The decrease in revenue is due to decreases in CNMI appropriations and supplemental funding. At the same time, in-kind contributions received from the private sector to support MVA's marketing initiatives increased from \$218,842 in 2007 to \$515,299 in 2008.

	<u>2008</u>	<u>2007</u>	<u>2006</u>
General Revenues			
CNMI appropriation	\$ 5,903,140	6,140,324	4,755,487
CNMI supplemental appropriation	-	200,000	500,000
Other income	104,953	21,807	62,990
Royalty income	36,860	47,293	67,181
Interest income	53	103	133
Subtotal	<u>6,045,006</u>	<u>6,409,527</u>	<u>5,385,791</u>
Program Revenues			
Grant and contributions	515,299	218,842	1,426,184
Membership fees	24,100	21,400	18,300
Special events	25,584	29,166	30,600
Subtotal	<u>564,983</u>	<u>269,408</u>	<u>1,475,084</u>
Total Revenues	<u>\$ 6,609,989</u>	<u>6,678,935</u>	<u>6,860,875</u>

Revenues are classified as either general or program.



Management's Discussion and Analysis

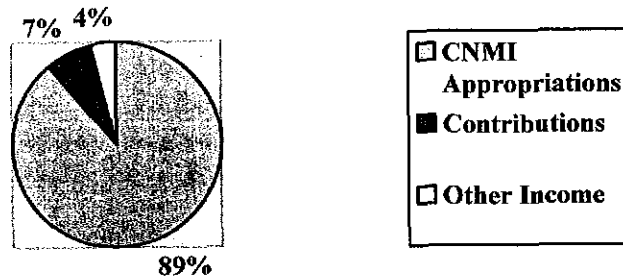
Program revenues are those directly generated by a function or activity of the government entity. These revenues include membership dues, special events revenues for sale of goods during special events and other fees that MVA charges for the specific events, and contributions from the private sector to support MVA programs.

Grants and contributions, (primarily in-kind contributions) include accommodations and free use of hotel facilities, among others, and are classified as marketing or special events revenue when the donor specifies to which MVA activities the donation is to be used or as general revenue for unrestricted contributions.

The increase in program revenues over the three year period is from increased contributions from the private sector, primarily MVA member organizations. The collaboration with MVA members is an important aspect to maintaining the CNMI's global competitiveness as a premier leisure destination in the Asia Pacific region. With the support and assistance of MVA members, this destination has continually expanded media exposure, advertising and publicity coverage with print media and trade journals.

The general revenue classification includes appropriations, royalties, interest and other income not identifiable with specific activities.

REVENUES



This graph shows MVA's fiscal year 2008 revenues are primarily from appropriations from the CNMI government, making MVA a component unit of the CNMI government engaged in governmental activities.

The MVA has no business-type activities from which to generate revenues and relies on cash and in-kind contributions from members to bridge operational costs that cannot be fully covered by the appropriations received.

## Management's Discussion and Analysis

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### Expenses

Total agency-wide expenses by function were as follows:

	<u>2008</u>	<u>2007</u>	<u>2006</u>
General government	\$ 1,930,433	\$ 1,607,079	\$ 1,649,418
Marketing	3,711,245	2,254,529	3,804,999
Advertising	1,400,638	1,462,733	1,822,601
Special events	209,910	611,844	723,070
Depreciation	<u>27,509</u>	<u>38,285</u>	<u>43,070</u>
Total expenditures	<u>\$ 7,279,735</u>	<u>\$ 5,974,470</u>	<u>\$ 8,043,158</u>

Total expenditures for the fiscal year ending September 30, 2008 increased by \$1.3 million against fiscal year 2007. This is due to an increase in marketing and advertising support, extended promotional efforts not only primarily for Japan and Korea but also to include other markets such as China, Philippines, Guam and Russia.

In fiscal year 2008, MVA focused its limited resources to specific target markets not only in Japan, but also in Korea, China, Taiwan, Russia, and the Philippines. The limited budget from CNMI appropriations was supplemented by the strong support MVA receives from its member organizations.

### OVERALL FINANCIAL POSITION

The overall financial position (net assets) decreased by almost \$800,000, almost completely offsetting the increase shown for FY 2007. The in-kind contributions received by MVA were not sufficient to offset the decrease in general revenue to support its activities.

Given the right level of funding, invested wisely to promote and build demand in key markets along with a targeted plan for destination enhancement, MVA believes that the CNMI tourism industry will improve along with the financial position of the MVA.

MVA must take the lead in funding overseas promotions and continue to encourage support from private funds from tourism industry stakeholders.

### FUND ANALYSIS

At the governmental fund level, MVA's fund balance in FY 2008 decreased by nearly \$600,000. In FY 2007 the fund balance increased by \$841,335. Over the past two years, MVA's fund balance has changed by only a small amount. The CNMI government is experiencing declining revenues due to the loss of the garment manufacturing industry, and must therefore reduce expenses wherever possible.

Management's Discussion and Analysis

**CAPITAL ASSETS**

The MVA's investment in capital assets as of September 30, 2008 amounts to \$67,969, net of accumulated depreciation. Depreciation expense for the year was \$27,509.

Capital assets, net of accumulated depreciation are as follows:

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Maintenance equipment	\$ 42,317	\$ 8,745	\$ 6,142
Furniture and fixtures	12,503	23,515	33,575
Vehicles	5,436	10,863	21,579
Leasehold improvements	<u>7,713</u>	<u>11,687</u>	<u>17,004</u>
	<u>\$ 67,969</u>	<u>\$ 54,810</u>	<u>\$ 78,300</u>

**FUTURE PLANS**

The Marianas Visitors Authority will continue to use the "Northern Mariana Islands Strategic Initiative for 2006-2010" as the framework for building the CNMI's tourism industry. With the departure of the garment industry, the tourism industry is the number one industry in the CNMI.

Since the unveiling of the strategic initiatives, MVA has issued two updates which include the following:

- ▶ Revision of the target visitor arrival from fiscal year 2007 to fiscal year 2010 -- This revision was released at the membership meeting in July 2007. The revision was necessary because of the changes in airlines seats supplied from Japan and Korea.

