

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

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**FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION**

**YEARS ENDED SEPTEMBER 30, 2010 AND 2009**

**WITH INDEPENDENT AUDITORS' REPORT THEREON**

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

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
of Marianas Visitors Authority

We have audited the accompanying financial statements of the governmental activities, the governmental funds of the Marianas Visitors Authority (MVA), a component unit of the Commonwealth of the Northern Mariana Islands government, as of September 30, 2010 and 2009, and for the years 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 audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 audits provide a reasonable basis for our opinions.

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 2010 and 2009, and the respective changes in financial position thereof, and the respective budgetary comparison for the general fund for the years 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 May 30, 2011, 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 is important for assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis (MD&A) and budgetary comparison information on pages 3 through 9 and 35 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in a appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements.

We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the MVA's financial statements as a whole. The introductory section, combining and individual nonmajor fund financial statements, and statistical section are presented for purposes of additional analysis and are not a required part of the financial statements. The combining and individual nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

*Burg & Conn, P.C.*

Commonwealth of the Northern Mariana Islands  
May 30, 2011



**MARIANAS  
VISITORS AUTHORITY**

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## 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, 2010. 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 2010 is \$6,677,609. The budgeted appropriation was reduced by \$484,127 per Public Law 16-2 Reduction. The net appropriations for FY 2010 will amount to \$6,193,482 further reduced by a 1% allocation for the Office of the Public Auditor (OPA) in the amount of \$61,935.
- ▶ MVA's total assets exceeded liabilities at the end of FY 2010 by \$279,261 compared to \$185,959 and \$710,709 at the end of FY 2009 and 2008, respectively. Unrestricted net assets for the fiscal years 2010, 2009 and 2008 were \$223,597, \$138,959 and \$642,740 respectively.
- ▶ MVA experienced an increase in net assets in fiscal year 2010. This is due primarily to a baseline budget adopted by the MVA Board of Directors on marketing programs.
- ▶ MVA received \$281,659 of in-kind contributions in 2010. In-kind contributions decreased by approximately 22% or \$77,201 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.

### **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 entity'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 increased by \$93,302 from the previous year. The increase was the result of baseline budget for marketing and promotional expenditures.

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

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Net assets, beginning	\$ <u>185,959</u>	\$ <u>710,709</u>	\$ <u>1,580,455</u>
Revenues	6,421,772	7,078,947	6,609,989
Expenditures	<u>6,328,470</u>	<u>7,603,697</u>	<u>7,279,735</u>
Increase (decrease) in net assets	93,302	(524,750)	(669,746)
Restatement, reduction for uncollectible receivable	<u>-</u>	<u>-</u>	<u>(200,000)</u>
Net assets, ending	\$ <u>279,261</u>	\$ <u>185,959</u>	\$ <u>710,709</u>

**SUMMARY OF STATEMENT OF NET ASSETS**

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Current assets	\$ 2,810,278	\$ 3,141,500	\$ 2,812,159
Capital assets	<u>55,664</u>	<u>47,000</u>	<u>67,969</u>
Total assets	\$ <u>2,865,942</u>	\$ <u>3,188,500</u>	\$ <u>2,880,128</u>
Current liabilities	\$ 2,470,261	\$ 2,858,539	\$ 2,005,085
Non-current liabilities	<u>116,420</u>	<u>144,002</u>	<u>164,334</u>
Total liabilities	\$ <u>2,586,681</u>	\$ <u>3,002,541</u>	\$ <u>2,169,419</u>
Invested in capital assets	\$ 55,664	\$ 47,000	\$ 67,969
Unrestricted	<u>223,597</u>	<u>138,959</u>	<u>642,740</u>
Total net assets	\$ <u>279,261</u>	\$ <u>185,959</u>	\$ <u>710,709</u>
Total liabilities and net assets	\$ <u>2,865,942</u>	\$ <u>3,188,500</u>	\$ <u>2,880,128</u>

The \$223,597 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 \$223,597 of unrestricted assets left.

If, however, the receivable from the CNMI government appropriation is not collected, MVA would have a fund deficit of \$1,100,806 as reflected in the fund-level balance sheet and statement of revenues, expenditures, and changes in fund balance.

## Management's Discussion and Analysis

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**Assets.** Assets consist primarily of cash and cash equivalents (3%) and receivables, which include local government appropriations (94%), 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 decrease in liabilities of \$415,860 is due primarily to conservatism of cost cutting measure in 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 increased by \$93,302. At the end of FY 2010, net assets increased by \$93,302 primarily due to collection of CNMI appropriation deferred in prior year and reduced of expenditures for marketing and advertising to supports its activity for the fiscal year 2010.

### Revenues

Total revenues for FY 2010 amounted to \$6,385,527, a \$693,420 or 9% decrease from FY 2009. The decrease in revenue is due to Continuing Resolution Public Law 16-2 Reduction of budgeted appropriation.

	<u>2010</u>	<u>2009</u>	<u>2008</u>
General Revenues			
CNMI appropriation	\$ 6,020,390	6,610,831	5,903,140
Other income	9,869	7,805	104,953
Royalty income	30,382	38,689	36,860
Interest income	<u>20</u>	<u>27</u>	<u>53</u>
Subtotal	<u>6,061,661</u>	<u>6,657,352</u>	<u>6,045,006</u>
Program Revenues			
Grant and contributions	281,659	358,860	515,299
Membership fees	16,600	20,200	24,100
Special events	<u>26,607</u>	<u>42,535</u>	<u>25,584</u>
Subtotal	<u>324,866</u>	<u>421,595</u>	<u>564,983</u>
Total Revenues	<u>\$ 6,385,527</u>	<u>7,078,947</u>	<u>6,609,989</u>

Revenues are classified as either general or program.

