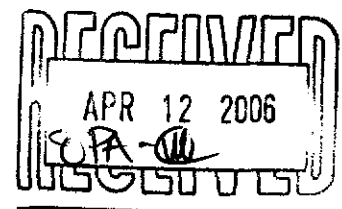


COMMONWEALTH OF THE  
NORTHERN MARIANA ISLANDS

REPORT ON THE AUDIT OF FINANCIAL  
STATEMENTS IN ACCORDANCE  
WITH OMB CIRCULAR A-133

YEAR ENDED SEPTEMBER 30, 2004



COMMONWEALTH OF THE  
NORTHERN MARIANA ISLANDS

FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITORS' REPORT

YEAR ENDED SEPTEMBER 30, 2004

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

FINANCIAL STATEMENTS

YEAR ENDED SEPTEMBER 30, 2004

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COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

FINANCIAL STATEMENTS

YEAR ENDED SEPTEMBER 30, 2004

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## INDEPENDENT AUDITORS' REPORT

Honorable Benigno R. Fitial  
Governor  
Commonwealth of the Northern Mariana Islands:

We have audited the accompanying financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Commonwealth of the Northern Mariana Islands (CNMI) as of and for the year ended September 30, 2004, which collectively comprise the CNMI's basic financial statements as set forth in Section II of the foregoing table of contents. These financial statements are the responsibility of the CNMI's management. Our responsibility is to express an opinion on the respective financial statements based on our audit. We did not audit the financial statements of the Marianas Visitors Authority and the Public School System, which represent 15% and 0.16%, respectively, of the assets and revenues of the CNMI's discretely presented component units, or the financial statements of the Northern Mariana Islands Retirement Fund, the CNMI Workers' Compensation Commission, and the Northern Mariana Islands Government Health and Life Insurance Trust Fund, which represent the assets and revenues of the Fiduciary Funds - Pension (and Other Employee Benefit) Trust Funds. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Marianas Visitor Authority, the Public School System, the Northern Mariana Islands Retirement Fund, the CNMI Workers' Compensation Commission, and the Northern Mariana Islands Government Health & Life Insurance Trust Fund is based solely on the reports of the other auditors.

Except as discussed in the following paragraphs, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the CNMI's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the respective financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinion.

Because of inadequacies in the accounting records and internal control, we were unable to form an opinion regarding capital assets of the Northern Marianas College (NMC); and regarding inventory, federal agencies receivables, utility plant, accounts payable and obligations under capital lease of the Commonwealth Utilities Corporation (CUC). These amounts enter into the determination of revenues and expenses for the aggregate discretely presented component units for the year ended September 30, 2004. In addition, CUC management was unable to provide minutes of Board of Directors meetings subsequent to December 14, 2004. Accordingly, there was an incomplete record of management and Board of Directors' actions and decisions. The financial activities of NMC and CUC represent 27% and 67%, respectively, of the assets and revenues of the aggregate discretely presented component units.

Because of inadequacies in the accounting records, we were unable to form an opinion regarding the amount at which taxes receivable, advances, accounts payable, tax rebates payable, other liabilities and accruals, due to component units, and reserve for continuing appropriations are recorded for the governmental activities, each major fund and the aggregate remaining fund information. These amounts enter into the determination of revenues and expenditures/expenses for the governmental activities, each major fund and the aggregate remaining fund information for the year ended September 30, 2004.

In our opinion, based on our audit and the reports of other auditors, except for the effects on the financial statements of such adjustments, if any, as might have been determined to be necessary had accounting records regarding taxes receivable, advances, accounts payable, tax rebates payable, other liabilities and accruals, due to component units, and reserve for continuing appropriations and their effect on the determination of revenues and expenditures/expenses for governmental activities, each major fund and the aggregate remaining fund information, been adequate, as discussed in the fourth paragraph above, and had the capital assets of NMC and inventory, federal agencies receivables, utility plant, accounts payable, and obligations under capital lease of CUC been determinable, as discussed in the third paragraph above, such financial statements, as set forth in Section II of the foregoing table of contents, present fairly, in all material respects, the respective financial position of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the CNMI, as of September 30, 2004, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis, on pages 4 through 9, and the Schedule of Revenues, Expenditures, and Changes in Deficit - Budget and Actual - General Fund and notes thereto, as set forth in Section III of the foregoing table of contents, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the CNMI's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit such information and we do not express an opinion on it.

Our audit was conducted for the purpose of forming an opinion on the respective financial statements that collectively comprise the CNMI's basic financial statements. The Other Supplementary Information, as set forth in Section IV of the foregoing table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. This supplementary information is the responsibility of the CNMI's management. The Other Supplementary Information has been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, in our opinion, except for the effect of the matters described in the fourth paragraph above, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 1, 2006, on our consideration of the CNMI's (Primary Government only) internal control over financial reporting and 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 should be considered in assessing the results of our audit.

*Deloitte & Touche LLC*

March 1, 2006



## Office of the Secretary Department of Finance

P.O. Box 5234 CHRB SAIPAN, MP 96950

TEL. (670) 664-1100 · FAX: (670) 664-1115

### **Management's Discussion and Analysis For Fiscal Year Ended September 30, 2004**

Our discussion and analysis of the Commonwealth of the Northern Mariana Islands ("CNMI") financial performance provides an overview of the CNMI's financial activities for the fiscal year ended September 30, 2004. Please read it in conjunction with the CNMI's financial statements, which follow this section. Fiscal year 2003 comparative information, including restatements, has been included where appropriate for comparative purposes.

#### **FINANCIAL HIGHLIGHTS**

- For the fiscal year ended September 30, 2004, the CNMI's total net assets decreased by \$34.2 million, to a net asset deficiency position of \$(18,656,437), which represents a decrease of approximately 220% from the net assets at the beginning of the year.
- During the year, the CNMI's expenses for governmental activities were \$331.6 million, including expenses recorded for payments made or due to the autonomous agencies, and were funded in part by program revenues of \$117.4 million, further funded with taxes and other general revenues that totaled \$179.9 million. The difference between total revenues of \$297.4 million and total expenses of \$331.6 million is what resulted in the \$34.2 million decrease in net assets.
- At September 30, 2004, the General Fund reported an unreserved fund deficit of \$(153.4) million, which is an increase in the unreserved fund deficit of 28.2% from the prior year's reported unreserved fund deficit of \$(119.6) million.
- For budgetary reporting purposes, the General Fund reported actual revenues short of final estimates of \$2.3 million, or 1.1%, while reported actual expenditures exceeded final appropriations by \$33.7 million, or 15.6%. These amounts do not include transfers to and from other funds, nor does it include the receipt or use of long-term debt proceeds.

#### **OVERVIEW OF THE FINANCIAL STATEMENTS**

The financial statements presented herein include all of the activities of the Commonwealth of the Northern Mariana Islands ("CNMI") and its component units using the integrated approach as prescribed by GASB Statement No. 34. Included in this report are governmental-wide statements for the governmental activities of the CNMI, along with the CNMI's discretely presented component units. The government-wide financial statements present the complete financial picture of the CNMI from the economic resources measurement focus using the accrual basis of accounting. These statements include all assets of the CNMI (including infrastructure capital assets) as well as all liabilities (including all long-term debt).

#### **Reporting the CNMI as a Whole**

##### **The Statement of Net Assets and the Statement of Activities**

One of the most frequently asked questions about the CNMI's finances is, "Has the CNMI's overall financial condition improved, declined or remained steady over the past year?" The Statement of Net Assets and the Statement of Activities report information about the CNMI as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.



These two government-wide statements report the CNMI's net assets and changes in them from the prior year. You can think of the CNMI's net assets - the difference between assets and liabilities - as one way to measure the CNMI's financial condition or position. Over time, increases or decreases in the CNMI's net assets are one indicator of whether its financial health is improving, deteriorating, or remaining steady. However, you must consider other nonfinancial factors such as changes in the CNMI's tax base, the condition of the CNMI's roads and infrastructure and the quality of services to assess the overall health and performance of the CNMI.

As mentioned above in the Statement of Net Assets and the Statement of Activities, we divide the CNMI into two kinds of activities:

- **Governmental activities** - Most of the CNMI's basic services are reported here, including the public safety, health care, general administration, streets, and parks. Income taxes, business gross receipt taxes, other taxes and fees, fines, and federal grants finance most of these activities.
- **Discretely presented component units** - These account for activities of the CNMI's reporting entity that do not meet the criteria for blending within the CNMI's primary government. These discretely presented component units are often referred to as autonomous agencies.

### **Reporting the CNMI's Most Significant Funds**

#### **Fund Financial Statements**

The fund financial statements provide detailed information about the most significant funds -- not the CNMI as a whole. Some funds are required to be established by law or regulation and by bond covenants. However, management establishes many other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants and other money.

*Governmental Funds* - Most of the CNMI's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the CNMI's general government operations and the basic service it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the CNMI's programs. The differences of results in the Governmental Fund financial statements to those in the Government-Wide financial statements are explained in a reconciliation following each Governmental Fund financial statement.

*Fiduciary Funds* - When the CNMI is responsible for assets that - because of a trust arrangement or other fiduciary requirement - can be used only for trust beneficiaries or others parties, such as pensions and other employee benefit trust funds and agency funds. The CNMI is responsible for ensuring that the assets reported in these funds are used for their intended purpose. All of the CNMI's fiduciary activities are reported in a separate statement of fiduciary net assets and a statement of changes in fiduciary net assets. We exclude these activities from the CNMI's government-wide financial statements because the CNMI cannot use these assets to finance operations.

### **A FINANCIAL ANALYSIS OF THE CNMI AS A WHOLE**

#### **Net Assets**

The CNMI's governmental activities net assets decreased from \$15.6 million to a net asset deficiency of \$(18.7) million, a decrease of 220%, between fiscal years 2003 and 2004.

A summary of net assets (condensed) is presented below, with comparable balances for fiscal year 2003.

COMMONWEALTH OF THE NORTHER MARIANAS ISLANDS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
September 30, 2004

	<u>Governmental Activities</u>	<u>Governmental Activities</u>
	2004	2003
Current assets	\$ 124,577,793	\$ 102,651,347
Capital assets, net	168,260,849	148,355,469
Other noncurrent assets	<u>13,564,332</u>	<u>10,551,138</u>
<b>Total assets</b>	<b><u>306,402,974</u></b>	<b><u>261,557,954</u></b>
Current liabilities	207,150,349	164,269,003
Noncurrent liabilities	<u>117,909,062</u>	<u>81,692,781</u>
<b>Total liabilities</b>	<b><u>325,059,411</u></b>	<b><u>245,961,784</u></b>
Net assets:		
Invested in capital assets, net of related debt	116,583,239	67,339,513
Restricted net assets	47,448,063	63,804,813
Unrestricted net assets	<u>(182,687,739)</u>	<u>(115,548,156)</u>
<b>Total net assets</b>	<b><u>\$ (18,656,437)</u></b>	<b><u>\$ 15,596,170</u></b>

**Changes in Net Assets**

For the year ended September 30, 2004, net assets of the primary government changed as follows, with comparable amounts for fiscal year 2003:

	<u>Governmental Activities</u>	<u>Governmental Activities</u>
	2004	2003
<b>Revenues:</b>		
Program revenues	\$ 117,452,348	\$ 105,301,243
Taxes and other general revenues	<u>179,873,649</u>	<u>178,434,937</u>
<b>Total revenues</b>	<b><u>297,325,997</u></b>	<b><u>283,736,180</u></b>
<b>Expenses:</b>		
Capital projects	10,690,673	7,992,955
Health	56,909,894	51,273,326
Public safety and law enforcement	46,520,127	40,553,183
General government	25,016,984	18,863,783
Community and social services	20,699,627	20,651,137
Other elected officials	16,350,688	13,388,465
Utilities	11,519,548	11,262,850
Public works	19,123,555	17,092,434
Lands and natural resources	13,385,983	17,759,369
Legislative branch	9,009,997	8,085,212
Judicial branch	5,242,398	4,907,581
Education	6,750,842	6,652,234
Unallocated interest	8,654,132	5,322,550
Economic development	1,713,561	2,097,645
Depreciation - unallocated	-	3,245,459
Interim financing	1,901,259	-
Payments to autonomous agencies	56,583,418	53,139,182
Penalty on retirement fund contributions	19,030,187	-
Retroactive salary adjustments	<u>2,475,731</u>	<u>7,678,467</u>
<b>Total expenses</b>	<b><u>331,578,604</u></b>	<b><u>289,965,832</u></b>
<b>Decrease in net assets</b>	<b><u>\$ (34,252,607)</u></b>	<b><u>\$ (6,229,652)</u></b>

The CNMI's governmental activities' decrease in net assets of \$34,252,607 represents a 220% decrease from the prior year. The results indicate the CNMI's financial condition, as a whole, declined significantly from the prior year.

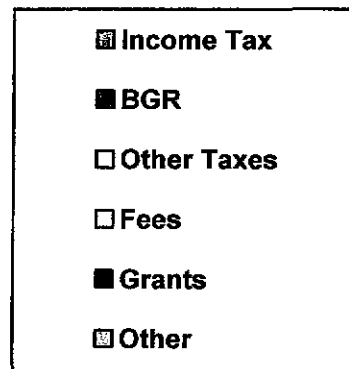
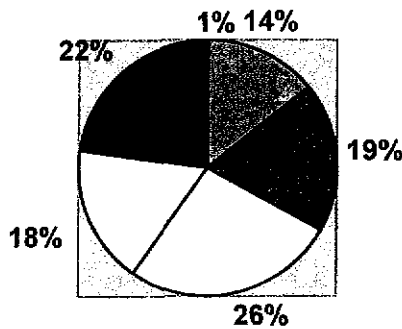
**Governmental Activities**

To aid in the understanding of the Statement of Activities some additional explanation is given.

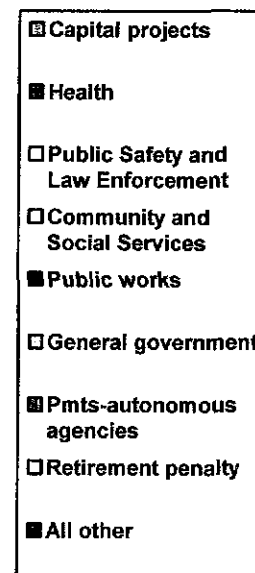
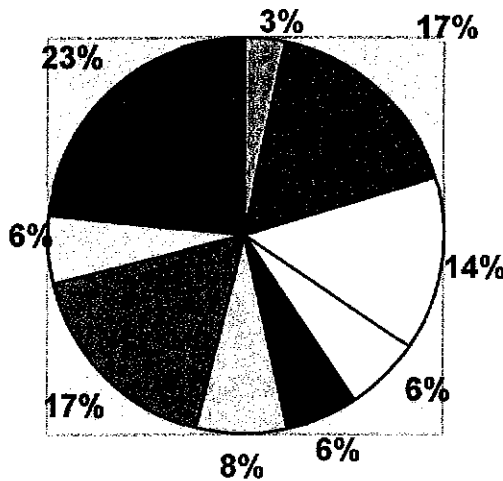
Of particular interest is the format that is significantly different than a typical Statement of Revenues, Expenses, and Changes in Fund Balance. You will notice that expenses are listed in the first column with revenues from that particular program reported to the right. The result is a Net (Expense)/Revenue. The reason for this kind of format is to highlight the relative financial burden of each of the functions on the CNMI's taxpayers. It also identifies how much each function draws from the general revenues or if it is self-financing through fees and grants or contributions. All other governmental revenues are reported as general. It is important to note all taxes are classified as general revenue even if restricted for a specific purpose.

For the year ended September 30, 2004, the CNMI's governmental activities were funded as follows:

**Governmental Activities Sources**



**Governmental Activities Uses**



For the year ended September 30, 2004, total expenses for governmental activities amounted to \$331.6 million. Of these total expenses, taxpayers and other general revenues funded \$179.9 million, while those directly benefiting from the activities funded \$65.4 million from grants and other contributions and \$52.1 million from charges for services, with the remaining expenses in excess of revenues creating the net asset deficiency.

**Net Revenue (Expense) of Governmental Activities**

	<u>Total Expense of Services</u>	<u>Net Revenue (Expense) of Services</u>	<u>Total Expenses of Services</u>	<u>Net Revenue (Expense) of Services</u>
	<u>2004</u>	<u>2004</u>	<u>2003</u>	<u>2003</u>
Capital projects	\$ 10,690,673	\$ (8,268,973)	\$ 7,992,955	\$ 12,319,172
Health	56,909,894	(29,043,682)	51,273,326	(29,536,985)
Public safety and law enforcement	46,520,127	(26,609,806)	40,553,183	(27,095,861)
General government	25,016,984	2,548,360	18,863,783	5,011,889
Community and social services	20,699,627	(1,151,726)	20,651,137	(8,687,730)
Public works	19,123,555	(13,250,828)	17,092,434	(15,554,958)
Payments to autonomous agencies	56,583,418	(56,583,418)	53,139,182	(50,970,652)
Retirement penalty	19,030,187	(19,030,187)	-	-
All other	<u>77,004,139</u>	<u>(62,735,996)</u>	<u>80,399,832</u>	<u>(70,149,464)</u>
<b>Total</b>	<b>\$ <u>331,578,604</u></b>	<b>\$ <u>(214,126,256)</u></b>	<b>\$ <u>289,965,832</u></b>	<b>\$ <u>(184,664,589)</u></b>

**A FINANCIAL ANALYSIS OF THE CNMI'S FUNDS**

As the CNMI completed its 2004 fiscal year, the governmental funds reported a combined fund deficit of \$(49,245,390), which compares with a prior year fund deficit of \$(35,011,807), an increase in fund deficit of \$14,233,583, or 40.7%. This increase in fund deficit is due in a large part to the recognition of a one-time penalty on retirement contributions (\$19 million) as an expenditure in the CNMI's General Fund.

Individual fund highlights include:

- For the year ended September 30, 2004, the General Fund's total fund deficit increased by \$10,695,243 or 11.2%, to a total fund deficit of \$(105,888,251), while the total unreserved fund deficit increased by \$35,002,443 or 29.6%, for a total unreserved fund deficit of \$(153,426,142).
- The Federal Grants Special Revenue Fund's revenues/other sources and expenditures/other uses were equal at \$51,122,442, leaving beginning and ending fund balance of \$0.
- The DOI Capital Projects Fund's total fund balance decreased by \$14,315,398, or 28.7%, to a total of \$35,496,845.
- The Pension and Other Employee Benefit Trust Fund shows an increase to net assets of the various funds of \$10,319,595 or 2.7% for the year. This Fund type includes the CNMI's retirement fund, group health and life insurance fund, and worker's compensation fund.

**General Fund Budgetary Highlights**

There were no significant changes between the original and final budgets. The General Fund's actual revenues of \$210,630,807 were less than the final estimates by \$2.26 million, a variance of 1.1%. The General Fund's actual expenditures of \$250,036,937 exceeded appropriations by \$33,709,828, a variance of 15.6%. This large variance is attributable in part to the recognition of retirement penalty expenditures (\$19 million), and bad debt expenditures (\$8.5 million), which were not appropriated in either the original or final budgets.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital Assets**

At the end of September 30, 2004, the CNMI had \$168,260,849 invested in capital assets, net of depreciation where applicable, including land, roads and bridges infrastructure, vehicles and other machinery and equipment, buildings, and various projects under construction. (See table below). This represents a net increase of \$19,905,380 or 13.4% over last year.

	<u>2004</u>	<u>2003</u>
Infrastructure, net	\$ 37,410,965	\$ 36,207,609
Buildings and improvements, net	69,294,877	50,328,663
Machinery and equipment, net	5,312,087	4,465,278
Construction in progress	<u>56,242,920</u>	<u>57,353,919</u>
<b>Totals</b>	<b>\$ <u>168,260,849</u></b>	<b>\$ <u>148,355,469</u></b>

The significant increase in net capital assets is mainly due to several on-going construction projects currently underway.

See Note 6 to the financial statements for more detail information on the CNMI's capital assets and changes therein.

**Long-Term Debt**

At year-end, the CNMI had \$127,241,568 in long-term debt outstanding, which represents a net increase of \$37.1 million or 41.1% net increase from the prior year. This increase is due to the recent \$40 million in long-term debt issued by the CNMI for land compensation payments, prison project, and interim financing reimbursement. The CNMI's changes in long-term debt by type of debt are as follows:

	<u>Governmental Activities</u>	
	<u>2004</u>	<u>2003</u>
Accrued compensated absences	\$ 9,681,781	\$ 9,142,482
Bonds payable	106,280,467	69,675,000
Notes payable	<u>11,279,320</u>	<u>11,340,956</u>
<b>Totals</b>	<b>\$ <u>127,241,568</u></b>	<b>\$ <u>90,158,438</u></b>

See Note 8 to the financial statements for more detail information on the CNMI's long-term debt and changes therein.

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGET**

Economic factors continue to play a large role in developing the tax and other revenue budgets for the General Fund of the CNMI. The local economy, still slowed by the events related to September 11, 2001 and their lingering effects and made worse by the SARS epidemic, has been following the same trend as many of its Pacific neighbors and the United States in a economic downturn that left government officials scrambling to figure out ways to fund recurring appropriations. The prospects for fiscal year 2005 appear similar, with not much recovery in sight.