**PROPOSED UPDATED STRATEGIC PLAN OBJECTIVES**

<u>Fiscal Year</u>	<u>Japan</u>	<u>Korea</u>	<u>China</u>	<u>Russia</u>	<u>Other</u>
2007	200,000	90,000	45,000	3,000	55,000
2008	250,000	110,000	90,000	5,000	60,000
2009	300,000	135,000	120,000	7,000	65,000
2010	375,000	150,000	140,000	10,000	75,000
	50%	20%	19%	1%	10%

TOTAL ARRIVALS BY 2010 = 750,000

- ▶ Additional Ad Hoc committee named Hafa Adai TiroWami Spirit Committee -- This committee was developed to assist in achieving the goals and objectives of the Strategic Initiative. A major component of these goals is bringing the CNMI's unique spirit of hospitality, greetings, generosity and warmth to all of our visitors.

## Management's Discussion and Analysis

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Japan and Korea will remain our primary markets to the CNMI tourism industry. However, we have extended our promotional efforts to include other markets such as China, Philippines, Guam, and Russia. Over the past few years, these markets have shown positive growth in arrivals with strong potential to grow in the coming years. We will strive to continue to increase demand from these markets, which will eventually provide the need for direct flight services.

### **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 Activities - Statement of Net Assets

September 30, 2008

(with comparative figures for 2007)

	<u>2008</u>	<u>2007</u>
<b><u>ASSETS</u></b>		
Current assets:		
Cash and cash equivalents	\$ 581,290	400,623
Receivable from CNMI government - appropriations	2,207,519	2,001,848
Other receivable from CNMI government	-	200,000
Other receivables	10,156	17,603
Prepaid expenses	<u>13,194</u>	<u>-</u>
Total current assets	2,812,159	2,620,074
Noncurrent assets:		
Capital assets, net of accumulated depreciation and amortization	<u>67,969</u>	<u>54,810</u>
	<u>2,880,128</u>	<u>2,674,884</u>
<b><u>LIABILITIES</u></b>		
Current liabilities:		
Accounts payable	1,775,247	705,037
Accrued payroll and benefits	226,310	189,661
Deferred revenues	700	100
Other liabilities	<u>2,828</u>	<u>35,297</u>
Total current liabilities	2,005,085	930,095
Noncurrent liabilities:		
Due within one year		
Accrued compensated absences	-	5,949
Due in more than one year		
Accrued compensated absences	<u>164,334</u>	<u>158,385</u>
Total liabilities	<u>2,169,419</u>	<u>1,094,429</u>
<b><u>NET ASSETS</u></b>		
Invested in capital assets	67,969	54,810
Unrestricted	<u>642,740</u>	<u>1,525,645</u>
Total net assets	<u>710,709</u>	<u>1,580,455</u>
	<u>\$ 2,880,128</u>	<u>2,674,884</u>

**MARIANAS VISITORS AUTHORITY**  
(A Component Unit of the CNMI Government)

Statement of Activities

For the Year Ended September 30, 2008  
(with comparative figures for 2007)

		<u>Program Revenue</u>	<u>Net (Expenses) Revenues and Change in Net Assets</u> Governmental Activities		
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Grants and Contributions</u>	<u>2008</u>	<u>2007</u>
Governmental activities:					
General government	\$ 1,930,433	24,100	-	(1,906,333)	(1,584,394)
Marketing	3,711,245	-	341,892	(3,369,353)	(2,183,291)
Advertising	1,400,638	-	156,449	(1,244,189)	(1,344,396)
Special events	209,910	25,584	16,958	(167,368)	(554,696)
Depreciation	<u>27,509</u>	<u>-</u>	<u>-</u>	<u>(27,509)</u>	<u>(38,285)</u>
Total governmental activities	<u>7,279,735</u>	<u>49,684</u>	<u>515,299</u>	<u>(6,714,752)</u>	<u>(5,705,062)</u>
General revenues:					
CNMI appropriations				5,903,140	6,140,324
CNMI supplemental appropriations				-	200,000
Royalty income				36,860	47,293
Other income				104,953	21,807
Interest income				<u>53</u>	<u>103</u>
Total general revenues				<u>6,045,006</u>	<u>6,409,527</u>
Change in net assets				(669,746)	704,465
Net assets, beginning, as previously reported				1,580,455	875,990
Adjustment - uncollectible CNMI appropriations				<u>(200,000)</u>	<u>-</u>
Net assets, beginning, as restated				<u>1,380,455</u>	<u>875,990</u>
Net assets, ending				\$ <u>710,709</u>	<u>1,580,455</u>

**MARIANAS VISITORS AUTHORITY**  
(A Component Unit of the CNMI Government)

Governmental Funds - Balance Sheet

September 30, 2008

(with comparative figures for 2007)

	<u>2008</u>	<u>2007</u>
<b><u>ASSETS</u></b>		
Current assets:		
Cash and cash equivalents	\$ 581,290	400,623
Receivable from CNMI government - appropriations	2,207,519	2,001,848
Other receivable from CNMI government	-	200,000
Other receivables	10,156	17,603
Prepaid expenses	<u>13,194</u>	<u>-</u>
Total current assets	<u>2,812,159</u>	<u>2,620,074</u>
 <b><u>LIABILITIES AND FUND BALANCE</u></b>		
Current liabilities:		
Accounts payable	1,775,247	705,037
Accrued payroll and benefits	226,310	189,661
Deferred revenues	1,830,261	2,112,714
Other liabilities	<u>2,828</u>	<u>35,297</u>
Total current liabilities	3,834,646	3,042,709
 Fund balance (deficit):		
Unrestricted	<u>(1,022,487)</u>	<u>(422,635)</u>
Total fund balance (deficit)	<u>(1,022,487)</u>	<u>(422,635)</u>
	<u>\$ 2,812,159</u>	<u>2,620,074</u>

**MARIANAS VISITORS AUTHORITY**  
(A Component Unit of the CNMI Government)

Governmental Funds - Statement of Revenues, Expenditures, and  
Changes in Fund Balance

For the Year Ended September 30, 2008  
(with comparative figures for 2007)

