

COMMONWEALTH OF THE  
NORTHERN MARIANA ISLANDS

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

YEAR ENDED SEPTEMBER 30, 2005

COMMONWEALTH OF THE  
NORTHERN MARIANA ISLANDS

FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITORS' REPORT

YEAR ENDED SEPTEMBER 30, 2005

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

FINANCIAL STATEMENTS

YEAR ENDED SEPTEMBER 30, 2005

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FINANCIAL STATEMENTS

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## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Commonwealth of the Northern Mariana Islands (CNMI) as of and for the year ended September 30, 2005, which collectively comprise the CNMI's basic financial statements as set forth in Section II of the foregoing table of contents. These financial statements are the responsibility of the CNMI's management. Our responsibility is to express an opinion on the respective financial statements based on our audit. We did not audit the financial statements of the Marianas Visitors Authority and the Public School System, which represent 15%, 26% and 31% of the assets, net assets and revenues, respectively, of the CNMI's aggregate discretely presented component units, or the financial statements of the Northern Mariana Islands Retirement Fund, the CNMI Workers' Compensation Commission, and the Northern Mariana Islands Government Health and Life Insurance Trust Fund, which represent 94% and 82% of the assets and revenues, respectively, of the aggregate remaining fund information. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Marianas Visitor Authority, the Public School System, the Northern Mariana Islands Retirement Fund, the CNMI Workers' Compensation Commission, and the Northern Mariana Islands Government Health and Life Insurance Trust Fund, is based solely on the reports of the other auditors.

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

Because of inadequacies in the accounting records, we were unable to form an opinion regarding the amount at which taxes receivable, advances, accounts payable, tax rebates payable, and other liabilities and accruals are recorded for the governmental activities, each major fund and the aggregate remaining fund information, and the amount at which the reserve for continuing appropriations is recorded for the General Fund and the aggregate remaining fund information. Taxes receivable, advances, accounts payable, tax rebates payable, and other liabilities and accrual balances enter into the determination of revenues and expenditures/expenses for the governmental activities, each major fund and the aggregate remaining fund information for the year ended September 30, 2005.

Because of inadequacies in the accounting records, we were unable to form an opinion regarding capital assets and related depreciation expense of the Northern Marianas College. The financial activities of the Northern Marianas College are included in the CNMI's basic financial statements as a discretely presented component unit and represent 3% and 7% of the assets and revenues, respectively, of the CNMI's aggregate discretely presented component units.

The financial statements of the Commonwealth Utilities Corporation have not been audited, and we were not engaged to audit these financial statements as part of our audit of the CNMI's basic financial statements. The financial activities of the Commonwealth Utilities Corporation are included in the CNMI's basic financial statements as a discretely presented component unit and represent 21% and 33% of the assets and revenues, respectively, of the CNMI's aggregate discretely presented component units.

In our opinion, based on our audit and the reports of other auditors, except for the effects on the respective financial statements of such adjustments, if any, as might have been determined to be necessary had we been able to substantiate taxes receivable, advances, accounts payable, tax rebates payable, and other liabilities and accrual balances and their effect on the determination of revenues and expenditures/expenses for the governmental activities, each major fund and the aggregate remaining fund information, and had we been able to substantiate reserve for continuing appropriation balances for the General Fund and the aggregate remaining fund information, as discussed in the third paragraph above; had accounting records regarding capital assets and related depreciation expense of the Northern Marianas College been adequate, as discussed in the fourth paragraph above; and had the financial statements of the Commonwealth Utilities Corporation been audited, as discussed in the fifth paragraph above, such financial statements, as set forth in Section II of the foregoing table of contents, present fairly, in all material respects, the respective financial position of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Commonwealth of the Northern Mariana Islands as of September 30, 2005, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

Our audit was conducted for the purpose of forming an opinion on the CNMI's respective financial statements that collectively comprise the CNMI's basic financial statements. The Other Supplementary Information, as set forth in Section IV of the foregoing table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements of the CNMI. This supplementary information is the responsibility of the management of the CNMI. Such additional 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 matter described in the third paragraph above, in our opinion, based on our audit and the reports of other auditors, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 16, 2006, on our consideration of the CNMI's (Primary Government only) internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Deloitte & Touche LLC

June 16, 2006



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### Management's Discussion and Analysis For Fiscal Year Ended September 30, 2005

Our discussion and analysis of the Commonwealth of the Northern Mariana Islands ("CNMI") financial performance provides an overview of the CNMI's financial activities for the fiscal year ended September 30, 2005. Please read it in conjunction with the CNMI's financial statements, which follow this section. Fiscal year 2004 comparative information, including restatements, has been included where appropriate for comparative purposes.

#### FINANCIAL HIGHLIGHTS

- For the fiscal year ended September 30, 2005, the CNMI's total net assets decreased by \$19.5 million, to a net asset deficiency position of \$38.1 million, which represents an increase of approximately 104.4% from the net asset deficiency position at the beginning of the year.

During the year, the CNMI's expenses for governmental activities were \$328 million, including expenses recorded for payments made or due to the autonomous agencies, and were funded in part by program revenues of \$124.8 million, further funded with taxes and other general revenues that totaled \$183.7 million. The difference between total revenues of \$308.5 million and total expenses of \$328 million is what resulted in the \$19.5 million decrease in net assets.

- At September 30, 2005, the General Fund reported an unreserved fund deficit of \$174.3 million, which is an increase in the unreserved fund deficit of 13.6% from the prior year's reported unreserved fund deficit of \$153.4 million.
- For budgetary reporting purposes, General Fund actual revenues exceeded final estimates by \$2 million, or 0.9%, while reported actual expenditures exceeded final appropriations by \$13.5 million, or 5.7%. These amounts do not include transfers to and from other funds.

#### OVERVIEW OF THE FINANCIAL STATEMENTS

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

#### Reporting The CNMI as a Whole

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

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

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

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

- Governmental activities - Most of the CNMI's basic services are reported here, including the public safety, health care, general administration, streets, and parks. Income taxes, business gross receipt taxes, other taxes and fees, fines, and federal grants finance most of these activities.



- Discretely presented component units - These account for activities of the CNMI's reporting entity that do not meet the criteria for blending within the CNMI's primary government. These discretely presented component units are often referred to as autonomous agencies.

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

**Fund Financial Statements**

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

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

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

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

**Net Assets**

The CNMI's governmental activities net asset deficiency increased from \$18.6 million to a net asset deficiency of \$38.1 million, an increase in the deficit of 104.4%, between fiscal years 2004 and 2005.

A summary of net assets (condensed) is presented below, with comparable balances for fiscal year 2004.

	<b>Governmental Activities 2005</b>	<b>Governmental Activities 2004</b>
Current assets	\$ 93,448,226	\$ 124,577,793
Capital assets, net	179,328,037	168,260,849
Other noncurrent assets	<u>10,671,928</u>	<u>13,564,332</u>
<b>Total assets</b>	<u>283,448,191</u>	<u>306,402,974</u>
Current liabilities	198,903,069	207,150,349
Noncurrent liabilities	<u>122,676,711</u>	<u>117,909,062</u>
<b>Total liabilities</b>	<u>321,579,780</u>	<u>325,059,411</u>
Net assets		
Invested in capital assets, net of related debt	117,924,743	116,583,239
Restricted	8,924,416	47,448,063
Unrestricted	<u>(164,980,748)</u>	<u>(182,687,739)</u>
<b>Total net assets</b>	<u>\$ (38,131,589)</u>	<u>\$ (18,656,437)</u>

**Changes in Net Assets**

For the year ended September 30, 2005, net assets of the primary government changed as follows, with comparable amounts for fiscal year 2004:

	<b>Governmental Activities <u>2005</u></b>	<b>Governmental Activities <u>2004</u></b>
<b>Revenues</b>		
Program revenues	\$ 124,767,400	\$ 117,452,348
Taxes and other general revenues	<u>183,763,329</u>	<u>179,873,649</u>
<b>Total revenues</b>	<u>308,530,729</u>	<u>297,325,997</u>
<b>Expenses</b>		
Capital projects	8,008,030	10,690,673
Health	52,258,774	56,909,894
Public safety and law enforcement	46,139,323	46,520,127
General government	35,465,650	25,016,984
Community and social services	22,665,452	20,699,627
Other elected officials	16,090,032	16,350,688
Utilities	12,926,624	11,519,548
Public works	21,764,132	19,123,555
Lands and natural resources	9,330,240	13,385,983
Legislative branch	8,835,386	9,009,997
Judicial branch	5,119,358	5,242,398
Education	7,036,144	6,750,842
Debt service	7,713,555	8,654,132
Economic development	1,147,824	1,713,561
Interim financing	-	1,901,259
Payments to autonomous agencies	53,010,591	53,639,988
Penalty on retirement fund contributions	1,603,563	19,030,187
Payments to Land Claimants	18,891,203	2,943,430
Retroactive salary adjustments	<u>-</u>	<u>2,475,731</u>
<b>Total expenses</b>	<u>328,005,881</u>	<u>331,578,604</u>
<b>Decrease in net assets</b>	<u>\$ (19,475,152)</u>	<u>\$ (34,252,607)</u>

The CNMI's governmental activities' decrease in net assets of \$19.5 million represents a 104.4% decrease from the prior year. The results indicate the CNMI's financial condition, as a whole, declined significantly from the prior year. The decline in net assets is mainly the result of the disbursement of \$18.9 million in payments for land claims from bond proceeds recognized in 2004. We expect net assets to increase by a similar amount in FY2006 when the land assets are transferred to the primary government as a result of Public Law 15-02 establishing the Department of Public Lands within the Executive Branch. See note 17 to the financial statements for more detailed information.

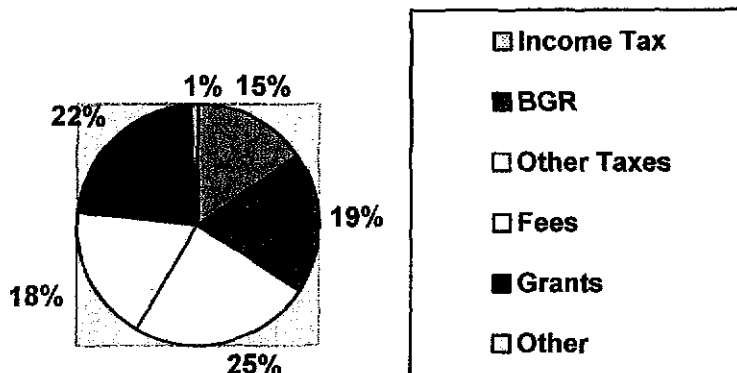
**Governmental Activities**

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

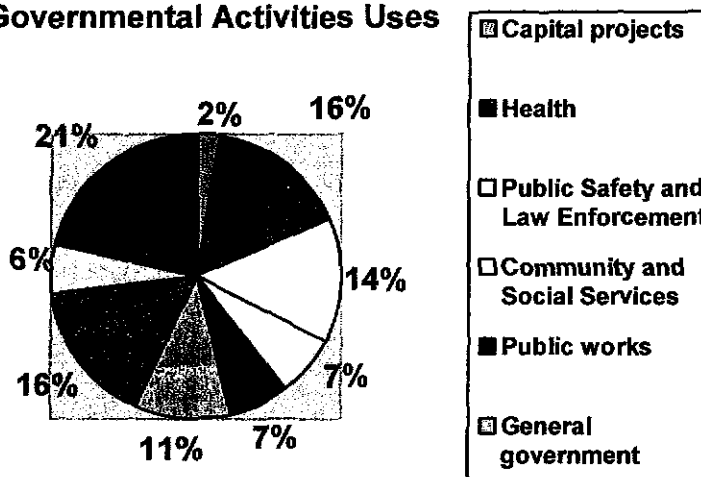
Of particular interest is the format that is significantly different than a typical Statement of Revenues, Expenses, and Changes in Fund Balance. You will notice that expenses are listed in the first column with revenues from that particular program reported to the right. The result is a Net (Expense)/Revenue. 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, 2005, the CNMI's governmental activities were funded as follows:

### Governmental Activities Sources



### Governmental Activities Uses



For the year ended September 30, 2005, total expenses for governmental activities amounted to \$328 million. Of these total expenses, taxpayers and other general revenues funded \$183.7 million, while those directly benefiting from the activities funded \$68.5 million from grants and other contributions and \$56.3 million from charges for services, with the remaining expenses in excess of revenues creating the net asset deficit.

	2005	2005	2004	2004
Capital projects	\$ 8,008,030	\$ (488,710)	\$ 10,690,673	\$ (8,268,973)
Health	52,258,774	(24,716,949)	56,909,894	(28,334,529)
Public safety and law enforcement	46,139,323	(22,998,669)	46,520,127	(26,275,162)
General government	35,465,650	(1,950,576)	25,016,984	3,878,293
Community and social services	22,665,452	(2,640,854)	20,699,627	(415,114)
Public works	21,764,132	(15,849,389)	19,123,555	(11,899,443)
Payments to autonomous agencies	53,010,591	(53,010,591)	53,639,988	(53,639,988)
Retirement penalty	1,603,563	(1,603,563)	19,030,187	(19,030,187)
Payments to Land Claimants	18,891,203	(18,891,203)	2,943,430	(2,943,430)
All other	68,199,163	(61,087,977)	81,465,866	(67,197,723)
<b>Total</b>	<b>\$ 328,005,881</b>	<b>\$ (203,238,481)</b>	<b>\$ 331,578,604</b>	<b>\$ (214,126,256)</b>

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

As the CNMI completed its 2005 fiscal year, the governmental funds reported a combined fund deficit of \$84 million, which compares with a prior year fund deficit of \$49.2 million, an increase in the fund deficit of \$34.8 million, or 70.8%. This increase in the fund deficit is due in large part to the disbursement of \$18.9 million in payments for land claims from bond proceeds recognized in 2004 and recognition of a one-time penalty on retirement contributions (\$1.6 million) as expenditures in the CNMI's General Fund. In addition, the expenditure of bond proceeds recognized in prior years in the DOI Capital Projects Fund and Other Governmental Funds resulted in current year deficits of \$4.4 million and \$0.4 million, respectively.

Individual fund highlights include:

- For the year ended September 30, 2005, the General Fund's total fund deficit increased by \$30 million or 28.3%, to a total fund deficit of \$135.9 million, while the total unreserved fund deficit increased by \$20.8 million or 13.6%, for a total unreserved fund deficit of \$174.3 million.
- The Federal Grants Special Revenue Fund's revenues and expenditures were equal at \$46.9 million, leaving beginning and ending fund balance of \$0.
- The DOI Capital Projects Fund's total fund balance decreased by \$4.4 million, or 12.4%, to a total of \$31.1 million.

**General Fund Budgetary Highlights**

There were no significant changes between the original and final budgets. The General Fund's actual revenues of \$214.9 million were more than the final estimates by \$2 million, a variance of 0.9%. The General Fund's actual expenditures of \$251.1 million exceeded appropriations by \$13.5 million, a variance of 5.7%. This is attributable in part to the recognition of bad debt expense (\$4.9 million) and retirement fund penalty (\$1.6 million) and typhoon expenditures (\$1.7 million) which were not appropriated in either the original or final budgets.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital Assets**

At the end of September 30, 2005, the CNMI had \$179.3 million invested in capital assets, net of depreciation, where applicable, including land, roads and bridges, infrastructure, vehicles and other machinery and equipment, buildings, and various projects under construction. (See table below). This represents a net increase of \$11.1 million or 6.6% over last year.

	<u>2005</u>	<u>2004</u>
Infrastructure, net	\$ 36,944,568	\$ 37,410,965
Buildings and improvements, net	81,322,044	69,294,877
Machinery and Equipment, net	6,523,145	5,312,087
Construction in progress	54,538,280	56,242,920
<b>Totals</b>	<b>\$ 179,328,037</b>	<b>\$ 168,260,849</b>

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 \$113.3 million in long-term debt outstanding, which represents a net decrease of \$4.3 million or 3.6% net decrease from the prior year. The CNMI's changes in long-term liabilities by type of debt are as follows:

	<b>Governmental</b>	
	<u>Activities</u>	
	<u>2005</u>	<u>2004</u>
Accrued compensated absences	\$ 9,708,113	\$ 9,681,781
Bonds payable	103,354,934	106,280,467
Notes payable	9,936,867	11,279,320
Claims and judgment payable	<u>9,020,743</u>	<u>9,020,743</u>
<b>Totals</b>	<u>\$ 132,020,657</u>	<u>\$ 136,262,311</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 continue to play a large role in developing the tax and other revenue budgets for the General Fund of the CNMI. The local economy has been slowed by the effects of a declining garment industry related to China's entry into the World Trade Organization and removal of quotas on U.S. imports from China. The outlook for the garment industry is a continued decline over the next several years. In addition, the tourism industry has been negatively impacted by the pullout of Japan Airlines from the CNMI in October 2005. Tourism from Japan is expected to rebound once Narita Airport expansion is completed in 2007 and other airlines can add flights to the CNMI. In addition, the continuing increases in fuel prices have put a strain on both the local economy and the Commonwealth's budget. The fiscal 2006 estimated available revenue and budget were reduced to \$198 million in January 2006 and the fiscal 2007 budget is based on \$193 million in estimated available revenue. We expect economic conditions to improve after 2007 as flights from Japan are added and tourism from other major markets, particularly Korea and China, continues to increase.