**CONTACTING THE CNMI'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of CNMI's finances and to show the CNMI's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Office of the Secretary of Finance P.O. Box 5234 CHR, Saipan, MP 96950 or phone at (670) 664-1100.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Statement of Net Assets  
September 30, 2004

	Primary Government	Component Units
<u>Assets</u>		
Current assets:		
Cash and cash equivalents	\$ 9,398,539	\$ 21,558,418
Time certificates of deposit	7,226,035	500,000
Investments	695,319	1,517,626
Receivables, net of allowance for uncollectibles	35,519,080	27,867,012
Due from primary government	-	7,426,450
Due from component units	25,234,907	-
Due from Pension (and Other Employee Benefit) Trust Fund	2,717,161	-
Inventories	2,183,780	11,717,517
Other assets	-	111,050
Deferred bond issue costs	401,465	64,544
Restricted assets:		
Cash and cash equivalents	41,201,507	10,714,428
Investments	-	96,594,302
Total current assets	124,577,793	178,071,347
Noncurrent assets:		
Restricted assets:		
Cash and cash equivalents	-	16,957,756
Investments	-	6,240,209
Investments	2,500,000	3,256,145
Receivables, net of allowance for uncollectibles:		
Loans	-	41,312,354
Other agencies	3,103,610	-
Advances	4,701,904	-
Due from component units	3,258,818	-
Deferred bond issue costs, net of current portion	-	1,406,865
Other assets	-	4,015,684
Foreclosed real estate	-	795,238
Capital assets, net of accumulated depreciation	168,260,849	357,723,195
Total noncurrent assets	181,825,181	431,707,446
Total assets	306,402,974	609,778,793
<u>Liabilities</u>		
Current liabilities:		
Bank overdraft	2,959,065	-
Accounts payable	14,523,483	18,358,120
Current portion of compensated absences	3,275,185	1,217,622
Claims and judgments payable	9,020,743	-
Tax rebates payable	29,214,848	-
Accrued interest payable	2,878,985	85,579,654
Other liabilities and accruals	4,650,042	9,323,945
Deposits payable	-	8,573,435
Current portion of notes and bonds payable	6,057,321	63,972,405
Due to component units	21,686,400	-
Current obligations under capital lease	-	1,062,758
Due to primary government	-	1,612,345
Due to Pension (and Other Employee Benefit) Trust Fund	111,729,037	-
Deferred revenue	1,155,240	1,797,692
Total current liabilities	207,150,349	191,497,976
Noncurrent liabilities:		
Due to primary government	-	25,226,018
Notes and bonds payable, net of current portion	111,502,466	65,843,673
Obligations under capital lease, net of current portion	-	5,475,269
Compensated absences, net of current portion	6,406,596	5,445,224
Deferred revenue, net of current portion	-	564,663
Total noncurrent liabilities	117,909,062	102,554,847
Total liabilities	325,059,411	294,052,823
Net assets:		
Invested in capital assets, net of related debt	116,583,239	233,373,697
Restricted for:		
Capital projects	40,292,404	-
Retirement of indebtedness	4,693,207	-
Other purposes	2,462,452	159,413,278
Unrestricted	(182,687,739)	(77,061,005)
Total net assets	\$ (18,656,437)	\$ 315,725,970

See accompanying notes to financial statements.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Statement of Activities  
For the Year Ended September 30, 2004

Functions/Programs	Program Revenues				Net (Expenses) Revenues and Changes in Net Assets	
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government	Component Units
<b>Primary government:</b>						
<b>Governmental activities:</b>						
Health	\$ 56,909,894	\$ 16,750,343	\$ 9,527,028	\$ 1,588,841	\$ (29,043,682)	\$ -
Public safety and law enforcement	46,520,127	12,527,630	4,344,938	3,037,753	(26,609,806)	-
General government	25,016,984	11,470,519	16,094,825	-	2,548,360	-
Community and social services	20,699,627	1,785,071	14,378,491	3,384,339	(1,151,726)	-
Other elected officials	16,350,688	-	-	-	(16,350,688)	-
Utilities	11,519,548	-	-	-	(11,519,548)	-
Utilities - Capital Projects	10,690,673	-	-	2,421,700	(8,268,973)	-
Public works	19,123,555	790,033	422,659	4,660,035	(13,250,828)	-
Lands and natural resources	13,385,983	280,896	2,579,243	1,482	(10,524,362)	-
Legislative branch	9,009,997	-	-	-	(9,009,997)	-
Judicial branch	5,242,398	1,342,448	-	619,513	(3,280,437)	-
Education	6,750,842	-	1,841,236	479,163	(4,430,443)	-
Unallocated interest	8,654,132	-	-	-	(8,654,132)	-
Economic development	1,713,561	-	10,000	-	(1,703,561)	-
<b>Education:</b>						
Payments to PSS	36,415,881	-	-	-	(36,415,881)	-
Payments to NMC	8,507,641	-	-	-	(8,507,641)	-
Payments to MVA	6,321,426	-	-	-	(6,321,426)	-
Payments to NMIRF and WCC	2,395,040	-	-	-	(2,395,040)	-
Payments to MPLA - land claims	2,943,430	-	-	-	(2,943,430)	-
Interim financing	1,901,259	-	-	-	(1,901,259)	-
Penalty on retirement contributions	19,030,187	-	-	-	(19,030,187)	-
Retroactive salary adjustment	2,475,731	7,114,162	-	-	4,638,431	-
<b>Total primary government</b>	<b>\$ 331,578,604</b>	<b>\$ 52,061,102</b>	<b>\$ 49,198,420</b>	<b>\$ 16,192,826</b>	<b>(214,126,256)</b>	<b>-</b>
<b>Component units:</b>						
Commonwealth Ports Authority	\$ 23,853,269	\$ 18,356,858	\$ -	\$ 9,687,205	\$ -	\$ 4,190,794
Commonwealth Development Authority	15,162,437	5,810,313	4,393,044	2,043,334	-	(2,915,746)
Commonwealth Utilities Corporation	97,042,417	71,388,171	-	8,717,481	-	(16,936,765)
Marianas Public Land Trust	1,648,253	6,163,935	-	-	-	4,515,682
Marianas Public Lands Authority	5,889,079	4,113,963	-	-	-	(1,775,116)
Northern Marianas College	17,453,528	3,241,724	5,338,238	-	-	(8,873,566)
Public School System	61,261,826	-	23,682,064	-	-	(37,579,762)
Marianas Visitors Authority	6,545,624	188,995	354,688	-	-	(6,001,941)
<b>Total component units</b>	<b>\$ 228,856,433</b>	<b>\$ 109,263,959</b>	<b>\$ 33,768,034</b>	<b>\$ 20,448,020</b>	<b>-</b>	<b>(65,376,420)</b>
<b>General revenues:</b>						
<b>Taxes:</b>						
Income					41,967,329	-
Business gross revenue					56,259,608	-
Penalties and interest					2,109,853	-
Garment certification					28,339,854	-
Excise					25,590,480	-
Hotel room occupancy					6,083,357	-
Fuel					3,927,625	-
Bar and liquor					2,392,344	-
Beautification					2,457,521	-
Business privilege					608,963	-
Jackpot					3,403,703	-
Developer's					181,816	-
Cigarette					1,873,215	-
Solid waste excise					2,661,308	-
Unrestricted investment earnings					881,247	789,023
Contributions from primary government					-	52,821,894
Other					1,135,426	(1,461,025)
<b>Total general revenues</b>					<b>179,873,649</b>	<b>52,149,892</b>
<b>Change in net assets</b>					<b>(34,252,607)</b>	<b>(13,226,528)</b>
<b>Net assets - beginning, as restated</b>					<b>15,596,170</b>	<b>328,952,498</b>
<b>Net assets - ending</b>					<b>\$ (18,656,437)</b>	<b>\$ 315,725,970</b>

See accompanying notes to financial statements.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Balance Sheet  
Governmental Funds  
September 30, 2004

	Special Revenue			Capital Projects	Other Governmental Funds	Total
	General	Federal Grants	NMTIT Rebate Trust	DOI Capital Projects		
<b>Assets</b>						
Cash and cash equivalents	\$ 9,398,539	\$ -	\$ -	\$ -	\$ -	\$ 9,398,539
Time certificates of deposit	7,226,035	-	-	-	-	7,226,035
Investments	2,500,000	-	-	-	695,319	3,195,319
Restricted cash and cash equivalents	9,712,242	-	-	25,057,273	6,431,992	41,201,507
Receivables, net of allowance for uncollectibles:						
Federal agencies	-	12,650,266	-	2,506,164	19,629	15,176,059
Other agencies	3,103,610	-	-	-	-	3,103,610
Taxes	18,364,025	-	836,519	-	-	19,200,544
General	414,277	-	-	-	-	414,277
Other	-	-	-	12,831	715,369	728,200
Due from component units	28,482,758	-	-	-	10,967	28,493,725
Due from other funds	9,764,972	-	28,378,329	11,323,537	13,722,583	63,189,421
Due from Pension and Other Employee Benefit Trust Funds	-	-	-	-	2,717,161	2,717,161
Advances	4,701,904	-	-	-	-	4,701,904
Inventories	1,821,770	362,010	-	-	-	2,183,780
	<u>\$ 95,490,132</u>	<u>\$ 13,012,276</u>	<u>\$ 29,214,848</u>	<u>\$ 38,899,805</u>	<u>\$ 24,313,020</u>	<u>\$ 200,930,081</u>
<b>Liabilities and Fund Balances (Deficit)</b>						
<b>Liabilities:</b>						
Accounts payable	\$ 6,546,146	\$ 3,426,324	\$ -	\$ 3,402,960	\$ 1,148,054	\$ 14,523,484
Bank overdraft	2,959,064	-	-	-	-	2,959,064
Tax rebates payable	-	-	29,214,848	-	-	29,214,848
Other liabilities and accruals	4,141,501	393,289	-	-	115,252	4,650,042
Due to other funds	53,335,965	9,192,663	-	-	660,793	63,189,421
Due to component units	21,598,735	-	-	-	87,665	21,686,400
Due to Pension and Other Employee Benefit Trust Funds	111,729,037	-	-	-	-	111,729,037
Deferred revenue	1,067,935	-	-	-	1,155,240	2,223,175
<b>Total liabilities</b>	<u>201,378,383</u>	<u>13,012,276</u>	<u>29,214,848</u>	<u>3,402,960</u>	<u>3,167,004</u>	<u>250,175,471</u>
<b>Fund balances (deficit):</b>						
<b>Reserved for:</b>						
Supplies inventory	1,667,537	-	-	-	-	1,667,537
Related assets	14,058,622	-	-	-	-	14,058,622
Land claims	25,223,940	-	-	-	-	25,223,940
Debt service	-	-	-	21,815	4,887,901	4,909,716
Encumbrances	5,920,074	6,513,687	-	25,215,479	9,646,521	47,295,761
Continuing appropriations	667,718	-	-	-	1,844,404	2,512,122
<b>Unreserved (deficits) reported in:</b>						
General fund	(153,426,142)	-	-	-	-	(153,426,142)
Special revenue funds	-	(6,513,687)	-	-	9,450,163	2,936,476
Capital projects	-	-	-	10,259,551	(4,682,973)	5,576,578
<b>Total equity (deficit) and other credits</b>	<u>(105,888,251)</u>	<u>-</u>	<u>-</u>	<u>35,496,845</u>	<u>21,146,016</u>	<u>(49,245,390)</u>
	<u>\$ 95,490,132</u>	<u>\$ 13,012,276</u>	<u>\$ 29,214,848</u>	<u>\$ 38,899,805</u>	<u>\$ 24,313,020</u>	<u>\$ 200,930,081</u>

See accompanying notes to financial statements.



COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Assets  
September 30, 2004

Amounts reported for governmental activities in the statement of net assets are different because:

Total fund balance deficit		\$ (49,245,390)
Bonds issued by the CNMI have associated costs that are paid from current available resources in the funds. However, these costs are deferred on the statement of net assets		401,465
Capital assets used in governmental activities are not considered financial resources for fund perspective reporting and, therefore, are not reported in the funds. Those assets consist of:		
Construction in progress	\$ 56,242,921	
Depreciable capital assets and infrastructure, net of \$101,049,225 of accumulated depreciation	<u>112,017,928</u>	
Capital assets, net of accumulated depreciation		168,260,849
Deferred revenue not available are not recorded as revenues in the funds		1,067,935
Long-term liabilities, including bonds payable, are not due and payable in the current period, and, therefore, are not considered financial liabilities for fund perspective recording, and, therefore, are not reported in the funds. These liabilities include:		
Bond debt	(106,280,467)	
Accrued interest	(2,878,985)	
Other long-term debt	(11,279,320)	
Compensated absences	(9,681,781)	
Claims and judgment payable	<u>(9,020,743)</u>	
Long-term liabilities		<u>(139,141,296)</u>
Net assets of governmental activities		<u>\$ (18,656,437)</u>

See accompanying notes to financial statements.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Statement of Revenues, Expenditures, and Changes in Fund Balances (Deficit)  
Governmental Funds  
For the Year Ended September 30, 2004

	Special Revenue			Capital Projects	Other Governmental Funds	Total
	General	Federal Grants	NMTIT Rebate Trust	DOI Capital Projects		
Revenues:						
Taxes	\$ 174,029,317	\$ -	\$ -	\$ -	\$ 4,716,339	\$ 178,745,656
Federal contributions	-	49,203,249	-	11,181,037	2,622,309	63,006,595
Charges for sales and services	21,336,194	-	-	-	-	21,336,194
Licenses and fees	14,212,367	116,480	-	-	16,396,061	30,724,908
Interest and dividends	443,987	-	-	222,934	214,326	881,247
Contributions from component units	541,980	-	-	735,772	1,653,708	2,931,460
Other	66,962	170,062	-	-	898,402	1,135,426
<b>Total revenues</b>	<b>210,630,807</b>	<b>49,489,791</b>	<b>-</b>	<b>12,139,743</b>	<b>26,501,145</b>	<b>298,761,486</b>
Expenditures:						
Health	46,351,130	9,515,200	-	2,891,187	501,911	59,259,428
Education:						
Payments to PSS	36,415,881	-	-	-	-	36,415,881
Payments to NMC	6,902,256	-	-	-	1,605,385	8,507,641
Public safety and law enforcement	36,252,996	13,685,451	-	1,767,336	8,302,865	60,008,648
General government	21,409,456	762,551	-	-	268,541	22,440,548
Community and social services	6,665,484	12,193,407	-	3,261,375	3,126,479	25,246,745
Other elected officials	16,160,941	-	-	-	189,747	16,350,688
Utilities	11,408,594	104,795	-	-	6,159	11,519,548
Utilities - Capital Projects	-	-	-	10,603,162	87,511	10,690,673
Public works	9,083,282	260,540	-	6,346,800	3,934,843	19,625,465
Lands and natural resources	6,506,371	6,723,479	-	1,482	73,991	13,305,323
Legislative branch	9,057,682	-	-	-	-	9,057,682
Payments to MVA	5,961,426	360,000	-	-	-	6,321,426
Judicial branch	4,856,092	-	-	884,694	95,033	5,835,819
Education	3,800,810	1,434,165	-	630,966	884,901	6,750,842
Debt service:						
Principal retirement	-	-	-	1,305,000	1,663,986	2,968,986
Interest and fiscal charges	-	-	-	3,886,634	3,808,484	7,695,118
Economic development	1,657,701	70,940	-	-	13,670	1,742,311
Payments to NMIRF and WCC	2,395,040	-	-	-	-	2,395,040
Payments to MPLA - land claims	2,943,430	-	-	-	-	2,943,430
Interim financing - CDA	-	-	-	-	1,901,259	1,901,259
Retroactive salary adjustment	-	-	-	-	2,475,731	2,475,731
Penalty on retirement fund contributions	19,030,187	-	-	-	-	19,030,187
<b>Total expenditures</b>	<b>246,858,759</b>	<b>45,110,528</b>	<b>-</b>	<b>31,578,636</b>	<b>28,940,496</b>	<b>352,488,419</b>
Excess (deficiency) of revenues over (under) expenditures	(36,227,952)	4,379,263	-	(19,438,893)	(2,439,351)	(53,726,933)
Other financing sources (uses):						
Long-term debt issued	40,000,000	-	-	-	77,350	40,077,350
Discount on long-term debt issued	(584,000)	-	-	-	-	(584,000)
Operating transfers in	10,159,343	1,632,651	-	6,002,881	21,909,747	39,704,622
Operating transfers out	(24,042,634)	(6,011,914)	-	(879,386)	(8,770,688)	(39,704,622)
<b>Total other financing sources (uses), net</b>	<b>25,532,709</b>	<b>(4,379,263)</b>	<b>-</b>	<b>5,123,495</b>	<b>13,216,409</b>	<b>39,493,350</b>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	(10,695,243)	-	-	(14,315,398)	10,777,058	(14,233,583)
Fund balances (deficit) at beginning of year, as restated	(95,193,008)	-	-	49,812,243	10,368,958	(35,011,807)
Fund balances (deficit) at end of year	<u>\$ (105,888,251)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 35,496,845</u>	<u>\$ 21,146,016</u>	<u>\$ (49,245,390)</u>

See accompanying notes to financial statements.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Deficit  
of Governmental Funds to the Statement of Activities  
September 30, 2004

Net change in fund balance deficit - total governmental funds	\$ (14,233,583)
Add:	
Capital assets purchased that were capitalized	30,400,993
Principal payments on long-term debt	2,968,986
Bond issuance costs deferred and amortized in the statement of activities	415,310
Less:	
Net change in deferred revenue	(888,680)
Net change in claims and judgments payable	(1,059,204)
Net change in compensated absences	(539,299)
Net change in accrued interest payable	(1,294,856)
Depreciation expense	(10,495,613)
Net proceeds from note and bond issuance	(39,493,350)
Amortization of bond discount and issuance costs	<u>(33,311)</u>
Change in net assets of governmental activities	<u>\$ (34,252,607)</u>

See accompanying notes to financial statements.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Statement of Fiduciary Net Assets  
Fiduciary Funds  
September 30, 2004

	Pension (and Other Employee Benefit) Trust Fund	Agency Funds
<u>Assets</u>		
Cash and cash equivalents	\$ 1,202,803	\$ -
Receivables:		
Loans	11,279,320	-
Notes	9,816,354	-
General	937,979	-
Interest and dividends	794,819	-
Other	8,361,276	-
Due from primary government	104,195	1,333,824
Prepaid items	-	-
Investments, at fair market value:		
Equity securities	258,641,474	-
U.S. Government securities	56,363,913	-
Money market placements	30,613,146	-
Corporate debt securities	27,899,739	-
Real property	546,650	-
Restricted assets	123,827	3,585,915
Capital assets	3,731,797	-
	<u>410,417,292</u>	<u>4,919,739</u>
<u>Liabilities and Other Credits</u>		
Accounts payable	9,419,566	-
Claims and judgments payable	-	1,333,824
Deposits payable	-	3,585,915
Other liabilities and accruals	690,303	-
Due to primary government	2,717,161	-
Deferred revenue	4,850,395	-
	<u>17,677,425</u>	<u>\$ 4,919,739</u>
Net assets:		
Held in trust for pension benefits	399,806,956	
Held in trust for medical and life insurance benefits	(7,928,759)	
Held in trust for workers' compensation benefits and other purposes	861,670	
	<u>\$ 392,739,867</u>	

See accompanying notes to financial statements.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Statement of Changes in Fiduciary Net Assets  
Fiduciary Funds  
Year Ended September 30, 2004

	<u>Pension (and Other Employee Benefit) Trust Fund</u>
<u>Additions</u>	
Contributions:	
Employer	\$ 40,640,497
Employee	12,156,404
Revenues:	
Premiums	6,995,577
Penalty on unpaid contributions	19,030,187
Rent income and other	725,450
Total contributions and revenues	<u>79,548,115</u>
Net investment income:	
Net appreciation in fair value	32,505,039
Interest	5,317,749
Dividends	2,228,274
Total investment income	<u>40,051,062</u>
Less: investment expense	<u>1,478,454</u>
Net investment income	<u>38,572,608</u>
Total additions	<u>118,120,723</u>
<u>Deductions</u>	
Benefits	45,374,873
General and administrative	3,285,090
Bad debts	48,689,688
Refunds	3,039,142
Medical claims	9,647,635
Total deductions	<u>110,036,428</u>
Other financing sources:	
Transfer in	<u>2,235,300</u>
Change in net assets	10,319,595
Net assets at beginning of year, as restated	<u>382,420,272</u>
Net assets at end of year	<u>\$ 392,739,867</u>

See accompanying notes to financial statements.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Statement of Net Assets  
Component Units  
September 30, 2004

