

COMMONWEALTH OF THE  
NORTHERN MARIANA ISLANDS

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

YEAR ENDED SEPTEMBER 30, 2002

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COMMONWEALTH OF THE  
NORTHERN MARIANA ISLANDS

FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITORS' REPORT

YEAR ENDED SEPTEMBER 30, 2002

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

FINANCIAL STATEMENTS

YEAR ENDED SEPTEMBER 30, 2002

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COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

FINANCIAL STATEMENTS

YEAR ENDED SEPTEMBER 30, 2002

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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, 2002, 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 0.89% and 22%, respectively, of the assets and 7.2% and 0%, respectively, of revenues of the CNMI's 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and 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.

The financial statements referred to above do not include financial activities of the Commonwealth Utilities Corporation, a Discretely Presented Component Unit, which, in our opinion, should be included to conform with accounting principles generally accepted in the United States of America. The entity comprising this material omitted fund was not able to produce financial statements and the effect on the financial statements is unknown.

We did not observe the taking of physical inventory of the Northern Marianas College (NMC) as of September 30, 2002, since that date was prior to our appointment as auditors. Further, NMC was unable to produce a detail of inventory as of September 30, 2002. We were unable to satisfy ourselves regarding inventory quantities by means of other auditing procedures. Inventory amounts as of September 30, 2002 enter into the determination of change in net assets and cash flows for the year ended September 30, 2002. In addition, because of inadequacies in the accounting records and internal control of NMC, we were unable to determine that NMC's capital assets were fairly stated as of September 30, 2002.

Because of inadequacies in the accounting records, we were unable to determine that taxes receivable, receivables from federal agencies, advances, other liabilities and accruals, due to component units and reserve for continuing appropriations were fairly stated for all governmental funds as of September 30, 2002. These amounts enter into the determination of revenues and expenditures of the Combined Statement of Revenues, Expenditures and Changes in Fund Balances (Deficit) - Governmental Activities and the Statement of Revenues, Expenditures and Changes in Unreserved Fund Balance (Deficit) - Budget and Actual - General Fund for the year ended September 30, 2002.

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 the propriety of taxes receivables, receivables from federal agencies, advances, 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 fifth paragraph above, the omission of the Commonwealth Utilities Corporation, as discussed in the third paragraph above, and had the propriety of inventory and capital assets of NMC 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 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, 2002, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1, during the fiscal year ended September 30, 2002 the CNMI adopted the provisions of Governmental Accounting Standards Board (GASB) Statements No. 34, *Basic Financial Statements - and Management Discussion and Analysis - for State and Local Governments*, GASB Statement No. 35, *Basic Financial Statements - and Management's Discussion and Analysis - for Public Colleges and Universities*, GASB Statement No. 37, *Basic Financial Statements and Management Discussion and Analysis for State and Local Governments; Omnibus*, and GASB Statement No. 38, *Certain Financial Statement Note Disclosures*. The implementation of these standards changed the basic financial statement reporting model to include government-wide, full accrual statements and created a modified reporting of the fund perspective financial statements. Implementing these standards also required reporting of infrastructure assets, changed the method of reporting cash flows from the indirect method to the direct method and included the requirement for reporting a Management's Discussion and Analysis as required supplementary information. Beginning net asset and fund balances have been restated to account for the implementation of these accounting standards.

The Management's Discussion and Analysis, on pages 4 through 12 and the Schedule of Revenues, Expenditures, and Changes in Unreserved Fund Balance (Deficit) - Budget and Actual - General Fund and notes thereto (pages 53 through 56) are not a required part of the basic financial statements but are supplementary information required by the GASB. Such 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 required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise CNMI's basic financial statements. The Other Supplementary Information (pages 57 through 70), is presented for the purpose of additional analysis and is not a required part of the basic financial statements. This supplementary information is the responsibility of the CNMI's management. Such information has been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, except for the effect of the items described in the fifth paragraph above, based on our audit and the reports of other auditors, in our opinion, 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 October 14, 2003, 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

*Deloitte & Touche*

October 14, 2003  
(except for note 17, as to which the date is December 4, 2003)



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### COMMONWEALTH OF THE NORTHERN MARIANAS ISLANDS (CNMI) MANAGEMENT DISCUSSION & ANALYSIS September 30, 2002

Our discussion and analysis of the Commonwealth of the Northern Marianas Islands (CNMI) financial performance provides an overview of the CNMI's financial activities for the fiscal year ended September 30, 2002. Please read it in conjunction with the CNMI's financial statements, which follow this section.

#### FINANCIAL HIGHLIGHTS

- For the fiscal year ended September 30, 2002, the CNMI's total net assets decreased by \$14,269,075, or 35.2% from the prior year.
- During the year, the CNMI's expenses for governmental activities were \$304,905,439, including expenses recorded for payments made or due to the autonomous agencies, and were funded in part by program revenues of \$105,758,185, further funded with taxes and other general revenues that totaled \$184,878,179, thus resulting in the decrease in net assets mentioned in the first highlight above.
- At September 30, 2002, the General Fund reported an unreserved fund balance deficit of \$104,436,714, which is an increase of 18.7% from the prior year.
- For budgetary reporting purposes, the General Fund reported revenues in excess of final estimates of \$2,874,782 or 1.5%, while reported expenditures were in excess of final appropriations by \$3,202,264, or 1.5%.

#### OVERVIEW OF THE FINANCIAL STATEMENTS

The financial statements presented herein include all of the activities of the Commonwealth of the Northern Marianas Islands (the "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 the quality of services to assess the overall health and performance of the CNMI.



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

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

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

#### **Fund Financial Statements**

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

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

*Fiduciary funds* - When the CNMI is responsible for assets that - because of a trust arrangement or other fiduciary requirement - can be used only for trust beneficiaries or other parties, such as pensions and other employee benefits 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 \$40,575,181 to \$26,306,106 between fiscal years 2001 and 2002. This significant decline was in a large part due to the decision by management to pare down both estimated revenues and estimated appropriations of the CNMI's primary operating fund, the General Fund, but not in equal amounts.

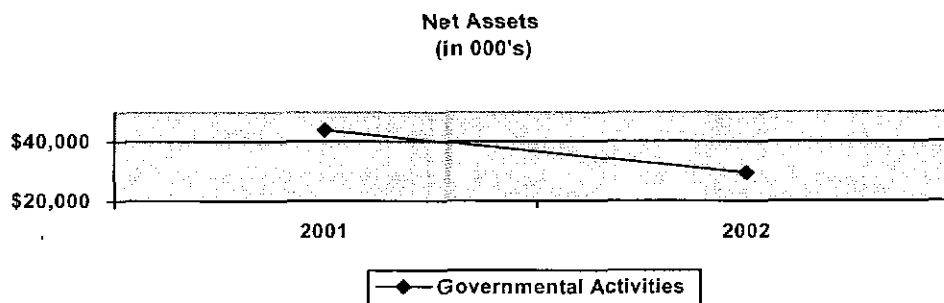
**Net Assets, Continued**

The main trigger for the revised estimates downward was the events of September 11, 2001, and their anticipated impact on the travel and tourism industry. With the original budget considered nearly balanced, or in other words, estimated revenues and appropriations were nearly identical, management initiated a series of downward revisions of the General Fund budget. Estimated revenues were revised downward by 18.8%, with estimated appropriations only being decreased by 11.3%. Since actual revenues and appropriations of the General Fund were within line of the revised estimates, a significant decrease in net assets occurred. Although net capital assets of the CNMI's governmental activities increased between 2001 and 2002, nearly all other assets declined, including cash and cash equivalents.

Another significant component of the decrease in the CNMI's governmental activities net assets was the increase in amounts owed to the Northern Mariana Islands Retirement Fund (NMIRF), a discretely-presented component unit of the CNMI. The amount owed the NMIRF by the CNMI primary government increased by \$9,985,064, or 16.2% for a total liability of \$71,453,145.

Because 2002 is the first year of reporting in accordance with GASB Statement 34, a comparison of individual components of the Statement of Net Assets to the prior year is not available. However, in future years this discussion and analysis will provide for such a comparison.

<b>Governmental Activities</b>	
<u>2002</u>	
Current assets	\$132,814,116
Capital assets, net	123,607,632
Other noncurrent assets	2,198,200
<b>Total assets</b>	<b>258,619,948</b>
Current liabilities	148,308,761
Non-current liabilities	84,005,081
<b>Total liabilities</b>	<b>232,313,842</b>
Net assets	
Invested in capital assets, net of related debt	42,375,459
Restricted net assets	86,601,366
Unrestricted net assets	(102,670,719)
<b>Total net assets</b>	<b>\$26,306,106</b>



**Changes in Net Assets**

For the year ended September 30, 2002, net assets of the primary government changed as follows:

	<b>Governmental Activities</b>
	<u>2002</u>
<b>Revenues</b>	
Program revenues	\$105,758,185
Taxes and other general revenues	184,878,179
<b>Total revenues</b>	<b>290,636,364</b>
<b>Expenses</b>	
Capital projects	48,791,396
Health	52,046,913
Public safety and law enforcement	37,097,709
General government	21,116,080
Community and social services	21,561,999
Other elected officials	12,851,133
Utilities	10,890,130
Public works	15,073,055
Lands and natural resources	9,772,392
Legislative branch	7,262,331
Judicial branch	4,792,449
Education	3,931,482
Interest expense	2,117,359
Economic development	2,085,546
Depreciation - unallocated	4,119,243
Payments to autonomous agencies	51,396,222
<b>Total expenses</b>	<b>304,905,439</b>
Excess (deficiency)	(14,269,075)
<b>Decrease in net assets</b>	<b>(\$14,269,075)</b>

The CNMI's governmental activities' decrease in net assets of \$14,269,075 represents a 35.2% decrease from the prior year. The results indicate the CNMI's financial condition, as a whole, significantly declined from the prior year.

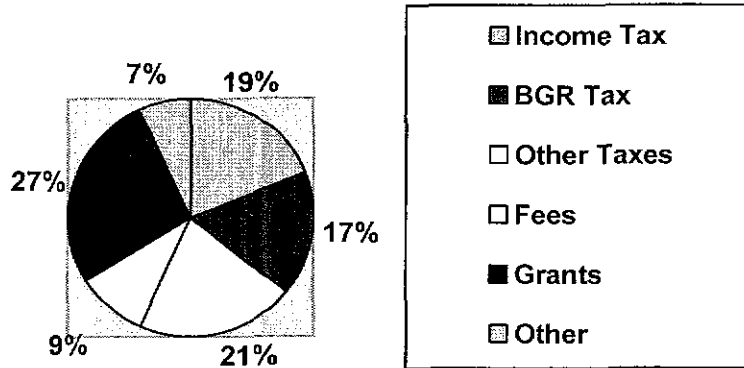
**Governmental Activities**

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

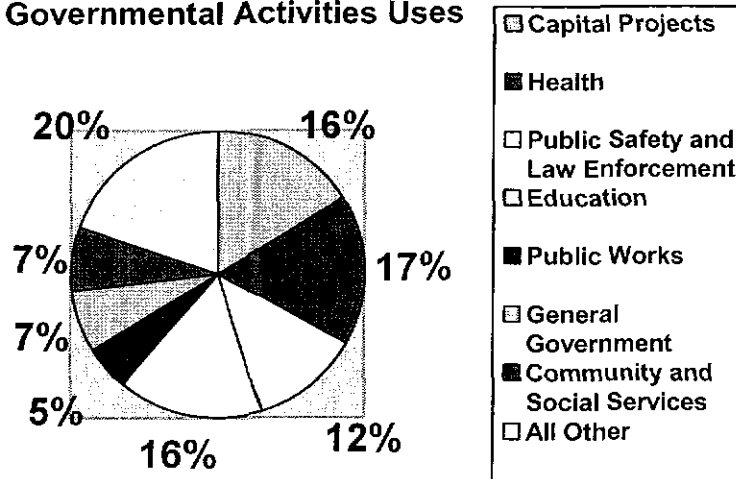
Of particular interest is the format that is significantly different than a typical Statement of Revenues, Expenses, and Changes in Fund Balance. You will notice that expenses are listed in the first column with revenues from that particular program reported to the right. The result is a Net (Expense)/Revenue. 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, 2002, the CNMI's governmental activities were funded as follows:

**Governmental Activities Sources**



**Governmental Activities Uses**



For the year ended September 30, 2002, total expenses for governmental activities amounted to \$304,905,439. Of these total expenses, taxpayers and other general revenues funded \$184,878,179 while

those directly benefiting from the program funded \$78,122,095 from grants and other contributions and \$27,636,090 from charges for services.