**CONTACTING THE CNMI'S FINANCIAL MANAGEMENT**

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Statement of Net Assets  
September 30, 2005

<u>Assets</u>	<u>Primary Government</u>	<u>Component Units</u>
Current assets:		
Cash and cash equivalents	\$ 5,377,565	\$ 24,813,669
Time certificates of deposit	6,352,555	511,448
Receivables, net of allowance for uncollectibles	32,903,955	25,619,714
Due from primary government	-	4,335,117
Due from component units	6,956,637	-
Due from Pension (and Other Employee Benefit) Trust Fund	1,879,096	-
Inventories	1,711,459	9,745,126
Other assets	-	238,996
Deferred bond issue costs	387,621	64,544
Restricted assets:		
Cash and cash equivalents	37,879,338	32,943,896
Time certificates of deposit	-	17,672,523
Investments	-	54,278,831
Total current assets	93,448,226	170,223,864
Noncurrent assets:		
Cash and cash equivalents	-	16,828,590
Investments	2,500,000	3,659,044
Receivables, net of allowance for uncollectibles	-	38,724,339
Advances	4,613,862	-
Due from component units	3,558,066	-
Deferred bond issue costs, net of current portion	-	1,349,472
Other assets	-	5,708,985
Foreclosed real estate	-	1,682,203
Capital assets, net of accumulated depreciation	179,328,037	373,838,189
Total noncurrent assets	189,999,965	441,790,822
Total assets	283,448,191	612,014,686
<u>Liabilities</u>		
Current liabilities:		
Bank overdraft	3,176,314	-
Current portion of notes and bonds payable	5,935,008	67,170,787
Accounts payable	11,877,514	16,046,242
Current portion of compensated absences	3,408,938	1,184,285
Tax rebates payable	24,436,334	-
Current obligations under capital lease	-	1,271,733
Accrued interest payable	2,817,195	95,026,402
Deposits payable	-	7,712,462
Other liabilities and accruals	5,088,172	9,362,278
Due to external parties	1,352,477	-
Due to component units	19,465,904	-
Due to primary government	-	9,388,967
Due to Pension (and Other Employee Benefit) Trust Fund	120,344,235	-
Deferred revenue	1,000,978	4,172,256
Total current liabilities	198,903,069	211,335,412
Noncurrent liabilities:		
Notes and bonds payable, net of current portion	107,356,793	71,275,054
Claims and judgments payable	9,020,743	-
Compensated absences, net of current portion	6,299,175	5,428,432
Obligations under capital lease, net of current portion	-	4,203,536
Deferred revenue, net of current portion	-	29,635
Total noncurrent liabilities	122,676,711	80,936,657
Total liabilities	321,579,780	292,272,069
Net assets:		
Invested in capital assets, net of related debt	117,924,743	214,334,013
Restricted for:		
Capital projects	1,824,947	-
Retirement of indebtedness	3,923,271	-
Other purposes	3,176,198	148,506,286
Unrestricted	(164,980,748)	(43,097,682)
Total net assets	\$ (38,131,589)	\$ 319,742,617

See accompanying notes to financial statements.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Statement of Activities  
For the Year Ended September 30, 2005

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Assets	
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government	Component Units
Primary government:						
Governmental activities:						
Health	\$ 52,258,774	\$ 15,389,667	\$ 10,289,909	\$ 1,862,249	\$ (24,716,949)	\$ -
Public safety and law enforcement	46,139,323	14,043,037	7,831,000	1,266,617	(22,998,669)	-
General government	35,465,650	21,788,437	11,675,368	51,269	(1,950,576)	-
Community and social services	22,665,452	1,764,621	16,296,730	1,963,247	(2,640,854)	-
Other elected officials	16,090,032	-	-	-	(16,090,032)	-
Utilities	12,926,624	-	-	-	(12,926,624)	-
Utilities - Capital Projects	8,008,030	12,240	-	7,507,080	(488,710)	-
Public works	21,764,132	582,945	-	5,331,798	(15,849,389)	-
Lands and natural resources	9,330,240	1,352,164	2,495,963	159,636	(5,322,477)	-
Legislative branch	8,835,386	-	-	-	(8,835,386)	-
Judicial branch	5,119,358	1,341,672	-	779,009	(2,998,677)	-
Education	7,036,144	-	-	982,742	(6,053,402)	-
Unallocated interest	7,713,555	-	-	-	(7,713,555)	-
Economic development	1,147,824	-	-	-	(1,147,824)	-
Education:						
Payments to PSS	36,108,630	-	-	-	(36,108,630)	-
Payments to NMC	8,575,121	-	-	-	(8,575,121)	-
Payments to MVA	5,931,800	-	-	-	(5,931,800)	-
Payments to NMIRF and WCC	2,395,040	-	-	-	(2,395,040)	-
Payments to MPLA - land claims	18,891,203	-	-	-	(18,891,203)	-
Penalty on retirement contributions	1,603,563	-	-	-	(1,603,563)	-
Total primary government	\$ 328,005,881	\$ 56,274,783	\$ 48,588,970	\$ 19,903,647	(203,238,481)	-
Component units:						
Commonwealth Ports Authority	\$ 24,214,719	\$ 19,428,462	\$ -	\$ 10,032,253	\$ -	\$ 5,245,996
Commonwealth Development Authority	13,196,618	4,932,110	6,087,797	753,414	-	(1,423,297)
Commonwealth Utilities Corporation	110,171,305	83,905,455	-	3,426,064	-	(22,839,786)
Marianas Public Land Trust	1,422,415	6,832,538	-	-	-	5,410,123
Marianas Public Lands Authority	6,992,765	4,602,980	-	-	-	(2,389,785)
Northern Marianas College	16,815,902	2,207,880	5,899,461	-	-	(8,708,561)
Public School System	73,338,189	140,100	34,635,642	1,234,174	-	(37,328,273)
Marianas Visitors Authority	6,516,570	785,117	-	-	-	(5,731,453)
Total component units	\$ 252,668,483	\$ 122,834,642	\$ 46,622,900	\$ 15,445,905	-	(67,765,036)
General revenues:						
Taxes:						
Income					47,094,149	-
Business gross revenue					58,444,984	-
Penalties and interest					907,302	-
Garment certification					24,430,399	-
Excise					26,082,285	-
Hotel room occupancy					6,546,023	-
Fuel					4,177,507	-
Bar and liquor					2,595,074	-
Beautification					2,379,593	-
Business privilege					556,555	-
Jackpot					2,459,933	-
Developer's					351,105	-
Cigarette					1,735,292	-
Solid waste excise					2,623,605	-
Unrestricted investment earnings					2,916,754	1,412,369
Contributions from primary government					-	71,433,215
Other					462,769	1,635,505
Total general revenues					183,763,329	74,481,089
Change in net assets					(19,475,152)	6,716,053
Net assets - beginning, as restated					(18,656,437)	313,026,564
Net assets - ending					\$ (38,131,589)	\$ 319,742,617

See accompanying notes to financial statements.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Balance Sheet  
Governmental Funds  
September 30, 2005

	Special Revenue			Capital Projects	Other Governmental Funds	Total
	General	Federal Grants	NMTIT Rebate Trust	DOI Capital Projects		
<b>Assets</b>						
Cash and cash equivalents	\$ 5,205,853	\$ -	\$ -	\$ -	\$ 171,712	\$ 5,377,565
Time certificates of deposit	6,352,555	-	-	-	-	6,352,555
Investments	2,500,000	-	-	-	-	2,500,000
Restricted cash and cash equivalents	17,006,204	-	-	18,098,189	2,774,945	37,879,338
Receivables, net of allowance for uncollectibles:						
Federal agencies	-	11,787,759	-	1,113,997	319,180	13,220,936
Taxes	17,366,773	-	124,524	-	-	17,491,297
General	289,422	-	-	-	-	289,422
Other	-	-	-	12,831	821,534	834,365
Due from component units	10,240,785	-	-	-	273,918	10,514,703
Due from other funds	9,390,075	-	24,737,765	13,979,148	18,701,193	66,808,181
Due from Pension and Other Employee Benefit Trust Funds	-	-	-	-	1,879,096	1,879,096
Advances	4,613,862	-	-	-	-	4,613,862
Inventories	1,711,459	-	-	-	-	1,711,459
	<u>\$ 74,676,988</u>	<u>\$ 11,787,759</u>	<u>\$ 24,862,289</u>	<u>\$ 33,204,165</u>	<u>\$ 24,941,578</u>	<u>\$ 169,472,779</u>
<b>Liabilities and Fund Balances (Deficit)</b>						
<b>Liabilities:</b>						
Bank overdraft	\$ 2,750,359	\$ -	\$ 425,955	\$ -	\$ -	\$ 3,176,314
Accounts payable	4,693,601	2,492,588	-	2,099,808	2,591,517	11,877,514
Tax rebates payable	-	-	24,436,334	-	-	24,436,334
Other liabilities and accruals	4,600,265	413,042	-	-	74,865	5,088,172
Due to other funds	58,770,583	8,882,129	-	-	507,946	68,160,658
Due to component units	19,380,440	-	-	-	85,464	19,465,904
Due to Pension and Other Employee Benefit Trust Funds	120,344,235	-	-	-	-	120,344,235
Deferred revenue	-	-	-	-	1,000,978	1,000,978
Total liabilities	<u>210,539,483</u>	<u>11,787,759</u>	<u>24,862,289</u>	<u>2,099,808</u>	<u>4,260,770</u>	<u>253,550,109</u>
<b>Fund balances (deficit):</b>						
<b>Reserved for:</b>						
Supplies inventory	1,711,459	-	-	-	-	1,711,459
Related assets	18,224,224	-	-	-	-	18,224,224
Land claims	6,682,719	-	-	-	-	6,682,719
Debt service	-	-	-	481	4,122,197	4,122,678
Encumbrances	8,772,526	10,450,461	-	32,012,302	8,453,819	59,689,108
Continuing appropriations	3,007,005	-	-	-	1,844,404	4,851,409
<b>Unreserved (deficits) reported in:</b>						
General fund	(174,260,428)	-	-	-	-	(174,260,428)
Special revenue funds	-	(10,450,461)	-	-	12,519,868	2,069,407
Capital projects	-	-	-	(908,426)	(6,259,480)	(7,167,906)
Total equity (deficit) and other credits	<u>(135,862,495)</u>	<u>-</u>	<u>-</u>	<u>31,104,357</u>	<u>20,680,808</u>	<u>(84,077,330)</u>
	<u>\$ 74,676,988</u>	<u>\$ 11,787,759</u>	<u>\$ 24,862,289</u>	<u>\$ 33,204,165</u>	<u>\$ 24,941,578</u>	<u>\$ 169,472,779</u>

See accompanying notes to financial statements.



COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Assets  
September 30, 2005

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

Total fund balance deficit		\$ (84,077,330)
Bonds issued by the CNMI have associated costs that are paid from current available resources in the funds. However, these costs are deferred on the statement of net assets		387,621
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	\$ 54,538,280	
Depreciable capital assets and infrastructure, net of \$111,963,296 of accumulated depreciation	<u>124,789,757</u>	
Capital assets, net of accumulated depreciation		179,328,037
Because the focus of governmental funds is on short-term financing, some assets will not be available to pay for current period expenditures. Those assets (for example, receivables) are offset by deferred revenues in the governmental funds and thus are not included in fund balance.		1,067,935
Long-term liabilities, including bonds payable, are not due and payable in the current period, and, therefore, are not considered financial liabilities for fund perspective recording, and, therefore, are not reported in the funds. These liabilities include:		
Bond debt	(103,354,934)	
Accrued interest	(2,817,195)	
Other long-term debt	(9,936,867)	
Compensated absences	(9,708,113)	
Claims and judgment payable	<u>(9,020,743)</u>	
Long-term liabilities		<u>(134,837,852)</u>
Net assets of governmental activities		<u>\$ (38,131,589)</u>

See accompanying notes to financial statements.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Statement of Revenues, Expenditures, and Changes in Fund Balances (Deficit)  
Governmental Funds  
For the Year Ended September 30, 2005

	General	Special Revenue		Capital Projects	Other Governmental Funds	Total
		Federal Grants	NMTIT Rebate Trust	DOI Capital Projects		
Revenues:						
Taxes	\$ 175,673,804	\$ -	\$ -	\$ -	\$ 4,710,002	\$ 180,383,806
Federal contributions	-	46,491,053	-	16,153,068	1,702,829	64,346,950
Charges for sales and services	19,297,400	-	-	-	-	19,297,400
Licenses and fees	15,659,559	193,029	-	-	20,904,673	36,757,261
Interest and dividends	2,864,907	-	-	481,806	101,909	3,448,622
Contributions from component units	1,299,248	-	-	1,481,359	351,386	3,131,993
Other	96,118	172,148	-	-	896,430	1,164,696
Total revenues	214,891,036	46,856,230	-	18,116,233	28,667,229	308,530,728
Expenditures:						
Health	45,339,941	9,340,240	-	834,425	786,082	56,300,688
Education:						
Payments to PSS	36,108,630	-	-	-	-	36,108,630
Payments to NMC	7,097,151	-	-	-	1,477,970	8,575,121
Public safety and law enforcement	36,594,817	6,220,178	-	2,780,099	6,092,821	51,687,915
General government	20,272,104	13,308,757	-	-	1,373,751	34,954,612
Community and social services	6,835,588	12,073,984	-	1,683,496	2,790,385	23,383,453
Other elected officials	15,619,931	-	-	-	470,101	16,090,032
Utilities	12,926,624	-	-	-	-	12,926,624
Utilities - Capital Projects	-	-	-	8,149,122	303	8,149,425
Public works	9,278,758	168,468	-	4,814,500	5,824,693	20,086,419
Lands and natural resources	6,609,448	2,680,389	-	476,118	117,447	9,883,402
Legislative branch	8,854,217	-	-	-	-	8,854,217
Payments to MVA	5,931,800	-	-	-	-	5,931,800
Judicial branch	4,744,023	-	-	1,808,761	84,061	6,636,845
Education	4,070,795	55,241	-	653,211	2,256,897	7,036,144
Debt service:						
Principal retirement	-	-	-	1,365,000	2,930,078	4,295,078
Interest and fiscal charges	-	-	-	3,824,301	3,931,578	7,755,879
Economic development	1,707,790	97,862	-	-	18,551	1,824,203
Payments to NMIRF and WCC	2,395,040	-	-	-	-	2,395,040
Payments to MPLA - land claims	18,891,203	-	-	-	-	18,891,203
Penalty on retirement fund contributions	1,603,563	-	-	-	-	1,603,563
Total expenditures	244,881,423	43,945,119	-	26,389,033	28,154,718	343,370,293
Excess (deficiency) of revenues over (under) expenditures	(29,990,387)	2,911,111	-	(8,272,800)	512,511	(34,839,565)
Other financing sources (uses):						
Long-term debt issued	-	-	-	-	7,625	7,625
Operating transfers in	15,650,627	2,416,977	-	5,174,262	18,546,007	41,787,873
Operating transfers out	(15,634,484)	(5,328,088)	-	(1,293,950)	(19,531,351)	(41,787,873)
Total other financing sources (uses), net	16,143	(2,911,111)	-	3,880,312	(977,719)	7,625
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	(29,974,244)	-	-	(4,392,488)	(465,208)	(34,831,940)
Fund balances (deficit) at beginning of year, as restated	(105,888,251)	-	-	35,496,845	21,146,016	(49,245,390)
Fund balances (deficit) at end of year	\$ (135,862,495)	\$ -	\$ -	\$ 31,104,357	\$ 20,680,808	\$ (84,077,330)

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, 2005

Net change in fund deficit - total governmental funds	\$ (34,831,940)
Add:	
Capital assets purchased that were capitalized	22,028,886
Principal payments on long-term debt	4,295,078
Net change in accrued interest payable	61,791
Less:	
Net change in compensated absences	(26,332)
Depreciation expense	(10,914,071)
Net proceeds from note and bond issuance	(7,625)
Amortization of bond discount and issuance costs	(33,310)
Other	<u>(47,629)</u>
Change in net assets of governmental activities	<u>\$ (19,475,152)</u>

See accompanying notes to financial statements.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Statement of Fiduciary Net Assets  
Fiduciary Funds  
September 30, 2005

	Pension (and Other Employee Benefit) Trust Fund	Agency Funds
<u>Assets</u>		
Cash and cash equivalents	\$ 3,755,901	\$ 861,753
Receivables:		
Loans	9,936,867	-
Notes	9,620,134	-
General	1,762,142	-
Interest and dividends	945,462	-
Other	5,754,659	-
Due from primary government	188,521	1,352,477
Prepaid items	3,928	-
Investments, at fair market value:		
Equity securities	313,000,856	-
U.S. Government securities	74,058,009	-
Money market placements	28,741,171	-
Corporate debt securities	18,124,019	-
Restricted assets	124,318	4,234,367
Capital assets	4,094,429	-
Total assets	<u>470,110,416</u>	<u>\$ 6,448,597</u>
<u>Liabilities and Other Credits</u>		
Accounts payable	13,741,338	-
Claims and judgments payable	-	1,352,477
Deposits payable	-	5,096,120
Other liabilities and accruals	585,358	-
Due to primary government	1,879,096	-
Deferred revenue	4,697,285	-
Total liabilities and other credits	<u>20,903,077</u>	<u>\$ 6,448,597</u>
Net assets:		
Held in trust for pension benefits	460,131,501	
Held in trust for medical and life insurance benefits	(11,912,212)	
Held in trust for workers' compensation benefits and other purposes	988,050	
Total assets	<u>\$ 449,207,339</u>	

See accompanying notes to financial statements.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Statement of Changes in Fiduciary Net Assets  
 Fiduciary Funds  
 Year Ended September 30, 2005