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.

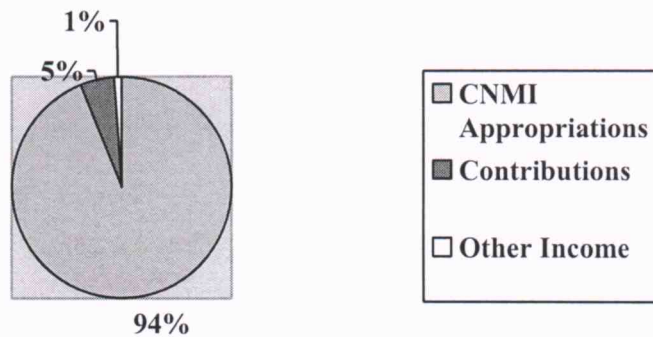


Management's Discussion and Analysis

The decrease in program revenues over the three year period is from decreased 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 2010 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.

**Expenses**

Total agency-wide expenses by function were as follows:

	<u>2010</u>	<u>2009</u>	<u>2008</u>
General government	\$ 1,675,266	\$ 1,948,655	\$ 1,930,433
Marketing	2,677,296	4,119,913	3,711,245
Advertising	818,797	1,247,469	1,400,638
Special events	246,897	260,195	209,910
Depreciation	18,078	27,465	27,509
Bad debts	<u>855,891</u>	-	-
Total expenditures	<u>\$ 6,292,225</u>	<u>\$ 7,603,697</u>	<u>\$ 7,279,735</u>

## Management's Discussion and Analysis

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Total expenditures for the fiscal year ending September 30, 2010 decreased by \$1,311,472 against fiscal year 2009. This is due primarily to a baseline budget adopted by the MVA Board of Directors and management.

In fiscal year 2010, MVA focused its limited resources to specific target markets not only in Japan, but also in Korea, China, and Russia. 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) increased by approximately \$93,300, due to a decrease in expenditures for marketing and advertising activity for fiscal year 2010. The in-kind contributions received by MVA also helped 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 2010 decreased by approximately \$40,000. In FY 2009 the fund balance decreased by \$47,000. Over the past years, MVA's fund balance has increased by approximately \$700,000. The CNMI government is experiencing declining revenues due to the loss of the garment manufacturing industry, and must therefore reduce expenses wherever possible.

### CAPITAL ASSETS

The MVA's investment in capital assets as of September 30, 2010 amounts to \$55,664, net of accumulated depreciation. Depreciation expense for the year was \$18,078.

Capital assets, net of accumulated depreciation are as follows:

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Maintenance equipment	\$ 44,827	\$ 36,163	\$ 42,317
Furniture and fixtures	7,090	7,090	12,503
Vehicles	-	-	5,436
Leasehold improvements	<u>3,747</u>	<u>3,747</u>	<u>7,713</u>
	\$ <u>55,664</u>	\$ <u>47,000</u>	\$ <u>67,969</u>

## **FUTURE PLANS**

The recovery of the Commonwealth's visitor industry has proven more difficult than anticipated. We have not yet replaced the airline capacity that was lost with the departure of Japan Airlines and Continental from our market, although both Northwest/Delta Airlines and Asiana Airlines have made major strides in this direction over the two years.

We also need to deal with the perception of the Commonwealth as a "low-yield" destination due to limited business class revenues, limited cargo revenues, and standard discounted fares and packages. Our destination enhancement projects aim to help achieve this turnaround.

MVA is confident that the strong partnership forged between our office and our partners, both in the public and private sector, will overcome these challenges. As the promotional arm of the CNMI's tourism industry, MVA is leading the way toward a greater level of cooperation and commitment between our local and international stakeholders and partners to build a much stronger, more profitable and sustainable industry. The development of the strategic plan is one example of strong collaboration and support of industry players.

In Fiscal year 2010, the MVA was awarded a technical assistance grant from the U.S. Department of Interior, and has begun work on the new "CNMI Tourism Master Plan for 2011-2015." The multi-faceted project will include an update to the Northern Marianas' first tourism plan, which was launched in 2006 and entitled "Strategic Initiatives for 2006-2010." The new plan will include special sections for Tinian and Rota, as well as incorporate a new tourist exit survey, new brand identity recommendations to assist MVA in marketing the destination, and incremental management steps to aid the CNMI in implementing the plan.

To conduct the work which will incorporate a wide range of feedback from tourism stakeholders over the course of the coming year, MVA is undertaking the project with the help of an independent management consulting firm. Three firms competed in a request for proposals which was advertised by the MVA in 2010. Management Analysis, Incorporated (MAI) of Vienna, Virginia was selected to perform the work. The plan is expected to be completed by December 2011.

