

**COMMONWEALTH OF THE
NORTHERN MARIANA ISLANDS**

**FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT**

YEAR ENDED SEPTEMBER 30, 2007

**COMMONWEALTH OF THE
NORTHERN MARIANA ISLANDS**

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

YEAR ENDED SEPTEMBER 30, 2007

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

FINANCIAL STATEMENTS

YEAR ENDED SEPTEMBER 30, 2007

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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, 2007, which collectively comprise the CNMI's basic financial statements as set forth in Section III 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 0.43%, 0.55% and 0.12% of the assets, net assets and operating revenues, respectively, of the CNMI's aggregate discretely presented component units. 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 Visitors Authority, 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 tax rebates payable and due to component units are recorded for the governmental activities, each major fund and the aggregate remaining fund information. Tax rebates payable 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, 2007.

We were unable to determine the propriety of the receivable from related party of the Commonwealth Ports Authority at September 30, 2007.

The financial statements of the Northern Mariana Islands Retirement Fund, the Northern Mariana Islands Government Health and Life Insurance Trust Fund, the CNMI Workers' Compensation Commission, the Commonwealth Development Authority, the Commonwealth Utilities Corporation and the Public School System have not been audited, and we were not engaged to audit the financial statements of the Northern Mariana Islands Retirement Fund, the Northern Mariana Islands Government Health and Life Insurance Trust Fund, the CNMI Workers' Compensation Commission, the Commonwealth Utilities Corporation and the Public School System as part of our audit of the CNMI's basic financial statements. The financial activities of the Northern Mariana Islands Retirement Fund, the Northern Mariana Islands Government Health and Life Insurance Trust Fund and the CNMI Workers' Compensation Commission are included in the CNMI's basic financial statements within the aggregate remaining fund information as fiduciary funds and represent 93% and 87% of the assets and revenues, respectively, of the CNMI's aggregate remaining fund information. The financial activities of the Commonwealth Development Authority, the Commonwealth Utilities Corporation and the Public School System are included in the CNMI's basic financial statements as discretely presented component units and represent 48.0%, 16.2% and 79.3% of the assets, net assets and revenues, respectively, of the CNMI's aggregate discretely presented component units.

As discussed in note 15 to the financial statements, the beginning net assets of the governmental activities and the beginning fund balance of the general fund and other governmental funds within the accompanying financials statements have been restated.

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 tax rebates payable 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 III 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, 2007, 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, based on our audit and reports of other auditors, except for the effects on the respective financial statements of such adjustments, if any as might have been determined to be necessary had we been able to substantiate the propriety of the receivable from related party of the Commonwealth Ports Authority, as discussed in the fourth paragraph above and had the financial statements of the Northern Mariana Islands Retirement Fund, the Northern Mariana Islands Government Health and Life Insurance Trust Fund, the CNMI Workers' Compensation Commission, the Commonwealth Development Authority, the Commonwealth Utilities Corporation and the Public School System been audited, as discussed in the fifth paragraph above, such financial statements as set forth in Section III of the foregoing table of contents present fairly, in all material respects, the respective financial position of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate fund information of the CNMI as of September 30, 2007, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis, on pages 4 through 10, 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 IV 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 V 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 27, 2008, on our consideration of the CNMI's 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 27, 2008



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Management's Discussion and Analysis For Fiscal Year Ended September 30, 2007

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, 2007. Please read it in conjunction with the CNMI's financial statements, which follow this section. Fiscal year 2006 comparative information, including restatements, has been included where appropriate for comparative purposes.