	Commonwealth Ports Authority	Commonwealth Development Authority	Commonwealth Utilities Corporation	Marianas Public Land Trust	Marianas Public Lands Authority	Northern Marianas College	Public School System	Marianas Visitors Authority	Total
<b>Assets</b>									
<b>Current assets:</b>									
Cash and cash equivalents	\$ 4,680,474	\$ 3,442,743	\$ 1,598,359	\$ 2,644,610	\$ 4,592,451	\$ 1,049,330	\$ 3,081,656	\$ 468,795	\$ 21,558,418
Time certificates of deposit	-	500,000	-	-	-	-	-	-	500,000
Investments	1,517,626	-	-	-	-	-	-	-	1,517,626
Receivables, net of allowance for uncollectibles:									
Loans	-	3,906,241	-	99,762	-	-	-	-	4,006,003
Federal agencies	3,295,968	-	1,411,255	-	-	1,572,647	697,002	-	6,976,872
General	2,318,468	23,797	-	-	988,334	1,942,836	-	-	5,273,435
Utilities	-	-	8,113,691	-	-	-	-	-	8,113,691
Interest and dividends	-	838,149	-	791,524	-	-	-	-	1,629,673
Other	30,727	110,888	1,006,206	279,536	-	-	338,295	101,686	1,867,338
Due from primary government	-	-	1,255,900	7,193	-	-	4,294,171	1,777,636	7,426,450
Inventories	-	-	11,463,810	-	-	253,707	-	-	11,717,517
Other assets	20,105	21,183	-	4,626	55,426	5,514	-	4,196	111,050
Deferred bond issue costs, current portion	64,544	-	-	-	-	-	-	-	64,544
<b>Restricted assets:</b>									
Cash and cash equivalents	-	10,714,428	-	-	-	-	-	-	10,714,428
Investments	11,869,264	10,367,072	-	49,134,026	25,223,940	-	-	-	96,594,302
<b>Total current assets</b>	<b>23,797,176</b>	<b>29,924,501</b>	<b>24,849,221</b>	<b>52,961,277</b>	<b>30,860,151</b>	<b>4,915,584</b>	<b>8,411,124</b>	<b>2,352,313</b>	<b>178,071,347</b>
<b>Noncurrent assets:</b>									
<b>Restricted assets:</b>									
Cash and cash equivalents	-	-	8,613,144	-	8,344,612	-	-	-	16,957,756
Investments	-	-	6,240,209	-	-	-	-	-	6,240,209
Investments	-	-	-	-	-	3,256,145	-	-	3,256,145
Loans receivables, net	-	30,374,556	-	10,937,798	-	-	-	-	41,312,354
Deferred bond issue costs	1,406,865	-	-	-	-	-	-	-	1,406,865
Other assets	4,015,684	-	-	-	-	-	-	-	4,015,684
Capital assets (net of accumulated depreciation)	143,486,038	16,711,978	104,542,037	30,330	1,117,568	9,651,805	82,047,326	136,113	357,723,195
Foreclosed real estate	-	795,238	-	-	-	-	-	-	795,238
<b>Total noncurrent assets</b>	<b>148,908,587</b>	<b>47,881,772</b>	<b>119,395,390</b>	<b>10,968,128</b>	<b>9,462,180</b>	<b>12,907,950</b>	<b>82,047,326</b>	<b>136,113</b>	<b>431,707,446</b>
<b>Total assets</b>	<b>172,705,763</b>	<b>77,806,273</b>	<b>144,244,611</b>	<b>63,929,405</b>	<b>40,322,331</b>	<b>17,823,534</b>	<b>90,458,450</b>	<b>2,488,426</b>	<b>609,778,793</b>
<b>Liabilities and Net Assets</b>									
<b>Current liabilities:</b>									
Accounts payable	3,489,882	1,091,460	9,971,996	65,494	338,855	1,544,289	1,400,426	455,718	18,358,120
Current compensated absences	311,931	-	429,892	-	-	475,799	-	-	1,217,622
Due to primary government	964,684	-	636,694	10,967	-	-	-	-	1,612,345
Other liabilities and accruals	638,374	2,803,556	571,369	592,011	2,593,978	712,053	1,212,250	200,354	9,323,945
Deposits payable	-	-	8,573,435	-	-	-	-	-	8,573,435
Current portion of notes and bonds payable	2,260,510	96,798	61,615,097	-	-	-	-	-	63,972,405
Current obligations under capital lease	-	-	1,062,758	-	-	-	-	-	1,062,758
Accrued interest payable	-	-	85,579,654	-	-	-	-	-	85,579,654
Deferred revenue	56,882	-	-	-	897,746	766,001	73,663	3,400	1,797,692
<b>Total current liabilities</b>	<b>7,722,263</b>	<b>3,991,814</b>	<b>168,440,895</b>	<b>668,472</b>	<b>3,830,579</b>	<b>3,498,142</b>	<b>2,686,339</b>	<b>659,472</b>	<b>191,497,976</b>
<b>Noncurrent liabilities:</b>									
Due to primary government	-	-	-	-	25,226,018	-	-	-	25,226,018
Notes and bonds payable, net of current portion	53,885,590	11,801,367	156,716	-	-	-	-	-	65,843,673
Compensated absences, net of current portion	382,421	-	504,371	-	-	288,953	4,269,479	-	5,445,224
Obligations under capital lease, net of current portion	-	-	5,475,269	-	-	-	-	-	5,475,269
Deferred revenue, net of current portion	-	-	-	-	564,663	-	-	-	564,663
<b>Total noncurrent liabilities</b>	<b>54,268,011</b>	<b>11,801,367</b>	<b>6,136,356</b>	<b>-</b>	<b>25,790,681</b>	<b>288,953</b>	<b>4,269,479</b>	<b>-</b>	<b>102,554,847</b>
<b>Total liabilities</b>	<b>61,990,274</b>	<b>15,793,181</b>	<b>174,577,251</b>	<b>668,472</b>	<b>29,621,260</b>	<b>3,787,095</b>	<b>6,955,818</b>	<b>659,472</b>	<b>294,052,823</b>
<b>Net assets:</b>									
Invested in capital assets, net of related debt	88,811,347	17,254,978	36,232,197	30,330	1,117,568	9,651,805	80,139,359	136,113	233,373,697
Restricted	11,869,264	44,758,114	14,853,353	63,230,603	9,583,503	3,976,724	11,141,717	-	159,413,278
Unrestricted	10,034,878	-	(81,418,190)	-	-	407,910	(7,778,444)	1,692,841	(77,061,005)
<b>Total net assets</b>	<b>\$ 110,715,489</b>	<b>\$ 62,013,092</b>	<b>\$ (30,332,640)</b>	<b>\$ 63,260,933</b>	<b>\$ 10,701,071</b>	<b>\$ 14,036,439</b>	<b>\$ 83,502,632</b>	<b>\$ 1,828,954</b>	<b>\$ 315,725,970</b>

See accompanying notes to financial statements.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Statement of Revenues, Expenses, and Changes in Net Assets  
Components Units  
Year Ended September 30, 2004

	Commonwealth Ports Authority	Commonwealth Development Authority	Commonwealth Utilities Corporation	Marianas Public Land Trust	Marianas Public Lands Authority	Northern Marianas College	Public School System	Marianas Visitors Authority	Total
Operating revenues:									
Charges for services and fees	\$ 18,038,010	\$ 5,181,709	\$ 70,831,860	\$ -	\$ 440,162	\$ 2,750,281	\$ -	\$ 180,017	\$ 97,422,039
Grants and contributions	-	4,393,044	-	-	-	5,338,238	-	-	9,731,282
Land lease	-	-	-	-	3,673,801	-	-	-	3,673,801
Other	318,848	628,604	556,311	6,163,935	-	491,443	-	8,978	8,168,119
Total operating revenues	18,356,858	10,203,357	71,388,171	6,163,935	4,113,963	8,579,962	-	188,995	118,995,241
Operating expenses:									
Cost of services	4,850,434	10,175,242	59,076,545	-	1,434,563	13,605,421	48,931,270	4,249,203	142,322,678
Depreciation and amortization	8,146,364	694,324	9,107,348	8,490	266,725	3,857	1,618,728	39,788	19,885,624
Administration	7,633,539	1,521,111	18,680,894	919,379	4,187,791	3,844,250	10,711,828	2,256,633	49,755,425
Total operating expenses	20,630,337	12,390,677	86,864,787	927,869	5,889,079	17,453,528	61,261,826	6,545,624	211,963,727
Operating income (loss)	(2,273,479)	(2,187,320)	(15,476,616)	5,236,066	(1,775,116)	(8,873,566)	(61,261,826)	(6,356,629)	(92,968,486)
Nonoperating revenues (expenses):									
Contributions from the primary government	-	-	-	-	-	9,290,540	37,209,928	6,321,426	52,821,894
Contributions to the primary government	-	(1,819,900)	-	(720,384)	-	-	-	-	(2,540,284)
Grants and contributions	-	-	-	-	-	-	23,682,064	354,688	24,036,752
Unrestricted investment earnings	69,647	203,492	203,568	-	102,312	207,204	-	2,800	789,023
Interest expense	(3,165,539)	(951,860)	(10,177,630)	-	-	-	-	-	(14,295,029)
Amortization of bond issue cost	(57,393)	-	-	-	-	-	-	-	(57,393)
Other, net	-	274,069	(666,695)	(208,715)	(1,000,000)	-	140,316	-	(1,461,025)
Nonoperating revenues (expenses), net	(3,153,285)	(2,294,199)	(10,640,757)	(929,099)	(897,688)	9,497,744	61,032,308	6,678,914	59,293,938
Income (loss) before capital contributions	(5,426,764)	(4,481,519)	(26,117,373)	4,306,967	(2,672,804)	624,178	(229,518)	322,285	(33,674,548)
Capital contributions	9,687,205	2,043,334	8,717,481	-	-	-	-	-	20,448,020
Change in net assets	4,260,441	(2,438,185)	(17,399,892)	4,306,967	(2,672,804)	624,178	(229,518)	322,285	(13,226,528)
Net assets - beginning, as restated	106,455,048	64,451,277	(12,932,748)	58,953,966	13,373,875	13,412,261	83,732,150	1,506,669	328,952,498
Net assets - ending	\$ 110,715,489	\$ 62,013,092	\$ (30,332,640)	\$ 63,260,933	\$ 10,701,071	\$ 14,036,439	\$ 83,502,632	\$ 1,828,954	\$ 315,725,970

See accompanying notes to financial statements.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements

September 30, 2004

(1) Summary of Significant Accounting Policies

The accompanying basic financial statements of the Commonwealth of the Northern Mariana Islands (CNMI) have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is the recognized standard-setting body for establishing governmental accounting and financial reporting principles. 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. For all proprietary funds, the CNMI applies GASB Statement No. 20, unless FASB pronouncements conflict with or contradict GASB pronouncements, and has elected not to apply FASB Statements and Interpretations issued after November 30, 1989. The more significant of the CNMI's accounting policies are described below.

A. Reporting Entity

The Government of the CNMI is a constitutional government comprised of three branches: the Legislative Branch (the Legislature), consisting of a nine-member Senate and an eighteen-member House of Representatives elected by eligible voters; the Executive Branch, with the Governor as the chief executive officer; and the Judicial Branch made up of two Commonwealth courts (the Appeals Court and the Trial Court).

For financial reporting purposes, the CNMI has included all funds, organizations, agencies, boards, commissions and institutions. The CNMI has also considered all potential component units for which it is financially accountable as well as other entities for which the nature and significance of their relationship with the CNMI are such that exclusion would cause the CNMI's financial statements to be misleading or incomplete. The net assets and results of operations of the following legally separate entities are presented as part of CNMI's operations:

1. Blended Component Units

Blended component units are entities that are legally separate from the CNMI, but are so related to the CNMI that they are, in substance, the same as the CNMI or entities providing services entirely or almost entirely to the CNMI.

- (a) The Northern Mariana Islands Retirement Fund (NMIRF), a Fiduciary Fund Type - Pension (and Other Employee Benefit) Trust Fund, exists to provide retirement security and other benefits to government employees, their spouses and dependents, former Governors and Lieutenant Governors, and to provide for an actuarially sound, locally funded pension system within the CNMI. NMIRF is governed by a seven-member Board of Trustees appointed by the Governor.



COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2004

(1) Summary of Significant Accounting Policies, Continued

A. Reporting Entity, Continued

1. Blended Component Units, Continued

- (b) The Northern Mariana Islands Government Health and Life Insurance Trust Fund (GHLITF), a Fiduciary Fund Type - Pension (and Other Employee Benefit) Trust Fund, is responsible for administering the life and health insurance programs for CNMI government employees. The Board of Trustees of the Northern Mariana Islands Retirement Fund administers GHLITF.
- (c) The CNMI Workers' Compensation Commission (WCC), a Fiduciary Fund Type - Pension (and Other Employee Benefit) Trust Fund, is responsible for the payment of compensation to workers who are not adequately covered under their employer's insurance policy. The Board of Trustees of the Northern Mariana Islands Retirement Fund administers WCC.

Complete financial statements for each of the individual component units may be obtained at the units' administrative offices.

Northern Mariana Islands Retirement Fund  
P.O. Box 501247  
Saipan, MP 96950-1247

Northern Mariana Islands Government Health  
and Life Insurance Trust Fund  
P.O. Box 501247  
Saipan, MP 96950-1247

CNMI Workers' Compensation Commission  
P.O. Box 501247  
Saipan, MP 96950-1247

2. Discretely Presented Component Units

Discretely presented component units are entities which are legally separate from the CNMI, but are financially accountable to the CNMI, or whose relationships with the CNMI are such that exclusion would cause the CNMI's financial statements to be misleading or incomplete. The Component Units' column of the basic financial statements includes the financial data of the following entities:

- (a) The Commonwealth Ports Authority (CPA) is responsible for the operations, maintenance and improvement of all airports and seaports within the CNMI. CPA is governed by a seven-member Board of Directors appointed by the Governor.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2004

(1) Summary of Significant Accounting Policies, Continued

A. Reporting Entity, Continued

2. Discretely Presented Component Units, Continued

- (b) The Commonwealth Development Authority (CDA) functions to stimulate the economic development of the CNMI. It serves as the administrator of United States economic assistance for economic development loans and aids in the financing of capital improvement projects undertaken by the CNMI and its autonomous public agencies. CDA is governed by a six-member Board of Directors appointed by the Governor.
- (c) The Commonwealth Utilities Corporation (CUC) is responsible for supervising the construction, maintenance operations and regulation of all utility services within the CNMI. CUC is governed by a six-member Board of Directors appointed by the Governor.
- (d) The Marianas Public Land Trust (MPLT) manages all monies received by it from the CNMI Division of Public Lands for the use of public lands and distributes net income to the general fund of the CNMI. Additionally, MPLT is responsible for maintaining a separate trust fund for the development and maintenance of American Memorial Park. MPLT is governed by a five-member Board of Trustees appointed by the Governor.
- (e) The Marianas Public Lands Authority (MPLA) is responsible for the management, use and disposition of public lands in the Northern Marianas through lease and permit arrangements per CNMI Public Law No. 12-33. MPLA is governed by a five-member Board of Directors appointed by the Governor.
- (f) The Northern Marianas College (NMC) serves as the state education agency for higher education and adult education programs within the CNMI. NMC is governed by a seven-member Board of Regents appointed by the Governor.
- (g) The Public School System (PSS) is responsible for supervising preschool, elementary and secondary education programs in the CNMI. PSS is governed by a five-member Board of Education elected at large.
- (h) The Marianas Visitors Authority (MVA) is responsible for the promotion and development of the tourism industry in the CNMI. It is governed by a fourteen-member Board of Directors, nine of which are appointed by the Governor with the remaining five coming from specified industry groups within the CNMI.

Complete financial statements for each of the individual component units may be obtained at the units' administrative offices.

Commonwealth Ports Authority  
P.O. Box 501055  
Saipan, MP 96950-1055

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2004

(1) Summary of Significant Accounting Policies, Continued

A. Reporting Entity, Continued

2. Discretely Presented Component Units, Continued

Commonwealth Development Authority  
P.O. Box 502149  
Saipan, MP 96950-2149

Commonwealth Utilities Corporation  
P.O. Box 501220  
Saipan, MP 96950-1220

Marianas Public Land Trust  
P.O. Box 501089  
Saipan, MP 96950-1089

Marianas Public Lands Authority  
P.O. Box 500380  
Saipan, MP 96950-0380

Northern Marianas College  
P.O. Box 501250  
Saipan, MP 96950-1250

Public School System  
P.O. Box 501370  
Saipan, MP 96950-1370

Marianas Visitors Authority  
P.O. Box 500861  
Saipan, MP 96950-0861

Each blended and discretely presented component unit has a September 30 year end.

3. Omitted Component Unit

The CNMI has omitted the Commonwealth Government Employees Credit Union (CGECU) from the basic financial statements due to the lack of available financial information. CGECU serves as a credit union for all CNMI government employees. CGECU is governed by a five-member Board of Directors appointed by the Governor. The financial activities of this omitted component unit are not considered material to the basic financial statements.

4. Program and Other Revenue Recognition

Program revenue is defined by the CNMI to be the revenue from fees and assessments collected by departments that are applicable to that department's operations. General revenue is derived from taxation, investment income and other fees that are not allocated to specific programs. All other revenues and expenses are reported as nonoperating.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2004

(1) Summary of Significant Accounting Policies, Continued

B. Government-Wide and Fund Financial Statements

The Statement of Net Assets and the Statement of Activities report information on all non-fiduciary activities of the primary government and its component units. Primary government activities are all governmental in nature. Governmental activities generally are financed through taxes, intergovernmental revenues and other non-exchange revenues. Discretely presented component unit activities are presented with their business-type focus.

The Statement of Net Assets presents all of the reporting entity's non-fiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

- *Invested in capital assets, net of related debt* consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt that are attributed to the acquisition, construction or improvement of those assets.
- *Restricted net assets* result when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through enabling legislation.
- *Unrestricted net assets* consist of net assets, which do not meet the definition of the two preceding categories. Unrestricted net assets often are designated, to indicate that management does not consider them to be available for general operations.

The government-wide Statement of Net Assets reports \$47,448,063 of restricted net assets, of which \$2,462,452 is restricted by enabling legislation.

The Statement of Activities demonstrates the degree to which the direct expenses of given functions or segments are offset by program revenues. Direct expenses are those that are clearly identifiable within a specific function or segment. Program revenues include charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not meeting the definition of program revenues are, instead, reported as general revenue.

C. Fund Financial Statements

The fund financial statements present a balance sheet and a statement of revenues, expenditures, and changes in fund balances for its major and aggregated non-major funds. Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements pursuant to GASB reporting standards, with non-major governmental funds being combined into a single column.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2004

(1) Summary of Significant Accounting Policies, Continued

C. Fund Financial Statements, Continued

The CNMI reports its financial position and results of operations in funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures/expenses. Transactions between funds within a fund type, if any, have not been eliminated.

D. Measurement Focus and Basis of Accounting

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

*Governmental Funds* - account for the general governmental activities of the CNMI and are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as they become susceptible to accrual; generally when 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. For this purpose, the CNMI considers revenues to be available if they are collected within 60 days of the end of the current fiscal period.

Significant revenues susceptible to accrual include income, gross receipts, corporation and other taxes, federal grants, federal reimbursements and other reimbursements for use of materials and services. Therefore, tax related receivables are essentially reserved for or have been historically deferred. Revenues from U.S. federal programs are recorded at the time that expenditures are incurred. Miscellaneous revenues from other financing sources are recognized when received because they are generally not measurable until actually received. Investment earnings are recorded as earned since they are both measurable and available. Investments and related investment earnings are recorded at fair value. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. Expenditures are recorded in the period in which the related fund liability is incurred as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

The CNMI reports the following fund types:

1. Governmental Fund Types

i. General Fund

This fund is the CNMI's primary operating fund. It accounts for all financial transactions not accounted for in any other fund.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2004

(1) Summary of Significant Accounting Policies, Continued

D. Measurement Focus and Basis of Accounting, Continued

1. Governmental Fund Types, Continued

ii. Special Revenue Funds

Special revenue funds are used to account for specific revenues that are legally restricted to expenditures for particular purposes.

iii. Capital Projects Funds

Capital projects funds are used to account for the acquisition and construction of major capital facilities other than those financed by proprietary funds and trust funds.

iv. Debt Service Funds

The Debt Service Fund accounts for the accumulation of resources, principally transfers from the General Fund for the payment of long-term debt principal and interest.

2. Fiduciary Funds Types

i. Pension (and Other Employee Benefit) Trust Fund

These funds are used to account for assets held by the CNMI as trustee. The Pension (and Other Employee Benefit) Trust Fund are accounted for on the accrual basis of accounting.

ii. Agency Fund

These funds are normally used to account for assets held by a government as an agent for individuals, private organizations, or other governments and/or other funds. Agency funds are purely custodial (assets equal liabilities) and thus do not involve measurement of results of operations.

GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - For State and Local Governments*, as amended by GASB Statement No. 37, *Basic Financial Statements - and Management's Discussion and Analysis- Omnibus*, sets forth minimum criteria (percentage of the assets, liabilities, revenues or expenditures/expenses for either fund category or the governmental and enterprise combined) for the determination of major funds. Major individual governmental funds are reported as separate columns in the fund financial statements. The nonmajor funds are combined in a column in the fund financial statements and detailed in the combining statements. The CNMI reports the following major funds:

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2004

(1) Summary of Significant Accounting Policies, Continued

D. Measurement Focus and Basis of Accounting, Continued

- DOI Capital Projects Fund, a Governmental Fund Type - Capital Projects Fund. This fund accounts for various capital projects funded through grant awards from the U.S. Department of the Interior.
- Federal Grants Fund, a Governmental Fund Type - Special Revenue Fund. This fund accounts for all financial transactions related to direct grants received from various U.S. departments.
- NMTIT Rebate Trust, a Governmental Fund Type - Special Revenue Fund. This fund was established to account for at least 75% of amounts paid to the CNMI with respect to taxes. Amounts may be withdrawn from the trust fund only for the purpose of making rebates, payments into the general fund (but only after a final determination that the amount in question is not validly subject to rebate), or payments into the general fund of interest derived from the trust accounts. Although the fund does not record revenues and expenditures, the CNMI has taken the position that tax payments received constitute revenue sources and the fund meets the definition of a special revenue fund.

E. Program and Other Revenue Recognition

Amounts reported as program revenue include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. General revenue is derived from taxation, investment income and other fees that are not allocated to specific programs.

Discretely presented component units distinguish operating revenues from nonoperating items. Operating revenues generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All other revenues are reported as nonoperating. Operating expenses include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

F. Cash and Cash Equivalents and Time Certificates of Deposit

The CNMI pools cash resources of its various funds in order to facilitate the management of cash. Unless otherwise required by law, interest income received on pooled cash accrues to the General Fund. Cash and cash equivalents applicable to a particular fund are readily identifiable. Cash and cash equivalents include cash held in demand accounts as well as short-term investments with a maturity date within three months of the date acquired by the CNMI. Time certificates of deposit with original maturity dates greater than ninety days are separately classified on the statement of net assets/balance sheet.

# COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

## Notes to the Financial Statements September 30, 2004

### (1) Summary of Significant Accounting Policies, Continued

#### F. Cash and Cash Equivalents and Time Certificates of Deposit, Continued

As of September 30, 2004, the carrying amount of the primary government's total cash and cash equivalents and time certificates of deposit were \$57,826,081 and the corresponding bank balances were \$67,627,850. Of the bank balance amounts, \$30,856,841 are maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2004, bank deposits in the amount of \$308,000 were FDIC insured. Public Law No. 12-61, the Government Deposit Safety Act of 1994, as amended, requires that all deposits of public funds made by the CNMI are to be collateralized by U.S. Government obligations at the rate of 100% of the corresponding bank deposit. Compliance with Public Law No. 12-61 as of September 30, 2004, is presently not determinable.

