

**COMMONWEALTH OF THE
NORTHERN MARIANA ISLANDS**

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

YEAR ENDED SEPTEMBER 30, 2006

**COMMONWEALTH OF THE
NORTHERN MARIANA ISLANDS**

**FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT**

YEAR ENDED SEPTEMBER 30, 2006

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

FINANCIAL STATEMENTS

YEAR ENDED SEPTEMBER 30, 2006

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FINANCIAL STATEMENTS

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INDEPENDENT AUDITORS' REPORT

Honorable Benigno R. Fitia
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, 2006, 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, which represents 1%, 0.46% and 6% 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 88% and 76% 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 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, other liabilities and accruals and due to component units are recorded for the governmental activities, each major fund and the aggregate remaining fund information. Taxes receivable, advances, accounts payable, tax rebates payable, other liabilities and accrual and due to component units 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, 2006.

Because of inadequacies in the accounting records, we were unable to form an opinion regarding capital assets 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 4%, 4% and 10% of the assets, net assets and revenues, respectively, of the CNMI's aggregate discretely presented component units.

The financial statements of the Public School System 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 Public School System are included in the CNMI's basic financial statements as a discretely presented component unit and represent 21%, 24% and 43% of the assets, net assets and revenues, respectively, of the CNMI's aggregate discretely presented component units.

Management has not included the Commonwealth Utilities Corporation in the CNMI's financial statements. Accounting principles generally accepted in the United States of America require the Commonwealth Utilities Corporation to be presented as a component unit and financial information about the Commonwealth Utilities Corporation to be part of the aggregate discretely presented component units, thus increasing the assets, liabilities, revenues, and expenses of the aggregate discretely presented component units, and changing their net assets. The amount by which this departure would affect the assets, liabilities, net assets, revenues, and expenses of the aggregate discretely presented component units is not reasonably determinable.

In our opinion, 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, other liabilities and accruals and due to component units 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, as discussed in the third paragraph above, such financial statements, as set forth in Section II of the foregoing table of contents, present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Commonwealth of the Northern Mariana Islands as of September 30, 2006, 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.

In addition, in our opinion, because of the omission of the Commonwealth Utilities Corporation, as discussed in the sixth paragraph above, had the accounting records been adequate to support capital assets of the Northern Marianas College, as discussed in the fourth paragraph above, and had the financial statements of the Public School System been audited, as discussed in the fifth paragraph above, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the aggregate discretely presented component units of the Commonwealth of the Northern Mariana Islands as of September 30, 2006, or the changes in financial position thereof for the year then ended.

The Northern Marianas College elected not to record the liability and benefits expense related to an increase in retirement contributions as the CNMI and other component units have been forgiven such an increase. No provision has been recorded in the financial statements for this uncertainty.

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 18, 2007, on our consideration of the CNMI's (Primary Government only) internal control over financial reporting and on 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 18, 2007



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Management's Discussion and Analysis For Fiscal Year Ended September 30, 2006

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, 2006. Please read it in conjunction with the CNMI's financial statements, which follow this section. Fiscal year 2005 comparative information, including restatements, has been included where appropriate for comparative purposes.

FINANCIAL HIGHLIGHTS

- For the fiscal year ended September 30, 2006, the CNMI's total net deficiency increased by \$11.3 million, to a net deficiency of \$49.4 million, which represents an increase of approximately 29.6% from the net deficiency at the beginning of the year.
- During the year ended September 30, 2006, the CNMI's expenses for governmental activities were \$308.6 million, including expenses recorded for payments made or due to the autonomous agencies, and were funded in part by program revenues of \$135.6 million, further funded with taxes and other general revenues that totaled \$161.7 million. The difference between total revenues of \$297.3 million and total expenses of \$308.6 million is what resulted in the \$11.3 million increase in net deficiency.
- At September 30, 2006, the General Fund reported an unreserved fund deficit of \$177.2 million, which is an increase in the unreserved fund deficit of \$2,931,265 or 1.7% from the prior year's reported unreserved fund deficit of \$174.3 million.
- For budgetary reporting purposes, General Fund actual revenues for the year ended September 30, 2006 were less than final estimates by \$20.2 million, or 9.5%, and reported actual expenditures were less than final appropriations by \$5.0 million, or 2.5%. These amounts do not include transfers to and from other funds, nor does it include the receipt or use of long-term debt proceeds.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Reporting The CNMI as a Whole

The Statement of Net Assets and the Statement of Activities

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

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS
MANAGEMENT'S DISCUSSION AND ANALYSIS

September 30, 2006

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 deficiency increased from \$38.1 million to \$49.4 million, an increase in the deficit of 29.6%, between fiscal years 2005 and 2006.

	<u>2006</u>	<u>2005</u>
Current assets	\$ 83,996,414	\$ 93,448,226
Capital assets, net	188,224,165	179,328,037
Other noncurrent assets	<u>13,163,943</u>	<u>10,671,928</u>
Total assets	<u>285,384,522</u>	<u>283,448,191</u>
Current liabilities	203,945,369	198,903,069
Noncurrent liabilities	<u>130,842,019</u>	<u>122,676,711</u>
Total liabilities	<u>334,787,388</u>	<u>321,579,780</u>
Net deficiency:		
Invested in capital assets, net of related debt	124,536,399	117,924,743
Restricted net assets	9,793,463	8,924,416
Unrestricted net assets	<u>(183,732,728)</u>	<u>(164,980,748)</u>
Total net deficiency	\$ <u>(49,402,866)</u>	\$ <u>(38,131,589)</u>

A summary of net deficiency (condensed) is presented below, with comparable balances for fiscal year 2005.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS
MANAGEMENT'S DISCUSSION AND ANALYSIS

September 30, 2006

Changes in Net Deficiency

For the year ended September 30, 2006, net deficiency of the primary government changed as follows, with comparable amounts for fiscal year 2005:

	<u>Governmental Activities</u>	<u>Governmental Activities</u>
	<u>2006</u>	<u>2005</u>
Revenues:		
Program revenues	\$ 135,591,191	\$ 124,767,400
Taxes and other general revenues	<u>161,736,401</u>	<u>183,763,329</u>
Total revenues	<u>297,327,592</u>	<u>308,530,729</u>
Expenses:		
Capital projects	10,246,544	8,008,030
Health	57,973,090	52,258,774
Public safety and law enforcement	42,962,006	46,139,323
General government	13,211,758	35,465,650
Community and social services	22,669,971	22,665,452
Other elected officials	13,899,741	16,090,032
Utilities	14,879,687	12,926,624
Public works	21,014,765	21,764,132
Lands and natural resources	14,129,615	9,330,240
Legislative branch	8,261,181	8,835,386
Judicial branch	5,639,832	5,119,358
Education	11,288,585	7,036,144
Debt service	7,508,180	7,713,555
Economic development	7,227,703	1,147,824
Payments to autonomous agencies	50,540,413	53,010,591
Penalty on retirement fund contributions	467,179	1,603,563
Payments to land claimants	<u>6,678,619</u>	<u>18,891,203</u>
Total expenses	<u>308,598,869</u>	<u>328,005,881</u>
Increase in net deficiency	<u>\$ (11,271,277)</u>	<u>\$ (19,475,152)</u>

In 2006, the CNMI's governmental activities' increase in net deficiency of \$11.3 million represents a 29.6% increase in net asset deficiency reported from the prior year. The results indicate that the CNMI's financial condition, as a whole, declined from the prior year. The decline is mainly the result of the disbursement of \$6.7 million in payments for land claims from bond proceeds received in 2004 not included in the above revenues. In addition, the liability to the retirement fund increased by \$16.1 million, mainly due to the suspension of General Fund employer contributions starting March 1, 2006 under Public Law 15-15 and additional penalties added. The overall negative net asset position of the primary government is the result of under funding of employer retirement contributions (\$136.4 million) and debt incurred and local expenditures made from the primary government for capital assets that are recorded in the component units (at least \$29 million since 1999) and Department of Public Lands fiduciary fund (\$29.8 million). Further, a provision for landfill closure costs of \$1.5 million is recognized in 2006.

Governmental Activities

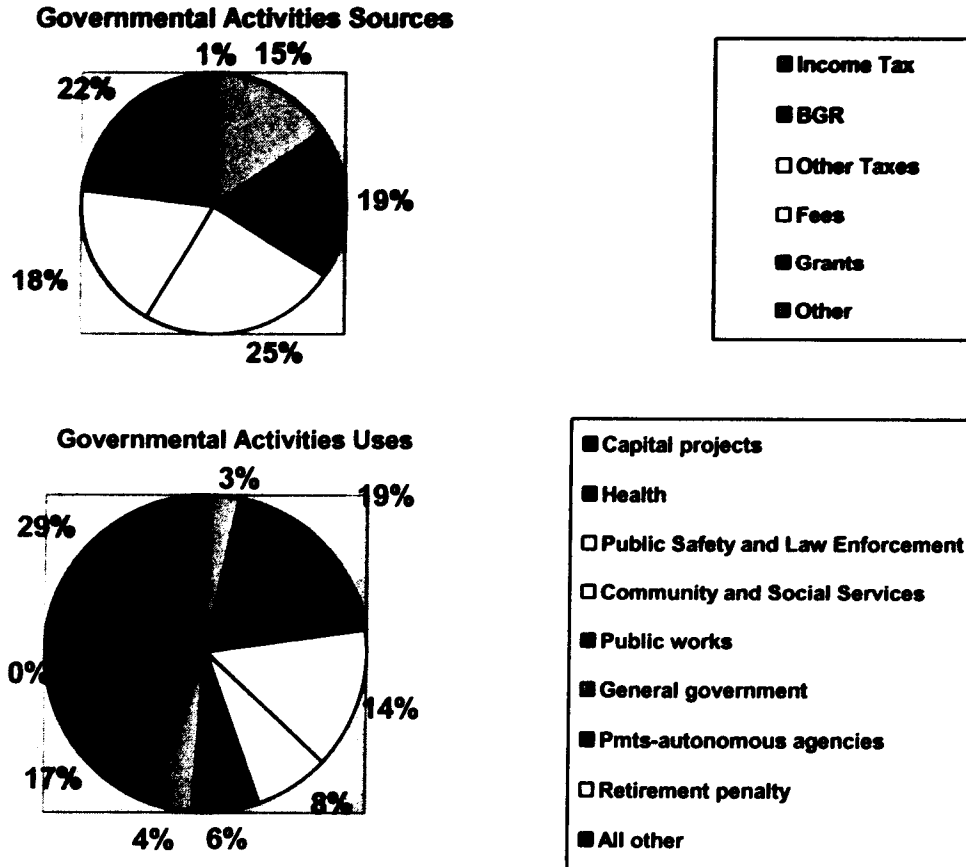
To aid in the understanding of the Statement of Activities some additional explanation is given.

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.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS
MANAGEMENT'S DISCUSSION AND ANALYSIS

September 30, 2006

For the year ended September 30, 2006, the CNMI's governmental activities were funded as follows:



For the year ended September 30, 2006, total expenses for governmental activities amounted to \$308.6 million. Of these total expenses, taxpayers and other general revenues funded \$161.7 million, while those directly benefiting from the activities funded \$86.1 million from grants and other contributions and \$49.5 million from charges for services, with the remaining expenses in excess of revenues increased the net asset deficit.

Net Revenue (Expense) of Governmental Activities

	<u>Total Expense of Services</u>	<u>Net Revenue (Expense) of Services</u>	<u>Total Expense of Services</u>	<u>Net Revenue (Expense) of Services</u>
	<u>2006</u>	<u>2006</u>	<u>2005</u>	<u>2005</u>
Capital projects	\$ 10,246,544	\$ (333,953)	\$ 8,008,030	\$ (488,710)
Health	57,973,090	(26,163,821)	52,258,774	(24,716,949)
Public safety and law enforcement	42,962,006	(14,888,578)	46,139,323	(22,998,669)
General government	13,211,758	7,322,291	35,465,650	(1,950,576)
Community and social services	22,669,971	(5,173,312)	22,665,452	(2,640,854)
Public works	21,014,765	(15,145,206)	21,764,132	(15,849,389)
Payments to autonomous agencies	50,540,413	(48,540,413)	53,010,591	(53,010,591)
Retirement penalty	467,179	(467,179)	1,603,563	(1,603,563)
Payments to land claimants	6,678,619	(6,678,619)	18,891,203	(18,891,203)
All other	82,834,524	(62,938,888)	68,199,163	(61,087,977)
Total	\$ 308,598,869	\$ (173,007,678)	\$ 328,005,881	\$ (203,238,481)

A FINANCIAL ANALYSIS OF THE CNMI'S FUNDS

As the CNMI completed its 2006 fiscal year, the governmental funds reported a combined fund deficit of \$107,547,155, which compares with a prior year fund deficit of \$84,077,330, an increase in the deficit of \$23,469,825, or 27.9%. The expenditure of bond proceeds received in prior years in the DOI Capital Projects Fund and Other Governmental Funds resulted in current year deficits of \$6.3 million and \$0.9 million, respectively. The increase in the General Fund deficit resulted from the disbursement of \$6.7 million in payments for land claims from bond proceeds received in 2004 and the inclusion of \$11.9 million in employer retirement contributions as expenditures that were suspended from payment in 2006 by Public Law 15-15. These contributions were not budgeted for in 2006 based on the suspension law. Public Law 15-15 suspended payment of required employer contributions for the period March 1, 2006 through September 30, 2007. As noted in the individual fund highlights below, the General Fund unreserved fund deficit increased by a minimal amount in 2006 following increases of \$35 million in 2004 and \$20.8 million in 2005.

Individual fund highlights include:

- For the year ended September 30, 2006, the General Fund's total fund deficit increased by \$16.2 million or 11.9%, to a total fund deficit of \$152.1 million, while the total unreserved fund deficit increased by \$2.9 million or 1.7%, for a total unreserved fund deficit of \$177.2 million.
- The Federal Grants Special Revenue Fund's revenues and expenditures were equal at \$50.7 million for the year ended September 30, 2006, leaving beginning and ending fund balance of \$0.
- The DOI Capital Projects Fund's total fund balance decreased by \$6.3 million, or 20.4%, to a total of \$24.8 million for the year ended September 30, 2006.
- The Pension and Other Employee Benefit Trust Fund's show an increase to net assets of the various funds of \$7,158,422 or 1.6% for the year ended September 30, 2006. This Fund type includes the retirement fund, the group health and life insurance fund and the worker's compensation fund.

General Fund Budgetary Highlights

There were no significant changes between the original and final budgets. The General Fund's actual revenues of \$192,660,289 were less than the final estimates by \$20.2 million, a variance of 9.5%. The General Fund's actual expenditures of \$192,746,565 were less than appropriations by \$5.0 million, a variance of 2.5%.

CAPITAL ASSET AND DEBT ADMINISTRATION**Capital Assets**

At the end of September 30, 2006, the CNMI had \$188,224,165 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 \$8,896,128 or 5.0% over last year.