FINANCIAL HIGHLIGHTS

- For the fiscal year ended September 30, 2007, the CNMI's total net deficiency increased by \$55.5 million, to a net deficiency position of \$79,221,157, which represents an increase of approximately 234.5% from the net deficiency position at the beginning of the year, as restated.
- During the year, the CNMI's expenses for governmental activities were \$299.8 million, including expenses recorded for payments made or due to the autonomous agencies, and were funded in part by program revenues of \$110.7 million, further funded with taxes and other general revenues that totaled \$133.6 million. The difference between total revenues of \$244.3 million and total expenses of \$299.8 million is what resulted in the \$55.5 million increase in net deficiency.
- At September 30, 2007, the General Fund reported an unreserved fund deficit of \$218.2 million, which is an increase in the unreserved fund deficit of 16.0% from the prior year's reported unreserved fund balance deficit of \$188.1 million, as restated.
- For budgetary reporting purposes, General Fund actual revenues were less than final estimates by \$5.2 million, or 3.2%, while reported actual expenditures exceeded final estimated appropriations by \$831,292, or 0.5%. 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.

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 \$23.7 million (as restated) to a net deficiency of \$79.2 million, an increase in the deficit of 234.5%, between fiscal years 2006 and 2007.

COMMONWEALTH OF THE NORTHER MARIANAS ISLANDS
MANAGEMENT'S DISCUSSION AND ANALYSIS
September 30, 2007

A summary of net deficiency (condensed) is presented below, with comparable balances for fiscal year 2006.

	Governmental Activities	Governmental Activities
	<u>2007</u>	<u>2006</u>
Current assets	111,379,795	83,996,414
Capital assets, net	212,417,847	188,224,165
Other noncurrent assets	4,347,120	13,163,943
Total assets	<u>328,144,762</u>	<u>285,384,522</u>
Current liabilities	275,445,867	203,945,369
Noncurrent liabilities	131,920,052	130,842,019
Total liabilities	<u>407,365,919</u>	<u>334,787,388</u>
Net deficiency:		
Invested in capital assets, net of related debt	146,991,770	124,536,399
Restricted net assets	10,387,661	9,793,463
Unrestricted net assets	(236,600,588)	(183,732,728)
Total net deficiency	<u>(79,221,137)</u>	<u>(49,402,866)</u>

Changes in Net Deficiency

For the year ended September 30, 2007, net deficiency of the primary government changed as follows, with comparable amounts for fiscal year 2006:

	Governmental Activities	Governmental Activities
	<u>2007</u>	<u>2006</u>
Revenues		
Program revenues	110,676,078	135,591,191
Taxes and other general revenues	133,632,186	161,736,401
Total revenues	<u>244,308,264</u>	<u>297,327,592</u>
Expenses		
Capital projects	4,301,295	10,246,544
Health	64,931,616	57,973,090
Public safety and law enforcement	41,836,520	42,962,006
General government	21,573,446	13,211,758
Community and social services	22,176,633	22,669,971
Other elected officials	17,153,393	13,899,741
Utilities	3,531,208	14,879,687
Public works	18,855,330	21,014,765
Lands and natural resources	15,546,939	14,129,615
Legislative branch	7,627,740	8,261,181
Judicial branch	5,102,181	5,639,832
Education	9,199,241	11,288,585
Unallocated interest	5,631,986	7,508,180
Economic development	8,985,432	7,227,703
Payments to autonomous agencies	53,395,519	50,540,413
Penalty on retirement fund contributions	-	467,179
Payments to land claimants	-	6,678,619
Total expenses	<u>299,848,479</u>	<u>308,598,869</u>
Increase in net deficiency	<u>(55,540,215)</u>	<u>\$ (11,271,277)</u>

The CNMI's governmental activities' increase of the net deficiency of \$55.5 million represents a 234.5% increase in the net deficiency reported in the prior year. The results indicate the CNMI's financial condition, as a whole, declined from the prior year. The major component of the decrease in net assets was an increase in deferred employer contributions to the retirement fund of \$35.4 million. This was comprised of \$26.3 million in deferred fiscal year 2007 employer contributions and a \$9.1 million increase in deferred fiscal year 2006 contributions in order to recognize the additional amount needed to meet the actuarial required employer contribution for 2006. Further, a \$2.5 million deficient retirement contribution of the Northern Marianas College (NMC) was recorded by the CNMI. The accumulated negative net asset position of the primary government is the result of under funding employer contributions to the retirement fund \$172.6 million, debt incurred and expenditures made for capital assets recorded under the component units (\$29 million since 1999) and the Department of Public Lands (\$29.8 million). Additionally, claims and judgment payable increased by \$7.5 million.