Restricted cash and cash equivalents as of September 30, 2004 for the primary government represent amounts held and administered by the CNMI in accordance with legal mandates and certain capital projects. Restricted cash and cash equivalents at September 30, 2004 amounted to \$41,201,507.

As of September 30, 2004, the carrying amount of the discretely presented component units' total cash and cash equivalents and time certificates of deposit were \$49,730,602 and the corresponding bank balances were \$47,382,056. Of the bank balance amounts, \$38,355,353 are maintained in financial institutions subject to FDIC insurance. As of September 30, 2004, bank deposits in the amount of \$2,038,243 were FDIC insured. The component units do not require collateralization of their cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized.

#### G. Receivables

In general, tax revenue is recognized on the government-wide financial statements, when assessed or levied. The CNMI did not perform an assessment of its taxes receivable at September 30, 2004. Tax revenue is recognized on the governmental fund financial statements to the extent that it is both measurable and available. Receivables are stated net of estimated allowances for uncollectible accounts. Reimbursements due to the CNMI for expenditures on federally-funded reimbursement and grant programs are reported as "receivables from federal agencies".

#### H. Interfund/Intrafund Transactions

As a general rule, the effect of interfund activity has been eliminated in the government-wide financial statements. Exceptions to this rule are: 1) activities between funds reported as governmental activities and funds reported as business-type activities and 2) activities between funds that are reported in different functional categories in either the governmental or business-type activities column. Elimination of these activities would distort the direct costs and program revenues for the functions concerned.



COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2004

(1) Summary of Significant Accounting Policies, Continued

I. Interfund Receivables and Payables

During the course of its operations, the CNMI records transactions between individual funds for goods provided or services rendered. Receivables and payables resulting from transactions between funds are classified as "due from other funds" or "due to other funds" on the governmental funds balance sheet. Receivables and payables resulting from transactions between component units and the primary government are classified as "due to/from primary government" or "due to/from component units" on the governmental balance sheet and statement of net assets. Interfund receivables and payables have been eliminated from the statement of net assets.

J. Advances

Advances include amounts paid in advance to vendors. In the governmental funds balance sheet, advances are offset by inclusion in the fund reserve for encumbrances indicating that they do not constitute expendable available resources and are therefore, not available for appropriation.

K. Inventories

Inventories are stated at the lower of cost or market using the first-in/first-out (FIFO) method. Inventories of the Commonwealth Health Center in the General Fund are offset by a fund balance reserve account, totaling \$1,667,537 as they represent an asset not available for appropriation. Other inventory balances recorded in the General Fund and the Federal Grants Fund of \$154,233 and \$362,010, respectively, did not require a reservation against fund balance.

L. Prepaid Items

Payments made to vendors or persons for services that will benefit periods beyond September 30, 2004, are recorded as prepaid items.

M. Fixed Assets and Depreciation

Capital assets, which include property, plant, equipment and infrastructure (e.g. roads, bridges, ramps and other similar items), are reported in the governmental activity column of the government-wide financial statements.

Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

All land, non-depreciable land improvements are capitalized, regardless of cost. Singular pieces of machinery and equipment, other than vehicles, that equal or exceed \$50,000 are capitalized. Buildings and infrastructure projects with a cost that equals or exceeds \$100,000 are capitalized. The costs of normal maintenance and repairs that do not add to the value of assets or materially extend asset lives are not capitalized.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2004

(1) Summary of Significant Accounting Policies, Continued

M. Fixed Assets and Depreciation, Continued

All vehicles have been grouped together regardless of cost and depreciated on a composite basis.

Management has elected to present only assets acquired subsequent to 1990, except for roads and the Commonwealth Hospital Complex. Accordingly, fixed asset records consist of additions commencing fiscal year 1990.

Applicable capital assets are depreciated using the straight-line method with a full year's depreciation charged in the year of acquisition and disposal, regardless of date. Estimated useful lives are as follows:

	<u>Estimated Useful Life</u>
Buildings and other improvements	10 - 50 years
Infrastructure	20 years
Machinery and equipment	5 - 25 years

N. Net Assets

The CNMI reports net assets as restricted where legally segregated for a specific future use. Otherwise, these balances are considered unrestricted.

Net Assets have been restricted as follows:

'Restricted for capital projects' - identifies amounts reserved for Capital Projects.

'Restricted for retirement of indebtedness' - identifies amounts reserved for debt service.

'Restricted for other purposes' - identifies amounts held for various externally imposed restrictions either by creditors, grantors or laws and regulations of other governments. It also includes various restrictions put forth by the CNMI enabling statutes. Included in this restriction are reserves for prior appropriations continued.

O. Long-Term Obligations

Article X, Section 4, of the CNMI Constitution limits public indebtedness, other than bonds or other obligations of the government payable solely from the revenues derived from a public improvement or undertaking, to no more than 10% of the aggregate assessed valuation of the real property within the CNMI. The CNMI aggregate assessed valuation has not been determined as of September 30, 2004. However, the CNMI has estimated the aggregate assessed valuation of real property to be \$1,596,236,822 as of September 30, 2004. This estimation was based on the 1995 CNMI Mid-Decade Census.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2004

(1) Summary of Significant Accounting Policies, Continued

P. Compensated Absences

Vested or accumulated vacation leave that is expected to be liquidated with expendable available financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay it. Compensated absences are recorded as a long-term liability in the statement of net assets with amounts to be paid during the next fiscal year reported as current. The liability as of September 30, 2004, is \$9,681,781.

Annual leave accumulates at the rate of thirteen working days for each year of service for up to three years of service, 19.5 working days for each year of service for three to six years of service, and 26 working days for each year of service for more than six years of service. Accrued annual leave is limited to 45 working days for civil service employees, with any amounts over 45 days transferred to sick leave. There is no limit on accumulated annual leave for non-civil service employees.

Q. Deferred Revenue

In the governmental-wide financial statements, deferred revenue is recognized when cash, receivables or other assets are recorded prior to their being earned. In the governmental fund financial statements, deferred revenues arise when potential revenue does not meet both the 'measurable' and 'available' criteria for recognition in the current period under the modified accrual basis of accounting. Deferred revenues also arise when resources are received by the CNMI before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the CNMI has a legal claim to the resources, the liability for deferred revenue is removed from the governmental fund balance sheet and revenue is recognized.

R. Bond Discounts and Issuance Costs

In the government-wide financial statements, bond discounts and issuance costs are deferred and amortized over the term of the bonds using the straight-line method. Bonds payable are reported net of bond discounts. Bond issue costs are reported as deferred charges.

In the fund financial statements, governmental fund types recognize bond discounts and issuance costs in the period the bond proceeds are received. The face amount of the debt issued is reported as other financing sources. Discounts received on debt issuance are reported as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds, are reported as expenditures.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2004

(1) Summary of Significant Accounting Policies, Continued

S. Income Taxes and Wage and Salary Taxes

The *Covenant to Establish the Commonwealth of the Northern Mariana Islands in Political Union with the United States of America* (the Covenant) adopted the Internal Revenue Code of the United States of America as the local income tax. Percentages of income tax due to the CNMI from CNMI source income are rebated at 90%, 70% or 50%, based on specified tax brackets for corporate and individual income taxes paid. The rebate liability is therefore estimated at the end of each fiscal year and an amount is maintained as a separate non-major governmental special revenue fund, in the Rebate Trust Fund, to ensure the adequacy of the rebate reserve.

Movements in income taxes and wage and salary taxes for the year ended September 30, 2004, are as follows:

Total income tax and wage and salary tax collections	\$ 65,883,093
Transfers to Rebate Trust Fund	<u>(23,027,084)</u>
Income taxes and wage and salary taxes per General Fund	42,856,009
Change in deferred revenue	<u>(888,680)</u>
Income taxes and wage and salary taxes per the statement of activities	\$ <u>41,967,329</u>

T. Fund Equity

Reserves represent those portions of fund equity not appropriate for expenditure or which are legally segregated for a specific future use or not expected to be realized in cash during the ensuing year. Designated fund balances represent tentative plans for future use of financial resources. The unreserved fund balances for governmental funds represent the amount available for budgeting future operations.

The reserve for related assets as of September 30, 2004, is represented by the following assets:

	<u>General Fund</u>
Restricted cash and cash equivalents	\$ 4,430,498
Investments	2,500,000
Receivables:	
Other agencies	3,103,610
Due from component units	3,258,818
Advances	<u>765,696</u>
	\$ <u>14,058,622</u>

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2004

(1) Summary of Significant Accounting Policies, Continued

T. Fund Equity, Continued

At September 30, 2004, a reserve for land claims of \$25,223,940 was recorded in the General Fund representing the undistributed proceeds of land settlement claims administered by the Marianas Public Lands Authority.

U. Interfund Transactions

Quasi-external transactions are accounted for as revenues, expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund, are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed. All other interfund transactions, except quasi-external transactions and reimbursements, are reported as transfers. Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

V. New Accounting Standards

In fiscal year 2004, the CNMI implemented GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units (an amendment of GASB Statement No. 14)*, and GASB Statement No. 46, *Net Assets Restricted by Enabling Legislation*. GASB Statement No. 39 provides additional guidance on GASB Statement No. 14, in determining whether an entity should be reported as a component unit based on the nature and significance of their relationship with a primary government. GASB Statement No. 46 establishes and modifies requirements of GASB Statement No. 34 related to restrictions of net assets resulting from enabling legislation.

For fiscal year 2005, the CNMI will be implementing GASB Statement No. 40, *Deposit and Investment Risk Disclosures (an amendment of GASB Statement No. 3)*, and GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. GASB Statement No. 40 addresses common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. As an element of interest risk, GASB Statement No. 40 requires certain disclosures of investments that have fair values that are highly sensitive to changes in interest rates. GASB Statement No. 42 establishes standards for impairment of capital assets when its service utility has declined significantly and unexpectedly. Management does not believe that the implementation of these statements will have a material effect on the financial statements of the CNMI.

In May 2004, GASB issued Statement No. 44, *Economic Condition Reporting: The Statistical Section, an amendment to NCGA Statement 1*. GASB Statement No. 44 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. The provisions of this Statement are effective for periods beginning after June 15, 2005. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the CNMI.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2004

(1) Summary of Significant Accounting Policies, Continued

V. New Accounting Standards, Continued

In June 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 15, 2008. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the CNMI.

In June 2004, GASB issued Technical Bulletin No. 2004-1, *Tobacco Settlement Recognition and Financial Reporting Entity Issues*. Technical Bulletin No. 2004-1 clarifies guidance on whether a Tobacco Settlement Authority (TSA) that is created to obtain the rights to all or a portion of future tobacco settlement resources is a component unit of the government that created it. In addition, it clarifies recognition guidance for these transactions and for payments made to settling governments pursuant to the Master Settlement Agreement with the major tobacco companies. The provisions of this technical bulletin are effective for periods ending after June 15, 2004. Management does not believe that implementation of this technical bulletin will have a material effect on the financial statements of the CNMI.

W. 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, expenditures and expenses during the reporting period. Actual results may differ from those estimates.

(2) Investments

GASB Statement No. 3 requires government entities to categorize investments to give an indication of the level of credit risk assumed by the entity at year end. The three categories are described below:

Category 1 - Insured or registered, or securities held by the CNMI or its agent in the CNMI's name;

Category 2 - Uninsured and unregistered, with securities held by the broker's or dealer's trust department or agent in the CNMI's name; or

Category 3 - Uninsured and unregistered, with securities held by the broker or dealer, or by its trust department or agent but not in the CNMI's name.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2004

(2) Investments, Continued

A. Governmental Funds

Investments of the primary government's individual major governmental funds and non major governmental funds in the aggregate as of September 30, 2004, are as follows:

	Categories			Carrying Value
	Category 1	Category 2	Category 3	
<u>Major Governmental Funds</u>				
General Fund:				
Equities	\$ 2,500,000	\$ -	\$ -	\$ 2,500,000
<u>Nonmajor Governmental Funds</u>				
Equities	\$ -	\$ -	\$ 652,467	\$ 652,467
Money market placements				42,852
				\$ 695,319

B. Fiduciary Funds

Investments of the Pension (and Other Employee Benefits) Trust Fund of \$374,064,922 as of September 30, 2004 are classified as Category 1.

(3) Receivables

Receivables as of September 30, 2004, for the primary government's individual major governmental funds and nonmajor governmental funds in the aggregate, including allowances for uncollectible accounts, are as follows:

	General	Federal Grants	DOI Capital Projects	NMTIT Rebate Trust	Other Governmental Funds	Totals
Receivables:						
Federal agencies	\$ -	\$ 16,493,286	\$ 7,604,539	\$ -	\$ -	\$ 24,097,825
Other agencies	108,439,764	-	-	-	19,629	108,459,393
Taxes	18,364,025	-	-	836,519	-	19,200,544
General	1,211,999	-	-	-	-	1,211,999
Other	-	-	12,831	-	715,369	728,200
Gross receivables	128,015,788	16,493,286	7,617,370	836,519	734,998	153,697,961
Less allowance for uncollectibles	(106,133,876)	(3,843,020)	(5,098,375)	-	-	(115,075,271)
Net receivables	\$ 21,881,912	\$ 12,650,266	\$ 2,518,995	\$ 836,519	\$ 734,998	\$ 38,622,690

Receivables as of September 30, 2004 for individual major discretely presented component units, including allowances for uncollectible accounts are as follows:

	Commonwealth Ports Authority	Commonwealth Development Authority	Commonwealth Utilities Corporation	Marianas Public Land Trust	Marianas Public Lands Authority	Northern Marianas College	Public School System	Marianas Visitors Authority	Totals
Receivables:									
Loans	\$ -	\$ 121,314,804	\$ -	\$ 11,037,560	\$ -	\$ -	\$ -	\$ -	\$ 132,352,364
Federal agencies	3,295,968	-	1,411,255	-	-	1,572,647	697,002	-	6,976,872
General	4,049,852	23,797	-	-	16,134,840	3,860,188	-	-	24,068,677
Utilities	-	-	17,682,669	-	-	-	-	-	17,682,669
Interest and dividends	-	12,457,927	-	791,524	-	-	-	-	13,249,451
Other	30,727	110,888	1,904,273	279,536	-	-	469,056	101,686	2,896,166
Gross receivables	7,376,547	133,907,416	20,998,197	12,108,620	16,134,840	5,432,835	1,166,058	101,686	197,226,199
Less allowance for uncollectibles	(1,731,384)	(98,653,785)	(10,467,045)	-	(15,146,506)	(1,917,352)	(130,761)	-	(128,046,833)
Net receivables	\$ 5,645,163	\$ 35,253,631	\$ 10,531,152	\$ 12,108,620	\$ 988,334	\$ 3,515,483	\$ 1,035,297	\$ 101,686	\$ 69,179,366

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2004

(3) Receivables, Continued

Receivables are primarily due from businesses and individuals residing in the CNMI. The allowance for uncollectibles primarily represents those accounts that are more than 90 days delinquent as of September 30, 2004.

(4) Interfund Receivables and Payables

Receivables and payables between funds reflected as due to/from other funds in the governmental funds balance sheet at September 30, 2004 are summarized as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Nonmajor governmental funds	\$ 572,309
DOI Capital Projects	General	11,323,537
NMTIT Rebate Trust	General	28,378,329
Nonmajor governmental funds	General	13,634,099
General	Federal Grants Fund	9,192,663
Nonmajor governmental funds	Nonmajor governmental funds	<u>88,484</u>
		<u>\$ 63,189,421</u>

These balances result from the time lag between the dates that 1) interfund goods and services are provided or reimbursable expenditures occur, 2) transactions are recorded in the accounting system, and 3) payments between funds are made and are scheduled to be collected in the subsequent year.

Balances reflected as due to/from component units in the governmental funds balance sheet as of September 30, 2004 are summarized as follows:

<u>Due From</u>	<u>Due To</u>	<u>Amount</u>
General	Commonwealth Development Authority (CDA) - NMHC Division	\$ 3,258,818
General	Marianas Public Lands Authority (MPLA)	25,223,940
Nonmajor governmental funds	Marianas Public Land Trust	<u>10,967</u>
		<u>\$ 28,493,725</u>
Public School System (PSS)	General	\$ 3,250,740
Marianas Visitors Authority	General	1,777,636
Commonwealth Utilities Corporation	General	16,570,359
Northern Marianas College (NMC)	Nonmajor governmental funds	80,472
Marianas Public Land Trust	Nonmajor governmental funds	<u>7,193</u>
		<u>\$ 21,686,400</u>



COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2004

(4) Interfund Receivables and Payables, Continued

The amount recorded as due from component units of the primary government of \$28,493,725 does not equal the corresponding due to primary government of the discretely presented component units of \$26,838,363 as the difference of \$3,258,818 is due to a note payable and accrued interest payable to the CNMI recorded by CDA - NMHC division; the discretely presented component units recording \$1,601,378 due to the primary government related to the 1% public auditor fee for which the primary government recorded a corresponding allowance; and an unreconciled difference of \$2,078 with MPLA.

The amount due from MPLA of \$25,223,940 represents \$28,000,691 from General Obligation Bonds issued by the CNMI for land compensation claims net of drawdowns at September 30, 2004 of \$2,943,430. The funds are deposited in a money market account with a trustee and recorded by MPLA. Total interest earned on the account amounted to \$166,679 at September 30, 2004. As land claims are settled, a transfer out to MPLA is recorded.

The amount recorded as due from primary government of the discretely presented component units of \$7,426,450 does not equal the corresponding due to component units of the primary government of \$21,686,400 due to the Commonwealth Utilities Corporation recording an allowance of \$15,314,459; timing differences with NMC when recording appropriations of \$11,078; PSS recording maintenance fees of \$49,848 as part of appropriations; and unreconciled differences with PSS amounting to \$993,583.

The amount recorded as due to Pension (and Other Employee Benefit) Trust Funds beneficiaries of \$111,729,037 does not equal the corresponding due from the primary government of the Fiduciary Funds of \$1,438,019 due to the Pension (and Other Employee Benefit) Trust Fund recording an allowance for uncollectible receivables of \$110,291,018.

(5) Restricted Assets

Fiduciary Fund Type - Agency Fund

Security Deposit Fund:

Restricted assets of \$3,585,915 as of September 30, 2004 represent deposits of foreign investors required by law to operate businesses in the CNMI.

Discretely Presented Component Units

Commonwealth Ports Authority (CPA):

Restricted assets represent the unused proceeds of the Airport Revenue Bonds and the Seaport Revenue Bonds, both issued on March 26, 1998, deposited with the Trustee. The Trustee is a commercial lending institution and the securities are held in the name of CPA. Disbursements from unused bond proceeds are to be made solely for the purpose of paying the costs of the projects, and pursuant to the Act establishing CPA (Public Law No. 2-48), payment of the costs of issuance and the payment of bond principal and interest to the extent provided in the Indenture.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2004

(5) Restricted Assets, Continued

Commonwealth Ports Authority (CPA), Continued:

<u>Fund</u>	<u>1998 Senior Series A Airport Revenue Bonds</u>	<u>1998 Senior Series A Seaport Revenue Bonds</u>
Bond Reserve Fund	\$ 1,626,005	\$ 2,691,759
Supplemental Reserve Fund	-	6,202,896
Construction Fund	647,408	-
Reimbursement Fund	-	5,128
Bond Fund	181,227	307,200
Maintenance and Operation	<u>29,599</u>	<u>178,042</u>
	<u>\$ 2,484,239</u>	<u>\$ 9,385,025</u>

Commonwealth Development Authority (CDA):

Restricted assets of CDA are comprised of the following:

	<u>Development Banking Division</u>	<u>Development Corporation Division</u>	<u>Northern Marianas Housing Corporation</u>	<u>Total</u>
Cash and cash equivalents	\$ 7,741,815	\$ 500,000	\$ 2,472,613	\$ 10,714,428
Investments	<u>2,765,306</u>	<u>7,601,766</u>	<u>-</u>	<u>10,367,072</u>
	<u>\$ 10,507,121</u>	<u>\$ 8,101,766</u>	<u>\$ 2,472,613</u>	<u>\$ 21,081,500</u>

Restricted assets of the Development Banking Division represent the proceeds of Covenant funding and liquidated revenue bonds derived from pledged Covenant funding to be used for capital development purposes.

Restricted assets of the Development Corporation Division represent time certificates of deposit maintained at a non-FDIC insured bank as guarantee against loans issued by the bank.

Restricted assets of the Northern Marianas Housing Corporation (NMHC) represent depository accounts with financial institutions in the CNMI that are restricted for various purposes, as summarized below:

Escrow account maintained as a guarantee for any deficiency in foreclosure proceeds related to U.S. Farmers Home Administration loans.	\$ 253,045
Savings account restricted for Koblerville Section 8 project repairs and maintenance expenses, per contract with the U.S. Department of Housing and Urban Development.	194,981
Savings account maintained as a guarantee of housing loans made by a savings and loan in the CNMI.	120,400

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2004

(5) Restricted Assets, Continued

Discretely Presented Component Units, Continued

Commonwealth Development Authority (CDA), Continued:

Marianas Public Land Trust (MPLT) collateral account.	628,065
Time certificates of deposit for MPLT loan program	1,019,943
Other depository accounts reserved for various purposes.	<u>256,179</u>
	<u>\$ 2,472,613</u>

Commonwealth Utilities Corporation (CUC):

Time certificates of deposit of \$6,240,209 and cash and cash equivalents of \$8,583,478 as of September 30, 2004 represent customer deposits segregated pursuant to CUC policy. Cash and cash equivalents of \$29,666 as of September 30, 2004 represents advances from a grantor agency for the use on a specific project.