	<u>2006</u>	<u>2005</u>
Infrastructure, net	\$ 35,443,123	\$ 36,944,568
Buildings and improvements, net	132,520,640	81,322,044
Machinery and equipment, net	9,495,693	6,523,145
Construction in progress	<u>10,764,709</u>	<u>54,538,280</u>
Totals	\$ <u>188,224,165</u>	\$ <u>179,328,037</u>

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 \$109.6 million in long-term debt outstanding, which represents a net decrease of \$3.7 million or 3.3% from the prior year. The CNMI's changes in long-term debt by type of debt are as follows:

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS
MANAGEMENT'S DISCUSSION AND ANALYSIS
September 30, 2006

	<u>Governmental Activities</u>	
	<u>2006</u>	<u>2005</u>
Accrued compensated absences	\$ 8,644,848	\$ 9,708,113
Bonds payable	100,279,401	103,354,934
Notes payable	9,275,096	9,936,867
Claims and judgment payable	9,020,743	9,020,743
Due to Pension (and Other Employee Benefit) Trust Fund	136,425,098	120,344,235
Other noncurrent liability	<u>1,526,947</u>	<u>-</u>
Totals	\$ <u>265,172,133</u>	\$ <u>252,364,892</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 garment industry decline has accelerated in FY2007 with the incremental application of the U.S. minimum wage to the CNMI beginning July 25, 2007. The garment industry is not expected to be a significant sector of the economy in 2008. 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 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 resources and budget were reduced to \$198 million in January 2006 and the fiscal 2007 budget was originally passed based on \$193 million in estimated available resources. A revised fiscal 2007 budget of \$163 million has recently been passed. Economic conditions are expected to begin to improve after 2007 as flights from Japan are added and tourism from other major markets, particularly Korea and China, continue 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, 2006

	<u>Primary Government</u>	<u>Component Units</u>
<u>ASSETS</u>		
Current assets:		
Cash and cash equivalents	\$ 4,870,270	\$ 20,965,924
Time certificates of deposit	6,546,977	1,022,514
Receivables, net of allowance for uncollectibles	28,474,951	15,812,454
Due from primary government	-	5,783,866
Due from component units	498,501	-
Due from Pension (and Other Employee Benefit) Trust Fund	1,762,066	-
Due from Private Purpose Trust Fund	130,874	-
Inventories	1,509,675	615,686
Other assets	-	99,906
Deferred bond issue costs	373,777	64,544
Restricted assets:		
Cash and cash equivalents	39,829,323	7,559,694
Time certificates of deposit	-	12,303,553
Investments	-	80,110,070
Total current assets	<u>83,996,414</u>	<u>144,338,211</u>
Noncurrent assets:		
Investments	2,500,000	3,884,199
Receivables:		
Loans, net of allowance for uncollectibles	-	35,735,529
Interest and dividends	-	1,162,317
Advances	6,489,901	-
Due from component units	4,174,042	-
Deferred bond issue costs, net of current portion	-	1,530,623
Other assets	-	4,700,947
Foreclosed real estate	-	1,651,087
Capital assets, net of accumulated depreciation	<u>188,224,165</u>	<u>264,402,554</u>
Total noncurrent assets	<u>201,388,108</u>	<u>313,067,256</u>
Total assets	<u>285,384,522</u>	<u>457,405,467</u>
<u>LIABILITIES</u>		
Current liabilities:		
Bank overdraft	2,395,480	-
Current portion of notes and bonds payable	6,581,455	2,401,896
Accounts payable	15,401,953	9,923,646
Current portion of compensated absences	3,178,657	625,762
Tax rebates payable	39,428,590	-
Accrued interest payable	2,774,556	-
Other liabilities and accruals	4,437,074	8,494,482
Due to external parties	1,359,897	-
Due to component units	2,755,751	-
Due to primary government	-	1,511,170
Due to Pension (and Other Employee Benefit) Trust Fund	124,570,002	-
Deferred revenue	<u>1,061,954</u>	<u>3,648,645</u>
Total current liabilities	<u>203,945,369</u>	<u>26,605,601</u>
Noncurrent liabilities:		
Notes and bonds payable, net of current portion	102,973,042	69,387,170
Claims and judgments payable	9,020,743	-
Compensated absences, net of current portion	5,466,191	4,567,472
Due to Pension (and Other Employee Benefit) Trust Fund	11,855,096	-
Other noncurrent liability	<u>1,526,947</u>	<u>-</u>
Total noncurrent liabilities	<u>130,842,019</u>	<u>73,954,642</u>
Total liabilities	<u>334,787,388</u>	<u>100,560,243</u>
Net assets:		
Invested in capital assets, net of related debt	124,536,399	207,572,685
Restricted for:		
Capital projects	1,508,742	-
Retirement of indebtedness	4,100,988	-
Other purposes	4,183,733	133,074,937
Unrestricted	<u>(183,732,728)</u>	<u>16,197,602</u>
Total net assets	<u>\$ (49,402,866)</u>	<u>\$ 356,845,224</u>

See accompanying notes to financial statements.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Statement of Activities For the Year Ended September 30, 2006

Functions Programs	Program Revenues				Net (Expenses) Revenues and	
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Changes in Net Assets	
					Primary Government	Component Units
Primary government:						
Governmental activities:						
Health	\$ 57,973,090	\$ 14,238,814	\$ 10,309,763	\$ 7,260,692	\$ (26,163,821)	\$ -
Public safety and law enforcement	42,962,006	13,287,228	14,561,058	225,142	(14,888,578)	-
General government	13,211,758	19,075,224	1,071,242	387,583	7,322,291	-
Community and social services	22,669,971	1,968,055	15,144,433	384,171	(5,173,312)	-
Other elected officials	13,899,741	-	-	-	(13,899,741)	-
Utilities	14,879,687	-	4,000,000	-	(10,879,687)	-
Utilities - Capital Projects	10,246,544	-	-	9,912,591	(333,953)	-
Public works	21,014,765	573,873	221,252	5,074,434	(15,145,206)	-
Lands and natural resources	14,129,615	188,275	7,576,984	-	(6,364,356)	-
Legislative branch	8,261,181	-	-	-	(8,261,181)	-
Judicial branch	5,639,832	12,278	-	461,253	(5,166,301)	-
Education	11,288,585	189,762	25,856	3,898,974	(7,173,993)	-
Unallocated interest	7,508,180	-	-	-	(7,508,180)	-
Economic development	6,827,703	-	438,358	3,103,896	(3,285,449)	-
Education:						
Payments to PSS	37,026,593	-	2,000,000	-	(35,026,593)	-
Payments to NMC	6,571,967	-	-	-	(6,571,967)	-
Payments to MVA	5,307,953	-	-	-	(5,307,953)	-
Payments to NMIRF and WCC	2,033,900	-	-	-	(2,033,900)	-
Payments to DPL - land claims	6,678,619	-	-	-	(6,678,619)	-
Penalty on retirement contributions	467,179	-	-	-	(467,179)	-
Total primary government	\$ 308,598,869	\$ 49,533,509	\$ 55,348,946	\$ 30,708,736	(173,007,678)	-
Component units:						
Commonwealth Ports Authority	\$ 27,909,472	\$ 19,957,055	\$ -	\$ 18,284,820	\$ -	\$ 10,332,403
Commonwealth Development Authority	21,158,717	4,717,589	7,410,118	-	-	(9,031,010)
Marianas Public Land Trust	5,779,868	5,501,811	-	-	-	(278,057)
Northern Marianas College	14,976,208	2,225,337	5,797,822	-	-	(6,953,049)
Public School System	65,276,562	563,917	28,094,039	3,623,424	-	(32,995,182)
Marianas Visitors Authority	7,904,422	179,204	1,426,184	-	-	(6,299,034)
Total component units	\$ 143,005,249	\$ 33,144,913	\$ 42,728,163	\$ 21,908,244	-	(45,223,929)
General revenues:						
Taxes:						
Income					35,155,821	-
Business gross revenue					55,206,602	-
Penalties and interest					415,168	-
Garment certification					20,991,439	-
Excise					16,229,031	-
Hotel room occupancy					5,635,149	-
Fuel					4,027,209	-
Bar and liquor					2,278,735	-
Beautification					1,933,995	-
Business privilege					396,779	-
Jackpot					1,803,482	-
Developer's					105,491	-
Cigarette					8,293,273	-
Cover over					6,787,051	-
Unrestricted investment earnings					1,448,586	1,790,582
Contributions from primary government					-	50,143,643
Other					1,028,590	3,924,476
Total general revenues					161,736,401	55,858,701
Change in net assets					(11,271,277)	10,634,772
Net assets - beginning, as restated					(38,131,589)	346,210,452
Net assets - ending					\$ (49,402,866)	\$ 356,845,224

See accompanying notes to financial statements.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

**Balance Sheet
Governmental Funds
September 30, 2006**

		<u>Special Revenue</u>		<u>Capital Projects</u>	<u>Other Governmental Funds</u>	
	<u>General</u>	<u>Federal Grants</u>	<u>NMTIT Rebate Trust</u>	<u>DOI Capital Projects</u>		<u>Total</u>
<u>Assets</u>						
Cash and cash equivalents	\$ 20,913,105	\$ -	\$ -	\$ -	\$ 171,712	\$ 21,084,817
Time certificates of deposit	6,546,977	-	-	-	-	6,546,977
Investments	2,500,000	-	-	-	-	2,500,000
Restricted cash and cash equivalents	8,790,211	-	-	12,346,240	2,478,325	23,614,776
Receivables, net of allowance for uncollectibles:						
Federal agencies	-	5,366,436	-	3,500,346	65,348	8,932,130
Taxes	18,708,462	-	78,470	-	-	18,786,932
General	630,095	-	-	-	-	630,095
Other	-	-	-	-	125,794	125,794
Due from component units	4,388,491	-	-	-	284,052	4,672,543
Due from other funds	2,570,648	-	39,471,330	13,603,542	17,699,138	73,344,658
Due from Pension and Other Employee Benefit Trust Funds	-	-	-	-	1,762,066	1,762,066
Due from Private Purpose Trust Fund	130,874	-	-	-	-	130,874
Advances	6,489,901	-	-	-	-	6,489,901
Inventories	1,509,675	-	-	-	-	1,509,675
	<u>\$ 73,178,439</u>	<u>\$ 5,366,436</u>	<u>\$ 39,549,800</u>	<u>\$ 29,450,128</u>	<u>\$ 22,586,435</u>	<u>\$ 170,131,238</u>
<u>Liabilities and Fund Balances (Deficit)</u>						
Liabilities:						
Bank overdraft	\$ 2,395,480	\$ -	\$ -	\$ -	\$ -	\$ 2,395,480
Accounts payable	7,123,408	3,290,247	121,210	4,146,280	720,811	15,401,956
Tax rebates payable	-	-	39,428,590	-	-	39,428,590
Other liabilities and accruals	3,760,837	434,054	-	-	242,183	4,437,074
Due to other funds	71,764,665	1,642,135	-	387,911	909,844	74,704,555
Due to component units	2,744,550	-	-	-	11,201	2,755,751
Due to Pension and Other Employee Benefit Trust Funds	136,425,098	-	-	-	-	136,425,098
Deferred revenue	1,067,935	-	-	146,617	915,337	2,129,889
Total liabilities	<u>225,281,973</u>	<u>5,366,436</u>	<u>39,549,800</u>	<u>4,680,808</u>	<u>2,799,376</u>	<u>277,678,393</u>
Fund balances (deficit):						
Reserved for:						
Supplies inventory	1,509,675	-	-	-	-	1,509,675
Related assets	11,101,534	-	-	-	-	11,101,534
Land claims	130,874	-	-	-	-	130,874
Debt service	-	-	-	502	4,100,486	4,100,988
Encumbrances	9,333,441	7,794,824	-	17,053,179	5,563,551	39,744,995
Continuing appropriations	3,012,635	-	-	-	1,844,404	4,857,039
Other	-	-	-	-	1,526,947	1,526,947
Unreserved (deficits) reported in:						
General fund	(177,191,693)	-	-	-	-	(177,191,693)
Special revenue funds	-	(7,794,824)	-	-	10,995,120	3,200,296
Capital projects	-	-	-	7,715,639	(4,243,449)	3,472,190
Total equity (deficit) and other credits	<u>(152,103,534)</u>	<u>-</u>	<u>-</u>	<u>24,769,320</u>	<u>19,787,059</u>	<u>(107,547,155)</u>
	<u>\$ 73,178,439</u>	<u>\$ 5,366,436</u>	<u>\$ 39,549,800</u>	<u>\$ 29,450,128</u>	<u>\$ 22,586,435</u>	<u>\$ 170,131,238</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, 2006

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

Total fund deficit		\$ (107,547,155)
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		373,780
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	\$ 10,764,709	
Depreciable capital assets and infrastructure, net of \$124,978,513 of accumulated depreciation	<u>177,459,456</u>	
Capital assets, net of accumulated depreciation		188,224,165
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	(100,279,398)	
Accrued interest	(2,774,556)	
Other long-term debt	(9,275,099)	
Compensated absences	(8,644,848)	
Claims and judgment payable	(9,020,743)	
Other noncurrent liability	<u>(1,526,947)</u>	
Long-term liabilities		<u>(131,521,591)</u>
Net assets of governmental activities		<u>\$ (49,402,866)</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, 2006

		Special Revenue		Capital Projects		
	General	Federal Grants	NMTIT Rebate Trust	DOI Capital Projects	Other Governmental Funds	Total
Revenues:						
Taxes	\$ 155,116,590	\$ -	\$ -	\$ -	\$ 4,142,635	\$ 159,259,225
Federal contributions	-	50,348,886	-	24,527,268	3,268,087	78,144,241
Charges for sales and services	17,526,128	-	-	-	-	17,526,128
Licenses and fees	13,875,610	168,195	-	-	17,220,906	31,264,711
Interest and dividends	682,740	-	-	664,024	101,597	1,448,361
Contributions from component units	4,615,276	-	-	2,608,963	65,580	7,289,819
Contributions from Private Purpose Trust Fund	-	-	-	25,743	-	25,743
Other	843,945	166,121	-	209,718	1,149,580	2,369,364
Total revenues	192,660,289	50,683,202	-	28,035,716	25,948,385	297,327,592
Expenditures:						
Health	44,279,515	12,121,729	-	10,361,059	195,890	66,958,193
Education:						
Payments to PSS	35,026,573	2,000,000	-	-	-	37,026,573
Payments to NMC	5,594,377	-	-	-	977,590	6,571,967
Public safety and law enforcement	31,036,769	13,074,482	-	225,142	1,418,815	45,755,208
General government	12,029,066	293,911	-	387,583	1,495,995	14,206,555
Community and social services	6,179,377	15,044,433	-	367,490	1,760,665	23,351,965
Other elected officials	13,621,948	-	-	-	277,793	13,899,741
Utilities	14,879,687	-	-	-	-	14,879,687
Utilities - Capital Projects	-	-	-	10,070,605	175,939	10,246,544
Public works	8,250,246	221,252	-	2,528,396	5,381,579	16,381,473
Lands and natural resources	6,170,929	7,618,513	-	-	242,110	14,031,552
Legislative branch	8,261,181	-	-	-	-	8,261,181
Payments to MVA	4,907,953	-	-	-	400,000	5,307,953
Judicial branch	4,578,036	-	-	673,203	97,319	5,348,558
Education	3,435,042	25,856	-	4,379,251	3,448,436	11,288,585
Debt service:						
Principal retirement	-	-	-	1,435,000	2,321,771	3,756,771
Interest and fiscal charges	-	-	-	3,741,013	3,776,497	7,517,510
Economic development	1,608,788	438,358	-	4,533,370	247,187	6,827,703
Payments to NMIRF and WCC	2,033,900	-	-	-	-	2,033,900
Payments to DPL - land claims	6,678,619	-	-	-	-	6,678,619
Penalty on retirement fund contributions	467,179	-	-	-	-	467,179
Total expenditures	209,039,185	50,838,534	-	38,702,112	22,217,586	320,797,417
Excess (deficiency) of revenues over (under) expenditures	(16,378,896)	(155,332)	-	(10,666,396)	3,730,799	(23,469,825)
Other financing sources (uses):						
Operating transfers in	14,385,569	3,327,246	-	5,176,013	7,109,717	29,998,545
Operating transfers out	(14,247,712)	(3,171,914)	-	(844,654)	(11,734,265)	(29,998,545)
Total other financing sources (uses), net	137,857	155,332	-	4,331,359	(4,624,548)	-
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	(16,241,039)	-	-	(6,335,037)	(893,749)	(23,469,825)
Fund balances (deficit) at beginning of year	(135,862,495)	-	-	31,104,357	20,680,808	(84,077,330)
Fund balances (deficit) at end of year	\$ (152,103,534)	\$ -	\$ -	\$ 24,769,320	\$ 19,787,059	\$ (107,547,155)

