

**COMMONWEALTH GOVERNMENT
EMPLOYEES' CREDIT UNION**

Financial Statements

December 31, 2008 and 2007

With Independent Auditors' Report Thereon

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Commonwealth Government Employees' Credit Union:

We have audited the accompanying statements of net deficiency of the Commonwealth Government Employees' Credit Union (the Credit Union), a component unit of the Commonwealth of the Northern Mariana Islands government, as of December 31, 2008 and 2007, and the related statements of revenues, expenses and changes in net deficiency and cash flows for the years then ended. These financial statements are the responsibility of Credit Union'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 the 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 opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of Credit Union as of December 31, 2008 and 2007, and the respective changes in net deficiency thereof, 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 September 18, 2009, on our consideration of the Credit Union'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 8, 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.

Burgin & Coors, P.C.

September 18, 2009

**Commonwealth Government Employees
Credit Union**

PO Box 500135, Saipan MP 96950

Frances A. Castro
Chairperson

Jose I. Sablan
General Manager

MANAGEMENT'S DISCUSSION AND ANALYSIS
Years Ended December 31, 2008 and 2007

This Management's Discussion and Analysis (MD&A) of the Commonwealth Government Employees Credit Union's (the Credit Union) financial performance and condition for calendar years 2008 and 2007 is intended to contribute to the reader, a better understanding of the Credit Union's structure and activities. The report should be read in conjunction with the audited financial statements and associated reports.

Note that this report may at times anticipate future events that are based upon current assumptions subject to risk and uncertainties. Actual events may differ materially from these expectations.

Overview

The Credit Union is a member-owned, nonprofit cooperative financial institution formed to permit those in the field of membership to pool their savings, lend them to one another, and own the organization where they save, borrow and obtain related financial services. The members are the owners and the only "customers" of the Credit Union. The objective of the Credit Union is to protect and safeguard the assets of the members, to offer financial services of high quality at fair and reasonable rates, to educate members in sensible money management and to promote the Credit Union's philosophy.

The Credit Union, a nonprofit government corporation, was formed on February 13, 1995 through legislation. It was created by Public Law 9-27, repealed in its entirety by Public Law 9-52 and amended by Public Law 10-37. The law provides that the Credit Union be administered by a Board of Directors consisting of five members appointed by the Governor. Each member shall serve a term of four years. Under the administration of the Board, the Credit Union shall be managed by a General Manager who shall be appointed by the Board and serve at the Board's pleasure. The General Manager shall have the authority over the day-to-day operations of the Credit Union subject to the supervision of the Board. The Credit Union presently has three other personnel.

Funding of Operations

The Credit Union has funded its operations from a \$2,000,000 loan from the Northern Mariana Islands Retirement Fund (NMIRF). This loan was authorized by Public Law 9-52 and is backed by the full faith and credit of the Commonwealth of the Northern Mariana Islands Government. The borrowed funds were used to loan to qualified members. Presently, the operations of the Credit Union are funded from biweekly allotments from members for the repayment of loans. Additionally, the Credit Union is realizing other sources of income through money made from loan interest, service charges, penalties, and commissions from credit life insurance.

Management's Discussion and Analysis

Operations

Financial assistance is provided to members through the extension of signature loans up to \$3,000 per member. The repayment of these loans is made through biweekly payroll deductions authorized by Public law 9-52. Loan interest rates are 16% or 18% depending on borrowers credit history from Equifax Information Services.

Financial Policies

The Credit Union's financial policies follow accounting principles generally accepted in the United States of America (GAAP). Management is required to make estimates, disclosures and assumptions in preparation of financial statements in conformity with GAAP and actual results may differ from amounts reported during the reporting period. The accrual basis of accounting is utilized whereby revenues are recorded when earned, and expenses when liabilities are incurred.

Significant financial policies of the Credit Union include a regular reserve requirement (in an amount which is equivalent to 6% of the average of the principal amounts of all the Credit Union loans in the immediate preceding fiscal year) and a special reserve requirement (in an amount which is equivalent to 6% of the average daily balance of all the Credit Union savings and investment accounts on deposit in the immediate preceding fiscal year). These reserves are held in time certificates of deposit (TCDs) with Federal Deposit Insurance Corporation commercial banks.

OVERVIEW OF FINANCIAL PERFORMANCE

Revenue

Operating revenues in 2008 increased by \$6,650 or 3% from 2007. Total loan approvals and disbursement were lower than the prior year which means a decrease in revenues from loan interest and loan fees. Loan fees and commissions from credit life insurance are amortized over the term of the loan and are not reported as income in the current period. Operating revenues in 2007 decreased by \$73,553 from 2006 which is attributed to a decrease in total loan approvals and disbursements.

Loan Interest Rates

The Credit Union's interest rates on unsecured loans remain fixed at 16% and 18% depending on the borrower's credit history. However, the interest rate for partially secured loans is 12%. Several delinquent loan accounts in the process of collection were assessed late charges of 5% of the monthly payment due but not exceeding \$25.