	<u>2008</u>	<u>2007</u>
Revenues:		
CNMI appropriation and supplemental budget	\$ 5,360,448	6,458,810
CNMI appropriation deferred in prior year	825,745	-
In-kind contributions	515,299	218,842
Charges for services	49,684	50,566
Miscellaneous	<u>141,866</u>	<u>69,203</u>
Total revenues	6,893,042	6,797,421
Expenditures:		
General government	1,967,763	1,611,287
Marketing	3,711,245	2,254,529
Advertising	1,400,639	1,462,733
Special events	209,910	611,844
Capital outlay-current expenditures	<u>3,337</u>	<u>15,693</u>
Total expenditures	<u>7,292,894</u>	<u>5,956,086</u>
Excess (deficiency) of revenues over expenditures	(399,852)	841,335
Fund balance (deficit), beginning of year, as originally reported	(422,635)	(1,263,970)
Adjustment - uncollectible CNMI appropriation	<u>(200,000)</u>	<u>-</u>
Fund balance (deficit), beginning of year, as restated	<u>(622,635)</u>	<u>(1,263,970)</u>
Fund deficit, end of year	\$ <u>(1,022,487)</u>	<u>(422,635)</u>



**MARIANAS VISITORS AUTHORITY**  
(A Component Unit of the CNMI Government)

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

For the Year Ended September 30, 2008  
(with comparative figures for 2007)

	<u>2008</u>	<u>2007</u>
Unreserved fund balance (deficit)	\$ (1,022,487)	(422,635)
<p>Amounts reported for governmental activities in the Balance Sheet differ from the amounts reported in the Statements of Net Assets because:</p>		
<p>Long-term liabilities that are not due and payable in the current period and therefore are not reported as liabilities in the funds.</p>		
Accrued compensated absences	(164,334)	(164,334)
Deferred revenues for receivables from CNMI that are not available within 60 days after the year-end.	1,829,561	2,112,614
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.	<u>67,969</u>	<u>54,810</u>
Total net assets - governmental activities	\$ <u>710,709</u>	<u>1,580,455</u>

**MARIANAS VISITORS AUTHORITY**  
(A Component Unit of the CNMI Government)

Reconciliation of Governmental Funds Statement of Revenues, Expenditures  
and Changes in Fund Balance with the Agency-Wide Statement of Activities

For the Year Ended September 30, 2008  
(with comparative figures for 2007)

	<u>2008</u>	<u>2007</u>
Net change in fund balance - governmental funds	\$ (399,852)	841,335
<p>Amounts reported for governmental activities in the Statement of Revenues, Expenditures and Changes in Fund Balance differ from amounts reported in the Statement of Activities because:</p>		
<p>Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures.</p>		
Compensated absences, net	-	5,106
<p>Some revenues reported in the statement of activities are not available for current financial obligations and therefore not reported as income, net.</p>		
2006 CNMI Appropriations		6,340,324
Collections for 2006 appropriations		(5,743,830)
Collections for 2006 appropriations 30 days after year-end.	-	<u>(714,980)</u>
Deferred revenues for receivables from CNMI that are not available within 60 days after the year-end.	542,692	
Collections for 2007 appropriations that were deferred in prior year	<u>(825,745)</u>	(283,053)
<p>Governmental funds report capital outlays as expenditures; however, in the Statement of Activities, the costs of those assets is allocated over the estimated useful lives as depreciation expense. This is the amount by which the capital outlays exceeded depreciation in the current period.</p>		
	<u>13,159</u>	<u>(23,490)</u>
Changes in net assets of governmental activities	\$ <u>(669,746)</u>	<u>704,465</u>

**MARIANAS VISITORS AUTHORITY**  
(A Component Unit of the CNMI Government)

Notes to Financial Statements  
September 30, 2008  
(with comparative figures for 2007)

(1) Summary of Significant Accounting Policies

The financial statements of the Marianas Visitors Authority (MVA) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Boards (GASB) is the primary source of governmental accounting and financial reporting principles. Some of the MVA's more significant accounting policies are summarized below, along with some of the practices that are unique to governments.

A. Reporting Entity

On June 17, 1998, Public Law No. 11-15 was enacted and this law deleted in its entirety Section 302(b) of Executive Order 94-3 and abolished the Marianas Visitors Bureau (MVB) to establish the MVA, a non-stock/nonprofit public corporation organized for the purpose of promoting the visitors industry in the Commonwealth of the Northern Mariana Islands (CNMI).

Pursuant to Public Law 11-15, all corporate powers are held and exercised by or under authority of the Board of Directors, subject to the limitations of the Organization's by-laws and the laws of the Northern Mariana Islands. The Board is composed of nine members, of which five members are appointed by the Governor with the advice and consent of the Senate and four members chosen 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 alcoholic beverage container taxes collected by the CNMI Government.

B. Agency-wide and Fund Financial Statements

Agency-wide financial statements display information about the reporting government as a whole.

The purpose of the Statement of Activities is to allow financial statement users to determine operating results of the MVA in its entirety over a period of time. It demonstrates the degree to which direct expenses are offset by program revenues.

Direct expenses are those that are clearly identifiable with a specific function. Program revenues include charges to customers who purchase or use goods and services provided by a given function. The MVA's program revenues include, but are not limited to, charges to customers from sales during events, fees collected from participants of special events and contributions in cash and in-kind from the private sector.

MARIANAS VISITORS AUTHORITY  
(A Component Unit of the CNMI Government)

Notes to Financial Statements, Continued  
September 30, 2008  
(with comparative figures for 2007)

(1) Summary of Significant Accounting Policies, Continued

B. Agency-Wide and Fund Financial Statements, Continued

In-kind contributions restricted for special events or advertising and marketing activities are classified as revenues and expenses of these activities.

Appropriations from the CNMI and other items not included among program revenues are reported instead as general revenues.

Governmental fund financial statements are separate financial statements for government funds.

MVA maintains only one fund, the general fund.

Governmental fund financial statements are organized and operated on the basis of funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds is maintained consistent with legal and managerial requirements.

Governmental fund types are used to account for the general governmental activities. The operating fund of the MVA is the general fund. MVA has no capital projects or debt service funds.

