EXECUTIVE SUMMARY

Commonwealth Government Employees' Credit Union Financial Audit Report for Calendar Year Ended December 31, 2004

Financial Audit Summary No. 07-003, August 9, 2007

Summary

The Office of the Public Auditor (OPA) contracted with Deloitte & Touche to conduct an audit of the Government Employees' Credit Union's Statement of Net Assets only (Balance Sheet). ***An audit of the full financial statements was not reported primarily because no financial statement audit was conducted since 1997. Thus, certain critical financial information could not be verified nor confirmed. Financial audits subsequent to 2004, the period audited, will include audits of the full financial statements of the Credit Union***. These financial statements will include, along with the Statement of Net Assets, a Statement of Revenues, Expenses, and Changes in Net Assets, and a Statement of Cash Flows. This summary presents OPA's review on the Credit Union's Statement of Net Assets for the calendar year 2004. The audit was conducted in accordance with auditing standards generally accepted in the United States and with applicable provisions of *Government Auditing Standards* issued by the Comptroller General of the United States.

In the auditor's report, the auditor stated that the Management Discussion & Analysis (MD&A) did not conform with guidelines established by GASB as the audit was restricted to the Statement of Net Assets, and the MD&A did not include discussions on the statement of revenues, expenses, and changes in net assets, the cash flow statement and its significant long-term debt. However, the Credit Union received an unqualified opinion, or "clean opinion," indicating that the data contained in the statement of net assets can be relied upon. This summary is provided solely for informational purposes. No audit opinion on the related data is expressed nor inferred by OPA. A copy of the audit report may be obtained at the Credit Union or the Office of the Public Auditor.

The Opinion, Financial Statements, and Notes to the Financial Statements are the three primary components, which taken together, give an informed reader an overview of the financial condition of the audited entity. As stated above, the Credit Union received an unqualified opinion, or "clean" opinion, indicating that the data contained in the report can be relied upon. Additionally, management prepares an unaudited *Management Discussion and Analysis* (MD&A) which is presented on pages 3-5 of the audit report.

Background

The Commonwealth Government Employees' Credit Union (CGECU) was established in February 13, 1995 as a nonprofit government corporation under Public Law 9-27. This law was subsequently repealed by Public Law 9-52 and then amended by Public Law 10-37. Both Public Laws 9-27 and 9-52 effectively abolished the former Saipan Credit Union and created the newly formed Government Employees' Credit Union. Public Law 10-37 clarified the relationship between the two Credit Unions and placed the CGECU as a receiver for the former Saipan Credit Union.

The Government Employees Credit Union is managed by a 5 member Board of Directors who are appointed by the Governor for four year terms. The Credit Union's main purpose is to provide its member owners with a source of obtaining loans and credit and a depository for savings. Membership in the Credit Union is restricted to employees of the Commonwealth government, retirees, spouses and children.

Calendar Year 2004 Performance

Total Net Assets Plunge $.9M

The Credit Union's Statement of Net Assets (Balance Sheet) reports assets and liabilities at a given point in time and assesses an agency's overall financial position. At December 31, 2004,

total liabilities exceed total assets by $946,816. Consequently, total Net Assets are negative. Negative assets indicate that the overall financial condition of the Credit Union is weak, and that it is not achieving an adequate standard to be in operation. Another indicator of the health of the credit union can be measured in its current ratio, which is determined to be 0.928 to 1. This ratio suggests that for every one dollar of liabilities the Credit Union has outstanding, it can only pay out $.93 cents. The higher the current ratio, the more liquid a company is in meeting its short-term debt obligation.

Some of the Credit Union's significant assets are in its cash and cash equivalents and receivables which constitute a majority of its member loans. These assets are stated separately as unrestricted and restricted. Unrestricted cash and cash equivalents and receivables (net of loan losses) are stated as $252,000 and $700,984; restricted cash and cash equivalents and receivables, net are stated as $52,044 and $831,307. Other significant assets listed are plant and equipment at $41,340, accrued interest at $14,081, and other receivables reported at $8,663.

Allowance for Loan Losses Fairly Significant

Possible delinquent accounts is a risk the Credit Union faces; thus, it must be aggressive in its collection efforts to minimize the amounts of such losses. The allowance for loan losses on member loans at December 31, 2004, was calculated to be $256,584, which represents about 14.3% of total member loans. This allowance is an amount based on management's belief will adequately absorb possible loan losses on existing loans. Eighty percent of the Credit Union's total assets as measured in its net loans to total assets ratio are invested in the loan portfolio. A maximum ratio should be established by management in order to avoid any liquidity problems.

Loan Payable Remains High

The Credit Union's material liabilities remain in its outstanding loan payable of about $1.8 million. The payable stems from a loan agreement entered into with the Northern Mariana Islands Retirement Fund (the Fund) in August 1996 for a period of thirty years and expiring in March 2026. Other significant liabilities include member's savings accounts which is reported at $941,520, the current portion of the loan payable at $32,635, accounts payable at $23,944, and deferred income at $32,081. In its Management Discussion and Analysis (MD&A) report, the Credit Union noted that it is doing its best to boost membership, improve services to its members, and provide more loans to increase its income potential.

Audit Findings

Audit findings are reportable items considered material by the auditors. Findings document situations where established policy, procedures or standards have not been followed. Such deviations may lead to losses for the CNMI or misstatements in its financial reports. Findings, if they remain uncorrected, can ultimately lead to qualifications in the Opinion of the auditors. For Calendar 2004, the Credit Union has seven (7) reported audit findings and zero (0) unresolved findings from prior year audits. Although seven findings are reported, the Credit Union has established corrective action plans for each of these reported findings.

Note

OPA notes that based on its observations and preliminary review of financial transactions and unaudited reports since 2004, it appears that the management of the Credit Union's financial affairs has improved from prior years. OPA notes, in particular, stronger participation and oversight by the Credit Union's Board of Directors (BOD). Also, there seems a closer cooperative relationship between the Credit Union's BOD and management over the financial affairs of the Credit Union. To assist management and the BOD, OPA will contract for an independent financial audit for 2005 and 2006. This will bring the Credit Union current in terms of its financial reporting responsibilities.

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