	<u>Pension (and Other Employee Benefit) Trust Fund</u>
<u>Additions</u>	
Contributions:	
Employer	\$ 40,284,859
Employee	11,836,454
Revenues:	
Premiums	7,795,478
Penalty on unpaid contributions	4,966,295
Rent income and other	680,328
Total contributions and revenues	<u>65,563,414</u>
Net investment income:	
Net appreciation in fair value	57,895,276
Interest	5,831,686
Dividends	5,208,939
Total investment income	<u>68,935,901</u>
Less: investment expense	<u>1,650,571</u>
Net investment income	<u>67,285,330</u>
Total additions	<u>132,848,744</u>
<u>Deductions</u>	
Benefits	48,788,229
General and administrative	3,312,979
Bad debts	13,158,167
Refunds	2,934,331
Medical claims	10,482,866
Total deductions	<u>78,676,572</u>
Other financing sources:	
Transfer in	<u>2,295,300</u>
Change in net assets	56,467,472
Net assets at beginning of year	<u>392,739,867</u>
Net assets at end of year	<u>\$ 449,207,339</u>

See accompanying notes to financial statements.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Statement of Net Assets  
Component Units  
September 30, 2005

	Commonwealth Ports Authority	Commonwealth Development Authority	Commonwealth Utilities Corporation	Marianas Public Land Trust	Marianas Public Lands Authority	Northern Marianas College	Public School System	Marianas Visitors Authority	Total
<u>Assets</u>									
Current assets:									
Cash and cash equivalents	\$ 8,945,925	\$ 3,910,505	\$ 1,090,402	\$ 2,251,861	\$ 3,898,111	\$ 1,723,758	\$ 2,642,996	\$ 350,111	\$ 24,813,669
Time certificates of deposit	-	511,448	-	-	-	-	-	-	511,448
Receivables, net of allowance for uncollectibles:									
Loans	-	3,657,080	-	95,100	-	-	-	-	3,752,180
Federal agencies	2,169,580	-	811,954	-	-	1,062,247	1,302,440	-	5,346,221
General	1,900,695	35,878	-	-	546,098	1,422,403	-	-	3,905,074
Utilities	-	-	7,672,000	-	-	-	-	-	7,672,000
Interest and dividends	-	903,726	-	222,948	-	-	-	-	1,126,674
Other	30,380	65,669	1,811,878	161,218	-	-	1,642,995	99,425	3,817,565
Due from primary government	-	-	352,735	54,448	-	227,896	1,472,850	2,227,188	4,335,117
Inventories	-	-	9,344,614	-	-	400,512	-	-	9,745,126
Other assets	168,660	12,120	-	6,530	43,222	5,514	-	2,950	238,996
Deferred bond issue costs, current portion	64,544	-	-	-	-	-	-	-	64,544
Restricted assets:									
Cash and cash equivalents	20,627,716	5,633,461	-	-	6,682,719	-	-	-	32,943,896
Time certificates of deposit	-	17,672,523	-	-	-	-	-	-	17,672,523
Investments	-	-	-	54,278,831	-	-	-	-	54,278,831
<b>Total current assets</b>	<b>33,913,500</b>	<b>32,402,410</b>	<b>21,083,583</b>	<b>57,070,936</b>	<b>11,170,150</b>	<b>4,842,330</b>	<b>7,061,281</b>	<b>2,679,674</b>	<b>170,223,864</b>
Noncurrent assets:									
Restricted assets:									
Cash and cash equivalents	-	-	10,102,002	-	6,726,588	-	-	-	16,828,590
Investments	-	-	-	-	-	3,659,044	-	-	3,659,044
Loans receivables, net	-	28,014,773	-	10,709,566	-	-	-	-	38,724,339
Deferred bond issue costs	1,349,472	-	-	-	-	-	-	-	1,349,472
Other assets	4,696,105	-	-	1,012,880	-	-	-	-	5,708,985
Capital assets (net of accumulated depreciation)	146,108,658	16,014,488	97,777,636	33,667	23,115,182	8,448,390	82,223,392	116,776	373,838,189
Foreclosed real estate	-	1,682,203	-	-	-	-	-	-	1,682,203
<b>Total noncurrent assets</b>	<b>152,154,235</b>	<b>45,711,464</b>	<b>107,879,638</b>	<b>11,756,113</b>	<b>29,841,770</b>	<b>12,107,434</b>	<b>82,223,392</b>	<b>116,776</b>	<b>441,790,822</b>
<b>Total assets</b>	<b>186,067,735</b>	<b>78,113,874</b>	<b>128,963,221</b>	<b>68,827,049</b>	<b>41,011,920</b>	<b>16,949,764</b>	<b>89,284,673</b>	<b>2,796,450</b>	<b>612,014,686</b>
<u>Liabilities and Net Assets</u>									
Current liabilities:									
Accounts payable	4,176,806	678,068	8,709,258	65,796	278,635	1,016,405	621,974	499,300	16,046,242
Compensated absences	289,877	-	399,822	-	175,208	319,378	-	-	1,184,285
Due to primary government	1,100,877	-	1,331,453	273,918	6,682,719	-	-	-	9,388,967
Other liabilities and accruals	561,224	3,568,269	1,328,608	27,107	1,508,225	405,629	1,722,013	241,203	9,362,278
Deposits payable	-	-	7,712,462	-	-	-	-	-	7,712,462
Current portion of notes and bonds payable	2,204,120	102,465	64,864,202	-	-	-	-	-	67,170,787
Current obligations under capital lease	-	-	1,271,733	-	-	-	-	-	1,271,733
Accrued interest payable	-	-	95,026,402	-	-	-	-	-	95,026,402
Deferred revenue	11,825	938,111	-	-	1,072,982	693,545	1,454,793	900	4,172,256
<b>Total current liabilities</b>	<b>8,344,829</b>	<b>5,286,913</b>	<b>180,643,940</b>	<b>366,821</b>	<b>9,717,769</b>	<b>2,434,957</b>	<b>3,798,780</b>	<b>741,403</b>	<b>211,335,413</b>
Noncurrent liabilities:									
Notes and bonds payable, net of current portion	59,461,547	11,705,578	107,529	-	-	-	-	-	71,275,054
Compensated absences, net of current portion	372,085	-	423,585	-	-	203,033	4,429,729	-	5,428,432
Obligations under capital lease, net of current portion	-	-	4,203,536	-	-	-	-	-	4,203,536
Deferred revenue, net of current portion	-	-	-	-	29,635	-	-	-	29,635
<b>Total noncurrent liabilities</b>	<b>59,834,032</b>	<b>11,705,578</b>	<b>4,734,650</b>	<b>-</b>	<b>29,635</b>	<b>203,033</b>	<b>4,429,729</b>	<b>-</b>	<b>80,936,657</b>
<b>Total liabilities</b>	<b>68,178,861</b>	<b>16,992,491</b>	<b>185,378,590</b>	<b>366,821</b>	<b>9,747,404</b>	<b>2,637,990</b>	<b>8,228,509</b>	<b>741,403</b>	<b>292,272,069</b>
Net assets:									
Invested in capital assets, net of related debt	85,856,607	17,696,691	-	33,667	23,115,182	8,448,390	79,066,700	116,776	214,334,013
Restricted	20,627,716	43,424,692	-	68,426,561	8,149,334	4,721,291	3,156,692	-	148,506,286
Unrestricted	11,404,551	-	(56,415,369)	-	-	1,142,093	(1,167,228)	1,938,271	(43,097,682)
<b>Total net assets</b>	<b>\$ 117,888,874</b>	<b>\$ 61,121,383</b>	<b>\$ (56,415,369)</b>	<b>\$ 68,460,228</b>	<b>\$ 31,264,516</b>	<b>\$ 14,311,774</b>	<b>\$ 81,056,164</b>	<b>\$ 2,055,047</b>	<b>\$ 319,742,617</b>

See accompanying notes to financial statements.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Statement of Revenues, Expenses, and Changes in Net Assets  
Components Units  
Year Ended September 30, 2005

	Commonwealth Ports Authority	Commonwealth Development Authority	Commonwealth Utilities Corporation	Marianas Public Land Trust	Marianas Public Lands Authority	Northern Marianas College	Public School System	Marianas Visitors Authority	Total
Operating revenues:									
Charges for services and fees	\$ 19,428,462	\$ 4,387,228	\$ 82,684,940	\$ -	\$ 492,615	\$ 1,857,897	\$ 140,100	\$ 683,587	\$ 109,674,829
Grants and contributions	-	6,087,797	-	-	-	5,899,461	-	-	11,987,258
Land lease	-	-	-	-	4,110,365	-	-	-	4,110,365
Other	-	544,882	1,220,515	6,832,538	-	349,983	-	101,530	9,049,448
Total operating revenues	19,428,462	11,019,907	83,905,455	6,832,538	4,602,980	8,107,341	140,100	785,117	134,821,900
Operating expenses:									
Cost of services	5,252,659	8,831,412	74,846,576	-	580,076	11,957,659	60,892,000	4,235,894	166,596,276
Depreciation and amortization	8,770,716	697,471	7,541,025	9,413	130,910	604,924	1,029,035	41,716	18,825,210
Administration	7,223,836	1,420,685	17,185,539	1,029,169	5,281,779	4,253,319	11,417,154	2,238,960	50,050,441
Total operating expenses	21,247,211	10,949,568	99,573,140	1,038,582	5,992,765	16,815,902	73,338,189	6,516,570	233,471,927
Operating income (loss)	(1,818,749)	70,339	(15,667,685)	5,793,956	(1,389,785)	(8,708,561)	(73,198,089)	(5,731,453)	(100,650,027)
Nonoperating revenues (expenses):									
Contributions from the primary government	-	-	-	-	18,891,203	9,179,558	37,404,908	5,957,546	71,433,215
Contributions to the primary government	-	(1,359,489)	-	(383,833)	(1,000,000)	-	-	-	(2,743,322)
Grants and contributions	-	-	-	-	-	-	34,635,642	-	34,635,642
Unrestricted investment earnings	292,206	320,438	276,790	-	118,597	404,338	-	-	1,412,369
Interest expense	(2,910,115)	(887,561)	(10,598,165)	-	-	-	-	-	(14,395,841)
Amortization of bond issue cost	(57,393)	-	-	-	-	-	-	-	(57,393)
Other, net	1,635,183	211,150	-	(210,828)	-	-	-	-	1,635,505
Nonoperating revenues (expenses), net	(1,046,119)	(1,715,462)	(10,321,375)	(594,661)	18,009,800	9,583,896	72,040,550	5,957,546	91,920,175
Income (loss) before capital contributions	(2,856,868)	(1,645,123)	(25,989,060)	5,199,295	16,620,015	875,335	(1,157,539)	226,093	(8,729,852)
Capital contributions	10,032,253	753,414	3,426,064	-	-	-	1,234,174	-	15,445,905
Change in net assets	7,173,385	(891,709)	(22,562,996)	5,199,295	16,620,015	875,335	76,635	226,093	6,716,053
Net assets - beginning	110,715,489	62,013,092	(33,852,373)	63,260,933	14,644,501	13,436,439	80,979,529	1,828,954	313,026,564
Net assets - ending	\$ 117,888,874	\$ 61,121,383	\$ (56,415,369)	\$ 68,460,228	\$ 31,264,516	\$ 14,311,774	\$ 81,056,164	\$ 2,055,047	\$ 319,742,617

See accompanying notes to financial statements.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2005

(1) Summary of Significant Accounting Policies

The accompanying basic financial statements of the Commonwealth of the Northern Mariana Islands (CNMI) have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is the recognized standard-setting body for establishing governmental accounting and financial reporting principles. GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, requires that proprietary activities apply all applicable GASB pronouncements as well as Statements and Interpretations issued by the Financial Accounting Standards Board (FASB), Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedures issued on or before November 30, 1989. For all proprietary funds, the CNMI applies GASB Statement No. 20, unless FASB pronouncements conflict with or contradict GASB pronouncements, and has elected not to apply FASB Statements and Interpretations issued after November 30, 1989. The more significant of the CNMI's accounting policies are described below.

A. Reporting Entity

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

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

1. Blended Component Units

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

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



COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2005

(1) Summary of Significant Accounting Policies, Continued

A. Reporting Entity, Continued

1. Blended Component Units, Continued

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

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

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

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

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

2. Discretely Presented Component Units

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

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2005

(1) Summary of Significant Accounting Policies, Continued

A. Reporting Entity, Continued

2. Discretely Presented Component Units, Continued

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

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

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2005

(1) Summary of Significant Accounting Policies, Continued

A. Reporting Entity, Continued

2. Discretely Presented Component Units, Continued

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

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

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

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

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

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

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

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

3. Omitted Component Unit

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

4. Program and Other Revenue Recognition

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2005

(1) Summary of Significant Accounting Policies, Continued

B. Government-Wide and Fund Financial Statements

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

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

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

The government-wide Statement of Net Assets reports \$8,924,416 of restricted net assets, of which \$3,176,198 is restricted by enabling legislation.

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

C. Fund Financial Statements

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2005

(1) Summary of Significant Accounting Policies, Continued

C. Fund Financial Statements, Continued

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

D. Measurement Focus and Basis of Accounting

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

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

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

The CNMI reports the following fund types:

1. Governmental Fund Types

i. General Fund

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2005

(1) Summary of Significant Accounting Policies, Continued

D. Measurement Focus and Basis of Accounting, Continued

1. Governmental Fund Types, Continued

ii. Special Revenue Funds

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

iii. Capital Projects Funds

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

iv. Debt Service Funds

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

2. Fiduciary Funds Types

i. Pension (and Other Employee Benefit) Trust Fund

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

ii. Agency Fund

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

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2005

(1) Summary of Significant Accounting Policies, Continued

D. Measurement Focus and Basis of Accounting, Continued

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

E. Program and Other Revenue Recognition

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

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

F. Concentrations of Credit Risk

Financial instruments which potentially subject the CNMI to concentrations of credit risk consist principally of cash demand deposits and investments.

At September 30, 2005, the CNMI has cash deposits and investments in bank accounts that exceed federal depository insurance limits. The CNMI has not experienced any losses on such accounts.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2005

(1) Summary of Significant Accounting Policies, Continued

G. 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 in U.S. Treasury obligations with a maturity date within three months of the date acquired by the CNMI. Time certificates of deposit with original maturity dates greater than ninety days are separately classified on the statement of net assets/balance sheet.

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, 2005. Tax revenue is recognized on the governmental fund financial statements to the extent that it is both measurable and available. Receivables are stated net of estimated allowances for uncollectible accounts. Reimbursements due to the CNMI for expenditures on federally-funded reimbursement and grant programs are reported as "receivables from federal agencies".

I. Interfund/Intrafund Transactions

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

J. Interfund Receivables and Payables

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

K. Advances

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



COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2005

(1) Summary of Significant Accounting Policies, Continued

L. Inventories

Inventories are stated at the lower of cost or market using the first-in/first-out (FIFO) method. Inventories of the Commonwealth Health Center in the General Fund are offset by a fund balance reserve account, totaling \$1,711,459 as they represent an asset not available for appropriation.

M. Capital Assets and Depreciation

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

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

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

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

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

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

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

N. Net Assets

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

Net Assets have been restricted as follows:

“Restricted for capital projects” - identifies amounts reserved for Capital Projects.

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2005

(1) Summary of Significant Accounting Policies, Continued

N. Net Assets, Continued

“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.

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

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, 2005. However, the CNMI has estimated the aggregate assessed valuation of real property to be \$1,596,236,822 as of September 30, 2005. 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 with amounts to be paid during the next fiscal year reported as current. The liability as of September 30, 2005, is \$9,708,113.

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

Q. Deferred Revenue

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2005

(1) Summary of Significant Accounting Policies, Continued

R. Bond Discounts and Issuance Costs

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

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

S. Income Taxes and Wage and Salary Taxes

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

Movements in income taxes and wage and salary taxes for the year ended September 30, 2005, are as follows:

Total income tax and wage and salary tax collections	\$ 71,712,146
Transfers to Rebate Trust Fund	<u>(24,617,997)</u>
Income taxes and wage and salary taxes per General Fund	47,094,149
Change in deferred revenue	_____
Income taxes and wage and salary taxes per the statement of activities	\$ <u>47,094,149</u>

T. 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, 2005, is represented by the following assets:

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2005

(1) Summary of Significant Accounting Policies, Continued

T. Fund Equity, Continued

	<u>General Fund</u>
Restricted cash and cash equivalents	\$ 12,166,158
Investments	2,500,000
Due from component units	<u>3,558,066</u>
	<u>\$ 18,224,224</u>

At September 30, 2005, a reserve for land claims of \$6,682,719 was recorded in the General Fund representing the undistributed proceeds of land settlement claims administered by the Marianas Public Lands Authority.

U. Interfund Transactions

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

V. New Accounting Standards

During fiscal year 2005, the CNMI implemented GASB Statement No. 40, *Deposit and Investment Risk Disclosures (an amendment of GASB Statement No. 3)*. GASB Statement No. 40 addresses common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. As an element of interest risk, GASB Statement No. 40 requires certain disclosures of investments that have fair values that are highly sensitive to changes in interest rates.