	<u>Total Expense of Services</u>	<u>Net Revenue (Expense) of Services</u>
	<u>2002</u>	<u>2002</u>
Capital projects	\$48,791,396	\$792,758
Health	52,046,913	(33,677,622)
Public safety and law enforcement	37,097,709	(26,631,904)
Education	48,760,867	(48,760,867)
General government	21,116,080	(8,134,946)
Community and social services	21,561,999	(12,298,966)
Public works	15,073,055	(13,105,677)
All other	<u>60,457,420</u>	<u>(57,330,030)</u>
<b>Total</b>	<u><u>\$304,905,439</u></u>	<u><u>(\$199,147,254)</u></u>

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

As the CNMI completed its 2002 fiscal year, the governmental funds reported a combined fund balance deficit of \$4,249,748 or a 37.9% increase from the prior year.

Individual governmental fund highlights include:

- For the year ended September 30, 2002, the General Fund's total fund balance deficit, as adjusted for certain fund combinations with the adoption of GASB Statement 34, increased by \$19,085,361 or 30.8%, to a total deficit of \$80,921,441, while the total unreserved fund balance deficit increased by \$16,488,116 or 18.7%, for a total unreserved fund balance deficit of \$104,436,714.
- The DOI Capital Projects Fund's total fund balance decreased by \$2,174,672 or 3.3% for a total fund balance of \$64,022,823, while the unreserved portion of fund balance decreased by \$1,602,810 or 7.5%, for a total unreserved fund balance of \$19,732,483.
- The Pension and Other Employee Benefit Trusts' Fiduciary Fund posted a decrease to net assets of the fund of \$39,663,116 or 10.6% for the year. This Fund includes the employee pension trust, the employee health and life insurance trust and the workers' compensation commission.

**General Fund Budgetary Highlights**

Over the course of the year, management and elected officials revised the General Fund budget. The revised budget included a decrease in overall revenue projections of 18.8% or \$45,671,000 with a corresponding decrease in appropriations of 11.3% or \$26,196,181. The reasons for the significant revisions downward of both estimated revenues and appropriations was due to the anticipated ramifications of the events of September 11, 2001 on the local travel and tourism industry.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital Assets**

At the end of September 30, 2002, the CNMI had \$123,607,632 invested in capital assets, net of depreciation, including roads, drainage systems and traffic signal systems infrastructure, vehicles and other machinery and equipment, buildings and other improvements, and recreation facilities. (See table below). This represents a net increase of \$6,734,968 or 5.8% over last year.

**Primary Government Capital Assets  
 (Net of accumulated depreciation, where applicable)**

	<b>Governmental Activities</b>	
	<u>2001</u>	<u>2002</u>
Infrastructure, net	\$ 35,784,034	\$ 38,826,956
Buildings and improvements, net	48,209,513	48,851,956
Machinery and Equipment, net	7,235,701	4,315,980
Construction in progress	<u>25,643,416</u>	<u>31,612,740</u>
<b>Totals</b>	<u>\$ 116,872,664</u>	<u>\$ 123,607,632</u>

This year's more significant capital asset additions included:

- \$8.2 million of roadway and drainage system improvements
- 2.4 million of building construction and improvements

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 \$92,633,893 in long-term debt outstanding, which represents a \$2,485,497 or 2.6% decrease from the prior year resulting from debt principal retirements. The CNMI's changes in long-term debt by type of debt are as follows:

COMMONWEALTH OF THE NORTHERN MARIANAS ISLANDS (CNMI)  
 MANAGEMENT DISCUSSION & ANALYSIS  
 September 30, 2002

	<u>Governmental</u>		
	<u>Activities</u>		
		<u>2002</u>	
	<u>2001</u>	<u>Total</u>	<u>Due Within One Year</u>
Accrued absences	\$8,323,969	\$7,751,278	\$3,502,753
General obligation bonds	72,565,000	71,145,000	1,470,000
Notes payable	12,010,872	11,518,066	1,436,510
<b>Totals</b>	<u>\$92,899,841</u>	<u>\$90,414,344</u>	<u>\$6,409,263</u>

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 played a large role in developing the tax revenue budgets for the CNMI. The local economy was following the same trend as many of its Pacific neighbors and the United States in an economic downturn that left government officials scrambling to figure out ways to balance their budgets for the remainder of the year. So, in light of the economic conditions that surrounded us, the decision was made to prepare and adopt, by legislative action, an estimated revenue budget for the upcoming year (2003) that was a 12.3% decrease from the original budget for fiscal year 2002. However, due to our expectation for some recovery during fiscal year 2003, the original estimated revenue budget for fiscal year 2003 reflected an 8.1% increase from the final revised revenue budget for fiscal year 2002. Management believes that the fiscal year 2003 estimated revenue budget of approximately \$213 million is indicative of revenue estimates for the next few years.

The budget also focused on appropriation priorities established by our elected officials. The budget priorities for fiscal year 2002 were health, education and public safety. These three areas spent \$122,155,887 in fiscal year 2002 or 58.2% of total general fund expenditures. The same budget priorities continued in fiscal year 2003 with a combined budget of \$125,006,206 or 58.4% of the total budget.

**CONTACTING THE CNMI'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the 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 at Box 5234 (CHRB), Saipan, MP 96950 or phone at (670) 664-1100.



COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Statement of Net Assets  
September 30, 2002

<u>Assets</u>	<u>Primary Governmental Activities</u>	<u>Component Units</u>
Current assets:		
Cash and cash equivalents	\$ 17,565,950	\$ 20,195,795
Time certificates of deposit	2,685,779	6,053,131
Investments	54,622,009	56,015,829
Receivables, net of allowance for uncollectibles:		
Loans	-	12,668,306
Federal agencies	19,558,942	5,721,818
Other agencies	5,125,441	-
Taxes	14,069,044	-
General	2,609,815	4,880,411
Interest and dividends	-	1,599,447
Other	758,571	3,486,223
Due from primary government	-	5,275,497
Due from component units	1,174,500	-
Due from Pension and Other Employee Benefit Trust Funds	2,705,868	-
Advances	9,719,152	67,765
Inventories	2,219,045	912,341
Prepaid items	-	73,704
Deferred bond issue costs	-	64,454
Total current assets	<u>132,814,116</u>	<u>117,014,721</u>
Other assets, restricted:		
Cash and cash equivalents	-	8,353,783
Time certificates of deposit	-	20,385,262
Investments	-	2,734,770
Total other assets, restricted	<u>-</u>	<u>31,473,815</u>
Noncurrent assets:		
Loans receivable	-	34,956,277
Due from component units	2,198,200	-
Deferred bond issue costs, net of current portion	-	1,521,741
Other assets	-	3,508,121
Foreclosed real estate	-	543,000
Capital assets, net of accumulated depreciation	123,607,632	241,580,304
Total noncurrent assets	<u>125,805,832</u>	<u>282,109,443</u>
Total assets	<u>258,619,948</u>	<u>430,597,979</u>
<u>Liabilities</u>		
Current liabilities:		
Bank overdraft	-	50,932
Accounts payable	8,343,552	7,816,031
Current portion of compensated absences	3,502,753	-
Claims and judgments payable	2,219,550	-
Tax rebates payable	27,146,864	-
Accrued interest payable	1,611,161	-
Other liabilities and accruals	12,880,731	12,532,542
Current portion of notes and bonds payable	2,906,510	2,910,663
Due to component units	16,669,196	-
Due to primary government	-	1,282,500
Due to Pension and Other Employee Benefit Trust Funds	72,061,665	-
Deferred revenue	966,779	3,274,543
Total current liabilities	<u>148,308,761</u>	<u>27,867,211</u>
Noncurrent liabilities:		
Notes and bonds payable, net of current portion	79,756,556	69,079,285
Compensated absences, net of current portion	4,248,525	4,547,997
Total noncurrent liabilities	<u>84,005,081</u>	<u>73,627,282</u>
Total liabilities	<u>232,313,842</u>	<u>101,494,493</u>
Net assets:		
Invested in capital assets, net of related debt	42,375,459	176,546,261
Restricted for:		
Retirement of indebtedness	4,541,599	-
Other purposes	82,059,767	141,263,972
Unrestricted	(102,670,719)	11,293,253
Total net assets	<u>\$ 26,306,106</u>	<u>\$ 329,103,486</u>

See accompanying notes to financial statements.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Statement of Activities  
For the Year Ended September 30, 2002

Functions/Programs	Program Revenues				Net (Expense)	Component
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Changes in Net Assets	
					Primary Governmental Activities	Units
Primary government:						
Governmental activities:						
Capital projects	\$ 48,791,396	\$ -	\$ -	\$ 49,584,154	\$ 792,758	\$ -
Health	52,046,913	11,043,326	7,325,965	-	(33,677,622)	-
Public safety and law enforcement	37,097,709	4,234,563	6,231,242	-	(26,631,904)	-
General government	21,116,080	12,006,842	974,298	-	(8,134,940)	-
Community and social services	21,561,999	-	9,263,033	-	(12,298,966)	-
Other elected officials	12,851,133	-	-	-	(12,851,133)	-
Utilities	10,890,130	-	-	-	(10,890,130)	-
Public works	15,073,055	343,253	1,624,125	-	(13,105,677)	-
Lands and natural resources	9,772,392	8,106	3,119,278	-	(6,645,008)	-
Legislative branch	7,262,331	-	-	-	(7,262,331)	-
Judicial branch	4,792,449	-	-	-	(4,792,449)	-
Education	3,931,482	-	-	-	(3,931,482)	-
Debt service	2,117,359	-	-	-	(2,117,359)	-
Economic development	2,085,546	-	-	-	(2,085,546)	-
Depreciation - unallocated	4,119,243	-	-	-	(4,119,243)	-
Education (payment to PSS and NMC)	44,829,385	-	-	-	(44,829,385)	-
Tourism (payment to MVA)	5,478,408	-	-	-	(5,478,408)	-
Employee benefits (payment to NMIRF and WCC)	1,088,429	-	-	-	(1,088,429)	-
Total primary government	\$ 304,905,439	\$ 27,636,090	\$ 28,537,941	\$ 49,584,154	\$ (199,147,254)	\$ -
Component units:						
Commonwealth Government						
Employees Credit Union (unaudited)	\$ 220,870	\$ -	\$ -	\$ -	\$ -	\$ (220,870)
Commonwealth Ports Authority	23,683,470	13,958,815	-	15,794,340	-	6,069,685
Commonwealth Development Authority	22,562,019	7,785,029	-	193,456	-	(14,583,534)
Marianas Public Land Trust	1,916,709	-	-	-	-	(1,916,709)
Marianas Public Lands Authority	4,532,182	-	-	-	-	(4,532,182)
Northern Marianas College	17,208,416	834,057	6,464,992	-	-	(9,909,367)
Public School System	55,760,606	-	-	-	-	(55,760,606)
Marianas Visitors Authority	7,450,872	138,496	2,680,000	-	-	(4,632,376)
Total component units	\$ 133,335,144	\$ 22,716,397	\$ 9,144,992	\$ 15,987,796	\$ -	\$ (85,485,959)
General revenues:						
Taxes:						
Income					\$ 55,077,378	\$ -
Business gross revenue					48,623,291	-
Penalties and interest					469,972	-
Other taxes					60,930,233	-
Land lease					-	3,228,948
Net increase (decrease) in fair value of investments					756,026	(3,668,681)
Investment, earnings and interest					39,573	529,173
Payment from Primary Government					-	50,959,188
Payment from Component Units					3,510,667	-
Other					15,471,039	26,268,954
Total general revenues					184,878,179	77,317,582
Change in net assets					(14,269,075)	(8,168,377)
Net assets - beginning					40,575,181	337,271,863
Net assets - ending					\$ 26,306,106	\$ 329,103,486

See accompanying notes to financial statements.

## COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Balance Sheet  
Governmental Funds  
September 30, 2002

	General	DOI Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
<u>Assets</u>				
Cash and cash equivalents	\$ 17,565,950	\$ -	\$ -	\$ 17,565,950
Time certificates of deposit	2,685,779	-	-	2,685,779
Investments	8,366,754	43,997,782	2,257,473	54,622,009
Receivables, net:				
Federal agencies	-	11,770,698	7,788,244	19,558,942
Other agencies	5,125,441	-	-	5,125,441
Taxes	14,069,044	-	-	14,069,044
General	2,609,815	-	-	2,609,815
Other	-	21,384	737,187	758,571
Due from component units	3,372,700	-	-	3,372,700
Due from other funds	5,984,422	10,410,211	35,800,790	52,195,423
Due from Pension and Other Employee Benefit Trust Funds	-	-	2,705,868	2,705,868
Advances	9,719,152	-	-	9,719,152
Inventories	1,664,245	-	554,800	2,219,045
	<u>\$ 71,163,302</u>	<u>\$ 66,200,075</u>	<u>\$ 49,844,362</u>	<u>\$ 187,207,739</u>
<u>Liabilities and Fund Balances (Deficit)</u>				
Liabilities:				
Accounts payable	\$ 3,762,442	\$ 2,177,252	\$ 2,403,858	\$ 8,343,552
Tax rebates payable	-	-	27,146,864	27,146,864
Other liabilities and accruals	12,187,162	-	693,569	12,880,731
Due to component units	16,669,196	-	-	16,669,196
Due to other funds	46,211,001	-	5,984,422	52,195,423
Due to Pension and Other Employee Benefit Trust Funds	72,061,665	-	-	72,061,665
Deferred revenue	1,193,277	-	966,779	2,160,056
Total liabilities	<u>152,084,743</u>	<u>2,177,252</u>	<u>37,195,492</u>	<u>191,457,487</u>
Fund balances (deficit):				
Reserved for:				
Supplies inventory	1,706,735	-	-	1,706,735
Related assets	14,848,605	-	-	14,848,605
Debt service	-	45,104	4,496,495	4,541,599
Encumbrances	5,990,020	44,245,236	12,454,854	62,690,110
Continuing appropriations	969,913	-	1,844,404	2,814,317
Unreserved	<u>(104,436,714)</u>	<u>19,732,483</u>	<u>(6,146,883)</u>	<u>(90,851,114)</u>
Total equity (deficit) and other credits	<u>(80,921,441)</u>	<u>64,022,823</u>	<u>12,648,870</u>	<u>(4,249,748)</u>
	<u>\$ 71,163,302</u>	<u>\$ 66,200,075</u>	<u>\$ 49,844,362</u>	<u>\$ 187,207,739</u>

See accompanying notes to financial statements.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Reconciliation of Fund Balances to the Statement of Net Assets  
September 30, 2002

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

Total fund balance deficit		\$ (4,249,748)
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	\$ 31,612,739	
Depreciable capital assets and infrastructure, net of \$88,590,352 of accumulated depreciation	<u>91,994,893</u>	
Capital assets, net of accumulated depreciation		123,607,632
Receivables not available are not recorded as revenues in the funds		1,193,277
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	(71,145,000)	
Accrued interest	(1,611,161)	
Other long-term debts	(11,518,066)	
Compensated absences	(7,751,278)	
Claims and judgment payable	<u>(2,219,550)</u>	
Long-term liabilities		<u>(94,245,055)</u>
Net assets of governmental activities		<u>\$ 26,306,106</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, 2002

	General	DOI Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
Revenues:				
Taxes	\$ 165,590,790	\$ -	\$ -	\$ 165,590,790
Federal contributions	-	34,632,329	37,332,298	71,964,627
Charges for sales and services	15,475,536	-	-	15,475,536
Licenses and fees	12,160,554	-	-	12,160,554
Interest and dividends	-	-	39,573	39,573
Net increase in the fair value of investments	411,070	344,956	-	756,026
Other contributions	-	-	6,157,468	6,157,468
Other	1,452,732	1,195,057	12,823,250	15,471,039
<b>Total revenues</b>	<b>195,090,682</b>	<b>36,172,342</b>	<b>56,352,589</b>	<b>287,615,613</b>
Expenditures:				
Capital projects	-	47,715,806	17,719,965	65,435,771
Health	43,171,294	-	8,875,619	52,046,913
Education (payment to PSS and NMC)	43,354,452	-	1,474,933	44,829,385
Public safety and law enforcement	31,698,659	-	5,399,050	37,097,709
General government	16,599,887	-	5,382,104	21,981,991
Community and social services	11,673,458	-	9,888,541	21,561,999
Other elected officials	12,442,653	-	408,480	12,851,133
Utilities	10,890,130	-	-	10,890,130
Public works	8,765,394	-	1,655,170	10,420,564
Lands and natural resources	6,570,510	-	3,201,882	9,772,392
Legislative branch	7,262,331	-	-	7,262,331
Tourism (payment to MVA)	5,478,408	-	-	5,478,408
Judicial branch	4,792,449	-	-	4,792,449
Education	3,931,482	-	-	3,931,482
Debt service	-	-	3,458,701	3,458,701
Economic development	2,055,709	-	29,837	2,085,546
Employee benefits (payment to NMIRF and WCC)	1,088,429	-	-	1,088,429
<b>Total expenditures</b>	<b>209,775,245</b>	<b>47,715,806</b>	<b>57,494,282</b>	<b>314,985,333</b>
Excess (deficiency) of revenues over (under) expenditures	(14,684,563)	(11,543,464)	(1,141,693)	(27,369,720)
Other financing sources (uses):				
Operating transfers in	4,629,100	9,368,792	5,942,211	19,940,103
Operating transfers out	(9,029,898)	-	(7,399,538)	(16,429,436)
<b>Total other financing sources (uses), net</b>	<b>(4,400,798)</b>	<b>9,368,792</b>	<b>(1,457,327)</b>	<b>3,510,667</b>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	(19,085,361)	(2,174,672)	(2,599,020)	(23,859,053)
Fund balances (deficit) at beginning of year	(61,836,080)	66,197,495	15,247,890	19,609,305
Fund balances (deficit) at end of year	\$ (80,921,441)	\$ 64,022,823	\$ 12,648,870	\$ (4,249,748)

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, 2002

Net change in fund balance deficit - total governmental funds	\$ (23,859,053)
Add:	
Capital assets purchased that were capitalized	16,937,595
Principal payments on long-term debt	1,912,806
Net change in compensated absences	572,691
Less:	
Depreciation expense	(8,771,734)
Net change in accrued interest	(571,464)
Net change in deferred revenue	<u>(489,916)</u>
Change in net assets of governmental activities	<u>\$ (14,269,075)</u>

See accompanying notes to financial statements.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Statement of Fiduciary Net Assets  
Fiduciary Funds  
September 30, 2002

<u>Assets</u>	<u>Pension and Other Employee Benefit Trust Funds</u>	<u>Agency Funds</u>
Cash and cash equivalents	\$ 5,549,827	\$ -
Receivables:		
Loans	11,518,066	-
Notes	8,967,066	-
General	601,023	-
Interest and dividends	995,167	-
Other	4,263,704	-
Due from primary government	17,923,076	1,328,224
Prepaid items	23,918	-
Investments, at fair market value:		
Equity securities	189,011,193	-
U.S. Government securities	63,876,125	-
Money market placements	24,994,219	-
Corporate debt securities	11,611,945	-
Real property	545,000	-
Restricted assets	-	6,067,340
Capital assets	4,143,124	-
	<u>344,023,453</u>	<u>7,395,564</u>
<u>Liabilities and Other Credits</u>		
Accounts payable	3,845,592	\$ -
Claims and judgments payable	-	1,328,224
Deposits payable	-	6,067,340
Other liabilities and accruals	118,943	-
Due to other funds	2,798,315	-
Deferred revenue	1,013,666	-
	<u>7,776,516</u>	<u>\$ 7,395,564</u>
Net assets:		
Held in trust for pension benefits and other purposes	<u>\$ 336,246,937</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, 2002

	<u>Pension and Other Employee Benefit Trust Funds</u>
<u>Additions</u>	
Contributions:	
Employer	\$ 38,066,051
Employer - unfunded	132,815,507
Employee	10,525,660
Revenues:	
Premiums	8,514,432
Rent income and other	338,426
Total contributions and revenues	<u>190,260,076</u>
Net investment income (loss):	
Net appreciation (depreciation) in fair value	(27,757,425)
Interest	6,671,566
Dividends	1,777,450
Total investment loss	<u>(19,308,409)</u>
Less: investment expense	<u>1,770,659</u>
Net investment loss	<u>(21,079,068)</u>
Total additions	<u>169,181,008</u>
<u>Deductions</u>	
Provision for uncollectible unfunded pension liability	132,815,507
Benefits	38,850,979
General and administrative	3,417,497
Bad debts	22,787,818
Refunds	4,173,961
Medical claims	7,146,425
Total deductions	<u>209,192,187</u>
Other financing sources (uses):	
Transfer in	<u>348,063</u>
Change in net assets	(39,663,116)
Net assets at beginning of year	<u>375,910,053</u>
Net assets at end of year	<u>\$ 336,246,937</u>

See accompanying notes to financial statements.



COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Component Units  
Combining Statement of Net Assets  
September 30, 2002

	Commonwealth Government Employees Credit Union (Unaudited)	Commonwealth Ports Authority	Commonwealth Development Authority	Marianas Public Land Trust	Marianas Public Lands Authority	Northern Marianas College	Public School System	Marianas Visitors Authority	Totals
<b>Assets</b>									
<b>Current assets:</b>									
Cash and cash equivalents	\$ 96,180	\$ 2,803,781	\$ 1,541,422	\$ 2,764,383	\$ 7,326,621	\$ 522,000	\$ 2,555,807	\$ 2,585,601	\$ 20,195,795
Time certificates of deposit	255,797	-	5,797,334	-	-	-	-	-	6,053,131
Investments	-	1,632,301	-	44,247,804	8,135,724	-	-	-	56,015,829
Receivables, net:									
Loans	1,517,413	-	2,154,270	8,996,623	-	-	-	-	12,668,306
Federal agencies	-	3,218,329	-	-	-	1,343,190	1,160,299	-	5,721,818
General	-	2,347,174	56,506	-	794,470	1,682,261	-	-	4,880,411
Interest	-	-	1,256,529	342,918	-	-	-	-	1,599,447
Other	98,087	31,592	19,797	136,674	-	-	3,146,992	53,081	3,486,223
Due from primary government	-	-	-	-	-	-	4,275,497	1,000,000	5,275,497
Inventory	-	-	534,728	-	-	377,613	-	-	912,341
Prepaid items	-	43,451	18,411	-	-	-	-	11,842	73,704
Advances	-	-	-	-	67,765	-	-	-	67,765
Deferred bond issue costs, current portion	-	64,454	-	-	-	-	-	-	64,454
<b>Total current assets</b>	<b>1,967,477</b>	<b>12,141,082</b>	<b>11,378,997</b>	<b>56,488,402</b>	<b>16,324,580</b>	<b>3,925,064</b>	<b>11,138,595</b>	<b>3,650,524</b>	<b>117,014,721</b>
<b>Other assets, restricted:</b>									
Cash and cash equivalents	-	-	8,353,783	-	-	-	-	-	8,353,783
Time certificates of deposit	-	10,871,255	9,514,007	-	-	-	-	-	20,385,262
Investments	-	-	-	-	-	2,734,770	-	-	2,734,770
<b>Total other assets, restricted</b>	<b>-</b>	<b>10,871,255</b>	<b>17,867,790</b>	<b>-</b>	<b>-</b>	<b>2,734,770</b>	<b>-</b>	<b>-</b>	<b>31,473,815</b>
<b>Noncurrent assets:</b>									
Loans receivables	-	-	34,956,277	-	-	-	-	-	34,956,277
Deferred bond issue cost	-	1,521,741	-	-	-	-	-	-	1,521,741
Other assets	-	3,239,780	268,341	-	-	-	-	-	3,508,121
Capital assets (net of accumulated depreciation)	17,616	138,938,024	7,990,512	21,716	952,705	9,958,244	83,537,600	163,887	241,580,304
Foreclosed real estate	-	-	543,000	-	-	-	-	-	543,000
<b>Total noncurrent assets</b>	<b>17,616</b>	<b>143,699,545</b>	<b>43,758,130</b>	<b>21,716</b>	<b>952,705</b>	<b>9,958,244</b>	<b>83,537,600</b>	<b>163,887</b>	<b>282,109,443</b>
<b>Total assets</b>	<b>1,985,093</b>	<b>166,711,882</b>	<b>73,004,917</b>	<b>56,510,118</b>	<b>17,277,285</b>	<b>16,618,078</b>	<b>94,676,195</b>	<b>3,814,411</b>	<b>430,597,979</b>
<b>Liabilities and Net Assets</b>									
<b>Current liabilities:</b>									
Bank overdraft	-	-	-	-	-	50,932	-	-	50,932
Accounts payable	6,994	3,265,341	1,298,889	117,436	168,310	1,749,859	75,023	1,134,179	7,816,031
Due to primary government	-	-	-	1,174,500	-	108,000	-	-	1,282,500
Other liabilities and accruals	920,877	2,303,418	1,273,092	352,189	1,438,314	548,013	5,448,321	248,318	12,532,542
Current portion of notes and bonds payable	176,103	1,871,305	863,255	-	-	-	-	-	2,910,663
Deferred revenue	28,873	21,658	-	-	2,143,777	767,870	303,066	9,299	3,274,543
<b>Total current liabilities</b>	<b>1,132,847</b>	<b>7,461,722</b>	<b>3,435,236</b>	<b>1,644,125</b>	<b>3,750,401</b>	<b>3,224,674</b>	<b>5,826,410</b>	<b>1,391,796</b>	<b>27,867,211</b>
<b>Noncurrent liabilities:</b>									
Notes and bonds payable, net of current portion	1,742,509	56,735,492	10,601,284	-	-	-	-	-	69,079,285
Accrued payroll benefits payable	-	-	-	-	-	814,920	3,733,077	-	4,547,997
<b>Total noncurrent liabilities</b>	<b>1,742,509</b>	<b>56,735,492</b>	<b>10,601,284</b>	<b>-</b>	<b>-</b>	<b>814,920</b>	<b>3,733,077</b>	<b>-</b>	<b>73,627,282</b>
<b>Total liabilities</b>	<b>2,875,356</b>	<b>64,197,214</b>	<b>14,036,520</b>	<b>1,644,125</b>	<b>3,750,401</b>	<b>4,039,594</b>	<b>9,559,487</b>	<b>1,391,796</b>	<b>101,494,493</b>
<b>Net assets:</b>									
Investment in capital assets	-	81,917,422	8,533,512	21,716	952,705	9,958,244	74,998,775	163,887	176,546,261
Restricted	-	10,871,255	50,434,885	54,844,277	8,554,677	3,263,104	13,295,774	-	141,263,972
Unrestricted	(890,263)	9,725,991	-	-	4,019,502	(642,864)	(3,177,841)	2,258,728	11,293,253
<b>Total net assets</b>	<b>\$ (890,263)</b>	<b>\$ 102,514,668</b>	<b>\$ 58,968,397</b>	<b>\$ 54,865,993</b>	<b>\$ 13,526,884</b>	<b>\$ 12,578,484</b>	<b>\$ 85,116,708</b>	<b>\$ 2,422,615</b>	<b>\$ 329,103,486</b>