Expenses

The Credit Union total write-off of delinquent loans in 2008 was \$1,696. Interest expense for NMIRF loan amounted to \$135,144 and \$138,209 and interest expense on members' savings accounts amounted to \$13,801 and \$15,008 for the years ended December 31, 2008 and 2007, respectively.

Management's Discussion and Analysis

Total operating expenses for 2008 decreased by 40% or \$130,068 from 2007 mainly due to decreases in salaries, wages and fringe benefits, pension benefits, depreciation, communications, supplies and services, travel, and dues and subscriptions.

Change in Net Deficiency

Decreases in interest income on loans and other revenues attributed to the increase in net deficiency at December 31, 2008. An increase in operating expenses and a decrease in interest income and other income attributed to the increase in net deficiency at December 31, 2007.

The following condensed Statements of Revenues, Expenses and Changes in Net (Deficiency) Assets highlights the aforementioned changes in condition with comparative information from prior years.

Statements of Revenues, Expenses and Changes in Net (Deficiency) Assets

	<u>2008</u>	<u>2007</u>	\$ Change	% Change	<u>2006</u>
Operating revenues					
Interest income on loans	\$ 142,247	152,535	(10,288)	-7 %	225,218
Loan fees and late charges	75,688	85,791	(10,103)	-12 %	61,645
Other	<u>27,301</u>	<u>260</u>	<u>27,041</u>	104 %	<u>25,276</u>
Total operating revenues	245,236	238,586	6,650	3 %	312,139
Provision for loan losses	<u>-</u>	<u>-</u>	<u>-</u>	0 %	<u>(41,440)</u>
Net operating revenues	<u>245,236</u>	<u>238,586</u>	<u>6,650</u>	3 %	<u>270,699</u>
Operating expenses:					
Salaries, wages and fringe benefits	123,442	122,014	1,428	1 %	133,844
Other	<u>72,083</u>	<u>203,579</u>	<u>(131,496)</u>	-65%	<u>110,798</u>
Total operating expenses	<u>195,525</u>	<u>325,593</u>	<u>(130,068)</u>	-40%	<u>244,642</u>
Operating income (loss)	<u>49,711</u>	<u>(87,007)</u>	<u>136,718</u>	157%	<u>26,057</u>
Nonoperating revenues (expenses), net:					
Interest income on interest bearing accounts	5,666	12,641	(6,975)	-55%	12,144
Interest expense – loan payable	(135,144)	(138,209)	3,065	-2%	(140,247)
Interest expense – deposits	(13,801)	(15,008)	1,207	- 8%	(16,895)
Gain on sale of fixed assets	<u>-</u>	<u>300</u>	<u>(300)</u>	-100%	<u>-</u>
Total nonoperating revenues (expense), net	<u>(143,279)</u>	<u>(140,276)</u>	<u>(3,003)</u>	2%	<u>(144,998)</u>
Change in net (deficiency) assets	<u>(93,568)</u>	<u>(227,283)</u>	<u>133,715</u>	-59%	<u>(118,941)</u>
Net deficiency at beginning of year	<u>(1,375,869)</u>	<u>(1,148,586)</u>	<u>(227,283)</u>	20%	<u>(1,029,645)</u>
Net deficiency at end of year	\$ <u>(1,469,437)</u>	<u>(1,375,869)</u>	<u>(93,568)</u>	7%	<u>(1,148,586)</u>

Management's Discussion and Analysis

A condensed year-to-year comparison of the Statements of Cash Flows:

Statements of Cash Flows

	<u>2008</u>	<u>2007</u>	<u>\$</u> <u>Change</u>	<u>%</u> <u>Change</u>
Cash flows from operating activities	\$ 57,493	(57,374)	114,867	200%
Cash flows from capital and related financing activities	(180,790)	(180,448)	(342)	0%
Cash flows from investing activities	77,820	295,485	(217,665)	-74%
Cash flows from noncapital financing activities	<u>35,631</u>	<u>(52,236)</u>	<u>87,867</u>	168%
Net increase (decrease) in cash and cash equivalents	(9,846)	5,427	(15,273)	-281%
Cash and cash equivalents at beginning of year	<u>28,151</u>	<u>22,724</u>	<u>5,427</u>	24%
Cash and cash equivalents at end of year	\$ 18,305	28,151	(9,846)	-35%

A statement of cash flows for the year ended December 31, 2006 was not presented and therefore, is not included in MD&A.

OVERVIEW OF FINANCIAL CONDITION

The Credit Union's goal during the years was to recruit more members and provide more loans as well as to improve the services to its members.

Plant and Equipment

At December 31, 2008, 2007 and 2006, the Credit Union had \$15,450, \$29,097 and \$46,590, respectively, invested in capital assets, net of accumulated depreciation where applicable, including furniture and equipment, vehicles and buildings and improvements, which represents a net decrease in 2008 of \$13,647 or 47% over 2007 and a net decrease in 2007 of \$17,493 or 38% over 2006. See note 4 to the financial statements for more information on the Credit Union's plant and equipment.