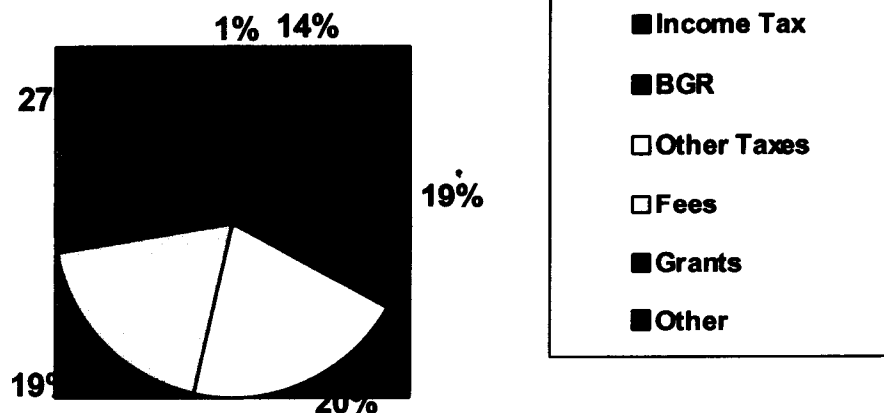
Governmental Activities

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

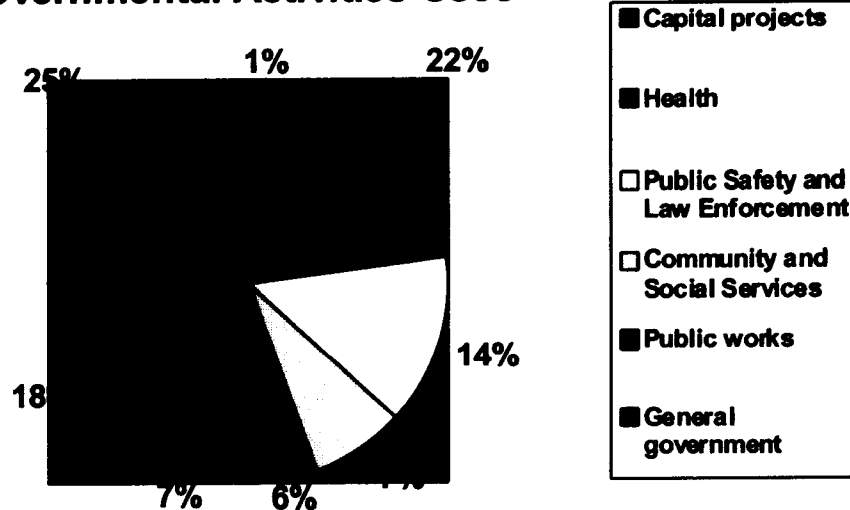
Of particular interest is the format that is significantly different than a typical Statement of Revenues, Expenses, and Changes in Fund Balance. You will notice that expenses are listed in the first column with revenues from that particular program reported to the right. The result is a Net (Expense)/Revenue.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

For the year ended September 30, 2007, the CNMI's governmental activities were funded as follows:

Governmental Activities Sources



Governmental Activities Uses



For the year ended September 30, 2007, total expenses for governmental activities amounted to \$297.3 million. Of these total expenses, taxpayers and other general revenues funded \$133.6 million, while those directly benefiting from the activities funded \$64.2 million from grants and other contributions and \$46.5 million from charges for services, with the remaining expenses in excess of revenues increasing the net deficiency.