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, 2002

	Commonwealth Government Employees Credit Union (Unaudited)	Commonwealth Ports Authority	Commonwealth Development Authority	Marianas Public Land Trust	Marianas Public Lands Authority	Northern Marianas College	Public School System	Marianas Visitors Authority	Totals
<b>Operating revenues:</b>									
Charges for services and fees	\$ -	\$ 13,958,815	\$ 7,785,029	\$ -	\$ -	\$ 834,057	\$ -	\$ 138,496	\$ 22,716,397
Grants and contributions	-	-	-	-	-	6,464,992	-	2,680,000	9,144,992
Land lease	-	-	-	-	3,228,948	-	-	-	3,228,948
Net decrease in the fair value of investments	-	-	-	(3,460,499)	-	(208,182)	-	-	(3,668,681)
Other	54,357	1,218,973	2,629,353	2,614,968	656,488	983,972	-	20,450	8,178,561
<b>Total operating revenues</b>	<b>54,357</b>	<b>15,177,788</b>	<b>10,414,382</b>	<b>(845,531)</b>	<b>3,885,436</b>	<b>8,074,839</b>	<b>-</b>	<b>2,838,946</b>	<b>39,600,217</b>
<b>Operating expenses:</b>									
Cost of services	-	6,444,877	17,619,663	-	1,411,953	12,926,054	43,430,436	4,506,973	86,339,956
Depreciation and amortization	21,263	10,020,783	572,418	-	-	593,380	1,142,118	125,885	12,475,847
Administration	199,607	3,987,881	1,508,032	751,954	3,120,229	3,688,982	11,188,052	2,818,014	27,262,751
<b>Total operating expenses</b>	<b>220,870</b>	<b>20,453,541</b>	<b>19,700,113</b>	<b>751,954</b>	<b>4,532,182</b>	<b>17,208,416</b>	<b>55,760,606</b>	<b>7,450,872</b>	<b>126,078,554</b>
<b>Operating income (loss)</b>	<b>(166,513)</b>	<b>(5,275,753)</b>	<b>(9,285,731)</b>	<b>(1,597,485)</b>	<b>(646,746)</b>	<b>(9,133,577)</b>	<b>(55,760,606)</b>	<b>(4,611,926)</b>	<b>(86,478,337)</b>
<b>Nonoperating revenues (expenses):</b>									
Grants and contributions	-	-	-	-	-	-	16,909,441	259,975	17,169,416
Interest income	77,044	273,259	86,117	-	-	92,753	-	-	529,173
Interest expense	-	(3,172,536)	(1,027,120)	-	-	-	-	-	(4,199,656)
Amortization of bond issue cost	-	(57,393)	-	-	-	-	-	-	(57,393)
Other, net	-	(14,214)	-	-	-	-	943,255	(8,064)	920,977
<b>Nonoperating revenues (expenses), net</b>	<b>77,044</b>	<b>(2,970,884)</b>	<b>(941,003)</b>	<b>-</b>	<b>-</b>	<b>92,753</b>	<b>17,852,696</b>	<b>251,911</b>	<b>14,362,517</b>
<b>Income (loss) before contributions and operating transfer</b>	<b>(89,469)</b>	<b>(8,246,637)</b>	<b>(10,226,734)</b>	<b>(1,597,485)</b>	<b>(646,746)</b>	<b>(9,040,824)</b>	<b>(37,907,910)</b>	<b>(4,360,015)</b>	<b>(72,115,820)</b>
Capital contributions	-	15,794,340	193,456	-	-	-	-	-	15,987,796
Transfer to/from other funds	-	-	(1,834,786)	(1,164,755)	-	8,650,439	36,830,342	5,478,407	47,959,647
<b>Change in net assets</b>	<b>(89,469)</b>	<b>7,547,703</b>	<b>(11,868,064)</b>	<b>(2,762,240)</b>	<b>(646,746)</b>	<b>(390,385)</b>	<b>(1,077,568)</b>	<b>1,118,392</b>	<b>(8,168,377)</b>
Net assets - beginning	(800,794)	94,966,965	70,836,461	57,628,233	14,173,630	12,968,869	86,194,276	1,304,223	337,271,863
Net assets - ending	\$ (890,263)	\$ 102,514,668	\$ 58,968,397	\$ 54,865,993	\$ 13,526,884	\$ 12,578,484	\$ 85,116,708	\$ 2,422,615	\$ 329,103,486

See accompanying notes to financial statements.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2002

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

1. Blended Component Units

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, 2002

(1) Summary of Significant Accounting Policies, Continued

A. Reporting Entity, Continued

1. Blended Component Units, Continued

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.

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

The Component Units' column of the basic financial statements includes the financial data of the following entities:

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.

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.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2002

(1) Summary of Significant Accounting Policies, Continued

A. Reporting Entity, Continued

2. Discretely Presented Component Units, Continued

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.

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.

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.

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.

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.

The Commonwealth Government Employees Credit Union (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.

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

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

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

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2002

(1) Summary of Significant Accounting Policies, Continued

A. Reporting Entity, Continued

2. Discretely Presented Component Units, Continued

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

Commonwealth Government Employees Credit Union  
P.O. Box 500135  
Saipan, MP 96950-0135

3. Omitted Component Unit

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.

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.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2002

(1) Summary of Significant Accounting Policies, Continued

B. Government-Wide and Fund Financial Statements, Continued

The Statement of Net Assets presents 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. They often have restrictions that are imposed by management, but can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment 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.

C. Fund Financial Statements

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government - wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements, 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.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2002

(1) Summary of Significant Accounting Policies, Continued

D. Measurement Focus and Basis of Accounting

The government-wide financial statements are reported using the economic resources management 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. Governmental fund financial statements 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 collected within the current period or soon enough thereafter to pay liabilities of the current 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. Revenues from other financing sources are recognized when received. Expenditures are recorded in the period in which the related fund liability is incurred. Principal and interest on general long-term obligations are recorded as fund liabilities when due.

1. Measurement Focus and Basis of Accounting - Fund Perspective

The CNMI uses funds to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain CNMI functions or activities.

The government reports the following major governmental funds:

1. The General Fund is the government's primary operating fund. It accounts for all financial transactions not accounted for in any other fund;
2. The DOI Capital Projects Fund accounts for various capital projects funded through grant awards from the U.S. Department of the Interior.

Governmental funds are presented on the modified accrual basis of accounting. In accordance with the modified accrual basis, revenues are recognized when they become susceptible to accrual; that is, when they become both measurable and available to finance expenditures of the current period. 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.

The Fiduciary Funds include:

1. The Pension and Other Employee Benefit Trust 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.



COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2002

(1) Summary of Significant Accounting Policies, Continued

D. Measurement Focus and Basis of Accounting, Continued

1. Measurement Focus and Basis of Accounting - Fund Perspective, Continued

2. The Agency 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.

Proprietary funds 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, 2002, the carrying amount of the primary government's total cash and cash equivalents and time certificates of deposit were \$20,251,729 and the corresponding bank balances were \$24,680,865. Of the bank balance amounts, \$24,390,439 are maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2002, 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, 2002, is presently not determinable.

As of September 30, 2002, the carrying amount of the discretely presented component units' total cash and cash equivalents and time certificates of deposit were \$25,896,949 and the corresponding bank balances were \$26,492,603. Of the bank balance amounts, \$22,934,441 are maintained in financial institutions subject to FDIC insurance. As of September 30, 2002, bank deposits in the amount of \$1,963,893 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.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2002

(1) Summary of Significant Accounting Policies, Continued

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, 2002. 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. Accordingly, the amount has been recorded as deferred revenue in the governmental funds.

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.

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.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2002

(1) Summary of Significant Accounting Policies, Continued

K. Inventories

Inventories are stated at the lower of cost or market using the first-in/first-out (FIFO) method. Inventories of the General Fund are offset by a fund balance reserve account, totaling \$1,664,245 as they represent an asset not available for appropriation. Inventories of other governmental funds totaling \$554,800 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, 2002, 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.

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.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2002

(1) Summary of Significant Accounting Policies, Continued

N. Net Assets, Continued

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, 2002. However, the CNMI has estimated the aggregate assessed valuation of real property to be \$1,596,236,822 as of September 30, 2002. 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, 2002, is \$7,751,278.

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

The CNMI reports deferred revenue on its governmental balance sheet. Deferred revenues arise when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. 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.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2002

(1) Summary of Significant Accounting Policies, Continued

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, 2002, are as follows:

Total income tax and wage and salary tax collections	\$ 82,498,587
Transfers to Rebate Trust Fund	<u>(26,931,293)</u>
Income taxes and wage and salary taxes per general fund	55,567,294
Change in deferred revenue	<u>(489,916)</u>
Income taxes and wage and salary taxes per the statement of activities	\$ <u>55,077,378</u>

S. Fund Equity

Reserves represent those portions of fund equity not appropriable 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, 2002, is represented by the following assets:

	Major Governmental Fund <u>General Fund</u>
Investments	\$ 2,500,000
Receivables:	
Other agencies	5,125,441
General	2,231,343
Due from other funds	3,544,954
Advances	<u>1,446,867</u>
	\$ <u>14,848,605</u>

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2002

(1) Summary of Significant Accounting Policies, Continued

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*. As of the date of the opinion, CNMI has not evaluated the financial statement impact of GASB Statement Nos. 39, 40 and 42.

