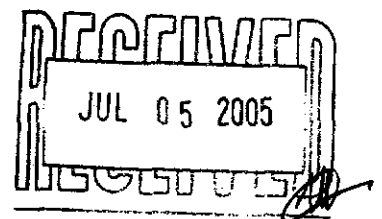


COMMONWEALTH OF THE
NORTHERN MARIANA ISLANDS

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

YEAR ENDED SEPTEMBER 30, 2003



COMMONWEALTH OF THE
NORTHERN MARIANA ISLANDS

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

YEAR ENDED SEPTEMBER 30, 2003

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

FINANCIAL STATEMENTS

YEAR ENDED SEPTEMBER 30, 2003

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COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

FINANCIAL STATEMENTS

YEAR ENDED SEPTEMBER 30, 2003

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INDEPENDENT AUDITORS' REPORT

Honorable Juan N. Babauta
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, 2003, which collectively comprise the CNMI's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the CNMI's management. Our responsibility is to express opinions on these 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 .4% and 16%, respectively, of the assets and .2% and 0%, respectively, of revenues of the CNMI's Discretely Presented Component Units (as presented in the Combining Statements of Net Assets and Activities, respectively, of the Government-Wide Financial Statements), 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 entities not audited by us included in the aggregate discretely presented component units and Fiduciary Funds of the CNMI, 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.

In connection with our audit of the basic financial statements for the year ended September 30, 2003, we were unable to obtain a response from the CNMI's Office of the Attorney General to certain audit inquiries concerning litigation, claims and assessments that might effect such basic financial statements. Accordingly, we were unable to determine the impact of this matter on the accompanying basic financial statements.

Because of inadequacies in the accounting records and internal control, we were unable to form an opinion regarding inventory, federal agencies receivables, utility plant and obligations under capital lease of the Commonwealth Utilities Corporation (CUC). Furthermore, in our judgment, these balances materially affect the determination of results of operations and cash flows for the year ended September 30, 2003. 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 CUC represent 26% and 61% of the assets and revenues, respectively, of the CNMI's Discretely Presented Component Units.

Because of inadequacies in the accounting records, we were unable to determine that taxes receivable, receivables from federal agencies, advances, accounts payable, other liabilities and accruals, due to component units and reserve for continuing appropriations were fairly stated for all governmental funds as of September 30, 2003. These amounts enter into the determination of revenues and expenditures of the Combined Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Activities for the year ended September 30, 2003. Because of inadequacies in accounting records, we were unable to determine that taxes receivable, receivables from federal agencies, advances, accounts payable, other liabilities and accruals and due to component units were fairly stated for all governmental activities as of September 30, 2003. These amounts enter into the determination of revenues and expenditures of the Statement of Activities for the year ended September 30, 2003.

In our opinion, based on our audit and the reports of the other auditors, except for the effects on the financial statements of such adjustments, if any, as might have been determined to be necessary had we received a response from the CNMI's Office of the Attorney General concerning litigation, claims and assessments, and had the propriety of taxes receivables, receivables from federal agencies, advances, accounts payable, other liabilities and accruals, due to component units and reserve for continuing appropriations and their effect on the determination of revenues and expenditures for all Governmental Activities, been determinable, as discussed in the third and fifth paragraphs above, and had the inventory, due from grantor agencies, utility plant and obligations under capital lease of CUC been determinable as discussed in the fourth paragraph above, such financial statements, as set forth in Section II of the 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, 2003, 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 10 and the Schedule of Revenues, Expenditures, and Changes in Deficit - Budget and Actual - General Fund and notes thereto (pages 57 through 60) 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 the information and express no 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 (pages 61 through 75), are presented for the purpose of additional analysis and are 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 items described in the fifth paragraph above, based on our audit and the reports of other auditors, 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 May 23, 2005, 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

May 23, 2005



Office of the Secretary Department of Finance

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Management's Discussion and Analysis **For Fiscal Year Ended September 30, 2003**

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, 2003. Please read it in conjunction with the CNMI's financial statements, which follow this section. Fiscal year 2002 comparative information has been included where appropriate. The amounts included for fiscal year 2002 for the purpose of comparisons have been restated, as further detailed in note 16 to the fiscal year 2003 basic financial statements. The restatements have the effect of increasing the fiscal year 2003 reported beginning net assets by \$4.5 million at the government wide level.

FINANCIAL HIGHLIGHTS

- For the fiscal year ended September 30, 2003, the CNMI's total net assets decreased by \$6,229,652, or 20%.
- During the year, the CNMI's expenses for governmental activities were \$289.9 million, including expenses recorded for payments made or due to the autonomous agencies, and were funded in part by program revenues of \$105.3 million, further funded with taxes and other general revenues that totaled \$178.4 million.
- At September 30, 2003, the General Fund reported an unreserved fund balance deficit of \$118.4 million, which is an increase of 13.3% from the restated prior year deficit.
- For budgetary reporting purposes, the General Fund reported actual revenues (including transfers in) short of final estimates of \$13.0 million, or 5.9%, while reported actual expenditures (including net transfers and unallocated 2% deficit reduction) exceeded final appropriations by \$1,812,463 or 2.2%.

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 difference 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 \$30.8 million to \$24.5 million, or 20%, between fiscal years 2002 and 2003.

COMMONWEALTH OF THE NORTHER MARIANAS ISLANDS
MANAGEMENT DISCUSSION & ANALYSIS
September 30, 2003

A summary of Net Assets (condensed) is presented below, with comparable balances for fiscal year 2002.

	<u>Governmental Activities 2003</u>	<u>Governmental Activities 2002</u>
Current assets	\$ 107,997,564	\$ 132,814,116
Other	4,402,306	-
Capital assets, net	147,542,079	129,168,516
Other noncurrent assets	10,551,138	2,198,200
Total assets	<u>270,493,087</u>	<u>264,180,832</u>
Current liabilities	164,269,003	148,308,761
Noncurrent liabilities	81,692,781	85,111,116
Total liabilities	<u>245,961,784</u>	<u>233,419,877</u>
Net assets		
Invested in capital assets, net of related debt	66,526,123	47,936,343
Restricted net assets	63,804,813	86,601,366
Unrestricted net assets	<u>(105,799,633)</u>	<u>(103,776,754)</u>
Total net assets	<u>\$ 24,531,303</u>	<u>\$ 30,760,955</u>

Changes in Net Assets

For the year ended September 30, 2003, net assets of the primary government changed as follows, with comparable amounts for fiscal year 2002:

	<u>Governmental Activities 2003</u>	<u>Governmental Activities 2002</u>
Revenues		
Program revenues	\$ 105,301,243	\$ 105,758,185
Taxes and other general revenues	<u>178,434,937</u>	<u>184,878,179</u>
Total revenues	<u>283,736,180</u>	<u>290,636,364</u>
Expenses		
Capital projects	7,992,955	48,791,396
Capital projects fund balance adjustment	-	(5,560,884)
Health	51,273,326	52,046,913
Public safety and law enforcement	40,553,183	37,097,709
General government	18,863,783	21,116,080
Community and social services	20,651,137	21,561,999
Other elected officials	13,388,465	12,851,133
Utilities	11,262,850	10,890,130
Public works	17,092,434	15,073,055
Lands and natural resources	17,759,369	9,772,392
Legislative branch	8,085,212	7,262,331
Judicial branch	4,907,581	4,792,449
Education	6,652,234	3,931,482
Debt Service	5,322,550	2,117,359
Economic development	2,097,645	2,085,546
Depreciation - unallocated	3,245,459	4,119,243
Payments to autonomous agencies	53,139,182	51,396,222
Retroactive Salary Adjustments	7,678,467	-
Compensated absences adjustment	-	1,106,035
Total expenses	<u>289,965,832</u>	<u>300,450,590</u>
Decrease in net assets	<u>\$ (6,229,652)</u>	<u>\$ (9,814,226)</u>

The CNMI's governmental activities' decrease in restated net assets of \$(6,229,652) represents a 20% decrease from the prior year. The results indicate the CNMI's financial condition, as a whole, declined from the prior year.

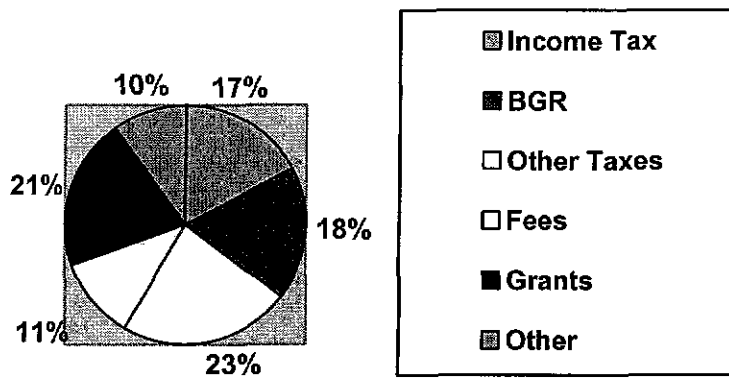
Governmental Activities

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

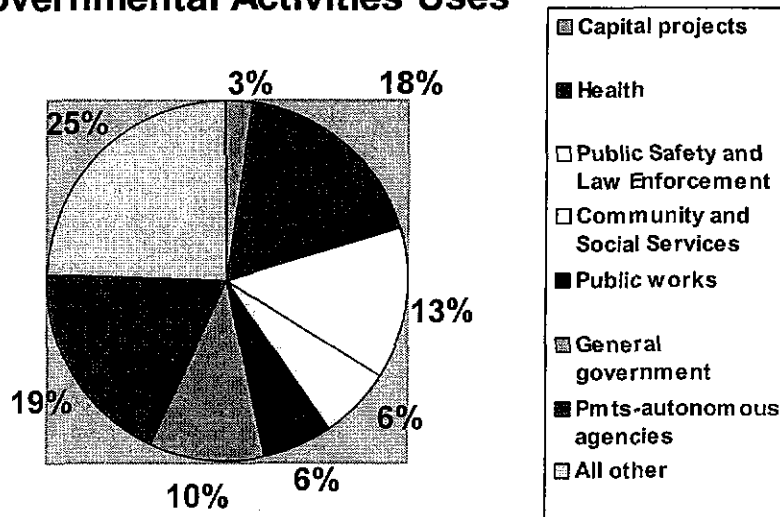
Of particular interest is the format that is significantly different than a typical Statement of Revenues, Expenses, and Changes in Fund Balance. You will notice that expenses are listed in the first column with revenues from that particular program reported to the right. The result is a Net (Expense)/Revenue. 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, 2003, the CNMI's governmental activities were funded as follows:

Governmental Activities Sources



Governmental Activities Uses



For the year ended September 30, 2003, total expenses for governmental activities amounted to \$289,965,831. Of these total expenses, taxpayers and other general revenues funded \$178,434,937 while those directly benefiting from the activities funded \$57,560,034 from grants and other contributions and \$47,741,209 from charges for services.

COMMONWEALTH OF THE NORTHER MARIANAS ISLANDS
MANAGEMENT DISCUSSION & ANALYSIS
September 30, 2003

Net Revenue (Expense) of Governmental Activities

	Total Expense of Services 2003	Net Revenue (Expense) of Services 2003	Total Expense of Services 2002	Net Revenue (Expense) of Services 2002
Capital projects	\$ 7,992,955	\$ 12,319,172	\$ 43,230,512	\$ 6,353,642
Health	51,273,326	(29,536,985)	52,046,913	(33,677,622)
Public safety and law enforcement	40,553,183	(27,095,861)	37,097,709	(26,631,904)
General government	18,863,783	5,011,889	21,116,080	(8,134,946)
Community and social services	20,651,137	(8,687,730)	21,561,999	(12,298,966)
Public works	17,092,434	(15,554,958)	15,073,055	(13,105,677)
Payments to autonomous agencies	53,139,182	(50,970,652)	51,396,222	(51,396,222)
All other	80,399,832	(70,149,464)	58,928,100	(55,800,710)
Total	\$ 289,965,832	\$ (184,664,589)	\$ 300,450,590	\$ (194,692,405)

A FINANCIAL ANALYSIS OF THE CNMI'S FUNDS

As the CNMI completed its 2003 fiscal year, the governmental funds reported a combined fund balance deficit of \$25,263,285, which compares with the prior year's deficit of \$4,249,748. This deficit resulted mainly from the reversal of prior year OPA revenues and the creation of an allowance against receivables (\$5,998,437) and anticipated income tax revenue from the Tax Rebate Fund (\$5,176,931) not being available in the General Fund in order to fully fund estimated tax rebates payable; expenditure of bond proceeds recognized in previous fiscal years (\$5,899,560) in the DOI Capital Projects Fund; and expenditure of revenues recognized in previous fiscal years (\$3,144,667) in the local revenue fund, a non major revenue fund.