Net Revenue (Expense) of Governmental Activities

	Total Expense of Services	Net Revenue (Expense) of Services	Total Expense of Services	Net Revenue (Expense) of Services
	2007	2007	2006	2006
Capital projects	4,301,295	(267,556)	10,246,544	(333,953)
Health	64,931,616	(30,850,531)	57,973,090	(26,163,821)
Public safety and law enforcement	41,836,520	(23,194,084)	42,962,006	(14,888,578)
General government	21,573,446	(4,574,431)	13,211,758	7,322,291
Community and social services	22,176,633	(7,699,129)	22,669,971	(5,173,312)
Public works	18,855,330	(15,416,205)	21,014,765	(15,145,206)
Payments to autonomous agencies	53,395,519	(51,045,519)	50,540,413	(48,540,413)
Retirement penalty	-	-	467,179	(467,179)
Payments to land claimants	-	-	6,678,619	(6,678,619)
All other	72,778,120	(56,124,946)	82,834,524	(62,938,888)
Total	299,848,479	(189,172,401)	308,598,869	(173,007,678)

A FINANCIAL ANALYSIS OF THE CNMI'S FUNDS

As the CNMI completed its 2007 fiscal year, the governmental funds reported a combined fund deficit of \$153,166,734, which compares with a prior year fund balance deficit of \$110,296,274 (as restated), an increase in the deficit of \$42,870,460, or 38.9%. This increase in the deficit is due in large part to the continued decline of general revenues, without a sufficient, corresponding reduction in governmental expenditures and the recognition in the General Fund as unbudgeted expenditures, deferred employer contributions to the retirement fund of \$35.4 million. This was comprised of \$26.3 million in deferred fiscal year 2007 employer contributions and a \$9.1 million increase in deferred fiscal year 2006 contributions in order to recognize the additional amount needed to meet the actuarial required employer contribution for 2006. Further, a \$2.5 million deficient retirement contribution of NMC was recorded by the CNMI. In addition, the expenditure of bond proceeds received in prior years in the DOI Capital Projects Fund resulted in a decrease in the fund balance.

Individual fund highlights include:

- For the year ended September 30, 2007, the General Fund's total fund deficit increased by \$36.3 million or 22.2%, to a total fund deficit of \$199.3 million, while the total unreserved fund deficit increased by \$30.1 million or 16.0%, for a total unreserved fund deficit of \$218.2 million.
- The Federal Grants Special Revenue Fund's revenues and expenditures were equal at \$52.7 million, leaving beginning and ending fund balance of \$0.
- The DOI Capital Projects Fund's total fund balance decreased by \$5.5 million, or 22.1%, to a total of \$19.3 million.
- The Pension and Other Employee Benefit Trust Funds' show an increase to net assets of the various funds of \$38,257,330 or 8.4% for the year. This Fund type includes the retirement fund, the group health and life insurance fund and the worker's compensation fund.

General Fund Budgetary Highlights

Significant revisions were made to the original budget for both revenues and expenditures due to an economic downturn. Original revenue estimates were reduced by 19.6%, or \$32.3 million, while original expenditure estimates were reduced by 18.0%, or \$28.6 million. The General Fund's actual revenues of \$159.9 million were less than the final estimates by \$5.2 million, a variance of 3.2%. The General Fund's actual expenditures of \$159.5 million exceeded appropriations by \$831,292, a variance of 0.5%.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of September 30, 2007, the CNMI had \$212,417,847 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 decrease of \$24.2 million or 12.9% from last year.

	<u>2007</u>	<u>2006</u>
Infrastructure, net	29,884,423	35,443,123
Buildings and improvements, net	130,598,828	132,520,640
Machinery and Equipment, net	9,000,468	9,495,693
Construction in progress	14,306,862	10,764,709
Land	28,627,266	-
Totals	<u>\$ 212,417,847</u>	<u>\$ 188,224,165</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 \$131.9 million in long-term debt outstanding, which represents a net increase of \$1.08 million or 0.8% net increase from the prior year, which includes a \$100 million partial advanced refunding. The CNMI's changes in long-term debt by type of debt are as follows:

	Governmental Activities	
	<u>2007</u>	<u>2006</u>
Accrued compensated absences	9,185,789	\$ 8,644,848
Bonds payable	101,798,527	100,279,401
Notes payable	8,557,738	9,275,096
Claims and judgements payable	16,507,281	9,020,743
Other	1,908,634	1,526,947
Totals	<u>137,957,969</u>	<u>\$ 128,747,035</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, still slowed by the effects of a drop in tourism and the decline of the garment industry, has continued to follow a trend of decreasing revenues. The prospects for fiscal year 2008 appear similar, with not much recovery in sight.