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the organization's financial statements for the year ended September 30, 2007, from which the summarized information was derived.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

Measurement focus is a term used to describe which transactions are recorded within the various financial statements. Basis of accounting refers to when transactions are recorded regardless of measurement focus.

Agency-wide financial statements are presented on a full accrual basis of accounting with an economic resources measurement focus. An economic resource focus concentrates on a fund's net assets. All transactions and events that affect the total economic resources (net assets) during the period are reported. Under the full accrual basis of accounting, revenues are recorded when earned and expenses are recorded at the time the liabilities are incurred, regardless of the timing of related cash flows.

MARIANAS VISITORS AUTHORITY  
(A Component Unit of the CNMI Government)

Notes to Financial Statements, Continued  
September 30, 2008  
(with comparative figures for 2007)

(1) Summary of Significant Accounting Policies, Continued

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation, Continued

Governmental fund financial statements are presented using a modified accrual basis and the current financial resources measurement focus. Earned revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures are generally recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures and other expenditures having a due date are recorded only when payment is due.

Since the fund financial statements are presented on a different measurement focus and basis of accounting than the agency-wide statements' governmental column, reconciliation is necessary to explain the adjustments needed to transform the fund-based financial statements into the agency-wide presentation. This reconciliation is part of the financial statements.

The financial transactions of the MVA are recorded in the general fund. The operations of this fund are accounted for with self-balancing accounts comprised of assets, liabilities, fund equity, revenues and expenditures.

The GASB 34 model sets forth minimum criteria (percentage of the assets, liabilities, revenues or expenditures of either fund category or the government combined) for the determination of major funds for financial reporting purposes. GASB 34 also gives government the discretion to include as major funds those having particular importance.

D. Assets, Liabilities and Equity

1. Receivables and Payables

For agency-wide financial statements, receivables and related revenues are recognized as soon as they are earned, whereas for governmental fund financial statement purposes, receivables and related revenues are recognized only when they are both measurable and available. Appropriations from the CNMI Government, the MVA's major revenue source, are considered measurable and available when they can be collected within 60 days after year-end.

Receivables are reported at gross value and, if appropriate, are reduced by any significant amounts expected to be uncollectible.

MARIANAS VISITORS AUTHORITY  
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Notes to Financial Statements, Continued  
September 30, 2008  
(with comparative figures for 2007)

(1) Summary of Significant Accounting Policies, Continued

D. Assets, Liabilities and Equity, Continued

2. Prepaid expenses

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenses.

3. Capital Assets

Capital assets, which include property and equipment, are accounted for in the agency-wide section of the financial statements. All capital assets are valued at historical cost. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets. Donated assets are valued at their fair value on the date of gift.

Capital assets purchased or acquired with original cost of \$500 or more are reported at historical cost or estimated historical cost. Contributed assets are reported at fair market value as of the date received. Additions, improvements and other capital outlays that significantly extend the useful life of assets are capitalized. The cost of normal repairs and maintenance 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 the Statement of Net Assets.

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

<u>Asset Description</u>	<u>Years</u>
Maintenance equipment	2-10
Furniture and fixtures	3-10
Vehicles	3-5
Building and leasehold improvements	10-20

4. Compensated Absences

Compensated absences represent the accumulated liability to be paid under MVA's current annual leave policy.

MARIANAS VISITORS AUTHORITY  
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Notes to Financial Statements, Continued  
September 30, 2008  
(with comparative figures for 2007)

(1) Summary of Significant Accounting Policies, Continued

4. Compensated Absences, Continued

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 non-vesting 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. At September 30, 2008, accrued annual leave was \$164,334.

E. Use of Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenditures or expenses during the reporting period. Actual results could differ from those estimates.

F. GASB 40 Implementation

MVA implemented, as of September 30, 2005, GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, an amendment of GASB Statement No. 3. GASB 40 modifies previous custodial credit risk disclosure requirements and establishes more comprehensive risk disclosure requirements relating to other common risks of investments, such as credit risk, concentration of credit risk, interest rate risk and foreign currency risk. As of September 30, 2008, MVA is not exposed to any risks required to be disclosed under GASB 40 as all its deposits are under MVA's name and are fully covered by FDIC insured limits (Note 4).

G. New Pronouncements

MVA adopted GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, which establishes accounting and financial reporting standards for impairment of capital assets. There is no financial impact to MVA for the fiscal year ended September 30, 2008 as a result of the implementation of this statement.

MARIANAS VISITORS AUTHORITY  
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Notes to Financial Statements, Continued  
September 30, 2008  
(with comparative figures for 2007)

(1) Summary of Significant Accounting Policies, Continued

G. New Pronouncements, Continued

GASB Statement No. 43 – In April 2004, the GASB issued Statement No. 43, “*Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*”. This statement establishes accounting and financial reporting standards for plans that provide postemployment benefits other than pension benefits (known as other postemployment benefits or OPEB). This statement did not have an impact on the financial statements of the MVA.

GASB Statement No. 45 – In June 2004, the GASB issued Statement No. 45, “*Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*”. This Statement establishes standards for the measurement, recognition, and display of OPEB expense/expenditures and related liabilities (assets), note disclosures, and if applicable, required supplementary information (RSI) in the financial reports of state and local governmental employers. This Statement is effective June 30, 2008. There is no financial impact to MVA for the fiscal year ended September 30, 2008 as a result of the implementation of this statement.

GASB Statement No. 47 – In June 2005, the GASB issued Statement No. 47, “*Accounting for Termination Benefits*”. This Statement establishes accounting guidance and disclosure requirements for termination benefits. This statement is effective in two parts. For termination benefits provided through an existing defined Other Postemployment Benefit Plan (OPEB), the provisions should be implemented simultaneously with GASB Statement No. 45. For all other termination benefits, this statement is effective for periods beginning after June 15, 2005. There is no financial impact to MVA for the fiscal year ended September 30, 2008 as a result of the implementation of this statement.

GASB Statement No. 48 – In September 2006, the GASB issued Statement No. 48, “*Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*”. This statement addresses accounting and financial reporting standards for transactions where governments exchange an interest in their expected cash flows from collecting specific receivables or specific future revenues for immediate cash payments. This statement establishes criteria and reporting standards regarding the exchange as either a sale or collateralized borrowing, resulting in a liability. There is no financial impact to MVA for the fiscal year ended September 30, 2008 as a result of the implementation of this statement.