Management's Discussion and Analysis

The following condensed Statements of Net Deficiency highlights the aforementioned changes in condition with comparative information from prior years.

Statements of Net Deficiency

	<u>2008</u>	<u>2007</u>	\$ <u>Change</u>	% <u>Change</u>	<u>2006</u>
Current and other assets	\$ 936,961	1,019,558	(82,597)	-8%	1,313,751
Capital assets	<u>15,450</u>	<u>29,097</u>	<u>(13,647)</u>	<u>-47%</u>	<u>46,590</u>
Total assets	\$ <u>952,411</u>	<u>1,048,655</u>	<u>(96,244)</u>	<u>-9%</u>	<u>1,360,341</u>
Members' savings accounts	\$ 707,640	664,662	42,978	6%	694,370
Loans payable	1,660,059	1,704,915	(44,856)	-3%	1,746,705
Other liabilities	<u>54,149</u>	<u>54,947</u>	<u>(798)</u>	<u>-1%</u>	<u>67,852</u>
Total liabilities	<u>2,421,848</u>	<u>2,424,524</u>	<u>(2,676)</u>	<u>0%</u>	<u>2,508,927</u>
Net deficiency:					
Invested in capital assets	15,450	29,097	(13,647)	-47%	46,590
Restricted	<u>(1,484,887)</u>	<u>(1,404,966)</u>	<u>(79,921)</u>	<u>6%</u>	<u>(1,195,176)</u>
Total net deficiency	<u>(1,469,437)</u>	<u>(1,375,869)</u>	<u>(93,568)</u>	<u>7%</u>	<u>(1,148,586)</u>
Total liabilities and net deficiency	\$ <u>952,411</u>	<u>1,048,655</u>	<u>(96,244)</u>	<u>-9%</u>	<u>1,360,341</u>

LOAN PAYABLE TO THE NORTHERN MARIANA ISLANDS RETIREMENT FUND

On August 15, 1996, the Credit Union entered into a loan agreement with the Northern Mariana Islands Retirement Fund (the Fund), an affiliated entity and component unit of the CNMI. The loan bears interest at a floating rate based on the actuarial rate of return on the Fund investments, with a minimum rate of 7.5% and a maximum rate of 10% per annum. The interest rate for the years ended December 31, 2008 and 2007 was 8%. The loan is payable in monthly installments of \$15,000 over a period of thirty years expiring on March 15, 2026. Funds borrowed are collateralized by the full faith and credit of the CNMI Government, a first mortgage on real property (owned by the CNMI Government) in Navy Hill, Saipan, a security interest in the CNMI Government's accounts receivable, and deeds to real property (owned by the CNMI Government) on the islands of Rota and Tinian. See note 5 to the financial statements for more information on the Credit Union's loan payable to the Fund.

RISK MANAGEMENT

The primary risk that the Credit Union faces is the collection of delinquent accounts. The Board of Directors and management have acquired the services of a law firm to assist in the collection.

SIGNIFICANT COST CUTTING MEASURES

The Loan Assistant resigned on September 20, 2008 but his position was not filled. However, the Office Assistant was promoted to Loan Assistant therefore eliminating the need to hire a replacement. The Credit Union's staffing was cut and personnel expenses were reduced.

SIGNIFICANT DATABASE IMPROVEMENT

The development of the Credit Union's system by Megabyte in 2007 has made the operations of the credit union smoother as far as service to members and statement availability. The system is more user friendly and security measures and access are more effective. However, there are a few more glitches in the reporting ability, which Megabyte are currently addressing.

CONTACTING THE CREDIT UNION'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the Credit Union's finances and to demonstrate the Credit Union's accountability for the money it receives. The Management's Discussion and Analysis for the year ended December 31, 2006 is set forth in the report on the audit of the Credit Union's financial statement which is dated April 13, 2008. That Discussion and Analysis explains the major factors impacting the 2006 financial statement. If you have any questions about the 2006 report, or need additional information, please contact the General Manager at the Commonwealth Government Employees' Credit Union, P.O. Box 500135, Saipan, MP 96950-0135, or e-mail cgecu@pticom.com or call 664-3900.