For fiscal year 2006, the CNMI will be implementing GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, GASB Statement No. 44, *Economic Condition Reporting: The Statistical Section, an amendment to NCGA Statement 1* and GASB Statement No. 47, *Accounting for Termination Benefits*. GASB Statement No. 42 establishes standards for impairment of capital assets when its service utility has declined significantly and unexpectedly. GASB Statement No. 44 improves the understandability and usefulness of statistical section information and adds information from the new financial reporting model for state and local governments required by GASB Statement No. 34. GASB Statement No. 47 establishes guidance for state and local governmental employers on accounting and financial reporting for termination benefits. These benefits include incentives for voluntary terminations (e.g., early retirement window programs) and severance payments with respect to involuntary terminations. Management does not believe that the implementation of these statements will have a material effect on the financial statements of the CNMI.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2005

(1) Summary of Significant Accounting Policies, Continued

V. New Accounting Standards, Continued

In April 2004, GASB issued Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. GASB Statement No. 43 establishes uniform financial reporting for other postemployment benefit plans by state and local governments. The provisions of this Statement are effective for periods beginning after December 15, 2007. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the CNMI.

In July 2004, GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Post employment Benefits Other Than Pensions*. GASB Statement No. 45 establishes standards for the measurement, recognition, and display of other post employment benefits expense/expenditures and related liabilities, note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers. The provisions of this Statement are effective for periods beginning after December 15, 2008. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the CNMI.

In December 2004, GASB issued Technical Bulletin No. 2004-2, *Recognition of Pension and Other Postemployment Benefit Expenditures/Expense and Liabilities by cost-Sharing Employers*. GASB Technical Bulletin No. 2004-2 clarifies the requirements of GASB Statement Nos. 27 and 45 for recognition of pension and other postemployment benefit expenditures/expense and liabilities by cost-sharing employers. Management does not believe the implementation of this pronouncement will have a material effect on the financial statements of the CNMI.

W. Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenditures and expenses during the reporting period. Actual results may differ from those estimates.

(2) Deposits and Investments

GASB Statement No. 40 addresses common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk and foreign currency risk. As an element of interest rate risk, disclosure is required of investments that have fair values that are highly sensitive to changes in interest rates. GASB Statement No. 40 also requires disclosure of formal policies related to deposit and investment risks.

Cash and Cash Equivalents and Time Certificates of Deposit

GASB Statement No. 3 previously required government entities to present deposit risks in terms of whether the deposits fell into the following categories:

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2005

(2) Deposits and Investments, Continued

Cash and Cash Equivalents and Time Certificates of Deposit, Continued

- |            |   |
|------------|---|
| Category 1 | Deposits that are federally insured or collateralized with securities held by the CNMI or its agent in the CNMI's name;   |
| Category 2 | Deposits that are uninsured but fully collateralized with securities held by the pledging financial institution's trust department or agent in the CNMI's name; or                  |
| Category 3 | Deposits that are collateralized with securities held by the pledging financial institution's trust department or agent but not in the CNMI's name and non-collateralized deposits. |

GASB Statement No. 40 amended GASB Statement No. 3 to in effect eliminate disclosure for deposits falling into categories 1 and 2 but retained disclosures for deposits falling under category 3. Category 3 deposits are those deposits that have exposure to custodial credit risk. Custodial credit risk is the risk that in the event of a bank failure, the CNMI's deposits may not be returned to it. Such deposits are not covered by depository insurance and are either uncollateralized or collateralized with securities held by the pledging financial institution or held by the pledging financial institution but not in the depositor-government's name. The CNMI does not have a deposit policy for custodial credit risk.

As of September 30, 2005, the carrying amount of the primary government's total cash and cash equivalents and time certificates of deposit were \$49,609,458 and the corresponding bank balances were \$58,383,981. Of the bank balance amounts, \$33,072,261 is maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. The remaining amount of \$25,311,720 represents short-term investments held and administered by the CNMI's trustees in accordance with various trust agreements and bond indentures. Based on negotiated trust and custody contracts, all of the investments were held in the CNMI's name by the CNMI's custodial financial institutions at September 30, 2005. As of September 30, 2005, bank deposits in the amount of \$400,000 were FDIC insured. Public Law No. 12-61, the Government Deposit Safety Act of 1994, as amended, governs the general deposit policies of the CNMI and 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, 2005, is presently not determinable. Accordingly, these deposits are exposed to custodial credit risk.

Restricted cash and cash equivalents as of September 30, 2005 for the primary government represent amounts held and administered by the CNMI in accordance with legal mandates and certain capital projects. Restricted cash and cash equivalents at September 30, 2005 amounted to \$37,879,338.

As of September 30, 2005, the carrying amount of the Pension (and Other Employee Benefit) Trust Fund's total cash and cash equivalents were \$3,755,901 and the corresponding bank balances were \$4,893,832, which are maintained in financial institutions subject to FDIC insurance. As of September 30, 2005, bank deposits in the amount of \$800,508 were FDIC insured. The Northern Mariana Islands Retirement Fund (NMIRF) has a legal requirement to collateralize amounts in excess of insurable limits. At September 30, 2005, approximately \$3,494,057 of NMIRF's cash and cash equivalents of \$4,194,565 are collateralized with their bank's securities totaling \$6,540,000 at September 30, 2005.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2005

(2) Deposits and Investments, Continued

Cash and Cash Equivalents and Time Certificates of Deposit, Continued

As of September 30, 2005, the carrying amount of the discretely presented component units' total cash and cash equivalents and time certificates of deposit were \$92,770,126 and the corresponding bank balances were \$92,768,620. Of the bank balance amounts, \$56,958,151 is maintained in financial institutions subject to FDIC insurance with \$8,500,034 maintained in a non-FDIC financial institution. The remaining amount of \$27,310,435 represents short-term investments held and administered by the discretely presented component units' trustees in accordance with various trust agreements and bond indentures. Based on negotiated trust and custody contracts, all of the investments were held in the discretely presented component units' name by the discretely presented component units' custodial financial institutions at September 30, 2005. As of September 30, 2005, bank deposits in the amount of \$2,013,882 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. Accordingly, these deposits are exposed to custodial credit risk.

Investments

GASB Statement No. 3 previously required government entities to present investment risks in terms of whether the investments fell into the following categories:

- Category 1 Investments that are insured or registered, or securities held by the CNMI or its agent in the CNMI's name;
- Category 2 Investments that are uninsured and unregistered for which the securities are held by the counterparty's trust department or agent in the CNMI's name; or
- Category 3 Investments that are uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the CNMI's name.

GASB Statement No. 40 amended GASB Statement No. 3 to in effect eliminate disclosure for investments falling into categories 1 and 2, and provided for disclosure requirements addressing other common risks of investments such as credit risk, interest rate risk, concentration of credit risk, and foreign currency risk. GASB Statement No. 40 did retain and expand the element of custodial credit risk in GASB Statement No. 3.

Credit risk for investments is the risk that an issuer or other counterparty to an investment will not fulfill its obligations.

Concentration of credit risk for investments is the risk of loss attributed to the magnitude of an entity's investment in a single issuer. GASB Statement No. 40 requires disclosure by issuer and amount of investments in any one issuer that represents five percent (5%) or more of total investments for the CNMI.

Custodial credit risk for investments is the risk that in the event of the failure of the counterparty to the transaction, the CNMI will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The CNMI's investments are held and administered by trustees in accordance with various bond indentures for the purpose of funding various capital projects, land settlement claims and future debt service requirements. Based on negotiated trust and custody contracts, all of these investments were held in the CNMI's name by the CNMI's custodial financial institutions at September 30, 2005.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2005

(2) Deposits and Investments, Continued

Investments, Continued

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of debt instruments. The CNMI does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

A. Governmental Funds

As of September 30, 2005, the General Fund holds 20% and 7% of the shares of the Pacific Islands Development Bank and the United Micronesia Development Association, Inc. in the amount of \$1,000,000 and \$1,500,000, respectively. As the fair market value of these investments is not readily available, such have been recorded at cost.

B. Fiduciary Funds

Northern Mariana Islands Retirement Fund (NMIRF):

NMIRF's investments are held by a bank-administered trust company. Investments that represent 5% or more of NMIRF's assets at September 30, 2005 are equity securities of \$313,000,856, money market placements of \$28,510,981 and U.S. government securities of \$73,650,400.

As of September 30, 2005, NMIRF's investment breakdown is as follows:

	<u>Per Policy</u>	<u>Strategic Plan</u>	<u>Actual</u>	<u>Market Value</u>
U.S. Large Cap Equities	40%	50%	51%	\$ 221,319,000
U.S. Small Cap Equities	12.5%	12.5%	13%	58,109,000
International Investments	12.5%	12.5%	14%	60,802,000
U.S. Fixed Income	15%	15%	13%	55,820,999
U.S. Treasury Inflation Indexed Protected Securities	10%	10%	9%	37,235,257
Alternative Investments	10%	-	-	-
				<u>\$ 433,286,256</u>

Credit Risk

NMIRF utilizes external investment managers to manage its portfolios. NMIRF's investment policy specifies the following regarding fixed income investments held in its portfolio:

- All fixed income securities shall have a Moody's, Standard and Poor's and/or Fitch credit quality rating of no less than BBB.



COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2005

(2) Deposits and Investments, Continued

Investments, Continued

B. Fiduciary Funds, Continued

Northern Mariana Islands Retirement Fund, Continued:

Credit Risk, Continued

- The exposure of the portfolio to any one company, other than securities of the U.S. government, shall not exceed 5% of the market value of the portfolio under management by each investment manager.
- Each fixed income portfolio of each investment manager shall be suitably diversified as to any single issuer or class of issuer so that an adversity affecting a particular issuer or sector will not impact a substantial share of the total portfolio.
- NMIRF's portfolios per investment managers are regularly reviewed to ensure compliance to abovementioned requirements.

NMIRF'S fixed income securities received a Standard and Poor are rating of AAA as of September 30, 2005. The rating is based on the security's credit quality, market price exposure and conservative management. The rating signifies excellent safety of invested principal and a superior capacity to maintain payment of interest.

Interest Rate Risk

The investment does not have effective duration; however, industry standards usually give the investment managers the discretion to deviate within +/- 20% from the effective duration of the relevant Lehman Brothers benchmark.

Below are tables depicting the duration in years of the long-term fixed income portfolio vs. the benchmark in years:

	<u>No. of Issues</u>	<u>Market Value</u>	<u>Effective Duration</u>	<u>Benchmark</u>	<u>Difference</u>
Cash	1	\$ 5,570,000	-	-	-
Treasury	7	16,386,000	1.65	1.40	0.25
Agency	2	3,974,000	0.06	0.48	(0.42)
Credit	15	12,148,000	1.12	1.23	(0.11)
Mortgage	9	17,742,999	1.37	1.40	(0.03)
Total	34	\$ 55,820,999	4.20	4.51	(0.31)

Figures were from NMIRF's fixed income portfolio managed by Provident Investment Counsel.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2005

(2) Deposits and Investments, Continued

Investments, Continued

B. Fiduciary Funds, Continued

Northern Mariana Islands Retirement Fund, Continued:

Securities Lending

CNMI statutes permit NMIRF to participate in securities lending transactions, and NMIRF has, pursuant to a Securities Lending Authorization Agreement, authorized an agent in lending NMIRF's securities to broker-dealers and banks pursuant to a form of loan agreement. During the year ended September 30, 2005, the agent loaned, on behalf of NMIRF, securities, including U.S. government obligations, domestic corporate bonds, and domestic and international equities, held by agent as custodian and received, as collateral, United States and foreign currency cash, securities issued or guaranteed by the United States government, sovereign debt of foreign countries and irrevocable bank letters of credit. The agent does not have the ability to pledge or sell collateral securities absent borrower default. Borrowers delivered collateral for each loan equal to 125% of the fair value of the loaned securities. In accordance with GASB Statement No. 28, securities lending collateral reported in the statement of plan net assets represented only cash collateral invested in the lending agent's cash collateral investment pool.

Securities Lending Collateral Interest Rate Risk

Cash collaterals from loans of securities are reinvested by the investment manager. A duration mismatch between loan and reinvestment is limited to a conservative maximum of fifteen days.

Securities loaned are covered by a contractual indemnification against broker default, that is, if a broker fails to return loaned securities when required, the investment manager will, within two business days, and at its expense, either replace the loaned securities or credit NMIRF for the market value of the unreturned loaned securities determined as of the close of business on the date the securities should have been returned.

Concentration of Credit

As of September 30, 2005, NMIRF had no single issuer that exceeds 5% of total investments. Investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools, and other pooled investments are excluded.

Custodial Credit Risk

As of September 30, 2005, 100% of NMIRF's investments were held in NMIRF's name, and NMIRF is not exposed to custodial credit risk related to these investments.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2005

(2) Deposits and Investments, Continued

Investments, Continued

B. Fiduciary Funds, Continued

Northern Mariana Islands Retirement Fund, Continued:

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit.

Foreign currency is comprised of international investment proceeds and income to be repatriated into U.S. dollars and funds available to purchase international securities. Foreign currency is not held as a form of investment. Foreign currency is held for less than thirty days in foreign accounts until it can be repatriated or expended.

Derivatives

NMIRF's investment policy allows investment managers to use derivative instruments for certain purposes and within certain parameters. Such instruments include currency contracts, including futures and forward contracts, to hedge foreign currency exposure into U.S. dollars. Leverage may not be used and an investment manager may not hedge more than 25% of the value of the non US assets managed by such investment manager.

Workmen's Compensation Commission (WCC):

WCC's investments are held by a bank administered trust company. Investments that represent 36% of WCC's total assets at September 30, 2005 are as follows:

Money market placements	\$ 230,190
United States government securities	<u>407,609</u>
	\$ <u>637,799</u>

C. Discretely Presented Component Units

Marianas Public Land Trust (MPLT):

MPLT's investments are held and administered by trustees in accordance with negotiated trust and custody agreements. Based on these agreements, all of these investments are held in MPLT's name by MPLT's custodial financial institutions at September 30, 2005.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2005

(2) Deposits and Investments, Continued

Investments, Continued

C. Discretely Presented Component Units, Continued

Marianas Public Land Trust (MPLT), Continued:

As of September 30, 2005, investments at fair value are as follows:

Fixed income securities:	
Domestic fixed income	\$ 16,448,301
Other investments:	
Domestic equities	<u>37,830,530</u>
	<u>\$ 54,278,831</u>

The following is a listing of MPLT's fixed income securities at September 30, 2005:

Investment Type	Fair Value	Investment Maturities (In Years)				Credit Rating
		Less Than 1	1 - 5	6 - 10	More Than 10	
Mortgage and asset backed securities	\$ 1,687,509	\$ -	\$ 930,324	\$ 202,926	\$ 554,259	AAA
Government obligations	819,080	74,195	496,545	-	248,340	AAA
Government agencies	3,057,772	1,040,108	1,037,723	979,941	-	AAA
Corporate bonds	299,716	-	-	168,252	131,464	AAA
Corporate bonds	6,009	-	-	6,009	-	AA+
Corporate bonds	328,720	-	114,720	140,290	73,710	AA
Corporate bonds	517,337	-	505,969	-	11,368	AA-
Corporate bonds	3,371,223	500,584	1,975,776	370,514	524,349	A+
Corporate bonds	3,936,152	361,410	1,659,190	761,868	1,153,684	A
Corporate bonds	1,022,097	228,628	607,486	31,223	154,760	A-
Corporate bonds	309,745	-	265,013	-	44,732	BBB+
Corporate bonds	1,092,941	60,457	729,051	303,433	-	BBB
	<u>\$ 16,448,301</u>	<u>\$ 2,265,382</u>	<u>\$ 8,321,797</u>	<u>\$ 2,964,456</u>	<u>\$ 2,896,666</u>	

Northern Marianas College (NMC):

NMC's investments are held and administered by trustees in accordance with negotiated trust and custody agreements. Based on these agreements, all of these investments were held in NMC's name by NMC's custodial financial institutions at September 30, 2005.