Individual fund highlights include:

- For the year ended September 30, 2003, the General Fund's total fund balance deficit increased by \$13,063,075 or 13.9%, to a total fund balance deficit of \$93,984,516, while the total unreserved fund balance deficit increased by \$13,986,985 or 13.3%, for a total unreserved fund balance deficit of \$118,423,699. The increase in fund balance deficit is attributable to the reversal of prior year OPA revenues and the creation of an allowance against receivables and the unavailability of anticipated income tax revenue from the Tax Rebate Fund as noted above.
- The Federal Grants Special Revenue Fund's revenues/transfers in and expenditures/transfers out were equal at \$39,919,834, leaving beginning and ending fund balance at \$750,000.
- The DOI Capital Projects Fund's total fund balance decreased by \$5,899,560, or 9.2%, to a total of \$58,123,263. This was the result of the expenditure of previous fiscal years' bond proceeds on capital projects.
- The Pension and Other Employee Benefit Trust Fund's show an increase to net assets of the various funds of \$50,357,039 or 15% for the year. This Fund type includes the retirement fund, the group health and life insurance fund and the 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 \$200,744,520 were less than the final estimates by \$12.1 million, due in a large part to the reversal of prior year OPA revenues and the creation of an allowance against receivables (\$5,998,437) and anticipated income tax revenues (\$5,176,931) from the Tax Rebate Fund not being realized in order to fully fund estimated tax rebates payable. The General Fund's actual expenditures including the unallocated deficit reduction of \$211,271,560 exceeded appropriations by \$282,527 a 1.5% variance. This can be attributed to unbudgeted typhoon related expenses (\$1,243,875) and an audit adjustment expensing uncollectible returned checks receivable (\$1,802,959) from various agencies.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of September 30, 2003, the CNMI had \$147,542,079 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 \$18,373,563 or 14.2% over last year.

	<u>2003</u>	<u>2002</u>
Infrastructure, net	\$ 36,207,609	\$ 38,826,956
Buildings and improvements, net	50,328,662	48,851,956
Machinery and Equipment, net	4,465,278	4,315,980
Construction in progress	56,540,530	37,173,624
Totals	\$ 147,542,079	\$ 129,168,516

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 \$90,158,438 in long-term debt outstanding, and which represents a \$1,361,941 or 1.49% net decrease from the prior year mostly from the net effect of approximately \$1.65 million of debt principal retirements and a net increase in accrued compensated absences of \$0.29 million. The CNMI's changes in long-term debt by type of debt are as follows:

	<u>Governmental Activities</u>	
	<u>2003</u>	<u>2002</u>
Accrued compensated absences	\$ 9,142,482	\$ 8,857,313
Bonds payable	69,675,000	71,145,000
Notes payable	11,340,956	11,518,066
Totals	\$ 90,158,438	\$ 91,520,379

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 2004 appear similar, with not much recovery in sight. The Commonwealth operated on a continuing resolution budget for fiscal year 2004 as a budget was not adopted by legislative action. This carried over the fiscal year 2003 estimated revenue and appropriation levels for fiscal year 2004.

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 (CHRB), Saipan, MP 96950 or phone at (670) 664-1100.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Statement of Net Assets
September 30, 2003

	<u>Primary Government</u>	<u>Component Units</u>
<u>Assets</u>		
Current assets:		
Cash and cash equivalents	\$ 12,728,429	\$ 33,081,230
Time certificates of deposit	3,139,324	6,220,865
Investments	47,245,278	47,570,555
Receivables, net of allowance for uncollectibles:		
Loans	-	13,307,656
Federal agencies	19,936,015	6,117,407
Taxes	17,815,693	-
General	1,149,926	3,800,001
Utilities	-	7,955,801
Interest and dividends	-	1,864,927
Other	728,200	6,036,588
Due from primary government	-	8,063,420
Advances	2,771,517	59,681
Inventories	2,483,182	10,073,316
Prepaid items	-	251,379
Deferred bond issue costs	-	64,454
Total current assets	<u>107,997,564</u>	<u>144,467,280</u>
Other assets, restricted:		
Cash and cash equivalents	4,402,306	8,885,061
Time certificates of deposit	-	6,183,140
Investments	-	21,510,596
Total other assets, restricted	<u>4,402,306</u>	<u>36,578,797</u>
Noncurrent assets:		
Investments	2,500,000	-
Investments, restricted	-	8,473,883
Receivables, net of allowance for uncollectibles:		
Loans	-	33,829,441
Other agencies	3,153,610	-
Advances	1,493,189	-
Due from component units	3,404,339	-
Deferred bond issue costs, net of current portion	-	1,464,348
Other assets	-	3,947,282
Foreclosed real estate	-	1,522,923
Capital assets, net of accumulated depreciation	<u>147,542,079</u>	<u>357,123,925</u>
Total noncurrent assets	<u>158,093,217</u>	<u>406,361,802</u>
Total assets	<u>270,493,087</u>	<u>587,407,879</u>
<u>Liabilities</u>		
Current liabilities:		
Bank overdraft	2,562,783	-
Accounts payable	7,070,205	13,480,345
Current portion of compensated absences	3,454,748	771,242
Claims and judgments payable	7,961,539	-
Tax rebates payable	27,704,725	-
Accrued interest payable	1,584,129	76,689,014
Other liabilities and accruals	8,086,612	11,052,529
Deposits payable	-	8,412,469
Current portion of notes and bonds payable	5,010,909	63,744,577
Current portion of obligations under capital lease	-	888,122
Due to component units	17,406,291	-
Due to primary government	-	1,429,208
Due to Pension and Other Employee Benefit Trust Funds	82,248,772	-
Deferred revenue	1,178,290	2,605,310
Total current liabilities	<u>164,269,003</u>	<u>179,072,816</u>
Noncurrent liabilities:		
Notes and bonds payable, net of current portion	76,005,047	67,434,550
Compensated absences, net of current portion	5,687,734	5,081,532
Obligations under capital lease, net of current portion	-	6,538,027
Total noncurrent liabilities	<u>81,692,781</u>	<u>79,054,109</u>
Total liabilities	<u>245,961,784</u>	<u>258,126,925</u>
Net assets:		
Invested in capital assets, net of related debt	66,526,123	230,702,082
Restricted for:		
Capital projects	59,618,650	-
Retirement of indebtedness	4,186,163	-
Other purposes	-	153,061,929
Unrestricted	<u>(105,799,633)</u>	<u>(54,483,057)</u>
Total net assets	<u>\$ 24,531,303</u>	<u>\$ 329,280,954</u>

See accompanying notes to financial statements.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Statement of Activities
For the Year Ended September 30, 2003

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government	Component Units
Primary government:						
Governmental activities:						
Capital projects	\$ 7,992,955	\$ 45,592	\$ -	\$ 20,266,535	\$ 12,319,172	\$ -
Health	51,273,326	12,630,937	9,105,404	-	(29,536,985)	-
Public safety and law enforcement	40,553,183	10,367,947	3,089,375	-	(27,095,861)	-
General government	18,863,783	17,039,721	6,835,951	-	5,011,889	-
Community and social services	20,651,137	68,942	11,894,465	-	(8,687,730)	-
Other elected officials	13,388,465	-	-	-	(13,388,465)	-
Utilities	11,262,850	-	-	-	(11,262,850)	-
Public works	17,092,434	453,814	1,083,662	-	(15,554,958)	-
Lands and natural resources	17,759,369	85,444	3,062,203	-	(14,611,722)	-
Legislative branch	8,085,212	-	-	-	(8,085,212)	-
Judicial branch	4,907,581	47,697	-	-	(4,859,884)	-
Education	6,652,234	-	45,336	-	(6,606,898)	-
Unallocated interest	5,322,550	1,182,904	-	-	(4,139,646)	-
Economic development	2,097,645	-	8,573	-	(2,089,072)	-
Depreciation - unallocated	3,245,459	-	-	-	(3,245,459)	-
Education:						
Payments to PSS	36,465,731	-	-	-	(36,465,731)	-
Payments to NMC	7,856,243	-	2,168,530	-	(5,687,713)	-
Payments to MVA	6,461,908	-	-	-	(6,461,908)	-
Payments to NMIRF and WCC	2,355,300	-	-	-	(2,355,300)	-
Retroactive salary adjustment	7,678,467	5,818,211	-	-	(1,860,256)	-
Total primary government	\$ 289,965,832	\$ 47,741,209	\$ 37,293,499	\$ 20,266,535	\$ (184,664,589)	\$ -
Component units:						
Commonwealth Ports Authority	\$ 22,289,643	\$ 16,222,482	\$ -	\$ 10,553,179	\$ -	\$ 4,486,018
Commonwealth Development Authority	14,261,004	9,143,038	-	120,689	-	(4,997,277)
Commonwealth Utilities Corporation	82,885,433	71,353,881	-	3,230,248	-	(8,301,304)
Marianas Public Land Trust	2,505,335	2,515,950	-	-	-	10,615
Marianas Public Lands Authority	5,162,757	4,583,228	-	-	-	(579,529)
Northern Marianas College	17,093,139	2,822,243	6,238,724	-	-	(8,032,172)
Public School System	63,372,920	-	23,608,774	-	-	(39,764,146)
Marianas Visitors Authority	8,483,372	278,059	874,056	-	-	(7,331,257)
Total component units	\$ 216,053,603	\$ 106,918,881	\$ 30,721,554	\$ 13,904,116	-	(64,509,052)
General revenues:						
Taxes:						
Income					49,226,247	-
Business gross revenue					50,628,586	-
Penalties and interest					1,428,611	-
Garment certification					28,253,750	-
Excise					23,694,380	-
Hotel room occupancy					5,391,496	-
Fuel					3,086,972	-
Bar and liquor					2,400,348	-
Beautification					1,450,486	-
Business privilege					525,336	-
Developer's					226,093	-
Cigarette					1,171,504	-
Solid waste excise					1,995,509	-
Net increase (decrease) in fair value of investments					136,084	3,554,201
Investment, earnings and interest					1,093,965	1,349,686
Contributions from Primary Government					-	52,807,239
Contributions from component units					6,296,844	-
Other					1,428,726	(501,196)
Total general revenues					178,434,937	57,209,930
Change in net assets					(6,229,652)	(7,299,122)
Net assets - beginning, as restated					30,760,955	336,580,076
Net assets - ending					\$ 24,531,303	\$ 329,280,954

See accompanying notes to financial statements.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Balance Sheet
Governmental Funds
September 30, 2003

	Special Revenue			Capital Projects	Other Governmental Funds	Total Governmental Funds
	General	Federal Grants	NMTIT Rebate Trust Fund	DOI Capital Projects Fund		
<u>Assets</u>						
Cash and cash equivalents	\$ 12,728,429	\$ -	\$ -	\$ -	\$ -	\$ 12,728,429
Time certificates of deposit	3,139,324	-	-	-	-	3,139,324
Investments	8,224,402	-	-	39,199,108	2,321,768	49,745,278
Restricted cash and cash equivalents	4,402,306	-	-	-	-	4,402,306
Receivables, net:						
Federal agencies	-	5,827,530	-	14,088,856	19,629	19,936,015
Other agencies	3,153,610	-	-	-	-	3,153,610
Taxes	17,050,176	-	575,087	-	190,430	17,815,693
General	1,149,926	-	-	-	-	1,149,926
Other	-	-	-	12,831	715,369	728,200
Due from component units	3,404,339	-	-	-	-	3,404,339
Due from other funds	4,066,466	-	27,129,638	6,316,773	8,069,069	45,581,946
Due from Pension and Other Employee Benefit Trust Funds	-	-	-	-	2,655,199	2,655,199
Advances	4,264,706	-	-	-	-	4,264,706
Inventories	1,899,582	583,600	-	-	-	2,483,182
	<u>\$ 63,483,266</u>	<u>\$ 6,411,130</u>	<u>\$ 27,704,725</u>	<u>\$ 59,617,568</u>	<u>\$ 13,971,464</u>	<u>\$ 171,188,153</u>
<u>Liabilities and Fund Balances (Deficit)</u>						
Liabilities:						
Accounts payable	\$ 2,767,155	\$ 1,243,603	\$ -	\$ 1,494,305	\$ 1,565,142	\$ 7,070,205
Bank overdraft	2,562,783	-	-	-	-	2,562,783
Tax rebates payable	-	-	27,704,725	-	-	27,704,725
Other liabilities and accruals	6,628,053	600,124	-	-	858,435	8,086,612
Due to other funds	41,515,480	3,817,403	-	-	249,063	45,581,946
Due to component units	17,133,725	-	-	-	272,566	17,406,291
Due to Pension and Other Employee Benefit Trust Funds	84,903,971	-	-	-	-	84,903,971
Deferred revenue	1,956,615	-	-	-	1,178,290	3,134,905
	<u>157,467,782</u>	<u>5,661,130</u>	<u>27,704,725</u>	<u>1,494,305</u>	<u>4,123,496</u>	<u>196,451,438</u>
Fund balances (deficit):						
Reserved for:						
Supplies inventory	1,745,349	-	-	-	-	1,745,349
Related assets	15,749,644	-	-	-	-	15,749,644
Debt service	-	-	-	34,367	4,423,449	4,457,816
Encumbrances	6,037,716	6,779,776	-	20,253,938	16,540,546	49,611,976
Continuing appropriations	906,474	-	-	-	1,844,404	2,750,878
Unreserved (deficits) reported in:						
General fund	(118,423,699)	-	-	-	-	(118,423,699)
Special revenue funds	-	(6,029,776)	-	-	1,340,657	(4,689,119)
Capital projects	-	-	-	37,834,958	(14,301,088)	23,533,870
	<u>(93,984,516)</u>	<u>750,000</u>	<u>-</u>	<u>58,123,263</u>	<u>9,847,968</u>	<u>(25,263,285)</u>
	<u>\$ 63,483,266</u>	<u>\$ 6,411,130</u>	<u>\$ 27,704,725</u>	<u>\$ 59,617,568</u>	<u>\$ 13,971,464</u>	<u>\$ 171,188,153</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, 2003