COMMONWEALTH GOVERNMENT EMPLOYEES' CREDIT UNION

Statements of Net Deficiency December 31, 2008 and 2007

<u>ASSETS</u>	<u>2008</u>	<u>2007</u>
Current assets:		
Cash and cash equivalents	\$ 18,305	28,151
Time certificates of deposit	169,706	166,410
Receivables:		
Member loans, net of allowance for loan losses	521,402	637,375
Accrued loan interest, net of allowance of \$70,683 and \$69,403 as of December 31, 2008 and 2007	5,368	6,056
Accrued bank interest	2,884	1,692
Prepays	1,320	1,229
Total current assets	718,985	840,913
Restricted time certificate of deposit	45,541	44,448
Members loans receivable, net	172,435	134,197
Plant and equipment, net	15,450	29,097
	\$ 952,411	1,048,655
<u>LIABILITIES AND NET DEFICIENCY</u>		
Current liabilities:		
Bank overdraft	\$ 21,447	14,993
Current portion of loan payable	48,970	44,453
Members' savings accounts	707,640	664,662
Accounts payable	14,218	12,385
Due to Saipan Credit Union	400	100
Accrued expenses	6,066	12,878
Deferred income	12,018	14,591
Total current liabilities	810,759	764,062
Loan payable, net of current portion	1,611,089	1,660,462
Total liabilities	2,421,848	2,424,524
Net deficiency:		
Invested in capital assets	15,450	29,097
Restricted	(1,484,887)	(1,404,966)
Total net deficiency	(1,469,437)	(1,375,869)
	\$ 952,411	1,048,655

See accompanying notes to financial statements.

COMMONWEALTH GOVERNMENT EMPLOYEES' CREDIT UNION

Statements of Revenues, Expenses and Changes in Net Deficiency Years Ended December 31, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Operating revenues:		
Interest income on loans	\$ 142,247	152,535
Loan fees and late charges	75,688	85,791
Other	<u>27,301</u>	<u>260</u>
Total operating revenues	245,236	238,586
Operating expenses:		
General and administrative expenses:		
Salaries, wages and fringe benefits	123,442	122,014
Pension benefits	21,445	35,844
Depreciation	14,437	18,242
Communications	6,294	6,812
Utilities	5,372	4,697
Repairs and maintenance	3,769	2,751
Supplies and services	3,257	3,382
Travel	1,706	3,461
Insurance	2,985	2,484
Fuel	1,692	1,214
Dues and subscriptions	428	976
Advertising	720	484
Professional fees	388	165
Miscellaneous	<u>9,590</u>	<u>123,067</u>
Total general and administrative expenses	<u>195,525</u>	<u>325,593</u>
Operating income (loss)	<u>49,711</u>	<u>(87,007)</u>
Nonoperating revenues (expenses), net:		
Interest income on interest bearing accounts	5,666	12,641
Interest expense - loan payable	(135,144)	(138,209)
Interest expense - deposits	(13,801)	(15,008)
Gain on sale of fixed assets	<u>-</u>	<u>300</u>
Total nonoperating revenues (expense), net	<u>(143,279)</u>	<u>(140,276)</u>
Change in net deficiency	(93,568)	(227,283)
Net deficiency at beginning of year	<u>(1,375,869)</u>	<u>(1,148,586)</u>
Net deficiency at end of year	\$ <u><u>(1,469,437)</u></u>	<u><u>(1,375,869)</u></u>

See accompanying notes to financial statements.

COMMONWEALTH GOVERNMENT EMPLOYEES' CREDIT UNION

Statements of Cash Flows
Years Ended December 31, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Cash flows from operating activities:		
Cash received from interest and fees on loans receivable	\$ 243,351	246,066
Cash payments to suppliers for goods and services	(57,442)	(180,379)
Cash payments to employees for services	<u>(128,416)</u>	<u>(123,061)</u>
Net cash provided by (used for) operating activities	<u>57,493</u>	<u>(57,374)</u>
Cash flows from capital and relating financing activities:		
Acquisition of capital assets	(790)	(749)
Disposal of capital assets	-	300
Repayment of long-term debt	(44,856)	(41,790)
Interest paid on long-term debt	<u>(135,144)</u>	<u>(138,209)</u>
Net cash used for capital and related financing activities	<u>(180,790)</u>	<u>(180,448)</u>
Cash flows from investing activities:		
Net change in time certificates of deposit	(3,296)	84,936
Net change in restricted time certificates of deposit	(1,093)	10,647
Interest received on interest bearing deposits	4,474	15,052
Loan originations and collections, net	<u>77,735</u>	<u>184,850</u>
Net cash provided by investing activities	<u>77,820</u>	<u>295,485</u>
Cash flows from noncapital financing activities:		
Net change in bank overdraft	6,454	(7,520)
Net decrease in deposits	<u>29,177</u>	<u>(44,716)</u>
Net cash provided by (used for) noncapital financing activities	<u>35,631</u>	<u>(52,236)</u>
Net increase (decrease) in cash and cash equivalents	(9,846)	5,427
Cash and cash equivalents at beginning of year	<u>28,151</u>	<u>22,724</u>
Cash and cash equivalents at end of year	\$ <u><u>18,305</u></u>	\$ <u><u>28,151</u></u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 49,711	(87,007)
Adjustment to reconcile operating income to net cash provided by operating activities:		
Depreciation	14,437	18,242
(Increase) decrease in assets:		
Interest receivable	688	15,016
Other receivables	-	1,467
Prepays	(91)	293
Decrease in liabilities:		
Accounts payable and other liabilities	<u>(7,252)</u>	<u>(5,385)</u>
Net cash provided by (used for) operating activities	\$ <u><u>57,493</u></u>	\$ <u><u>(57,374)</u></u>

See accompanying notes to financial statements.