As of September 30, 2005, investments at fair value are as follows:

Fixed income securities:	
Domestic fixed income	\$ <u>1,321,704</u>
Other investments:	
Domestic equities	\$ 2,192,415
Other	<u>144,925</u>
	<u>2,337,340</u>
	<u>\$ 3,659,044</u>

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2005

(2) Deposits and Investments, Continued

Investments, Continued

C. Discretely Presented Component Units, Continued

Northern Marianas College (NMC), Continued:

The following is a listing of NMC's fixed income securities at September 30, 2005:

Investment Type	Fair Value	Investment Maturities (In Years)				Credit Rating
		Less Than 1	1 - 5	6 - 10	More Than 10	
U.S. Treasury notes	\$ 954,460	\$ 13,981	\$ 742,648	\$ 197,831	\$ -	AAA
U.S. Treasury bonds	143,400	-	-	-	143,400	AAA
Corporate bonds	50,504	-	-	50,504	-	A
Corporate bonds	37,805	-	-	24,404	13,401	A+
Corporate bonds	11,064	-	11,064	-	-	AA-
Corporate bonds	18,150	-	-	18,150	-	AAA
Corporate bonds	44,190	-	-	18,621	25,569	BBB
Corporate bonds	24,125	-	13,123	11,002	-	BBB-
Corporate bonds	38,006	-	-	12,241	25,765	BBB+
	<u>\$ 1,321,704</u>	<u>\$ 13,981</u>	<u>\$ 766,835</u>	<u>\$ 332,753</u>	<u>\$ 208,135</u>	

(3) Receivables

Receivables as of September 30, 2005, for the primary government's individual major governmental funds and nonmajor governmental funds in the aggregate, including allowances for uncollectible accounts, are as follows:

	General	Federal Grants	DOI Capital Projects	NMTIT Rebate Trust	Other Governmental Funds	Totals
Receivables:						
Federal agencies	\$ -	\$ 15,630,781	\$ 6,770,056	\$ -	\$ 319,180	\$ 22,720,017
Other agencies	108,884,235	-	-	-	-	108,884,235
Taxes	18,434,708	-	-	124,524	-	18,559,232
General	1,087,154	-	-	-	-	1,087,154
Other	-	-	12,831	-	821,534	834,365
Gross receivables	128,406,097	15,630,781	6,782,887	124,524	1,140,714	152,085,003
Less allowance for uncollectibles	(109,681,967)	(3,843,022)	(5,656,059)	-	-	(119,181,048)
Net receivables	<u>\$ 18,724,130</u>	<u>\$ 11,787,759</u>	<u>\$ 1,126,828</u>	<u>\$ 124,524</u>	<u>\$ 1,140,714</u>	<u>\$ 32,903,955</u>

Receivables as of September 30, 2005 for individual major discretely presented component units, including allowances for uncollectible accounts are as follows:

	Commonwealth Ports Authority	Commonwealth Development Authority	Commonwealth Utilities Corporation	Marianas Public Land Trust	Marianas Public Lands Authority	Northern Marianas College	Public School System	Marianas Visitors Authority	Totals
Receivables:									
Loans	\$ -	\$ 118,140,964	\$ -	\$ 10,947,822	\$ -	\$ -	\$ -	\$ 99,425	\$ 129,188,211
Federal agencies	2,169,580	-	811,954	-	1,062,247	1,302,440	-	-	5,346,221
General	3,917,747	35,878	-	-	16,173,253	3,676,169	-	-	23,803,047
Utilities	-	-	18,317,492	-	-	-	-	-	18,317,492
Interest and dividends	-	14,565,558	-	222,948	-	-	-	-	14,788,506
Other	36,380	65,669	2,709,945	161,218	-	-	1,642,995	-	4,616,207
Gross receivables	6,123,707	132,808,069	21,839,391	11,331,988	16,173,253	4,738,416	2,945,435	99,425	196,059,684
Less allowance for uncollectibles	(2,017,052)	(100,130,943)	(11,543,559)	(143,156)	(15,627,155)	(2,253,766)	-	-	(131,715,631)
Net receivables	<u>\$ 4,106,655</u>	<u>\$ 32,677,126</u>	<u>\$ 10,295,832</u>	<u>\$ 11,188,832</u>	<u>\$ 546,098</u>	<u>\$ 2,484,650</u>	<u>\$ 2,945,435</u>	<u>\$ 99,425</u>	<u>\$ 64,344,053</u>

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2005

(3) Receivables, Continued

Receivables are primarily due from businesses and individuals residing in the CNMI. The allowance for uncollectibles primarily represents estimated uncollectible amounts that are determined based upon past collection experience and aging of the accounts.

(4) Interfund Receivables and Payables

Receivables and payables between funds reflected as due to/from other funds in the governmental funds balance sheet at September 30, 2005 are summarized as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Nonmajor governmental funds	\$ 507,946
DOI Capital Projects	General	13,979,148
NMTIT Rebate Trust	General	24,737,765
Nonmajor governmental funds	General	18,701,193
General	Federal Grants Fund	8,882,129
Agency Fund	General	<u>1,352,477</u>
		\$ <u>68,160,658</u>

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

Balances reflected as due to/from component units in the governmental funds balance sheet as of September 30, 2005 are summarized as follows:

<u>Due From</u>	<u>Due To</u>	<u>Amount</u>
General	Commonwealth Development Authority (CDA) - NMHC Division	\$ 3,558,066
General	Marianas Public Lands Authority (MPLA)	6,682,719
Nonmajor governmental funds	Marianas Public Land Trust	<u>273,918</u>
		\$ <u>10,514,703</u>
Public School System (PSS)	General	\$ 1,392,109
Northern Marianas College	General	199,396
Marianas Visitors Authority	General	2,195,816
Commonwealth Utilities Corporation	General	15,593,119
Northern Marianas College (NMC)	Nonmajor governmental funds	31,016
Marianas Public Land Trust	Nonmajor governmental funds	<u>54,448</u>
		\$ <u>19,465,904</u>

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2005

(4) Interfund Receivables and Payables, Continued

The amount recorded as due from component units of the primary government of \$10,514,703 does not equal the corresponding due to primary government of the discretely presented component units of \$9,388,967 as the difference of \$3,558,066 is due to a note payable and accrued interest payable to the CNMI recorded by CDA - NMHC division and the discretely presented component units recording \$2,432,330 due to the primary government related to the 1% public auditor fee for which the primary government recorded a corresponding allowance.

The amount due from MPLA of \$6,682,719 represents the remaining amount of \$28,000,691 from General Obligation Bonds issued by the CNMI for land compensation claims, net of drawdowns at September 30, 2005 of \$18,891,203. The funds are deposited in a money market account with a trustee and recorded by MPLA. Total interest earned on the account amounted to \$349,982 at September 30, 2005. As land claims are settled, a transfer out to MPLA is recorded.

The amount recorded as due from primary government of the discretely presented component units of \$4,335,117 does not equal the corresponding due to component units of the primary government of \$19,465,904 due to the Commonwealth Utilities Corporation recording an allowance of \$16,279,944 and unreconciled difference of \$1,039,560. The CNMI is contesting water and sewer charges with CUC. The remaining difference relates to unreconciled differences of \$31,372, \$80,741 and \$2,516 with MVA, PSS and NMC, respectively.

The amount recorded as due to Pension (and Other Employee Benefit) Trust Funds beneficiaries of \$120,344,235 does not equal the corresponding due from the primary government of the Fiduciary Funds of \$188,521 due to the Pension (and Other Employee Benefit) Trust Fund recording an allowance for uncollectible receivables of \$123,518,360 with the remaining difference of \$3,362,646 due to additional penalty on contributions assessed by NMIRF which the primary government is currently contesting.

(5) Restricted Assets

Fiduciary Fund Type - Agency Fund

Security Deposit Fund:

Restricted assets of \$4,234,367 as of September 30, 2005 represent deposits of foreign investors required by law to operate businesses in the CNMI.

Discretely Presented Component Units

Commonwealth Ports Authority (CPA):

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2005

(5) Restricted Assets, Continued

Discretely Presented Component Units, Continued

Commonwealth Ports Authority (CPA), Continued:

<u>Fund</u>	<u>1998 Senior Series A Airport Revenue Bonds</u>	<u>1998 Senior Series A Seaport Revenue Bonds</u>
Bond Reserve Fund	\$ 1,655,719	\$ 3,285,667
Supplemental Reserve Fund	-	6,991,329
Construction Fund	653,485	6,007,577
Reimbursement Fund	-	5,233
Bond Fund	198,789	870,444
Maintenance and Operation	449,093	263,140
Cost of Issuance	-	<u>247,240</u>
	<u>\$ 2,957,086</u>	<u>\$ 17,670,630</u>

Commonwealth Development Authority (CDA):

Restricted assets of CDA are comprised of the following:

	<u>Development Banking Division</u>	<u>Development Corporation Division</u>	<u>Northern Marianas Housing Corporation</u>	<u>Total</u>
Cash and cash equivalents	\$ 1,397,642	\$ 1,243,563	\$ 2,992,256	\$ 5,633,461
Investments	<u>8,778,610</u>	<u>8,893,913</u>	-	<u>17,672,523</u>
	<u>\$ 10,176,252</u>	<u>\$ 10,137,476</u>	<u>\$ 2,992,256</u>	<u>\$ 23,305,984</u>

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

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

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

Escrow account maintained as a guarantee for any deficiency in foreclosure proceeds related to U.S. Farmers Home Administration loans	\$ 254,313
Savings account restricted for Koblerville Section 8 project repairs and maintenance expenses, per contract with the U.S. Department of Housing and Urban Development	195,191



COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2005

(5) Restricted Assets, Continued

Discretely Presented Component Units, Continued

Commonwealth Development Authority (CDA), Continued:

Savings account maintained as a guarantee of housing loans made by a savings and loan in the CNMI	120,611
Marianas Public Land Trust (MPLT) collateral account	1,237,072
Time certificates of deposit for MPLT loan program	1,033,120
Other depository accounts reserved for various purposes	<u>151,949</u>
	\$ <u>2,992,256</u>

Commonwealth Utilities Corporation (CUC):

Cash and cash equivalents of \$10,061,397 as of September 30, 2005 represent customer deposits segregated pursuant to CUC policy. Cash and cash equivalents of \$40,605 as of September 30, 2005 represent advances from a grantor agency for the use on a specific project.

Marianas Public Land Trust (MPLT):

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

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

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

## COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2005(5) Restricted Assets, ContinuedDiscretely Presented Component Units, Continued

## Marianas Public Lands Authority (MPLA):

Restricted short-term investments of MPLA represent the unused proceeds of \$6,682,719 as part of the primary government's \$40,000,000 General Obligation Bonds Series 2003A, deposited with a trustee. The trustee is a commercial lending institution and the restricted short-term investments are held in the name of MPLA.

Cash and cash equivalents of \$6,726,588 represents bank deposits in which MPLA has been restricted full access and, accordingly, are classified as restricted, noncurrent in the accompanying financial statements. The deposits are held with a financial institution not subject to FDIC and thus are uncollateralized.

(6) Fixed Assets and Depreciation

Capital assets activities of the primary government for the year ended September 30, 2005, are as follows:

Governmental Activities

	Balance October 1, 2004	Additions	Retirements	Reclassifications	Balance September 30, 2005
Historical cost:					
Assets not being depreciated:					
Construction in progress	\$ 56,242,920	\$ 18,701,300	\$ -	\$ (20,405,940)	\$ 54,538,280
Depreciable assets:					
Buildings and other improvements	91,730,149	711,733	-	15,127,571	107,569,453
Machinery and equipment	7,574,153	2,379,150	-	-	9,953,303
Infrastructure	113,762,852	236,703	-	5,230,742	119,230,297
Subtotal depreciable assets	213,067,154	3,327,586	-	20,358,313	236,753,053
Total capital assets at cost	269,310,074	22,028,886	-	(47,627)	291,291,333
Accumulated depreciation:					
Buildings and other improvements	(22,435,272)	(3,812,137)	-	-	(26,247,409)
Machinery and equipment	(2,262,066)	(1,168,092)	-	-	(3,430,158)
Infrastructure	(76,351,887)	(5,933,842)	-	-	(82,285,729)
Total accumulated depreciation	(101,049,225)	(10,914,071)	-	-	(111,963,296)
Capital assets, net	\$ 168,260,849	\$ 11,114,815	\$ -	\$ (47,627)	\$ 179,328,037

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2005

(6) Fixed Assets and Depreciation, Continued

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

Community and Social Services	\$ 1,016,271
General Government	747,880
Health	901,893
Public Works	7,402,842
Judicial Branch	291,274
Public Safety and Law Enforcement	455,848
Lands and Natural Resources	<u>98,063</u>
 Total depreciation expense - governmental activities	 <u>\$ 10,914,071</u>

Discretely Presented Component Units

	Estimated Useful Lives	Balance October 1, 2004	Additions	Retirements	Balance September 30, 2005
Historical cost:					
Assets not being depreciated:					
Land	-	\$ 56,158,991	\$ 18,891,203	\$ -	\$ 75,050,194
Construction in progress	-	<u>41,031,995</u>	<u>11,403,391</u>	<u>(13,198,497)</u>	<u>39,236,889</u>
		<u>97,190,986</u>	<u>30,294,594</u>	<u>(13,198,497)</u>	<u>114,287,083</u>
Depreciable assets:					
Harbor facilities	20 years	61,826,127	171,173	-	61,997,300
Terminal facilities	20 years	63,306,193	713,174	-	64,019,367
Buildings	5 - 50 years	52,808,054	180,000	-	52,988,054
Runway and improvements	20 years	40,601,315	5,905,505	-	46,506,820
Other improvements	3 - 20 years	14,862,599	247,783	-	15,110,382
Housing projects	30 years	8,654,609	11,780	(391,000)	8,275,389
Terminal equipment	2 - 10 years	8,683,852	863,205	-	9,547,057
Office furniture and fixtures	2 - 10 years	8,850,350	1,719,298	(1,900,903)	8,668,745
Infrastructure	30 years	5,111,477	-	-	5,111,477
Other equipment	3 - 5 years	2,309,424	24,308	(2,243)	2,331,489
Fire and rescue	2 - 8 years	3,327,521	6,590,046	-	9,917,567
General transportation	3 - 5 years	1,783,317	123,091	(80,645)	1,825,763
Ground maintenance and shop equipment	2 - 5 years	<u>507,091</u>	<u>-</u>	<u>(3,646)</u>	<u>503,445</u>
Subtotal depreciable assets		<u>272,631,929</u>	<u>16,549,363</u>	<u>(2,378,437)</u>	<u>286,802,855</u>
Total capital assets at cost		369,822,915	46,843,957	(15,576,934)	401,089,938
Less accumulated depreciation		(114,161,315)	(12,923,515)	2,189,166	(124,895,664)
Less accumulated loss on impairment		<u>(133,721)</u>	<u>-</u>	<u>-</u>	<u>(133,721)</u>
		<u>\$ 255,527,879</u>	<u>\$ 33,920,442</u>	<u>\$ (13,387,768)</u>	<u>\$ 276,060,553</u>

CUC did not provide a schedule of movements in capital assets for the year ended September 30, 2005; therefore, the above schedule does not include the capital assets of CUC. At September 30, 2005, CUC's capital assets amounted to \$97,777,636.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2005

(7) Tax Rebates Payable

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

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

The rebate percentage is either 90%, 70% or 50%, based on the specified tax brackets for taxes paid. Amounts may be withdrawn from the trust fund only for the purpose of making rebates, payments into the general fund (but only after a final determination that the amount in question is not validly subject to rebate), or payments into the general fund of interest derived from the trust accounts. Tax rebate liabilities amounted to \$24,436,334 as of September 30, 2005. Cash to fund this liability is to be provided by the General Fund. Any changes in the estimate will be accounted for in a prospective manner.

(8) Long-Term Debt Obligations

NMIRF Loan

On February 28, 1995, the CNMI entered into a loan agreement with the Northern Mariana Islands Retirement Fund (NMIRF), a Fiduciary Fund Type - Pension (and Other Employee Benefits) Trust Fund, for the construction of a Judicial Complex on the island of Saipan, in an amount not to exceed \$15,000,000. All revenue collected by the courts is deposited into the Judicial Building Fund, a Governmental Fund Type - Special Revenue Fund, to finance debt service on the loan. As of September 30, 2005, cash balances held by NMIRF for the retirement of debt totaled \$1,879,096. The loan is for a period of fifteen years, is due February 28, 2010 with interest at 7.5%, principal and interest payable in monthly installments of \$137,198. As of September 30, 2005, amount outstanding and payable is \$9,936,867.

\$15,685,000 Bond Issue

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

Installments are paid to the Bond Trustee annually on every October 1 through 2008. These funds are held in a Bond Fund Account from which the Bond Trustee makes semiannual payments every April 1 and October 1. The term of the bond issue is for approximately nine years and matures on October 1, 2008. As of September 30, 2005, amount outstanding and payable is \$6,570,000.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2005

(8) Long-Term Debt Obligations, Continued

\$60,000,000 Bond Issue

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

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

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

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

Mandatory sinking fund payments due June 1 are as follows:

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

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

As of September 30, 2005, amount outstanding and payable is \$57,330,000.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2005

(8) Long-Term Debt Obligations, Continued

\$40,000,000 Bond Issue

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

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

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

- (a) **Optional Redemption** - The bonds maturing after October 1, 2013 are subject to redemption prior to their respective maturities, at the option of the Commonwealth, from any source of available funds, on any date on or after October 1, 2013, as a whole, or in part by such maturity or maturities as may be specified by request of the Commonwealth (and by lot within a maturity as selected by the Trustee), at a redemption price of one hundred percent (100%) of the principal amount thereof plus accrued interest thereon to the dated fixed for redemption.
- (b) **Mandatory Redemption from Sinking Fund Payments** - The bonds are subject to redemption prior to their stated maturities, in part, by lot, from mandatory sinking fund payments deposited in the principal account in the Bond Payment Fund pursuant to Section 4.05 of this Indenture, on each October 1 from and after October 1, 2009, at the principal amount thereof plus accrued interest thereon, if any, to the date of redemption (without premium).
- (c) **Partial Redemption of Bonds** - Upon surrender of any bond redeemed in part only, the Paying Agent shall provide a replacement bond in a principal amount equal to the portion of such bond not redeemed, and deliver it to the registered owner thereof. The bond so surrendered shall be cancelled by the Paying Agent as provided herein. The Authority, the Trustee and the Paying Agent shall be fully released and discharged from all liability to the extent of payment of the redemption price for such partial redemption.
- (d) **Effect of Redemption** - Moneys for payment of the redemption price of, together with interest accrued to the redemption date on, the bonds (or portions thereof) so called for redemption being held by the Paying Agent, on the redemption date designated in such notice, shall become due and payable at the redemption price specified in such notice and interest accrued thereon to the redemption date, said bonds (or portions thereof) shall cease to be entitled to any benefit or security under this Indenture, and the Holders of said bonds shall have no rights in respect thereof except to receive payment of said redemption price and accrued interest to the redemption date. Any accrued interest payable upon the redemption of bonds may be paid from amounts held in the interest account for the payment of interest on the next following interest payment date.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2005

(8) Long-Term Debt Obligations, Continued

\$40,000,000 Bond Issue, Continued

(d) Effect of Redemption - Continued

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

As of September 30, 2005, amount outstanding and payable is \$40,000,000 less unamortized discount on bond issuance of \$545,066.