## **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, 2010 and 2009

	<u>2010</u>	<u>2009</u>
<u>ASSETS</u>		
Current assets:		
Cash and cash equivalents	\$ 147,797	37,090
Receivable from CNMI government - appropriations, net of allowance for doubtful accounts of \$855,891 in 2010	2,633,544	3,074,432
Other receivables	22,993	24,029
Prepaid expenses	<u>5,944</u>	<u>5,949</u>
Total current assets	2,810,278	3,141,500
Noncurrent assets:		
Capital assets, net of accumulated depreciation and amortization	<u>55,664</u>	<u>47,000</u>
	\$ <u>2,865,942</u>	<u>3,188,500</u>
<u>LIABILITIES</u>		
Current liabilities:		
Accounts payable	1,711,918	2,228,859
Accrued payroll and benefits	758,258	628,895
Deferred revenues	-	700
Other liabilities	<u>85</u>	<u>85</u>
Total current liabilities	2,470,261	2,858,539
Noncurrent liabilities:		
Due within one year		
Accrued compensated absences	1,129	7,739
Due in more than one year		
Accrued compensated absences	<u>115,291</u>	<u>136,263</u>
Total liabilities	<u>2,586,681</u>	<u>3,002,541</u>
<u>NET ASSETS</u>		
Invested in capital assets	55,664	47,000
Unrestricted	<u>223,597</u>	<u>138,959</u>
Total net assets	<u>279,261</u>	<u>185,959</u>
	\$ <u>2,865,942</u>	<u>3,188,500</u>

*See accompanying notes to financial statements.*

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

Statement of Activities

For the Years Ended September 30, 2010 and 2009

	<u>Expenses</u>	<u>Program Revenue</u>		<u>Net (Expenses) Revenues and Change in Net Assets</u>	
		<u>Charges for Services</u>	<u>Grants and Contributions</u>	<u>Governmental Activities</u>	
				<u>2010</u>	<u>2009</u>
Governmental activities:					
General government	\$ 1,675,266	16,600	-	(1,658,666)	(1,928,455)
Marketing	2,677,296	-	281,659	(2,395,637)	(4,052,837)
Advertising	818,797	-	-	(818,797)	(989,905)
Special events	246,897	26,607	-	(220,290)	(183,440)
Depreciation	18,078	-	-	(18,078)	(27,465)
Bad debts	<u>855,891</u>	<u>-</u>	<u>-</u>	<u>(855,891)</u>	<u>-</u>
Total governmental activities	\$ <u>6,292,225</u>	<u>43,207</u>	<u>281,659</u>	<u>(5,967,359)</u>	<u>(7,182,102)</u>
General revenues:					
CNMI appropriations				6,020,390	6,610,831
Royalty income				30,382	38,689
Other income				9,869	7,805
Interest income				<u>20</u>	<u>27</u>
Total general revenues				<u>6,060,661</u>	<u>6,657,352</u>
Change in net assets				93,302	(524,750)
Net assets, beginning				<u>185,959</u>	<u>710,709</u>
Net assets, ending				\$ <u>279,261</u>	<u>185,959</u>

*See accompanying notes to financial statements.*

**MARIANAS VISITORS AUTHORITY**  
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Governmental Funds - Balance Sheets

September 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
<b><u>ASSETS</u></b>		
Current assets:		
Cash and cash equivalents	\$ 147,797	37,090
Receivable from CNMI government - appropriations, net of allowance for doubtful accounts of \$855,891 on 2010	2,633,544	3,074,432
Other receivables	22,993	24,029
Prepaid expenses	<u>5,944</u>	<u>5,949</u>
Total current assets	\$ <u>2,810,278</u>	<u>3,141,500</u>
 <b><u>LIABILITIES AND FUND BALANCE</u></b>		
Current liabilities:		
Accounts payable	1,711,918	2,228,859
Accrued payroll and benefits	758,257	628,895
Deferred revenues	1,440,824	1,353,564
Other liabilities	<u>85</u>	<u>85</u>
Total current liabilities	3,911,084	4,211,403
 Fund balance (deficit):		
Unrestricted	<u>(1,100,806)</u>	<u>(1,069,903)</u>
Total fund balance (deficit)	<u>(1,100,806)</u>	<u>(1,069,903)</u>
	\$ <u>2,810,278</u>	<u>3,141,500</u>

*See accompanying notes to financial statements.*

**MARIANAS VISITORS AUTHORITY**  
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Governmental Funds - Statement of Revenues, Expenditures, and  
Changes in Fund Balance

For the Years Ended September 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Revenues:		
CNMI appropriation	\$ 4,615,811	6,160,748
CNMI appropriation deferred in prior year	1,316,620	906,448
In-kind contributions	281,659	358,860
Charges for services	73,589	47,995
Miscellaneous	<u>9,889</u>	<u>61,261</u>
Total revenues	6,297,568	7,535,312
Expenditures:		
General government	1,702,848	1,955,744
Marketing	2,677,296	4,119,319
Advertising	818,797	1,247,469
Special events	246,897	260,196
Bad debts	855,891	-
Capital outlay-current expenditures	<u>26,742</u>	<u>-</u>
Total expenditures	<u>6,328,471</u>	<u>7,582,728</u>
Excess (deficiency) of revenues over expenditures	(30,903)	(47,416)
Fund balance (deficit), beginning of year	<u>(1,069,903)</u>	<u>(1,022,487)</u>
Fund deficit, end of year	\$ <u>(1,100,806)</u>	<u>(1,069,903)</u>

*See accompanying notes to 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

For the Years Ended September 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Unreserved fund balance (deficit)	\$ (1,100,806)	(1,069,903)
<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	(116,421)	(144,002)
Deferred revenues for receivables from CNMI that are not available within 60 days after the year-end.	1,440,824	1,352,864
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.	<u>55,664</u>	<u>47,000</u>
Total net assets - governmental activities	\$ <u><u>279,261</u></u>	<u><u>185,959</u></u>