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 FY2008 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 2009. 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 2008 estimated available resources have been reduced to \$160.1 million. Estimated resources for fiscal 2009 are expected to be similar to 2008. Economic conditions are expected to begin to improve after 2009 as tourism from major markets, particularly Korea and China, continues to increase and with the impact of the military build on Guam.

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. The Management's Discussion and Analysis for the year ended September 30, 2006 is set forth in the report on the audit of the CNMI's financial statements which is dated June 18, 2007. That Discussion and Analysis explains the major factors impacting the 2006 financial statements. 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, or email Eloyinos@aol.com.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

**Statement of Net Assets
September 30, 2007**

	Primary Government	Component Units
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 17,731,589	\$ 24,415,580
Time certificates of deposit	9,124,527	1,387,722
Receivables, net of allowance for uncollectibles	50,554,639	43,584,809
Due from primary government	-	5,001,310
Due from component units	6,415,540	-
Due from Pension (and Other Employee Benefit) Trust Fund	1,227,727	-
Inventories	1,511,941	9,386,383
Advances	2,031,243	-
Other assets	-	595,120
Deferred bond issue costs	42,178	-
Restricted assets:		
Cash and cash equivalents	22,358,219	14,914,464
Time certificates of deposit	382,192	14,675,892
Investments	-	81,636,580
Total current assets	<u>111,379,795</u>	<u>195,597,860</u>
Noncurrent assets:		
Investments	2,500,000	4,395,849
Receivables:		
Loans, net of allowance for uncollectibles	-	22,641,082
Deferred bond issue costs, net of current portion	1,847,120	1,528,232
Other assets	-	4,700,947
Foreclosed real estate	-	1,701,032
Capital assets, net of accumulated depreciation	<u>212,417,847</u>	<u>389,427,838</u>
Total noncurrent assets	<u>216,764,967</u>	<u>424,394,980</u>
Total assets	<u>328,144,762</u>	<u>619,992,840</u>
LIABILITIES		
Current liabilities:		
Bank overdraft	3,037,900	-
Current portion of notes and bonds payable	2,880,795	65,624,248
Current obligations under capital lease	-	1,821,040
Accounts payable	9,623,997	24,610,405
Current portion of compensated absences	3,157,172	925,488
Tax rebates payable	36,040,583	-
Accrued interest payable	2,403,549	120,967,789
Other liabilities and accruals	10,702,703	22,472,683
Due to external parties	1,367,151	-
Due to component units	3,491,944	-
Due to primary government	-	6,314,990
Due to Pension (and Other Employee Benefit) Trust Fund	175,108,992	-
Deferred revenue	<u>27,631,081</u>	<u>2,967,083</u>
Total current liabilities	<u>275,445,867</u>	<u>245,703,726</u>
Noncurrent liabilities:		
Notes and bonds payable, net of current portion	107,475,470	74,482,807
Obligations under capital lease, net of current portion	-	860,695
Claims and judgments payable	16,507,281	-
Deferred revenue, net of current portion	-	4,461,617
Compensated absences, net of current portion	6,028,617	5,039,300
Due to primary government	-	180,911
Other noncurrent liability	<u>1,908,684</u>	<u>-</u>
Total noncurrent liabilities	<u>131,920,052</u>	<u>85,025,330</u>
Total liabilities	<u>407,365,919</u>	<u>330,729,056</u>
Net assets:		
Invested in capital assets, net of related debt	146,991,770	264,253,575
Restricted for:		
Capital projects	1,591,556	-
Retirement of indebtedness	4,635,119	-
Other purposes	4,160,986	126,492,312
Unrestricted	<u>(236,600,588)</u>	<u>(101,482,103)</u>
Total net assets	<u>\$ (79,221,157)</u>	<u>\$ 289,263,784</u>

See accompanying notes to financial statements.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