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

Total fund balance deficit		\$ (25,263,285)
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	\$ 56,540,529	
Depreciable capital assets and infrastructure, net of \$97,153,090 of accumulated depreciation	<u>91,001,550</u>	
Capital assets, net of accumulated depreciation		147,542,079
Deferred revenue not available are not recorded as revenues in the funds		1,956,615
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 debts	(69,675,000)	
Accrued interest	(1,584,129)	
Other long-term debts	(11,340,956)	
Compensated absences	(9,142,482)	
Claims and judgment payable	<u>(7,961,539)</u>	
Long-term liabilities		<u>(99,704,106)</u>
Net assets of governmental activities		<u>\$ 24,531,303</u>

See accompanying notes to financial statements.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds

For the Year Ended September 30, 2003

	General	Special Revenue		Capital Projects	Other Governmental Funds	Total Governmental Funds
		Federal Grants	NMTIT Rebate Trust Fund	DOI Capital Projects Fund		
Revenues:						
Taxes	\$ 165,322,874	\$ -	\$ -	\$ -	\$ 3,393,106	\$ 168,715,980
Federal contributions	-	37,293,499	-	18,056,038	2,210,497	57,560,034
Charges for sales and services	21,406,481	-	-	-	-	21,406,481
Licenses and fees	11,932,698	38,290	-	-	14,363,740	26,334,728
Interest and dividends	223,322	212,842	-	554,349	103,452	1,093,965
Net increase in the fair value of investments	-	-	-	136,084	-	136,084
Contributions from component units	1,206,139	-	-	2,472,991	2,617,714	6,296,844
Other	653,006	-	-	-	775,720	1,428,726
Total revenues	200,744,520	37,544,631	-	21,219,462	23,464,229	282,972,842
Expenditures:						
Capital projects	-	-	-	26,206,662	7,309,979	33,516,641
Health	42,263,871	9,164,182	-	-	36,943	51,464,996
Education:						
Payments to PSS	36,465,731	-	-	-	-	36,465,731
Payments to NMC	6,402,068	-	-	-	1,454,175	7,856,243
Public safety and law enforcement	34,961,694	5,179,385	-	-	503,949	40,645,028
General government	17,995,329	94,426	-	-	1,148,855	19,238,610
Community and social services	5,126,666	14,918,367	-	-	929,033	20,974,066
Other elected officials	12,888,107	-	-	-	597,043	13,485,150
Utilities	11,262,850	-	-	-	-	11,262,850
Public works	9,333,366	400,475	-	-	2,041,314	11,775,155
Lands and natural resources	6,439,905	5,506,842	-	-	120,123	12,066,870
Legislative branch	8,085,212	-	-	-	-	8,085,212
Payments to MVA	6,461,908	-	-	-	-	6,461,908
Judicial branch	4,907,581	-	-	-	-	4,907,581
Education	4,190,743	2,397,466	-	-	64,025	6,652,234
Debt service:						
Principal retirement	-	-	-	-	1,647,110	1,647,110
Interest and fiscal charges	-	-	-	3,872,881	1,476,701	5,349,582
Economic development	2,083,533	14,112	-	-	-	2,097,645
Payments to NMIRF and WCC	2,355,300	-	-	-	-	2,355,300
Retroactive salary adjustment	-	-	-	-	7,678,467	7,678,467
Total expenditures	211,223,864	37,675,255	-	30,079,543	25,007,717	303,986,379
Excess (deficiency) of revenues over (under) expenditures	(10,479,344)	(130,624)	-	(8,860,081)	(1,543,488)	(21,013,537)
Other financing sources (uses):						
Operating transfers in	5,866,505	2,375,203	-	3,872,881	6,593,301	18,707,890
Operating transfers out	(8,450,236)	(2,244,579)	-	(912,360)	(7,100,715)	(18,707,890)
Total other financing sources (uses), net	(2,583,731)	130,624	-	2,960,521	(507,414)	-
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	(13,063,075)	-	-	(5,899,560)	(2,050,902)	(21,013,537)
Fund balances (deficit) at beginning of year	(80,921,441)	750,000	-	64,022,823	11,898,870	(4,249,748)
Fund balances (deficit) at end of year	\$ (93,984,516)	\$ 750,000	\$ -	\$ 58,123,263	\$ 9,847,968	\$ (25,263,285)

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, 2003

Net change in fund balance deficit - total governmental funds	\$ (21,013,537)
Add:	
Capital assets purchased that were capitalized	26,936,301
Principal payments on long-term debt	1,647,110
Net change in accrued interest	27,032
Net change in deferred revenue	763,338
Less:	
Increase in claims and judgments payable	(5,741,989)
Net change in compensated absences	(285,169)
Depreciation expense	<u>(8,562,738)</u>
Change in net assets of governmental activities	<u>\$ (6,229,652)</u>

See accompanying notes to financial statements.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Statement of Fiduciary Net Assets
Fiduciary Funds
September 30, 2003

<u>Assets</u>	<u>Pension and Other Employee Benefit Trust Funds</u>	<u>Agency Funds</u>
Cash and cash equivalents	\$ 3,614,317	\$ -
Receivables:		
Loans	11,340,956	-
Notes	8,939,308	-
General	752,249	-
Interest and dividends	739,617	-
Other	6,803,404	-
Due from primary government	19,464,407	1,333,824
Prepaid items	21,463	-
Investments, at fair market value:		
Equity securities	267,237,816	-
U.S. Government securities	39,165,488	-
Money market placements	5,252,224	-
Corporate debt securities	26,162,949	-
Real property	546,650	-
Restricted assets	-	3,427,011
Capital assets	<u>3,914,362</u>	<u>-</u>
Total assets	<u>393,955,210</u>	<u>4,760,835</u>
<u>Liabilities and Other Credits</u>		
Accounts payable	5,598,625	\$ -
Claims and judgments payable	-	1,333,824
Deposits payable	-	3,427,011
Other liabilities and accruals	118,943	-
Deferred revenue	<u>1,622,232</u>	<u>-</u>
Total liabilities and other credits	<u>7,339,800</u>	<u>\$ 4,760,835</u>
Net assets:		
Held in trust for pension benefits	385,672,027	
Held in trust for Special Disability Fund	308,299	
Unrestricted	<u>635,084</u>	
Total assets	<u>\$ 386,615,410</u>	

See accompanying notes to financial statements.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Statement of Changes in Fiduciary Net Assets
Pension and Other Employee Benefit Trust Funds
Year Ended September 30, 2003

	<u>Pension and Other Employee Benefit Trust Funds</u>
<u>Additions</u>	
Contributions:	
Employer	\$ 39,323,544
Employer - unfunded	85,810,010
Employee	12,171,783
Revenues:	
Premiums	6,601,742
Rent income and other	738,335
Other - transfer in	2,355,300
Total contributions and revenues	<u>147,000,714</u>
Net investment income:	
Net appreciation in fair value	46,258,178
Interest	5,087,218
Dividends	2,128,653
Total investment income	<u>53,474,049</u>
Less: investment expense	<u>1,466,960</u>
Net investment income	<u>52,007,089</u>
Total additions	<u>199,007,803</u>
<u>Deductions</u>	
Provision for uncollectible unfunded pension liability	85,810,010
Benefits	42,225,750
General and administrative	4,744,662
Bad debts	8,255,851
Refunds	3,595,133
Medical claims	4,019,358
Total deductions	<u>148,650,764</u>
Change in net assets	50,357,039
Net assets at beginning of year	<u>336,258,371</u>
Net assets at end of year	<u>\$ 386,615,410</u>

See accompanying notes to financial statements.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Component Units
Combining Statement of Net Assets
September 30, 2003

	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
<u>Assets</u>									
Current assets:									
Cash and cash equivalents	\$ 5,069,343	\$ 2,669,440	\$ 14,315,507	\$ 2,160,510	\$ 6,114,224	\$ 513,458	\$ 1,705,695	\$ 533,053	\$ 33,081,230
Time certificates of deposit	-	6,220,865	-	-	-	-	-	-	6,220,865
Investments	2,524,469	-	-	45,046,086	-	-	-	-	47,570,555
Receivables, net:									
Loans	-	2,180,740	-	11,126,916	-	-	-	-	13,307,656
Federal agencies	2,121,099	-	1,055,390	-	-	1,933,426	1,007,492	-	6,117,407
General	2,060,719	35,226	-	-	818,639	885,417	-	-	3,800,001
Utilities	-	-	7,955,801	-	-	-	-	-	7,955,801
Interest	-	1,252,720	-	612,207	-	-	-	-	1,864,927
Other	29,830	29,636	2,370,644	7,771	-	-	3,500,365	98,342	6,036,588
Due from primary government	-	-	2,650,066	172,134	-	304,928	3,704,568	1,231,724	8,063,420
Inventory	-	264,879	9,535,762	-	-	272,675	-	-	10,073,316
Prepaid items	106,315	50,629	-	-	-	5,514	-	88,921	251,379
Advances	-	-	-	-	59,681	-	-	-	59,681
Deferred bond issue costs, current portion	64,454	-	-	-	-	-	-	-	64,454
Total current assets	11,976,229	12,704,135	37,883,170	59,125,624	6,992,544	3,915,418	9,918,120	1,952,040	144,467,280
Other assets, restricted:									
Cash and cash equivalents	-	6,446,559	2,438,502	-	-	-	-	-	8,885,061
Time certificates of deposit	-	-	6,183,140	-	-	-	-	-	6,183,140
Investments	11,393,153	7,067,330	-	-	-	3,050,113	-	-	21,510,596
Total other assets, restricted	11,393,153	13,513,889	8,621,642	-	-	3,050,113	-	-	36,578,797
Noncurrent assets:									
Investments, restricted	-	-	-	-	8,473,883	-	-	-	8,473,883
Loans receivables	-	33,829,441	-	-	-	-	-	-	33,829,441
Deferred bond issue cost	1,464,348	-	-	-	-	-	-	-	1,464,348
Other assets	3,736,488	210,794	-	-	-	-	-	-	3,947,282
Capital assets (net of accumulated depreciation)	142,778,045	17,524,965	104,424,658	20,447	1,022,205	9,650,775	81,576,119	126,711	357,123,925
Foreclosed real estate	-	1,522,923	-	-	-	-	-	-	1,522,923
Total noncurrent assets	147,978,881	53,088,123	104,424,658	20,447	9,496,088	9,650,775	81,576,119	126,711	406,361,802
Total assets	171,348,263	79,306,147	150,929,470	59,146,071	16,488,632	16,616,306	91,494,239	2,078,751	587,407,879
<u>Liabilities and Net Assets</u>									
Current liabilities:									
Accounts payable	4,204,323	818,122	6,526,831	100,781	371,473	1,014,669	8,015	436,131	13,480,345
Current compensated absences	-	-	771,242	-	-	-	-	-	771,242
Due to primary government	840,740	-	588,468	-	-	-	-	-	1,429,208
Other liabilities and accruals	1,614,658	2,036,748	1,453,216	91,324	1,089,175	641,949	3,994,007	131,452	11,052,529
Deposits payable	-	-	8,412,469	-	-	-	-	-	8,412,469
Current portion of notes and bonds payable	2,022,341	109,814	61,612,422	-	-	-	-	-	63,744,577
Current obligations under capital lease	-	-	888,122	-	-	-	-	-	888,122
Accrued interest payable	-	-	76,689,014	-	-	-	-	-	76,689,014
Deferred revenue	25,886	-	-	-	1,609,827	796,503	168,595	4,499	2,605,310
Total current liabilities	8,707,948	2,964,684	156,941,784	192,105	3,070,475	2,453,121	4,170,617	572,082	179,072,816
Noncurrent liabilities:									
Notes and bonds payable, net of current portion	55,341,301	11,890,186	203,063	-	-	-	-	-	67,434,550
Compensated absences, net of current portion	-	-	179,344	-	-	750,924	4,151,264	-	5,081,532
Obligations under capital lease, net of current portion	-	-	6,538,027	-	-	-	-	-	6,538,027
Total noncurrent liabilities	55,341,301	11,890,186	6,920,434	-	-	750,924	4,151,264	-	79,054,109
Total liabilities	64,049,249	14,854,870	163,862,218	192,105	3,070,475	3,204,045	8,321,881	572,082	258,126,925
Net assets:									
Investment in capital assets	86,943,205	18,067,965	35,183,024	20,447	1,022,205	9,650,775	79,687,750	126,711	230,702,082
Restricted	11,393,153	46,383,312	8,621,642	58,933,519	12,395,952	5,293,760	10,040,591	-	153,061,929
Unrestricted	8,962,656	-	(56,737,414)	-	-	(1,532,274)	(6,555,983)	1,379,958	(54,483,057)
Total net assets	\$ 107,299,014	\$ 64,451,277	\$ (12,932,748)	\$ 58,953,966	\$ 13,418,157	\$ 13,412,261	\$ 83,172,358	\$ 1,506,669	\$ 329,280,954