*See accompanying notes to financial statements.*



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

For the Years Ended September 30, 2010 and 2009

		<u>2010</u>	<u>2009</u>
Net change in fund balance - governmental funds	\$	(30,903)	(47,416)
<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>			
Deferred revenues for receivables from CNMI that are not available within 60 days after the year-end.	1,440,824		
Collections for 2009 appropriations that were deferred in prior year	<u>(1,352,864)</u>	87,960	(475,997)
<p>Some expenses reported in the statement of activities do not require the use of current financial resources and therefore not reported as expenditures.</p>			
Compensated absences - net		27,581	(28,802)
<p>Capital outlays to purchase or build capital assets are reported in governmental fund as expenditures. However, for governmental activities, those costs are shown in the statements of net assets and allocated over their estimated useful lives as annual depreciation expense in the statements of activities. This is the amount by which capital outlays exceed depreciation in the period.</p>			
Capital outlays	26,742		
Depreciation expense	<u>(18,078)</u>	<u>8,664</u>	<u>27,465</u>
Changes in net assets of governmental activities	\$	<u>93,302</u>	<u>(524,750)</u>

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

Notes to Financial Statements

September 30, 2010 and 2009

(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.

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Notes to Financial Statements, Continued

September 30, 2010 and 2009

(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, 2009, 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.

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Notes to Financial Statements, Continued

September 30, 2010 and 2009

(1) Summary of Significant Accounting Policies, Continued

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

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.

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 governments 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.

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Notes to Financial Statements, Continued

September 30, 2010 and 2009

(1) Summary of Significant Accounting Policies, Continued

D. Assets, Liabilities and Equity, Continued

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.

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

MARIANAS VISITORS AUTHORITY  
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Notes to Financial Statements, Continued

September 30, 2010 and 2009

(1) Summary of Significant Accounting Policies, Continued

4. Compensated Absences

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

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, 2010 and 2009, accrued annual leave was \$116,421 and \$144,002, respectively.

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, 2009, 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).

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Notes to Financial Statements, Continued

September 30, 2010 and 2009

(1) Summary of Significant Accounting Policies, Continued

G. New Pronouncements

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.

GASB Statement No. 54 – In March 2009, the GASB issued Statement No. 54, “*Fund Balance Reporting and Governmental Fund Type Definitions.*” This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. This Statement also provides for additional classification as restricted, committed, assigned, and unassigned based on the relative strength of the constraints that control how specific amounts can be spent. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2010. There is no financial impact to MVA for the fiscal year ended September 30, 2009 as a result of the implementation of this statement.

GASB Statement No. 55 – In March 2009, the GASB issued Statement No. 55, “*The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments.*” This Statement is to incorporate the hierarchy of generally accepted accounting principles (GAAP) for state and local governments into the Governmental Accounting Standards Board’s (GASB) authoritative literature. The requirements in this Statement will improve financial reporting by contributing to the GASB’s efforts to codify all GAAP for state and local governments so that they derive from a single source. This Statement is effective as of June 30, 2009. The MVA does not believe the implementation of this Statement will have a material effect on its financial statements.

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Notes to Financial Statements, Continued

September 30, 2010 and 2009

(1) Summary of Significant Accounting Policies, Continued

G. New Pronouncements, continued

GASB Statement No. 56 – In March 2009, the GASB issued Statement No. 55, “*Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards*” This Statement is to incorporate into the Governmental Accounting Standards Board’s (GASB) authoritative literature certain accounting and financial reporting guidance presented in the American Institute of Certified Public Accountants’ Statements on Auditing Standards. This Statement addresses three issues not included in the authoritative literature that establishes *accounting* principles—related party transactions, going concern considerations, and subsequent events. The presentation of principles used in the *preparation* of financial statements is more appropriately included in accounting and financial reporting standards rather than in the auditing literature.

This Statement does not establish new accounting standards but rather incorporates the existing guidance (to the extent appropriate in a governmental environment) into the GASB standards.

GASB Statement No. 57 – In December 2009, the GASB issued Statement No. 57, “*OPEB Measurement by Agent Employers and Agent Multiple-Employer Plans*” The objective of this Statement is to address issues related to the use of the alternative measurement method and the frequency and timing of measurements by employers that participate in agent multiple-employer other postemployment benefit (OPEB) plans (that is, agent employers).

This Statement amends Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, to permit an agent employer that has an individual-employer OPEB plan with fewer than 100 total plan members to use the alternative measurement method, at its option, regardless of the number of total plan members in the agent multiple-employer OPEB plan in which it participates. Consistent with this change to the employer-reporting requirements, this Statement also amends a Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, requirement that a defined benefit OPEB plan obtain an actuarial valuation. The amendment permits the requirement to be satisfied for an agent multiple-employer OPEB plan by reporting an aggregation of results of actuarial valuations of the individual-employer OPEB plans or measurements resulting from use of the alternative measurement method for individual-employer OPEB plans that are eligible.