COMMONWEALTH GOVERNMENT EMPLOYEES' CREDIT UNION

Notes to Financial Statements
December 31, 2008 and 2007

(1) Organization

The Commonwealth Government Employees' Credit Union (the Credit Union), a component unit of the Commonwealth of the Northern Marianas Islands (CNMI), was formed on February 13, 1995 under the provisions of Public Law 9-27, repealed in its entirety by Public Law 9-52 and amended by Public Law 10-37. The law created a nonprofit government corporation managed by a Board of Directors appointed by the Governor of the CNMI. The purpose of the Credit Union is to promote thrift among its members by affording them an opportunity to accumulate their savings and to create for them a source for credit to use for provident or productive purposes. The Credit Union considers all of its net assets, except net assets invested in capital assets, to be restricted for such purposes.

(2) Summary of Significant Accounting Policies

The accounting policies of the Credit Union conform to accounting principles generally accepted in the United States of America (GAAP), as applicable to governmental entities, specifically proprietary funds. Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, requires that proprietary activities apply all applicable GASB pronouncements as well as Statements and Interpretations issued by the Financial Accounting Standards Board (FASB), Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedures issued on or before November 30, 1989. The Credit Union has implemented GASB 20 and elected not to apply FASB Statements and Interpretations issued after November 30, 1989.

Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Basis of Accounting

Proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operation of this fund are included within the statements of net deficiency. Proprietary fund operating statements (not presented) present increases and decreases in net total assets. The accrual basis of accounting is utilized for proprietary funds. Under this method, revenues are recorded when earned and expenses recorded at the time liabilities are incurred.

COMMONWEALTH GOVERNMENT EMPLOYEES' CREDIT UNION

Notes to Financial Statements, Continued December 31, 2008 and 2007

(2) Summary of Significant Accounting Policies, Continued

Cash and Cash Equivalents and Time Certificates of Deposit

For purposes of the statements of net deficiency and cash flows, the Credit Union considers all highly liquid investments with a maturity of three months or less when purchased to be cash and cash equivalents. Deposits made in time certificates of deposit with original maturity dates greater than ninety days are separately classified. At December 31, 2008 and 2007, total cash and cash equivalents were \$18,305 and \$28,151, respectively, and the corresponding bank balances were \$18,005 and \$27,715, respectively. At December 31, 2008 and 2007, total time certificates of deposit were \$215,247 and \$210,858, respectively. Of the bank balance amount, \$233,252 and \$238,573 are maintained in a financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance as of December 31, 2008 and 2007, respectively. Bank deposits in the amount of \$250,000 and \$100,000 were FDIC insured as of December 31, 2008 and 2007, respectively. CNMI law does not require component units to collateralize their bank accounts and thus the Credit Union's deposits in excess of FDIC insurance are uncollateralized.

The Loan agreement with the Northern Mariana Islands Retirement Fund (the Fund), Article 4, Section 4.4, stipulates that the Credit Union shall maintain, at all times, a separate debt service fund in an account separate from its other accounts for the purpose of making repayments to the Fund which shall consist of, at a minimum, three (3) months of payments of principal and interest due. The Credit Union has restricted time certificates of deposit to comprise this debt service fund.

GASB Statement No. 3 previously required government entities to present deposit risks in terms of whether the deposits fell into the following categories:

Category 1 Deposits that are federally insured or collateralized with securities held by the Credit Union or its agent in the Credit Union's name;

Category 2 Deposits that are insured but fully collateralized with securities held by the pledging financial institution's trust department or agent in the Credit Union's name; or

Category 3 Deposits that are collateralized with securities held by the pledging financial institution's trust department or agent but not in the Credit Union's name and non-collateralized deposits.

COMMONWEALTH GOVERNMENT EMPLOYEES' CREDIT UNION

Notes to Financial Statements, Continued December 31, 2008 and 2007

(2) Summary of Significant Accounting Policies, Continued

Cash and Cash Equivalents and Time Certificates of Deposit

GASB Statement no. 40 amended GASB Statement No. 3 to in effect eliminate disclosure for deposits falling into categories 1 and 2 but retained disclosures for deposits falling under category 3. Category 3 deposits are those deposits that have exposure to custodial credit risk. Custodial credit risk is the risk that in the event of a bank failure, the Credit Union's deposits may not be returned to it. Such deposits are covered by depository insurance and are either uncollateralized or collateralized with securities held by the pledging financial institution but not in the depositor-government's name. The Credit Union does not have a deposits policy for custodial credit risk.