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, 2006

Net change in fund deficit - total governmental funds	\$ (23,469,825)
Add:	
Capital assets purchased that were capitalized	21,911,345
Principal payments on long-term debt	3,756,771
Net change in compensated absences	1,063,265
Net change in accrued interest payable	42,641
Less:	
Depreciation expense	(13,015,217)
Amortization of bond discount and issuance costs	(33,310)
Provision for landfill closure costs	<u>(1,526,947)</u>
Change in net assets of governmental activities	<u>\$ (11,271,277)</u>

See accompanying notes to financial statements.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

**Statement of Fiduciary Net Assets
Fiduciary Funds
September 30, 2006**

	<u>Private Purpose Trust Fund</u>	<u>Pension (and Other Employee Benefit) Trust Fund</u>	<u>Agency Funds</u>
<u>Assets</u>			
Cash and cash equivalents	\$ 5,172,060	\$ 4,087,226	\$ 2,825,911
Receivables:			
Loans	-	9,275,096	-
Notes	-	9,090,491	-
General	1,354,533	2,201,742	-
Interest and dividends	-	1,146,921	-
Other	21,225	49,258,947	-
Due from primary government	-	246,413	1,359,897
Prepaid items	9,211	8,057	-
Investments, at fair market value:			
Equity securities	-	338,660,177	-
U.S. Government securities	-	67,283,511	-
Money market placements	-	11,085,295	-
Corporate debt securities	-	31,824,186	-
Restricted assets	4,714,614	126,146	3,627,350
Capital assets	29,761,070	3,965,867	-
Total assets	41,032,713	528,260,075	\$ 7,813,158
<u>Liabilities and Other Credits</u>			
Accounts payable	-	21,172,176	-
Claims and judgments payable	-	-	1,359,897
Deposits payable	-	-	6,453,261
Other liabilities and accruals	1,005,979	643,200	-
Due to primary government	130,874	1,767,044	-
Deferred revenue	52,969	48,274,336	-
Total liabilities and other credits	1,189,822	71,856,756	\$ 7,813,158
Net assets:			
Held in trust for pension benefits	-	472,688,490	
Held in trust for medical and life insurance benefits	-	(17,381,080)	
Held in trust for workers' compensation benefits and other purposes	-	1,095,909	
Held in trust for other purposes	39,842,891	-	
Total assets	\$ 39,842,891	\$ 456,403,319	

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, 2006**

	<u>Private Purpose Trust Fund</u>	<u>Pension (and Other Employee Benefit) Trust Fund</u>
<u>Additions</u>		
Contributions:		
Employer	\$ -	\$ 40,747,619
Employee	-	10,883,652
Revenues:		
Premiums	-	7,882,951
Penalty on unpaid contributions	-	-
Rent income and other	4,924,728	1,129,940
Total contributions and revenues	<u>4,924,728</u>	<u>60,644,162</u>
Net investment income:		
Net appreciation in fair value	-	26,734,902
Interest	-	5,897,626
Dividends	-	5,480,971
Total investment income	-	38,113,499
Less: investment expense	-	2,959,472
Net investment income	-	35,154,027
Total additions	<u>4,924,728</u>	<u>95,798,189</u>
<u>Deductions</u>		
Benefits	-	55,635,922
General and administrative	4,336,610	3,577,215
Bad debts	105,386	13,800,163
Refunds	-	4,577,740
Medical claims	-	12,002,801
Total deductions	<u>4,441,996</u>	<u>89,593,841</u>
Other financing sources:		
Transfer in	6,678,619	954,074
Change in net assets	7,161,351	7,158,422
Net assets at beginning of year	32,681,540	449,244,897
Net assets at end of year	<u>\$ 39,842,891</u>	<u>\$ 456,403,319</u>

See accompanying notes to financial statements.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Statement of Net Assets Component Units September 30, 2006

	Commonwealth Ports Authority	Commonwealth Development Authority	Marianas Public Land Trust	Northern Marianas College	Public School System	Marianas Visitors Authority	Total
Assets							
Current assets:							
Cash and cash equivalents	\$ 11,458,315	\$ 1,712,434	\$ 2,476,185	\$ 1,624,853	\$ 3,659,453	\$ 34,684	\$ 20,965,924
Time certificates of deposit	-	1,022,514	-	-	-	-	1,022,514
Receivables, net of allowance for uncollectibles:							
Loans	-	4,124,336	101,100	-	-	-	4,225,436
Federal agencies	2,805,523	-	-	1,614,353	1,551,277	-	5,971,153
General	1,940,737	57,122	-	1,861,104	-	-	3,858,963
Interest and dividends	-	714,277	431,415	-	-	-	1,145,692
Other	83,866	133,287	1,210	-	374,879	17,968	611,210
Due from primary government	-	-	6,868	83,563	2,706,871	2,986,564	5,783,866
Inventories	-	-	-	615,686	-	-	615,686
Other assets	77,609	16,783	-	5,514	-	-	99,906
Deferred bond issue costs, current portion	64,544	-	-	-	-	-	64,544
Restricted assets:							
Cash and cash equivalents	-	7,559,694	-	-	-	-	7,559,694
Time certificates of deposit	-	12,024,327	279,226	-	-	-	12,303,553
Investments	22,572,954	-	57,537,116	-	-	-	80,110,070
Total current assets	39,003,548	27,364,774	60,833,120	5,805,073	8,292,480	3,039,216	144,338,211
Noncurrent assets:							
Investments	-	-	-	3,884,199	-	-	3,884,199
Receivables:							
Loans, net	-	29,127,063	6,608,466	-	-	-	35,735,529
Interest and dividends	-	-	1,162,317	-	-	-	1,162,317
Deferred bond issue costs	1,530,623	-	-	-	-	-	1,530,623
Other assets	4,700,947	-	-	-	-	-	4,700,947
Capital assets (net of accumulated depreciation)	156,386,112	13,667,082	26,895	7,890,627	86,353,538	78,300	264,402,554
Foreclosed real estate	-	1,651,087	-	-	-	-	1,651,087
Total noncurrent assets	162,617,682	44,445,232	7,797,678	11,774,826	86,353,538	78,300	313,067,256
Total assets	201,621,230	71,810,006	68,630,798	17,579,899	94,646,018	3,117,516	457,405,467
Liabilities and Net Assets							
Current liabilities:							
Accounts payable	4,356,275	2,085,215	51,594	1,187,887	1,000,475	1,242,200	9,923,646
Compensated absences	284,386	-	-	335,236	-	6,140	625,762
Due to primary government	1,227,118	-	284,052	-	-	-	1,511,170
Other liabilities and accruals	1,772,487	4,332,982	112,981	296,400	1,915,828	63,804	8,494,482
Current portion of notes and bonds payable	2,294,439	107,457	-	-	-	-	2,401,896
Deferred revenue	10,333	756,052	-	951,671	1,928,989	1,600	3,648,645
Total current liabilities	9,945,038	7,281,706	448,627	2,771,194	4,845,292	1,313,744	26,605,601
Noncurrent liabilities:							
Notes and bonds payable, net of current portion	57,781,684	11,605,486	-	-	-	-	69,387,170
Compensated absences, net of current portion	356,566	-	-	146,597	3,901,009	163,300	4,567,472
Total noncurrent liabilities	58,138,250	11,605,486	-	146,597	3,901,009	163,300	73,954,642
Total liabilities	68,083,288	18,887,192	448,627	2,917,791	8,746,301	1,477,044	100,560,243
Net assets:							
Invested in capital assets, net of related debt	97,905,156	15,318,169	26,895	7,890,627	86,353,538	78,300	207,572,685
Restricted	22,572,954	37,604,645	68,155,276	4,742,062	-	-	133,074,937
Unrestricted	13,059,832	-	-	2,029,419	(453,821)	1,562,172	16,197,602
Total net assets	\$ 133,537,942	\$ 52,922,814	\$ 68,182,171	\$ 14,662,108	\$ 85,899,717	\$ 1,640,472	\$ 356,845,224

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, 2006

	Commonwealth Ports Authority	Commonwealth Development Authority	Marianas Public Land Trust	Northern Marianas College	Public School System	Marianas Visitors Authority	Total
Operating revenues:							
Charges for services and fees	\$ 19,957,055	\$ 4,625,875	\$ -	\$ 2,110,652	\$ 563,917	\$ 48,900	\$ 27,306,399
Grants and contributions	-	7,410,118	-	5,797,822	-	1,426,184	14,634,124
Other	-	91,714	5,501,811	114,685	-	130,304	5,838,514
Total operating revenues	19,957,055	12,127,707	5,501,811	8,023,159	563,917	1,605,388	47,779,037
Operating expenses:							
Cost of services	6,110,053	9,751,610	-	11,069,269	54,749,419	5,869,269	87,549,620
Depreciation and amortization	9,614,293	679,164	7,979	559,372	920,773	43,070	11,824,651
Administration	8,384,812	1,471,501	882,538	3,347,567	9,606,370	1,992,083	25,684,871
Total operating expenses	24,109,158	11,902,275	890,517	14,976,208	65,276,562	7,904,422	125,059,142
Operating income (loss)	(4,152,103)	225,432	4,611,294	(6,953,049)	(64,712,645)	(6,299,034)	(77,280,105)
Nonoperating revenues (expenses):							
Contributions from the primary government	-	-	-	7,078,228	37,209,928	5,855,487	50,143,643
Contributions to the primary government	-	(6,608,963)	(889,351)	-	-	-	(7,498,314)
Provision for loan losses	-	-	(4,000,000)	-	-	-	(4,000,000)
Transfers to the Commonwealth Utilities Corporation	-	(1,769,371)	-	-	-	-	(1,769,371)
Grants and contributions	-	-	-	-	28,094,039	-	28,094,039
Unrestricted investment earnings	941,481	623,946	-	225,155	-	-	1,790,582
Interest expense	(3,733,379)	(878,108)	-	-	-	-	(4,611,487)
Amortization of bond issue cost	(66,935)	-	-	-	-	-	(66,935)
Other, net	3,615,891	208,495	-	-	100,090	-	3,924,476
Nonoperating revenues (expenses), net	757,058	(8,424,001)	(4,889,351)	7,303,383	65,404,057	5,855,487	66,006,633
Income (loss) before capital contributions	(3,395,045)	(8,198,569)	(278,057)	350,334	691,412	(443,547)	(11,273,472)
Capital contributions	18,284,820	-	-	-	3,623,424	-	21,908,244
Change in net assets	14,889,775	(8,198,569)	(278,057)	350,334	4,314,836	(443,547)	10,634,772
Net assets - beginning, as restated	118,648,167	61,121,383	68,460,228	14,311,774	81,584,881	2,084,019	346,210,452
Net assets - ending	\$ 133,537,942	\$ 52,922,814	\$ 68,182,171	\$ 14,662,108	\$ 85,899,717	\$ 1,640,472	\$ 356,845,224

See accompanying notes to financial statements.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements September 30, 2006

(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 Department of Public Lands (DPL), a Fiduciary Fund Type - Private Purpose Trust Fund, 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. 15-2.
- (b) 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, 2006**

(1) Summary of Significant Accounting Policies, Continued

A. Reporting Entity, Continued

1. Blended Component Units, Continued

- (c) 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.
- (d) 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.

Department of Public Lands
P.O. Box 500380
Saipan, MP 96950-0380

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, 2006**

(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 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.
- (d) 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.
- (e) 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.
- (f) 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 Development Authority
P.O. Box 502149
Saipan, MP 96950-2149

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements September 30, 2006

(1) Summary of Significant Accounting Policies, Continued

A. Reporting Entity, Continued

2. Discretely Presented Component Units, Continued

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 Units

The CNMI has omitted the Commonwealth Utilities Corporation (CUC). 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.

The CNMI has also 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.

B. Government-Wide 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.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements September 30, 2006

(1) Summary of Significant Accounting Policies, Continued

B. Government-Wide Financial Statements, Continued

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 \$8,266,516 of restricted net assets, of which \$2,656,786 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.

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements September 30, 2006

(1) Summary of Significant Accounting Policies, Continued

D. Measurement Focus and Basis of Accounting

The government-wide financial statements are reported using the economic resources 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.

ii. Special Revenue Funds

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements September 30, 2006

(1) Summary of Significant Accounting Policies, Continued

D. Measurement Focus and Basis of Accounting, Continued

1. Governmental Fund Types, Continued

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. Private Purpose Trust Fund

Private purpose trust funds are used to account for assets used for the administration of public lands within the CNMI. These funds are accounted for on the accrual basis of accounting.

ii. 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.

iii. 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, 2006

(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, 2006, 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, 2006

(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, 2006. 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, 2006

(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 \$1,509,675, 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, 2006

(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, 2006. However, the CNMI has estimated the aggregate assessed valuation of real property to be \$1,596,236,822 as of September 30, 2006. 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, 2006, is \$8,644,848.

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, 2006

(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, 2006, are as follows:

Total income tax and wage and salary tax collections	\$ 56,668,771
Transfers to Rebate Trust Fund	(21,512,950)
Income taxes and wage and salary taxes per the statement of activities	\$ <u>35,155,821</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, 2006, is represented by the following assets:

	<u>General Fund</u>
Restricted cash and cash equivalents	\$ 4,427,492
Investments	2,500,000
Due from component units	<u>4,174,042</u>
	\$ <u>11,101,534</u>

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements September 30, 2006

(1) Summary of Significant Accounting Policies, Continued

T. Fund Equity, Continued

At September 30, 2006, a reserve for land claims of \$130,674 was recorded in the General Fund representing the undistributed proceeds of land settlement claims administered by the Department of Public Lands.