See accompanying notes to financial statements.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Component Units
Combining Statement of Revenues, Expenses and Changes in Net Assets
Year Ended September 30, 2003

	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
Operating revenues:									
Charges for services and fees	\$ 15,177,549	\$ 8,029,738	\$ 69,900,060	\$ -	\$ -	\$ 1,360,564	\$ -	\$ 262,814	\$ 94,730,725
Grants and contributions	-	-	-	-	-	6,238,724	-	-	6,238,724
Land lease	-	-	-	-	3,930,506	-	-	-	3,930,506
Net increase (decrease) in the fair value of investments	-	-	-	3,342,645	-	241,556	-	-	3,554,201
Other	1,044,933	1,113,300	1,453,821	2,515,950	652,722	1,461,679	-	15,245	8,257,650
Total operating revenues	16,222,482	9,143,038	71,353,881	5,828,595	4,583,228	9,302,523	-	278,059	116,711,806
Operating expenses:									
Cost of services	3,323,251	6,201,770	45,236,166	-	757,798	13,575,175	50,721,717	5,696,726	125,512,603
Depreciation and amortization	8,044,892	694,918	8,583,344	-	113,154	661,646	2,030,013	73,930	20,201,897
Administration	7,723,215	1,750,779	19,305,216	1,133,902	4,291,805	2,856,318	10,621,190	2,712,716	50,395,141
Total operating expenses	19,091,358	8,647,467	73,124,726	1,133,902	5,162,757	17,093,139	63,372,920	8,483,372	196,109,641
Operating income (loss)	(2,868,876)	495,571	(1,770,845)	4,694,693	(579,529)	(7,790,616)	(63,372,920)	(8,205,313)	(79,397,835)
Nonoperating revenues (expenses):									
Contributions from the primary government	-	-	-	-	-	8,550,606	37,794,725	6,461,908	52,807,239
Contributions to the primary government	-	(4,795,111)	-	(1,371,433)	-	-	-	-	(6,166,544)
Grants and contributions	-	-	-	-	-	-	23,608,774	874,056	24,482,830
Interest income	129,530	70,475	311,181	764,713	-	73,787	-	-	1,349,686
Interest expense	(3,140,892)	(818,426)	(9,760,707)	-	-	-	-	-	(13,720,025)
Amortization of bond issue cost	(57,393)	-	-	-	-	-	-	-	(57,393)
Other, net	168,798	-	(648,468)	-	-	-	25,071	(46,597)	(501,196)
Nonoperating revenues (expenses), net	(2,899,957)	(5,543,062)	(10,097,994)	(606,720)	-	8,624,393	61,428,570	7,289,367	58,194,597
Income (loss) before capital contributions	(5,768,833)	(5,047,491)	(11,868,839)	4,087,973	(579,529)	833,777	(1,944,350)	(915,946)	(21,203,238)
Capital contributions	10,553,179	120,689	3,230,248	-	-	-	-	-	13,904,116
Change in net assets	4,784,346	(4,926,802)	(8,638,591)	4,087,973	(579,529)	833,777	(1,944,350)	(915,946)	(7,299,122)
Net assets - beginning, as restated	102,514,668	69,378,079	(4,294,157)	54,865,993	13,997,686	12,578,484	85,116,708	2,422,615	336,580,076
Net assets - ending	\$ 107,299,014	\$ 64,451,277	\$ (12,932,748)	\$ 58,953,966	\$ 13,418,157	\$ 13,412,261	\$ 83,172,358	\$ 1,506,669	\$ 329,280,954

See accompanying notes to financial statements.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements
September 30, 2003

(1) Summary of Significant Accounting Policies

The accompanying 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), as applied to government units. 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 and component units that use proprietary fund accounting, 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; 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) 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 of the CNMI. NMIRF is reported as a Fiduciary Fund Type - Pension and Other Employee Benefit Trust Funds.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements
September 30, 2003

(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) 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. GHLITF is reported as a Fiduciary Fund Type - Pension and Other Employee Benefit Trust Funds.
- (c) The CNMI Workers' Compensation Commission (WCC) 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. WCC is reported as a Fiduciary Fund Type - Pension and Other Employee Benefit Trust Funds.

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:

Major Component Units:

- (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 of the CNMI.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements
September 30, 2003

(1) Summary of Significant Accounting Policies, Continued

A. Reporting Entity, Continued

2. Discretely Presented Component Units, Continued

Major 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 of the CNMI.
- (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 of the CNMI.
- (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 of the CNMI.
- (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 of the CNMI.
- (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 of the CNMI.
- (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 of the CNMI 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 OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements
September 30, 2003

(1) Summary of Significant Accounting Policies, Continued

A. Reporting Entity, Continued

2. Discretely Presented Component Units, Continued

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

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 of the CNMI. The financial activities of this omitted component unit are not considered material to the basic financial statements.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements
September 30, 2003

(1) Summary of Significant Accounting Policies, Continued

A. Reporting Entity, Continued

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.

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 (CNMI), 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 Statement of Activities demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenues. Direct expenses are those that are clearly identifiable within a specific function. 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.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements
September 30, 2003

(1) Summary of Significant Accounting Policies, Continued

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, discretely presented component units 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. The CNMI presents a balance sheet and a statement of revenues, expenditures and changes in fund balances for its governmental funds. The ending fund balance on the balance sheet is then reconciled to the ending governmental activities net assets. In addition, combining individual discretely presented component unit statements are provided.

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 cash flows. Grants and similar items are recognized as revenues 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, 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. Revenues from other financing sources are recognized when received. 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. Principal and interest on general long-term obligations are recorded as fund liabilities when due.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements
September 30, 2003

(1) Summary of Significant Accounting Policies, Continued

D. Measurement Focus and Basis of Accounting, Continued

The CNMI reports the following Fund Types:

1. Governmental Fund Types

i. General Fund

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

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.

In addition to the General Fund within these fund types, the CNMI has created the following additional major funds:

- 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 - 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.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements
September 30, 2003

(1) Summary of Significant Accounting Policies, Continued

D. Measurement Focus and Basis of Accounting, Continued

2. Fiduciary Funds Types

i. Pension and Other Employee Benefit Trust Funds

These funds are used to account for assets held by the CNMI as trustee. The Pension and Other Employee Benefit Trust Funds 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.

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.

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 combined balance sheet.

As of September 30, 2003, the carrying amount of the primary government's total cash and cash equivalents and time certificates of deposit were \$20,270,059 and the corresponding bank balances were \$22,717,989. Of the bank balance amounts, \$22,717,353 are maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2003, bank deposits in the amount of \$300,000 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, 2003, is presently not determinable.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements
September 30, 2003

(1) Summary of Significant Accounting Policies, Continued

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

Restricted cash and cash equivalents as of September 30, 2003 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, 2003 amounted to \$4,402,306.

As of September 30, 2003, the carrying amount of the discretely presented component units' total cash and cash equivalents and time certificates of deposit were \$39,302,095 and the corresponding bank balances were \$36,965,649. Of the bank balance amounts, \$36,061,946 are maintained in financial institutions subject to FDIC insurance. As of September 30, 2003, bank deposits in the amount of \$2,141,853 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. Investments

Investments are carried at fair value. Fair value is the amount at which an investment could be exchanged in a current transaction between willing parties.

H. 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, 2003. Tax revenue is recognized on the governmental 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".

GAAP permits the recognition of income and other taxes, which are assessed, and due as of year-end and collectible within sixty days thereafter in current year revenues. GASB 33 allows recognition of revenues when available. Available means that the CNMI has collected the revenues in the current period or expects to collect them soon enough after the end of the period to use them to pay liabilities of the current period. The CNMI has adopted GASB 33 and has recorded income and other taxes collected within sixty days after year end.

I. Interfund Receivables/Payables

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, 2003

(1) Summary of Significant Accounting Policies, Continued

I. Interfund Receivables/Payables, Continued

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 combined governmental funds balance sheet. Interfund receivables and payables have been eliminated from the Statement of Net Assets.

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".

J. Advances

Advances include amounts paid in advance to vendors. In the combined 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 \$1,745,349 as they represent an asset not available for appropriation. Inventories of other governmental funds totaling \$737,833 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, 2003, 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 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.

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements
September 30, 2003

(1) Summary of Significant Accounting Policies, Continued

M. Fixed Assets and Depreciation, Continued

Management has elected to present only assets acquired subsequent to 1990, except for roads and the Commonwealth Hospital Complex. Accordingly, fixed assets 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 (in years)</u>
Buildings	10 - 50 years
Infrastructure - roads	20 years
Motor vehicles	5 years
Machinery and equipment	10 - 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 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, 2003. However, the CNMI has estimated the aggregate assessed valuation of real property to be \$1,596,236,822 as of September 30, 2003. This estimation was based on the 1995 CNMI Mid-Decade Census.

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. Amounts to be paid during the next fiscal year are reported as current. The liability as of September 30, 2003, is \$9,142,482.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements
September 30, 2003

(1) Summary of Significant Accounting Policies, Continued

P. Compensated Absences, Continued

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 balance sheet and revenue is recognized.

R. 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, 2003, are as follows:

Total income tax and wage and salary tax collections	\$ 74,568,573
Rebate Trust Fund collections	<u>26,105,664</u>
Income taxes and wage and salary taxes per general fund	48,462,909
Change in deferred revenue	<u>763,338</u>
Income taxes and wage and salary taxes per the statement of activities	\$ <u>49,226,247</u>

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements
September 30, 2003

(1) Summary of Significant Accounting Policies, Continued

S. 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, 2003, is represented by the following assets:

	Major Governmental Fund <u>General Fund</u>
Restricted cash and cash equivalents	\$ 4,402,306
Investments	2,500,000
Receivables:	
Other agencies	3,153,610
General	796,200
Due from component units	3,404,339
Advances	<u>1,493,189</u>
	<u>\$ 15,749,644</u>

T. 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.

U. New Accounting Standards

For fiscal year 2004, CNMI will be implementing GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units* and GASB Statement No. 40, *Deposit and Investment Risk Disclosures (an amendment of GASB Statement No. 3)*. For fiscal year 2006, CNMI will be implementing GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries* and GASB Statement No. 46, *Net Assets Restricted by Enabling Legislation*. As of the date of the opinion, CNMI has not evaluated the financial statement impact of GASB Statement Nos. 39, 40, 42 and 46.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements
September 30, 2003

(1) Summary of Significant Accounting Policies, Continued

U. New Accounting Standards, Continued

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.

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.