Loans and Allowance for Loan Losses

Loans are stated at the amount of unpaid principal and interest, reduced by an allowance for loan losses. Interest on loans is calculated by using the simple interest method on daily balances of the principal amount outstanding. The allowance for loan losses is established through a provision for loan losses charged to expense. Loans are charged against the allowance for loan losses when management believes that the collection of the principal is unlikely. The allowance is an amount that management believes will be adequate to absorb possible losses on existing loans that may be uncollectible, based on evaluations of the collectibility of loans and prior loan loss experience. The evaluations take into consideration such factors as changes in the nature and volume of the loan portfolio, overall portfolio quality, review of specific problem loans and current economic conditions that may affect the borrowers' ability to pay.

Plant and Equipment

Plant and equipment are stated at cost. The Credit Union does not have a capitalization policy for fixed assets; however, items with a cost that equals or exceeds \$100 are generally capitalized at the time of acquisition. Depreciation is provided by using the straight-line method over the estimated useful lives of the assets and is charged as a reduction in the investment in capital assets component of net assets.

Members' Savings Accounts

Members' savings accounts, which consist of regular savings and time certificates of deposit, are subordinated to all other liabilities of the Credit Union upon liquidation. Interest rates on members' savings accounts are set by the Board of Directors, based on an evaluation of current and future market conditions. For the years ended December 31, 2008 and 2007, the interest paid was two percent (2%) for regular savings and three percent (3%) for time certificates of deposit.

COMMONWEALTH GOVERNMENT EMPLOYEES' CREDIT UNION

Notes to Financial Statements, Continued
December 31, 2008 and 2007

(2) Summary of Significant Accounting Policies, Continued

Deferred Loan Fees

Loan origination fees are deferred and amortized into income as an adjustment of yield using the straight-line method over the contractual life of the loans. Direct loan origination costs are expensed as incurred. Differences between this method and the method prescribed by SFAS No. 91, *Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases* are not significant and do not otherwise materially affect the accompanying financial statements.

Retirement Plan

The Credit Union contributes to the Northern Mariana Islands Retirement Fund (the Fund), a cost-sharing multiple employer defined benefit pension plan administered by the CNMI. The fund 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. CNMI Public Law 6-17, the Northern Mariana Retirement Fund Act of 1988 assigns the authority to establish and amend benefit provisions to the Fund's Board of Trustees. The Fund issues a publicly available financial report that includes financial statements and required supplementary information for the Fund. The report may be obtained by writing to the Northern Mariana Islands Retirement Fund, P.O. Box 501247, Saipan, MP 96950-1247.

Plan members are required to contribute 8.5% and 11.0% of their annual covered salary for Class I and Class II members, respectively, and the Credit Union is required to contribute at an actuarially determined rate. The current rate is 37.39% of annual covered payroll. The contribution requirements of plan members and the Credit Union are established and may be amended by the Fund's Board of Trustees. The Credit Union's contributions to the Fund for the years ended December 31, 2008, 2007 and 2006 were \$18,373, \$34,474 and \$49,566, respectively, equal to the required contributions for each year.

Net Assets

GASB statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments, has required the Credit Union to establish net asset categories as follows:

- Investment in capital assets; capital assets, net of accumulated depreciation.
- Restricted:
Nonexpendable – Net assets subject to externally imposed stipulations that the Credit Union maintain them permanently. At December 31, 2008 and 2007, the Credit Union does not have nonexpendable net assets.

COMMONWEALTH GOVERNMENT EMPLOYEES' CREDIT UNION

Notes to Financial Statements, Continued December 31, 2008 and 2007

(2) Summary of Significant Accounting Policies, Continued

Net Assets

Expendable – Net assets whose use by the Credit Union is subject to externally imposed stipulations that can be fulfilled by actions of the Credit Union pursuant to those stipulations or that expire by the passage of time. As described in note 1, the Credit Union considers all assets, except investments in capital assets, to be restricted for financing to its members.

- Unrestricted; net assets that are not subject to externally imposed stipulations. As the Credit Union considers all assets, except investments in capital assets, to be restricted for financing to its members, the Credit Union does not have unrestricted net assets as of December 31, 2008 and 2007.

New Accounting Standards

During fiscal year 2008, the Credit Union implemented the following pronouncements:

- GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, which establishes standards for impairment of capital assets when service utility has declined significantly and unexpectedly.
- GASB Statement No. 44, *Economic Condition Reporting: The Statistical Section, an amendment to NCGA Statement 1*, which improves the understandability and usefulness of statistical section information and adds information from the new financial reporting model for state and local governments required by GASB Statement No. 34.
- GASB Statement No. 46, *Net Assets Restricted by Enabling Legislation (an amendment to GASB Statement No. 34)*, which requires that limitations on the use of the net assets imposed by enabling legislation be reported as restricted net assets.
- GASB Statement No. 47, *Accounting for Termination Benefits*, which establishes guidance for state and local governmental employers on accounting and financial reporting for termination benefits.