**Statement of Activities
For the Year Ended September 30, 2007**

Functions/Programs	Program Revenues				Net (Expenses) Revenues and	
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Changes in Net Assets	Component Units
Primary government:						
Governmental activities:						
Health	\$ 64,931,616	\$ 16,960,922	\$ 14,745,127	\$ 2,375,036	\$ (30,850,531)	\$ -
Public safety and law enforcement	41,836,520	9,702,141	8,434,663	505,632	(23,194,084)	-
General government	21,573,446	14,674,689	2,324,326	-	(4,574,431)	-
Community and social services	22,176,633	2,983	14,246,166	228,355	(7,699,129)	-
Other elected officials	17,153,393	-	-	-	(17,153,393)	-
Utilities	3,531,208	-	-	-	(3,531,208)	-
Utilities - Capital Projects	4,301,295	-	-	4,033,739	(267,556)	-
Public works	18,855,330	509,085	87,057	2,842,983	(15,416,205)	-
Lands and natural resources	15,546,939	3,456,646	6,242,115	-	(5,848,178)	-
Legislative branch	7,627,740	-	-	-	(7,627,740)	-
Judicial branch	5,102,181	1,211,591	-	-	(3,890,590)	-
Education	9,199,241	-	299,293	1,229,628	(7,670,320)	-
Unallocated interest	5,631,986	-	-	-	(5,631,986)	-
Economic development	8,985,432	-	592,703	3,621,198	(4,771,531)	-
Education:						
Payments to PSS	39,526,034	-	2,000,000	-	(37,526,034)	-
Payments to NMC	5,348,157	-	350,000	-	(4,998,157)	-
Payments to MVA	6,240,471	-	-	-	(6,240,471)	-
Payments to MPLT	1,250,000	-	-	-	(1,250,000)	-
Payments to NMIRF and WCC	1,030,857	-	-	-	(1,030,857)	-
Penalty on retirement contributions	-	-	-	-	-	-
Total primary government	\$ 299,848,479	\$ 46,518,057	\$ 49,321,450	\$ 14,836,571	(189,172,401)	-
Component units:						
Commonwealth Ports Authority	\$ 27,693,080	\$ 15,045,048	\$ -	\$ 31,686,749	\$ -	\$ 19,038,717
Commonwealth Development Authority	19,533,316	4,788,274	5,915,121	-	-	(8,829,921)
Commonwealth Utilities Corporation	108,649,490	94,545,023	-	3,201,837	-	(10,902,630)
Marianas Public Land Trust	3,086,774	8,402,283	-	-	-	5,315,509
Northern Marianas College	12,725,463	739,084	6,042,046	-	-	(5,944,333)
Public School System	67,892,053	1,588,862	33,322,780	-	-	(32,980,411)
Marianas Visitors Authority	5,974,470	119,769	218,842	-	-	(5,635,859)
Total component units	\$ 245,554,646	\$ 125,228,343	\$ 45,498,789	\$ 34,888,586	-	(39,938,928)
General revenues:						
Taxes:						
Income					33,228,180	-
Business gross revenue					47,620,018	-
Penalties and interest					545,631	-
Garment certification					13,411,621	-
Excise					14,623,060	-
Hotel room occupancy					5,001,325	-
Fuel					3,530,828	-
Bar and liquor					852,643	-
Beautification					1,390,604	-
Business privilege					410,102	-
Jackpot					1,347,505	-
Developer's					134,982	-
Cigarette					5,620,770	-
Solid waste excise					1,933,431	-
Cover over					551,553	-
Unrestricted investment earnings and dividends					1,708,563	2,524,774
Contributions from primary government					-	49,368,420
Other					1,721,370	2,808,303
Total general revenues					133,632,186	54,701,497
Change in net assets					(55,540,215)	14,762,569
Net assets - beginning, as restated					(23,680,942)	274,501,215
Net assets - ending					\$ (79,221,157)	\$ 289,263,784

See accompanying notes to financial statements.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Balance Sheet Governmental Funds September 30, 2007