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 2006, the CNMI implemented the following pronouncements:

- GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, which establishes standards for impairment of capital assets when its service utility has declined significantly and unexpectedly.
- GASB Statement No. 44, *Economic Condition Reporting: The Statistical Section, an amendment to NCGA Statement 1*, which 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. 46, *Net Assets Restricted by Enabling Legislation (an amendment to GASB Statement No. 34)*, which requires that limitations on the use of net assets imposed by enabling legislation be reported as restricted net assets.
- GASB Statement No. 47, *Accounting for Termination Benefits*, which establishes guidance for state and local governmental employers on accounting and financial reporting for termination of benefits.
- GASB Technical Bulletin No. 2004-2, *Recognition of Pension and Other Postemployment Benefit Expenditures/Expense and Liabilities by Cost-Sharing Employers*, which 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.

The implementation of these pronouncements did not have a material impact on the accompanying 2006 financial statements.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements September 30, 2006

(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 June 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 September 2006, GASB issued Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfer of Assets and Future Revenues*. GASB Statement No. 48 establishes criteria that governments will use to ascertain whether certain transactions should be regarded as a sale or a collateralized borrowing. The statement also includes a provision that stipulates that governments should not revalue assets that are transferred between financial reporting entity components. The provisions of this Statement are effective for periods beginning after December 15, 2006. Management does not believe that the implementation of this statement 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.

X. Landfill

Although closure and post closure care costs will be paid only near or after the date that the Marpi landfill stops accepting waste, the CNMI's governmental activities reports a portion of these closure and post closure care costs as an expense in each period based on landfill capacity used as of each balance sheet date. The \$1,526,947 reported as landfill closure and post closure care liability at September 30, 2006 within the accompanying financial statements, represents the cumulative amount reported based on capacity used. This amount is based on what it would cost to perform all closure and post closure care in 2006. Actual cost may be higher due to inflation, changes in technology or changes in regulations.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements September 30, 2006

(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:

- 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, 2006, the carrying amount of the primary government's total cash and cash equivalents and time certificates of deposit were \$51,246,570 and the corresponding bank balances were \$53,986,467. Of the bank balance amounts, \$34,802,998 is maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. The remaining amount of \$19,183,469 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, 2006. As of September 30, 2006, bank deposits in the amount of \$200,000 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, 2006, is presently not determinable. Accordingly, these deposits are exposed to custodial credit risk.

Restricted cash and cash equivalents as of September 30, 2006 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, 2006 amounted to \$39,829,323.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements September 30, 2006

(2) Deposits and Investments, Continued

Cash and Cash Equivalents and Time Certificates of Deposit, Continued

The carrying amount of the Private Purpose Trust Fund's total cash and cash equivalents were \$5,172,060 and the corresponding bank balances were \$5,269,761. Of the bank balance amounts, \$5,120,632 are maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance as of September 30, 2006. Bank deposits in the amount of \$100,000 were FDIC insured as of September 30, 2006. CNMI law does not require the Department of Public Lands to collateralize their bank accounts and thus deposits in excess of FDIC insurance are uncollateralized. Accordingly, the deposits are exposed to custodial credit risk.

As of September 30, 2006, the carrying amount of the Pension (and Other Employee Benefit) Trust Fund's total cash and cash equivalents were \$4,087,226 and the corresponding bank balances were \$7,875,915, which are maintained in financial institutions subject to FDIC insurance. As of September 30, 2006, bank deposits in the amount of \$200,000 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, 2006, approximately \$4,944,341 of NMIRF's cash and cash equivalents of \$5,044,341 are collateralized with their bank's securities totaling \$5,933,210 at September 30, 2006.

As of September 30, 2006, the carrying amount of the Agency Funds' total cash and cash equivalents were \$2,825,911 and the corresponding bank balances were \$2,825,911, which are maintained in financial institutions subject to FDIC insurance. Bank deposits in the amount of \$100,000 were FDIC insured as of September 30, 2006. 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, 2006, is presently not determinable. Accordingly, these deposits are exposed to custodial credit risk.

As of September 30, 2006, the carrying amount of the discretely presented component units' total cash and cash equivalents and time certificates of deposit were \$41,851,685 and the corresponding bank balances were \$41,282,570. Of the bank balance amounts, \$39,252,377 is maintained in financial institutions subject to FDIC insurance. The remaining amount of \$1,068,203 represents short-term investments held and administered by the discretely presented component units' trustees in accordance with various trust agreements and bond indentures and \$961,660 represents amount maintained at a non-FDIC insured bank. 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, 2006. As of September 30, 2006, bank deposits in the amount of \$869,353 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:

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements September 30, 2006

(2) Deposits and Investments, Continued

Investments, Continued

- | | |
|------------|--|
| 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, 2006.

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, 2006, 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.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements September 30, 2006

(2) Deposits and Investments, Continued

Investments, Continued

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, 2006 are equity securities of \$338,660,177, U.S. government securities of \$66,690,271, money market placements of \$11,035,779 and corporate debt securities of \$31,824,186.

As of September 30, 2006, 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%	40%	42%	\$ 189,411,000
U.S. Small Cap Equities	12.5%	12.5%	13%	60,442,000
International Investments	12.5%	12.5%	14%	61,620,000
U.S. Fixed Income	15%	15%	13%	58,067,000
U.S. Treasury Inflation Protected Securities	10%	10%	9%	38,513,000
Alternative Investments	10%	10%	9%	<u>40,157,000</u>
				<u>\$ 448,210,000</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.
- 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's rating of AAA as of September 30, 2006. 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.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements September 30, 2006

(2) Deposits and Investments, Continued

Investments, Continued

B. Fiduciary Funds, Continued

Northern Mariana Islands Retirement Fund (NMIRF), Continued:

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates that will adversely affect the fair value of an investment. 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.

Summarized below are NMIRF's fixed income investments and their maturities:

<u>Maturity Class</u>	<u>Fair Market Value</u>	
	<u>U.S. Fixed Income</u>	<u>U.S. Treasury Inflation Protected Securities</u>
Under 1 year	\$ 407,000	\$ 951,000
1 to 5 years	20,673,000	12,148,000
6 to 10 years	32,549,000	13,735,000
11 to 20 years	1,940,000	8,557,000
Over 20 years	<u>2,498,000</u>	<u>3,122,000</u>
	<u>\$ 58,067,000</u>	<u>\$ 38,513,000</u>

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

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, 2006, 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.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements September 30, 2006

(2) Deposits and Investments, Continued

Investments, Continued

B. Fiduciary Funds, Continued

Northern Mariana Islands Retirement Fund (NMIRF), Continued:

Securities Lending Collateral Interest Rate Risk, Continued

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, 2006, 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, 2006, 100% of NMIRF's investments were held in NMIRF's name, and NMIRF is not exposed to custodial credit risk related to these investments.

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 32% of WCC's total assets at September 30, 2006 are as follows:

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

**Notes to the Financial Statements
September 30, 2006**

(2) Deposits and Investments, Continued

Investments, Continued

B. Fiduciary Funds, Continued

Money market placements	\$ 49,516
United States government securities	593,240
	<u>\$ 642,756</u>

At September 30, 2006, WCC's investments have maturities of less than one year.

C. Discretely Presented Component Units

Commonwealth Ports Authority:

CPA's investments are held and administered by trustees in accordance with negotiated trust and custody agreements. Based on those agreements, all of those deposits were held in CPA's name by CPA's custodial financial institutions at September 30, 2006. As of September 30, 2006, investments at fair value consist of investments in U.S. Government money market placements amounting to \$22,572,954.

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, 2006.

As of September 30, 2006, investments at fair value are as follows:

Fixed income securities:	
Domestic fixed income	\$ 31,096,059
Other investments:	
Domestic equities	26,441,057
	<u>\$ 57,537,116</u>

The following is a listing of MPLT's fixed income securities at September 30, 2006:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (In Years)</u>				<u>Credit Rating</u>
		<u>Less Than 1</u>	<u>1 - 5</u>	<u>6 - 10</u>	<u>More Than 10</u>	
Mortgage and asset backed securities	\$ 3,877,105	\$ -	\$ 39,804	\$ 2,095,170	\$ 1,742,131	AAA
Government obligations	3,038,979	-	-	1,400,186	1,638,793	AAA
Government agencies	3,368,097	-	2,342,913	858,472	166,712	AAA
Corporate bonds	970,030	-	338,307	504,040	127,683	AAA
Corporate bonds	5,800	-	5,800	-	-	AA+
Corporate bonds	959,363	-	112,173	776,965	70,225	AA
Corporate bonds	2,750,840	-	2,307,675	349,080	94,085	AA-
Corporate bonds	5,292,737	-	2,905,047	1,696,120	691,570	A+
Corporate bonds	7,426,147	379,725	3,743,143	1,675,141	1,628,138	A
Corporate bonds	2,094,172	-	1,469,889	234,774	389,509	A-
Corporate bonds	42,244	-	-	-	42,244	BBB+
Corporate bonds	1,270,545	-	1,178,996	86,558	4,991	BBB
	<u>\$ 31,096,059</u>	<u>\$ 379,725</u>	<u>\$ 14,443,747</u>	<u>\$ 9,676,506</u>	<u>\$ 6,596,081</u>	
		- 40 -				

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements September 30, 2006

(2) Deposits and Investments, Continued

Investments, Continued

C. Discretely Presented Component Units, Continued

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, 2006.

As of September 30, 2006, investments at fair value are as follows:

Fixed income securities:	
Domestic fixed income	\$ <u>1,370,951</u>
Other investments:	
Domestic equities	2,401,531
Other	<u>111,717</u>
	<u>2,513,248</u>
	<u>\$ 3,884,199</u>

The following is a listing of NMC's fixed income securities at September 30, 2006:

Investment Type	Fair Value	Investment Maturities (In Years)				Credit Rating
		Less Than 1	1 - 5	6 - 10	More Than 10	
U.S. Treasury notes	\$ 802,428	\$ 36,682	\$ 544,658	\$ 191,785	\$ 29,303	AAA
U.S. Treasury bonds	78,572	-	-	-	78,572	AAA
Mortgage and asset backed securities	218,545	-	-	-	218,545	AAA
Corporate bonds	17,797	-	-	17,797	-	AAA
Corporate bonds	13,893	-	-	13,893	-	AA-
Corporate bonds	23,886	-	11,905	11,981	-	A+
Corporate bonds	52,655	-	-	52,655	-	A
Corporate bonds	27,599	-	14,000	13,599	-	A-
Corporate bonds	27,522	-	-	27,522	-	BBB+
Corporate bonds	72,754	-	-	37,976	34,778	BBB
Corporate bonds	14,167	-	-	14,167	-	BBB-
Corporate bonds	14,638	-	-	-	14,638	BB
Corporate bonds	<u>6,495</u>	-	-	<u>6,495</u>	-	B
	<u>\$ 1,370,951</u>	<u>\$ 36,682</u>	<u>\$ 570,563</u>	<u>\$ 387,870</u>	<u>\$ 375,836</u>	

(3) Receivables

Receivables as of September 30, 2006, for the primary government's individual major governmental funds and nonmajor governmental funds in the aggregate, including allowances for uncollectible accounts, are as follows:

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements September 30, 2006

(3) Receivables, Continued

	General	Federal Grants	DOI Capital Projects	Rebate Trust	Governmental Funds	Totals
Receivables:						
Federal agencies	\$ -	\$ 9,209,458	\$ 9,177,666	\$ -	\$ 65,348	\$ 18,452,472
Other agencies	169,032,996	-	-	-	-	169,032,996
Taxes	18,708,462	-	-	78,470	-	18,786,932
General	1,319,296	-	-	-	-	1,319,296
Other	-	-	-	-	125,794	125,794
Gross receivables	189,060,754	9,209,458	9,177,666	78,470	191,142	207,717,490
Less allowance for uncollectibles	(169,722,197)	(3,843,022)	(5,677,320)	-	-	(179,242,539)
Net receivables	\$ 19,338,557	\$ 5,366,436	\$ 3,500,346	\$ 78,470	\$ 191,142	\$ 28,474,951

Receivables as of September 30, 2006 for individual major discretely presented component units, including allowances for uncollectible accounts are as follows:

	Commonwealth Ports Authority	Commonwealth Development Authority	Marianas Public Land Trust	Northern Marianas College	Public School System	Marianas Visitors Authority	Totals
Receivables:							
Loans	\$ -	\$ 119,015,341	\$ 10,852,722	\$ -	\$ -	\$ -	\$ 129,868,063
Federal agencies	2,805,523	-	-	1,614,353	1,551,277	-	5,971,153
General	3,179,459	-	-	4,114,870	-	-	7,294,329
Interest and dividends	-	714,277	1,593,732	-	-	-	2,308,009
Other	83,866	190,409	1,210	-	374,879	17,968	668,332
Gross receivables	6,068,848	119,920,027	12,447,664	5,729,223	1,926,156	17,968	146,109,886
Less allowance for uncollectibles	(1,238,722)	(85,763,942)	(4,143,156)	(2,253,766)	-	-	(93,399,586)
Net receivables	\$ 4,830,126	\$ 34,156,085	\$ 8,304,508	\$ 3,475,457	\$ 1,926,156	\$ 17,968	\$ 52,710,300

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, 2006 are summarized as follows:

Receivable Fund	Payable Fund	Amount
General	Nonmajor governmental funds	\$ 540,602
DOI Capital Projects	General	13,603,542
General	DOI Capital Projects	387,911
NMTIT Rebate Trust	General	39,471,330
Nonmajor governmental funds	General	17,329,896
General	Federal Grants Fund	1,642,135
Agency Fund	General	1,359,897
Nonmajor governmental funds	Nonmajor governmental funds	369,242
		<u>\$ 74,704,555</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.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements September 30, 2006

(4) Interfund Receivables and Payables, Continued

Balances reflected as due to/from component units in the governmental funds balance sheet as of September 30, 2006 are summarized as follows:

<u>Due From</u>	<u>Due To</u>	<u>Amount</u>
General	Commonwealth Development Authority (CDA)	
	- NMHC Division	\$ 4,174,042
General	Commonwealth Utilities Corporation	214,449
Nonmajor governmental funds	Marianas Public Land Trust	284,052
		<u>\$ 4,672,543</u>
Public School System (PSS)	General	\$ 409,965
Northern Marianas College	General	79,230
Marianas Visitors Authority	General	2,255,355
Northern Marianas College (NMC)	Nonmajor governmental funds	4,333
Marianas Public Land Trust	Nonmajor governmental funds	6,868
		<u>\$ 2,755,751</u>

The amount recorded as due from component units of the primary government of \$4,672,543 does not equal the corresponding due to primary government of the discretely presented component units of \$1,511,170 as the difference of \$4,174,042 is due to a note payable and accrued interest payable to the CNMI recorded by CDA - NMHC division, the difference of \$214,449 is due to the CNMI's receivables from the Commonwealth Utilities Corporation, which is an omitted component unit and difference of \$1,227,118 due to the Commonwealth Ports Authority recording 1% public auditor fee for which the primary government recorded a corresponding allowance.

