

EXECUTIVE SUMMARY

Marianas Public Land Trust

Single Audit Report as of September 30, 2005

Single Audit Summary No. 06-010, November 23, 2006

The Marianas Public Land Trust (MPLT) contracted Deloitte, an independent auditing firm, to conduct a financial audit for the fiscal year ended September 30, 2005. 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. This summary presents the Office of the Public Auditor's (OPA) review of the *Report on the Audit of Financial Statements in Accordance with OMB Circular A-133* for the fiscal year ended September 30, 2005. This summary is provided solely for informational purposes. No audit opinion on the related data is expressed nor inferred by OPA.

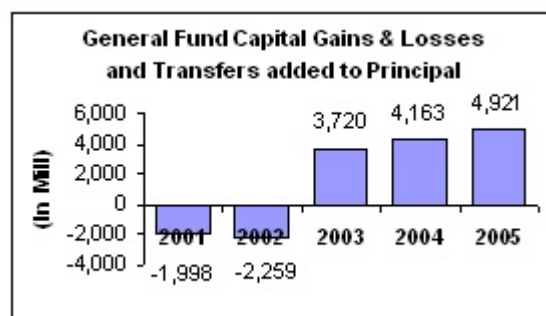
The Opinion, Financial Statements, and Notes to the Financial Statements are the three primary components which, taken together, give an informed reader an overview of the financial condition of the audited entity. The MPLT received an unqualified opinion or "clean" opinion, indicating that the data contained in the report can be relied upon. Additionally, MPLT management prepared a *Management Discussion and Analysis* (MD&A) which provides, in common language, a summary of its financial activities. The MD&A is presented on pages 3 through 8 of the audit report.

Background The Marianas Public Land Trust was established in 1978 in accordance with the CNMI Constitution. MPLT is comprised of a five member board of trustees with staggered six-year terms, who are appointed by the Governor with Senate confirmation. The role of MPLT is to manage the monies it receives from the Department of Public Lands (DPL), formerly the Marianas Public Lands Authority (MPLA). DPL's revenues which are distributable to MPLT are derived from the use and administration of these public lands less a deduction for reasonable expenses.

MPLT is responsible for making careful, reasonable, and prudent investments with the distribution it receives from DPL. MPLT was created as a nonexpendable trust fund; that is, its principal is invested in perpetuity and only the interest on the investments can be expended. Two nonexpendable trust funds were set up. One was to benefit the CNMI General Fund in which the distributions to it are general revenues subject to appropriation; the other for the development and maintenance of an American Memorial Park. Total principal payments distributed to MPLT since the inception of the trust amounts to \$26.9M, of which \$2M was given to the Park Fund.

Total Net Assets Now at \$68M

With a beginning principal of \$26.9M, MPLT has managed to grow its trust assets substantially to \$68.9M as of FY 2005. General Fund trust assets increased to \$61.4M while the Park Fund assets increased to \$7.5M. This is a total growth of 155.7% over the 23 years the trust has been in operation. Total net assets combined for the two trust funds increased from \$63.2M in FY 2004 to \$68.4M in FY 2005, a \$5.2M overall increase.



MPLT allocates capital gains and losses on its investments to the principal balances for both the General and Park Fund trusts. As such, these gains or losses are not available for distribution and will increase or decrease net assets. However, other income on investments are distributed after reasonable fees are deducted.



MPLT experienced net losses in FYs 2001 and 2002 and capital gains from FYs 2003 to 2005. The losses were attributed mainly to the stock market declines of the investment portfolio. However, from FY 2003 to FY 2005, MPLT recovered its total losses of \$6.5M and regained \$5.1M.

*Operating Revenues and Expenses
Simultaneously Increase*

Operating revenues increased 10.8% from \$6.1M in FY 2004 to \$6.8M in FY 2005. The increase in revenue is due to increases in the fair value of investments and interest and dividend income earned on those investments. Operating expenses also increased by \$110K or 11.9% over the prior year. Professional fees and consultancy fees make up the bulk of the increase in expenses.

*Three Local Economically Targeted
Investments Created Since 1998*

Since 1998, MPLT has initiated three Economically Targeted Investments (ETI) that aim to provide social benefits to the CNMI while simultaneously providing MPLT a required rate of return. The first two ETI's created are the Northern Marianas Housing Corporation (NMHC) and Adelantun Publickun Luta Enteramente (APLE) loans. The NMHC loan provides the ability to make long-term mortgage financing available to 'low-income' applicants and persons of Northern Marianas descent for the construction of housing. The APLE loan is a scholarship loan program for additional educational needs for Rota residents. As of FY 2005, the balance of the NMHC loan amounts to \$8.9M out of \$10M given. In accordance with P.L 10-29, the distributions which MPLT makes to the General Fund are reverted to MPLT for the repayment of interest due on the NMHC loan. These repayments are in the form of transfers and are added on to MPLT's trust principal. For the APLE loan, it is in default and as such is currently suspended until matters are resolved with MPLT's Trustees and with the APLE Board of Directors. Outstanding receivables on the APLE loan amount to \$143,000.

For the purpose of adding a Visitor/Cultural Center, a Memorial Garden, and making upgrades to the Memorial Park, a loan of \$2M was given to the Commonwealth Development Authority to be matched with Capital Improvement Project funding grants. The repayment of this loan will be derived from the future revenues generated by the Park. As of FY 2005, this loan was at \$1.8M.

*Six Money Mangers Administering
Trust Assets*

MPLT engages the services of professional money managers to manage the assets of both the General and Park Fund trusts. Before 1988, the trustees had managed the assets with the investments held in only U.S. Treasury obligations. The trust investments have since been expanded to include assets held in fixed income securities, equities, and ETI's. For the General Fund trust, the allocation of these securities for 2005 which may change over time because of investment policy decisions, consists of 24% fixed income, 58% equities, and 15% ETIs, with the remaining 3% held in cash & cash equivalents.

According to MPLT, in addition to the asset allocation bases in domestic equity (value and growth) and fixed income, two additional allocation bases, International Equity and Small/Mid Cap Core, were added to the assets under management. This change occurred in order to decrease volatility in the overall investment portfolio and to limit losses in the event of market declines. MPLT has six money managers to administer the trust assets: Sands Capital Management; Great Lakes Advisors; Kayne Anderson Rudnick; J.P. Morgan Asset Management; Metropolitan West Capital Management; and finally Richmond Capital.

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 FY 2005, there were no reported findings contained in the MPLT audit.



A copy of the full financial statements may be obtained from OPA or the Marianas Public Land Trust

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