Marianas Public Land Trust (MPLT):

The purpose of MPLT is to manage all monies received by it from the Marianas Public Lands Authority (MPLA) for the use of public lands. MPLA has the responsibility to manage the public lands and distribute to MPLT all revenues net of reasonable expenses of administration.

MPLT's responsibility, with respect to monies received by it from MPLA, requires it to make reasonable, careful and prudent investments. The Trustees have taken the position that their duty to the beneficiaries is not only to provide income to the General Fund of the CNMI but also to preserve the principal of MPLT. As such, MPLT is currently allocating capital gains and losses on equity investments to principal fund balance. These capital gains and losses are not considered to be available for distribution to the General Fund of the CNMI. Other forms of income on investments, after deduction of amounts necessary to meet reasonable administrative expenses, are distributed to the General Fund of the CNMI.

Additionally, MPLT is responsible for carrying out the intention of Article VIII, Section 803(e) of the Covenant, by establishing a separate trust fund for the development and maintenance of an American Memorial Park. The Trustees are allocating capital gains and losses on equity investments of this trust fund to the principal of the trust fund. Other forms of income on investments, after deduction of amounts necessary to meet reasonable administrative expenses, are to be used for the development and maintenance of the American Memorial Park.

Marianas Public Lands Authority (MPLA):

Restricted investments of MPLA represent unused proceeds of \$25,223,940 as part of the primary government's \$40,000,000 General Obligation Bonds Series 2003A, deposited with a trustee. The trustee is a commercial lending institution and the investments are held in the name of MPLA. At September 30, 2004, total unused proceeds amounted to \$25,223,940 and, accordingly, classified as current in the accompanying financial statements.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2004

(5) Restricted Assets, Continued

Discretely Presented Component Units, Continued

Marianas Public Lands Authority (MPLA), Continued:

Cash and cash equivalents of \$8,344,612 represents bank deposits in which MPLA has been restricted full access and, accordingly, are classified as restricted, noncurrent in the accompanying financial statements. The deposits are held with a financial institution not subject to FDIC and thus are uncollateralized.

(6) Fixed Assets and Depreciation

Capital assets activities of the primary government for the year ended September 30, 2004, are as follows:

Governmental Activities

	Balance October 1, 2003 (As Restated)	Additions	Retirements	Reclassifications	Balance September 30, 2004
Historical cost:					
Assets not being depreciated:					
Construction in progress	\$ 57,353,919	\$ 27,932,858	\$ -	\$ (29,043,857)	\$ 56,242,920
Depreciable assets:					
Buildings and other improvements	69,776,365	-	(226,246)	22,180,030	91,730,149
Machinery and equipment	11,479,250	2,468,135	(6,373,232)	-	7,574,153
Infrastructure	106,899,025	-	-	6,863,827	113,762,852
Subtotal depreciable assets	188,154,640	2,468,135	(6,599,478)	29,043,857	213,067,154
Total capital assets at cost	245,508,559	30,400,993	(6,599,478)	-	269,310,074
Accumulated depreciation:					
Buildings and other improvements	(19,447,702)	(3,213,816)	226,246	-	(22,435,272)
Machinery and equipment	(7,013,972)	(1,621,326)	6,373,232	-	(2,262,066)
Infrastructure	(70,691,416)	(5,660,471)	-	-	(76,351,887)
Total accumulated depreciation	(97,153,090)	(10,495,613)	6,599,478	-	(101,049,225)
Capital assets, net	\$ 148,355,469	\$ 19,905,380	\$ -	\$ -	\$ 168,260,849

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:

Community and Social Services	\$ 736,612
General Government	1,329,932
Health	709,153
Public Works	7,011,856
Judicial Branch	291,274
Public Safety and Law Enforcement	334,644
Lands and Natural Resources	82,142
Total depreciation expense - governmental activities	\$ 10,495,613

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2004

(6) Fixed Assets and Depreciation, Continued

Discretely Presented Component Units

	Estimated Useful Lives	Balance October 1, 2003	Additions	Retirements	Adjustments/ Reclassifications	Balance September 30, 2004
Historical cost:						
Assets not being depreciated:						
Land	-	\$ 53,215,561	\$ -	\$ -	\$ -	\$ 53,215,561
Construction in progress	-	<u>50,513,606</u>	<u>17,984,061</u>	<u>(7,840,124)</u>	<u>(7,102,858)</u>	<u>53,554,685</u>
		<u>103,729,167</u>	<u>17,984,061</u>	<u>(7,840,124)</u>	<u>(7,102,858)</u>	<u>106,770,246</u>
Depreciable assets:						
Harbor facilities	20 years	61,826,127	-	-	-	61,826,127
Terminal facilities	20 years	62,029,814	1,276,379	-	-	63,306,193
Buildings	5 - 50 years	52,176,020	632,034	-	-	52,808,054
Runway and improvements	20 years	38,377,087	2,224,228	-	-	40,601,315
Electric plant	20 years	114,917,960	802,500	-	2,096,112	117,816,572
Water plant	20 years	57,091,249	381,813	-	2,782,542	60,255,604
Sewer plant	20 years	22,023,014	360,404	-	1,232,038	23,615,456
Other improvements	3 - 20 years	11,250,532	3,618,984	(6,917)	-	14,862,599
Housing projects	30 years	8,815,922	30,687	(192,000)	-	8,654,609
Terminal equipment	2 - 10 years	8,665,351	18,501	-	-	8,683,852
Office furniture and fixtures	2 - 10 years	11,673,030	1,779,875	(36,900)	(30,602)	13,385,403
Infrastructure	30 years	5,111,477	-	-	-	5,111,477
Other equipment	3 - 5 years	2,343,081	3,492	(37,149)	-	2,309,424
Fire and rescue	2 - 8 years	2,448,255	879,266	-	-	3,327,521
General transportation	3 - 5 years	1,840,724	44,699	(102,106)	-	1,783,317
Ground maintenance and shop equipment	2 - 5 years	<u>505,570</u>	<u>5,902</u>	<u>(4,381)</u>	<u>-</u>	<u>507,091</u>
Subtotal depreciable assets		<u>461,095,213</u>	<u>12,058,764</u>	<u>(379,453)</u>	<u>6,080,090</u>	<u>478,854,614</u>
Total capital assets at cost		564,824,380	30,042,825	(8,219,577)	(1,022,768)	585,624,860
Less accumulated depreciation		(208,458,071)	(19,751,903)	188,639	253,391	(227,767,944)
Less accumulated loss on impairment		-	(133,721)	-	-	(133,721)
		<u>\$ 356,366,309</u>	<u>\$ 10,157,201</u>	<u>\$ (8,030,938)</u>	<u>\$ (769,377)</u>	<u>\$ 357,723,195</u>

(7) Tax Rebates Payable

The CNMI makes significant estimates in determining tax rebates payable as recorded in the Rebate Trust Fund, a major governmental fund. Although the Rebate Trust Fund does not record revenues and expenditures, the CNMI has taken the position that tax payments received constitute revenue sources and thus the fund meets the definition of a special revenue fund.

The Rebate Trust Fund was established to account for amounts paid to the CNMI, with respect to taxes imposed, which are rebateable to taxpayers. P.L. 9-22, enacted in January 1995, repealed and re-enacted the CNMI tax code and removed the requirement of a Rebate Trust Fund. P.L. 9-57, enacted in October 1995, reestablished the Rebate Trust Fund. The reestablishment was not retroactive, and thus tax year liabilities are paid from subsequent year collections of the General Fund.

The rebate percentage is either 90%, 70% or 50%, based on the specified tax brackets for taxes paid. Amounts may be withdrawn from the trust fund only for the purpose of making rebates, payments into the general fund (but only after a final determination that the amount in question is not validly subject to rebate), or payments into the general fund of interest derived from the trust accounts. Tax rebate liabilities amounted to \$29,214,848 as of September 30, 2004. Cash to fund this liability is to be provided by the General Fund. Any changes in the estimate will be accounted for in a prospective manner.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2004

(8) Long-Term Debt Obligations

NMIRF Loan

On February 28, 1995, the CNMI entered into a loan agreement with the Northern Mariana Islands Retirement Fund (NMIRF), a Fiduciary Fund Type - Pension (and Other Employee Benefits) Trust Fund, for the construction of a Judicial Complex on the island of Saipan, in an amount not to exceed \$15,000,000. All revenue collected by the courts is deposited into the Judicial Building Fund, a Governmental Fund Type - Special Revenue Fund, to finance debt service on the loan. As of September 30, 2004, cash balances were held by NMIRF for the retirement of debt totaled \$2,717,161. The loan is for a period of fifteen years, is due February 28, 2010 with interest at 7.5%, principal and interest payable in monthly installments of \$137,198. As of September 30, 2004, amount outstanding and payable is \$11,279,320.

\$15,685,000 Bond Issue

On May 1, 1999, the CNMI issued \$15,685,000 in 1999 Series A general obligation bonds with an average interest rate of 4.76%. The bonds were authorized by a joint resolution adopted by the CNMI Legislature. The bond proceeds were used to finance the local match for grants received from the U.S. federal government financing various capital improvement projects of the Public School System.

Installments are paid to the Bond Trustee annually on every October 1 through 2008. These funds are held in a Bond Fund Account from which the Bond Trustee makes semiannual payments every April 1 and October 1. The term of the bond issue is for approximately nine years and matures on October 1, 2008. As of September 30, 2004, amount outstanding and payable is \$8,150,000.

\$60,000,000 Bond Issue

On November 18, 2000, the Commonwealth Development Authority (CDA), acting for and on behalf of the CNMI, issued \$60,000,000 in 2000 Series A general obligation bonds, with interest rates varying between 4.875% beginning June 1, 2004 and 7.375% on June 1, 2030. The bonds were authorized by Public Law Nos. 11-3 and 11-102. Bond proceeds, net of bond issuance costs of \$3,210,104, are expected to fund certain capital improvement projects and to retire certain interim financing.

Installments of principal are paid to the Bond Trustee annually commencing June 1, 2004 through June 1, 2030. Interest is payable annually, commencing June 1, 2001 through June 1, 2030.

The 2000 Series A general obligation bonds are subject to redemption prior to their respective maturities (on or after June 1, 2011), at the option of the CNMI, from any source of available funds, on any date on or after June 1, 2010, as a whole or in part by such maturity or maturities as may be specified by request of the CNMI (and by lot within a maturity as selected by the Trustee) at a redemption price of 100% of the principal amount thereof plus accrued interest thereon to the date fixed for redemption.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2004

(8) Long-Term Debt Obligations, Continued

\$60,000,000 Bond Issue, Continued

The Bonds maturing on June 1, 2014, June 1, 2020 and June 1, 2030 are subject to redemption prior to their stated maturities, in part, by lot, from mandatory sinking fund payments deposited in the Principal Account in the Bond Payment Fund pursuant to Section 4.05 of the Indenture Agreement dated November 15, 2000, on each June 1, from and after June 1, 2011, June 1, 2015 and June 1, 2021, respectively, at the principal amount thereof plus accrued interest thereon, if any, to the date of redemption (without premium).

Mandatory sinking fund payments due June 1, are as follows:

<u>Year</u>	<u>Amount</u>	<u>Year</u>	<u>Amount</u>	<u>Year</u>	<u>Amount</u>
2011	\$ 1,850,000	2018	\$ 2,780,000	2025	\$ 2,365,000
2012	\$ 1,965,000	2019	\$ 2,945,000	2026	\$ 2,535,000
2013	\$ 2,085,000	2020	\$ 3,125,000 *	2027	\$ 2,725,000
2014	\$ 2,210,000 *	2021	\$ 1,775,000	2028	\$ 2,925,000
2015	\$ 2,330,000	2022	\$ 1,910,000	2029	\$ 3,140,000
2016	\$ 2,470,000	2023	\$ 2,050,000	2030	\$ 3,375,000 *
2017	\$ 2,620,000	2024	\$ 2,200,000		

\* The Paying Agent shall apply moneys transferred by the Trustee from the Principal Account to the redemption of Bonds maturing on June 14, 2014, June 1, 2020 and June 1, 2030, in the principal amounts and on the mandatory sinking fund payment dates.

As of September 30, 2004, amount outstanding and payable is \$58,695,000.

\$40,000,000 Bond Issue

On December 1, 2003, CDA, acting for and on behalf of the CNMI, issued \$40,000,000 in 2003A general obligation bonds, with interest rate at 6.75% per annum. The bonds were authorized by Public Law 13-17 as amended by Public Law 13-25, Public Law 13-39 and Public Law 13-56. Bond proceeds, net of bond issuance costs and discount of \$999,309, are expected to fund the (i) land compensation claims amounting to \$28,000,691, (ii) the prison project of \$9,104,694 and (iii) reimburse the Commonwealth Development Authority for interim financing of \$1,895,306.

Installments of principal are paid to the Bond Trustee annually commencing October 1, 2009 through October 1, 2033. Interest is payable semiannually beginning April 1, 2004 through October 1, 2033.

The 2003 Series A general obligation bonds are subject to redemption.

(a) Optional Redemption - The bonds maturing after October 1, 2013 are subject to redemption prior to their respective maturities, at the option of the Commonwealth, from any source of available funds, on any date on or after October 1, 2013, as a whole, or in part by such maturity or maturities as may be specified by request of the Commonwealth (and by lot within a maturity as selected by the Trustee), at a redemption price of one hundred percent (100%) of the principal amount thereof plus accrued interest thereon to the dated fixed for redemption.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2004

(8) Long-Term Debt Obligations, Continued

\$40,000,000 Bond Issue, Continued

- (b) Mandatory Redemption from Sinking Fund Payments - The bonds are subject to redemption prior to their stated maturities, in part, by lot, from mandatory sinking fund payments deposited in the principal account in the Bond Payment Fund pursuant to Section 4.05 of this Indenture, on each October 1 from and after October 1, 2009, at the principal amount thereof plus accrued interest thereon, if any, to the date of redemption (without premium).
- (c) Partial Redemption of Bonds - Upon surrender of any bond redeemed in part only, the Paying Agent shall provide a replacement bond in a principal amount equal to the portion of such bond not redeemed, and deliver it to the registered owner thereof. The bond so surrendered shall be cancelled by the Paying Agent as provided herein. The Authority, the Trustee and the Paying Agent shall be fully released and discharged from all liability to the extent of payment of the redemption price for such partial redemption.
- (d) Effect of Redemption - Moneys for payment of the redemption price of, together with interest accrued to the redemption date on, the bonds (or portions thereof) so called for redemption being held by the Paying Agent, on the redemption date designated in such notice, shall become due and payable at the redemption price specified in such notice and interest accrued thereon to the redemption date, said bonds (or portions thereof) shall cease to be entitled to any benefit or security under this Indenture, and the Holders of said bonds shall have no rights in respect thereof except to receive payment of said redemption price and accrued interest to the redemption date. Any accrued interest payable upon the redemption of bonds may be paid from amounts held in the interest account for the payment of interest on the next following interest payment date.

All bonds redeemed pursuant to the provision of this Article, shall be cancelled upon surrender thereof and shall be destroyed by the Paying Agent, who shall thereupon deliver to the Trustee or the Authority a certificate evidencing such destruction if so requested.

As of September 30, 2004, amount outstanding and payable is \$40,000,000 less unamortized discount on bond issuance of \$564,533.

Changes in long-term liabilities for the year ended September 30, 2004, are as follows:

	Balance October 1, 2003	Additions	Reductions	Balance September 30, 2004	Due Within One Year
Loans and bonds payable:					
NMIRF loan	\$ 11,340,956	\$ 77,350	\$ (138,986)	\$ 11,279,320	\$ 3,112,321
1999 Series A Bonds	9,675,000	-	(1,525,000)	8,150,000	1,580,000
2000 Series A Bonds	60,000,000	-	(1,305,000)	58,695,000	1,365,000
2003 Series A Bonds	-	40,000,000	-	40,000,000	-
	81,015,956	40,077,350	(2,968,986)	118,124,320	6,057,321
Unamortized discount on bonds issued	-	(584,000)	19,467	(564,533)	-
	81,015,956	39,493,350	(2,949,519)	117,559,787	6,057,321
Other:					
Compensated absences	9,142,482	5,488,827	(4,949,528)	9,681,781	3,275,185
	\$ 90,158,438	\$ 44,982,177	\$ (7,899,047)	\$ 127,241,568	\$ 9,332,506



COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2004

(8) Long-Term Debt Obligations, Continued

The annual requirement to amortize all debt of the governmental activities outstanding as of September 30, 2004 is as follows:

<u>Year ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 6,057,321	\$ 7,576,229	\$ 13,633,550
2006	4,165,140	7,351,886	11,517,026
2007	4,403,218	7,114,059	11,517,277
2008	4,657,746	6,852,306	11,510,052
2009	5,044,223	6,574,866	11,619,089
2010 - 2014	17,226,672	29,001,211	46,227,883
2015 - 2019	18,745,000	23,826,500	42,571,500
2020 - 2024	18,660,000	17,632,369	36,292,369
2025 - 2029	24,390,000	10,518,519	34,908,519
2030 - 2034	<u>14,775,000</u>	<u>2,226,656</u>	<u>17,001,656</u>
	\$ <u>118,124,320</u>	\$ <u>118,674,601</u>	\$ <u>236,798,921</u>

Discretely Presented Component Units

Commonwealth Ports Authority

Note payable to the Commonwealth Development Authority (CDA), due November 16, 2014, interest at 2.5%, principal and interest are payable in quarterly installments of \$204,113.

\$ 8,091,422

Commonwealth Development Authority

Development Banking Division:

Note payable to Marianas Public Land Trust (MPLT), bearing interest at 6.5% per annum, due over a fifteen-year term, beginning June 2003. The note is collateralized by the full faith and credit of the CNMI Government held in trust by MPLT, for the purpose of development and maintenance of the American Memorial Park, and is being repaid from earnings of the investments pursuant to CNMI Public Law 11-72.

1,898,165

Northern Marianas Housing Corporation (NMHC):

Note payable to Marianas Public Land Trust (MPLT), bearing interest at 8.5% per annum, due on March 1, 2016, collateralized by the full faith and credit of the CNMI Government. Public Law No. 12-27 approved the repayment of this loan through legislative appropriation of operating transfers to the general fund of the CNMI Government from investment income of MPLT. Accordingly, operating transfers in the general fund from MPLT reduces NMHC's payable to MPLT but NMHC recognizes a payable to the CNMI Government for the same amount, deferred for ten years.

8,996,623

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2004

(8) Long-Term Debt Obligations, Continued

Discretely Presented Component Units, Continued

Commonwealth Development Authority, Continued

Northern Marianas Housing Corporation (NMHC), Continued:

Note payable to the CNMI Government for the operating transfers to the general fund of the CNMI Government from investment income of MPLT pursuant to the approved repayment of the MPLT loan through legislative appropriation as provided for in Public Law 12-27. Accordingly, operating transfers in the general fund from MPLT reduces NMHC's payable to MPLT but NMHC recognizes a payable to the CNMI Government for the same amount, deferred for ten years. 1,003,377

Commonwealth Utilities Corporation

Promissory note payable to CDA. Principal amount available to \$30,000,000, interest at 7% per annum, with a maturity date of February 17, 2013. Principal and interest payments are due in quarterly payments of \$658,469. 30,000,000

Promissory note payable to CDA. Principal amount available to \$16,135,650, interest at 5% per annum, with a maturity date of January 12, 2014. Principal and interest payments are due in quarterly payments of \$359,514. 16,068,750

Promissory note payable to CDA. Principal amount available to \$5,500,000, interest at 7% per annum, with a maturity date of January 30, 2000. Principal and interest payments are due in quarterly payments of \$276,471. 5,500,000

Promissory note payable to CDA. Principal amount available to \$10,000,000 and interest at 7% per annum. Principal and interest payments are due in monthly payments of \$58,509. No promissory agreement related to this note has been signed. 10,000,000

Loan payable to the U.S. Department of Agriculture with repayments due on January 1, beginning in 1989 through 2008, bearing interest at 6 1/8% per annum. 203,063

\$ 81,761,400

On February 4, 2003, CDA's Board of Directors authorized the following deferment program for CPA's loans to CDA:

- CPA will make immediate payment of fifty percent of the amount outstanding as of February 4, 2003.
- For the remainder of Fiscal Year 2003, CPA will reduce its quarterly payments by fifty percent.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2004

(8) Long-Term Debt Obligations, Continued

Discretely Presented Component Units, Continued

- The term of the loan will be extended to accommodate the above payment deferral.

As of September 30, 2004, an amendment to the loan agreement has not been signed by both CPA and CDA. In addition, during the year ended September 30, 2004, CPA did not meet its required last quarter payment of \$204,113. Accordingly, amounts in arrears are included as current at September 30, 2004.

The CDA obligation is subordinate to CPA's obligation for the Seaport bonds.

At September 30, 2004, and subsequent to that date, CUC was in default of repayment terms of all notes payable to CDA. In accordance with the associated loan agreements, in the event of default, CDA may accelerate all remaining amounts due. Thus, \$61,568,750 at September 30, 2004, associated with the notes payable to CDA along with interest payable on these notes of \$85,579,654 as of September 30, 2004, has been classified as current liabilities within the accompanying financial statements.

On November 21, 2002, a Memorandum of Agreement (MOA) was established between CDA and CUC to waive a portion of the notes payable to CDA and the conversion into equity ownership of the balance. Public Law 13-35 effectuated terms of the MOA allowing CDA to waive \$16,068,750 and waive certain specified interest payments and for other purposes. Public Law 13-36 effectuated terms of the MOA by authorizing CUC to issue shares to CDA of cumulative nonconvertible non-transferable preferred stock valued at \$45,500,000. At September 30, 2004, terms of the MOA are being negotiated between CDA and CUC and thus debt has not been waived and preferred stock has not been issued.