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Notes to Financial Statements, Continued

September 30, 2010 and 2009

(1) Summary of Significant Accounting Policies, Continued

G. New Pronouncements, Continued

In addition, this Statement clarifies that when actuarially determined OPEB measures are reported by an agent multiple-employer OPEB plan and its participating employers, those measures should be determined as of a common date and at a minimum frequency to satisfy the agent multiple-employer OPEB plan's financial reporting requirements. This statement is effective for periods beginning after June 15, 2011. The MVA does not believe the implementation of this Statement will have a material effect on its financial statements.

GASB Statement No. 58 – In December 2009, the GASB issued Statement No. 58 “*Accounting and Financial Reporting for Chapter 9 Bankruptcies*” The objective of this Statement is to provide accounting and financial reporting guidance for governments that have petitioned for protection from creditors by filing for bankruptcy under Chapter 9 of the United States Bankruptcy Code. It requires governments to remeasure liabilities that are adjusted in bankruptcy when the bankruptcy court confirms (that is, approves) a new payment plan. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2009. There is no financial impact to MVA for the fiscal year ended September 30, 2010 as a result of the implementation of this statement.

GASB Statement No. 59 – In June 2010, , the GASB issued Statement No. 5 “*Financial Instruments Omnibus*”. The objective of this Statement is to update and improve existing standards regarding financial reporting and disclosures requirements of certain financial instruments and external investments pools for which significant issues have been identified in practice. The requirements of this Statement will improve financial reporting by providing more complete information, by improving consistency of measurements, and by providing clarifications of existing standards. Applying the reporting provisions of Statement 31 for interest-earning investment contracts to unallocated insurance contracts improves consistency of investment measurements that are reported by pension and other postemployment benefit plans. Emphasizing the applicability of SEC requirements to 2a7-like external investment pools provides practitioners with improved guidance. Limiting interest rate risk disclosures for investments in mutual funds, external investment pools, and other pooled investments to debt investment pools provides better guidance regarding the applicability of interest rate risk disclosures. Finally, addressing the applicability of Statement 53 to certain financial instruments refines which financial instruments are within the scope of that Statement. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2010. The MVA has not determined its effect on the financial statements.

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Notes to Financial Statements, Continued

September 30, 2010 and 2009

(1) Summary of Significant Accounting Policies, Continued

G. New Pronouncements, Continued

GASB Statement No. 60 – In November 2010, the GASB issued Statement No. 60 “*Accounting and Financial Reporting for Service Concession Arrangements*” The objective of this Statement is to improve financial reporting by addressing issues related to service concession arrangements (SCAs), which are a type of public-private or public-public partnership. As used in this Statement, an SCA is an arrangement between a transferor (a government) and an operator (governmental or nongovernmental entity) in which (1) the transferor conveys to an operator the right and related obligation to provide services through the use of infrastructure or another public asset (a “facility”) in exchange for significant consideration and (2) the operator collects and is compensated by fees from third parties. This Statement is effective for financial statements for periods beginning after December 15, 2011. The provisions of this Statement generally are required to be applied retroactively for all periods presented. There is no financial impact to MVA for the fiscal year ended September 30, 2010 as a result of the implementation of this statement.

GASB Statement No. 61 – In November 2010, the GASB issued Statement No. 61 “*The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and No.34*”. The objective of this Statement is to improve financial reporting for a governmental financial reporting entity. The requirements of Statement No. 14, *The Financial Reporting Entity*, and the related financial reporting requirements of Statement No. 34, *Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments*, were amended to better meet user needs and to address reporting entity issues that have arisen since the issuance of those Statements. The amendments to the criteria for including component units allow users of financial statements to better assess the accountability of elected officials by ensuring that the financial reporting entity includes only organizations for which the elected officials are financially accountable or that are determined by the government to be misleading to exclude. This Statement is effective for financial statements for periods beginning after June 15, 2012.

GASB Statement No. 62 – In November 2010, the GASB issued Statement No. 62 “*Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASN and AICPA Pronouncements*” This Statement was established to improve financial reporting by contributing to the GASB’s efforts to codify all sources of generally accepted accounting principles for state and local governments so that they derive from a single source. This effort brings the authoritative accounting and financial reporting literature together in one place, with that guidance modified as necessary to appropriately recognize the governmental environment and the needs of governmental financial statement users.

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Notes to Financial Statements, Continued

September 30, 2010 and 2009

(1) Summary of Significant Accounting Policies, Continued

G. New Pronouncements, Continued

It will eliminate the need for financial statement preparers and auditors to determine which FASB and AICPA pronouncement provisions apply to state and local governments, thereby resulting in a more consistent application of applicable guidance in financial statements of state and local governments.

In addition, all FASB and AICPA pronouncements became nonauthoritative literature for the private sector on July 1, 2009, the effective date of the *FASB Accounting Standards Codification*<sup>TM</sup>. Although certain FASB and AICPA pronouncements are still available in the archive section of the FASB's Codification on a limited basis, this Statement will make accessible in the GASB's authoritative literature all applicable accounting and financial reporting guidance previously residing only in the FASB and AICPA pronouncements. This Statement is effective for financial statements for periods beginning after June 15, 2012. Earlier adoption is encouraged. The MVA has adopted and applied this Statement on their financial statements.

GASB Statement No. 63 – In June 2011, the GASB issued Statement No. 63 "*Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*" This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Concepts Statement No. 4, *Elements of Financial Statements*, introduced and defined those elements as a consumption of net assets by the government that is applicable to a future reporting period, and an acquisition of net assets by the government that is applicable to a future reporting period, respectively. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities. This Statement is effective for financial statements for periods beginning after December 15, 2011. There is no financial impact to MVA for the fiscal year ended September 30, 2010 as a result of the implementation of this statement.