The amount recorded as due from Private Purpose Trust Fund represents amount due from the Department of Public Lands (DPL) of \$130,874 for 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, 2006 of \$6,678,619. The funds are deposited in a money market account with a trustee and recorded by DPL. Total interest earned on the account amounted to \$126,774 at September 30, 2006. As land claims are settled, a transfer out to DPL is recorded.

The amount recorded as due from primary government of the discretely presented component units of \$5,783,866 does not equal the corresponding due to component units of the primary government of \$2,755,751 by \$3,028,115. The difference of \$731,209 with MVA is due to \$600,000 recorded by MVA as supplemental allotment from the CNMI not allotted by the CNMI Office of Management and Budget (OMB), \$100,000 timing difference, \$25,745 carryover difference from prior years due to MVA recording the deficit reduction and OPA fee and \$5,464 unreconciled difference. The difference of \$2,296,906 with PSS is due to PSS recording appropriations of \$183,355 more than the allotted appropriation by OMB, \$20,877 unreconciled carryforward difference from prior years, \$13,231 non-general fund receivables recorded by PSS and \$2,079,443 in unreconciled differences.

The amount recorded as due to Pension (and Other Employee Benefit) Trust Funds beneficiaries of \$136,425,098 does not equal the corresponding due from the primary government of the Fiduciary Funds of \$246,413 due to the Pension (and Other Employee Benefit) Trust Fund recording an allowance for uncollectible receivables of \$143,681,440 with the remaining difference of \$7,502,755 due to additional penalty on contributions assessed by NMIRF which the primary government is currently contesting.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements September 30, 2006

(5) Restricted Assets

Fiduciary Fund Type - Private Purpose Trust Fund

Department of Public Lands (DPL):

Restricted assets of DPL include the unused proceeds of \$130,874 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 DPL. The remaining restricted assets of \$4,583,740 represents bank deposits in which DPL has been restricted full access. The deposits are held with a financial institution not subject to FDIC and thus are uncollateralized.

Fiduciary Fund Type - Pension (and Other Employee Benefit) Trust Fund

CNMI's Workers' Compensation Commission

Restricted assets of \$126,146 represents time certificates of deposit established for the purpose of making compensation for injury increasing disability in accordance with Subsection (f) of Section 9308 of Public Law 10-19.

Fiduciary Fund Type - Agency Fund

Security Deposit Fund:

Restricted assets of \$3,627,350 as of September 30, 2006 represent deposits of foreign investors required by law to operate businesses in the CNMI.

Discretely Presented Component Units

Commonwealth Ports Authority (CPA):

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

<u>Fund</u>	<u>1998 Senior Series A Airport Revenue Bonds</u>	<u>1998 Senior Series A Seaport Revenue Bonds</u>	<u>Total</u>
Bond Reserve Fund	\$ 1,719,387	\$ 3,412,011	\$ 5,131,398
Supplemental Reserve Fund	-	8,205,849	8,205,849
Construction Fund	678,614	6,238,588	6,917,202
Reimbursement Fund	-	5,444	5,444
Bond Fund	228,787	553,729	782,516
Maintenance and Operation	1,355,526	171,832	1,527,358
Cost of Issuance	-	3,187	3,187
	<u>\$ 3,982,314</u>	<u>\$ 18,590,640</u>	<u>\$ 22,572,954</u>

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

**Notes to the Financial Statements
September 30, 2006**

(5) Restricted Assets, Continued

Discretely Presented Component Units, Continued

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	\$ 1,386,187	\$ 961,990	\$ 5,211,517	\$ 7,559,694
Time certificates of deposit	<u>7,181,915</u>	<u>4,842,412</u>	<u>-</u>	<u>12,024,327</u>
	<u>\$ 8,568,102</u>	<u>\$ 5,804,402</u>	<u>\$ 5,211,517</u>	<u>\$ 19,584,021</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	\$ 255,588
Savings account restricted for Koblerville Section 8 project repairs and maintenance expenses, per contract with the U.S. Department of Housing and Urban Development	196,033
Savings account maintained as a guarantee of housing loans made by a savings and loan in the CNMI	93,172
Marianas Public Land Trust (MPLT) collateral account	2,001,112
Time certificates of deposit for MPLT loan program	1,070,234
Collateral account designated as sinking fund for U.S. Farmers Home Administration defaulted loans	907,649
Other depository accounts reserved for various purposes	<u>687,729</u>
	<u>\$ 5,211,517</u>

Marianas Public Land Trust (MPLT):

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements September 30, 2006

(5) Restricted Assets, Continued

Discretely Presented Component Units, Continued

Marianas Public Land Trust (MPLT), Continued:

MPLT's responsibility, with respect to monies received by it from DPL, 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.

Restricted assets of MPLT amounting to \$279,226 represent funds specifically held for the Saipan Trust Fund.

(6) Fixed Assets and Depreciation

Capital assets activities of the primary government for the year ended September 30, 2006, are as follows:

Governmental Activities

	Balance October 1, 2005	Additions	Retirements	Reclassifications	Balance September 30, 2006
Historical cost:					
Assets not being depreciated:					
Construction in progress	\$ 54,538,280	\$ 16,633,361	\$ -	\$ (60,406,932)	\$ 10,764,709
Depreciable assets:					
Buildings and other improvements	107,569,453	422,920	-	55,904,680	163,897,053
Machinery and equipment	9,953,303	4,536,362	-	155,272	14,644,937
Infrastructure	119,230,297	318,702	-	4,346,980	123,895,979
Subtotal depreciable assets	236,753,053	5,277,984	-	60,406,932	302,437,969
Total capital assets at cost	291,291,333	21,911,345	-	-	313,202,678
Accumulated depreciation:					
Buildings and other improvements	(26,247,409)	(5,129,004)	-	-	(31,376,413)
Machinery and equipment	(3,430,158)	(1,719,086)	-	-	(5,149,244)
Infrastructure	(82,285,729)	(6,167,127)	-	-	(88,452,856)
Total accumulated depreciation	(111,963,296)	(13,015,217)	-	-	(124,978,513)
Capital assets, net	\$ 179,328,037	\$ 8,896,128	\$ -	\$ -	\$ 188,224,165

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements September 30, 2006

(6) Fixed Assets and Depreciation, Continued

Governmental Activities, Continued

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

Community and Social Services	\$ 1,200,575
General Government	933,669
Health	1,282,309
Public Works	7,665,278
Judicial Branch	291,274
Public Safety and Law Enforcement	1,544,049
Lands and Natural Resources	<u>98,063</u>

Total depreciation expense - governmental activities \$ 13,015,217

Discretely Presented Component Units

	Estimated Useful Lives	Balance October 1, 2005	Additions	Retirements	Balance September 30, 2006
Historical cost:					
Assets not being depreciated:					
Land	-	\$ 53,101,861	\$ -	\$ -	\$ 53,101,861
Construction in progress	-	<u>39,275,137</u>	<u>19,075,931</u>	<u>(31,878,434)</u>	<u>26,472,634</u>
		<u>92,376,998</u>	<u>19,075,931</u>	<u>(31,878,434)</u>	<u>79,574,495</u>
Depreciable assets:					
Harbor facilities	20 years	61,997,300	-	-	61,997,300
Terminal facilities	20 years	64,126,028	4,957,565	-	69,083,593
Buildings	5 - 50 years	52,988,054	4,487,309	-	57,475,363
Runway and improvements	20 years	46,506,820	23,314,645	(11,875)	69,809,590
Other improvements	3 - 20 years	13,898,458	3,377,542	(32,290)	17,243,710
Housing projects	30 years	8,275,390	32,062	-	8,307,452
Terminal equipment	2 - 10 years	9,547,057	45,164	-	9,592,221
Office furniture and fixtures	2 - 10 years	4,109,245	428,172	(38,444)	4,498,973
Infrastructure	30 years	5,111,477	-	(2,287,986)	2,823,491
Other equipment	3 - 5 years	2,279,303	270,148	(11,416)	2,538,035
Fire and rescue	2 - 8 years	9,951,048	530,708	-	10,481,756
General transportation	3 - 5 years	5,134,320	666,848	(138,514)	5,662,654
Ground maintenance and shop equipment	2 - 5 years	<u>506,735</u>	<u>-</u>	<u>-</u>	<u>506,735</u>
Subtotal depreciable assets		<u>284,431,235</u>	<u>38,110,163</u>	<u>(2,520,525)</u>	<u>320,020,873</u>
Total capital assets at cost		376,808,233	57,186,094	(34,398,959)	399,595,368
Less accumulated depreciation		<u>(123,461,331)</u>	<u>(12,467,592)</u>	<u>736,109</u>	<u>(135,192,814)</u>
		<u>\$ 253,346,902</u>	<u>\$ 44,718,502</u>	<u>\$ (33,662,850)</u>	<u>\$ 264,402,554</u>

(7) Tax Rebates Payable

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements September 30, 2006

(7) Tax Rebates Payable, Continued

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 \$39,428,590 as of September 30, 2006. 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, 2006, cash balances held by NMIRF for the retirement of debt totaled \$1,762,066. 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, 2006, amount outstanding and payable is \$9,275,096.

\$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, 2006, amount outstanding and payable is \$4,910,000.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements
September 30, 2006

(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, 2006, amount outstanding and payable is \$55,895,000.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements September 30, 2006

(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, 2006**

(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, 2006, amount outstanding and payable is \$40,000,000 less unamortized discount on bond issuance of \$525,599.

Changes in long-term liabilities for the year ended September 30, 2006, are as follows:

	<u>Balance October 1, 2005</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance September 30, 2006</u>	<u>Due Within One Year</u>
Loans and bonds payable:					
NMIRF loan	\$ 9,936,867	\$ -	\$ (661,771)	\$ 9,275,096	\$ 3,331,455
1999 Series A Bonds	6,570,000	-	(1,660,000)	4,910,000	1,740,000
2000 Series A Bonds	57,330,000	-	(1,435,000)	55,895,000	1,510,000
2003 Series A Bonds	<u>40,000,000</u>	<u>-</u>	<u>-</u>	<u>40,000,000</u>	<u>-</u>
	113,836,867	-	(3,756,771)	110,080,096	6,581,455
Unamortized discount on bonds issued	<u>(545,066)</u>	<u>-</u>	<u>19,467</u>	<u>(525,599)</u>	<u>-</u>
	113,291,801	-	(3,737,304)	109,554,497	6,581,455
Other:					
Due to Pension (and Other Employee Benefit) Trust Fund	120,344,235	16,080,863	-	136,425,098	124,570,002
Compensated absences	9,708,113	3,963,820	(5,027,085)	8,644,848	3,178,657
Claims and judgments payable	9,020,743	348,144	(348,144)	9,020,743	-
Other noncurrent liability	<u>-</u>	<u>1,526,947</u>	<u>-</u>	<u>1,526,947</u>	<u>-</u>
	\$ <u>252,364,892</u>	\$ <u>21,919,774</u>	\$ <u>(9,112,533)</u>	\$ <u>265,172,133</u>	\$ <u>134,330,114</u>

The annual requirement to amortize all debt of the governmental activities outstanding as of September 30, 2006 is as follows:

<u>Year ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 6,581,455	\$ 7,114,059	\$ 13,695,514
2008	4,657,746	6,852,306	11,510,052
2009	5,044,223	6,574,866	11,619,089
2010	3,898,191	6,263,398	10,161,589
2011	4,105,229	6,003,197	10,108,426
2012 - 2016	16,023,252	26,932,716	42,955,968
2017 - 2021	19,645,000	21,418,400	41,063,400
2022 - 2026	19,760,000	15,040,288	34,800,288
2027 - 2031	24,365,000	6,933,006	31,298,006
2032 - 2034	<u>6,000,000</u>	<u>614,250</u>	<u>6,614,250</u>
	\$ <u>110,080,096</u>	\$ <u>103,746,486</u>	\$ <u>213,826,582</u>

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements
September 30, 2006

(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. \$ 6,676,553

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. 1,712,943

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

\$ 18,389,496

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.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements September 30, 2006

(8) Long-Term Debt Obligations, Continued

Discretely Presented Component Units, Continued

Commonwealth Development Authority, Continued

As of September 30, 2006, 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 capital development loans receivable and the conversion into equity ownership of the balance. Public Law 13-35 effectuated terms of the MOA requiring 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.

On June 6, 2006, the Governor of the CNMI approved Public Law (P.L.) No. 15-12 which authorized CDA to waive the sum of \$45,500,000 of the principal amount owed by CUC, such amount being the aggregate sum of all outstanding sewer and water project loans given to CUC and referenced in an amended MOA executed in January 2004. Pursuant to the amended MOA, CDA is authorized to waive any and all accrued interest owed by CUC on all outstanding loans. Section 2 of P.L. 15-12 provides that in the event the power generation system for the CNMI is privatized and controlled by an independent power producer, fifty percent of the principal amount of \$45,500,000 shall be paid by the independent power producer to CDA. As of September 30, 2006, no adjustments have been made to the financial statements of CUC and CDA as CUC and CDA have yet to finalize an agreement on the execution of the provisions of P.L. 15-12.

\$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, 2006, consist of the following:

1998 Senior Series A tax-exempt airport revenue bonds	\$ 17,625,000
Deferred costs of debt refunding	<u>-</u>
	<u>\$ 17,625,000</u>

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements
September 30, 2006

(8) Long-Term Debt Obligations, Continued

Discretely Presented Component Units, Continued

\$20,050,000 Bond Issue, Continued

The 1998 Senior Series A tax-exempt airport revenue bonds are 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.

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, 2006, consist of the following:

1998 Senior Series A tax-exempt seaport revenue bonds	\$ 29,775,000
Deferred costs of debt refunding	<u>(1,105,940)</u>
	<u>\$ 28,669,060</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, 2006, total deposits in the Seaport supplemental reserve fund amounted to \$8,195,349.

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.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

**Notes to the Financial Statements
September 30, 2006**

(8) Long-Term Debt Obligations, Continued

Discretely Presented Component Units, Continued

\$33,775,000 Bond Issue, Continued

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, 2006, consist of the following:

2005 Senior Series A tax-exempt seaport revenue bonds	\$ 7,225,000
Discount on bonds	<u>(119,490)</u>
	<u>\$ 7,105,510</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, 2006.