During fiscal year 2002, the CNMI implemented the following new accounting standards issued by the GASB:

Statement No. 34 *Basic Financial Statements - and Management's Discussion and Analysis - For State and Local Governments* (GASB 34). GASB 34 as amended by Statement No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - Omnibus* establishes new financial reporting standards for local governments. The requirements of this statement result in significant change in the financial reporting model used by governments, including statement formats and changes in fund types and account group. In addition to the traditional fund financial statements, governments are required to report government-wide financial statements, prepared using the accrual basis of accounting and the economic resources measurement focus. As a result, fund reclassifications and adjustments to the fund equities reported in the prior financial statements were required.

GASB Statement No. 35, *Basic Financial Statements - and Management's Discussion and Analysis - For Public Colleges and Universities*, establishes financial reporting standards for public colleges and universities within the guidelines of GASB Statement Nos. 34 and 37. CNMI's institution of higher education, reported as a Component Unit, adopted the requirements of GASB Statement No. 35. As a result, fund reclassifications and adjustments to the fund equities reported in the prior financial statements were required.

Statement No. 38 *Certain Financial Note Disclosures* (GASB 38). GASB 38 amends certain note disclosures and adds additional note disclosure requirements related to GASB 34, 35 and 37.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2002

(1) Summary of Significant Accounting Policies, Continued

U. New Accounting Standards, Continued

GASB Statement No. 41, *Budgetary Comparison Schedules - Perspective Differences*, amends required supplemental information disclosure of adopted budget and actual amounts per GASB Statement No. 34. Should there be a perspective difference between these amounts and fund perspective revenues and expenditures, reconciliation is required.

Due to the adoption of GASB Statement 34, 35 and 37, the beginning net assets of the Governmental Activities in the Statement of Net Assets have been restated. Fund balances of the governmental funds at September 30, 2001 (as disclosed below) were increased by \$20,965,876 for the cumulative effect of these changes on years prior to fiscal year 2002.

The effects on these items are as follows:

Fund balances reported as of September 30, 2001	\$ <u>19,609,305</u>
Adjustments:	
Long term notes and bonds	(84,575,872)
Accrued interest	(1,039,697)
Compensated absences	(8,323,969)
Claims and judgments payable	(2,219,550)
Deferred revenue	1,683,193
Accumulated depreciation	(79,818,618)
Capital assets	169,616,973
Construction in progress	<u>25,643,416</u>
	<u>20,965,876</u>
Beginning net assets as of September 30, 2001	\$ <u>40,575,181</u>

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 could 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;

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2002

(2) Investments, Continued

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.

A. Governmental Funds

Investments of the Governmental Funds as of September 30, 2002, are as follows:

	Categories			Fair Value
	1	2	3	
Cash management fund	\$ -	\$ 7,657,381	\$ -	\$ 7,657,381
Equities	-	2,500,000	455,103	2,955,103
Money market placements	-	-	11,743	11,743
Corporate bonds	-	43,997,782	-	43,997,782
	\$ -	\$ 54,155,163	\$ 466,846	\$ 54,622,009

B. Fiduciary Funds

Investments of the Pension Trust Fund and Other Employee Benefits as of September 30, 2002, are as follows:

	Categories			Fair Value
	1	2	3	
Equity securities	\$ 189,011,193	\$ -	\$ -	\$ 189,011,193
U.S. Government securities	63,876,125	-	-	63,876,125
Money market placements	24,994,219	-	-	24,994,219
Corporate debt instruments	11,611,945	-	-	11,611,945
Real property	545,000	-	-	545,000
	\$ 290,038,482	\$ -	\$ -	\$ 290,038,482

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, 2002 are equity securities of \$160,064,811, money market placements of \$24,746,580, United States government securities of \$63,510,325, corporate debt investments of \$11,611,945, an investment in BEA International Equity Fund of \$14,267,433, and an investment in Sabres Partners, L.P. of \$14,678,949.



COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2002

(3) Receivables

Receivables as of September 30, 2002, including applicable allowances for uncollectible accounts, are as follows:

	Governmental Funds			Component Units	Totals
	General Fund	DOI Capital Projects Fund	Non-Major Funds		
Receivables:					
Loans	\$ -	\$ -	\$ -	\$ 132,712,474	\$ 132,712,474
Federal agencies	-	11,770,698	7,788,244	5,721,818	25,280,760
Other agencies	104,927,937	-	-	-	104,927,937
Taxes	14,069,044	-	-	-	14,069,044
General	2,609,815	-	-	22,404,136	25,013,951
Interest and dividends	-	-	-	7,872,816	7,872,816
Other	-	21,384	737,187	3,605,442	4,364,013
Gross receivables	121,606,796	11,792,082	8,525,431	172,316,686	314,240,995
Less allowance for uncollectibles	(99,802,496)	-	-	(109,004,204)	(208,806,700)
Net receivables	\$ 21,804,300	\$ 11,792,082	\$ 8,525,431	\$ 63,312,482	\$ 105,434,295

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, 2002.

(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, 2002 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	\$ 5,984,422
DOI Capital Projects	General	10,410,211
Nonmajor Governmental	General	35,800,790
Total Primary Government		\$ <u>52,195,423</u>

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	\$ 2,198,200

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
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(4) Interfund Receivables and Payables, Continued

Component Units, Continued

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Marianas Public Land Trust	1,174,500
Public School System	General	3,277,134
Marianas Visitors Authority	General	1,000,000
Commonwealth Utilities Corporation	General	12,292,214
Northern Marianas College	General	99,848
		<u>\$ 20,041,896</u>

The amount recorded as due to Pension and Other Employee Benefit Trust Funds beneficiaries of \$72,061,665 does not equal the corresponding due from the primary government of the fiduciary funds of \$19,251,300 due to the Pension and Other Employee Benefit Trust Funds recording an allowance of \$53,310,366 and timing differences of \$500,000.

The amount recorded as due from primary government of the component units of \$5,275,497 does not equal the corresponding due to component units of the primary government of \$16,669,196 due to utility charges payable to the Commonwealth Utilities Corporation of \$12,292,214, whose financial statements are not included within the accompanying financial statements, due to timing differences with NMC when recording appropriations and due to unreconciled differences with PSS amounting to \$998,363.

The amount recorded as due from component units of the primary government of \$3,372,700 does not equal the corresponding due to primary government of the Component Units of \$1,282,500 as the difference of \$2,198,200 is recorded as a note payable to the CNMI by CDA - NMHC division, which is included within the notes payable balance of \$11,464,539 and \$108,000 due to the primary government recorded by NMC due to timing differences.

(5) Restricted Assets

Fiduciary Fund Type - Agency Fund

Security Deposit Fund:

Restricted assets of \$6,067,340 as of September 30, 2002 represent deposits of foreign investors required by law to operate businesses in the CNMI.

(6) Fixed Assets and Depreciation

Capital assets activities for the year ended September 30, 2002, are as follows:

Governmental Activities

	<u>Balance October 1, 2001</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance September 30, 2002</u>
Historical cost:				
Assets not being depreciated:				
Construction in progress	\$ 25,643,416	\$ 16,644,376	\$ (10,675,052)	\$ 31,612,740

## COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2002(6) Fixed Assets and Depreciation, ContinuedGovernmental Activities, Continued

	Balance October 1, 2001	Increases	Decreases	Balance September 30, 2002
Depreciable assets:				
Buildings and other improvements	63,884,815	2,432,701	-	66,317,516
Machinery and equipment	9,773,415	293,220	-	10,066,635
Infrastructure	<u>95,958,743</u>	<u>8,242,350</u>	<u>-</u>	<u>104,201,093</u>
Subtotal depreciable assets	<u>169,616,973</u>	<u>10,968,271</u>	<u>-</u>	<u>180,585,244</u>
Total capital assets at cost	<u>195,260,389</u>	<u>27,612,647</u>	<u>(10,675,052)</u>	<u>212,197,984</u>
Accumulated depreciation:				
Buildings and other improvements	(15,675,302)	(1,790,258)	-	(17,465,560)
Machinery and equipment	(3,968,607)	(1,782,048)	-	(5,750,655)
Infrastructure	<u>(60,174,709)</u>	<u>(5,199,428)</u>	<u>-</u>	<u>(65,374,137)</u>
Total accumulated depreciation	<u>(79,818,618)</u>	<u>(8,771,734)</u>	<u>-</u>	<u>(88,590,352)</u>
Capital assets, net	<u>\$ 115,441,771</u>	<u>\$ 18,840,913</u>	<u>\$ (10,675,052)</u>	<u>\$ 123,607,632</u>

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

## Governmental activities:

Public Works	\$ 4,652,491
Unallocated	<u>4,119,243</u>
Total depreciation expense - governmental activities	<u>\$ 8,771,734</u>

Discretely Presented Component Units

	Estimated Useful Lives	Balance October 1, 2001	Increases	Decreases	Balance September 30, 2002
Land	-	\$ 42,692,179	\$ -	\$ -	\$ 42,692,179
Construction in progress	-	23,001,992	24,125,031	(11,292,211)	35,834,812
Harbor facilities	20 years	61,764,732	45,726	-	61,810,458
Terminal facilities	20 years	56,960,771	4,681,532	-	61,642,303
Buildings	5 - 50 years	20,414,240	25,138,771	-	45,553,011
Runway and improvements	20 years	38,300,415	45,417	-	38,345,832
Other improvements	3 - 20 years	9,207,904	854,964	(91,663)	9,971,205
Housing projects	30 years	9,208,157	14,840	(326,000)	8,896,997
Terminal equipment	2 - 10 years	8,494,996	143,087	-	8,638,083
Office furniture and fixtures	2 - 10 years	5,923,197	1,242,014	(74,012)	7,091,199
Infrastructure	30 years	2,823,491	2,508,362	-	5,331,853
Other equipment	3 - 5 years	2,365,681	194,513	(8,306)	2,551,888
Fire and rescue	2 - 8 years	1,803,729	629,590	-	2,433,319
General transportation	3 - 5 years	2,063,191	95,600	(97,809)	2,060,982
Ground maintenance and shop equipment	2 - 5 years	<u>479,499</u>	<u>19,855</u>	<u>-</u>	<u>499,354</u>
		285,504,174	59,739,302	(11,890,001)	333,353,475
Less accumulated depreciation		<u>(81,546,734)</u>	<u>(10,467,044)</u>	<u>240,607</u>	<u>(91,773,171)</u>
		<u>\$ 203,957,440</u>	<u>\$ 49,272,258</u>	<u>\$ (11,649,394)</u>	<u>\$ 241,580,304</u>

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2002

(7) Tax Rebates Payable

The CNMI makes significant estimates in determining tax rebates payable as recorded in the Rebate Trust Fund, a non-major governmental special revenue fund. The Rebate Trust Fund was established to account for amounts paid to the CNMI, with respect to taxes imposed under the Northern Marianas Income Tax Act of 1984 (Public Law No. 4-24), which are rebateable to the taxpayers. 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 \$27,146,864 as of September 30, 2002. 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

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, 2002, cash balances controlled by NMIRF for the retirement of debt totaled \$2,705,868. 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.

\$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.

## COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2002(8) Long-Term Debt Obligations, Continued\$60,000,000 Bond Issue, Continued

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		

\* 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, 2002, are as follows:

	<u>Balance October 1, 2001</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance September 30, 2002</u>	<u>Due Within One Year</u>
Loans and bonds payable:					
NMIRF loan	\$ 12,010,872	\$ -	\$ 492,806	\$ 11,518,066	\$ 1,436,510
1999 Series A Bonds	12,565,000	-	1,420,000	11,145,000	1,470,000
2000 Series A Bonds	60,000,000	-	-	60,000,000	-
	84,575,872	-	1,912,806	82,663,066	2,906,510
Other:					
Compensated absences	8,323,969	2,933,663	3,506,354	7,751,278	3,502,753
	\$ 92,899,841	\$ 2,933,663	\$ 5,419,160	\$ 90,414,344	\$ 6,409,263

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2002

(8) Long-Term Debt Obligations, Continued

\$60,000,000 Bond Issue, Continued

The annual requirement to amortize all debt of the governmental activities outstanding as of September 30, 2002 is as follows:

<u>Year ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2003	\$ 2,906,510	\$ 5,180,697	\$ 8,087,207
2004	3,751,509	5,039,598	8,791,107
2005	3,938,047	4,836,729	8,774,776
2006	4,165,141	4,610,386	8,775,527
2007	4,403,218	4,369,471	8,772,689
2008 - 2012	17,933,641	18,152,701	36,086,342
2013 - 2017	11,715,000	14,062,250	25,777,250
2018 - 2022	12,535,000	10,170,544	22,705,544
2023 - 2027	11,875,000	6,232,613	18,107,613
2028 - 2030	<u>9,440,000</u>	<u>1,425,588</u>	<u>10,865,588</u>
	<u>\$ 82,663,066</u>	<u>\$ 74,080,577</u>	<u>\$ 156,743,643</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.