\$20,050,000 Bond Issue

On March 26, 1998, the Commonwealth Ports Authority (CPA) issued \$20,050,000 in 1998 Senior Series A tax-exempt airport revenue bonds with an interest rate of 6.25% for a current refunding of \$8,250,000 of 1987 Series B tax-exempt airport revenue bonds. The refunding was undertaken to consolidate existing debt with new debt issued for the purpose of financing various airport projects and to reduce total future debt service. The reacquisition price exceeded the net carrying amount of the old debt by \$503,906. This amount was netted against the new debt and is being amortized over the refunded debt's life, which is shorter than the life of the new debt.

Installments are paid to the Bond Trustee annually on March 15 through 2028. Interest is payable semi-annually, at 6.25%, on March 15 and September 15 of each year.

Revenue bonds payable as of September 30, 2004, consist of the following:

1998 Senior Series A tax-exempt airport revenue bonds	\$ 18,345,000
Deferred costs of debt refunding	<u>(80,953)</u>
	<u>\$ 18,264,047</u>

The 1998 Senior Series A tax-exempt airport revenue bonds are limited obligations of CPA and, except to the extent payable from bond proceeds, are payable solely out of revenues, assets and funds pledged under the Indenture.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2004

(8) Long-Term Debt Obligations, Continued

Discretely Presented Component Units, Continued

\$20,050,000 Bond Issue, Continued

The 1998 Senior Series A tax-exempt airport revenue bonds are subject to redemption prior to their respective stated maturities on or after March 15, 2013, at the option of CPA, from any source of available funds, as a whole on any date, or in part on any interest payment date and by lot within a maturity, at the redemption prices (expressed as percentages of principal amount) set forth in the table below plus interest accrued thereon to the date fixed for redemption:

<u>Redemption Dates</u>	<u>Redemption Prices</u>
March 15, 2013 through March 14, 2014	102%
March 15, 2014 through March 14, 2015	101%
March 15, 2015 and thereafter	100%

\$33,775,000 Bond Issue

On March 26, 1998, CPA issued \$33,775,000 in 1998 Senior Series A tax-exempt seaport revenue bonds with interest rates of 6.6% for a current refunding of \$22,470,000 of 1995 Series A tax-exempt seaport revenue bonds. The refunding was undertaken to consolidate existing debt with new debt issued for the purpose of financing various seaport projects and to reduce total future debt service. The reacquisition price exceeded the net carrying amount of the old debt by \$1,345,593. This amount was netted against the new debt and is being amortized over the refunded debt's life, which is shorter than the life of the new debt.

Installments are paid to the Bond Trustee annually on March 15 through 2028. Interest is payable semi-annually, at 6.6%, on March 15 and September 15 of each year.

Revenue bonds payable as of September 30, 2004, consist of the following:

1998 Senior Series A tax-exempt seaport revenue bonds	\$ 30,965,000
Deferred costs of debt refunding	<u>(1,174,369)</u>
	<u>\$ 29,790,631</u>

CPA has resolved to deposit \$700,000 annually into the Seaport supplemental reserve fund (beginning in 2001 and ending in 2005) until \$8,000,000 is deposited into such fund. At September 30, 2004, total deposits in the Seaport supplemental reserve fund amounted to \$6,202,896.

The 1998 Senior Series A tax-exempt seaport revenue bonds are limited obligations of CPA and, except to the extent payable from bond proceeds, are payable solely out of revenues and funds pledged under the Indenture.

The 1998 Senior Series A tax-exempt seaport revenue bonds are subject to redemption prior to their stated maturity, at the option of CPA, as a whole or in part by lot, on any date from the proceeds of available funds, the principal amount thereof and interest accrued thereon to the date fixed for redemption, without premium.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2004

(8) Long-Term Debt Obligations, Continued

Discretely Presented Component Units, Continued

\$33,775,000 Bond Issue, Continued

The bond indentures contain several restrictive covenants, including restrictions on the use of bond proceeds. Management of CPA is of the opinion that CPA was in compliance with all significant covenants as of September 30, 2004.

The annual requirements to amortize all debt of the Discretely Presented Component Units outstanding as of September 30, 2004, including interest payments, for those audit entities whose audit reports include such, are as follows:

<u>Year ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 63,972,405	\$ 89,271,771	\$ 153,244,176
2006	1,782,605	3,385,270	5,167,875
2007	1,873,459	3,293,598	5,167,057
2008	1,965,275	3,196,698	5,161,973
2009	2,004,507	3,094,360	5,098,867
2010 - 2014	11,649,810	13,778,199	25,428,009
2015 - 2019	20,648,339	18,254,816	38,903,155
2020 - 2024	13,235,000	6,755,950	19,990,950
2025 - 2028	<u>13,940,000</u>	<u>1,873,573</u>	<u>15,813,573</u>
	\$ <u>131,071,400</u>	\$ <u>142,904,235</u>	\$ <u>273,975,635</u>

Obligations Under Capital Lease

On June 10, 1997, the Commonwealth Utilities Corporation (CUC) entered into an agreement with a contractor for the construction, maintenance and operation, and transfer of ownership of a 10 Megawatt Power Plant on the island of Tinian. The agreement is for a guaranteed price of \$9,959,000 plus interest and fees of \$11,641,000 payable over ten years in equal monthly installments of \$180,000. During this period, the contractor will maintain and operate the power plant and be paid operation, production and maintenance fees of \$50,000 per month in addition to the guaranteed price. Additionally, CUC will pay a production fee of two cents (\$0.02) per plant-produced kilowatt hour for as long as the operations and maintenance portion of the contract is in effect. The power plant will be turned over to CUC at the end of the ten year period from the date of substantial completion. On December 13, 1998, CUC executed a change order to expand the 10 Megawatt Power Plant to 30 Megawatts. Such expansion is to be fulfilled within the ten year period as stated in the original agreement. On May 10, 2001, CUC executed another change order (Expanded Agreement) to extend the term of the original agreement to be effective upon the execution of the expanded agreement until the later of March 31, 2020 or the completion of the term as mutually agreed upon. The expanded agreement provides for CUC to pay a base loan rate of \$0.03 plus applicable price adjustments per kilowatt-hour CUC uses each month effective March 1, 2009 until March 31, 2020. Additionally, the contractor will operate and maintain the existing distribution system of CUC for the duration of the expanded agreement at no cost to CUC. During the term of the expanded agreement, CUC is not allowed to purchase electric energy from any other producer other than the contractor for the island of Tinian.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2004

(8) Long-Term Debt Obligations, Continued

Discretely Presented Component Units, Continued

Obligations Under Capital Lease, Continued

CUC implemented accounting guidance of Emerging Issues Task Force (EITF) Issue No. 01-8, which provides guidance in determining when purchase agreements may be subject to lease accounting. CUC has determined that the agreement to purchase electricity is in fact a capital lease to acquire the plant and that the capacity payments made under the agreement are lease payments. The operation, production and maintenance payments and production fees under the agreement are reflected as energy conversion costs under other production expense.

The effects of adopting EITF No. 01-8 were to increase plant and obligations under capital lease by \$9,959,000. CUC has not obtained the actual cost of the power plant and has not obtained an appraisal to determine the fair value of the leased property, which is required by accounting principles generally accepted in the United States of America. As a result, management has not been able to assess its compliance with the EITF requirements and the impact of this matter on the accompanying financial statements is uncertain. The lease has an effective interest rate of 18%. The total obligation under capital lease at September 30, 2004 was \$6,538,027.

CUC may, without penalty, discharge the entire outstanding balance of the guaranteed price by paying a discounted amount equal to the adjusted guaranteed price as follows:

<u>Period</u>	<u>Amount</u>
End of year 4	\$ 8,821,000
End of year 5	\$ 7,750,000
End of year 6	\$ 6,540,000
End of year 7	\$ 5,200,000
End of year 8	\$ 3,900,000

The annual requirement to amortize all obligations under capital lease outstanding as of September 30, 2003 is as follows:

<u>Year ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 1,062,758	\$ 1,097,242	\$ 2,160,000
2006	1,271,733	888,267	2,160,000
2007	1,521,801	638,199	2,160,000
2008	1,821,040	338,960	2,160,000
2009	<u>860,695</u>	<u>39,309</u>	<u>900,004</u>
	\$ <u>6,538,027</u>	\$ <u>3,001,977</u>	\$ <u>9,540,004</u>

Changes in long-term liabilities of the discretely presented component units for the year ended September 30, 2004, are as follows:

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2004

(8) Long-Term Debt Obligations, Continued

Discretely Presented Component Units, Continued

	<u>Balance October 1, 2003</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance September 30, 2004</u>	<u>Due Within One Year</u>
Notes and bonds payable	\$ 132,541,300	\$ -	\$ (1,469,900)	\$ 131,071,400	\$ 63,972,405
Deferred amounts:					
Deferred costs of debt refunding	<u>(1,362,173)</u>	<u>-</u>	<u>106,851</u>	<u>(1,255,322)</u>	<u>-</u>
	131,179,127	-	(1,363,049)	129,816,078	63,972,405
Other liabilities:					
Obligations under capital lease	7,426,149	-	(888,122)	6,538,027	1,062,758
Compensated absences	6,600,631	1,455,663	(1,393,448)	6,662,846	1,217,622
Deferred revenue	2,605,310	261,140	(504,095)	2,362,355	1,797,692
Due to primary government	<u>1,429,208</u>	<u>28,802,296</u>	<u>(3,393,141)</u>	<u>26,838,363</u>	<u>1,612,345</u>
	<u>\$ 149,240,425</u>	<u>\$ 30,519,099</u>	<u>\$ (7,541,855)</u>	<u>\$ 172,217,669</u>	<u>\$ 69,662,822</u>

(9) Reserve for Continuing Appropriations

The CNMI's fund balance reserved for continuing appropriations represents those portions of fund balance legally segregated for a specific future use.

Continuing appropriations as of September 30, 2004, consist of the following:

	<u>Authorizing Legislation</u>	<u>Outstanding Balance</u>
General Fund:		
Salary adjustment	Public Law No. 10-41	\$ 520,698
Retirement bonus	Public Law No. 4-41	129,924
Other programs	Various	<u>17,096</u>
		<u>\$ 667,718</u>
Local Capital Projects Fund:		
Tinian Courthouse	Public Law No. 9-28	\$ 500,000
Rota Sewer Outfall	Public Law No. 7-36	421,880
Saipan Youth Center	Public Law No. 7-36	350,000
Man'amko Center	Public Law No. 9-28	241,410
Songsong Village Road Improvements	Public Law No. 7-36	220,357
Other programs	Various	<u>110,757</u>
		<u>\$ 1,844,404</u>

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2004

(10) Transfers In/Out

Operating Fund Transfers

Operating transfers in/out for each major governmental fund and nonmajor governmental funds in the aggregate, for the year ended September 30, 2004, are as follows:

<u>Source/Recipient</u>	<u>Transfer Out</u>	<u>Transfer In</u>
<u>General Fund</u>		
From General Fund to:		
Federal Grants Fund	\$ 1,632,651	\$ -
DOI Capital Projects Fund	6,002,881	-
Nonmajor Governmental Funds	16,407,102	-
To General Fund from:		
Nonmajor Governmental Funds	-	4,987,429
Federal Grants Fund	-	5,171,914
	<u>\$ 24,042,634</u>	<u>\$ 10,159,343</u>
<u>Federal Grants Funds</u>		
From Federal Grants Fund to:		
Nonmajor Governmental Funds	\$ 840,000	\$ -
General Fund	5,171,914	-
To Federal Grants Fund from:		
General Fund	-	1,632,651
	<u>\$ 6,011,914</u>	<u>\$ 1,632,651</u>
<u>DOI Capital Projects Fund</u>		
To DOI Capital Projects Fund from:		
General Fund	\$ -	\$ 6,002,881
Nonmajor Governmental Funds	-	-
From DOI Capital Projects Fund to:		
Nonmajor Governmental Funds	879,386	-
	<u>\$ 879,386</u>	<u>\$ 6,002,881</u>
<u>Nonmajor Governmental Funds</u>		
From Nonmajor Governmental Funds to:		
General Fund	\$ 4,987,429	\$ -
Other Nonmajor Governmental Funds	3,783,259	3,783,259
To Nonmajor Governmental Funds from:		
DOI Capital Projects Fund	-	879,386
Federal Grants	-	840,000
General Fund	-	16,407,102
	<u>\$ 8,770,688</u>	<u>\$ 21,909,747</u>

Transfers are used to 1) move revenues from the fund that enabling legislation or budget requires to collect them to the fund that enabling legislation or budget requires to expend them, 2) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations, and 3) record reductions in interfund loans for amounts that are not expected to be repaid. During the year ended September 30, 2004, the CNMI made a transfer from the Federal Grants Fund to the General Fund of \$5,171,914 representing reimbursement for the costs of providing services to immigrants from the Freely Associated States.



COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2004

(10) Transfers In/Out, Continued

Operating Fund Transfers, Continued

The amount recorded as payments to component units from the primary government of \$51,244,948 does not equal the corresponding contributions from the primary government of \$52,821,894 due to NMC recording utilities expense of \$604,795 as an increase to contributions and the primary government recording all utilities as a separate line item; timing difference of \$97,191 with NMC when recording contributions; and NMC recording the 1% OPA fee of \$80,913 as part of appropriations. The remaining difference is due to PSS recording the 2% deficit reduction and maintenance fees of \$744,199 and \$49,848, respectively, as an increase to contributions.

The amount recorded as contributions from component units of the primary government of \$2,931,460 does not equal the corresponding contributions to the primary government of the component units of \$2,540,284 due to contributions of \$391,176 recorded as an expense by MPLA.

(11) Commitments

Public School System (PSS)

In June 1997, CNMI House Joint Resolution No. 10-36 authorized PSS to issue general obligation bonds for a total value not to exceed \$15,685,000. These bonds shall be used to leverage an equal amount of federal capital improvement project funds to finance school construction projects, and will be repaid by the CNMI Government through appropriation of liquid fuel taxes per Public Law 11-14. The liability relating to these bonds will be recorded by the CNMI Government.

Land Acquisitions

The CNMI has acquired certain properties from landowners for right-of-way or easement projects. The CNMI government's liability for future reimbursement costs associated with unknown land acquisitions is presently not determinable.

Other

On April 23, 2004, the CNMI obtained a temporary restraining order (TRO) against CUC. The TRO was issued to preserve and maintain utility services provided by CUC to buildings owned and/or operated by the CNMI.

In May 2004, the TRO was extended to September 1, 2004. Further, the CNMI agreed to make a total payment of \$2,531,529 to be paid in four installments of not less than \$500,000 per month beginning May 21, 2004 through September 1, 2004. The payment will be used as a credit toward any final settlement between the entities.

On August 11, 2004, the TRO was extended to December 1, 2004. The order is conditioned on the continued payment of the CNMI of \$650,000 per month beginning with August 2004 (of which \$950,000 had already been paid) through November 2004. In addition, the CNMI will pay an assessed fuel surcharge not to exceed \$75,000 per month.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2004

(12) Contingencies

Landfill Closure Costs

The CNMI operates a solid waste disposal site in Puerto Rico, Saipan, which is under administrative order from the U.S. Environmental Protection Agency to close in the near future. During the year ended September 30, 2004, the disposal site was officially closed. The CNMI government's liability for future costs associated with closing this disposal site is presently not determinable.

Questioned Costs Under Federally Funded Programs

The CNMI participates in a number of federally assisted grant programs funded by the United States Government. These programs are subject to financial and compliance audits to ascertain if Federal laws and guidelines have been followed. Cumulative questioned costs of \$2,848,446 have been set forth in the CNMI's Single Audit Report for the year ended September 30, 2004. The ultimate disposition of these questioned costs can be determined only by final action of the respective grantor agencies. Therefore, no provision for any liability that may result upon resolution of this matter has been made in the accompanying financial statements.

Insurance Coverage

The CNMI does not maintain insurance coverage for a significant amount of fixed assets. In the event of a catastrophe, the CNMI may be self-insured to a material extent. The CNMI, however, maintains fidelity bonding insurance coverage over employees with access to cash. In the event of a loss through employee malfeasance, the CNMI will be self-insured for losses in excess of \$1,000,000.

Unfunded Pension Liability

Pursuant to Public Law No. 6-17, the CNMI is to make contributions to the Northern Mariana Islands Retirement Fund (NMIRF) each year on an actuarially funded basis toward the annuities related to retirement and other benefits. These contributions are to equal the sum of normal cost determined under an acceptable actuarial funding method, allowance for expenses, interest on any due but unpaid obligations, plus an amount sufficient to amortize the initial unfunded liability and unfunded accrued liability for Class I and Class II members respectively, as a level percentage of total payroll over specified period, determined by the Board upon recommendation of the actuary, but not to exceed a period of forty years from October 1, 1980.

The unfunded pension liability is the amount of contributions that the CNMI should have paid to the NMIRF for the retirement benefits of an undetermined number of individuals employed before October 1, 1980, the date the Fund was established, who collected money from the Fund based on their years of service but were not required to pay their share of contribution as mandated by this law. Based on the latest actuarial valuation report, dated October 1, 2003, the actual unfunded pension liability is \$516,968,120.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2004

(12) Contingencies, Continued

Other

Members of the NMIRF, who were employed by the government of the Trust Territory of the Pacific Islands (TTPI), are entitled to purchase credit for services rendered to the TTPI. Initially, the individuals were required to pay both the employers' and the employees' shares. Public Law No. 9-25 granted these individuals relief from paying in the employers' share and required that any employer contributions already paid in be refunded and reported to the CNMI Legislature. NMIRF has refunded \$780,733 in such contributions and considers this amount to be a receivable from the CNMI Government. The CNMI has not appropriated funds for this purpose and, accordingly, a liability has not been recorded within the accompanying financial statements.

The CNMI records expenditures for sick leave when the leave is actually taken. Sick leave is compensated absence during working hours arising from employee illness or injury. Sick leave accumulates at the rate of thirteen working days for each year of service, without limit. No liability is recorded for nonvesting accumulating rights to receive sick pay benefits. The accumulated estimated amount of unused sick leave as of September 30, 2004, is \$27,230,571.

(13) Risk Management

The CNMI 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. It is the policy of the primary government not to purchase commercial insurance for the risks of loss to which it is exposed. Instead, CNMI management believes it is more economical to manage its risks internally. In the event of claim settlements and judgments, the CNMI reports all of its risk management activities in its General Fund. Claims expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported. Changes in the balance of claims liabilities during the past year are as follows:

	Year ended <u>September 30,</u>
Unpaid claims at beginning of year	\$ 7,961,539
Incurred claims	1,609,899
Claim payments	<u>(550,695)</u>
Unpaid claims at end of year	\$ <u>9,020,743</u>

(14) Pension Trust Fund

The CNMI contributes to the Northern Mariana Islands Retirement Fund (NMIRF), a defined benefit, cost-sharing multi-employer pension plan (the Plan) established and administered by the CNMI.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2004

(14) Pension Trust Fund, Continued

The Plan provides retirement, security and other benefits to employees, and their spouses and dependents, of the CNMI Government and CNMI agencies, instrumentalities and public corporations. Benefits are based on the average annual salary of the beneficiary over the term of credited service. Public Law No. 6-17, the Northern Mariana Islands Retirement Fund Act of 1988, is the authority under which benefit provisions are established. Public Law No. 6-17 was subsequently amended by Public Law Nos. 6-41, 8-24, 8-30, 8-31, 8-39, 9-25, 9-45, 10-8, 10-19 and 11-9. NMIRF issues a publicly available financial report that includes financial statements and required supplementary information for the Plan. That 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 6.5% and 9.0% of their annual covered salary for Class I and Class II members, respectively, and the CNMI is required to contribute at an actuarially determined rate. The current rate is 24% of annual covered payroll. The contribution requirements of plan members and the CNMI are established and may be amended by the Board of Trustees of NMIRF. The CNMIs total personnel expense for governmental fund types, inclusive of fiduciary funds, for fiscal years 2004, 2003 and 2002 were \$129,634,542, \$128,903,714 and \$122,230,647, respectively, which were covered in total by NMIRF's pension plan.

Pursuant to Public Law 6-41, codified in 1CMC § 8362, any employer who fails to pay or remit contributions as required by this section shall pay a penalty of 10% per month or part thereof for which the contribution remains unpaid, up to a maximum penalty of 25% of the unpaid contribution.

The requirement of this section had not been applied on the CNMI Government's unpaid contributions. During fiscal year 2004, NMIRF assessed the total unpaid contribution of \$76,120,750 with a maximum penalty of 25% amounting to \$19,030,187. Accordingly, the CNMI has recorded this liability at September 30, 2004.

All component units of the CNMI government reporting entity also contribute to the Plan. Separate actuarial valuations have not been performed for these separate component units.

(15) Individual Deficit Fund Balances or Deficit Retained Earnings

Specific individual funds that had individual deficit fund balances or retained earnings as of September 30, 2004, are as follows:

General Fund	\$ <u>105,888,251</u>
Nonmajor Governmental Special Revenue Funds:	
Commonwealth Non-Resident Workers Fee	\$ <u>155,044</u>
Nonmajor Governmental Capital Projects Funds:	
American Memorial Park Fund	\$ <u>139,735</u>

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2004

(16) Restatement of Governmental Fund Deficit/Government-Wide Net Assets

	<u>Government- Wide Level</u>	<u>Governmental Fund</u>
<u>Primary Government</u>		
Net assets/deficit, as previously reported September 30, 2003	\$ 24,531,303	\$ (25,263,284)
Allocation of local match for federal projects from fund balance	(750,000)	(750,000)
Overstatement of accounts receivable from federal agencies previously reported for governmental activities	(8,311,021)	(8,311,021)
Understatement of capital assets previously reported for governmental activities	813,390	-
Overstatement of transfers in from component units previously reported for governmental activities	(687,502)	(687,502)
Net assets/deficit, as restated September 30, 2003	\$ <u>15,596,170</u>	\$ <u>(35,011,807)</u>
<u>Discretely Presented Component Units</u>		
Net assets, as previously reported September 30, 2003	\$ 329,280,954	
Understatement of accumulated depreciation previously reported in 2003 - Commonwealth Ports Authority	(843,966)	
Net effect of adjustments and restatements as previously reported in 2003 - Marianas Public Lands Authority	(130,632)	
Understatement of capital assets as previously reported in 2003 - Marianas Public Lands Authority	86,350	
Understatement of capital assets previously reported in 2003 - Public School System	559,792	
Net assets, as restated September 30, 2003	\$ <u>328,952,498</u>	

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2004

(17) Subsequent Events

On September 15, 2004, the CNMI entered into a Memorandum of Agreement with the Northern Marianas College (NMC) relating to the assignment of leasehold interest and facilities/improvements of the La Fiesta Mall. The lessor agreed to the assignment and title of La Fiesta Mall was subsequently assigned to the CNMI Office of the Governor on January 7, 2005.