The annual requirements to amortize all debt of the Discretely Presented Component Units outstanding as of September 30, 2006, 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>
2007	\$ 2,401,896	\$ 4,802,297	\$ 7,204,193
2008	2,059,945	4,351,273	6,411,218
2009	2,159,507	4,243,937	6,403,444
2010	2,269,992	4,130,577	6,400,569
2011	2,386,442	4,010,682	6,397,124
2012 - 2016	22,497,327	17,337,983	39,835,310
2017 - 2021	12,704,387	10,465,574	23,169,961
2022 - 2026	16,765,000	5,843,217	22,608,217
2027 - 2031	<u>9,770,000</u>	<u>826,169</u>	<u>10,596,169</u>
	<u>\$ 73,014,496</u>	<u>\$ 56,011,709</u>	<u>\$ 129,026,205</u>

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

**Notes to the Financial Statements
September 30, 2006**

(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, 2006, are as follows:

	<u>Balance October 1, 2005</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance September 30, 2006</u>	<u>Due Within One Year</u>
Notes and bonds payable	\$ 74,739,423	\$ -	\$ (1,724,927)	\$ 73,014,496	\$ 2,401,896
Deferred amounts:					
Deferred costs of debt refunding	(1,141,043)	-	35,103	(1,105,940)	-
Discount on bonds	<u>(124,270)</u>	<u>-</u>	<u>4,780</u>	<u>(119,490)</u>	<u>-</u>
	73,474,110	-	(1,685,044)	71,789,066	2,401,896
Other liabilities:					
Compensated absences	<u>5,787,905</u>	<u>501,830</u>	<u>(1,096,501)</u>	<u>5,193,234</u>	<u>625,762</u>
	<u>\$ 79,262,015</u>	<u>\$ 501,830</u>	<u>\$ (2,781,545)</u>	<u>\$ 76,982,300</u>	<u>\$ 3,027,658</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, 2006, consist of the following:

	<u>Authorizing Legislation</u>	<u>Outstanding Balance</u>
General Fund:		
PSS Bond Interest	Public Law No. 13-24	\$ 1,641,861
Non Lapsing Scholarship	Public Law No. 4-41	925,401
Saipan Ambulance Fee	Public Law No. 13-12	134,755
Other programs	Various	<u>310,618</u>
		<u>\$ 3,012,635</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, 2006**

(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, 2006, 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	\$ 3,327,246	\$ -
DOI Capital Projects Fund	5,176,013	-
Nonmajor governmental funds	5,744,453	-
To General Fund from:		
Nonmajor governmental funds	-	11,213,655
Federal Grants Fund	-	<u>3,171,914</u>
	<u>14,247,712</u>	<u>14,385,569</u>
<u>Federal Grants Funds</u>		
From Federal Grants Fund to:		
General Fund	3,171,914	-
To Federal Grants Fund from:		
General Fund	-	<u>3,327,246</u>
	<u>3,171,914</u>	<u>3,327,246</u>
<u>DOI Capital Projects Fund</u>		
From DOI Capital Projects Fund to:		
Nonmajor governmental funds	844,654	-
To DOI Capital Projects Fund from:		
General Fund	-	<u>5,176,013</u>
	<u>844,654</u>	<u>5,176,013</u>
<u>Nonmajor governmental funds</u>		
From nonmajor governmental funds to:		
General Fund	11,213,655	-
Nonmajor governmental funds	520,610	-
To nonmajor governmental funds from:		
DOI Capital Projects Fund	-	844,654
General Fund	-	5,744,453
Nonmajor governmental funds	-	<u>520,610</u>
	<u>11,734,265</u>	<u>7,109,717</u>
	<u>\$ 29,998,545</u>	<u>\$ 29,998,545</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, 2006

(10) Transfers In/Out, Continued

Operating Fund Transfers, Continued

The amount recorded as payments to component units from the primary government of \$48,906,493 does not equal the corresponding contributions from the primary government of \$50,143,643 by \$1,237,150. The difference of \$506,261 with NMC is due to NMC recording utilities expense of \$637,701 as an increase to contributions and the primary government recording all utilities as a separate line item; and the CNMI recording the 2% deficit reduction of \$131,440 as a separate line item. The difference of \$547,534 with MVA is due to \$600,000 recorded by MVA as supplemental allotment from the CNMI not allotted by OMB, \$100,000 timing difference and \$152,466 deficit reduction and OPA fees not included by MVA. The net difference of \$183,355 with PSS is due to the \$2,000,000 compact impact grant recorded by PSS as deferred revenues while the CNMI recorded the amount as payments to PSS and \$2,183,555 unreconciled difference in the current fiscal year appropriation level.

The amount recorded as contributions from component units of the primary government of \$7,289,819 does not equal the corresponding contributions to the primary government of the component units of \$7,498,314 due to \$208,495 recorded as contributions to the primary government by MPLT relating to the repayment of MPLT's loans receivable from CDA.

(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.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements September 30, 2006

(11) Commitments, Continued

Other, Continued

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.

(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 \$5,035,505 have been set forth in the CNMI's Single Audit Report for the year ended September 30, 2006. 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.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements September 30, 2006

(12) Contingencies, Continued

Unfunded Pension Liability, Continued

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, 2005, the actual unfunded pension liability is \$547,199,484.

On June 16, 2006, Public Laws (P.L.) 15-13, 15-14 and 15-15 were enacted. P.L. 15-13 created portable retirement accounts for all new public employees hired on or after January 1, 2007 and allowed non vested members of the existing defined benefit plan to transfer into the new plan. The employer contribution rate is set at 4%. P.L. 15-14 extended the full funding period for the existing defined contribution plan for twenty-five years and requires an actuarial study to determine required employer contributions based on the new laws enacted. P.L. 15-15 authorized the CNMI Government to suspend employer contributions owing to NMIRF for the remainder of fiscal year 2006 retroactive to March 1, 2006 and fiscal year 2007. As of September 30, 2006, the CNMI suspended employer contributions of \$11,855,096.

The CNMI is currently contesting \$7,502,755 in penalties on contributions to NMIRF.

General Fund Financial Position

The CNMI's General Fund has sustained recurring operating deficits and has an unreserved fund deficit of \$177,191,693 at September 30, 2006. In addition, at September 30, 2006, the primary government's current liabilities exceed current assets by \$119,948,955, and total liabilities exceed total assets by \$49,402,866.

Management has taken the following actions and measures to address the CNMI's General Fund deficit position:

1. The deficit in the CNMI General Fund is in large part the result of under funding of employer retirement contributions and related penalties totaling \$136.4 million as of September 30, 2006. On June 16, 2006 the Commonwealth passed Public Laws 15-13, 15-14 and 15-15 to address issues related to the retirement fund.

Recently, Public Law 15-70 was passed increasing employee contributions to the defined benefit plan by 1% per year beginning in fiscal year 2008 until reaching 10.5% for Class I members and 11% for Class II members. This will decrease the required employer contribution by a similar amount.

The Commonwealth has commissioned an actuarial study to determine the impact of these laws as well as the reduction in total government wages from austerity programs and believes the required employer contribution beginning with fiscal year 2008 will be reduced.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements September 30, 2006

(12) Contingencies, Continued

General Fund Financial Position, Continued

2. The Commonwealth issued general obligation refunding bonds on April 27, 2007 to refinance existing callable outstanding bonds. This resulted in \$7.801 million of savings net of issuance costs on debt service payments over the life of the bonds with a net present value of \$7.475 million. The Commonwealth chose to realize the bulk of the savings over the next three years, although debt service will be less in every year over the life of the bonds than it was prior to refunding.
3. Furthermore, on August 18, 2006, Public Law 15-24 was enacted to implement a reduced-hour government pay period and establish government austerity holidays within the CNMI for the remaining of fiscal year 2006 and for fiscal year 2007. Also, on September 28, 2006, Public Law 15-32 was enacted to reform the rate of compensation for members of boards and commission.

Management believes that actions presently being taken to revise the CNMI's operating requirements, as outlined above, provide the opportunity for the CNMI to commence the process of reducing the abovementioned General Fund deficit position. The General Fund unreserved fund deficit increased by \$2,931,265 in fiscal year 2006 following increases of \$20.8 million in fiscal year 2005 and \$35 million in fiscal year 2004.

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, 2006, is \$37,211,200.

As of September 30, 2006, the Northern Mariana Islands Government Health and Insurance (GHLI) Trust Fund has a net deficit of \$17,381,080. In addition, GHLI submitted unprocessed claims from service providers with service dates as of September 30, 2006 and earlier that totaled \$38.9 million. The ultimate liability that will result from these claims has not been determined by GHLI; as such these claims have not been recorded as of September 30, 2006. Under Public Law 10-19, liabilities of the GHLI shall be liabilities of the primary government, and unless GHLI becomes profitable, the General Fund could be liable. However, the outcome of this matter is presently not determinable; therefore, no provision has been made in the accompanying financial statements.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements September 30, 2006

(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 \$348,144, \$468,984 and \$1,609,899 for the years ended September 30, 2006, 2005 and 2004, respectively. Changes in the balance of claims liabilities during the past year are as follows:

	Year ended <u>September 30,</u>
Unpaid claims at beginning of year	\$ 9,020,743
Incurred claims	348,144
Claim payments	<u>(348,144)</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.

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 2006, 2005 and 2004 were \$124,341,718, \$133,496,390 and \$129,634,542, respectively, which were covered in total by NMIRF's pension plan.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements September 30, 2006

(14) Pension Trust Fund, Continued

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 2006, NMIRF assessed a penalty of \$4,607,307 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 2006 is \$467,179 representing 25% of the increase of unpaid contribution from fiscal year 2005. The difference of \$4,140,128 and the manner in which the penalties were calculated is being contested by the CNMI. Accordingly, the CNMI has recorded a liability of \$21,100,949 at September 30, 2006.

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) Restatement of Government-Wide Net Assets

Discretely Presented Component Units

Net assets, as previously reported September 30, 2005	\$ 319,742,617
Understatement of net assets reported in 2005:	
Commonwealth Ports Authority	759,293
Marianas Visitors Authority	28,972
Public School System	528,717
Net deficiency (assets) previously reported at September 30, 2005 for the:	
Commonwealth Utilities Corporation	56,415,369
Marianas Public Lands Authority	<u>(31,264,516)</u>
Net assets, as restated September 30, 2005	\$ <u>346,210,452</u>

(16) Subsequent Events

On January 23, 2007, Public Law (P.L.) 15-44 was approved to amend section 2 of P.L. 15-12. P.L. 15-44 removes the fifty percent (\$22,750,000) payment requirement by the independent power producer and instead requires such amount to be rebated to residential power consumers in the event that the power generation system is privatized and controlled by an independent power producer. The rebate shall be subject to review and approval of the Public Utilities Commission upon privatization.

On March 13, 2007, P.L. 15-48 was enacted to repeal and amend the restrictions and obligations imposed by Public Laws 10-29 and 12-27. Public Law 15-48 repeals the appropriation of MPLT's annual interest distribution to the CNMI against NMHC's loans with MPLT. In addition, Public Law 15-48 lifts the ten-year repayment moratorium on NMHC and requires NMHC to begin making loan payments to MPLT.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements
September 30, 2006

(16) Subsequent Events, Continued

On April 27, 2007, the CNMI issued general obligation refunding bonds totaling \$100,490,000 to refinance the existing callable 2000A and 2003A outstanding bonds. The maturity period of the original bonds was not extended. This resulted in \$7.801 million of savings net of issuance costs on debt service payments over the life of the bonds with a net present value of \$7.475 million and lowered the effectively lower the average interest rate on the refunded bonds from 6.84% to 4.98%. The CNMI chose to realize the bulk of the savings over the next three years, although debt service will be less in every year over the life of the bonds than it was prior to refunding. The ratio of present value savings to the refunding principal amount was 7.44%.

On June 14, 2007, Public Law 15-70 was enacted to amend the Northern Mariana Islands Retirement Fund Act to improve its fiscal solvency. P.L. 15-70 provides for increasing employee contributions to the defined benefit plan by 1% per year beginning in fiscal year 2008 until reaching 10.5% for Class I members and 11% for Class II members.

**COMMONWEALTH OF THE
NORTHERN MARIANA ISLANDS**

**REQUIRED SUPPLEMENTARY INFORMATION
- BUDGETARY REPORTING**

YEAR ENDED SEPTEMBER 30, 2006

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

**Schedule of Revenues, Expenditures, and Changes in Deficit
- Budget and Actual - General Fund
Year Ended September 30, 2006**

	Budgeted Amounts		Actual - Budgetary Basis	Variance
	Original	Final	(see note 1)	
Revenues:				
Taxes	\$ 179,342,654	\$ 179,342,654	\$ 155,116,590	\$ (24,226,064)
Charges for sales and services	18,201,000	18,201,000	17,526,128	(674,872)
Licenses and fees	12,640,200	12,640,200	13,875,610	1,235,410
Other	2,708,000	2,708,000	6,141,961	3,433,961
Total revenues	212,891,854	212,891,854	192,660,289	(20,231,565)
Expenditures - budgetary basis by function:				
Executive branch	103,527,434	93,140,402	91,884,956	1,255,446
Second Senatorial District - Tinian	13,345,006	10,129,146	9,618,869	510,277
First Senatorial District - Rota	13,341,302	10,375,570	9,878,582	496,988
Government utilities	5,000,000	16,979,158	14,576,729	2,402,429
Legislative branch	8,988,500	7,504,086	7,504,086	-
Judicial branch	5,001,825	4,062,602	3,954,177	108,425
Independent programs	1,369,338	995,758	913,157	82,601
Office of the Mayors	3,131,189	2,543,226	2,515,057	28,169
Office of the Public Auditor	2,228,824	2,228,824	1,650,543	578,281
Office of the Washington Representative	1,694,688	1,376,466	1,284,375	92,091
Boards and commissions	1,096,013	895,562	895,562	-
Education (payment to PSS and NMC)	44,028,779	40,582,885	40,582,885	-
Tourism (payment to MVA)	6,930,000	4,858,872	4,857,131	1,741
Employee benefits (payment to NMIRF and WCC)	2,444,423	1,985,420	1,985,420	-
Payment to DPL	126,774	126,774	126,774	-
Unallocated audit adjustments, net	-	-	518,262	(518,262)
Total expenditures	212,254,095	197,784,751	192,746,565	5,038,186
Deficiency of revenues under expenditures	637,759	15,107,103	(86,276)	(15,193,379)
Other financing sources (uses):				
Operating transfers in	6,707,000	11,878,194	14,385,569	2,507,375
Operating transfers out	(12,785,974)	(14,247,712)	(14,247,712)	-
Total other financing sources (uses), net	(6,078,974)	(2,369,518)	137,857	2,507,375
Deficiency of revenues and other financing sources under expenditures and other financing uses	(5,441,215)	12,737,585	51,581	(12,686,004)
Other changes in unreserved deficit:				
Decrease in reserve for supplies	-	-	201,784	201,784
Decrease in reserve for related assets	-	-	7,122,690	7,122,690
Increase in reserve for continuing appropriations	-	-	(5,630)	(5,630)
Other - unallocated deficit reduction	-	-	3,338,315	3,338,315
Deficit at beginning of year	(146,932,004)	(158,728,199)	(174,260,428)	(15,532,229)
Deficit at end of year	\$ (152,373,219)	\$ (145,990,614)	\$ (163,551,688) *	\$ (17,561,074)

* See note 2.

See Accompanying Notes to Required Supplementary Information - Budgetary Reporting.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to Required Supplementary Information - Budgetary Reporting September 30, 2006

(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, 2006, 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.