GASB Statement No. 64 – In June 2011, the GASB issued Statement No. 64 "*Derivative Instruments: Application of Hedge accounting Termination Provisions – an amendment of GASB Statements No. 53*". The objective of this Statement is to clarify whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty's credit support provider. This Statement sets forth criteria that establish when the effective hedging relationship continues and hedge accounting should continue to be applied. This Statement is effective for financial statements for periods beginning after June 15, 2011. The MVA does not believe the implementation of this Statement will have a material effect on its financial statements.

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Notes to Financial Statements, Continued

September 30, 2010 and 2009

(1) Summary of Significant Accounting Policies, Continued

H. Reclassifications

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.

I. Subsequent Events

In preparing the accompanying financial statements and these footnotes, management has evaluated subsequent events through April 30, 2011, which is the date the financial statements were available to be issued. There were no such events requiring disclosure.

(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 2010 and 2009 consist of the following:

<u>Description</u>	<u>2010</u>	<u>2009</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):	\$ 582,885	556,143
Less accumulated depreciation	(527,221)	(509,143)
Net capital assets	\$ 55,664	47,000
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	(116,421)	(144,002)
Receivable from CNMI that is not available within 60 days after year end	<u>1,440,824</u>	<u>1,353,564</u>
Net adjustment	<u>\$ 1,380,067</u>	<u>1,256,562</u>

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Notes to Financial Statements, Continued

September 30, 2010 and 2009

(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>2010</u>	<u>2009</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	\$ 27,581	(19,951)
Some revenues reported in the Statement of Activities are not available for current financial obligations and therefore not reported as income.		
CNMI appropriation	87,960	(475,997)
Capital outlays reported in the fund statements	26,742	-
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.	(18,078)	(27,465)
Net adjustments	\$ <u>124,205</u>	<u>(523,413)</u>

(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.

MARIANAS VISITORS AUTHORITY  
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Notes to Financial Statements, Continued

September 30, 2010 and 2009

(3) Budgetary Information, continued

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, 2010 and 2009 cash and cash equivalents consist of the following:

	<u>2010</u>	<u>2009</u>
Petty cash	\$ 1,462	1,117
Cash on deposits	<u>146,335</u>	<u>35,973</u>
	<u>\$ 147,797</u>	<u>37,090</u>

At September 30, 2010 and 2009, the carrying amount of MVA's total cash and cash equivalents (excluding petty cash) was \$146,335 and \$35,937, respectively. The corresponding bank balances as of September 30, 2010 and 2009 were \$595,768 and \$65,183, respectively, of which the entire balance was within Federal Deposit Insurance Corporation (FDIC) insurance limits.

(5) Receivable from the CNMI Government

The CNMI Government appropriated a total of \$6,056,635 and \$6,610,833, for MVA's operational use for the years 2010 and 2009, 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, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Due from CNMI government, beginning	\$ 3,074,432	2,207,519
CNMI appropriation	<u>6,056,635</u>	<u>6,610,833</u>
Subtotal	9,131,067	8,818,352
Collections:		
For prior year's appropriation	(2,343,240)	(905,748)
For current year's appropriation	<u>(3,298,392)</u>	<u>(4,838,172)</u>
Due from CNMI government, end	<u>\$ 3,489,435</u>	<u>3,074,432</u>

MARIANAS VISITORS AUTHORITY  
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Notes to Financial Statements, Continued

September 30, 2010 and 2009

(5) Receivable from the CNMI Government, continued

MVA confirmed the amount due from the CNMI Government at September 30, 2009, with no exception noted by the CNMI Department of Finance. When MVA attempted to confirm the balance due from the CNMI Government at September 30, 2010 the CNMI Department of Finance responded to MVA that their records reflected a payable to MVA that was \$855,891 less than what MVA's records show as a receivable. This difference relates to the balance due at September 30, 2009, which was confirmed by the CNMI Department of Finance. Accordingly, MVA believes that its balance is correct and that the Department of Finance's confirmed balance at September 30, 2010 is in error.

Even though MVA's balance is correct, nearly 24 months have elapsed since the amount should have been remitted to MVA. Accordingly, MVA has recorded a bad debt expense of \$855,891 and has established a reserve for uncollectible receivables in the same amount as of September 30, 2010.

MVA will still attempt to collect the entire receivable balance. If MVA is able to collect this \$855,891, the reserve for uncollectible receivables will be eliminated.

(6) Changes in Capital Assets

The following is a summary of changes in capital assets for the fiscal year ended September 30, 2010 (with comparative figures for fiscal year 2009):

		<u>September 30, 2010</u>			
	Balance October 1, <u>2009</u>	Additions <u>Transfers</u>	Deletions <u>Retirements</u>		Balance September 30, <u>2010</u>
Vehicle and equipment	\$ 136,006	-	-		136,006
Office furniture, fixtures and equipment	190,941	12,254	-		203,195
Leasehold improvements	152,513	3,735	-		156,248
Maintenance equipment	<u>77,493</u>	<u>9,942</u>	<u>-</u>		<u>87,435</u>
	<u>556,953</u>	<u>25,931</u>	<u>-</u>		<u>582,884</u>

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Notes to Financial Statements, Continued

September 30, 2010 and 2009

(6) Changes in Capital Assets, continued

Less accumulated depreciation  
and amortization:

Vehicle and equipment	136,000	-	-	136,000
Office furniture, fixtures and equipment	183,851	3,588	-	187,439
Leasehold improvements	148,772	3,736	-	152,508
Maintenance equipment	<u>41,330</u>	<u>9,943</u>	<u>-</u>	<u>51,273</u>
	<u>509,953</u>	<u>17,267</u>	<u>-</u>	<u>527,220</u>
Governmental activities capital assets, net	\$ <u>47,000</u>	<u>8,664</u>	<u>-</u>	<u>55,664</u>

September 30, 2009

	Balance October 1, <u>2008</u>	Additions Transfers	Deletions Retirements	Balance September 30, <u>2009</u>
Vehicle and equipment	\$ 136,006	-	-	136,006
Office furniture, fixtures and equipment	190,042	899	-	190,941
Leasehold improvements	152,513	-	-	152,513
Maintenance equipment	<u>71,896</u>	<u>5,597</u>	<u>-</u>	<u>77,493</u>
	<u>550,457</u>	<u>6,496</u>	<u>-</u>	<u>556,953</u>
Less accumulated depreciation and amortization:				
Vehicle and equipment	130,572	5,428	-	136,000
Office furniture, fixtures and equipment	177,538	6,313	-	183,851
Leasehold improvements	144,799	3,973	-	148,772
Maintenance equipment	<u>29,579</u>	<u>11,751</u>	<u>-</u>	<u>41,330</u>
	<u>482,488</u>	<u>27,465</u>	<u>-</u>	<u>509,953</u>
Governmental activities capital assets, net	\$ <u>67,969</u>	<u>(20,969)</u>	<u>-</u>	<u>47,000</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  
(A Component Unit of the CNMI Government)

Notes to Financial Statements, Continued

September 30, 2010 and 2009

(7) Deferred Revenue

Revenues collected in advance of the fiscal year in which they are earned are recorded as deferred revenues in the agency-wide and fund financial statements. Deferred revenues in the fund financial statements also include revenues that are measurable but not available.

At September 30, 2010, deferred revenues balance totaled \$1,440,824 as reported in the accompanying fund financial statements.

(8) Noncurrent Liabilities

MVA's noncurrent liabilities consist of accrued annual leave summarized as follows:

	<u>2010</u>	<u>2009</u>
Beginning balance	\$ 136,263	164,334
Additional accrual	1,595	-
Used	(21,438)	(20,332)
Ending balance	116,420	144,002
Due within one year	<u>1,129</u>	<u>7,739</u>
Due in more than one year	\$ <u>115,291</u>	<u>136,263</u>

(9) 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.

(10) 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:	
2011	\$ 56,400
2012	56,400
2013	<u>32,900</u>
	\$ <u>145,700</u>

MARIANAS VISITORS AUTHORITY  
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Notes to Financial Statements, Continued

September 30, 2010 and 2009

(11) 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, 2009), issued in May 2011, the actuarially determined contribution rate for the fiscal year ended September 30, 2009 was 60.8686% of covered payroll. At September 30, 2010 and 2009, the established statutory rate was 37.3909% of covered payroll.

Public Law No. 15-126, authorizes the CNMI Government to remit only 18.667% of covered payroll and accrue the balance as liability to the NMIRF. The employer contribution remittance was further reduced by public Law No. 16-2 to 11% of covered payroll. The contribution requirements for employees under Class I Members who are active employees contribute 7.5% of salary for fiscal year 08 and will increase their rate of contribution by 1.0% per year until it reaches 10.5%. Refund is made on termination with less than 10 years of service. Class II Members who are active employees contribute 10% of salary for the fiscal year 08 and will increase their rate of contribution by 1.0% per year until it reaches 11.0%. Members who terminate with less than 3 years of service will receive a refund of their accumulated contribution with interest. The Class I and Class II refunds stated above are subject to an early withdrawal penalty of 10% of the total contributions, excluding interest. Class II Members who terminate with 3 but less than 20 years of service may request a refund of their accumulated contributions with interest in lieu of their termination benefits. If a member or survivor dies before receiving annuity payments which equal or exceed 1/3 the member's accumulated contributions with interest, the balance will be paid to the beneficiary. The Fund uses the level percentage of payroll method to amortize the unfunded liability over a period not to exceed 40 years from October 1, 1980, amended through Public 6-17 effective May 7, 1989 as amended through June 14, 2007. Significant actuarial assumptions used to compute contribution requirements are the same as those used to compute the pension benefit obligation.

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

Notes to Financial Statements, Continued

September 30, 2010 and 2009

(11) Retirement Plan, continued

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 3% increase in employee salaries compounded annually until retirement, (c) expenses at 1.1% of total payroll, and (d) for actives, earlier of age of 62, if eligible, and 25 years of membership service, for inactives, age 62 for Class I and age 60 for Class II.

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

Fiscal Year <u>Ended</u>	Required <u>Contribution</u>	Percentage of Required <u>Contribution Paid</u>
09/30/10	\$ 283,000	61%
09/30/09	334,500	61%
09/30/08	334,900	65%

(12) Life and Health Insurance

Annuitants may elect to continue their CNMI Government life and health insurance coverage under the same terms and conditions in-force at the time of retirement. Half of the life insurance premium will be paid by the Fund. The fund will pay the same portion of the health insurance premium as paid for active employees by the government.