\$ 9,066,648

Commonwealth Development Authority

Development Corporation Division:

Note payable to the U.S. Small Business Administration, due October 28, 2009, interest adjusted annually to either 3.75% or 4.75%, based on the current average size of the microloans made by CDA (4.5% at September 30, 2002), principal and interest payable in monthly installments of \$4,037, collateralized by all funds held in CDA's Microloan Revolving Fund and Loan Loss Revenue Fund accounts at a local commercial bank and by all Microloan notes made with the proceeds from this note payable under the Microloan Program.

275,711

Note payable to the U.S. Small Business Administration, due November 15, 2010, interest adjusted annually to either 4.25% or 5%, based on the current average size of the microloans made by CDA (5% at September 30, 2002), principal and interest payable in monthly installments of \$5,261, collateralized by all funds held in CDA's Microloan Revolving Fund and Loan Loss Revenue Fund accounts at a local commercial bank and by all Microloan notes made with the proceeds from this note payable under the Microloan Program.

399,029

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2002

(8) Long-Term Debt Obligations, Continued

Component Units, Continued

Commonwealth Development Authority, Continued

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

Note to bank, drawn against a bank line of credit of the lesser of 95% of savings account balance or \$6,000,000, interest at savings account interest rate plus 3% (5.5% at September 30, 2002), collateralized by a savings account. 789,799

\$ 20,531,187

\$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, commencing on September 15, 1998.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2002

(8) Long-Term Debt Obligations, Continued

Component Units, Continued

\$20,050,000 Bond Issue, Continued

Revenue bonds payable as of September 30, 2002, consist of the following:

1998 Series A tax-exempt airport revenue bonds	\$ 18,985,000
Deferred costs of debt refunding	<u>(229,946)</u>
	18,755,054
Less current portion	<u>310,000</u>
Long-term portion	<u>\$ 18,445,054</u>

The 1998 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 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 Series A tax-exempt seaport revenue bonds with interest rates of 6.85% and 6.6% for a current refunding of \$22,470,000 of 1995 Series A tax-exempt seaport revenue bonds. The refunding was undertaken to consolidate existing debt with new debt issued for the purpose of financing various seaport projects and to reduce total future debt service. The reacquisition price exceeded the net carrying amount of the old debt by \$1,345,593. This amount was netted against the new debt and is being amortized over the refunded debt's life, which is shorter than the life of the new debt.

Installments are paid to the Bond Trustee annually on March 15 through 2028. Interest is payable semi-annually, at 6.6%, on March 15 and September 15 of each year, commencing on September 15, 1998.

Revenue bonds payable as of September 30, 2002, consist of the following:



COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2002

(8) Long-Term Debt Obligations, Continued

Component Units, Continued

\$33,775,000 Bond Issue, Continued

1998 Series A tax-exempt seaport revenue bonds	\$ 32,020,000
Deferred costs of debt refunding	<u>(1,234,905)</u>
	30,785,095
Less current portion	<u>510,000</u>
Long-term portion	<u>\$ 30,275,095</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 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 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, 2002, except for collection of gross revenues requirement related to the Airport and Seaport bond indentures. Section 6.11 of the Airport and Seaport Bond Indenture Agreements (Indenture) state that CPA shall impose, levy, enforce and collect such fees/dockage, entry and wharfage 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. CPA is in the process of hiring a consultant to comply with the provision of Section 6.11(B).

Commonwealth Government Employees Credit Union

At December 31, 2001, the Commonwealth Government Employees Credit Union recorded loans payable of \$1,918,612. The current portion of the loan at December 31, 2001 amounted to \$176,103.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2002

(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, 2002, 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>
2003	\$ 2,910,663	\$ 3,678,080	\$ 6,588,743
2004	3,323,918	3,440,170	6,764,088
2005	1,651,226	3,362,143	5,013,369
2006	1,731,641	3,279,958	5,011,599
2007	1,817,675	3,193,108	5,010,783
2008 - 2012	10,175,664	14,505,227	24,680,891
2013 - 2017	20,414,012	19,409,716	39,823,728
2018 - 2022	11,705,000	8,367,964	20,072,964
2023 - 2027	15,910,000	3,934,103	19,844,103
2028	3,815,000	123,429	3,938,429
	<u>\$ 73,454,799</u>	<u>\$ 63,293,898</u>	<u>\$ 136,748,697</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, 2002, 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>204,723</u>
		<u>\$ 969,913</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, 2002

(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, 2002, 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	\$ -
Discretely Presented Components Units	48,832,860	-
Northern Mariana Islands Retirement Fund	1,088,429	-
Non-Major Funds	5,157,017	-
To General Fund from:		
Discretely Presented Components Units	-	894,900
Non-Major Funds	-	3,734,200
	<u>\$ 58,951,187</u>	<u>\$ 4,629,100</u>
<u>DOI Capital Projects Fund</u>		
To DOI Capital Projects Fund from:		
General Fund	\$ -	\$ 3,872,881
Discretely Presented Component Units	-	2,345,911
Non-major Governmental Funds	-	3,150,000
	<u>\$ -</u>	<u>\$ 9,368,792</u>
<u>Non-Major Governmental Funds</u>		
From Non-Major Governmental Funds to:		
General Fund	\$ 3,734,200	\$ -
DOI Capital Projects Fund	3,150,000	-
Discretely Presented Component Units	1,474,933	-
Other Non-major Governmental Funds	515,338	515,338
From General Fund to:		
Non-Major Governmental Funds	-	5,157,018
To Non-Major Governmental Funds from:		
Discretely Presented Component Units	-	269,855
	<u>\$ 8,874,471</u>	<u>\$ 5,942,211</u>
<u>Discretely Presented Component Units</u>		
To Discretely Presented Component Units from:		
General Fund	\$ -	\$ 49,484,255
Non-Major Funds	-	1,474,933
From Discretely Presented Component Units to:		
DOI Capital Projects Fund	1,834,786	-
General Fund	894,900	-
Non-Major Governmental Funds	269,855	-
	<u>\$ 2,999,541</u>	<u>\$ 50,959,188</u>

The amount recorded as transfers to Discretely Presented Component Units from the General Fund of \$48,832,860 does not equal the corresponding transfers from the General Fund of \$49,484,255 due to NMC recording utilities expense of \$651,395 as an increase to appropriations and the CNMI recording all utilities as a separate line item and unaccounted as transfers. The amount recorded as transfers to DOI Capital Projects of \$1,834,786 does not equal the corresponding transfers in from Discretely Presented Component Units of \$2,345,911 due to transfers of \$511,125 being recorded as a reduction in accounts payable by MPLA.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2002

(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.

(12) Contingencies

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 these land acquisitions is presently not determinable.

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. 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 \$437,953 have been set forth in the CNMI's Single Audit Report for the year ended September 30, 2002. The ultimate disposition of these questioned costs can be determined only by final action of the respective grantor agencies. Therefore, no provision for any liability that may result upon resolution of this matter has been made in the accompanying financial statements.

Insurance Coverage

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2002

(12) Contingencies, Continued

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, 2001, the actual unfunded pension liability is \$488,693,307.

Other

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, 2002, is \$16,236,282.

(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 September 30,</u>
Unpaid claims at beginning of year	\$ 2,219,550
Incurred claims	362,415
Claim payments	<u>(362,415)</u>
Unpaid claims at end of year	\$ <u>2,219,550</u>

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2002

(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. 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 2002 was \$122,230,647, 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.

(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, 2002, are as follows:

General Fund	\$ <u>80,875,650</u>
Non-Major Governmental Special Revenue Funds:	
Human Resources Development Trust Fund	\$ <u>122,457</u>
Commonwealth Museum	\$ <u>388,650</u>
Non-Major Governmental Capital Projects Funds:	
American Memorial Park Fund	\$ <u>297,971</u>

(16) Restatements

Due to the adoption of GASB 34, certain governmental funds have been reclassified to conform with the GASB 34 reporting model. In addition, in accordance with GASB 33, the CNMI determined that an accrual of \$1,018,949 related to income tax revenue at September 30, 2001 should have been made.

## COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2002(16) Restatements, Continued

The effects of the above are as follows:

## Governmental Funds:

	Fund Balance As Previously Reported	Fund Reclassifications	Adjustments	Fund Balance As Restated
Major governmental fund:				
General Fund	\$ (62,444,646)	\$ -	\$ 1,018,949	\$ (61,425,697)
Previously reported as Internal Service Funds:				
Internal Service Fund	-	73,859	-	73,859
Serv-Mart Revolving Fund	-	(408,439)	-	(408,439)
Special Surplus Property	-	(75,803)	-	(75,803)
Total major governmental fund	<u>(62,444,646)</u>	<u>(410,383)</u>	<u>1,018,949</u>	<u>(61,836,080)</u>
Nonmajor governmental funds:				
Special Revenue Fund	6,795,592	-	-	6,795,592
Previously reported as Expendable Trust Funds:				
Saipan Trust Fund	-	565,660	-	565,660
Tobacco Settlement Trust Fund	-	506,104	-	506,104
Agriculture Revolving Fund	-	76,416	-	76,416
Probation Services Fund	-	30,922	-	30,922
Miscellaneous Expendable Trust	-	258,892	-	258,892
Marianas Garment Manufacturing	-	342,895	-	342,895
	<u>6,795,592</u>	<u>1,780,889</u>	<u>-</u>	<u>8,576,481</u>
Previously reported as Internal Service Funds:				
Internal Service Fund	73,859	(73,859)	-	-
Serv-Mart Revolving Fund	(408,439)	408,439	-	-
Special Surplus Property	(75,803)	75,803	-	-
	<u>(410,383)</u>	<u>410,383</u>	<u>-</u>	<u>-</u>
Previously reported as Expendable Trust Funds:				
Expendable Trust Funds	15,754,152	-	-	15,754,152
Saipan Trust Fund	-	(565,660)	-	(565,660)
Tobacco Settlement Trust Fund	-	(506,104)	-	(506,104)
Agriculture Revolving Fund	-	(76,416)	-	(76,416)
Probation Services Fund	-	(30,922)	-	(30,922)
Miscellaneous Expendable Trust	-	(258,892)	-	(258,892)
Marianas Garment Manufacturing	-	(342,895)	-	(342,895)
Marianas Public Lands Authority	-	(13,152,268)	-	(13,152,268)
Workers Compensation Commission	-	(820,995)	-	(820,995)
Total Expendable Trust Funds	<u>15,754,152</u>	<u>(15,754,152)</u>	<u>-</u>	<u>-</u>
Previously reported as Nonexpendable Trust Fund:				
Marianas Public Land Trust	-	(57,628,233)	-	(57,628,233)
Total Primary Government	<u>\$ (40,305,285)</u>	<u>\$ (71,601,496)</u>	<u>\$ 1,018,949</u>	<u>\$ (110,887,832)</u>

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2002

(16) Restatements, Continued

Component Units:

	Net Assets As Previously Reported	Fund Reclassifications	Adjustments	Net Assets As Restated
Commonwealth Ports Authority	\$ 94,966,965	\$ -	\$ -	\$ 94,966,965
Commonwealth Development Authority	70,836,461	-	-	70,836,461
Marianas Public Land Trust	-	57,628,233	-	57,628,233
Marianas Public Lands Authority	-	14,173,630	-	14,173,630
Marianas Visitors Authority	-	1,304,223	-	1,304,223
Inclusion of:				
Northern Marianas College	-	-	12,968,869	12,968,869
Public School System	-	-	86,194,276	86,194,276
Commonwealth Government Employees Credit Union (unaudited)	-	-	(800,794)	(800,794)
Total Component Units	\$ <u>165,803,426</u>	\$ <u>73,106,086</u>	\$ <u>98,362,351</u>	\$ <u>337,271,863</u>

(17) Subsequent Events

On December 19, 2002, Public Law No. 13-41 was enacted, which authorized the CNMI's Department of Finance to incur debt in an amount not to exceed \$19,000,000 for the purpose of funding the payment of tax rebates and refunds covering tax years 1999 through 2002.