Changes in long-term liabilities for the year ended September 30, 2005, are as follows:

	Balance October 1, 2004	<u>Additions</u>	<u>Reductions</u>	Balance September 30, 2005	Due Within One Year
Loans and bonds payable:					
NMIRF loan	\$ 11,279,320	\$ 7,625	\$ (1,350,078)	\$ 9,936,867	\$ 2,840,008
1999 Series A Bonds	8,150,000	-	(1,580,000)	6,570,000	1,660,000
2000 Series A Bonds	58,695,000	-	(1,365,000)	57,330,000	1,435,000
2003 Series A Bonds	<u>40,000,000</u>	<u>-</u>	<u>-</u>	<u>40,000,000</u>	<u>-</u>
	118,124,320	7,625	(4,295,078)	113,836,867	5,935,008
Unamortized discount on bonds issued	<u>(564,533)</u>	<u>-</u>	<u>19,467</u>	<u>(545,066)</u>	<u>-</u>
	117,559,787	7,625	(4,275,611)	113,291,801	5,935,008
Other:					
Compensated absences	9,681,781	5,268,171	(5,241,839)	9,708,113	3,408,938
Claims and judgments payable	<u>9,020,743</u>	<u>468,984</u>	<u>(468,984)</u>	<u>9,020,743</u>	<u>-</u>
	<u>\$ 136,262,311</u>	<u>\$ 5,744,780</u>	<u>\$ (9,986,434)</u>	<u>\$ 132,020,657</u>	<u>\$ 9,343,946</u>

The annual requirement to amortize all debt of the governmental activities outstanding as of September 30, 2005 is as follows:

<u>Year ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 5,935,008	\$ 7,351,886	\$ 13,286,894
2007	4,403,218	7,114,059	11,517,277
2008	4,657,746	6,852,306	11,510,052
2009	4,344,223	6,574,866	10,919,089
2010	3,898,191	6,310,648	10,208,839
2011 - 2015	16,358,481	28,210,513	44,568,994
2016 - 2020	19,540,000	23,037,800	42,577,800
2021 - 2025	17,900,000	16,859,663	34,759,663
2026 - 2030	25,400,000	9,508,881	34,908,881
2031 - 2034	<u>11,400,000</u>	<u>1,977,750</u>	<u>13,377,750</u>
	<u>\$ 113,836,867</u>	<u>\$ 113,798,372</u>	<u>\$ 227,635,239</u>

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2005

(8) Long-Term Debt Obligations, Continued

Discretely Presented Component Units

Commonwealth Ports Authority

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

\$ 7,321,380

Commonwealth Development Authority

Development Banking Division:

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

1,808,043

Northern Marianas Housing Corporation (NMHC):

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

8,996,623

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

1,003,377

Commonwealth Utilities Corporation

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

30,000,000

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

16,068,750



COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2005

(8) Long-Term Debt Obligations, Continued

Discretely Presented Component Units, Continued

Commonwealth Utilities Corporation, Continued

Promissory note payable to CDA. Principal amount available to \$5,500,000, interest at 7% per annum, with a maturity date of January 30, 2000. Principal and interest payments are due in quarterly payments of \$276,471.	5,500,000
Promissory note payable to CDA. Principal amount available to \$10,000,000 and interest at 7% per annum. Principal and interest payments are due in monthly payments of \$58,509. No promissory agreement related to this note has been signed.	10,000,000
Loan payable to the U.S. Department of Agriculture with repayments due on January 1, beginning in 1989 through 2008, bearing interest at 6 1/8% per annum.	156,716
Short-term note with Mobil, due June 16, 2006, with interest based on fluctuating rate equal to three (3) percentage points above the prime interest rate. Monthly installments of \$168,497 are due beginning July 15, 2005 to December 2005 and \$505,489 beginning January 15, 2006 to June 15, 2006.	<u>3,246,265</u>
	<u>\$ 84,101,154</u>

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

- CPA will make immediate payment of fifty percent of the amount outstanding as of February 4, 2003.
- For the remainder of Fiscal Year 2003, CPA will reduce its quarterly payments by fifty percent.
- The term of the loan will be extended to accommodate the above payment deferral.

As of September 30, 2005, an amendment to the loan agreement has not been signed by both CPA and CDA.

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

On November 21, 2002, a Memorandum of Agreement (MOA) was established between CDA and CUC to waive a portion of the notes payable to CDA and the conversion into equity ownership of the balance. Public Law 13-35 effectuated terms of the MOA allowing CDA to waive \$16,068,750 and waive certain specified interest payments and for other purposes. Public Law 13-36 effectuated terms of the MOA by authorizing CUC to issue shares to CDA of cumulative nonconvertible non-transferable preferred stock valued at \$45,500,000. At September 30, 2005, terms of the MOA are being negotiated between CDA and CUC and thus debt has not been waived and preferred stock has not been issued.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2005

(8) Long-Term Debt Obligations, Continued

Discretely Presented Component Units, Continued

\$20,050,000 Bond Issue

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

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

Revenue bonds payable as of September 30, 2005, consist of the following:

1998 Senior Series A tax-exempt airport revenue bonds	\$ 17,995,000
Deferred costs of debt refunding	<u>                  -</u>
	<u>\$ 17,995,000</u>

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

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

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

\$33,775,000 Bond Issue

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2005

(8) Long-Term Debt Obligations, Continued

Discretely Presented Component Units, Continued

\$33,775,000 Bond Issue, Continued

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

Revenue bonds payable as of September 30, 2005, consist of the following:

1998 Senior Series A tax-exempt seaport revenue bonds	\$ 30,390,000
Deferred costs of debt refunding	<u>(1,141,043)</u>
	\$ <u>29,248,957</u>

CPA has resolved to deposit \$700,000 annually into the Seaport supplemental reserve fund (beginning in 2001 and ending in 2005) until \$8,000,000 is deposited into such fund. At September 30, 2005, total deposits in the Seaport supplemental reserve fund amounted to \$6,991,329.

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

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

\$7,225,000 Bond Issue

On September 21, 2005, CPA issued \$7,225,000 of Senior Series A tax-exempt seaport revenue bonds for the purpose of financing (including reimbursing itself for) the purchase, acquisition, construction, reconstruction, repair, renovation, improvement or expansion of CPA's seaports. Pursuant to Section 2.04(A)(9) of the 1998 Senior Series A Seaport Revenue Bonds Indenture Agreement dated March 1, 1998 and as supplemented by a First Supplemental Indenture dated March 1, 2000, CPA entered into a Second Supplemental Indenture for the issuance of the 2005 Senior Series A bonds. Interest on the bonds is payable semi-annually at 5.5% on March 15 and September 15 of each year.

Revenue bonds payable as of September 30, 2005, consist of the following:

2005 Senior Series A tax-exempt seaport revenue bonds	\$ 7,225,000
Discount on bonds	<u>(124,270)</u>
	\$ <u>7,100,730</u>

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, 2005.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2005

(8) Long-Term Debt Obligations, Continued

Discretely Presented Component Units, Continued

The annual requirements to amortize all debt of the Discretely Presented Component Units outstanding as of September 30, 2005, 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>
2006	\$ 67,170,787	\$ 98,992,814	\$ 166,163,601
2007	1,873,458	3,690,973	5,564,431
2008	2,115,275	3,589,948	5,705,223
2009	2,159,507	3,479,222	5,638,729
2010	2,269,992	3,365,862	5,635,854
2011 - 2015	12,618,759	14,854,193	27,472,952
2016 - 2020	22,183,376	19,018,519	41,201,895
2021 - 2025	15,780,000	6,879,085	22,659,085
2026 - 2030	13,015,000	1,540,942	14,555,942
2031 - 2035	<u>525,000</u>	<u>14,438</u>	<u>539,438</u>
	\$ <u>139,711,154</u>	\$ <u>155,425,996</u>	\$ <u>295,137,150</u>

Obligations Under Capital Lease

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2005

(8) Long-Term Debt Obligations, Continued

Discretely Presented Component Units, Continued

Obligations Under Capital Lease, Continued

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

The effects of adopting EITF No. 01-8 were to increase plant and obligations under capital lease by \$9,959,000. CUC has not obtained the actual cost of the power plant and has not obtained an appraisal to determine the fair value of the leased property, which is required by accounting principles generally accepted in the United States of America. As a result, management has not been able to assess its compliance with the EITF requirements and the impact of this matter on the accompanying financial statements is uncertain. The lease has an effective interest rate of 18%. The total obligation under capital lease at September 30, 2005 was \$5,475,269.

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

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

The annual requirement to amortize all obligations under capital lease outstanding as of September 30, 2005 is as follows:

<u>Year ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 1,271,733	\$ 888,267	\$ 2,160,000
2007	1,521,801	638,199	2,160,000
2008	1,821,040	338,960	2,160,000
2009	<u>860,695</u>	<u>39,309</u>	<u>900,004</u>
	\$ <u>5,475,269</u>	\$ <u>1,904,735</u>	\$ <u>7,380,004</u>

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2005

(8) Long-Term Debt Obligations, Continued

Discretely Presented Component Units, Continued

Changes in long-term liabilities of the discretely presented component units for the year ended September 30, 2005, are as follows:

	<u>Balance October 1, 2004</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance September 30, 2005</u>	<u>Due Within One Year</u>
Notes and bonds payable	\$ 131,071,400	\$ 10,935,018	\$ (2,295,264)	\$ 139,711,154	\$ 67,170,787
Deferred amounts:					
Deferred costs of debt refunding	(1,255,322)	-	114,279	(1,141,043)	-
Discount on bonds	-	(124,270)	-	(124,270)	-
	129,816,078	10,810,748	(2,180,985)	138,445,841	67,170,787
Other liabilities:					
Obligations under capital lease	6,538,027	-	(1,062,758)	5,475,269	1,271,733
Compensated absences	6,662,847	1,477,911	(1,528,041)	6,612,717	1,184,285
Deferred revenue	2,362,355	1,839,536	-	4,201,891	4,172,256
Due to primary government	<u>26,838,363</u>	<u>1,441,807</u>	<u>(18,891,203)</u>	<u>9,388,967</u>	<u>9,388,967</u>
	<u>\$ 172,217,670</u>	<u>\$ 15,570,002</u>	<u>\$ (23,662,987)</u>	<u>\$ 164,124,685</u>	<u>\$ 83,188,028</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, 2005, consist of the following:

	<u>Authorizing Legislation</u>	<u>Outstanding Balance</u>
General Fund:		
PSS Bond Interest	Public Law No. 13-24	\$ 1,722,657
Non Lapsing Scholarship	Public Law No. 4-41	715,568
Saipan Ambulance Fee	Public Law No. 13-12	308,838
Other programs	Various	<u>259,942</u>
		<u>\$ 3,007,005</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, 2005

(10) Transfers In/Out

Operating Fund Transfers

Operating transfers in/out for each major governmental fund and nonmajor governmental funds in the aggregate, for the year ended September 30, 2005, are as follows:

<u>Source/Recipient</u>	<u>Transfer Out</u>	<u>Transfer In</u>
<u>General Fund</u>		
From General Fund to:		
Federal Grants Fund	\$ 2,416,977	\$ -
DOI Capital Projects Fund	5,174,262	-
Nonmajor governmental funds	8,043,245	-
To General Fund from:		
Nonmajor governmental funds	-	10,478,713
Federal Grants Fund	-	5,171,914
	<u>15,634,484</u>	<u>15,650,627</u>
<u>Federal Grants Funds</u>		
From Federal Grants Fund to:		
Nonmajor governmental funds	156,174	-
General Fund	5,171,914	-
To Federal Grants Fund from:		
General Fund	-	2,416,977
	<u>5,328,088</u>	<u>2,416,977</u>
<u>DOI Capital Projects Fund</u>		
To DOI Capital Projects Fund from:		
General Fund	-	5,174,262
From DOI Capital Projects Fund to:		
Nonmajor governmental funds	1,293,950	-
	<u>1,293,950</u>	<u>5,174,262</u>
<u>Nonmajor governmental funds</u>		
From nonmajor governmental funds to:		
General Fund	10,478,713	-
Nonmajor governmental funds	9,052,638	9,052,638
To nonmajor governmental funds from:		
DOI Capital Projects Fund	-	1,293,950
Federal Grants Fund	-	156,174
General Fund	-	8,043,245
	<u>19,531,351</u>	<u>18,546,007</u>
	<u>\$ 41,787,873</u>	<u>\$ 41,787,873</u>

Transfers are used to 1) move revenues from the fund that enabling legislation or budget requires to collect them to the fund that enabling legislation or budget requires to expend them, 2) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations, and 3) record reductions in interfund loans for amounts that are not expected to be repaid.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2005

(10) Transfers In/Out, Continued

Operating Fund Transfers, Continued

The amount recorded as payments to component units from the primary government of \$69,506,754 does not equal the corresponding contributions from the primary government of \$71,433,215 due to NMC recording utilities expense of \$534,735 as an increase to contributions and the primary government recording all utilities as a separate line item; timing difference of \$13,491 with NMC when recording contributions; and NMC recording the 1% OPA fee of \$83,193 as part of appropriations. The remaining difference is due to PSS recording the 2% deficit reduction and 1% OPA fee of \$744,199 and \$372,099, respectively, as an increase to contributions and a timing difference of \$179,980.

The amount recorded as contributions from component units of the primary government of \$3,131,993 does not equal the corresponding contributions to the primary government of the component units of \$2,743,322 due to \$372,029 recorded as an expense by MPLA and a timing difference with CDA of \$16,642.

(11) Commitments

Public School System (PSS)

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

Land Acquisitions

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

Other

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

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

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



COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2005

(12) Contingencies

Landfill Closure Costs

The CNMI operates a solid waste disposal site in Puerto Rico, Saipan, which is under administrative order from the U.S. Environmental Protection Agency to close in the near future. The disposal site was officially closed in 2003. 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 \$3,567,232 have been set forth in the CNMI's Single Audit Report for the year ended September 30, 2005. The ultimate disposition of these questioned costs can be determined only by final action of the respective grantor agencies. Therefore, no provision for any liability that may result upon resolution of this matter has been made in the accompanying financial statements.

Insurance Coverage

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

Unfunded Pension Liability

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

The unfunded pension liability is the amount of contributions that the CNMI should have paid to the NMIRF for the retirement benefits of an undetermined number of individuals employed before October 1, 1980, the date the Fund was established, who collected money from the Fund based on their years of service but were not required to pay their share of contribution as mandated by this law. Based on the latest actuarial valuation report, dated October 1, 2004, the actual unfunded pension liability is \$552,042,142.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2005

(12) Contingencies, Continued

Other

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

The CNMI records expenditures for sick leave when the leave is actually taken. Sick leave is compensated absence during working hours arising from employee illness or injury. Sick leave accumulates at the rate of thirteen working days for each year of service, without limit. No liability is recorded for nonvesting accumulating rights to receive sick pay benefits. The accumulated estimated amount of unused sick leave as of September 30, 2005, is \$35,249,780.

(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. Total claims amounted to \$468,984, 1,609,899 and \$5,741,989 for the years ended September 30, 2005, 2004 and 2003, respectively. Changes in the balance of claims liabilities during the past year are as follows:

	<u>Year ended</u> <u>September 30,</u>
Unpaid claims at beginning of year	\$ 9,020,743
Incurred claims	468,984
Claim payments	<u>(468,984)</u>
Unpaid claims at end of year	\$ <u>9,020,743</u>

(14) Pension Trust Fund

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2005

(14) Pension Trust Fund, Continued

The Plan provides retirement, security and other benefits to employees, and their spouses and dependents, of the CNMI Government and CNMI agencies, instrumentalities and public corporations. Benefits are based on the average annual salary of the beneficiary over the term of credited service. Public Law No. 6-17, the Northern Mariana Islands Retirement Fund Act of 1988, is the authority under which benefit provisions are established. Public Law No. 6-17 was subsequently amended by Public Law Nos. 6-41, 8-24, 8-30, 8-31, 8-39, 9-25, 9-45, 10-8, 10-19 and 11-9. NMIRF issues a publicly available financial report that includes financial statements and required supplementary information for the Plan. That report may be obtained by writing to the Northern Mariana Islands Retirement Fund, P.O. Box 501247, Saipan, MP, 96950-1247.

Plan members are required to contribute 6.5% and 9.0% of their annual covered salary for Class I and Class II members, respectively, and the CNMI is required to contribute at an actuarially determined rate. The current rate is 24% of annual covered payroll. The contribution requirements of plan members and the CNMI are established and may be amended by the Board of Trustees of NMIRF. The CNMI's total personnel expense for governmental fund types, inclusive of fiduciary funds, for fiscal years 2005, 2004 and 2003 were \$133,496,390, \$129,634,542 and \$128,903,714, respectively, which were covered in total by NMIRF's pension plan.

Pursuant to Public Law 6-41, codified in 1CMC § 8362, any employer who fails to pay or remit contributions as required by this section shall pay a penalty of 10% per month or part thereof for which the contribution remains unpaid, up to a maximum penalty of 25% of the unpaid contribution. During fiscal year 2005, NMIRF assessed a penalty of \$4,966,209 based on the unpaid contribution during the year at a prorated interest rate. The CNMI, however, has determined that the maximum penalty for fiscal year 2005 is \$1,603,563 representing 25% of the increase of unpaid contribution from fiscal year 2004. The difference of \$3,362,646 and the manner in which the penalties were calculated is being contested by the CNMI. Accordingly, the CNMI has recorded a liability of \$1,603,563 at September 30, 2005.