For the year ended September 30, 2006, expenditures of the General Fund exceeded budget at the program area level (i.e., the legal level of budgetary control) as follows:

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to Required Supplementary Information - Budgetary Reporting
September 30, 2006

(1) Budgetary Information, Continued

<u>Program Area</u>	<u>Excess</u>
Executive Branch:	
Public Safety	\$ (269,685)
First Senatorial District - Rota:	
Public Health	\$ (3,537)
Unallocated audit adjustments	\$ (518,262)

(2) Explanation of Differences

CNMI P.L. 15-15 authorized the suspension of government obligations owing to the Northern Mariana Islands Retirement Fund for parts of fiscal year 2006 and all of fiscal year 2007. The CNMI budgets for this deferred retirement contribution on the cash basis rather than the modified accrual basis.

The CNMI made payments for land compensation to the Department of Public Lands (DPL) totaling \$6,678,619 during the year ended September 30, 2006. Funding for these payments was derived from bond issuances obtained in prior years, which had been reserved within unreserved deficit. As related budgetary basis revenues are not reflected for the year ended September 30, 2006, the CNMI has netted payments to DPL with the decrease in the reserve for land claims in the accompanying schedule of revenues, expenditures and changes in deficit-budget and actual-general fund.

The CNMI recognizes bad debt expense based on identification of receivables. The CNMI budget does not reflect bad debts on the modified accrual basis.

The following reconciles budget to GAAP differences:

Deficit at end of year, budgetary basis	\$ 163,551,688
Deferred retirement contributions per P.L. 15-15	11,855,096
Payments to DPL, offset against decrease in reserve for land claims	6,551,845
Decrease in reserve for land claims	(6,551,845)
Bad debt	<u>1,784,909</u>
Deficit at end of year, GAAP basis	\$ <u>177,191,693</u>

The amount reported as "deficit" on the budgetary basis of accounting derives from the basis of accounting used in preparing the CNMI's budget. This amount differs from the deficit reported in the balance sheet-governmental funds and the statement of revenues, expenditures and changes in deficit because of the effect of the above transaction.

**COMMONWEALTH OF THE
NORTHERN MARIANA ISLANDS**

OTHER SUPPLEMENTARY INFORMATION

YEAR ENDED SEPTEMBER 30, 2006

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

**Combining Schedule of Expenditures by Account
Governmental Funds
Year Ended September 30, 2006**

	<u>Major Governmental Funds</u>				<u>Other</u>	
	<u>General</u>	<u>Federal</u>	<u>NMTIT</u>	<u>DOI</u>	<u>Governmental</u>	<u>Total</u>
		<u>Grants</u>	<u>Rebate Trust</u>	<u>Capital</u>	<u>Funds</u>	
				<u>Projects</u>		
Salaries and wages	\$ 109,295,829	\$ 11,452,602	\$ -	\$ 332,013	\$ 3,261,274	\$ 124,341,718
Construction in progress	-	1,460,730	-	28,891,081	930,714	31,282,525
Professional services	3,555,648	9,105,867	-	1,377,368	2,468,878	16,507,761
Capital outlay:						
Office equipment	371,434	725,881	-	44,266	104,921	1,246,502
Vehicles	128,022	1,379,967	-	-	371	1,508,360
Machinery and equipment	81,193	3,008,649	-	881,738	32,345	4,003,925
Furniture and fixtures	46,617	203,206	-	189,077	261,067	699,967
Road improvements	29,679	274,755	-	-	1,854,851	2,159,285
Building improvements	6,140	-	-	272,614	3,110	281,864
Other	102,079	558,903	-	1,341,710	373,383	2,376,075
Utilities	14,239,252	93,945	-	140	7,521	14,340,858
Supplies	6,853,669	1,346,496	-	1,596	390,164	8,591,925
Food items	959,401	7,921,842	-	-	26,935	8,908,178
Scholarships/grants	2,775,880	2,993,306	-	-	3,069,389	8,838,575
Interest	-	-	-	3,741,013	3,776,496	7,517,509
Travel	3,521,860	1,608,503	-	1,790	272,949	5,405,102
Rentals	2,969,855	580,518	-	69,260	351,646	3,971,279
Communications	1,558,014	598,046	-	78	47,066	2,203,204
Repairs and maintenance	1,487,244	606,807	-	4,867	232,360	2,331,278
Bad debts	710,442	-	-	-	-	710,442
Indirect costs	18,440	1,949,615	-	-	-	1,968,055
Principal repayment	-	-	-	1,435,000	2,321,771	3,756,771
Education:						
Payments to PSS	35,026,573	2,000,000	-	-	-	37,026,573
Payments to NMC	5,594,377	-	-	-	-	5,594,377
Payments to MVA	4,907,953	-	-	-	-	4,907,953
Payments to NMIRF and WCC	2,033,900	-	-	-	-	2,033,900
Payments to MPLA	6,678,619	-	-	-	-	6,678,619
Miscellaneous services	911,608	84,680	-	-	23,563	1,019,851
Fuel and lubrication	1,220,175	251,543	-	-	161,318	1,633,036
Claims and judgments	318,144	-	-	-	30,000	348,144
Printing	284,280	122,634	-	-	76,435	483,349
Official representation	367,774	-	-	-	16,916	384,690
Advertising	90,597	302,748	-	-	28,952	422,297
Dues and subscriptions	101,354	45,116	-	-	4,029	150,499
Freight	113,011	41,706	-	-	4,051	158,768
Insurance	325,146	-	-	-	-	325,146
Books and library materials	29,102	85,735	-	-	12,547	127,384
Licenses and fees	36,897	-	-	-	-	36,897
Penalty on retirement fund contributions	467,179	-	-	-	-	467,179
Other	1,821,798	2,034,734	-	118,501	2,072,564	6,047,597
	<u>\$ 209,039,185</u>	<u>\$ 50,838,534</u>	<u>\$ -</u>	<u>\$ 38,702,112</u>	<u>\$ 22,217,586</u>	<u>\$ 320,797,417</u>

See Accompanying Independent Auditors' Report.

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

September 30, 2006

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, 2006

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, 2006, 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, 2006

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, 2006

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, 2006

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, 2006

	Special Revenue Funds							
	Private Grants	Commonwealth Arts Council	Human Resources Development Trust	Oil Overcharge	Commonwealth Nonresident Workers' Fee	Commonwealth Alien Deportation	Commonwealth Museum	Judicial Building
Assets								
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Restricted cash and cash equivalents	-	-	-	-	-	-	-	-
Receivables, net of allowance for uncollectibles:								
Federal	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-
Due from other funds	1,069,047	14,057	269,222	46,362	17,069	998,681	433,299	59,160
Due from component unit	-	-	-	-	-	-	-	-
Due from Pension and Other Employee Benefit Trust Funds	-	-	-	-	-	-	-	1,762,066
	<u>\$ 1,069,047</u>	<u>\$ 14,057</u>	<u>\$ 269,222</u>	<u>\$ 46,362</u>	<u>\$ 17,069</u>	<u>\$ 998,681</u>	<u>\$ 433,299</u>	<u>\$ 1,821,226</u>
Liabilities and Fund Balances (Deficit)								
Liabilities:								
Accounts payable	\$ 86,141	\$ 13,284	\$ 2,045	\$ -	\$ 7,064	\$ 11,148	\$ 24,861	\$ -
Other liabilities and accruals	-	-	36,612	-	11,726	61	5,263	-
Due to other funds	-	-	-	-	-	-	-	-
Due to component units	-	-	-	-	4,333	-	-	-
Deferred revenue	868,975	-	-	46,362	-	-	-	-
Total liabilities	<u>955,116</u>	<u>13,284</u>	<u>38,657</u>	<u>46,362</u>	<u>23,123</u>	<u>11,209</u>	<u>30,124</u>	<u>-</u>
Commitments and contingencies								
Fund balances (deficit):								
Reserved for:								
Debt service	-	-	-	-	-	-	-	1,762,066
Encumbrances	136,918	3,872	10,494	-	8,735	11,421	14,520	-
Other	-	-	-	-	-	-	-	-
Unreserved:								
Undesignated	(22,987)	(3,099)	220,071	-	(14,789)	976,051	388,655	59,160
Total fund balances (deficit)	<u>113,931</u>	<u>773</u>	<u>230,565</u>	<u>-</u>	<u>(6,054)</u>	<u>987,472</u>	<u>403,175</u>	<u>1,821,226</u>
	<u>\$ 1,069,047</u>	<u>\$ 14,057</u>	<u>\$ 269,222</u>	<u>\$ 46,362</u>	<u>\$ 17,069</u>	<u>\$ 998,681</u>	<u>\$ 433,299</u>	<u>\$ 1,821,226</u>

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Combining Balance Sheet Nonmajor Governmental Funds September 30, 2006

Special Revenue Funds											
Local Revenue	CNMI Telecom- munications 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
-	-	3,815	-	-	-	-	-	-	-	-	3,815
-	-	-	-	-	-	-	-	-	-	-	-
-	106,165	-	-	-	-	-	-	-	-	-	106,165
7,753,849	-	-	5,987	456,655	277,390	3,432,744	155,330	140,580	-	843,363	15,972,795
-	-	284,052	-	-	-	-	-	-	-	-	284,052
-	-	-	-	-	-	-	-	-	-	-	1,762,066
<u>\$ 7,753,849</u>	<u>\$ 277,877</u>	<u>\$ 287,867</u>	<u>\$ 5,987</u>	<u>\$ 456,655</u>	<u>\$ 277,390</u>	<u>\$ 3,432,744</u>	<u>\$ 155,330</u>	<u>\$ 140,580</u>	<u>\$ -</u>	<u>\$ 843,363</u>	<u>\$ 18,300,605</u>
\$ 142,400	\$ 5,833	\$ -	\$ 669	\$ -	\$ 5,130	\$ 77,602	\$ -	\$ -	\$ -	\$ 16,239	\$ 392,416
-	-	-	-	-	-	-	-	-	-	184,851	238,513
-	-	22,893	-	-	-	-	-	-	60,355	189,349	272,597
-	-	-	-	-	-	-	-	-	-	-	4,333
-	-	-	-	-	-	-	-	-	-	-	915,337
<u>142,400</u>	<u>5,833</u>	<u>22,893</u>	<u>669</u>	<u>-</u>	<u>5,130</u>	<u>77,602</u>	<u>-</u>	<u>-</u>	<u>60,355</u>	<u>390,439</u>	<u>1,823,196</u>
-	-	-	-	-	-	-	-	-	-	-	1,762,066
2,454,932	-	-	3,042	-	37,981	(528,491)	234	2,899	-	36,719	2,193,276
-	-	-	-	-	-	1,526,947	-	-	-	-	1,526,947
<u>5,156,517</u>	<u>272,044</u>	<u>264,974</u>	<u>2,276</u>	<u>456,655</u>	<u>234,279</u>	<u>2,356,686</u>	<u>155,096</u>	<u>137,681</u>	<u>(60,355)</u>	<u>416,205</u>	<u>10,995,120</u>
<u>7,611,449</u>	<u>272,044</u>	<u>264,974</u>	<u>5,318</u>	<u>456,655</u>	<u>272,260</u>	<u>3,355,142</u>	<u>155,330</u>	<u>140,580</u>	<u>(60,355)</u>	<u>452,924</u>	<u>16,477,409</u>
<u>\$ 7,753,849</u>	<u>\$ 277,877</u>	<u>\$ 287,867</u>	<u>\$ 5,987</u>	<u>\$ 456,655</u>	<u>\$ 277,390</u>	<u>\$ 3,432,744</u>	<u>\$ 155,330</u>	<u>\$ 140,580</u>	<u>\$ -</u>	<u>\$ 843,363</u>	<u>\$ 18,300,605</u>

See Accompanying Independent Auditors' Report.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Combining Balance Sheet, Continued Nonmajor Governmental Funds September 30, 2006

	Capital Projects Funds								
	Commonwealth Development Authority	Infrastructure Tax	Public Works Grants	American Memorial Park	Local Capital Projects	Private Capital Grants	Total Capital Projects Funds	Debt Service Fund	Total Non-Major Governmental Funds
Assets									
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 171,712
Restricted cash and cash equivalents	-	-	-	-	136,090	-	136,090	2,338,420	2,478,325
Receivables, net of allowance for uncollectibles:									
Federal	-	-	65,348	-	-	-	65,348	-	65,348
Other	-	-	-	19,629	-	-	19,629	-	125,794
Due from other funds	-	525,207	182,357	-	-	1,018,779	1,726,343	-	17,699,138
Due from component unit	-	-	-	-	-	-	-	-	284,052
Due from Pension and Other Employee Benefit Trust Funds	-	-	-	-	-	-	-	-	1,762,066
	<u>\$ -</u>	<u>\$ 525,207</u>	<u>\$ 247,705</u>	<u>\$ 19,629</u>	<u>\$ 136,090</u>	<u>\$ 1,018,779</u>	<u>\$ 1,947,410</u>	<u>\$ 2,338,420</u>	<u>\$ 22,586,435</u>
Liabilities and Fund Balances (Deficit)									
Liabilities									
Accounts payable	\$ -	\$ -	\$ 247,705	\$ -	\$ 49,116	\$ 31,574	\$ 328,395	\$ -	\$ 720,811
Other liabilities and accruals	-	-	-	-	-	3,670	3,670	-	242,183
Due to other funds	-	-	-	152,494	484,753	-	637,247	-	909,844
Due to component units	-	-	-	6,868	-	-	6,868	-	11,201
Deferred revenue	-	-	-	-	-	-	-	-	915,337
Total liabilities	<u>-</u>	<u>-</u>	<u>247,705</u>	<u>159,362</u>	<u>533,869</u>	<u>35,244</u>	<u>976,180</u>	<u>-</u>	<u>2,799,376</u>
Fund balances (deficit):									
Reserved for:									
Debt service	-	-	-	-	-	-	-	2,338,420	4,100,486
Encumbrances	-	23,058	2,504,909	57,516	760,403	24,389	3,370,275	-	5,563,551
Continuing appropriations	-	-	-	-	1,844,404	-	1,844,404	-	1,844,404
Other	-	-	-	-	-	-	-	-	1,526,947
Unreserved:									
Undesignated	-	502,149	(2,504,909)	(197,249)	(3,002,586)	959,146	(4,243,449)	-	6,751,671
Total fund balances (deficit)	<u>-</u>	<u>525,207</u>	<u>-</u>	<u>(139,733)</u>	<u>(397,779)</u>	<u>983,535</u>	<u>971,230</u>	<u>2,338,420</u>	<u>19,787,059</u>
	<u>\$ -</u>	<u>\$ 525,207</u>	<u>\$ 247,705</u>	<u>\$ 19,629</u>	<u>\$ 136,090</u>	<u>\$ 1,018,779</u>	<u>\$ 1,947,410</u>	<u>\$ 2,338,420</u>	<u>\$ 22,586,435</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, 2006