COMMONWEALTH GOVERNMENT EMPLOYEES' CREDIT UNION

Notes to Financial Statements, Continued
December 31, 2008 and 2007

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards

- GASB Technical Bulletin No. 2004-2, *Recognition of Pension and Other Postemployment Benefit Expenditures/Expense and Liabilities by Cost-Sharing Employers*, which clarifies the requirements of GASB Statement Nos. 27 and 45 for recognition of pension and other postemployment benefit expenditures/expense and liabilities by cost-sharing employers.

The implementation of these pronouncements did not have a material impact on the accompanying financial statements.

During fiscal year 2005, the Credit Union implemented GASB Statement No. 40, *Deposit and Investment Risk Disclosures (an amended of GASB Statement No. 3)*, which 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.

In April 2004, GASB issued Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. GASB Statement No. 43 establishes uniform financial reporting for other postemployment benefit plans by state and local governments. The provisions of this Statement are effective for periods beginning after December 15, 2007.

In July 2004, GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. GASB Statement No. 45 establishes standards for the measurement, recognition, and display of other postemployment benefits expense/expenditures and related liabilities, note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers. The provisions of this Statement are effective for periods beginning after December 31, 2006.

COMMONWEALTH GOVERNMENT EMPLOYEES' CREDIT UNION

Notes to Financial Statements, Continued December 31, 2008 and 2007

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards

In September 2006, GASB issued Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfer of Assets and Future Revenues*. GASB Statement No. 48 establishes criteria that governments will use to ascertain whether certain transactions should be regarded as a sale or a collateralized borrowing. The Statement also includes a provision that stipulates that governments should not revalue assets that are transferred between financial reporting entity components. The provisions of this Statement are effective for periods beginning after December 31, 2006.

In December 2006, GASB issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. GASB Statement No. 49 provides guidance and consistency under which a governmental entity would be required to report a liability related to pollution remediation. The provisions of this Statement are effective for periods beginning after December 31, 2007.

In May 2007, GASB issued Statement No. 50, *Pension Disclosures an Amendment of GASB Statement No. 25 and 27*. GASB Statement No. 50 more closely aligns the financial reporting requirements for pensions with those for other post-employment benefits. The provisions of this Statement are effective for periods beginning after June 15, 2007.

In June 2007, GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. GASB Statement No. 51 addresses whether and when intangible assets should be considered capital assets for financial reporting purposes. The provisions of this Statement are effective for periods beginning after June 15, 2009.

In November 2007, GASB issued Statement No. 52, *Land and Other Real Estate Held as Investment by Endowments*. GASB Statement No. 52 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.

COMMONWEALTH GOVERNMENT EMPLOYEES' CREDIT UNION

Notes to Financial Statements, Continued
December 31, 2008 and 2007

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards

In June 2008, GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. GASB Statement No. 53 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.

Off-Balance Sheet Financial Statement Instruments

In the ordinary course of business, the Credit Union has entered into off-balance sheet financial instruments consisting of commitments to extend credit. Such financial instruments are recorded in the financial statements when they become payable and the amount of the Credit Union's commitment to extend credit is not significant at December 31, 2008.

(3) Members Loans and Allowance for Loan Losses

Loans receivable are reported net of the allowance for loan losses. The following is a schedule of loans receivable and allowances as of December 31, 2008 and 2007:

	2008		
	<u>Loan Balance</u>	<u>Allowance</u>	<u>Net Amount</u>
Loans receivable	\$ <u>911,680</u>	\$ <u>217,843</u>	\$ <u>693,837</u>
	2007		
	<u>Loan Balance</u>	<u>Allowance</u>	<u>Net Amount</u>
Loans receivable	\$ <u>991,111</u>	\$ <u>219,539</u>	\$ <u>771,572</u>

COMMONWEALTH GOVERNMENT EMPLOYEES' CREDIT UNION

Notes to Financial Statements, Continued December 31, 2008 and 2007

(3) Members Loans and Allowance for Loan Losses, Continued

Maturities of the above principal balances subsequent to December 31, 2008 and 2007, will be as follows:

	<u>2008</u>	<u>2007</u>
Fully matured and other	\$ 204,022	214,656
1 – 6 months	356,628	385,344
7 – 18 months	299,592	327,170
19 months – 3 years	<u>51,438</u>	<u>63,941</u>
	\$ <u>911,680</u>	<u>991,111</u>

Allowances for Loan Losses

An analysis of the change in the allowance for loan losses is as follows:

	<u>2008</u>	<u>2007</u>
Balance – beginning of year	\$ 219,539	219,539
Provision for loans losses	-	-
Loans written-off	<u>(1,696)</u>	<u>-</u>
Balance - end of year	\$ <u>217,843</u>	<u>219,539</u>

Certain officers and employees of the Credit Union were loan customers during 2008 and 2007. Such loans were in the ordinary course of business and do not represent more than a normal risk of collection. Total loans outstanding to these persons at December 31, 2008 and 2007 were \$31,949 and \$26,354, respectively. Loans granted to these persons were \$21,315 and \$30,247 during the years ended December 31, 2008 and 2007, respectively. Related principal repayments during the years were \$15,720 and \$29,302, respectively.