V. 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 Primary Government or the Component Units or its agent in the Primary Government's or the Component Unit's name;

Category 2 - Uninsured and unregistered, with securities held by the broker's or dealer's trust department or agent in the Primary Government's or the Component Unit'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 Primary Government's or the Component Unit's name.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements
September 30, 2003

(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, 2003, are as follows:

<u>Major Governmental Funds</u>	<u>Categories</u>			<u>Carrying Value</u>
	<u>Category 1</u>	<u>Category 2</u>	<u>Category 3</u>	
General Fund:				
Cash management	\$ -	\$ 5,724,402	\$ -	\$ 5,724,402
Equities	-	<u>2,500,000</u>	-	<u>2,500,000</u>
	<u>\$ -</u>	<u>\$ 8,224,402</u>	<u>\$ -</u>	<u>\$ 8,224,402</u>
DOI Capital Projects Fund:				
Corporate bonds	\$ -	\$ 39,199,108	\$ -	\$ 39,199,108
<u>Non Major Governmental Funds</u>				
Cash management	\$ -	\$ 1,768,250	\$ -	\$ 1,768,250
Equities	-	-	<u>534,925</u>	<u>534,925</u>
	<u>\$ -</u>	<u>\$ 1,768,250</u>	<u>\$ 534,925</u>	2,303,175
Money market placements				<u>18,593</u>
				<u>\$ 2,321,768</u>

B. Fiduciary Funds

Investments of the Pension Trust Fund and Other Employee Benefits as of September 30, 2003, are as follows:

	<u>Categories</u>			<u>Fair Value</u>
	<u>1</u>	<u>2</u>	<u>3</u>	
Equity securities	\$ 267,237,816	\$ -	\$ -	\$ 267,237,816
U.S. Government securities	39,165,488	-	-	39,165,488
Money market placements	5,252,224	-	-	5,252,224
Corporate debt instruments	26,162,949	-	-	26,162,949
Real property	<u>546,650</u>	-	-	<u>546,650</u>
	<u>\$ 338,365,127</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 338,365,127</u>

Investments of the Northern Mariana Islands Retirement Fund are held by a bank-administered trust company. Investments that represent 5% or more of the Fund's assets at September 30, 2003 are equity securities of \$239,476,580, money market placements of \$5,007,669, United States government securities of \$38,778,000, corporate debt investments of \$26,162,949, an investment in BEA International Equity Fund of \$12,226,236, and an investment in Sabres Partners, L.P. of \$15,535,000.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements
September 30, 2003

(3) Receivables

Receivables as of September 30, 2003, for the primary government's individual major governmental funds and non major governmental funds in the aggregate, including allowances for uncollectible accounts, are as follows:

	General Fund	Federal Grants Fund	DOI Capital Projects Fund	NMTT Rebate Trust Fund	Non Major Funds	Totals
Receivables:						
Federal agencies	\$ -	\$ 5,827,530	\$ 14,088,856	\$ -	\$ 19,629	\$ 19,936,015
Other agencies	78,145,036	-	-	-	-	78,145,036
Taxes	17,050,176	-	-	575,087	190,430	17,815,693
General	1,149,926	-	-	-	-	1,149,926
Other	-	-	12,831	-	715,369	728,200
Gross receivables	96,345,138	5,827,530	14,101,687	575,087	925,428	117,774,870
Less allowance for uncollectibles	(74,991,426)	-	-	-	-	(74,991,426)
Net receivables	\$ 21,353,712	\$ 5,827,530	\$ 14,101,687	\$ 575,087	\$ 925,428	\$ 42,783,444

Receivables as of September 30, 2003 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	\$ -	\$ 131,796,626	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 131,796,626
Federal agencies	2,121,099	1,933,426	1,055,390	-	-	-	1,007,492	-	6,117,407
General	3,372,235	35,226	-	-	15,890,226	3,047,994	-	-	22,345,681
Utilities	-	-	15,990,135	-	-	-	-	-	15,990,135
Interest and dividends	-	9,993,187	-	612,207	-	-	-	-	10,605,394
Other	29,830	29,636	2,898,730	7,771	-	-	3,598,942	98,342	6,663,251
Gross receivables	5,523,164	143,788,101	19,944,255	619,978	15,890,226	3,047,994	4,606,434	98,342	193,518,494
Less allowance for uncollectibles	(1,311,516)	(93,399,996)	(8,562,420)	-	(15,071,587)	(2,162,577)	(98,577)	-	(120,606,673)
Net receivables	\$ 4,211,648	\$ 50,388,105	\$ 11,381,835	\$ 619,978	\$ 818,639	\$ 885,417	\$ 4,507,857	\$ 98,342	\$ 72,911,821

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, 2003.

(4) Interfund Receivables and Payables

Receivables and payables between funds and component units reflected as due to/from primary government/component units in the combined balance sheet at September 30, 2003 are summarized as follows:

Primary Government

Due to/from other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
<u>Governmental Funds</u>		
General	Nonmajor Governmental	\$ 249,063
DOI Capital Projects	General	6,316,773
NMTT Rebate Trust	General	27,129,638
Nonmajor Governmental	General	8,069,069
General	Federal Grants Fund	3,817,403
Total Primary Government		\$ 45,581,946

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements
September 30, 2003

(4) Interfund Receivables and Payables, Continued

Primary Government, Continued

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.

Component Units

Due to/from the Primary Government and Component Units:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Commonwealth Development Authority - NMHC Division	\$ <u>3,404,339</u>
Public School System	General	\$ 2,706,898
Marianas Visitors Authority	General	1,231,724
Commonwealth Utilities Corporation	General	12,909,077
Northern Marianas College	General	286,026
Northern Marianas College	Non major Governmental	100,432
Marianas Public Land Trust	Non major Governmental	<u>172,134</u>
		\$ <u>17,406,291</u>

The amount recorded as due to Pension and Other Employee Benefit Trust Funds beneficiaries of \$82,248,772 does not equal the corresponding due from the primary government of the fiduciary funds of \$20,798,231 due to the Pension and Other Employee Benefit Trust Funds recording an allowance of \$61,510,541, the NMIRF recording the two-percent (2%) deficit reduction and one-percent (1%) public auditor fee of \$60,000 as an increase to appropriations.

The amount recorded as due from primary government of the component units of \$8,063,420 does not equal the corresponding due to component units of the primary government of \$17,406,291 due to CUC recording an allowance of \$10,440,508, due to timing differences of \$(81,530) with NMC when recording appropriations and due to unreconciled differences with CUC and PSS of \$181,497 and \$997,670, respectively.

The amount recorded as due from component units of the primary government of \$3,404,339 does not equal the corresponding due to primary government of the Component Units of \$1,429,208 as the difference of \$3,404,339 is recorded as a note payable to the CNMI by CDA - NMHC division, which is included within the notes payable balance of \$12,000,000 and the component units recording \$1,429,208 due to the primary government related to the 1% public auditor fee for which the primary government recorded a corresponding allowance.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements
September 30, 2003

(5) Restricted Assets

Fiduciary Fund Type - Agency Fund

Security Deposit Fund:

Restricted assets of \$3,427,011 as of September 30, 2003 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.

<u>Fund</u>	<u>1998 Senior Series A Airport Revenue Bonds</u>	<u>1998 Senior Series A Seaport Revenue Bonds</u>
Bond Reserve Fund	\$ 1,624,210	\$ 2,683,739
Supplemental Reserve Fund	-	5,578,761
Construction Fund	1,037,589	-
Reimbursement Fund	-	5,104
Bond Fund	137,516	267,957
Maintenance and Operation	<u>54,909</u>	<u>3,368</u>
	<u>\$ 2,854,224</u>	<u>\$ 8,538,929</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	\$ 4,077,759	\$ -	\$ 2,368,800	\$ 6,446,559
Investments	<u>5,771,943</u>	<u>1,295,387</u>	<u>-</u>	<u>7,067,330</u>
	<u>\$ 9,849,702</u>	<u>\$ 1,295,387</u>	<u>\$ 2,368,800</u>	<u>\$ 13,513,889</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.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements
September 30, 2003

(5) Restricted Assets, Continued

Discretely Presented Component Units, Continued

Commonwealth Development Authority (CDA), Continued:

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.	\$ 251,666
Savings account restricted for Koblerville Section 8 project repairs and maintenance expenses, per contract with the U.S. Department of Housing and Urban Development.	194,730
Savings account maintained as a guarantee of housing loans made by a savings and loan in the CNMI.	120,134
Marianas Public Land Trust (MPLT) collateral account.	626,677
Time certificates of deposit for MPLT loan program	1,015,428
Other depository accounts reserved for various purposes.	<u>160,165</u>
	<u>\$ 2,368,800</u>

Commonwealth Utilities Corporation (CUC):

Time certificates of deposit of \$6,183,140 and cash and cash equivalents of \$2,409,088 as of September 30, 2003 represent customer deposits segregated pursuant to CUC policy. Cash and cash equivalents of \$29,414 as of September 30, 2003 represents advances from a grantor agency for the use on a specific project.

Marianas Public Lands Authority (MPLA):

Restricted assets of MPLA represents total bank deposits not expected to be realized in cash in the ensuing year.

Northern Marianas College (NMC):

Restricted assets of NMC represents investments held by a financial institution for endowments and similar type funds in which donors or other outside sources have stipulated as condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to principal.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements
September 30, 2003

(6) Fixed Assets and Depreciation

Capital assets activities for the year ended September 30, 2003, are as follows:

Governmental Activities

	Balance October 1, 2002	Increases	Decreases	Balance September 30, 2003
Historical cost:				
Assets not being depreciated:				
Construction in progress	\$ 37,173,624	\$ 25,523,686	\$ (6,156,780)	\$ 56,540,530
Depreciable assets:				
Buildings and other improvements	66,317,516	3,458,848	-	69,776,364
Machinery and equipment	10,066,635	1,412,615	-	11,479,250
Infrastructure	104,201,093	2,697,932	-	106,899,025
Subtotal depreciable assets	180,585,244	7,569,395	-	188,154,639
Total capital assets at cost	217,758,868	33,093,081	(6,156,780)	244,695,169
Accumulated depreciation:				
Buildings and other improvements	(17,465,560)	(1,982,142)	-	(19,447,702)
Machinery and equipment	(5,750,655)	(1,263,317)	-	(7,013,972)
Infrastructure	(65,374,137)	(5,317,279)	-	(70,691,416)
Total accumulated depreciation	(88,590,352)	(8,562,738)	-	(97,153,090)
Capital assets, net	\$ 129,168,516	\$ 24,530,343	\$ (6,156,780)	\$ 147,542,079

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

Governmental activities:

Public Works	\$ 5,317,279
Unallocated	3,245,459
Total depreciation expense - governmental activities	\$ 8,562,738

Discretely Presented Component Units

	Estimated Useful Lives	Balance October 1, 2002	Increases	Decreases	Adjustments/ Reclassifications	Balance September 30, 2003
Land	-	\$ 53,101,861	\$ 113,700	\$ -	\$ -	\$ 53,215,561
Construction in progress	-	45,045,429	15,560,520	(8,827,848)	(1,277,145)	50,500,956
Harbor facilities	20 years	61,810,458	15,669	-	-	61,826,127
Terminal facilities	20 years	61,642,303	387,511	-	-	62,029,814
Buildings	5 - 50 years	45,553,011	6,623,009	-	-	52,176,020
Runway and improvements	20 years	38,345,832	31,255	-	-	38,377,087
Electric plant	20 years	113,875,907	141,712	-	900,341	114,917,960
Water plant	20 years	57,003,580	84,948	-	2,721	57,091,249
Sewer plant	20 years	21,810,302	167,681	-	45,031	22,023,014
Other improvements	3 - 20 years	9,919,798	1,342,644	-	-	11,262,442
Housing projects	30 years	8,896,997	10,266	(91,341)	-	8,815,922
Terminal equipment	2 - 10 years	8,638,083	27,268	-	-	8,665,351
Office furniture and fixtures	2 - 10 years	11,213,354	590,719	(135,310)	4,266	11,673,029

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements
September 30, 2003

(6) Fixed Assets and Depreciation, Continued

Discretely Presented Component Units, Continued

	Estimated Useful Lives	Balance October 1, 2002	Increases	Decreases	Adjustments/ Reclassifications	Balance September 30, 2003
Infrastructure	30 years	5,331,853	-	(220,376)	-	5,111,477
Other equipment	3 - 5 years	2,596,629	284,374	(551,477)	-	2,329,526
Fire and rescue	2 - 8 years	2,433,319	14,936	-	-	2,448,255
General transportation	3 - 5 years	2,045,897	75,750	(354,623)	-	1,767,024
Ground maintenance and shop equipment	2 - 5 years	499,354	6,217	-	-	505,571
		549,763,967	25,478,179	(10,180,975)	(324,786)	564,736,385
Less accumulated depreciation		(188,688,423)	(20,211,691)	1,010,956	276,698	(207,612,460)
		\$ 361,075,544	\$ 5,266,488	\$ (9,170,019)	\$ (48,088)	\$ 357,123,925

(7) Tax Rebates Payable

The CNMI makes significant estimates in determining tax rebates payable as recorded in the Rebate Trust Fund, a major governmental special revenue 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 \$27,704,725 as of September 30, 2003. 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.

(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, 2003, cash balances were held by NMIRF for the retirement of debt totaled \$2,655,199. 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.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements
September 30, 2003

(8) Long-Term Debt Obligations, Continued

\$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.

\$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.

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		

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements
September 30, 2003

(8) Long-Term Debt Obligations, Continued

\$60,000,000 Bond Issue, Continued

* 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.