MARIANAS VISITORS AUTHORITY  
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Notes to Financial Statements, Continued  
September 30, 2008  
(with comparative figures for 2007)

(1) Summary of Significant Accounting Policies, Continued

G. New Pronouncements, Continued

GASB Statement No. 49 – In November 2006, the GASB issued Statement No. 49, *“Accounting and Financial Reporting for Pollution Remediation Obligations”*. This statement addresses accounting and financial reporting standards for pollution (including contamination) remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups. This statement is not effective until June 30, 2009. There is no financial impact to MVA for the fiscal year ended September 30, 2008 as a result of the implementation of this statement.

GASB Statement No. 50 – In May 2007, the GASB issued Statement No. 50 *“Pension Disclosures – an amendment for GASB Statement No. 25 and No. 27”*. This statement more closely aligns the financial reporting requirements for pensions with those for other postemployment benefits (OPEB) and, in doing so, enhances information disclosed in notes to financial statements or presented as required supplementary information (RSI) by pension plans and by employers that provide pension benefits. This statement is effective June 30, 2008. There is no financial impact to MVA for the fiscal year ended September 30, 2008 as a result of the implementation of this statement.

GASB Statement No. 51 – In June 2007, the GASB issued Statement No. 51, *“Accounting and Financial Reporting for Intangible Assets”*. This statement establishes accounting and financial reporting standards for many different types of assets that may be considered intangible assets, including easements, water rights, timber rights, patents, trademarks, and computer software. This statement is not effective until June 30, 2010. The MVA has not determined its effect on the financial statements.

GASB Statement No. 52 – In November 2007, the GASB issued Statement No. 52, *“Land and Other Real Estate Held as Investments by Endowments.”* This statement establishes consistent standards for the reporting of land and other real estate held as investments by essentially similar entities. It requires endowments to report their land and other real estate investments at fair value. Governments are also required to report the changes in fair value as investment income and to disclose the methods and significant assumptions employed to determine fair value, and other information that they currently present for other investments reported at fair value. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2008. The MVA does not believe the implementation of this Statement will have a material effect on its financial statements.

MARIANAS VISITORS AUTHORITY  
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Notes to Financial Statements, Continued  
September 30, 2008  
(with comparative figures for 2007)

(1) Summary of Significant Accounting Policies, Continued

GASB Statement No. 53 – In June 2008, the GASB issued Statement No. 53, “*Accounting and Financial Reporting for Derivative Instruments*.” This statement addresses the recognition, measurement and disclosure of information regarding derivative instruments entered into by state and local governments. Derivative instruments are often complex financial arrangements used by governments to manage specific risk or to make investments. By entering into these arrangements, governments receive and make payments based on market prices without actually entering into the related financial or commodity transaction. Derivative instruments, however, also can expose governments to significant risk and liabilities. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2009. The MVA does not believe the implementation of this Statement will have a material effect on its financial statements.

(2) Reconciliation Of Agency-Wide And Fund Financial Statements

- A. Explanation of certain differences between the governmental fund balance sheet and the agency-wide statement of net assets.

The governmental fund balance sheet includes a reconciliation between fund balance – total governmental funds and net assets – governmental activities as reported in the agency-wide statements of net assets. The net adjustments for 2008 and 2007 consist of the following:

<u>Description</u>	<u>2008</u>	<u>2007</u>
Capital assets used in governmental activities are not financial resources and are therefore not reported in the fund (total capital assets on agency-wide statement in governmental activities column):	\$ 550,459	538,646
Less accumulated depreciation	<u>(482,490)</u>	<u>(483,836)</u>
Net capital assets	\$ 67,969	54,810
Liabilities that, because they are not due and payable in the current period, do not require current resources to pay and are therefore not recorded in the fund statements:		
Annual leave liability	(164,334)	(164,334)
Receivable from CNMI that is not available within 60 days after year end	<u>1,829,561</u>	<u>2,112,614</u>
Net adjustment	<u>\$ 1,733,196</u>	<u>2,003,090</u>

MARIANAS VISITORS AUTHORITY  
(A Component Unit of the CNMI Government)

Notes to Financial Statements, Continued  
September 30, 2008  
(with comparative figures for 2007)

(2) Reconciliation Of Agency-Wide And Fund Financial Statements, Continued

- B. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balance and the agency-wide statement of activities.

The governmental fund statement of revenues, expenditures and changes in fund balance includes a reconciliation between net changes in fund balance - total governmental funds and changes in net assets of governmental activities as reported in the agency-wide statement of activities. The adjustments are as follows.

<u>Description</u>	<u>2008</u>	<u>2007</u>
Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures. Compensated absences – net	\$ -	5,106
Some revenues reported in the Statement of Activities are not available for current financial obligations and therefore not reported as income. CNMI appropriation	283,053	118,486
Capital outlays reported in the fund statements	40,668	14,795
Depreciation expense, the allocation of capital outlays over useful lives of the assets, that is recorded on the Statement of Activities but not in the fund statements.	(27,509)	(38,285)
Net adjustments	\$ <u>296,212</u>	<u>100,102</u>

MARIANAS VISITORS AUTHORITY  
(A Component Unit of the CNMI Government)

Notes to Financial Statements, Continued  
September 30, 2008  
(with comparative figures for 2007)

(3) Budgetary Information

Accounting principles used in developing data on a budgetary basis differ from those used in preparing financial statements in conformity with accounting principles generally accepted in the United States of America. Amounts included in the Statement of Revenues, Expenditures and Changes Fund Balance – Budget and Actual – General Fund (which are presented on a non-GAAP budgetary basis) reconcile to the unreserved fund balance on the accompanying Balance Sheet and Statement of Net Assets.

MVA has no authority to impose taxes to generate revenue. MVA is an autonomous agency and a component unit of the CNMI government, and it receives annual appropriations from the government. The CNMI legislative budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. An annual appropriated budget is adopted by the Legislature for MVA through an Annual Appropriations Act.