(12) Life and Health Insurance, continued

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  
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Notes to Financial Statements, Continued

September 30, 2010 and 2009

(13) Reclassifications of Accounts

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

(14) Subsequent Events

In preparing the accompanying financial statements and these footnotes, management has evaluated subsequent events through May 30, 2011, which is the date the financial statements were available to be issued. There were no such events requiring disclosure.

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

Budgetary Comparison Schedule

For the Year Ended September 30, 2010

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with
	<u>Original</u>	<u>Final</u>		Final Budget Positive (Negative)
Revenues:				
CNMI appropriation	\$ 6,677,609	6,193,482	4,615,811	(1,577,671)
CNMI appropriation, collected from prior year	-	-	1,316,620	1,316,620
In-kind contributions	-	-	281,659	281,659
Royalty income	-	-	30,382	30,382
Membership dues	-	-	16,600	16,600
Concession vendor fees	-	-	16,005	16,005
Memorial trust income	-	-	10,602	10,602
Other income	-	-	9,869	9,869
Interest income	-	-	20	20
	<u>6,677,609</u>	<u>6,193,482</u>	<u>6,297,568</u>	<u>104,086</u>
Total revenues				
Expenditures:				
Promotion and advertising	4,078,894	4,072,604	3,461,330	611,274
Personnel service	1,161,993	1,161,993	1,256,133	(94,140)
Bad debts	-	-	855,891	(855,891)
In-kind contribution of promotion and advertising	281,659	281,659	281,659	-
Tourist site maintenance supplies	108,099	107,827	89,120	18,707
Rentals	56,400	56,400	56,400	-
Printing and publications	23,000	43,125	52,866	(9,741)
Professional fees	133,222	74,245	52,700	21,545
Utilities	85,200	80,616	42,821	37,795
Travel	38,000	38,000	30,929	7,071
Dues and subscriptions	27,570	27,570	26,932	638
Capital outlay	-	-	26,742	(26,742)
Communications	29,960	29,960	22,455	7,505
Fuel and lubrication	26,400	26,400	14,241	12,159
Office supplies	18,800	18,800	13,305	5,495
Insurance	20,000	20,000	11,329	8,671
Maintenance supplies	20,000	20,000	10,070	9,930
Repairs and maintenance	30,000	21,021	8,611	12,410
Office equipment rentals, repairs	9,650	9,650	8,516	1,134
Postage and freight	9,500	9,500	6,171	3,329
Staff development training	3,000	3,000	250	2,750
Computer systems and equipment	18,000	18,000	-	18,000
	<u>6,179,347</u>	<u>6,120,370</u>	<u>6,328,471</u>	<u>(208,101)</u>
Total expenditures				
Excess of revenues over expenditures	498,262	73,112	(30,903)	(104,015)
Fund balance (dificency), beginning of year	(1,022,487)	(1,069,903)	(1,069,903)	-
Unreserved fund balance (deficit), end of year	\$ <u>(524,225)</u>	<u>(996,791)</u>	<u>(1,100,806)</u>	<u>(104,015)</u>

See accompanying notes to financial statements.

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

Supplemental Schedule

Schedule of Functional Expenditures - Statement of Activities  
For the Years Ended September 30, 2010 and 2009

	General \$ Government	Marketing	Advertising	Special Events	Depreciation	Bad debts	Total 2010	Total 2009
Advertising and marketing	-	2,906,449	374,673	196,421	-	-	3,477,543	5,626,983
Personnel service and related expenses	1,108,690	113,152	-	-	-	-	1,221,842	1,066,028
Bad debts	-	-	-	-	-	855,891	855,891	-
In-kind contributions	-	140,260	117,846	23,553	-	-	281,659	358,860
Repairs and maintenance	134,542	-	-	-	-	-	134,542	155,184
Rentals	56,400	-	-	-	-	-	56,400	56,400
Printing and copying	52,866	-	-	-	-	-	52,866	52,798
Professional fees	52,700	-	-	-	-	-	52,700	51,910
Utilities	42,821	-	-	-	-	-	42,821	52,807
Travel	30,929	-	-	-	-	-	30,929	26,959
Dues and subscriptions	26,932	-	-	-	-	-	26,932	24,710
Communications	22,455	-	-	-	-	-	22,455	26,427
Depreciation	-	-	-	-	18,078	-	18,078	27,465
Fuel and lubrication	14,241	-	-	-	-	-	14,241	19,454
Office supplies	13,305	-	-	-	-	-	13,305	16,798
Insurance	11,329	-	-	-	-	-	11,329	22,634
Office equipment rental	8,516	-	-	-	-	-	8,516	12,195
Postage and freight	6,172	-	-	-	-	-	6,172	6,005
Personnel training cost	250	-	-	-	-	-	250	80
<b>Total expenditures</b>	<b>\$ 1,582,148</b>	<b>3,159,861</b>	<b>492,519</b>	<b>219,974</b>	<b>18,078</b>	<b>855,891</b>	<b>6,328,471</b>	<b>7,603,697</b>

See accompanying notes to financial statements.

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

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

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**YEAR ENDED SEPTEMBER 30, 2010**

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*

To the Board of Directors  
of 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, 2010 and have issued our report thereon dated May 30, 2011. 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*.

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.

*Bryan A. Comer, P.C.*

Commonwealth of the Northern Mariana Islands  
May 30, 2011

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

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2010

**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 2010.
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:**

None reported