On December 3, 2004, a panel of arbitrators rendered a decision finding the CNMI liable for approximately \$5,741,989 related to the Marine Revitalization Corporation. At September 30, 2004, a liability of \$5,741,989 was recorded by the CNMI.

On May 19, 2005, the Governor declared the Commonwealth Utilities Corporation (CUC) in a State of Disaster Emergency. Through the state of emergency, the Governor invoked his constitutional authority to take all necessary measures, including but not limited to: assuming full control of CUC, suspension of regulatory statute provision and regulations applicable to CUC including procurement, suspension of CUC's Board of Directors' powers, authority and/or responsibility during the period of the state of emergency, except as provided in writing by the Governor, and reprogramming of necessary funds to provide CUC to continue operations. The State of Disaster Emergency declaration on CUC was subsequently extended in June, July, August, September and October 2005 for additional thirty days. The State of Disaster Emergency was lifted in December 2005, however, was reinstated on January 27, 2006 for another sixty days.

On February 22, 2006, Public Law 15-02 was enacted to repeal Executive Order 94-3 as codified, in Public Law 10-57, 12-33 and 12-71 to create the Department of Public Lands within the Executive Branch and to transfer the obligations and responsibilities of the Marianas Public Lands Authority to the Department of Public Lands.

COMMONWEALTH OF THE  
NORTHERN MARIANA ISLANDS

REQUIRED SUPPLEMENTARY INFORMATION  
- BUDGETARY REPORTING

YEAR ENDED SEPTEMBER 30, 2004

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Revenues, Expenditures, and Changes in Deficit  
- Budget and Actual - General Fund  
Year Ended September 30, 2004

	Budgeted Amounts		Actual - Budgetary Basis	Variance
	Original	Final	(see note 1)	
Revenues:				
Taxes	\$ 179,342,654	\$ 179,342,654	\$ 174,029,317	\$ (5,313,337)
Charges for sales and services	18,201,000	18,201,000	21,336,194	3,135,194
Licenses and fees	12,640,200	12,640,200	14,212,367	1,572,167
Other	2,708,000	2,708,000	1,052,929	(1,655,071)
Total revenues	<u>212,891,854</u>	<u>212,891,854</u>	<u>210,630,807</u>	<u>(2,261,047)</u>
Expenditures - budgetary basis by function:				
Executive branch	100,355,700	106,980,014	107,067,446	(87,432)
Second Senatorial District - Tinian	13,345,006	13,341,119	12,949,752	391,367
First Senatorial District - Rota	13,341,302	13,395,636	13,293,691	101,945
Government utilities	5,000,000	5,000,000	11,127,992	(6,127,992)
Legislative branch	8,988,500	8,988,500	9,150,081	(161,581)
Judicial branch	5,001,825	5,001,825	4,930,811	71,014
Independent programs	1,477,063	1,128,290	1,575,743	(447,453)
Office of the Mayors	3,131,189	3,126,239	3,110,213	16,026
Office of the Public Auditor	2,228,824	2,228,824	1,807,605	421,219
Office of the Washington Representative	1,694,688	1,694,688	1,747,911	(53,223)
Boards and commissions	724,710	724,710	671,848	52,862
Education (payment to PSS and NMC)	44,028,779	43,367,985	43,318,137	49,848
Tourism (payment to MVA)	6,930,000	5,961,426	5,961,426	-
Employee benefits (payment to NMIRF and WCC)	2,444,423	2,444,423	2,395,040	49,383
Payment to MPLA	-	2,943,430	2,943,430	-
Typhoon expenditures	-	-	1,069,496	(1,069,496)
Penalty on retirement fund contributions	-	-	19,030,187	(19,030,187)
Bad debt	-	-	8,481,484	(8,481,484)
Unallocated audit adjustments	-	-	(595,356)	595,356
Total expenditures	<u>208,692,009</u>	<u>216,327,109</u>	<u>250,036,937</u>	<u>(33,709,828)</u>
Excess (deficiency) of revenues over over (under) expenditures	<u>4,199,845</u>	<u>(3,435,255)</u>	<u>(39,406,130)</u>	<u>(35,970,875)</u>
Other financing sources (uses):				
Long-term debt issued	-	-	40,000,000	40,000,000
Discount on long-term debt issued	-	-	(584,000)	(584,000)
Operating transfers in	6,707,000	11,878,194	10,159,343	(1,718,851)
Operating transfers out	(12,264,592)	(23,316,576)	(24,042,634)	(726,058)
Total other financing sources (uses), net	<u>(5,557,592)</u>	<u>(11,438,382)</u>	<u>25,532,709</u>	<u>36,971,091</u>
Deficiency of revenues and other financing sources under expenditures and other financing uses	<u>(1,357,747)</u>	<u>(14,873,637)</u>	<u>(13,873,421)</u>	<u>1,000,216</u>
Other changes in unreserved deficit:				
Decrease in reserve for supplies	-	-	77,812	77,812
Decrease in reserve for related assets	-	-	1,691,022	1,691,022
Increase in reserve for land claims	-	-	(25,223,940)	(25,223,940)
Decrease in reserve for continuing appropriation	-	-	238,756	238,756
Other - unallocated deficit reduction	-	1,009,430	3,295,821	2,286,391
Deficit at beginning of year	<u>(119,632,192)</u>	<u>(119,632,192)</u>	<u>(119,632,192)</u>	<u>-</u>
Deficit at end of year	<u>\$ (120,989,939)</u>	<u>\$ (133,496,399)</u>	<u>\$ (153,426,142)</u>	<u>\$ (19,929,743)</u>

See Accompanying Notes to Required Supplementary Information - Budgetary Reporting.



COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to Required Supplementary Information - Budgetary Reporting  
September 30, 2004

(1) Budgetary Information

Under Public Law No. 3-68, as amended by Public Law No. 3-93, the Governor submits a proposed budget to the CNMI Legislature by April 1 for the fiscal year commencing the following October 1. By July 1, the CNMI Legislature sets limits on expenditures by House Concurrent Resolution (a resolution originating in the House of Representatives which is passed by both the House and Senate). By September 1, the budget is legally enacted by the CNMI Legislature through passage of Annual Appropriation Acts. If a balanced budget is not approved before the first day of the fiscal year, appropriations for government operations and obligations shall be at the same level for the previous fiscal year. Budgetary control is maintained at the department level. To the extent not expended or encumbered, General Fund appropriations generally lapse at the end of the fiscal year for which appropriations were made.

Accounting principles used in developing data on a budgetary basis differ from those used in preparing the basic financial statements in conformity with GAAP. Amounts included on the Statement of Revenues, Expenditures and Changes in Deficit - Budget and Actual - General Fund (which are presented on a non-GAAP budgetary basis) are reconciled to unreserved deficit of the Governmental Fund Balance Sheet within the other changes in unreserved deficit section of that statement.

Encumbrance accounting is employed in governmental funds. For budgetary purposes, encumbrances (i.e., purchase orders, contracts) are considered expenditures when incurred. For GAAP reporting purposes, encumbrances outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent fiscal year.

On September 10, 2002, the CNMI passed Public Law 13-24 as the Appropriations and Budget Authority Act of 2003. Section 521 of Public Law 13-24 authorizes the Secretary of Finance to reserve at least 2% of the total fiscal year appropriation for the purpose of retiring the government's accumulated deficit. During the year ended September 30, 2004, the CNMI operated under a continuing resolution of Public Law 13-24.

The Governor is authorized to reprogram up to 25% of total appropriated funds for the operations and activities of departments, agencies and offices of the Executive Branch, provided that any reprogramming which increases or decreases the annual appropriation of a particular executive office, department or agency by more than 25%, or establishes a new position, function, program or duty not otherwise authorized by law, shall be subject to prior approval by joint resolution of the CNMI Legislature. Expenditures may not legally exceed budgeted appropriations at the program area level. Certain activity levels within the General Fund have over expended budgeted appropriations; however, the effect of such over expenditures, if any, is presently not determinable.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to Required Supplementary Information - Budgetary Reporting  
September 30, 2004

(1) Budgetary Information, Continued

For the year ended September 30, 2004, expenditures of the General Fund exceeded budget at the program area level (i.e., the legal level of budgetary control) as follows:

<u>Program Area</u>	<u>Excess</u>
Executive Branch:	
Public Health	\$ 818,090
Public Safety	\$ 36,222
Finance	\$ 36,332
Labor	\$ 15,747
Community and Cultural Affairs	\$ 73,231
Typhoon Expenditures	\$ 1,069,496
FEMA Match-Typhoon Expenditures	\$ 78,279
First Senatorial District - Rota:	
Mayor	\$ 135,761
Municipal Council	\$ 79,063
Public Safety	\$ 5,804
Community and Cultural Affairs	\$ 25,656
Second Senatorial District - Tinian:	
Finance	\$ 618
Independent programs:	
Claims and judgments	\$ 80,154
Government utilities	\$ 6,127,992
Legislative Branch	\$ 161,581
Typhoon expenditures	\$ 1,069,496
Office of the Washington Representative	\$ 53,223
Penalty on retirement fund contributions	\$ 19,030,187
Bad debt	\$ 8,481,484

COMMONWEALTH OF THE  
NORTHERN MARIANA ISLANDS

OTHER SUPPLEMENTARY INFORMATION

YEAR ENDED SEPTEMBER 30, 2004

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Combining Schedule of Expenditures by Account  
Governmental Funds  
Year Ended September 30, 2004

	Major Governmental Funds				Other Governmental Funds	Total
	General	Federal Grants	DOI Capital Projects	NMTT Rebate Trust		
Salaries and wages	\$ 117,027,732	\$ 10,291,246	\$ 351,124	\$ -	\$ 1,964,440	\$ 129,634,542
Construction in progress	-	3,946,127	20,765,518	-	8,277,035	32,988,680
Professional services	6,946,065	6,262,357	871,397	-	2,361,007	16,440,826
Capital outlay:						
Office equipment	826,938	577,227	29,644	-	71,825	1,505,634
Vehicles	407,402	325,325	-	-	228,778	961,505
Machinery and equipment	182,008	1,443,143	191,240	-	16,987	1,833,378
Furniture and fixtures	186,662	90,111	36,643	-	49,346	362,762
Road improvements	-	346,174	-	-	653,391	999,565
Building improvements	4,864	-	2,790	-	1,430	9,084
Other	70,676	157,656	3,842,249	-	451,380	4,521,961
Utilities	11,408,594	104,795	-	-	6,159	11,519,548
Supplies	8,682,358	1,152,743	9,374	-	593,115	10,437,590
Food items	812,242	8,621,959	-	-	49,106	9,483,307
Scholarships/grants	3,469,555	1,419,992	-	-	757,671	5,647,218
Interest	-	-	3,872,881	-	3,498,413	7,371,294
Travel	4,193,792	1,269,414	6,824	-	306,342	5,776,372
Rentals	3,195,644	814,190	4,960	-	181,617	4,196,411
Communications	1,700,359	409,636	658	-	34,232	2,144,885
Repairs and maintenance	1,983,339	527,596	3,098	-	211,014	2,725,047
Bad debts	8,486,333	-	-	-	-	8,486,333
Indirect costs	-	1,738,222	-	-	-	1,738,222
Principal repayment	-	-	1,305,000	-	1,663,986	2,968,986
Education:						
Payments to PSS	36,415,881	-	-	-	-	36,415,881
Payments to NMC	6,902,256	-	-	-	1,605,385	8,507,641
Payments to MVA	5,961,426	360,000	-	-	-	6,321,426
Payments to NMIRF and WCC	2,395,040	-	-	-	-	2,395,040
Payments to MPLA	2,943,430	-	-	-	-	2,943,430
Miscellaneous services	970,473	78,533	-	-	2,840	1,051,846
Fuel and lubrication	1,014,091	136,512	-	-	31,826	1,182,429
Claims and judgments	212,870	-	-	-	60,000	272,870
Printing	445,402	85,645	-	-	161,572	692,619
Official representation	599,103	-	-	-	-	599,103
Advertising	149,848	254,203	-	-	104,358	508,409
Dues and subscriptions	152,038	50,744	-	-	24,792	227,574
Freight	135,366	30,903	-	-	10,043	176,312
Insurance	238,762	-	-	-	-	238,762
Books and library materials	40,712	103,779	-	-	31,098	175,589
Licenses and fees	19,876	-	-	-	-	19,876
Interim financing - CDA	-	-	-	-	1,901,259	1,901,259
Retroactive salary pay	-	-	-	-	2,475,731	2,475,731
Penalty on retirement fund contributions	19,030,187	-	-	-	-	19,030,187
Other	(352,565)	4,512,296	285,236	-	1,154,318	5,599,285
	<u>\$ 246,858,759</u>	<u>\$ 45,110,528</u>	<u>\$ 31,578,636</u>	<u>\$ -</u>	<u>\$ 28,940,496</u>	<u>\$ 352,488,419</u>

See Accompanying Independent Auditors' Report.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS  
NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE FUNDS

September 30, 2004

Special revenue funds are used to account for specific revenues that are legally restricted to expenditures for particular purposes.

Private Grants Fund

This fund accounts for all financial transactions related to miscellaneous grants that are not directly from the U.S. government. Included in this fund are transactions relating to grants from world organizations and private business organizations in the CNMI.

Commonwealth Arts Council Fund

The Commonwealth Arts Council Fund was established through Executive Order No. 26 pursuant to Section 15 Article III of the Constitution. The fund accounts for financial transactions of the Commonwealth Arts Council related to the receipt of donations and gifts and the use of those funds.

Human Resources Development Trust Fund

The Human Resources Development Trust Fund was established pursuant to Public Law No. 5-3 to account for all revenues raised from the licensing of amusement machines. Public Law No. 5-3 was subsequently amended by Public Law No. 10-41, which required that funds collected under Public Law No. 5-3 to be transferred into the General Fund for general appropriation.

Oil Overcharge Fund

This fund accounts for payments awarded to the 50 States, and U.S. territories and possessions, by the U.S. courts in settlement of charges against several U.S. oil companies that had violated U.S. Department of Energy price control regulations by overcharging their distributors and customers. The CNMI has received oil overcharge funds from the Warner, Exxon, and Stripper Well Cases that are restricted for use in several energy related approved programs.

Commonwealth Nonresident Workers' Fee Fund

The Commonwealth Nonresident Workers Fee Fund was established pursuant to Public Law No. 5-32, as amended by Public Law No. 10-66. The fund accounts for the collection of fees related to application and renewal certificates of nonresident workers and their immediate relatives. In accordance with the enabling legislation, the fees collected are to be appropriated by the CNMI Legislature for several educational and training programs administered through the Northern Marianas College and the Mayors' offices.

Commonwealth Alien Deportation Fund

The Commonwealth Alien Deportation Fund was established pursuant to Public Law No. 10-1. The fund accounts for the collection of nonresident workers' fees designated for the fund and for the expenditure of those funds in detecting and deporting illegal aliens.

See Accompanying Independent Auditors' Report.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS  
NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE FUNDS

September 30, 2004

Commonwealth Museum Fund

The Commonwealth Museum Fund was established pursuant to Public Law No. 10-5. This fund accounts for all funds received from legislative appropriations for the activities and operations of the Museum; fees generated by the Museum and all gifts, loans or other funds designated for any and all operations and activities of the Museum.

Judicial Building Fund

This fund was created by Public Law No. 7-25 to account for financing restricted to the construction and furnishing of the CNMI Supreme Court and Superior Court building. At September 30, 2004, the project was completed. Revenues generated by the court will be used to finance the debt service on the loan with NMIRF.

Local Revenue Fund

Accounts for revenues generated under local senatorial district laws for use by the local governments of Saipan, Rota and Tinian. Such revenues are based on Saipan local laws 11-1 and 11-2 and Rota local law 11-1.

CNMI Telecommunication Commission Fund

This fund was created by Public Law 12-39 to serve the public interest with regard to telecommunications services and shall ensure that efficient telecommunication services are maintained in the Commonwealth.

Saipan Trust Fund

The Saipan Trust Fund accounts for funds from the United States Government to develop the Saipan Marine and Fishing Complex.

Tobacco Settlement Trust Fund

Pursuant to Public Law No. 13-37, the Tobacco Settlement Trust Fund was established to account for all monies received from the Master Settlement Agreement. The monies shall be used to implement programs and services to achieve the goals stated in Section 3 of Public Law 13-37.

Micronesian Garment Manufacturing Fund

This fund accounts for settlement claims on behalf of certain garment workers.

See Accompanying Independent Auditors' Report.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS  
NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE FUNDS

September 30, 2004

Tobacco Control Fund

This fund was created by Public Law 13-38 to amend 4 CMC § 1402(A)(16) through (20) to restrict cigarette smoking and for other purposes.

Solid Waste Revolving Fund

This fund was created by Public Law 13-42 to provide financial support to the Commonwealth Solid Waste Management Systems and for other purposes.

Governor's Education Initiative Fund

This fund was established by Executive Order No. 232, *Establishment of Governor's Education Initiative Fund and Related Programs*. The fund accounts for specific education programs appropriated by the Governor.

Miscellaneous Special Revenue Funds

The miscellaneous special revenue fund combines the following:

- San Antonio Park Fund
- Smiling Cove Operations and Maintenance Fund
- Law Revision Commission Revolving Fund
- CRM Publication Fund
- Tinian Municipal School Fund
- Zoning Board Revolving Fund
- Joeten-Kiyu Library Revolving Fund
- Department of Corrections Revolving Fund
- Animal Health Revolving Fund
- Fish and Game Revolving Fund
- Tobacco License Fee Fund
- Miscellaneous Special Revenue Trust Funds
- Probation Services Fund
- Agriculture Revolving Fund

See Accompanying Independent Auditors' Report.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS  
NONMAJOR GOVERNMENTAL FUNDS - CAPITAL PROJECTS FUNDS

September 30, 2004

Capital projects funds are used to account for the acquisition and construction of major capital facilities other than those financed by proprietary funds and trust funds.

Commonwealth Development Authority Fund

This fund accounts for various capital projects funded by proceeds of general obligation bonds issued by the Commonwealth Development Authority.

Infrastructure Tax Fund

This fund was created by Public Law No. 8-23 which restricts the 2% Developers' Tax for funding of infrastructure by senatorial delegation.

Public Works Grants Fund

This fund accounts for various capital projects administered by the CNMI Department of Public Works and funded by the U.S. Department of Transportation.

American Memorial Park Fund

This fund accounts for capital projects at the American Memorial Park. These projects are partially funded by the earnings of the Marianas Public Land Trust - Park Fund, a nonexpendable trust fund.

Local Capital Projects Fund

This fund accounts for various capital projects funded by appropriations contained in Annual Appropriations Acts.

Private Capital Grants Fund

This fund accounts for various capital projects funded by various grants that are not directly from the U.S. government. Included in this fund are transactions relating to capital project grants from CNMI agencies and private business organizations in the CNMI.

See Accompanying Independent Auditors' Report.



COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS  
NONMAJOR GOVERNMENTAL FUNDS - DEBT SERVICE FUND

September 30, 2004

The Debt Service Fund accounts for the accumulation of resources, principally transfers from the General Fund for the payment of long-term debt principal and interest.

See Accompanying Independent Auditors' Report.



COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Combining Balance Sheet  
Nonmajor Governmental Funds  
September 30, 2004

Special Revenue Funds										
Judicial Building	Local Revenue	CNMI Telecommunications Commission	Saipan Trust	Tobacco Settlement Trust	Micronesian Garment Manufacturing	Tobacco Control	Solid Waste Revolving	Governor's Education Initiative	Miscellaneous	Total Special Revenue Funds
\$ -	\$ -	\$ -	\$ 695,319	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 695,319
-	-	-	-	-	-	-	-	-	-	-
390,134	2,533,382	40,785	3,980	589,162	456,655	1,530,100	2,538,175	241,565	339,162	12,348,443
<u>2,717,161</u>	-	-	-	-	-	-	-	-	-	<u>2,717,161</u>
<u>\$ 3,107,295</u>	<u>\$ 2,533,382</u>	<u>\$ 40,785</u>	<u>\$ 699,299</u>	<u>\$ 589,162</u>	<u>\$ 456,655</u>	<u>\$ 1,530,100</u>	<u>\$ 2,538,175</u>	<u>\$ 241,565</u>	<u>\$ 339,162</u>	<u>\$ 15,760,923</u>
\$ -	\$ 90,923	\$ -	\$ -	\$ 1,999	\$ -	\$ 116,663	\$ 528,206	\$ -	\$ 46,542	\$ 881,643
-	54,641	-	-	-	-	2,180	-	-	-	107,296
-	-	-	-	-	-	-	-	-	-	57,367
-	-	-	7,193	-	-	-	-	-	-	87,665
-	-	-	-	-	-	-	-	-	-	776,235
-	<u>145,564</u>	-	<u>7,193</u>	<u>1,999</u>	-	<u>118,843</u>	<u>528,206</u>	-	<u>46,542</u>	<u>1,910,206</u>
2,717,161	-	-	-	-	-	-	-	-	-	2,717,161
27	863,753	-	-	1,290	-	206,583	178,922	234	115,898	1,683,393
<u>390,107</u>	<u>1,524,065</u>	<u>40,785</u>	<u>692,106</u>	<u>585,873</u>	<u>456,655</u>	<u>1,204,674</u>	<u>1,831,047</u>	<u>241,331</u>	<u>176,722</u>	<u>9,450,163</u>
<u>3,107,295</u>	<u>2,387,818</u>	<u>40,785</u>	<u>692,106</u>	<u>587,163</u>	<u>456,655</u>	<u>1,411,257</u>	<u>2,009,969</u>	<u>241,565</u>	<u>292,620</u>	<u>13,850,717</u>
<u>\$ 3,107,295</u>	<u>\$ 2,533,382</u>	<u>\$ 40,785</u>	<u>\$ 699,299</u>	<u>\$ 589,162</u>	<u>\$ 456,655</u>	<u>\$ 1,530,100</u>	<u>\$ 2,538,175</u>	<u>\$ 241,565</u>	<u>\$ 339,162</u>	<u>\$ 15,760,923</u>

See Accompanying Independent Auditors' Report.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Combining Balance Sheet, Continued  
Nonmajor Governmental Funds  
September 30, 2004

	Capital Projects Funds						Total Capital Projects Funds	Debt Service Fund	Total Non-Major Governmental Funds
	Commonwealth Development Authority	Infrastructure Tax	Public Works Grants	American Memorial Park	Local Capital Projects	Private Capital Grants			
<b>Assets</b>									
Investments	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 695,319
Restricted cash and cash equivalents	-	-	-	-	4,261,252	-	4,261,252	2,170,740	6,431,992
Receivables, net of allowance for uncollectibles:									
Federal	-	-	-	19,629	-	-	19,629	-	19,629
Other	-	-	-	-	-	715,369	715,369	-	715,369
Due from other funds	152,314	468,735	449,681	-	-	303,410	1,374,140	-	13,722,583
Due from component unit	-	-	-	10,967	-	-	10,967	-	10,967
Due from Pension and Other Employee Benefit Trust Funds	-	-	-	-	-	-	-	-	2,717,161
	<u>\$ 152,314</u>	<u>\$ 468,735</u>	<u>\$ 449,681</u>	<u>\$ 30,596</u>	<u>\$ 4,261,252</u>	<u>\$ 1,018,779</u>	<u>\$ 6,381,357</u>	<u>\$ 2,170,740</u>	<u>\$ 24,313,020</u>
<b>Liabilities and Fund Balances (Deficit)</b>									
<b>Liabilities:</b>									
Accounts payable	\$ 4,999	\$ -	\$ 213,705	\$ 4,199	\$ 11,934	\$ 31,574	\$ 266,411	\$ -	\$ 1,148,054
Other liabilities and accruals	-	-	4,286	-	-	3,670	7,956	-	115,252
Due to other funds	-	-	-	166,132	437,294	-	603,426	-	660,793
Due to component units	-	-	-	-	-	-	-	-	87,665
Deferred revenue	147,315	-	231,690	-	-	-	379,005	-	1,155,240
Total liabilities	<u>152,314</u>	<u>-</u>	<u>449,681</u>	<u>170,331</u>	<u>449,228</u>	<u>35,244</u>	<u>1,256,798</u>	<u>-</u>	<u>3,167,004</u>
<b>Fund balances (deficit):</b>									
<b>Reserved for:</b>									
Debt service	-	-	-	-	-	-	-	2,170,740	4,887,901
Encumbrances	250,000	204,390	3,859,945	48,339	3,576,065	24,389	7,963,128	-	9,646,521
Continuing appropriations	-	-	-	-	1,844,404	-	1,844,404	-	1,844,404
<b>Unreserved:</b>									
Undesignated	(250,000)	264,345	(3,859,945)	(188,074)	(1,608,445)	959,146	(4,682,973)	-	4,767,190
Total fund balances (deficit)	<u>-</u>	<u>468,735</u>	<u>-</u>	<u>(139,735)</u>	<u>3,812,024</u>	<u>983,535</u>	<u>5,124,559</u>	<u>2,170,740</u>	<u>21,146,016</u>
	<u>\$ 152,314</u>	<u>\$ 468,735</u>	<u>\$ 449,681</u>	<u>\$ 30,596</u>	<u>\$ 4,261,252</u>	<u>\$ 1,018,779</u>	<u>\$ 6,381,357</u>	<u>\$ 2,170,740</u>	<u>\$ 24,313,020</u>

See Accompanying Independent Auditors' Report.



COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances (Deficit)  
 Nonmajor Governmental Funds  
 For the Year Ended September 30, 2004

Special Revenue Funds										
Judicial Building	Local Revenue	CNMI Telecommunications Commission	Saipan Trust	Tobacco Settlement Trust	Micronesian Garment Manufacturing	Tobacco Control	Solid Waste Revolving	Governor's Education Initiative	Miscellaneous	Total Special Revenue Funds
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
1,295,965	7,114,162	-	148,160	-	-	1,873,215	2,661,308	-	128,623	4,534,523
-	-	-	-	535,713	-	-	776,113	-	-	16,348,357
-	-	-	-	-	-	-	-	-	-	148,160
-	-	-	-	-	-	-	-	-	-	-
1,295,965	7,114,162	-	148,160	535,713	-	1,873,215	3,437,421	-	128,623	862,092
-	342,071	-	-	-	-	2,773	116,803	-	6,069	1,869,801
-	16,240	-	-	66,643	-	345,880	-	-	868	447,661
-	5,086	-	-	-	-	166,962	-	-	72,849	1,338,343
-	-	-	7,077	-	-	-	-	-	-	7,077
-	9,829	-	-	-	-	-	-	-	60,104	73,991
-	391,404	-	-	-	-	-	2,046,367	-	-	2,437,771
138,986	-	-	-	-	-	-	-	-	-	138,986
881,564	-	-	-	-	-	-	-	-	-	881,564
-	189,747	-	-	-	-	-	-	-	-	189,747
-	-	-	-	-	-	-	-	-	-	1,605,385
-	13,670	-	-	-	-	-	-	-	-	13,670
77,350	-	-	-	-	-	-	-	-	17,683	95,033
-	2,475,731	-	-	-	-	-	-	-	-	2,475,731
-	-	-	-	-	-	-	-	-	-	-
-	286,466	-	-	-	-	-	-	598,435	-	884,901
-	-	-	-	-	-	-	-	-	-	6,159
-	-	-	-	-	-	-	-	-	-	-
1,097,900	3,730,244	-	7,077	66,643	-	515,615	2,163,170	598,435	157,573	12,465,820
198,065	3,383,918	-	141,083	469,070	-	1,357,600	1,274,251	(598,435)	(28,950)	9,427,312
77,350	-	-	-	-	-	-	-	-	-	77,350
-	1,361,598	-	-	252,377	-	1,160,000	262,405	840,000	-	5,702,543
-	(1,361,598)	-	-	(252,377)	-	(2,275,307)	(262,405)	-	-	(8,461,809)
77,350	-	-	-	-	-	(1,115,307)	-	840,000	-	(2,681,916)
275,415	3,383,918	-	141,083	469,070	-	242,293	1,274,251	241,565	(28,950)	6,745,396
2,831,880	(996,100)	40,785	551,023	118,093	456,655	1,168,964	735,718	-	321,570	7,105,321
\$ 3,107,295	\$ 2,387,818	\$ 40,785	\$ 692,106	\$ 587,163	\$ 456,655	\$ 1,411,257	\$ 2,009,969	\$ 241,565	\$ 292,620	\$ 13,850,717

See Accompanying Independent Auditors' Report.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Combining Statement of Revenues, Expenditures and Changes in Fund Balances, Continued  
 Non-Major Governmental Funds  
 For the Year Ended September 30, 2004

	Capital Projects Funds							Debt Service Fund	Total Non-Major Governmental Funds
	Commonwealth Development Authority	Infrastructure Tax	Public Works Grants	American Memorial Park	Local Capital Projects	Private Capital Grants	Total Capital Projects Funds		
<b>Revenues:</b>									
Federal contributions	\$ -	\$ -	\$ 1,420,017	\$ 1,202,292	\$ -	\$ -	\$ 2,622,309	\$ -	\$ 2,622,309
Taxes	-	181,816	-	-	-	-	181,816	-	4,716,339
Licenses and fees	-	47,704	-	-	-	-	47,704	-	16,396,061
Interest and dividends	-	3,907	-	-	51,788	-	55,695	10,471	214,326
Contributions from component units	-	-	-	178,404	1,475,304	-	1,653,708	-	1,653,708
Other	-	-	-	-	36,310	-	36,310	-	898,402
<b>Total revenues</b>	<b>-</b>	<b>233,427</b>	<b>1,420,017</b>	<b>1,380,696</b>	<b>1,563,402</b>	<b>-</b>	<b>4,597,542</b>	<b>10,471</b>	<b>26,501,145</b>
<b>Expenditures by account:</b>									
Community and social services	-	-	-	1,256,678	-	-	1,256,678	-	3,126,479
Health	-	-	-	-	54,250	-	54,250	-	501,911
Public safety and law enforcement	-	-	-	-	6,964,522	-	6,964,522	-	8,302,865
General government	-	-	-	172,980	88,484	-	261,464	-	268,541
Lands and natural resources	-	-	-	-	-	-	-	-	73,991
Public works	-	31,667	1,420,017	-	45,388	-	1,497,072	-	3,934,843
<b>Debt service:</b>									
Principal retirement	-	-	-	-	-	-	-	1,525,000	1,663,986
Interest and fiscal charges	-	-	-	-	-	-	-	2,926,920	3,808,484
Other elected officials	-	-	-	-	-	-	-	-	189,747
Education (payment to NMC)	-	-	-	-	-	-	-	-	1,605,385
Economic development	-	-	-	-	-	-	-	-	13,670
Judicial branch	-	-	-	-	-	-	-	-	95,033
Retroactive salary adjustment	-	-	-	-	-	-	-	-	2,475,731
Interim financing - CDA	-	-	-	-	1,901,259	-	1,901,259	-	1,901,259
Education	-	-	-	-	-	-	-	-	884,901
Utilities	-	-	-	-	-	-	-	-	6,159
Utilities - Capital Projects	-	4,223	-	-	83,288	-	87,511	-	87,511
<b>Total expenditures</b>	<b>-</b>	<b>35,890</b>	<b>1,420,017</b>	<b>1,429,658</b>	<b>9,137,191</b>	<b>-</b>	<b>12,022,756</b>	<b>4,451,920</b>	<b>28,940,496</b>
<b>Excess (deficiency) of revenues over (under) expenditures</b>	<b>-</b>	<b>197,537</b>	<b>-</b>	<b>(48,962)</b>	<b>(7,573,789)</b>	<b>-</b>	<b>(7,425,214)</b>	<b>(4,441,449)</b>	<b>(2,439,351)</b>
<b>Other financing sources (uses):</b>									
Long-term debt issued	-	-	-	-	-	-	-	-	77,350
Operating transfers in	-	163,879	-	54,386	11,145,000	-	11,363,265	4,843,939	21,909,747
Operating transfers out	-	(308,879)	-	-	-	-	(308,879)	-	(8,770,688)
<b>Total other financing sources (uses), net</b>	<b>-</b>	<b>(145,000)</b>	<b>-</b>	<b>54,386</b>	<b>11,145,000</b>	<b>-</b>	<b>11,054,386</b>	<b>4,843,939</b>	<b>13,216,409</b>
<b>Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses</b>	<b>-</b>	<b>52,537</b>	<b>-</b>	<b>5,424</b>	<b>3,571,211</b>	<b>-</b>	<b>3,629,172</b>	<b>402,490</b>	<b>10,777,058</b>
<b>Fund balances (deficit) at beginning of year</b>	<b>-</b>	<b>416,198</b>	<b>-</b>	<b>(145,159)</b>	<b>240,813</b>	<b>983,535</b>	<b>1,495,387</b>	<b>1,768,250</b>	<b>10,368,958</b>
<b>Fund balances (deficit) at end of year</b>	<b>\$ -</b>	<b>\$ 468,735</b>	<b>\$ -</b>	<b>\$ (139,735)</b>	<b>\$ 3,812,024</b>	<b>\$ 983,535</b>	<b>\$ 5,124,559</b>	<b>\$ 2,170,740</b>	<b>\$ 21,146,016</b>

See Accompanying Independent Auditors' Report.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS  
FIDUCIARY FUNDS

September 30, 2004

Pension and Other Employee Benefits Trust Funds

Pension and other employee benefit trust funds are used to account for a Public Employee Retirement System, health and life benefits and workers' compensation benefits. These funds use the accrual basis of accounting and have a capital maintenance measurement focus. The basic financial statements reflect the balances and activity of the pension and other employee benefit trust fund of the Government, which are described below.

Northern Mariana Islands Retirement Fund (NMIRF)

NMIRF was established as a public corporation on January 18, 1980, under Public Law No. 1-43, amended by Public Law Nos. 2-18, 2-47, 3-99 and 4-20, and Constitutional Amendment No. 19 to provide pension benefits to all government civil service employees including those working for government autonomous agencies, CNMI elected officials, and employees of the former Trust Territory of the Pacific Islands, who are U.S. citizens pursuant to the CNMI Constitution. On May 7, 1989, Public Law No. 6-17, the Northern Mariana Islands Retirement Fund Act of 1988, repealed the above mentioned laws and re-established NMIRF as an autonomous agency and a public corporation of the CNMI to provide retirement security and other benefits to government employees, their spouses and dependents, former Governors and Lieutenant Governors, and to provide for an actuarially sound, locally funded pension system pursuant to the Agreement of the Special Representative on Future United States Financial Assistance for the Northern Mariana Islands, and in accordance with Constitutional provisions protecting the rights of government employees. Public Law No. 6-17 was later amended by Public Law Nos. 6-41, 8-24, 8-30, 8-31, 8-39, 9-25, 9-45, 10-8, 10-19 and 11-9. NMIRF is administered by a seven-member Board of Trustees, appointed by the Governor of the CNMI with the advice and consent of the CNMI Senate.

CNMI Workers' Compensation Commission

The CNMI Workers' Compensation Commission (WCC) was created by Public Law No. 6-33. The law provides financial protection to both employers and employees for the catastrophic effects of work related injuries, illnesses or deaths. It is a social insurance plan that compensates employees for disabilities incurred from work related injuries regardless of fault. It is also a no-fault insurance program, solely paid for by the employer. The WCC ensures that private sector employers obtain and provide workers' compensation insurance coverage for their employees. The WCC also administers the CNMI government's workers' compensation self-insurance program. The Board of Trustees of the Northern Mariana Islands Retirement Fund (NMIRF) administers the WCC.

Northern Mariana Islands (NMI) Government Health and Life Insurance Trust Fund

This fund was created by Public Law No. 10-19 to ensure that CNMI Government employees are provided with medical and life insurance benefits, and that funds collected and disbursed for these purposes are administered in a fiscally sound and professionally accountable manner. The Board of Trustees of NMIRF administers the fund.

Agency Funds

Agency funds are used to account for assets held by the government as an agent for individuals, private organizations, other governments and/or other funds. Agency funds are purely custodial (assets equal liabilities) and thus do not involve measurement of results of operations. See Accompanying Independent Auditors' Report.



COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS  
FIDUCIARY FUNDS

September 30, 2004

Tinian Land Condemnation Fund

As part of the U.S. Military's lease of Tinian, the CNMI Government, the former Marianas Public Land Corporation and the U.S. Government, setup an escrow fund pending the obtaining of all the private land holdings on Tinian within the leased area. Subsequently, the escrow was jointly terminated wherein it was mutually agreed the funds could be used by the CNMI to acquire the private land holdings through direct acquisition or legal condemnation proceedings. This agency fund represents the net amount available after the costs of land acquisitions. Land condemnation proceedings are still in process.

Security Deposit Fund

The Security Deposit Fund was established to account for security deposits received from persons licensed to engage in the business of selling foreign currency notes or receiving money for the purpose of transmitting the same or its equivalent to any country outside the CNMI (pursuant to 1 CMC 2, Section 2454 and 4 CMC 6, Sections 6351 and 6108) and for security deposits received from alien insurers (pursuant to Public Law No. 3-107).

See Accompanying Independent Auditors' Report.

## COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Combining Statement of Fiduciary Net Assets  
Fiduciary Funds  
September 30, 2004

	Pension (and Other Employee Benefit) Trust Fund				Agency Funds		
	Northern Mariana Islands Retirement Fund	CNMI Government Health and Life Insurance Trust	CNMI Workers' Compensation Commission	Total	Tinian Land Condemnation Fund	Security Deposit Fund	Total
<u>Assets</u>							
Cash and cash equivalents	\$ 909,440	\$ 195,405	\$ 97,958	\$ 1,202,803	\$ -	\$ -	\$ -
Receivables:							
Loans	11,279,320	-	-	11,279,320	-	-	-
Notes	9,816,354	-	-	9,816,354	-	-	-
General	937,979	-	-	937,979	-	-	-
Interest and dividends	794,819	-	-	794,819	-	-	-
Other	6,648,098	760,098	953,080	8,361,276	-	-	-
Due from primary government	-	-	104,195	104,195	1,333,824	-	1,333,824
Prepaid items	-	-	-	-	-	-	-
Investments, at fair market value:							
Equity securities	258,641,474	-	-	258,641,474	-	-	-
U.S. Government securities	55,957,758	-	406,155	56,363,913	-	-	-
Money market placements	30,383,931	-	229,215	30,613,146	-	-	-
Corporate debt securities	27,899,739	-	-	27,899,739	-	-	-
Real property	546,650	-	-	546,650	-	-	-
Restricted assets	-	-	123,827	123,827	-	3,585,915	3,585,915
Capital assets	3,724,690	4,893	2,214	3,731,797	-	-	-
<b>Total assets</b>	<b>407,540,252</b>	<b>960,396</b>	<b>1,916,644</b>	<b>410,417,292</b>	<b>1,333,824</b>	<b>3,585,915</b>	<b>4,919,739</b>
<u>Liabilities and Other Credits</u>							
Accounts payable	424,195	8,889,155	106,216	9,419,566	-	-	-
Claims and judgments payable	-	-	-	-	1,333,824	-	1,333,824
Deposits payable	-	-	-	-	-	3,585,915	3,585,915
Other liabilities and accruals	690,303	-	-	690,303	-	-	-
Due to primary government	2,717,161	-	-	2,717,161	-	-	-
Deferred revenue	3,901,637	-	948,758	4,850,395	-	-	-
<b>Total liabilities and other credits</b>	<b>7,733,296</b>	<b>8,889,155</b>	<b>1,054,974</b>	<b>17,677,425</b>	<b>\$ 1,333,824</b>	<b>\$ 3,585,915</b>	<b>\$ 4,919,739</b>
Net assets:							
Held in trust for pension benefits	399,806,956	-	-	399,806,956	-	-	-
Held in trust for medical and life insurance benefits	-	(7,928,759)	-	(7,928,759)	-	-	-
Held in trust for workers' compensation benefits and other purposes	-	-	861,670	861,670	-	-	-
<b>Total net assets</b>	<b>\$ 399,806,956</b>	<b>\$ (7,928,759)</b>	<b>\$ 861,670</b>	<b>\$ 392,739,867</b>			

See Accompanying Independent Auditors' Report.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Combining Statement of Changes in Fiduciary Net Assets  
Fiduciary Funds  
Year Ended September 30, 2004

	Pension (and Other Employee Benefit) Trust Fund			
	Northern Mariana Islands Retirement Fund	CNMI Government Health and Life Insurance Trust	CNMI Workers' Compensation Commission	Total
<u>Additions</u>				
Contributions:				
Employer	\$ 40,640,497	\$ -	\$ -	\$ 40,640,497
Employee	12,156,404	-	-	12,156,404
Revenues:				
Premiums	-	6,995,577	-	6,995,577
Penalty on unpaid contributions	19,030,187	-	-	19,030,187
Rent income and other	605,684	44,551	75,215	725,450
Total contributions and revenues	<u>72,432,772</u>	<u>7,040,128</u>	<u>75,215</u>	<u>79,548,115</u>
Net investment income:				
Net appreciation in fair value	32,505,039	-	-	32,505,039
Interest	5,317,749	-	-	5,317,749
Dividends	2,228,274	-	-	2,228,274
Total investment income	<u>40,051,062</u>	<u>-</u>	<u>-</u>	<u>40,051,062</u>
Less: investment expense	<u>1,478,454</u>	<u>-</u>	<u>-</u>	<u>1,478,454</u>
Net investment income	<u>38,572,608</u>	<u>-</u>	<u>-</u>	<u>38,572,608</u>
Total additions	<u>111,005,380</u>	<u>7,040,128</u>	<u>75,215</u>	<u>118,120,723</u>
<u>Deductions</u>				
Benefits	45,374,873	-	-	45,374,873
General and administrative	1,646,748	1,366,424	271,918	3,285,090
Bad debts	48,689,688	-	-	48,689,688
Refunds	3,039,142	-	-	3,039,142
Medical claims	-	9,407,325	240,310	9,647,635
Total deductions	<u>98,750,451</u>	<u>10,773,749</u>	<u>512,228</u>	<u>110,036,428</u>
Other financing sources (uses):				
Transfer in	<u>1,880,000</u>	<u>-</u>	<u>355,300</u>	<u>2,235,300</u>
Change in net assets	14,134,929	(3,733,621)	(81,713)	10,319,595
Net assets at beginning of year, as restated	<u>385,672,027</u>	<u>(4,195,138)</u>	<u>943,383</u>	<u>382,420,272</u>
Net assets at end of year	<u>\$ 399,806,956</u>	<u>\$ (7,928,759)</u>	<u>\$ 861,670</u>	<u>\$ 392,739,867</u>

See Accompanying Independent Auditors' Report.