COMMONWEALTH GOVERNMENT EMPLOYEES' CREDIT UNION

Notes to Financial Statements. Continued
December 31, 2008 and 2007

(4) Plant and Equipment

A summary of plant and equipment as of December 31, 2008 and 2007, is as follows:

	<u>Estimated Useful Lives</u>	Balance at January 1, 2008	<u>Additions</u>	<u>Deletions</u>	Balance December 31, 2008
Furniture and equipment	5 years	\$ 159,788	790	-	160,578
Building and Improvements	10 years	<u>56,468</u>	<u>-</u>	<u>-</u>	<u>56,468</u>
		216,256	790	-	217,046
Less accumulated depreciation and amortization		(187,159)	(14,437)	<u>-</u>	(201,596)
		<u>\$ 29,097</u>	<u>(13,647)</u>	<u>-</u>	<u>15,450</u>
	<u>Estimated Useful Lives</u>	Balance at January 1, 2007	<u>Additions</u>	<u>Deletions</u>	Balance December 31, 2007
Furniture and equipment	5 years	\$ 159,039	749	-	159,788
Vehicles	5 years	15,085	-	(15,085)	-
Building and Improvements	10 years	<u>56,468</u>	<u>-</u>	<u>-</u>	<u>56,468</u>
		230,592	749	(15,085)	216,256
Less accumulated depreciation and amortization		(184,002)	(18,242)	<u>15,085</u>	(187,159)
		<u>\$ 46,590</u>	<u>(17,493)</u>	<u>-</u>	<u>29,097</u>

(5) Loan Payable

On August 15, 1996, the Credit Union entered into a loan agreement with the Northern Mariana Islands Retirement Fund (the Fund), an affiliated entity and component unit of the CNMI. The loan bears interest at a floating rate based on the actuarial rate of return on the Fund Investments, with a minimum 7.5% and maximum rate of 10% per annum. The interest rate for the years ended December 31, 2008 and 2007 was 8%. The loan is payable in monthly installments of \$15,000 over a period of thirty years expiring on March 15, 2026. Funds borrowed are collateralized by the full faith and credit of the CNMI Government, a first mortgage on real property (owned by the CNMI Government) in Navy Hill, Saipan, a security interest in the CNMI Government's accounts receivable, and deeds to real property (owned by the CNMI Government) on the islands of Rota and Tinian.

COMMONWEALTH GOVERNMENT EMPLOYEES' CREDIT UNION

Notes to Financial Statements, Continued
December 31, 2008 and 2007

(5) Loan Payable, Continued

Principal payments for subsequent years ending December 31 and applicable interest due (based on the interest rate effect at December 31, 2008), are as follows:

Years Ending December 31,	Amount	Interest	Total
2009	\$ 48,970	131,030	180,000
2010	53,024	126,976	180,000
2011	57,430	122,570	180,000
2012	62,197	117,803	180,000
2013	67,359	112,641	180,000
2014 – 2018	430,536	469,464	900,000
2019 – 2023	641,432	258,568	900,000
2024 – 2026	<u>299,111</u>	<u>22,875</u>	<u>321,986</u>
	<u>\$1,660,059</u>	<u>1,361,927</u>	<u>3,021,986</u>

Changes in loan payable for the years ended December 31, 2008 and 2007 are as follows:

	Balance January 1, 2008	<u>Additions</u>	<u>Reduction</u>	Balance December 31, 2008	Due Within <u>One Year</u>
Northern Mariana Islands Retirement Fund	<u>1,704,915</u>	<u>-</u>	<u>(44,856)</u>	<u>1,660,059</u>	<u>48,970</u>
	Balance January 1, 2007	<u>Additions</u>	<u>Reduction</u>	Balance December 31, 2007	Due Within <u>One Year</u>
Northern Mariana Islands Retirement Fund	<u>1,746,705</u>	<u>-</u>	<u>(41,790)</u>	<u>1,704,915</u>	<u>44,453</u>

(6) Contribution

The Credit Union's office space is contributed by the CNMI. The Credit Union does not record this contribution revenue and related expense. The estimated fair market value of the contribution has not been recorded as revenue or expense as the CNMI has not allocated the contribution value to the Credit Union, and the Credit Union has not assessed the fair market value of the contribution.

COMMONWEALTH GOVERNMENT EMPLOYEES' CREDIT UNION

Notes to Financial Statements, Continued
December 31, 2008 and 2007

(7) Risk Management

The Credit Union is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Credit Union has elected to purchase commercial insurance from independent third parties for the risks of losses to which it is exposed. Settled claims from these risks have not exceeded commercial insurance coverage during the last three years.