(4) Cash and Cash Equivalents

As of September 30, 2008 and 2007 cash and cash equivalents consist of the following:

	<u>2008</u>	<u>2007</u>
Petty cash	\$ 2,003	1,131
Cash on deposits	<u>579,287</u>	<u>399,492</u>
	<u>\$ 581,290</u>	<u>400,623</u>

At September 30, 2008 and 2007, the carrying amount of MVA's total cash and cash equivalents (excluding petty cash) was \$579,287 and \$399,492, respectively. The corresponding bank balances as of September 30, 2008 and 2007 were \$585,285 and 454,118, respectively, with \$166,000 subject to coverage by federal insurance and the remaining balance exceeding insurance limits.

The CNMI does not require collateralization of FDIC insured bank accounts, and, therefore, amounts in excess of insurable limits are uncollateralized. The MVA has not experienced any losses on such accounts.

MARIANAS VISITORS AUTHORITY  
(A Component Unit of the CNMI Government)

Notes to Financial Statements, Continued  
September 30, 2008  
(with comparative figures for 2007)

(5) Due from the CNMI Government

The CNMI Government appropriated a total of \$5,903,140 and \$6,340,324, for MVA's operational use for the years 2008 and 2007, respectively, under the continuing appropriation act (Public Law 11-41).

The following is a summary of the changes in the due from CNMI government account group for the fiscal years September 30, 2008 and 2007:

	<u>2008</u>	<u>2007</u>
Due from CNMI government, beginning	\$ 2,201,848	2,360,818
CNMI appropriation	5,903,140	6,140,324
Supplemental CNMI appropriations	<u>-</u>	<u>200,000</u>
Subtotal	8,104,988	8,701,142
Collections:		
For prior year's appropriation	(904,979)	(755,464)
For current year's appropriation	<u>(4,992,490)</u>	<u>(5,743,830)</u>
Due from CNMI government, end	<u>2,207,519</u>	<u>2,201,848</u>
Due from CNMI government for:		
Regular appropriation	2,207,519	2,001,848
Supplemental appropriation	<u>-</u>	<u>200,000</u>
	<u>\$ 2,207,519</u>	<u>2,201,848</u>

(6) Changes in Capital Assets

The following is a summary of changes in capital assets for the fiscal year ended September 30, 2008 (with comparative figures for fiscal year 2007):

	<u>September 30, 2008</u>			
	Balance October 1, <u>2007</u>	Additions <u>Transfers</u>	Deletions <u>Retirements</u>	Balance September 30, <u>2008</u>
Vehicle and equipment	\$ 136,006	-	-	136,006
Office furniture, fixtures and equipment	208,005	2,568	(20,531)	190,042
Leasehold improvements	152,513	-	-	152,513
Maintenance equipment	<u>42,119</u>	<u>38,100</u>	<u>( 8,323)</u>	<u>71,896</u>
	<u>538,643</u>	<u>40,668</u>	<u>(28,854)</u>	<u>550,457</u>

MARIANAS VISITORS AUTHORITY  
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Notes to Financial Statements, Continued  
September 30, 2008  
(with comparative figures for 2007)

(6) Changes in Capital Assets, Continued

Less accumulated depreciation  
and amortization:

Vehicle and equipment	125,143	5,429	-	130,572
Office furniture, fixtures and equipment	184,490	13,215	(20,167)	177,538
Leasehold improvements	140,826	3,973	-	144,799
Maintenance equipment	<u>33,374</u>	<u>4,525</u>	<u>(8,320)</u>	<u>29,579</u>
	<u>483,833</u>	<u>27,142</u>	<u>(28,487)</u>	<u>482,488</u>
Governmental activities capital assets, net	\$ <u>54,810</u>	<u>13,526</u>	<u>(367)</u>	<u>67,969</u>

September 30, 2007

	Balance October 1, <u>2006</u>	Additions <u>Transfers</u>	Deletions <u>Retirements</u>	Balance September 30, <u>2007</u>
Vehicle and equipment	\$ 166,452	-	(30,446)	136,006
Office furniture, fixtures and equipment	205,021	7,345	(4,361)	208,005
Leasehold improvements	152,513	-	-	152,513
Maintenance equipment	<u>56,980</u>	<u>8,348</u>	<u>(23,209)</u>	<u>42,119</u>
	<u>580,966</u>	<u>15,693</u>	<u>(58,016)</u>	<u>538,643</u>
Less accumulated depreciation and amortization:				
Vehicle and equipment	144,873	10,713	(30,443)	125,143
Office furniture, fixtures equipment	171,445	17,405	(4,360)	184,490
Leasehold improvements	135,509	5,317	-	140,826
Maintenance equipment	<u>50,839</u>	<u>4,848</u>	<u>(22,313)</u>	<u>33,374</u>
	<u>502,666</u>	<u>38,283</u>	<u>(57,116)</u>	<u>483,833</u>
Governmental activities capital assets, net	\$ <u>78,300</u>	<u>(22,590)</u>	<u>(900)</u>	<u>54,810</u>

Most capital assets are not directly identifiable to specific governmental activities, thus depreciation expense is presented as unallocated in the Statement of Activities.

MARIANAS VISITORS AUTHORITY  
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Notes to Financial Statements, Continued  
September 30, 2008  
(with comparative figures for 2007)

(7) Risk Management

The MVA is exposed to various risks of loss related to thefts of, damage to, and destruction of assets; injuries to employees and third parties; and natural disaster. These risks are covered by commercial insurance purchased from independent third parties.

(8) Commitments and Contingencies

MVA entered into a non-cancelable lease agreement covering their office in Saipan with an initial term of five years expiring on April 16, 2013 with an option to renew for an additional five years with the same terms. The lease agreement calls for payment of \$4,700 per month.

Future minimum lease payments are as follows:

Years ending September 30:	
2009	\$ 56,400
2010	56,400
2011	56,400
2012	56,400
2013	<u>32,900</u>
	\$ <u>258,500</u>

(9) 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 over the term of credited service. Generally, benefits vest after three years of credited service. Early retirement is available after 10 years of vesting service if the member is at least 52 years of age. 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.