Changes in long-term liabilities for the year ended September 30, 2003, are as follows:

	<u>Balance October 1, 2002</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance September 30, 2003</u>	<u>Due Within One Year</u>
Loans and bonds payable:					
NMIRF loan	\$ 11,518,066	\$ -	\$ 177,110	\$ 11,340,956	\$ 2,180,909
1999 Series A Bonds	11,145,000	-	1,470,000	9,675,000	1,525,000
2000 Series A Bonds	<u>60,000,000</u>	<u>-</u>	<u>-</u>	<u>60,000,000</u>	<u>1,305,000</u>
	82,663,066	-	1,647,110	81,015,956	5,010,909
Other:					
Compensated absences	<u>8,857,313</u>	<u>5,076,752</u>	<u>4,791,583</u>	<u>9,142,482</u>	<u>3,454,748</u>
	<u>\$ 91,520,379</u>	<u>\$ 5,076,752</u>	<u>\$ 6,438,693</u>	<u>\$ 90,158,438</u>	<u>\$ 8,465,657</u>

The annual requirement to amortize all debt of the governmental activities outstanding as of September 30, 2003 is as follows:

<u>Year ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2004	\$ 5,010,909	\$ 5,067,811	\$ 10,078,720
2005	3,938,047	4,876,229	8,814,276
2006	4,165,141	4,651,886	8,817,027
2007	4,403,218	4,414,059	8,817,277
2008	4,657,746	4,152,306	8,810,052
2009 - 2013	15,360,895	17,159,277	32,520,172
2014 - 2018	12,410,000	13,359,350	25,769,350
2019 - 2023	11,805,000	9,367,775	21,172,775
2024 - 2028	12,750,000	5,356,832	18,106,832
2029 - 2030	<u>6,515,000</u>	<u>729,387</u>	<u>7,244,387</u>
	<u>\$ 81,015,956</u>	<u>\$ 69,134,912</u>	<u>\$ 150,150,868</u>

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.

\$ 8,540,815

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements
September 30, 2003

(8) Long-Term Debt Obligations, Continued

Component Units, Continued

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. 2,000,000

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 and specifically pledged loans receivable of NMHC. 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

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements
September 30, 2003

(8) Long-Term Debt Obligations, Continued

Component Units, Continued

Commonwealth Utilities Corporation, Continued

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.	<u>246,735</u>
	\$ <u>82,356,300</u>

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

As of September 30, 2003, an amendment to the loan agreement has not been signed by both CPA and CDA. Accordingly, amounts in arrears are included as current at September 30, 2003.

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

At September 30, 2003, 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, 2003, associated with the notes payable to CDA along with interest payable on these notes of \$76,689,014 as at September 30, 2003, 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, 2003, 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.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements
September 30, 2003

(8) Long-Term Debt Obligations, Continued

Component Units, Continued

\$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, 2003, consist of the following:

1998 Senior Series A tax-exempt airport revenue bonds	\$ 18,675,000
Deferred costs of debt refunding	<u>(157,536)</u>
	18,517,464
Less current portion	<u>330,000</u>
Long-term portion	\$ <u>18,187,464</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.

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.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements
September 30, 2003

(8) Long-Term Debt Obligations, Continued

Component Units, Continued

\$33,775,000 Bond Issue, Continued

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, 2003, consist of the following:

1998 Senior Series A tax-exempt seaport revenue bonds	\$ 31,510,000
Deferred costs of debt refunding	<u>(1,204,637)</u>
	30,305,363
Less current portion	<u>545,000</u>
Long-term portion	\$ <u>29,760,363</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.

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.

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, 2003, except for collection of gross revenues requirement related to the Airport bond indenture. Section 6.11 of the Airport Bond Indenture Agreement (Indenture) states that CPA shall impose, levy and collect such fees, tariffs, lease rentals, licensing fees and other fees and charges in aggregate amount with respect to each fiscal year to produce gross revenues to comply with subsections (A)(1), (A)(2), (A)(3) and (A)(4) of Section 6.11.

Section 6.11(B) of the Indenture states that if the financial statements prepared pursuant to Section 6.06(B) of the Indenture reflect that at the end of a fiscal year, net revenues are less than the amount required by Section 6.11(A) for such fiscal year or if the revenues are less than the aggregate amount of all transfers required by Section 5.02(a) through (e) for such fiscal year, CPA shall not be in default under Section 7.01 if within sixty days after the date of such financial statements or the end of the fiscal year, CPA shall employ an independent consultant to make recommendations as to a revision of the rates, fees and charges or the methods of operation of the airports. If such recommendations fail to meet the requirements of Section 6.11(a), such deficiency will constitute an event of default under Section 7.01. In accordance with Section 7.01, CPA hired an independent consultant during the year ended September 30, 2003.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements
September 30, 2003

(8) Long-Term Debt Obligations, Continued

Component Units, Continued

The annual requirements to amortize all debt of the Component Units outstanding as of September 30, 2003, 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>
2004	\$ 63,744,577	\$ 80,474,764	\$ 144,219,341
2005	1,697,728	3,471,916	5,169,644
2006	1,782,605	3,385,270	5,167,875
2007	1,873,459	3,293,598	5,167,057
2008	1,965,275	3,196,699	5,161,974
2009 - 2013	11,087,265	14,364,529	25,451,794
2014 - 2018	21,025,391	18,933,679	39,959,070
2019 - 2023	12,445,000	7,586,712	20,031,712
2024 - 2028	<u>16,920,000</u>	<u>2,871,977</u>	<u>19,791,977</u>
	<u>\$ 132,541,300</u>	<u>\$ 137,579,144</u>	<u>\$ 270,120,444</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, 2003

(8) Long-Term Debt Obligations, 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, 2003 was \$7,426,149.

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>
2004	\$ 888,122	\$ 1,271,878	\$ 2,160,000
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>7,426,149</u>	\$ <u>4,273,855</u>	\$ <u>11,700,004</u>

Changes in long-term liabilities of the discretely presented component units for the year ended September 30, 2003, are as follows:

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements
September 30, 2003

(8) Long-Term Debt Obligations, Continued

	<u>Balance October 1, 2002</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance September 30, 2003</u>	<u>Due Within One Year</u>
Notes and bonds payable	\$ 133,392,824	\$ 2,000,000	\$ (2,851,524)	\$ 132,541,300	\$ 63,744,577
Deferred amounts:					
Deferred costs of debt refunding	<u>(1,464,851)</u>	<u>-</u>	<u>102,678</u>	<u>(1,362,173)</u>	<u>-</u>
	<u>131,927,973</u>	<u>2,000,000</u>	<u>(2,748,846)</u>	<u>131,179,127</u>	<u>63,744,577</u>
Other liabilities:					
Obligations under capital lease	8,539,373	-	(1,113,224)	7,426,149	888,122
Compensated absences	<u>5,588,168</u>	<u>967,208</u>	<u>(702,602)</u>	<u>5,852,774</u>	<u>771,242</u>
	<u>14,127,541</u>	<u>967,208</u>	<u>(1,815,826)</u>	<u>13,278,923</u>	<u>1,659,364</u>
	<u>\$ 146,055,514</u>	<u>\$ 2,967,208</u>	<u>\$ (4,564,672)</u>	<u>\$ 144,458,050</u>	<u>\$ 65,403,941</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, 2003, consist of the following:

	<u>Authorizing Legislation</u>	<u>Outstanding Balance</u>
General Fund:		
PSS lapse appropriations	Public Law No. 8- 2	\$ 114,568
Salary adjustment	Public Law No. 10-41	520,698
Retirement bonus	Public Law No. 4-41	129,924
Other programs	Various	<u>141,284</u>
		<u>\$ 906,474</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, 2003

(10) Transfers In/Out

Operating Fund Transfers

Operating transfers in/out for each major governmental fund and non-major governmental funds in the aggregate, for the year ended September 30, 2003, are as follows:

<u>Source/Recipient</u>	<u>Transfer Out</u>	<u>Transfer In</u>
<u>General Fund</u>		
From General Fund to:		
DOI Capital Projects Fund	\$ 3,872,881	\$ -
Non-Major Funds	4,577,355	-
To General Fund from:		
Non-Major Funds	-	5,866,505
	<u>\$ 8,450,236</u>	<u>\$ 5,866,505</u>
<u>Federal Grants Funds</u>		
Non-Major Governmental Funds	\$ <u>2,244,579</u>	\$ <u>2,375,203</u>
<u>DOI Capital Projects Fund</u>		
To DOI Capital Projects Fund from:		
General Fund	\$ -	\$ 3,872,881
Non-Major Governmental Funds	912,360	-
	<u>\$ 912,360</u>	<u>\$ 3,872,881</u>
<u>Non-Major Governmental Funds</u>		
From Non-Major Governmental Funds to:		
General Fund	\$ 5,866,505	\$ -
Other Non-Major Governmental Funds	1,103,586	1,103,586
From General Fund to:		
Non-Major Governmental Funds	-	3,047,108
To Non-Major Governmental Funds from:		
DOI Capital Projects Fund	-	912,360
Federal Grants	130,624	-
General Fund	-	1,530,247
	<u>\$ 7,100,715</u>	<u>\$ 6,593,301</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, 2003, the CNMI made one-time transfers 1) from the Tobacco Settlement Trust to the General Fund of \$1,000,000 representing funds to be used for the implementation of programs and services to achieve the goals stated in Section 3 of Public Law 13-37, Commonwealth Tobacco Settlement Expenditure Act of 2002 and 2) from the General Fund to the Pass Through Capital Projects of \$888,802 related to the write-off of receivables from federal agencies.

The amount recorded as payments to component units from the Primary Government of \$50,783,882 does not equal the corresponding contributions from the Primary Government of \$52,807,239 due to NMC recording utilities expense of \$602,524 as an increase to contributions and the CNMI recording all utilities as a separate line item and unaccounted as contributions and timing difference of \$91,839 with NMC when recording contributions. The remaining difference is due to PSS recording the 2% deficit reduction amount of \$744,198 as an increase to contributions and appears to have recorded the contribution of \$584,796 two times.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements
September 30, 2003

(10) Transfers In/Out, Continued

Operating Fund Transfers, Continued

The amount recorded as contributions from component units of the Primary Government of \$6,296,844 does not equal the corresponding contributions to the Primary Government of the component units of \$6,166,544 due to contributions of \$130,300 being recorded as a reduction in accounts payable by MPLA.

(11) Commitment

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.

(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, 2003, 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 \$293,088 have been set forth in the CNMI's Single Audit Report for the year ended September 30, 2003. 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.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements
September 30, 2003

(12) Contingencies, Continued

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, 2002, the actual unfunded pension liability is \$574,503,317.

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, 2003, is \$22,292,500.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements
September 30, 2003

(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:

	<u>Year ended</u> <u>September 30,</u>
Unpaid claims at beginning of year	\$ 2,219,550
Incurred claims	5,741,989
Claim payments	<u> -</u>
Unpaid claims at end of year	\$ <u>7,961,539</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.

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 CNMI's total personnel expense for governmental fund types, inclusive of fiduciary funds, for fiscal year 2003 was \$128,903,714, which was covered in total by NMIRF's pension plan.

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.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements
September 30, 2003

(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, 2003, are as follows:

General Fund	\$ <u>93,984,516</u>
Non-Major Governmental Special Revenue Funds:	
Human Resources Development Trust Fund	\$ <u>26,375</u>
Commonwealth Non-Resident Workers Fee	\$ <u>42,110</u>
Commonwealth Museum	\$ <u>12,377</u>
Local Revenue Fund	\$ <u>996,100</u>
Non-Major Governmental Capital Projects Funds:	
American Memorial Park Fund	\$ <u>145,159</u>

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

	<u>Government Wide Level</u>
<u>Primary Government</u>	
Deficit/net assets, as previously reported September 30, 2002	\$ 26,306,106
Understatement of capital assets previously reported for governmental activities	5,560,884
Understatement of compensated absences previously reported	<u>(1,106,035)</u>
Fund balance/net assets, as restated September 30, 2002	\$ <u>30,760,955</u>
<u>Discretely Presented Component Units</u>	
Net assets, as previously reported September 30, 2002	\$ 329,103,486
Omission of the Commonwealth Government Employees Credit Union previously included in 2002	890,263
Inclusion of the Commonwealth Utilities Corporation previously excluded in 2002	(4,294,157)
Understatement of land and land lease revenues as previously reported:	
Northern Marianas Housing Corporation - a division of the Commonwealth Development Authority	10,409,682
Marianas Public Lands Authority	<u>470,802</u>
Net assets, as restated September 30, 2002	\$ <u>336,580,076</u>

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements
September 30, 2003

(17) Subsequent Events

On December 4, 2003, the CNMI issued General Obligations bonds amounting to \$40,000,000. Net proceeds of the bonds amounting to \$28,000,691 and \$11,000,000 have been allocated to the settlement of land acquisition claims and the prison project, respectively.

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, 2003, a liability of \$5,741,989 was recorded by the CNMI.

On September 24, 2004, the CNMI entered into a settlement agreement with certain health providers to resolve amounts that the CNMI Medicaid program owes for health services provided. The settlement amounted to \$1,250,000.

The Northern Mariana Islands Retirement Fund (NMIRF) assessed and recorded a penalty of \$19,030,187 representing 25% of the CNMI's outstanding employee contribution balance at September 30, 2004. Based on information available and determination of the NMIRF's Board of Trustees, an assessment for the year ended September 30, 2003 was not made. Accordingly, the CNMI did not record the related liability at September 30, 2003.