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, 2005, are as follows:

General Fund	\$ <u>135,862,495</u>
Nonmajor Governmental Special Revenue Funds:	
Commonwealth Non-Resident Workers Fee Fund	\$ <u>42,897</u>
La Fiesta Revolving Fund	\$ <u>93,898</u>

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2005

(15) Individual Deficit Fund Balances or Deficit Retained Earnings, Continued

Nonmajor Governmental Capital Projects Funds:

American Memorial Park Fund \$ 141,733

Local Capital Projects Fund \$ 76,419

Discretely Presented Component Units

Commonwealth Utilities Corporation \$ 56,415,369

(16) Restatement of Government-Wide Net Assets

Discretely Presented Component Units

Net assets, as previously reported September 30, 2004	\$ 315,725,970
Overstatement of net assets previously reported in 2004, Public School System	(2,523,103)
Understatement of net deficit previously reported in 2004, Commonwealth Utilities Corporation	(3,519,733)
Understatement of depreciation expense previously reported in 2004, Northern Marianas College	(600,000)
Marianas Public Lands Authority:	
Understatement of capital assets previously reported in 2004	2,943,430
Waiver of settlement agreement with the Marianas Public Land Trust as previously reported	<u>1,000,000</u>
Net assets, as restated September 30, 2004	\$ <u>313,026,564</u>

(17) Subsequent Events

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2005

(17) Subsequent Events, Continued

On June 6, 2006, Public Law 15-12 was enacted authorizing the Commonwealth Development Authority to write-off the principal and interest due to it from loans extended to CUC.

On June 16, 2006, the following Public Laws were enacted:

- Public Law 15-13, *Defined Contribution Plan Act of 2006*, was enacted to create portable individual retirement accounts for all new public employees who are hired on or after January 1, 2007; to provide the conditions under which certain Class I members of the Retirement Fund may transfer from the existing defined benefit plan to the new defined contribution plan; to establish a Northern Mariana Islands Public Employees' Defined Contribution Retirement Plan; to vest the administration of the plan with the Administrator of the Northern Marianas Retirement Fund and his or her designees; to add new Sections 8451 - 8478 to Title 1 of the Commonwealth Code; to add a new subsection (k) to Section 1701 of Title 4 of the Commonwealth Code; and for other purposes.
- Public Law 15-14 was enacted to amend the effective date of the Retirement Fund Contribution period in 1CMC §8362 from October 1, 1980 to October 1, 2005.
- Public Law 15-15 was enacted to authorize the CNMI Government to suspend employer contributions owing to the NMIRF for the remainder of fiscal year 2006 and fiscal year 2007.

COMMONWEALTH OF THE  
NORTHERN MARIANA ISLANDS

REQUIRED SUPPLEMENTARY INFORMATION  
- BUDGETARY REPORTING

YEAR ENDED SEPTEMBER 30, 2005

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Revenues, Expenditures, and Changes in Deficit  
 - Budget and Actual - General Fund  
 Year Ended September 30, 2005

	Budgeted Amounts		Actual - Budgetary Basis	Variance
	Original	Final	(see note 1)	
<b>Revenues:</b>				
Taxes	\$ 179,342,654	\$ 179,342,654	\$ 175,673,804	\$ (3,668,850)
Charges for sales and services	18,201,000	18,201,000	19,297,400	1,096,400
Licenses and fees	12,640,200	12,640,200	15,659,559	3,019,359
Other	2,708,000	2,708,000	4,260,273	1,552,273
<b>Total revenues</b>	<b>212,891,854</b>	<b>212,891,854</b>	<b>214,891,036</b>	<b>1,999,182</b>
<b>Expenditures - budgetary basis by function:</b>				
Executive branch	105,527,434	105,842,801	109,067,066	(3,224,265)
Second Senatorial District - Tinian	13,345,006	13,382,501	13,274,783	107,718
First Senatorial District - Rota	13,341,302	13,409,488	13,238,551	170,937
Government utilities	5,000,000	10,881,813	12,926,624	(2,044,811)
Legislative branch	8,988,500	8,989,861	9,158,516	(168,655)
Judicial branch	5,001,825	5,001,825	4,997,098	4,727
Independent programs	1,477,063	1,479,258	1,560,206	(80,948)
Office of the Mayors	3,131,189	3,131,189	3,090,409	40,780
Office of the Public Auditor	2,228,824	2,228,824	2,316,381	(87,557)
Office of the Washington Representative	1,694,688	1,694,688	1,797,740	(103,052)
Boards and commissions	724,710	782,625	733,262	49,363
Education (payment to PSS and NMC)	44,028,779	43,346,250	43,347,941	(1,691)
Tourism (payment to MVA)	6,930,000	6,080,382	6,054,636	25,746
Employee benefits (payment to NMIRF and WCC)	2,444,423	2,404,423	2,404,425	(2)
Payment to MPLA	18,891,203	18,891,203	18,891,203	-
Typhoon expenditures	-	-	1,653,072	(1,653,072)
Penalty on retirement fund contributions	-	-	1,603,563	(1,603,563)
Bad debt	-	-	4,862,962	(4,862,962)
Unallocated audit adjustments, net	-	-	102,280	(102,280)
<b>Total expenditures</b>	<b>232,754,946</b>	<b>237,547,131</b>	<b>251,080,718</b>	<b>(13,533,587)</b>
Deficiency of revenues under expenditures	(19,863,092)	(24,655,277)	(36,189,682)	(11,534,405)
<b>Other financing sources (uses):</b>				
Operating transfers in	6,707,000	11,878,194	15,650,627	3,772,433
Operating transfers out	(12,785,973)	(13,259,926)	(15,634,484)	(2,374,558)
<b>Total other financing sources (uses), net</b>	<b>(6,078,973)</b>	<b>(1,381,732)</b>	<b>16,143</b>	<b>1,397,875</b>
Deficiency of revenues and other financing sources under expenditures and other financing uses	(25,942,065)	(26,037,009)	(36,173,539)	(10,136,530)
<b>Other changes in unreserved deficit:</b>				
Increase in reserve for supplies	-	-	(43,922)	(43,922)
Increase in reserve for related assets	-	-	(4,165,602)	(4,165,602)
Decrease in reserve for land claims	-	-	18,541,221	18,541,221
Increase in reserve for continuing appropriation	-	-	(2,339,287)	(2,339,287)
Other - unallocated deficit reduction	-	805,209	3,346,843	2,541,634
<b>Deficit at beginning of year</b>	<b>(120,989,939)</b>	<b>(133,496,399)</b>	<b>(153,426,142)</b>	<b>(19,929,743)</b>
<b>Deficit at end of year</b>	<b>\$ (146,932,004)</b>	<b>\$ (158,728,199)</b>	<b>\$ (174,260,428)</b>	<b>\$ (15,532,229)</b>

See Accompanying Notes to Required Supplementary Information - Budgetary Reporting.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to Required Supplementary Information - Budgetary Reporting  
September 30, 2005

(1) Budgetary Information

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

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

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

On September 10, 2002, the CNMI passed Public Law 13-24 as the Appropriations and Budget Authority Act of 2003. Section 521 of Public Law 13-24 authorizes the Secretary of Finance to reserve at least 2% of the total fiscal year appropriation for the purpose of retiring the government's accumulated deficit. During the year ended September 30, 2005, the CNMI operated under a continuing resolution of Public Law 13-24.

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



COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to Required Supplementary Information - Budgetary Reporting  
September 30, 2005

(1) Budgetary Information, Continued

For the year ended September 30, 2005, 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>
Judicial Branch:	
Law Revision Commission	\$ 23,290
Legislative Branch:	
Legislative Bureau	\$ 184,582
Executive Branch:	
Public Health	\$ 1,907,157
Public Safety	\$ 1,362,942
Finance	\$ 1,120,470
Labor and Immigration	\$ 38,431
Lands and Natural Resources	\$ 50,463
First Senatorial District - Rota:	
Lands and Natural Resources	\$ 11,861
Public Safety	\$ 28,845
Finance	\$ 20,576
Municipal Council	\$ 2,456
Labor and Immigration	\$ 1,072
Community and Cultural Affairs	\$ 3,612
Second Senatorial District - Tinian:	
Public Health	\$ 36,260
Public Safety	\$ 84,220
Lands and Natural Resources	\$ 5,827
Public Works	\$ 2,432
Community and Cultural Affairs	\$ 3,644
Commerce	\$ 2,993
Independent Programs	\$ 844
Boards and Commissions:	
Board of Election	\$ 1,244
Independent programs:	
Disability Development	\$ 1,928
Flame Tree Festival	\$ 912
Little League - Saipan	\$ 773
Office of the Public Auditor	\$ 87,557
Government utilities	\$ 2,044,811
Penalty on retirement fund contributions	\$ 1,603,563
Bad debt	\$ 4,862,962
Typhoon expenditures	\$ 1,653,072

COMMONWEALTH OF THE  
NORTHERN MARIANA ISLANDS

OTHER SUPPLEMENTARY INFORMATION

YEAR ENDED SEPTEMBER 30, 2005

## COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Combining Schedule of Expenditures by Account  
Governmental Funds  
Year Ended September 30, 2005

	Major Governmental Funds				Other Governmental Funds	Total
	General	Federal Grants	NMTIT Rebate Trust	DOI Capital Projects		
Salaries and wages	\$ 116,546,271	\$ 12,945,349	\$ -	\$ 512,424	\$ 3,492,346	\$ 133,496,390
Construction in progress	-	8,450	-	14,623,532	4,862,027	19,494,009
Professional services	4,749,734	6,648,552	-	844,480	2,611,649	14,854,415
Capital outlay:						
Office equipment	714,027	1,527,274	-	235,338	91,499	2,568,138
Vehicles	356,122	662,513	-	-	283,374	1,302,009
Machinery and equipment	117,313	717,053	-	1,047,580	62,426	1,944,372
Furniture and fixtures	176,530	181,776	-	-	91,033	449,339
Road improvements	-	37,378	-	-	1,014,636	1,052,014
Building improvements	36,714	-	-	84,751	466,920	588,385
Other	6,087	847,962	-	3,732,545	1,131,144	5,717,738
Utilities	12,926,624	101,046	-	-	17,301	13,044,971
Supplies	6,817,130	1,286,508	-	2,601	377,177	8,483,416
Food items	975,546	7,497,778	-	-	38,149	8,511,473
Scholarships/grants	4,627,700	4,026,382	-	-	2,102,162	10,756,244
Interest	-	-	-	3,824,301	3,891,159	7,715,460
Travel	4,296,767	1,459,154	-	10,528	346,420	6,112,869
Rentals	3,051,694	659,499	-	28,363	513,168	4,252,724
Communications	1,796,577	520,729	-	-	52,635	2,369,941
Repairs and maintenance	1,838,123	518,442	-	2,470	250,100	2,609,135
Bad debts	4,863,032	-	-	-	-	4,863,032
Indirect costs	-	1,729,456	-	-	-	1,729,456
Principal repayment	-	-	-	1,365,000	2,930,078	4,295,078
Education:						
Payments to PSS	36,108,630	-	-	-	-	36,108,630
Payments to NMC	7,097,151	-	-	-	1,477,970	8,575,121
Payments to MVA	5,931,800	-	-	-	-	5,931,800
Payments to NMIRF and WCC	2,395,040	-	-	-	-	2,395,040
Payments to MPLA	18,891,203	-	-	-	-	18,891,203
Miscellaneous services	1,000,302	126,891	-	-	137,547	1,264,740
Fuel and lubrication	1,235,535	172,501	-	-	319,489	1,727,525
Claims and judgments	468,984	-	-	-	13,069	482,053
Printing	367,562	110,404	-	-	281,985	759,951
Official representation	657,100	-	-	-	-	657,100
Advertising	131,945	265,853	-	-	127,354	525,152
Dues and subscriptions	199,872	59,955	-	-	13,114	272,941
Freight	149,018	36,908	-	-	7,944	193,870
Insurance	281,306	-	-	-	-	281,306
Books and library materials	47,911	57,925	-	-	16,527	122,363
Licenses and fees	21,967	-	-	-	300	22,267
Penalty on retirement fund contributions	1,603,563	-	-	-	-	1,603,563
Other	4,396,543	1,739,381	-	75,120	1,134,016	7,345,060
	<u>\$ 244,881,423</u>	<u>\$ 43,945,119</u>	<u>\$ -</u>	<u>\$ 26,389,033</u>	<u>\$ 28,154,718</u>	<u>\$ 343,370,293</u>

See Accompanying Independent Auditors' Report.

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

September 30, 2005

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

Private Grants Fund

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

Commonwealth Arts Council Fund

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

Human Resources Development Trust Fund

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

Oil Overcharge Fund

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

Commonwealth Nonresident Workers' Fee Fund

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

Commonwealth Alien Deportation Fund

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

See Accompanying Independent Auditors' Report.

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

September 30, 2005

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, 2005, the project was completed. Revenues generated by the court will be used to finance the debt service on the loan with NMIRF.

Local Revenue Fund

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

CNMI Telecommunication Commission Fund

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

Saipan Trust Fund

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

Tobacco Settlement Trust Fund

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

Micronesian Garment Manufacturing Fund

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

See Accompanying Independent Auditors' Report.

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

September 30, 2005

Tobacco Control Fund

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

Solid Waste Revolving Fund

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

Governor's Education Initiative Fund

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

Managaha Landing Fee Fund

This fund was established by Public Law 11-64 to account for revenues collected from commercial carriers who charge a fee to transport nonresident passengers to Managaha Island. Such fees are to be deposited into the Fund and will be expended exclusively on projects and for the construction, maintenance and operation of the Saipan Cultural and Performing Arts Center, the Saipan Youth Program, the Division of Public Lands, the Commonwealth Museum, and for the cultural heritage activities of the Indigenous and Carolinian Affairs Offices, in accordance with appropriations made by the Saipan and Northern Islands Legislative Delegation.

La Fiesta Revolving Fund

This fund was established to account for the financial transactions of the La Fiesta property.

Miscellaneous Special Revenue Funds

The miscellaneous special revenue fund combines the following:

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

See Accompanying Independent Auditors' Report.

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

September 30, 2005

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

Commonwealth Development Authority Fund

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

Infrastructure Tax Fund

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

Public Works Grants Fund

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

American Memorial Park Fund

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

Local Capital Projects Fund

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

Private Capital Grants Fund

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

See Accompanying Independent Auditors' Report.

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

September 30, 2005

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

See Accompanying Independent Auditors' Report.







COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Combining Balance Sheet  
Nonmajor Governmental Funds  
September 30, 2005

Special Revenue Funds											
Local Revenue	CNMI Telecommunications Commission	Saipan Trust	Tobacco Settlement Trust	Micronesian Garment Manufacturing	Tobacco Control	Solid Waste Revolving	Governor's Education Initiative	Managaha Landing Fee	La Fiesta Revolving Fund	Miscellaneous	Total Special Revenue Funds
\$ -	\$ 171,712	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 171,712
-	-	401,460	-	-	-	-	-	-	-	-	401,460
-	106,165	-	-	-	-	-	-	-	-	-	106,165
5,768,405	-	-	574,871	456,655	686,819	3,159,028	172,992	801,065	-	333,562	16,770,899
-	-	273,918	-	-	-	-	-	-	-	-	273,918
-	-	-	-	-	-	-	-	-	-	-	1,879,096
<u>\$ 5,768,405</u>	<u>\$ 277,877</u>	<u>\$ 675,378</u>	<u>\$ 574,871</u>	<u>\$ 456,655</u>	<u>\$ 686,819</u>	<u>\$ 3,159,028</u>	<u>\$ 172,992</u>	<u>\$ 801,065</u>	<u>\$ -</u>	<u>\$ 333,562</u>	<u>\$ 19,603,250</u>
\$ 645,912	\$ 5,833	\$ -	\$ 8,544	\$ -	\$ 44,280	\$ 346,120	\$ -	\$ 43,856	\$ 3,821	\$ 46,958	\$ 1,489,122
40	-	-	-	-	-	-	-	-	-	-	71,195
-	-	220,538	-	-	-	-	-	-	90,077	-	310,700
-	-	-	-	-	-	-	-	-	-	-	31,016
-	-	-	-	-	-	-	-	-	-	-	870,305
<u>645,952</u>	<u>5,833</u>	<u>220,538</u>	<u>8,544</u>	<u>-</u>	<u>44,280</u>	<u>346,120</u>	<u>-</u>	<u>43,856</u>	<u>93,898</u>	<u>46,958</u>	<u>2,772,338</u>
1,358,716	-	-	5,067	-	126,088	72,829	484	208,578	235,408	49,551	1,879,096
<u>3,763,737</u>	<u>272,044</u>	<u>454,840</u>	<u>561,260</u>	<u>456,655</u>	<u>516,451</u>	<u>2,740,079</u>	<u>172,508</u>	<u>548,631</u>	<u>(329,306)</u>	<u>237,053</u>	<u>12,519,868</u>
<u>5,122,453</u>	<u>272,044</u>	<u>454,840</u>	<u>566,327</u>	<u>456,655</u>	<u>642,539</u>	<u>2,812,908</u>	<u>172,992</u>	<u>757,209</u>	<u>(93,898)</u>	<u>286,604</u>	<u>16,830,912</u>
<u>\$ 5,768,405</u>	<u>\$ 277,877</u>	<u>\$ 675,378</u>	<u>\$ 574,871</u>	<u>\$ 456,655</u>	<u>\$ 686,819</u>	<u>\$ 3,159,028</u>	<u>\$ 172,992</u>	<u>\$ 801,065</u>	<u>\$ -</u>	<u>\$ 333,562</u>	<u>\$ 19,603,250</u>

See Accompanying Independent Auditors' Report.

## COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Combining Balance Sheet, Continued  
Nonmajor Governmental Funds  
September 30, 2005

	Capital Projects Funds						Total Capital Projects Funds	Debt Service Fund	Total Non-Major Governmental Funds
	Commonwealth Development Authority	Infrastructure Tax	Public Works Grants	American Memorial Park	Local Capital Projects	Private Capital Grants			
<u>Assets</u>									
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 171,712
Restricted cash and cash equivalents	-	-	-	-	130,384	-	130,384	2,243,101	2,774,945
Receivables, net of allowance for uncollectibles:									
Federal	-	-	299,551	19,629	-	-	319,180	-	319,180
Other	-	-	-	-	-	715,369	715,369	-	821,534
Due from other funds	218,085	841,412	567,387	-	-	303,410	1,930,294	-	18,701,193
Due from component unit	-	-	-	-	-	-	-	-	273,918
Due from Pension and Other Employee Benefit Trust Funds	-	-	-	-	-	-	-	-	1,879,096
	<u>\$ 218,085</u>	<u>\$ 841,412</u>	<u>\$ 866,938</u>	<u>\$ 19,629</u>	<u>\$ 130,384</u>	<u>\$ 1,018,779</u>	<u>\$ 3,095,227</u>	<u>\$ 2,243,101</u>	<u>\$ 24,941,578</u>
<u>Liabilities and Fund Balances (Deficit)</u>									
<u>Liabilities:</u>									
Accounts payable	\$ 87,412	\$ -	\$ 866,938	\$ -	\$ 116,471	\$ 31,574	\$ 1,102,395	\$ -	\$ 2,591,517
Other liabilities and accruals	-	-	-	-	-	3,670	3,670	-	74,865
Due to other funds	-	-	-	106,914	90,332	-	197,246	-	507,946
Due to component units	-	-	-	54,448	-	-	54,448	-	85,464
Deferred revenue	130,673	-	-	-	-	-	130,673	-	1,000,978
Total liabilities	<u>218,085</u>	<u>-</u>	<u>866,938</u>	<u>161,362</u>	<u>206,803</u>	<u>35,244</u>	<u>1,488,432</u>	<u>-</u>	<u>4,260,770</u>
<u>Fund balances (deficit):</u>									
Reserved for:									
Debt service	-	-	-	-	-	-	-	2,243,101	4,122,197
Encumbrances	922,474	9,519	4,308,609	88,915	667,965	24,389	6,021,871	-	8,453,819
Continuing appropriations	-	-	-	-	1,844,404	-	1,844,404	-	1,844,404
Unreserved:									
Undesignated	(922,474)	831,893	(4,308,609)	(230,648)	(2,588,788)	959,146	(6,259,480)	-	6,260,388
Total fund balances (deficit)	<u>-</u>	<u>841,412</u>	<u>-</u>	<u>(141,733)</u>	<u>(76,419)</u>	<u>983,535</u>	<u>1,606,795</u>	<u>2,243,101</u>	<u>20,680,808</u>
	<u>\$ 218,085</u>	<u>\$ 841,412</u>	<u>\$ 866,938</u>	<u>\$ 19,629</u>	<u>\$ 130,384</u>	<u>\$ 1,018,779</u>	<u>\$ 3,095,227</u>	<u>\$ 2,243,101</u>	<u>\$ 24,941,578</u>

See Accompanying Independent Auditors' Report.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances (Deficit)  
Nonmajor Governmental Funds  
For the Year Ended September 30, 2005

Special Revenue Funds											
Local Revenue	CNMI Telecommunications Commission	Saipan Trust	Tobacco Settlement Trust	Micronesian Garment Manufacturing	Tobacco Control	Solid Waste Revolving	Governor's Education Initiative	Managaha Landing Fee	La Fiesta Revolving Fund	Miscellaneous	Total Special Revenue Funds
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
8,676,220	366,499	-	-	-	1,735,292	2,623,605	-	900,000	-	240,475	4,358,897
-	-	1,773	4,143	-	-	513,546	-	-	-	10,524	16,440
50,000	-	(8,679)	531,868	-	-	-	-	-	220,122	-	893,459
<u>8,726,220</u>	<u>366,499</u>	<u>(6,906)</u>	<u>536,011</u>	<u>-</u>	<u>1,735,292</u>	<u>3,137,151</u>	<u>-</u>	<u>900,000</u>	<u>220,122</u>	<u>250,999</u>	<u>26,103,715</u>
384,730	-	-	-	-	29,063	-	-	112,791	-	14,702	2,563,664
27,860	-	-	47,680	-	383,979	-	-	-	-	-	475,441
16,295	-	-	-	-	140,477	157,840	-	-	-	59,841	1,435,635
559,836	135,240	7,302	-	-	-	-	-	-	470,194	105,659	1,314,339
109,659	-	-	-	-	-	7,788	-	-	-	-	117,447
1,764,335	-	-	-	-	-	2,151,287	-	-	-	-	3,915,622
-	-	-	-	-	-	-	-	-	-	-	1,350,078
469,904	-	-	-	-	-	-	-	-	-	-	817,021
-	-	-	-	-	-	-	-	-	-	197	470,101
1,254	-	-	-	-	-	17,297	-	-	-	-	1,477,970
2,157,712	-	-	-	-	-	-	68,573	30,000	-	76,436	18,551
-	-	-	-	-	-	-	-	-	-	180	84,061
-	-	-	-	-	-	-	-	-	-	-	2,256,465
<u>5,491,585</u>	<u>135,240</u>	<u>7,302</u>	<u>47,680</u>	<u>-</u>	<u>553,519</u>	<u>2,334,212</u>	<u>68,573</u>	<u>142,791</u>	<u>470,194</u>	<u>257,015</u>	<u>16,296,395</u>
<u>3,234,635</u>	<u>231,259</u>	<u>(14,208)</u>	<u>488,331</u>	<u>-</u>	<u>1,181,773</u>	<u>802,939</u>	<u>(68,573)</u>	<u>757,209</u>	<u>(250,072)</u>	<u>(6,016)</u>	<u>9,807,320</u>
-	-	-	-	-	-	-	-	-	-	-	7,625
7,750,868	-	-	375,893	-	1,292,843	341,266	-	355,092	156,174	-	12,191,057
(8,250,868)	-	(223,058)	(885,060)	-	(3,243,334)	(341,266)	-	(355,092)	-	-	(19,025,807)
<u>(500,000)</u>	<u>-</u>	<u>(223,058)</u>	<u>(509,167)</u>	<u>-</u>	<u>(1,950,491)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>156,174</u>	<u>-</u>	<u>(6,827,125)</u>
2,734,635	231,259	(237,266)	(20,836)	-	(768,718)	802,939	(68,573)	757,209	(93,898)	(6,016)	2,980,195
<u>2,387,818</u>	<u>40,785</u>	<u>692,106</u>	<u>587,163</u>	<u>456,655</u>	<u>1,411,257</u>	<u>2,009,969</u>	<u>241,565</u>	<u>-</u>	<u>-</u>	<u>292,620</u>	<u>13,850,717</u>
<u>\$ 5,122,453</u>	<u>\$ 272,044</u>	<u>\$ 454,840</u>	<u>\$ 566,327</u>	<u>\$ 456,655</u>	<u>\$ 642,539</u>	<u>\$ 2,812,908</u>	<u>\$ 172,992</u>	<u>\$ 757,209</u>	<u>\$ (93,898)</u>	<u>\$ 286,604</u>	<u>\$ 16,830,912</u>

See Accompanying Independent Auditors' Report.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Combining Statement of Revenues, Expenditures and Changes in Fund Balances, Continued  
 Non-Major Governmental Funds  
 For the Year Ended September 30, 2005

	Capital Projects Funds						Total Capital Projects Funds	Debt Service Fund	Total Non-Major Governmental Funds
	Commonwealth Development Authority	Infrastructure Tax	Public Works Grants	American Memorial Park	Local Capital Projects	Private Capital Grants			
<b>Revenues:</b>									
Federal contributions	\$ -	\$ -	\$ 1,702,829	\$ -	\$ -	\$ -	\$ 1,702,829	\$ -	\$ 1,702,829
Taxes	-	351,105	-	-	-	-	351,105	-	4,710,002
Licenses and fees	-	69,754	-	-	-	-	69,754	-	20,904,673
Interest and dividends	-	1,867	-	-	16,684	-	18,551	66,918	101,909
Contributions from component units	266,801	-	-	84,585	-	-	351,386	-	351,386
Other	-	2,971	-	-	-	-	2,971	-	896,430
<b>Total revenues</b>	<b>266,801</b>	<b>425,697</b>	<b>1,702,829</b>	<b>84,585</b>	<b>16,684</b>	<b>-</b>	<b>2,496,596</b>	<b>66,918</b>	<b>28,667,229</b>
<b>Expenditures by account:</b>									
Community and social services	-	49,698	-	86,583	90,440	-	226,721	-	2,790,385
Health	266,801	-	-	-	43,840	-	310,641	-	786,082
Public safety and law enforcement	-	2,207	-	-	4,654,979	-	4,657,186	-	6,092,821
General government	-	980	-	-	58,432	-	59,412	-	1,373,751
Lands and natural resources	-	-	-	-	-	-	-	-	117,447
Public works	-	288	1,702,829	-	205,954	-	1,909,071	-	5,824,693
Debt service:									
Principal retirement	-	-	-	-	-	-	-	1,580,000	2,930,078
Interest and fiscal charges	-	-	-	-	-	-	-	3,114,557	3,931,578
Other elected officials	-	-	-	-	-	-	-	-	470,101
Education (payment to NMC)	-	-	-	-	-	-	-	-	1,477,970
Economic development	-	-	-	-	-	-	-	-	18,551
Judicial branch	-	-	-	-	-	-	-	-	84,061
Education	-	-	-	-	432	-	432	-	2,256,897
Utilities - Capital Projects	-	303	-	-	-	-	303	-	303
<b>Total expenditures</b>	<b>266,801</b>	<b>53,476</b>	<b>1,702,829</b>	<b>86,583</b>	<b>5,054,077</b>	<b>-</b>	<b>7,163,766</b>	<b>4,694,557</b>	<b>28,154,718</b>
<b>Excess (deficiency) of revenues over (under) expenditures</b>	<b>-</b>	<b>372,221</b>	<b>-</b>	<b>(1,998)</b>	<b>(5,037,393)</b>	<b>-</b>	<b>(4,667,170)</b>	<b>(4,627,639)</b>	<b>512,511</b>
<b>Other financing sources (uses):</b>									
Long-term debt issued	-	-	-	-	-	-	-	-	7,625
Operating transfers in	-	361,000	-	-	1,293,950	-	1,654,950	4,700,000	18,546,007
Operating transfers out	-	(360,544)	-	-	(145,000)	-	(505,544)	-	(19,531,351)
<b>Total other financing sources (uses), net</b>	<b>-</b>	<b>456</b>	<b>-</b>	<b>-</b>	<b>1,148,950</b>	<b>-</b>	<b>1,149,406</b>	<b>4,700,000</b>	<b>(977,719)</b>
<b>Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses</b>	<b>-</b>	<b>372,677</b>	<b>-</b>	<b>(1,998)</b>	<b>(3,888,443)</b>	<b>-</b>	<b>(3,517,764)</b>	<b>72,361</b>	<b>(465,208)</b>
<b>Fund balances (deficit) at beginning of year</b>	<b>-</b>	<b>468,735</b>	<b>-</b>	<b>(139,735)</b>	<b>3,812,024</b>	<b>983,535</b>	<b>5,124,559</b>	<b>2,170,740</b>	<b>21,146,016</b>
<b>Fund balances (deficit) at end of year</b>	<b>\$ -</b>	<b>\$ 841,412</b>	<b>\$ -</b>	<b>\$ (141,733)</b>	<b>\$ (76,419)</b>	<b>\$ 983,535</b>	<b>\$ 1,606,795</b>	<b>\$ 2,243,101</b>	<b>\$ 20,680,808</b>

See Accompanying Independent Auditors' Report.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS  
FIDUCIARY FUNDS

September 30, 2005

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

Combining Statement of Fiduciary Net Assets  
Fiduciary Funds  
September 30, 2005

	Pension (and Other Employee Benefit) Trust Fund				Agency Funds		
	Northern Mariana Islands Retirement Fund	CNMI Government Health and Life Insurance Trust	CNMI Workers' Compensation Commission	Total	Tinian Land Condemnation Fund	Security Deposit Fund	Total
<u>Assets</u>							
Cash and cash equivalents	\$ 3,058,039	\$ 595,970	\$ 101,892	\$ 3,755,901	\$ -	\$ 861,753	\$ 861,753
Receivables:							
Loans	9,936,867	-	-	9,936,867	-	-	-
Notes	9,620,134	-	-	9,620,134	-	-	-
General	946,775	-	815,367	1,762,142	-	-	-
Interest and dividends	945,462	-	-	945,462	-	-	-
Other	4,761,476	993,183	-	5,754,659	-	-	-
Due from primary government	-	-	188,521	188,521	1,352,477	-	1,352,477
Prepaid items	3,928	-	-	3,928	-	-	-
Investments, at fair market value:							
Equity securities	313,000,856	-	-	313,000,856	-	-	-
U.S. Government securities	73,650,400	-	407,609	74,058,009	-	-	-
Money market placements	28,510,981	-	230,190	28,741,171	-	-	-
Corporate debt securities	18,124,019	-	-	18,124,019	-	-	-
Restricted assets	-	-	124,318	124,318	-	4,234,367	4,234,367
Capital assets	4,088,228	4,939	1,262	4,094,429	-	-	-
<b>Total assets</b>	<b>466,647,165</b>	<b>1,594,092</b>	<b>1,869,159</b>	<b>470,110,416</b>	<b>1,352,477</b>	<b>5,096,120</b>	<b>6,448,597</b>
<u>Liabilities and Other Credits</u>							
Accounts payable	172,227	13,506,304	62,807	13,741,338	-	-	-
Claims and judgments payable	-	-	-	-	1,352,477	-	1,352,477
Deposits payable	-	-	-	-	-	5,096,120	5,096,120
Other liabilities and accruals	585,358	-	-	585,358	-	-	-
Due to primary government	1,879,096	-	-	1,879,096	-	-	-
Deferred revenue	3,878,983	-	818,302	4,697,285	-	-	-
<b>Total liabilities and other credits</b>	<b>6,515,664</b>	<b>13,506,304</b>	<b>881,109</b>	<b>20,903,077</b>	<b>\$ 1,352,477</b>	<b>\$ 5,096,120</b>	<b>\$ 6,448,597</b>
<u>Net assets:</u>							
Held in trust for pension benefits	460,131,501	-	-	460,131,501			
Held in trust for medical and life insurance benefits	-	(11,912,212)	-	(11,912,212)			
Held in trust for workers' compensation benefits and other purposes	-	-	988,050	988,050			
<b>Total net assets</b>	<b>\$ 460,131,501</b>	<b>\$ (11,912,212)</b>	<b>\$ 988,050</b>	<b>\$ 449,207,339</b>			

See Accompanying Independent Auditors' Report.



COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Combining Statement of Changes in Fiduciary Net Assets  
Fiduciary Funds  
Year Ended September 30, 2005

	Pension (and Other Employee Benefit) Trust Fund			Total
	Northern Mariana Islands Retirement Fund	CNMI Government Health and Life Insurance Trust	CNMI Workers' Compensation Commission	
<u>Additions</u>				
Contributions:				
Employer	\$ 40,284,859	\$ -	\$ -	\$ 40,284,859
Employee	11,836,454	-	-	11,836,454
Revenues:				
Premiums	-	7,738,642	56,836	7,795,478
Penalty on unpaid contributions	4,966,295	-	-	4,966,295
Rent income and other	620,022	27,770	32,536	680,328
Total contributions and revenues	<u>57,707,630</u>	<u>7,766,412</u>	<u>89,372</u>	<u>65,563,414</u>
Net investment income:				
Net appreciation in fair value	57,895,276	-	-	57,895,276
Interest	5,831,686	-	-	5,831,686
Dividends	5,208,939	-	-	5,208,939
Total investment income	<u>68,935,901</u>	<u>-</u>	<u>-</u>	<u>68,935,901</u>
Less: investment expense	<u>1,650,571</u>	<u>-</u>	<u>-</u>	<u>1,650,571</u>
Net investment income	<u>67,285,330</u>	<u>-</u>	<u>-</u>	<u>67,285,330</u>
Total additions	<u>124,992,960</u>	<u>7,766,412</u>	<u>89,372</u>	<u>132,848,744</u>
<u>Deductions</u>				
Benefits	48,788,229	-	-	48,788,229
General and administrative	1,727,688	1,376,360	208,931	3,312,979
Bad debts	13,158,167	-	-	13,158,167
Refunds	2,934,331	-	-	2,934,331
Medical claims	-	10,373,505	109,361	10,482,866
Total deductions	<u>66,608,415</u>	<u>11,749,865</u>	<u>318,292</u>	<u>78,676,572</u>
Other financing sources (uses):				
Transfer in	<u>1,940,000</u>	<u>-</u>	<u>355,300</u>	<u>2,295,300</u>
Change in net assets	60,324,545	(3,983,453)	126,380	56,467,472
Net assets at beginning of year	<u>399,806,956</u>	<u>(7,928,759)</u>	<u>861,670</u>	<u>392,739,867</u>
Net assets at end of year	<u>\$ 460,131,501</u>	<u>\$ (11,912,212)</u>	<u>\$ 988,050</u>	<u>\$ 449,207,339</u>

See Accompanying Independent Auditors' Report.