As a result of the Fund's actuarial valuation report (as of October 1, 2003), it has been determined that for the year beginning September 30, 2006, the funding requirement for employers is 36.7727% of covered payroll, and funding requirements for employees are 6.5% and 9.0% of covered payroll for Class I and Class II members, respectively.

MARIANAS VISITORS AUTHORITY  
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Notes to Financial Statements, Continued  
September 30, 2008  
(with comparative figures for 2007)

(9) Retirement Plan, Continued

The funding requirement is calculated as that percentage of total payroll, which is necessary to accumulate sufficient assets to pay benefits when due. The Fund uses the level percentage of payroll method to amortize the unfunded liability over a period not to exceed 40 years from October 1980. Significant actuarial assumptions used to compute contribution requirements are the same as those used to compute the pension benefit obligation.

The Fund utilizes 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) retirement age of the earlier of age 62 and 3 years of vesting service (not including 5 additional years granted after 20 years of service) for Class I or age 60 and 25 years of service for Class II members (including 5 additional years granted after 20 years of service).

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

<u>Fiscal Year Ended</u>	<u>Required Contribution</u>	<u>Percentage of Required Contribution Paid</u>
09/30/08	\$ 334,500	65%
09/30/07	354,900	65%
09/30/06	413,000	65%

(10) Medical and Life Insurance Benefits

In addition to providing pension benefits, the CNMI Government also ensures that employees are provided with medical and life insurance benefits. The CNMI Government created the Group Health and Life Insurance Trust Fund ("Trust Fund"), held in trust and administered by the Northern Mariana Islands Retirement Fund (NMIRF). MVA contributes to the Group Health and Life Insurance program. This is open to active employees who work at least 20 hours per week and retired CNMI government employees who retire as a result of length of service, disability or age, as well as their dependents. Further, these eligible persons must have elected to enroll during the period permitted in the Emergency Regulations adopted on September 6, 1996. Life insurance coverage is to be provided by a private carrier. Contributions from employees and employers are based on rates as determined by NMIRF Board of Trustees. Employee deductions are made through payroll or pension or benefit withholdings.



MARIANAS VISITORS AUTHORITY  
(A Component Unit of the CNMI Government)

Notes to Financial Statements, Continued  
September 30, 2008  
(with comparative figures for 2007)

(11) Reclassification of Accounts

Certain reclassifications have been made to the prior year's financial statements to conform to the current year presentation. These reclassifications had no effect on previously reported net assets in the agency-wide financial statements.

**MARIANAS VISITORS AUTHORITY**  
(A Component Unit of the CNMI Government)

Budgetary Comparison Schedule

For the Year Ended September 30, 2008

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with
	<u>Original</u>	<u>Final</u>		Final Budget Positive (Negative)
<b>Revenues:</b>				
CNMI appropriation	\$ 7,786,848	6,046,317	5,360,448	(685,869)
CNMI appropriation, collected from prior year	-	-	825,745	825,745
In-kind contributions	-	-	515,299	515,299
Other income	-	-	92,526	92,526
Royalty income	-	-	41,303	41,303
Membership dues	-	-	24,100	24,100
Concession vendor fees	-	-	24,135	24,135
Memorial trust income	-	-	9,433	9,433
Interest income	-	-	53	53
	<u>7,786,848</u>	<u>6,046,317</u>	<u>6,893,042</u>	<u>846,725</u>
<b>Expenditures:</b>				
Promotion and advertising	5,359,500	4,084,947	4,806,495	(721,548)
Personnel service	1,696,545	1,366,590	1,417,928	(51,338)
In-kind contribution of promotion and advertising	-	-	515,299	(515,299)
Tourist site maintenance supplies	102,100	97,100	94,901	2,199
Rentals	74,800	74,800	72,211	2,589
Repairs and maintenance	60,000	60,000	66,734	(6,734)
Professional fees	122,523	60,500	63,303	(2,803)
Utilities	41,000	41,000	46,060	(5,060)
Travel	78,000	38,000	39,251	(1,251)
Maintenance supplies	29,000	29,000	26,717	2,283
Communications	29,960	29,960	26,447	3,513
Dues and subscriptions	27,570	27,570	24,503	3,067
Printing and publications	35,000	35,000	23,375	11,625
Fuel and lubrication	26,400	26,400	21,748	4,652
Office supplies	20,000	18,800	16,942	1,858
Office equipment rentals, repairs	9,650	9,650	8,294	1,356
Postage and freight	9,500	9,500	7,573	1,927
Insurance	20,000	20,000	7,021	12,979
Computer systems and equipment	10,000	8,500	3,337	5,163
Equipment rental	6,000	6,000	2,564	3,436
Staff development training	6,000	3,000	2,191	809
Vehicles - public service and administrative	23,300	-	-	-
	<u>7,786,848</u>	<u>6,046,317</u>	<u>7,292,894</u>	<u>(1,246,577)</u>
Excess (deficiency) of revenues over expenditures	-	-	(399,852)	(399,852)
Fund balance (deficit), beginning of year, as originally reported	(422,635)	(422,635)	(422,635)	-
Adjustment - uncollectible CNMI appropriation	-	-	(200,000)	(200,000)
Fund balance, beginning of year, as restated	<u>(422,635)</u>	<u>(422,635)</u>	<u>(622,635)</u>	<u>(200,000)</u>
Unreserved fund balance (deficit), end of year	\$ <u>(422,635)</u>	<u>(422,635)</u>	<u>(1,022,487)</u>	<u>(599,852)</u>

**MARIANAS VISITORS AUTHORITY**  
(A Component Unit of the CNMI Government)

Supplemental Schedule

Schedule of Functional Expenditures - Statement of Activities  
For the Year Ended September 30, 2008  
(With comparative totals for the year ended September 30, 2007)