COMMONWEALTH OF THE
NORTHERN MARIANA ISLANDS

REQUIRED SUPPLEMENTARY INFORMATION
- BUDGETARY REPORTING

YEAR ENDED SEPTEMBER 30, 2003

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Revenues, Expenditures and Changes in Deficit
 - Budget and Actual - General Fund
 Year Ended September 30, 2003

	Budgeted Amounts		Actual - Budgetary Basis	Variance
	Original	Final	(see note 1)	
Revenues:				
Taxes	\$ 179,342,654	\$ 179,342,654	\$ 165,322,874	\$ (14,019,780)
Charges for sales and services	18,201,000	18,201,000	21,406,481	3,205,481
Licenses and fees	12,640,200	12,640,200	11,932,698	(707,502)
Other	2,708,000	2,708,000	2,082,467	(625,533)
Total revenues	212,891,854	212,891,854	200,744,520	(12,147,334)
Expenditures - budgetary basis by function:				
Executive branch	101,887,187	103,655,492	100,873,626	2,781,866
Second Senatorial District - Tinian	13,295,006	13,303,968	13,203,460	100,508
First Senatorial District - Rota	13,291,302	13,427,552	13,394,042	33,510
Government utilities	5,000,000	5,000,000	11,262,850	(6,262,850)
Legislative branch	8,898,615	8,898,615	8,353,745	544,870
Judicial branch	5,001,825	5,001,825	4,883,478	118,347
Independent programs	1,666,948	1,501,799	1,752,258	(250,459)
Office of the Mayors	3,131,189	3,131,189	3,069,115	62,074
Office of the Public Auditor	2,228,824	2,228,824	2,006,834	221,990
Office of the Washington Representative	1,694,688	1,692,708	1,521,028	171,680
Boards and commissions	724,710	724,561	647,815	76,746
Education (payment to PSS and NMC)	43,656,679	43,382,934	42,834,751	548,183
Tourism (payment to MVA)	6,930,000	6,595,143	6,461,908	133,235
Employee benefits (payment to NMIRF and WCC)	2,444,423	2,444,423	2,395,040	49,383
Unallocated audit adjustments	-	-	1,590,508	(1,590,508)
Total expenditures	209,851,396	210,989,033	214,250,458	(3,261,425)
Excess of revenues over expenditures	3,040,458	1,902,821	(13,505,938)	(15,408,759)
Other financing sources (uses):				
Operating transfers in	6,707,000	6,707,000	5,866,505	(840,495)
Operating transfers out	(6,920,295)	(6,920,295)	(8,450,236)	(1,529,941)
Total other financing sources (uses), net	(213,295)	(213,295)	(2,583,731)	(2,370,436)
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	2,827,163	1,689,526	(16,089,669)	(17,779,195)
Other changes in unreserved deficit:				
Increase in reserve for supplies	-	-	(38,614)	(38,614)
Increase in reserve for related assets	-	-	(901,039)	(901,039)
Decrease in reserve for continuing appropriation	-	-	63,439	63,439
Other - unallocated deficit reduction	-	-	2,978,898	2,978,898
Deficit at beginning of year	(104,436,714)	(104,436,714)	(104,436,714)	-
Deficit at end of year	\$ (101,609,551)	\$ (102,747,188)	\$ (118,423,699)	\$ (15,676,511)

See Accompanying Notes to Required Supplementary Information - Budgetary Reporting.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to Required Supplementary Information - Budgetary Reporting
September 30, 2003

(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.

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, 2003

(1) Budgetary Information, Continued

For the year ended September 30, 2003, 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:	
Typhoon Expenditures	\$ 339,530
First Senatorial District - Rota:	
Mayor	\$ 5,967
Public Health	\$ 70,777
Public Safety	\$ 39,819
Finance	\$ 7,613
Second Senatorial District - Tinian:	
Public Health	\$ 86,296
Public Safety	\$ 415
Independent programs:	
Cops Universal Hiring Program	\$ 1,771
Other	\$ 1,839,196
Government utilities	\$ 6,262,850

COMMONWEALTH OF THE
NORTHERN MARIANA ISLANDS

OTHER SUPPLEMENTARY INFORMATION

YEAR ENDED SEPTEMBER 30, 2003

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Combining Schedule of Expenditures by Account
Governmental Funds
Year Ended September 30, 2003

	Major Governmental Funds				Nonmajor Governmental Funds	Total
	General	Federal Grants	DOI Capital Projects	NMTIT Rebate Trust Fund		
Salaries and wages	\$ 109,276,756	\$ 9,626,005	\$ 302,968	\$ -	\$ 9,697,985	\$ 128,903,714
Construction in progress	26,281	-	20,746,004	-	4,132,345	24,904,630
Professional services	9,790,069	6,411,575	348,305	-	2,212,284	18,762,233
Capital outlay:						
Office equipment	456,258	661,187	3,365	-	10,391	1,131,201
Vehicles	224,971	952,409	-	-	244,251	1,421,631
Machinery and equipment	124,713	433,004	488,924	-	13,981	1,060,622
Furniture and fixtures	99,124	120,727	432,758	-	360,688	1,013,297
Road improvements	-	317,327	-	-	590,930	908,257
Building improvements	4,746	-	1,014	-	548	6,308
Other	237,337	154,954	3,700,878	-	828,873	4,922,042
Utilities	11,262,850	56,101	-	-	3,914	11,322,865
Supplies	9,423,117	1,180,630	1,730	-	197,272	10,802,749
Food items	655,069	6,739,121	-	-	29,771	7,423,961
Scholarships/grants	3,720,332	2,447,472	-	-	-	6,167,804
Interest	-	-	3,872,881	-	1,389,637	5,262,518
Travel	3,256,548	1,341,284	310	-	139,553	4,737,695
Rentals	2,984,416	277,779	23,940	-	162,893	3,449,028
Communications	1,568,600	371,000	314	-	16,356	1,956,270
Repairs and maintenance	1,413,319	359,505	795	-	83,786	1,857,405
Bad debts	1,814,164	-	-	-	888,802	2,702,966
Indirect costs	-	1,708,529	-	-	-	1,708,529
Principal repayment	-	-	-	-	1,647,110	1,647,110
Education:						
Payments to PSS	36,465,731	-	-	-	-	36,465,731
Payments to NMC	6,402,068	-	-	-	1,454,175	7,856,243
Payments to MVA	6,461,908	-	-	-	-	6,461,908
Payments to NMIRF and WCC	2,395,040	-	-	-	-	2,395,040
Miscellaneous services	942,913	253,370	-	-	8,870	1,205,153
Fuel and lubrication	850,229	111,729	-	-	6,123	968,081
Claims and judgments	639,809	-	-	-	-	639,809
Printing	361,342	107,724	-	-	(51,387)	417,679
Official representation	459,587	-	-	-	-	459,587
Advertising	89,079	178,364	-	-	11,215	278,658
Dues and subscriptions	203,988	31,418	-	-	1,367	236,773
Freight	132,476	59,784	-	-	13,885	206,145
Insurance	178,586	-	-	-	-	178,586
Books and library materials	39,687	117,159	-	-	13,306	170,152
Licenses and fees	25,601	-	-	-	-	25,601
Other	(762,850)	3,657,098	155,357	-	898,793	3,948,398
	<u>\$ 211,223,864</u>	<u>\$ 37,675,255</u>	<u>\$ 30,079,543</u>	<u>\$ -</u>	<u>\$ 25,007,717</u>	<u>\$ 303,986,379</u>

See Accompanying Independent Auditors' Report.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS
NON-MAJOR SPECIAL REVENUE FUNDS

September 30, 2003

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

The Commonwealth Arts Council 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
NON-MAJOR SPECIAL REVENUE FUNDS

September 30, 2003

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, 2003, 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

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.

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
NON-MAJOR SPECIAL REVENUE FUNDS

September 30, 2003

Tobacco Settlement Trust Fund

Pursuant to Public Law No. 12-45 and amended by Public Law No. 13-15, the Tobacco Settlement Trust Fund was established to account for deposits made by any tobacco product manufacturer selling cigarettes to consumers within the CNMI (directly or through a distributor, retailer or similar intermediary or intermediaries). Funds shall be released to pay judgment or settlement on any released claim brought against such tobacco product manufacturer by the Government of the CNMI or any releasing party located or residing in the CNMI.

Autonomous Agencies Pass Through

The CNMI received various grants from U.S. federal agencies that were subgranted to the Commonwealth Utilities Corporation (CUC), Commonwealth Ports Authority (CPA), and Public School System (PSS). Although terms and conditions of the subgrants were never documented, the administration of the grant activities conveys the intention that CUC, CPA and PSS are responsible for these funds. Transactions related to these grant awards are recorded at the CNMI Department of Finance, which receives and disburses funds related to the grant awards. Accordingly, the CNMI has established an agency fund to account for the resources it receives on behalf of CUC, CPA and PSS. The receipt or disbursement of these resources does not affect the operations of the CNMI except for the imposed accounting and reporting requirements. These pass-through resources are reported as revenue and as expenditures or expenses, as appropriate, by CUC, CPA and PSS.

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.

Miscellaneous Special Revenue Funds

The miscellaneous special revenue fund combine 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
NON-MAJOR CAPITAL PROJECTS FUNDS

September 30, 2003

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

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

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

Private Capital Grants

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
NON-MAJOR DEBT SERVICE FUND

September 30, 2003

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
Non-Major Governmental Funds
September 30, 2003

Special Revenue Funds										
Judicial Building	Local Revenue	CNMI Telecommunications Commission	Saipan Trust	Tobacco Settlement Trust	Micronesian Garment Manufacturing	Pass-Through Capital Projects	Tobacco Control	Solid Waste Revolving	Miscellaneous	Total Special Revenue Funds
\$ -	\$ -	\$ -	\$ 553,518	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 553,518
-	-	-	-	-	-	-	-	-	-	-
-	159,000	-	-	-	-	-	-	-	-	190,430
176,681	-	40,785	3,980	118,093	456,655	-	1,171,504	1,052,393	325,613	5,664,366
2,655,199	-	-	-	-	-	-	-	-	-	2,655,199
<u>\$ 2,831,880</u>	<u>\$ 159,000</u>	<u>\$ 40,785</u>	<u>\$ 557,498</u>	<u>\$ 118,093</u>	<u>\$ 456,655</u>	<u>\$ -</u>	<u>\$ 1,171,504</u>	<u>\$ 1,052,393</u>	<u>\$ 325,613</u>	<u>\$ 9,063,513</u>
\$ -	\$ 139,149	\$ -	\$ 6,475	\$ -	\$ -	\$ -	\$ 2,540	\$ 316,675	\$ 4,043	\$ 611,852
-	766,888	-	-	-	-	-	-	-	-	858,435
-	249,063	-	-	-	-	-	-	-	-	249,063
-	-	-	-	-	-	-	-	-	-	100,432
-	-	-	-	-	-	-	-	-	-	659,400
-	1,155,100	-	6,475	-	-	-	2,540	316,675	4,043	2,479,182
2,655,199	-	-	-	-	-	-	-	-	-	2,655,199
27	1,001,131	-	-	-	-	-	1,058,470	122,045	22,919	2,588,475
176,654	(1,997,231)	40,785	551,023	118,093	456,655	-	110,494	613,673	298,651	1,340,657
2,831,880	(996,100)	40,785	551,023	118,093	456,655	-	1,168,964	735,718	321,570	6,584,331
<u>\$ 2,831,880</u>	<u>\$ 159,000</u>	<u>\$ 40,785</u>	<u>\$ 557,498</u>	<u>\$ 118,093</u>	<u>\$ 456,655</u>	<u>\$ -</u>	<u>\$ 1,171,504</u>	<u>\$ 1,052,393</u>	<u>\$ 325,613</u>	<u>\$ 9,063,513</u>

See Accompanying Independent Auditors' Report.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Combining Balance Sheet, Continued
 Non-Major Governmental Funds
 September 30, 2003

	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		
<u>Assets</u>									
Investments	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,768,250	\$ 2,321,768
Receivables, net:									
Federal agencies	-	-	-	19,629	-	-	19,629	-	19,629
Other	-	-	-	-	-	715,369	715,369	-	715,369
Taxes	-	-	-	-	-	-	-	-	190,430
Due from other funds	147,315	416,198	1,025,207	103,238	409,335	303,410	2,404,703	-	8,069,069
Due from Pension and Other Employee Benefit Trust Funds	-	-	-	-	-	-	-	-	2,655,199
	<u>\$ 147,315</u>	<u>\$ 416,198</u>	<u>\$ 1,025,207</u>	<u>\$ 122,867</u>	<u>\$ 409,335</u>	<u>\$ 1,018,779</u>	<u>\$ 3,139,701</u>	<u>\$ 1,768,250</u>	<u>\$ 13,971,464</u>
<u>Liabilities and Fund Balances (Deficit)</u>									
<u>Liabilities:</u>									
Accounts payable	\$ -	\$ -	\$ 653,632	\$ 95,892	\$ 168,522	\$ 35,244	\$ 953,290	\$ -	\$ 1,565,142
Other liabilities and accruals	-	-	-	-	-	-	-	-	858,435
Due to other funds	-	-	-	-	-	-	-	-	249,063
Due to component units	-	-	-	172,134	-	-	172,134	-	272,566
Deferred revenue	147,315	-	371,575	-	-	-	518,890	-	1,178,290
Total liabilities	<u>147,315</u>	<u>-</u>	<u>1,025,207</u>	<u>268,026</u>	<u>168,522</u>	<u>35,244</u>	<u>1,644,314</u>	<u>-</u>	<u>4,123,496</u>
<u>Fund balances (deficit):</u>									
Reserved for:									
Debt service	-	-	-	-	-	-	-	1,768,250	4,423,449
Encumbrances	230,000	200,220	2,558,207	214,547	10,724,708	24,389	13,952,071	-	16,540,546
Continuing appropriations	-	-	-	-	1,844,404	-	1,844,404	-	1,844,404
Unreserved:									
Undesignated	(230,000)	215,978	(2,558,207)	(359,706)	(12,328,299)	959,146	(14,301,088)	-	(12,960,431)
Total fund balances (deficit)	<u>-</u>	<u>416,198</u>	<u>-</u>	<u>(145,159)</u>	<u>240,813</u>	<u>983,535</u>	<u>1,495,387</u>	<u>1,768,250</u>	<u>9,847,968</u>
	<u>\$ 147,315</u>	<u>\$ 416,198</u>	<u>\$ 1,025,207</u>	<u>\$ 122,867</u>	<u>\$ 409,335</u>	<u>\$ 1,018,779</u>	<u>\$ 3,139,701</u>	<u>\$ 1,768,250</u>	<u>\$ 13,971,464</u>

See Accompanying Independent Auditors' Report.



COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Non-Major Governmental Funds
For the Year Ended September 30, 2003

Special Revenue Funds										
Judicial Building	Local Revenue	CNMI Telecommunications Commission	Saipan Trust	Tobacco Settlement Trust	Micronesian Garment Manufacturing	Pass-Through Capital Projects	Tobacco Control	Solid Waste Revolving	Miscellaneous	Total Special Revenue Funds
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
1,182,904	5,818,211	-	89,426	-	2,931	-	1,171,504	1,995,509	190,940	3,167,013
-	-	-	-	611,989	-	-	-	-	-	92,357
-	-	-	-	-	-	-	-	-	-	682,350
<u>1,182,904</u>	<u>5,818,211</u>	<u>-</u>	<u>89,426</u>	<u>611,989</u>	<u>2,931</u>	<u>-</u>	<u>1,171,504</u>	<u>2,449,323</u>	<u>190,940</u>	<u>18,259,868</u>
-	-	-	-	-	-	888,802	-	-	-	888,802
-	134,170	-	-	-	-	-	-	-	-	929,033
-	4,636	-	-	-	-	-	2,540	-	11,329	36,943
-	26,471	-	6,873	-	(107,089)	-	-	-	(1,554)	503,949
-	-	-	-	-	-	-	-	-	14,257	1,148,855
16,663	311,046	-	-	-	-	-	-	1,713,605	27,429	120,123
177,110	-	-	-	-	-	-	-	-	-	2,041,314
893,115	-	-	-	-	-	-	-	-	-	177,110
-	597,043	-	-	-	-	-	-	-	-	893,115
-	7,678,467	-	-	-	-	-	-	-	-	597,043
-	64,025	-	-	-	-	-	-	-	-	1,454,175
-	-	-	-	-	-	-	-	-	-	7,678,467
-	-	-	-	-	-	-	-	-	-	64,025
<u>1,086,888</u>	<u>8,815,858</u>	<u>-</u>	<u>6,873</u>	<u>-</u>	<u>(107,089)</u>	<u>888,802</u>	<u>2,540</u>	<u>1,713,605</u>	<u>51,461</u>	<u>16,532,954</u>
<u>96,016</u>	<u>(2,997,647)</u>	<u>-</u>	<u>82,553</u>	<u>611,989</u>	<u>110,020</u>	<u>(888,802)</u>	<u>1,168,964</u>	<u>735,718</u>	<u>139,479</u>	<u>1,726,914</u>
-	-	-	-	-	-	888,802	1,060,000	-	-	3,616,501
-	(147,020)	-	-	(1,000,000)	-	-	(1,060,000)	-	(231,654)	(7,057,129)
-	(147,020)	-	-	(1,000,000)	-	888,802	-	-	(231,654)	(3,440,628)
96,016	(3,144,667)	-	82,553	(388,011)	110,020	-	1,168,964	735,718	(92,175)	(1,713,714)
<u>2,735,864</u>	<u>2,148,567</u>	<u>40,785</u>	<u>468,470</u>	<u>506,104</u>	<u>346,635</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>413,745</u>	<u>8,298,045</u>
<u>\$ 2,831,880</u>	<u>\$ (996,100)</u>	<u>\$ 40,785</u>	<u>\$ 551,023</u>	<u>\$ 118,093</u>	<u>\$ 456,655</u>	<u>\$ -</u>	<u>\$ 1,168,964</u>	<u>\$ 735,718</u>	<u>\$ 321,570</u>	<u>\$ 6,584,331</u>

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, 2003

	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			
Revenues:									
Federal contributions	\$ -	\$ -	\$ 1,608,655	\$ 601,842	\$ -	\$ -	\$ 2,210,497	\$ -	\$ 2,210,497
Taxes	-	226,093	-	-	-	-	226,093	-	3,393,106
Licenses and fees	-	45,592	-	-	-	-	45,592	-	14,363,740
Interest and dividends	-	740	-	-	-	-	740	10,355	103,452
Contributions from component units	-	-	-	2,165,292	452,422	-	2,617,714	-	2,617,714
Other	-	-	-	-	93,370	-	93,370	-	775,720
Total revenues	-	272,425	1,608,655	2,767,134	545,792	-	5,194,006	10,355	23,464,229
Expenditures by account:									
Capital projects	-	-	1,608,655	3,526,682	1,235,349	50,491	6,421,177	-	7,309,979
Community and social services	-	-	-	-	-	-	-	-	929,033
Health	-	-	-	-	-	-	-	-	36,943
Public safety and law enforcement	-	-	-	-	-	-	-	-	503,949
General government	-	-	-	-	-	-	-	-	1,148,855
Lands and natural resources	-	-	-	-	-	-	-	-	120,123
Public works	-	-	-	-	-	-	-	-	2,041,314
Debt service:									
Principal retirement	-	-	-	-	-	-	-	1,470,000	1,647,110
Interest and fiscal charges	-	-	-	-	-	-	-	583,586	1,476,701
Other elected officials	-	-	-	-	-	-	-	-	597,043
Education (payment to NMC)	-	-	-	-	-	-	-	-	1,454,175
Retroactive salary adjustment	-	-	-	-	-	-	-	-	7,678,467
Education	-	-	-	-	-	-	-	-	64,025
Total expenditures	-	-	1,608,655	3,526,682	1,235,349	50,491	6,421,177	2,053,586	25,007,717
Excess (deficiency) of revenues over (under) expenditures	-	272,425	-	(759,548)	(689,557)	(50,491)	(1,227,171)	(2,043,231)	(1,543,488)
Other financing sources (uses):									
Operating transfers in	-	-	-	912,360	43,586	-	955,946	2,020,854	6,593,301
Operating transfers out	-	(43,586)	-	-	-	-	(43,586)	-	(7,100,715)
Total other financing sources (uses), net	-	(43,586)	-	912,360	43,586	-	912,360	2,020,854	(507,414)
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	-	228,839	-	152,812	(645,971)	(50,491)	(314,811)	(22,377)	(2,050,902)
Fund balances (deficit) at beginning of year	-	187,359	-	(297,971)	886,784	1,034,026	1,810,198	1,790,627	11,898,870
Fund balances (deficit) at end of year	\$ -	\$ 416,198	\$ -	\$ (145,159)	\$ 240,813	\$ 983,535	\$ 1,495,387	\$ 1,768,250	\$ 9,847,968

See Accompanying Independent Auditors' Report.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS
FIDUCIARY FUNDS

September 30, 2003

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, 2003

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, 2003

	Pension and Other Employee Benefit Trust Funds				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
Assets							
Cash and cash equivalents	\$ 3,275,962	\$ 216,685	\$ 121,670	\$ 3,614,317	\$ -	\$ -	\$ -
Receivables:							
Loans	11,340,956	-	-	11,340,956	-	-	-
Notes	8,939,308	-	-	8,939,308	-	-	-
General	752,249	-	-	752,249	-	-	-
Interest and dividends	739,617	-	-	739,617	-	-	-
Other	1,117,456	4,984,698	701,250	6,803,404	-	-	-
Due from primary government	19,152,270	-	312,137	19,464,407	1,333,824	-	1,333,824
Prepaid items	21,463	-	-	21,463	-	-	-
Investments, at fair market value:							
Equity securities	267,237,816	-	-	267,237,816	-	-	-
U.S. Government securities	38,778,000	-	387,488	39,165,488	-	-	-
Money market placements	5,007,669	-	244,555	5,252,224	-	-	-
Corporate debt securities	26,162,949	-	-	26,162,949	-	-	-
Real property	546,650	-	-	546,650	-	-	-
Restricted assets	-	-	-	-	-	3,427,011	3,427,011
Capital assets	3,903,709	7,677	2,976	3,914,362	-	-	-
Total assets	386,976,074	5,209,060	1,770,076	393,955,210	1,333,824	3,427,011	4,760,835
Liabilities and Other Credits							
Accounts payable	255,677	5,209,060	133,888	5,598,625	\$ -	\$ -	\$ -
Claims and judgments payable	-	-	-	-	1,333,824	-	1,333,824
Deposits payable	-	-	-	-	-	3,427,011	3,427,011
Other liabilities and accruals	118,943	-	-	118,943	-	-	-
Deferred revenue	929,427	-	692,805	1,622,232	-	-	-
Total liabilities and other credits	1,304,047	5,209,060	826,693	7,339,800	\$ 1,333,824	\$ 3,427,011	\$ 4,760,835
Net assets:							
Held in trust for pension benefits	385,672,027	-	-	385,672,027	-	-	-
Held in trust for Special Disability Fund	-	-	308,299	308,299	-	-	-
Unrestricted	-	-	635,084	635,084	-	-	-
Total net assets	\$ 385,672,027	\$ -	\$ 943,383	\$ 386,615,410			

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, 2003

	<u>Pension and Other Employee Benefit Trust Funds</u>			<u>Total</u>
	<u>Northern Mariana Islands Retirement Fund</u>	<u>CNMI Government Health and Life Insurance Trust</u>	<u>CNMI Workers' Compensation Commission</u>	
<u>Additions</u>				
Contributions:				
Employer	\$ 39,323,544	\$ -	\$ -	\$ 39,323,544
Employer - unfunded	85,810,010	-	-	85,810,010
Employee	12,171,783	-	-	12,171,783
Revenues:				
Premiums	-	6,601,742	-	6,601,742
Rent income and other	645,402	4,282	88,651	738,335
Other - transfer in	2,000,000	-	355,300	2,355,300
Total contributions and revenues	<u>139,950,739</u>	<u>6,606,024</u>	<u>443,951</u>	<u>147,000,714</u>
Net investment income:				
Net appreciation in fair value	46,258,178	-	-	46,258,178
Interest	5,087,218	-	-	5,087,218
Dividends	2,128,653	-	-	2,128,653
Total investment income	<u>53,474,049</u>	<u>-</u>	<u>-</u>	<u>53,474,049</u>
Less: investment expense	<u>1,466,960</u>	<u>-</u>	<u>-</u>	<u>1,466,960</u>
Net investment income	<u>52,007,089</u>	<u>-</u>	<u>-</u>	<u>52,007,089</u>
Total additions	<u>191,957,828</u>	<u>6,606,024</u>	<u>443,951</u>	<u>199,007,803</u>
<u>Deductions</u>				
Provision for uncollectible unfunded pension liability	85,810,010	-	-	85,810,010
Benefits	42,225,750	-	-	42,225,750
General and administrative	1,686,707	2,586,666	471,289	4,744,662
Bad debts	8,253,592	-	2,259	8,255,851
Refunds	3,595,133	-	-	3,595,133
Medical claims	-	4,019,358	-	4,019,358
Total deductions	<u>141,571,192</u>	<u>6,606,024</u>	<u>473,548</u>	<u>148,650,764</u>
Change in net assets	50,386,636	-	(29,597)	50,357,039
Net assets at beginning of year	<u>335,285,391</u>	<u>-</u>	<u>972,980</u>	<u>336,258,371</u>
Net assets at end of year	<u>\$ 385,672,027</u>	<u>\$ -</u>	<u>\$ 943,383</u>	<u>\$ 386,615,410</u>

See Accompanying Independent Auditors' Report.