	Special Revenue Funds						
	Private Grants	Commonwealth Arts Council	Human Resources Development Trust	Oil Overcharge	Commonwealth Nonresident Workers' Fee	Commonwealth Alien Deportation	Judicial Building
Revenues:							
Federal contributions	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Taxes	-	-	-	-	-	-	-
Licenses and fees	230,954	-	-	-	6,694,043	724,275	1,089,395
Interest and dividends	-	-	-	-	-	-	-
Contributions from component units	-	-	-	-	-	-	-
Other	178,848	37,735	-	-	-	25	72
Total revenues	409,802	37,735	-	-	6,694,043	724,300	1,089,395
Expenditures							
Community and social services	62,823	43,082	734,771	-	93,174	-	318,241
Health	62,952	-	-	-	-	-	-
Public safety and law enforcement	284,027	-	-	-	454,237	133,047	-
General government	-	-	-	-	-	-	-
Lands and natural resources	-	-	-	-	-	-	-
Public works	-	-	-	-	-	-	-
Debt service:							
Principal retirement	-	-	-	-	-	-	661,771
Interest and fiscal charges	-	-	-	-	-	-	757,170
Other elected officials	-	-	-	-	-	-	-
Education (payment to NMC)	-	-	-	-	977,590	-	-
Economic development	-	-	-	-	-	-	-
Payments to MVA	-	-	-	-	-	-	-
Judicial branch	-	-	-	-	-	-	-
Education	-	-	-	-	-	-	-
Utilities - Capital Projects	-	-	-	-	-	-	-
Total expenditures	409,802	43,082	734,771	-	1,525,001	133,047	1,418,941
Excess (deficiency) of revenues over (under) expenditures	-	(5,347)	(734,771)	-	5,169,042	591,253	(329,546)
Other financing sources (uses):							
Operating transfers in	-	-	833,547	-	-	-	284,849
Operating transfers out	-	-	-	-	(5,132,199)	(2,198,000)	-
Total other financing sources (uses), net	-	-	833,547	-	(5,132,199)	(2,198,000)	284,849
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	-	(5,347)	98,776	-	36,843	(1,606,747)	(23,130)
Fund balances (deficit) at beginning of year	113,931	6,120	131,789	-	(42,897)	2,594,219	426,305
Fund balances (deficit) at end of year	\$ 113,931	\$ 773	\$ 230,565	\$ -	\$ (6,054)	\$ 987,472	\$ 1,821,226

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, 2006

Special Revenue Funds											Total Special Revenue Funds
Local Revenue	CNMI Telecom- munications 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	
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
7,653,521	-	-	-	-	1,698,642	2,338,502	-	-	-	222,887	4,037,144
-	-	10,134	1,166	-	-	560,993	-	-	-	7,970	17,186,258
-	-	-	-	-	-	-	-	-	-	-	19,270
-	-	-	498,526	-	-	-	-	-	76,051	186,946	978,203
<u>7,653,521</u>	<u>-</u>	<u>10,134</u>	<u>499,692</u>	<u>-</u>	<u>1,698,642</u>	<u>2,899,495</u>	<u>-</u>	<u>-</u>	<u>76,051</u>	<u>417,803</u>	<u>22,220,875</u>
198,615	-	-	-	-	17,611	165,382	-	46,632	-	15,585	1,695,916
21,600	-	-	2,982	-	98,726	-	-	-	-	-	186,260
-	-	-	-	-	84	5,000	-	-	-	70,061	946,456
1,445,128	-	-	-	-	-	-	-	-	42,508	-	1,487,636
1,500	-	-	-	-	-	2,211	-	169,997	-	68,402	242,110
654,666	-	-	-	-	-	1,327,520	-	-	-	-	1,982,186
-	-	-	-	-	-	-	-	-	-	-	661,771
-	-	-	-	-	-	-	-	-	-	-	757,170
266,818	-	-	-	-	-	10,975	-	-	-	-	277,793
-	-	-	-	-	-	-	-	-	-	-	977,590
247,187	-	-	-	-	-	-	-	-	-	-	247,187
-	-	-	-	-	-	-	-	400,000	-	-	400,000
-	-	-	-	-	-	-	-	-	-	97,319	97,319
3,024,635	-	200,000	-	-	-	-	17,662	-	-	116	3,242,413
-	-	-	-	-	-	-	-	-	-	-	-
<u>5,860,149</u>	<u>-</u>	<u>200,000</u>	<u>2,982</u>	<u>-</u>	<u>116,421</u>	<u>1,511,088</u>	<u>17,662</u>	<u>616,629</u>	<u>42,508</u>	<u>251,483</u>	<u>13,201,807</u>
<u>1,793,372</u>	<u>-</u>	<u>(189,866)</u>	<u>496,710</u>	<u>-</u>	<u>1,582,221</u>	<u>1,388,407</u>	<u>(17,662)</u>	<u>(616,629)</u>	<u>33,543</u>	<u>166,320</u>	<u>9,019,068</u>
446,667	-	-	-	-	-	-	-	-	-	-	1,565,063
248,957	-	-	(1,057,719)	-	(1,952,500)	(846,173)	-	-	-	-	(10,937,634)
<u>695,624</u>	<u>-</u>	<u>-</u>	<u>(1,057,719)</u>	<u>-</u>	<u>(1,952,500)</u>	<u>(846,173)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(9,372,571)</u>
2,488,996	-	(189,866)	(561,009)	-	(370,279)	542,234	(17,662)	(616,629)	33,543	166,320	(353,503)
<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>\$ 7,611,449</u>	<u>\$ 272,044</u>	<u>\$ 264,974</u>	<u>\$ 5,318</u>	<u>\$ 456,655</u>	<u>\$ 272,260</u>	<u>\$ 3,355,142</u>	<u>\$ 155,330</u>	<u>\$ 140,580</u>	<u>\$ (60,355)</u>	<u>\$ 452,924</u>	<u>\$ 16,477,409</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, 2006

	Capital Projects Funds							Total Non-Major Governmental Funds
	Commonwealth Development Authority	Infrastructure Tax	Public Works Grants	American Memorial Park	Local Capital Projects	Private Capital Grants	Total Capital Projects Funds	Debt Service Fund
Revenues:								
Federal contributions	\$ -	\$ -	\$ 3,268,087	\$ -	\$ -	\$ -	\$ 3,268,087	\$ -
Taxes	-	105,491	-	-	-	-	105,491	-
Licenses and fees	-	34,648	-	-	-	-	34,648	-
Interest and dividends	-	1,975	-	-	5,706	-	7,681	74,646
Contributions from component units	-	-	-	65,580	-	-	65,580	-
Other	-	-	3,377	-	168,000	-	171,377	-
Total revenues	-	142,114	3,271,464	65,580	173,706	-	3,652,864	74,646
Expenditures by account:								
Community and social services	-	-	1,169	63,580	-	-	64,749	-
Health	-	-	-	-	9,630	-	9,630	-
Public safety and law enforcement	-	-	30,697	-	441,662	-	472,359	-
General government	-	8,359	-	-	-	-	8,359	-
Lands and natural resources	-	-	-	-	-	-	-	-
Public works	-	-	3,236,232	-	163,161	-	3,399,393	-
Debt service:								
Principal retirement	-	-	-	-	-	-	-	1,660,000
Interest and fiscal charges	-	-	-	-	-	-	-	3,019,327
Other elected officials	-	-	-	-	-	-	-	-
Education (payment to NMC)	-	-	-	-	-	-	-	-
Economic development	-	-	-	-	-	-	-	-
Payments to MVA	-	-	-	-	-	-	-	-
Judicial branch	-	-	-	-	-	-	-	-
Education	-	-	1,366	-	204,657	-	206,023	-
Utilities - Capital Projects	-	173,939	2,000	-	-	-	175,939	-
Total expenditures	-	182,298	3,271,464	63,580	819,110	-	4,336,452	4,679,327
Excess (deficiency) of revenues over (under) expenditures	-	(40,184)	-	2,000	(645,404)	-	(683,588)	(4,604,681)
Other financing sources (uses):								
Operating transfers in	-	-	-	-	844,654	-	844,654	4,700,000
Operating transfers out	-	(276,021)	-	-	(520,610)	-	(796,631)	-
Total other financing sources (uses), net	-	(276,021)	-	-	324,044	-	48,023	4,700,000
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	-	(316,205)	-	2,000	(321,360)	-	(635,565)	95,319
Fund balances (deficit) at beginning of year	-	841,412	-	(141,733)	(76,419)	983,535	1,606,795	2,243,101
Fund balances (deficit) at end of year	\$ -	\$ 525,207	\$ -	\$ (139,733)	\$ (397,779)	\$ 983,535	\$ 971,230	\$ 2,338,420

See Accompanying Independent Auditors' Report.

**COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS
FIDUCIARY FUNDS**

September 30, 2006

Private Purpose Trust Fund

Private purpose trust funds are used to account for assets used for the administration of public lands within the CNMI. These funds are accounted for on the accrual basis of accounting. The basic financial statements reflect the balances and activity of the private purpose trust funds of the Government, which is described below

Department of Public Lands

On February 22, 2006, Public Law 15-02 was enacted to repeal Executive Order 94-03 as codified, in Public Law 10-57, 12-33 and 12-71 to create the Department of Public Lands (DPL) within the Executive Branch of the CNMI Government and to transfer the obligations and responsibilities of the Marianas Public Lands Authority to DPL. DPL is responsible for administration, use, leasing, development and disposition all those lands defined as public lands by N.M.I. Const. Art.XI.1 or any other provision of law, subject to the provisions of P.L. 15-02 and except as limited by transfers of freehold interest to individuals, entities, or other government agencies. DPL's authority does not extend to the issuance of land use permits and licenses, except as specifically provided for in P.L. 15-02 and does not limit in any respect the authority of other Commonwealth agencies to issue permits and licenses pursuant to their respective enabling legislation.

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.

**COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS
FIDUCIARY FUNDS**

September 30, 2006

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.

Tinian Land Condemnation Fund

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

Security Deposit Fund

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

See Accompanying Independent Auditors' Report.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Combining Statement of Fiduciary Net Assets Fiduciary Funds September 30, 2006

	Private Purpose Trust Fund	Pension (and Other Employee Benefit) Trust Fund				Agency Funds		
	Department of Public Lands	Northern Mariana Islands Retirement Fund	CNMI Government Health and Life Insurance Trust	CNMI Workers' Compensation Commission	Total	Tinian Land Condemnation Fund	Security Deposit Fund	Total
Assets								
Cash and cash equivalents	\$ 5,172,060	\$ 1,255,652	\$ 2,724,182	\$ 107,392	\$ 4,087,226	\$ -	\$ 2,825,911	\$ 2,825,911
Receivables:								
Loans	-	9,275,096	-	-	9,275,096	-	-	-
Notes	-	9,090,491	-	-	9,090,491	-	-	-
General	1,354,533	1,305,872	-	895,870	2,201,742	-	-	-
Interest and dividends	-	1,146,921	-	-	1,146,921	-	-	-
Other	21,225	48,546,215	712,732	-	49,258,947	-	-	-
Due from primary government	-	-	-	246,413	246,413	1,359,897	-	1,359,897
Prepaid items	9,211	8,057	-	-	8,057	-	-	-
Investments, at fair market value:								
Equity securities	-	338,660,177	-	-	338,660,177	-	-	-
U.S. Government securities	-	66,690,271	-	593,240	67,283,511	-	-	-
Money market placements	-	11,035,779	-	49,516	11,085,295	-	-	-
Corporate debt securities	-	31,824,186	-	-	31,824,186	-	-	-
Restricted assets	4,714,614	-	-	126,146	126,146	-	3,627,350	3,627,350
Capital assets	29,761,070	3,942,599	21,955	1,313	3,965,867	-	-	-
Total assets	41,032,713	522,781,316	3,458,869	2,019,890	528,260,075	1,359,897	6,453,261	7,813,158
Liabilities and Other Credits								
Accounts payable	-	301,785	20,839,949	30,442	21,172,176	-	-	-
Claims and judgments payable	-	-	-	-	-	1,359,897	-	1,359,897
Deposits payable	-	-	-	-	-	-	6,453,261	6,453,261
Other liabilities and accruals	1,005,979	643,200	-	-	643,200	-	-	-
Due to primary government	130,874	1,767,044	-	-	1,767,044	-	-	-
Deferred revenue	52,969	47,380,797	-	893,539	48,274,336	-	-	-
Total liabilities and other credits	1,189,822	50,092,826	20,839,949	923,981	71,856,756	\$ 1,359,897	\$ 6,453,261	\$ 7,813,158
Net assets:								
Held in trust for pension benefits	-	472,688,490	-	-	472,688,490	-	-	-
Held in trust for medical and life insurance benefits	-	-	(17,381,080)	-	(17,381,080)	-	-	-
Held in trust for workers' compensation benefits and other purposes	-	-	-	1,095,909	1,095,909	-	-	-
Held in trust for other purposes	39,842,891	-	-	-	-	-	-	-
Total net assets	\$ 39,842,891	\$ 472,688,490	\$ (17,381,080)	\$ 1,095,909	\$ 456,403,319			

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, 2006**

	Private Purpose Trust Fund	Pension (and Other Employee Benefit) Trust Fund			
	Department of Public Lands	Northern Mariana Islands Retirement Fund	CNMI Government Health and Life Insurance Trust	CNMI Workers' Compensation Commission	Total
<u>Additions</u>					
Contributions:					
Employer	\$ -	\$ 40,747,619	\$ -	\$ -	\$ 40,747,619
Employee	-	10,883,652	-	-	10,883,652
Revenues:					
Premiums	-	-	7,851,218	31,733	7,882,951
Penalty on unpaid contributions	-	-	-	-	-
Rent income and other	4,924,728	1,047,815	48,425	33,700	1,129,940
Total contributions and revenues	4,924,728	52,679,086	7,899,643	65,433	60,644,162
Net investment income:					
Net appreciation in fair value	-	26,734,902	-	-	26,734,902
Interest	-	5,897,626	-	-	5,897,626
Dividends	-	5,480,971	-	-	5,480,971
Total investment income	-	38,113,499	-	-	38,113,499
Less: investment expense	-	2,959,472	-	-	2,959,472
Net investment income	-	35,154,027	-	-	35,154,027
Total additions	4,924,728	87,833,113	7,899,643	65,433	95,798,189
<u>Deductions</u>					
Benefits	-	55,635,922	-	-	55,635,922
General and administrative	4,336,610	1,949,985	1,410,756	216,474	3,577,215
Bad debts	105,386	13,800,163	-	-	13,800,163
Refunds	-	4,577,740	-	-	4,577,740
Medical claims	-	-	11,957,755	45,046	12,002,801
Total deductions	4,441,996	75,963,810	13,368,511	261,520	89,593,841
Other financing sources (uses):					
Transfer in	6,678,619	687,686	-	266,388	954,074
Change in net assets	7,161,351	12,556,989	(5,468,868)	70,301	7,158,422
Net assets at beginning of year, as restated	32,681,540	460,131,501	(11,912,212)	1,025,608	449,244,897
Net assets at end of year	\$ 39,842,891	\$ 472,688,490	\$ (17,381,080)	\$ 1,095,909	\$ 456,403,319

See Accompanying Independent Auditors' Report.