	General \$ Government	Marketing	Advertising	Special Events	Depreciation	Total 2008	Total 2007
Advertising and marketing	-	3,118,810	1,244,189	32,044	-	4,395,043	3,731,098
Personnel service and related expenses	1,346,635	250,543	-	160,908	-	1,758,086	1,409,075
In-kind contributions	-	341,892	156,449	16,958	-	515,299	218,842
Repairs and maintenance	188,352	-	-	-	-	188,352	145,475
Rentals	72,211	-	-	-	-	72,211	100,497
Professional fees	63,303	-	-	-	-	63,303	51,300
Utilities	46,060	-	-	-	-	46,060	25,822
Travel	39,251	-	-	-	-	39,251	63,524
Penalty and interest	31,397	-	-	-	-	31,397	34,684
Communications	26,447	-	-	-	-	26,447	27,861
Depreciation	-	-	-	-	27,509	27,509	38,285
Dues and subscriptions	24,503	-	-	-	-	24,503	26,814
Printing and copying	23,375	-	-	-	-	23,375	34,251
Fuel and lubrication	21,748	-	-	-	-	21,748	17,676
Office supplies	16,942	-	-	-	-	16,942	9,575
Office equipment rental	10,858	-	-	-	-	10,858	8,096
Postage and freight	7,573	-	-	-	-	7,573	6,421
Insurance	7,021	-	-	-	-	7,021	19,101
Personnel training cost	2,191	-	-	-	-	2,191	1,075
Bad debts	-	-	-	-	-	-	2,708
Bank charges	2,566	-	-	-	-	2,566	2,138
<b>Total expenditures</b>	<b>\$ 1,930,433</b>	<b>3,711,245</b>	<b>1,400,638</b>	<b>209,910</b>	<b>27,509</b>	<b>7,279,735</b>	<b>5,974,470</b>

**MARIANAS VISITORS AUTHORITY**  
**(A Component Unit of the CNMI Government)**

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**INDEPENDENT AUDITORS' REPORTS ON**  
**INTERNAL CONTROL AND ON COMPLIANCE**

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**YEAR ENDED SEPTEMBER 30, 2008**

**BURGER & COMER, P.C.**  
**CERTIFIED PUBLIC ACCOUNTANTS**

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

The Board of Directors  
Marianas Visitors Authority

We have audited the financial statements of the Marianas Visitors Authority (MVA), a component unit of the Commonwealth of the Northern Mariana Islands government, as of and for the year ended September 30, 2008 and have issued our report thereon dated January 20, 2009. 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.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered Marianas Visitors Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Marianas Visitors Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Marianas Visitors Authority's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Marianas Visitors Authority's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Marianas Visitors Authority's financial statements that is more than inconsequential will not be prevented or detected by the Marianas Visitors Authority's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Marianas Visitors Authority's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

### Compliance and Other Matters

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 grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of Marianas Visitors Authority in a separate letter dated January 20, 2009.

This report is intended solely for the information and use of management, The Board of Directors, the Office of the Public Auditor and the cognizant audit agency and is not intended to be and should not be used by anyone other than these specified parties. However, this report is also a matter of public record.

*Bryce & Conner, P.C.*

Commonwealth of the Northern Mariana Islands  
January 20, 2009

**MARIANAS VISITORS AUTHORITY**  
(A Component Unit of the CNMI Government)

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2008

**A. SUMMARY OF AUDITORS' RESULTS**

1. The Independent Auditors' Report on the financial statements of the Fund expressed an unqualified opinion.
2. No reportable conditions in internal control over financial reporting were identified for 2008.
3. No instance of noncompliance considered material to the financial statements was disclosed by the audit.

**B. FINDINGS RELATING TO THE FINANCIAL STATEMENTS, WHICH ARE REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS**

**Current Year Finding:**

None reported

**Prior Year Findings:**

**Property Management**

**Finding No. 2007-1 – Property Management**

This finding related to noncompliance with CNMI government property management policies. In accordance with the property management policies and procedures Section III, personal control policy, "all capitalized property, selected non-capitalized property, and designated non-capitalized property shall be identified by a property control number, which shall be permanently affixed to each individual piece of such property in a manner that is readily observable and shall be entered into the Master Inventory Control Record by the Property Management Branch.

**Auditee Response and Corrective Action Plan:**

**Name of Contact Person:** Perry J. Tenorio, Executive Director

**Corrective Action:** At the beginning of fiscal year 2008, Marianas Visitors Authority maintained the property control numbering system by affixing identifying tags with numbers as assigned in the subsidiary ledger. MVA is maintaining this to comply with the property management policies and procedures of the CNMI government.

**Auditor Comment:** Accordingly, this finding is considered resolved.

## MARIANAS VISITORS AUTHORITY

### Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2008

#### Travel Advances

##### Finding No. 2007-2 – Travel Advances

This finding is related to unliquidated travel advances totaling \$5,239 due from the Chairman of the Tourism Committee of the 15<sup>th</sup> Northern Marianas Commonwealth Legislature for travel which was completed on September 25, 2006. Travel advances are recorded as receivables and will only be recorded as expenses upon liquidation by the traveler. Untimely liquidation results in untimely recording of expenses. Prior recommendation was that MVA should improve collection efforts and ensure that the travel policies are complied with.

##### Auditee Response and Corrective Action Plan:

**Name of Contact Person:** Perry J. Tenorio, Executive Director

**Corrective Action:** On August 30, 2008, Marianas Visitors Authority brought the uncollected travel advances to legal counsel for collection. As of September 30, 2008, MVA is waiting for the court's decision about the bankruptcy petition filed by the traveler. As per MVA's legal counsel, once MVA receives notification from the bankruptcy court, MVA can do nothing further to collect.

**Auditor Comment:** Accordingly, this finding is considered resolved.

#### Operating Lease Agreement

##### Finding No. 2007-3 – Operating Lease Agreement

This finding is related to MVA's operating lease agreement for its office space that expired in July 2007. MVA is paying rent on a monthly basis without a contract in place. The payment for this operating lease was through purchase order rather than a contract. Prior recommendation was the MVA should obtain a contract for its operating lease in accordance with the procurement regulations of the CNMI.

##### Auditee Response and Corrective Action Plan:

**Name of Contact Person:** Perry J. Tenorio, Executive Director

**Corrective Action:** On April 16, 2008, Marianas Visitors Authority obtained a contract for its operating lease pursuant to section 2-104 of the CNMI Procurement Regulations. The lease is for a five (5) year term with an option to renew for an additional five (5) years on the same terms and conditions.

**Auditor Comment:** Accordingly, this finding is considered resolved.