On January 8, 2003, Public Law No. 13-44 was enacted, which authorized public debt in an amount not to exceed \$2,000,000 to fund the repair or replacement of infrastructure systems in the First Senatorial District damaged as a result of Super Typhoon Pongsona.

On June 30, 2003, Public Law No. 13-54 was enacted to authorize the Municipality of Tinian and Aguigan to borrow \$5,000,000 from the Marianas Public Land Trust to fund the design and construction of Tinian Civic Center.

On December 4, 2003, the CNMI issued General Obligations bonds amounting to \$40,000,000 for the settlement of land acquisition claims.



COMMONWEALTH OF THE  
NORTHERN MARIANA ISLANDS

REQUIRED SUPPLEMENTARY INFORMATION  
- BUDGETARY REPORTING

YEAR ENDED SEPTEMBER 30, 2002

## COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Revenues, Expenditures and Changes in Unreserved  
Fund Balance (Deficit) - Budget and Actual - General Fund  
Year Ended September 30, 2002

	Budgeted Amounts		Actual - Budgetary Basis	Variance
	Original	Final	(see note 1)	
Revenues:				
Taxes	\$ 203,101,800	\$ 166,550,000	\$ 165,590,790	\$ (959,210)
Charges for sales and services	13,126,500	14,803,000	15,475,536	672,536
Licenses and fees	12,865,900	12,242,000	12,160,554	(81,446)
Other	5,896,800	-	1,863,802	1,863,802
Total revenues	<u>234,991,000</u>	<u>193,595,000</u>	<u>195,090,682</u>	<u>1,495,682</u>
Expenditures - budgetary basis by function:				
Executive branch	114,273,546	100,591,166	100,090,361	500,805
Second Senatorial District - Tinian	15,456,969	12,395,165	12,706,317	(311,152)
First Senatorial District - Rota	15,407,470	12,726,928	13,047,443	(320,515)
Government utilities	7,000,000	8,919,666	10,789,075	(1,869,409)
Legislative branch	7,911,363	7,343,028	7,298,096	44,932
Judicial branch	5,832,189	4,762,071	4,758,246	3,825
Independent programs	4,096,769	1,450,872	2,445,789	(994,917)
Office of the Mayors	3,222,153	2,914,949	2,923,212	(8,263)
Office of the Public Auditor	2,311,300	2,311,300	2,246,829	64,471
Office of the Washington Representative	1,579,248	1,381,954	1,220,894	161,060
Boards and commissions	985,248	809,142	802,589	6,553
Education (payment to PSS and NMC)	49,080,042	43,421,948	43,354,452	67,496
Tourism (payment to MVA)	6,930,000	5,478,408	5,478,408	-
Employee benefits (payment to NMIRF and WCC)	3,581,481	1,088,430	1,088,429	1
Prior year adjustments	-	-	455,092	(455,092)
Internal Service Funds	-	-	453,673	(453,673)
Unallocated audit adjustments	-	-	136,081	(136,081)
Total expenditures	<u>237,667,778</u>	<u>205,595,027</u>	<u>209,294,986</u>	<u>(3,699,959)</u>
Excess of revenues over expenditures	<u>(2,676,778)</u>	<u>(12,000,027)</u>	<u>(14,204,304)</u>	<u>(2,204,277)</u>
Other financing sources (uses):				
Operating transfers in	7,525,000	3,250,000	4,629,100	1,379,100
Operating transfers out	(3,651,023)	(9,527,593)	(9,029,898)	497,695
Total other financing sources (uses), net	<u>3,873,977</u>	<u>(6,277,593)</u>	<u>(4,400,798)</u>	<u>1,876,795</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	<u>1,197,199</u>	<u>(18,277,620)</u>	<u>(18,605,102)</u>	<u>(327,482)</u>
Other changes in unreserved deficit:				
Decrease in reserve for supplies	-	-	299,032	299,032
Decrease in reserve for related assets	-	-	1,120,218	1,120,218
Decrease in reserve for continuing appropriation	-	-	199,099	199,099
Other	-	-	498,637	498,637
Deficit at beginning of year	<u>(87,948,598)</u>	<u>(87,948,598)</u>	<u>(87,948,598)</u>	<u>-</u>
Deficit at end of year	<u>\$ (86,751,399)</u>	<u>\$ (106,226,218)</u>	<u>\$ (104,436,714)</u>	<u>\$ 1,789,504</u>

See Accompanying Notes to Required Supplementary Information - Budgetary Reporting.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to Required Supplementary Information - Budgetary Reporting  
September 30, 2002

(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.

During the year ended September 30, 2002, the CNMI operated under a continuing resolution based on Public Law No. 11-41, the Appropriations and Budget Authority Act of 1999 for the General Fund, due to the lack of approval by the CNMI Legislature of a balanced budget. The CNMI does not establish budgets for the operations of its other governmental funds. For the year ended September 30, 2002, the estimated revenue resources and operating transfers in of \$242,516,000 was subsequently revised to \$196,845,000.

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. On June 4, 1999, a joint resolution of the CNMI Legislature authorized the Governor to reprogram appropriations and allocations under Public Law No. 11-41 in excess of the 25% limitation. This authorization was based on estimated revenue collections for the General Fund of \$242,516,000. 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, 2002

(1) Budgetary Information, Continued

For the year ended September 30, 2002, 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:	
Department of Public Safety	\$ 22,810
Department of Finance	\$ 1,167,940
Department of Labor and Immigration	\$ 7,125
Department of Community and Cultural Affairs	\$ 25,191
First Senatorial District - Rota:	
Mayor	\$ 58,006
Public Health	\$ 227,751
Finance	\$ 22,804
Labor and Immigration	\$ 21,528
Community and Cultural Affairs	\$ 22,804
Personnel Office	\$ 109
Second Senatorial District - Tinian:	
Mayor	\$ 251,449
Public Health	\$ 120,244
Finance	\$ 16,001
Personnel Office	\$ 104
Office of the Mayors:	
Saipan	\$ 2,401
Northern Islands	\$ 2,446
Saipan Municipal Council	\$ 3,416
Legislative branch:	
House of Representatives	\$ 12,047
Senate	\$ 69,767
Independent programs:	
Cops Universal Hiring Program	\$ 31
Chamorro/Carolinian language	\$ 903
Judgments and Settlements	\$ 429,397
Other	\$ 434,985
Judicial branch:	
Superior Court	\$ 25,062
Government utilities	\$ 1,869,409
Operating transfers out:	
Human Resources Development Trust Fund	\$ 24

COMMONWEALTH OF THE  
NORTHERN MARIANA ISLANDS

OTHER SUPPLEMENTARY INFORMATION

YEAR ENDED SEPTEMBER 30, 2002

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

September 30, 2002

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

Federal Grants Fund

This fund accounts for all financial transactions related to direct grants received from various U.S. departments.

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, 2002

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, 2002, 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.

Marianas Public Lands Authority

MPLA is responsible for the management, use and disposition of public lands in the CNMI through lease and permit arrangements, including management, use and disposition of submerged lands off the coast of the CNMI and also administration of the homestead program for qualifying CNMI citizens.

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.

Rebate Trust Fund

The Rebate Trust Fund was established to account for at least 95% 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.

Marianas 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, 2002

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.

Miscellaneous Special Revenue Trust Funds

The miscellaneous expendable trust fund combines the following:

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

See Accompanying Independent Auditors' Report.



COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS  
NON-MAJOR CAPITAL PROJECTS FUNDS

September 30, 2002

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.

Commonwealth Medical Center

This fund accounts for the construction of the Commonwealth Medical Center funded through grant awards from the U.S. Department of the Interior.

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.

Northern Marianas Housing Corporation (NMHC) Grants

This fund accounts for various capital projects administered by the Northern Marianas Housing Corporation and funded by the U.S. Department of Housing and Urban Development.

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, 2002

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.

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COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Balance Sheet  
Non-Major Governmental Funds  
September 30, 2002

Special Revenue Funds									
Judicial Building	Local Revenue	CNMI Telecommunications Commission	Saipan Trust	Tobacco Settlement Trust	NMTYT Rebate Trust	Marianas Garment Manufacturing	Pass-Through Capital Projects	Miscellaneous	Total Special Revenue Funds
\$ -	\$ -	\$ -	\$ 466,846	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 466,846
-	-	-	-	-	-	-	888,802	-	7,788,244
39,980	2,276,377	40,785	3,980	506,104	27,146,864	346,635	-	423,589	33,673,438
2,705,868	-	-	-	-	-	-	-	-	2,705,868
-	-	-	-	-	-	-	-	-	554,800
<u>\$ 2,745,848</u>	<u>\$ 2,276,377</u>	<u>\$ 40,785</u>	<u>\$ 470,826</u>	<u>\$ 506,104</u>	<u>\$ 27,146,864</u>	<u>\$ 346,635</u>	<u>\$ 888,802</u>	<u>\$ 423,589</u>	<u>\$ 45,189,196</u>
\$ 9,984	\$ 127,810	\$ -	\$ 2,356	\$ -	\$ -	\$ -	\$ -	\$ 9,844	\$ 1,631,349
-	-	-	-	-	27,146,864	-	-	-	27,146,864
-	-	-	-	-	-	-	888,802	-	693,569
-	-	-	-	-	-	-	-	-	5,984,422
-	-	-	-	-	-	-	-	-	684,947
<u>9,984</u>	<u>127,810</u>	<u>-</u>	<u>2,356</u>	<u>-</u>	<u>27,146,864</u>	<u>-</u>	<u>888,802</u>	<u>9,844</u>	<u>36,141,151</u>
2,705,868	-	-	-	-	-	-	-	-	2,705,868
4,245	1,841,267	-	-	-	-	-	-	29,975	7,844,507
<u>25,751</u>	<u>307,300</u>	<u>40,785</u>	<u>468,470</u>	<u>506,104</u>	<u>-</u>	<u>346,635</u>	<u>-</u>	<u>383,770</u>	<u>(1,502,330)</u>
<u>2,735,864</u>	<u>2,148,567</u>	<u>40,785</u>	<u>468,470</u>	<u>506,104</u>	<u>-</u>	<u>346,635</u>	<u>-</u>	<u>413,745</u>	<u>9,048,045</u>
<u>\$ 2,745,848</u>	<u>\$ 2,276,377</u>	<u>\$ 40,785</u>	<u>\$ 470,826</u>	<u>\$ 506,104</u>	<u>\$ 27,146,864</u>	<u>\$ 346,635</u>	<u>\$ 888,802</u>	<u>\$ 423,589</u>	<u>\$ 45,189,196</u>

See Accompanying Independent Auditors' Report.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Balance Sheet  
Non-Major Governmental Funds  
September 30, 2002

	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	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,790,627	\$ 2,257,473
Receivables, net:									
Federal agencies	-	-	-	-	-	-	-	-	7,788,244
Other	-	-	-	20,717	-	716,470	737,187	-	737,187
Due from other funds	147,315	187,359	253,868	98,499	1,091,076	349,235	2,127,352	-	35,800,790
Due from Pension and Other Employee Benefit Trust Funds	-	-	-	-	-	-	-	-	2,705,868
Inventory	-	-	-	-	-	-	-	-	554,800
	<u>\$ 147,315</u>	<u>\$ 187,359</u>	<u>\$ 253,868</u>	<u>\$ 119,216</u>	<u>\$ 1,091,076</u>	<u>\$ 1,065,705</u>	<u>\$ 2,864,539</u>	<u>\$ 1,790,627</u>	<u>\$ 49,844,362</u>
<u>Liabilities and Fund Balances (Deficit)</u>									
Liabilities:									
Accounts payable	\$ -	\$ -	\$ 119,351	\$ 417,187	\$ 204,292	\$ 31,679	\$ 772,509	\$ -	\$ 2,403,858
Tax rebates payable	-	-	-	-	-	-	-	-	27,146,864
Other liabilities and accruals	-	-	-	-	-	-	-	-	693,569
Due to other funds	-	-	-	-	-	-	-	-	5,984,422
Deferred revenue	147,315	-	134,517	-	-	-	281,832	-	966,779
Total liabilities	<u>147,315</u>	<u>-</u>	<u>253,868</u>	<u>417,187</u>	<u>204,292</u>	<u>31,679</u>	<u>1,054,341</u>	<u>-</u>	<u>37,195,492</u>
Fund balances (deficit):									
Reserved for:									
Debt service	-	-	-	-	-	-	-	1,790,627	4,496,495
Encumbrances	230,000	201,901	2,899,182	442,863	787,027	49,374	4,610,347	-	12,454,854
Continuing appropriations	-	-	-	-	1,844,404	-	1,844,404	-	1,844,404
Unreserved:									
Undesignated	(230,000)	(14,542)	(2,899,182)	(740,834)	(1,744,647)	984,652	(4,644,553)	-	(6,146,883)
Total fund balances (deficit)	<u>-</u>	<u>187,359</u>	<u>-</u>	<u>(297,971)</u>	<u>886,784</u>	<u>1,034,026</u>	<u>1,810,198</u>	<u>1,790,627</u>	<u>12,648,870</u>
	<u>\$ 147,315</u>	<u>\$ 187,359</u>	<u>\$ 253,868</u>	<u>\$ 119,216</u>	<u>\$ 1,091,076</u>	<u>\$ 1,065,705</u>	<u>\$ 2,864,539</u>	<u>\$ 1,790,627</u>	<u>\$ 49,844,362</u>

See Accompanying Independent Auditors' Report.



COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Statement of Revenues, Expenditures and Changes in Fund Balances  
 Non-Major Governmental Funds  
 For the Year Ended September 30, 2002

Special Revenue Funds									
Judicial Building	Local Revenue	CNMI Telecommunications Commission	Saipan Trust	Tobacco Settlement Trust	NMTIT Rebate Trust	Marianas Garment Manufacturing	Pass-Through Capital Projects	Miscellaneous	Total Special Revenue Funds
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 28,537,941
-	-	-	11,909	-	-	-	-	10,638	22,547
-	-	-	-	-	-	-	-	-	411,912
<u>1,351,875</u>	<u>2,697,323</u>	<u>40,785</u>	<u>(102,103)</u>	-	-	<u>3,875</u>	-	<u>144,703</u>	<u>11,161,945</u>
<u>1,351,875</u>	<u>2,697,323</u>	<u>40,785</u>	<u>(90,194)</u>	-	-	<u>3,875</u>	-	<u>155,341</u>	<u>40,134,345</u>
-	-	-	-	-	-	-	-	-	-
-	144,281	-	-	-	-	-	-	10,551	9,888,541
-	-	-	-	-	-	-	-	5,146	8,875,619
-	-	-	-	-	-	-	-	34,427	5,399,050
-	85,127	-	6,996	-	-	135	-	4,028	5,382,104
-	-	-	-	-	-	-	-	23,837	3,201,882
-	59,616	-	-	-	-	-	-	-	1,655,170
<u>1,453,105</u>	<u>408,480</u>	-	-	-	-	-	-	-	<u>1,453,105</u>
-	-	-	-	-	-	-	-	-	408,480
-	-	-	-	-	-	-	-	-	1,474,933
-	-	-	-	-	-	-	-	<u>29,837</u>	<u>29,837</u>
<u>1,453,105</u>	<u>697,504</u>	-	<u>6,996</u>	-	-	<u>135</u>	-	<u>107,826</u>	<u>37,768,721</u>
<u>(101,230)</u>	<u>1,999,819</u>	<u>40,785</u>	<u>(97,190)</u>	-	-	<u>3,740</u>	-	<u>47,515</u>	<u>2,365,624</u>
-	-	-	-	-	-	-	-	-	3,258,018
-	<u>(1,586,573)</u>	-	-	-	-	-	-	-	<u>(5,152,078)</u>
-	<u>(1,586,573)</u>	-	-	-	-	-	-	-	<u>(1,894,060)</u>
<u>(101,230)</u>	<u>413,246</u>	<u>40,785</u>	<u>(97,190)</u>	-	-	<u>3,740</u>	-	<u>47,515</u>	<u>471,564</u>
<u>2,837,094</u>	<u>1,735,321</u>	-	<u>565,660</u>	<u>506,104</u>	-	<u>342,895</u>	-	<u>366,230</u>	<u>8,576,481</u>
<u>\$ 2,735,864</u>	<u>\$ 2,148,567</u>	<u>\$ 40,785</u>	<u>\$ 468,470</u>	<u>\$ 506,104</u>	<u>\$ -</u>	<u>\$ 346,635</u>	<u>\$ -</u>	<u>\$ 413,745</u>	<u>\$ 9,048,045</u>

See Accompanying Independent Auditors' Report.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Statement of Revenues, Expenditures and Changes in Fund Balances  
 Non-Major Governmental Funds  
 For the Year Ended September 30, 2002

	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		
Revenues:									
Federal contributions	\$ 5,959,947	\$ -	\$ 2,643,868	\$ 177,726	\$ -	\$ 12,816	\$ 8,794,357	\$ -	\$ 37,332,298
Interest and dividends	-	-	-	-	-	-	-	17,026	39,573
Other contributions	5,101,670	58,637	-	-	-	585,249	5,745,556	-	6,157,468
Other	-	-	-	-	1,661,305	-	1,661,305	-	12,823,250
<b>Total revenues</b>	<b>11,061,617</b>	<b>58,637</b>	<b>2,643,868</b>	<b>177,726</b>	<b>1,661,305</b>	<b>598,065</b>	<b>16,201,218</b>	<b>17,026</b>	<b>56,352,589</b>
Expenditures by account:									
Capital projects	11,061,617	1,050	2,643,868	685,021	2,662,660	665,749	17,719,965	-	17,719,965
Community and social services	-	-	-	-	-	-	-	-	9,888,541
Health	-	-	-	-	-	-	-	-	8,875,619
Public safety and law enforcement	-	-	-	-	-	-	-	-	5,399,050
General government	-	-	-	-	-	-	-	-	5,382,104
Lands and natural resources	-	-	-	-	-	-	-	-	3,201,882
Public works	-	-	-	-	-	-	-	-	1,655,170
Debt service	-	-	-	-	-	-	-	2,005,596	3,458,701
Other elected officials	-	-	-	-	-	-	-	-	408,480
Education (payment to NMC)	-	-	-	-	-	-	-	-	1,474,933
Economic development	-	-	-	-	-	-	-	-	29,837
<b>Total expenditures</b>	<b>11,061,617</b>	<b>1,050</b>	<b>2,643,868</b>	<b>685,021</b>	<b>2,662,660</b>	<b>665,749</b>	<b>17,719,965</b>	<b>2,005,596</b>	<b>57,494,282</b>
Excess (deficiency) of revenues over (under) expenditures	-	57,587	-	(507,295)	(1,001,355)	(67,684)	(1,518,747)	(1,988,570)	(1,141,693)
Other financing sources (uses):									
Operating transfers in	-	-	-	269,855	414,338	-	684,193	2,000,000	5,942,211
Operating transfers out	-	(2,247,460)	-	-	-	-	(2,247,460)	-	(7,399,538)
<b>Total other financing sources (uses), net</b>	<b>-</b>	<b>(2,247,460)</b>	<b>-</b>	<b>269,855</b>	<b>414,338</b>	<b>-</b>	<b>(1,563,267)</b>	<b>2,000,000</b>	<b>(1,457,327)</b>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	-	(2,189,873)	-	(237,440)	(587,017)	(67,684)	(3,082,014)	11,430	(2,599,020)
Fund balances (deficit) at beginning of year	-	2,377,232	-	(60,531)	1,473,801	1,101,710	4,892,212	1,779,197	15,247,890
Fund balances (deficit) at end of year	\$ -	\$ 187,359	\$ -	\$ (297,971)	\$ 886,784	\$ 1,034,026	\$ 1,810,198	\$ 1,790,627	\$ 12,648,870

See Accompanying Independent Auditors' Report.



COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS  
FIDUCIARY FUNDS

September 30, 2002

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, 2002

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, 2002

	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	Timian Land Condemnation Fund	Security Deposit Fund	Total
<u>Assets</u>							
Cash and cash equivalents	\$ 5,060,729	\$ 270,400	\$ 218,698	\$ 5,549,827	\$ -	\$ -	\$ -
Receivables:							
Loans	11,518,066	-	-	11,518,066	-	-	-
Federal agencies	-	-	-	-	-	-	-
Notes	8,967,066	-	-	8,967,066	-	-	-
General	601,023	-	-	601,023	-	-	-
Interest and dividends	995,167	-	-	995,167	-	-	-
Other	794,594	3,437,413	31,697	4,263,704	-	-	-
Due from primary government	17,669,358	-	253,718	17,923,076	1,328,224	-	1,328,224
Prepaid items	23,918	-	-	23,918	-	-	-
Investments, at fair market value:							
Equity securities	189,011,193	-	-	189,011,193	-	-	-
U.S. Government securities	63,510,325	-	365,800	63,876,125	-	-	-
Money market placements	24,746,580	-	247,639	24,994,219	-	-	-
Corporate debt securities	11,611,945	-	-	11,611,945	-	-	-
Real property	545,000	-	-	545,000	-	-	-
Restricted assets	-	-	-	-	-	6,067,340	6,067,340
Capital assets	4,124,683	11,044	7,397	4,143,124	-	-	-
<b>Total assets</b>	<b>339,179,647</b>	<b>3,718,857</b>	<b>1,124,949</b>	<b>344,023,453</b>	<b>1,328,224</b>	<b>6,067,340</b>	<b>7,395,564</b>
<u>Liabilities and Other Credits</u>							
Accounts payable	55,779	3,718,857	70,956	3,845,592	\$ -	\$ -	\$ -
Claims and judgments payable	-	-	-	-	1,328,224	-	1,328,224
Deposits payable	-	-	-	-	-	6,067,340	6,067,340
Other liabilities and accruals	118,943	-	-	118,943	-	-	-
Due to other funds	2,705,868	-	92,447	2,798,315	-	-	-
Deferred revenue	1,013,666	-	-	1,013,666	-	-	-
<b>Total liabilities and other credits</b>	<b>3,894,256</b>	<b>3,718,857</b>	<b>163,403</b>	<b>7,776,516</b>	<b>\$ 1,328,224</b>	<b>\$ 6,067,340</b>	<b>\$ 7,395,564</b>
Net assets:							
Held in trust for pension benefits and other purposes	\$ 335,285,391	\$ -	\$ 961,546	\$ 336,246,937			

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, 2002

	Pension and Other Employee Benefit Trust Funds			
	Northern Mariana Islands Retirement Fund	CNMI Government Health and Life Insurance Trust	CNMI Workers' Compensation Commission	Total
<u>Additions</u>				
Contributions:				
Employer	\$ 38,066,051	\$ -	\$ -	\$ 38,066,051
Employer - unfunded	132,815,507	-	-	132,815,507
Employee	10,525,660	-	-	10,525,660
Revenues:				
Premiums	-	8,514,432	-	8,514,432
Rent income and other	231,267	2,937	104,222	338,426
Total contributions and revenues	<u>181,638,485</u>	<u>8,517,369</u>	<u>104,222</u>	<u>190,260,076</u>
Net investment income (loss):				
Net appreciation (depreciation) in fair value	(27,757,425)	-	-	(27,757,425)
Interest	6,671,566	-	-	6,671,566
Dividends	1,777,450	-	-	1,777,450
Total investment loss	(19,308,409)	-	-	(19,308,409)
Less: investment expense	1,770,659	-	-	1,770,659
Net investment loss	(21,079,068)	-	-	(21,079,068)
Total additions	<u>160,559,417</u>	<u>8,517,369</u>	<u>104,222</u>	<u>169,181,008</u>
<u>Deductions</u>				
Provision for uncollectible unfunded pension liability	132,815,507	-	-	132,815,507
Benefits	38,850,979	-	-	38,850,979
General and administrative	1,734,819	1,370,944	311,734	3,417,497
Bad debts	22,787,818	-	-	22,787,818
Refunds	4,173,961	-	-	4,173,961
Medical claims	-	7,146,425	-	7,146,425
Total deductions	<u>200,363,084</u>	<u>8,517,369</u>	<u>311,734</u>	<u>209,192,187</u>
Other financing sources (uses):				
Transfer in	-	-	348,063	348,063
Change in net assets	(39,803,667)	-	140,551	(39,663,116)
Net assets at beginning of year	375,089,058	-	820,995	375,910,053
Net assets at end of year	<u>\$ 335,285,391</u>	<u>\$ -</u>	<u>\$ 961,546</u>	<u>\$ 336,246,937</u>

See Accompanying Independent Auditors' Report.