	Special Revenue		Capital Projects	Other Governmental Funds		Total
	General	Federal Grants	NMTT Rebate Trust	DOI Capital Projects		
Assets						
Cash and cash equivalents	\$ 11,605,886	\$ -	\$ -	\$ -	\$ 6,125,703	\$ 17,731,589
Time certificates of deposit	9,124,527	-	-	-	-	9,124,527
Investments	2,500,000	-	-	-	-	2,500,000
Restricted cash and cash equivalents	6,164,553	-	-	8,378,840	7,814,826	22,358,219
Restricted time certificate of deposit	382,192	-	-	-	-	382,192
Receivables, net of allowance for uncollectibles:						
Federal agencies	6,203	7,257,121	-	3,709,734	188,656	11,161,714
Taxes	38,612,721	-	77,079	-	-	38,689,800
General	310,452	-	-	-	-	310,452
Other	250,358	-	-	12,831	129,484	392,673
Due from component units	6,402,090	-	-	-	13,450	6,415,540
Due from other funds	5,660,152	-	36,600,660	9,768,877	19,940,804	71,970,493
Due from Pension and Other Employee Benefit Trust Funds	-	-	-	-	1,227,727	1,227,727
Advances	2,031,243	-	-	-	-	2,031,243
Inventories	1,511,941	-	-	-	-	1,511,941
	<u>\$ 84,562,318</u>	<u>\$ 7,257,121</u>	<u>\$ 36,677,739</u>	<u>\$ 21,870,282</u>	<u>\$ 35,440,650</u>	<u>\$ 185,808,110</u>
Liabilities and Fund Balances (Deficit)						
Liabilities:						
Bank overdraft	\$ 2,400,744	\$ -	\$ 637,156	\$ -	\$ -	\$ 3,037,900
Accounts payable	6,927,976	1,659,576	-	388,145	648,300	9,623,997
Tax rebates payable	-	-	36,040,583	-	-	36,040,583
Other liabilities and accruals	4,590,452	1,145,552	-	1,966,763	2,999,936	10,702,703
Due to other funds	66,907,493	4,451,993	-	213,739	1,764,419	73,337,644
Due to component units	3,471,031	-	-	-	20,913	3,491,944
Due to Pension and Other Employee Benefit Trust Funds	175,108,992	-	-	-	-	175,108,992
Deferred revenue	24,407,000	-	-	-	3,224,081	27,631,081
Total liabilities	<u>283,813,688</u>	<u>7,257,121</u>	<u>36,677,739</u>	<u>2,568,647</u>	<u>8,657,649</u>	<u>338,974,844</u>
Fund balances (deficit):						
Reserved for:						
Supplies inventory	1,511,941	-	-	-	-	1,511,941
Related assets	10,962,792	-	-	-	-	10,962,792
Land claims	1,860	-	-	-	-	1,860
Debt service	-	-	-	-	4,635,119	4,635,119
Encumbrances	6,166,108	6,844,970	-	11,865,048	6,615,104	31,491,230
Continuing appropriations	308,050	-	-	-	961,552	1,269,602
Other	-	-	-	-	1,908,684	1,908,684
Unreserved (deficits) reported in:						
General fund	(218,202,121)	-	-	-	-	(218,202,121)
Special revenue funds	-	(6,844,970)	-	-	15,798,610	8,953,640
Capital projects	-	-	-	7,436,587	(3,136,068)	4,300,519
Total equity (deficit) and other credits	<u>(199,251,370)</u>	<u>-</u>	<u>-</u>	<u>19,301,635</u>	<u>26,783,001</u>	<u>(153,166,734)</u>
	<u>\$ 84,562,318</u>	<u>\$ 7,257,121</u>	<u>\$ 36,677,739</u>	<u>\$ 21,870,282</u>	<u>\$ 35,440,650</u>	<u>\$ 185,808,110</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, 2007

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

Total fund deficit	\$ (153,166,734)
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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.

1,889,298

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:

Land	\$ 28,627,266
Construction in progress	14,306,862
Depreciable capital assets and infrastructure, net of \$140,244,659 of accumulated depreciation	<u>169,483,719</u>

Capital assets, net of accumulated depreciation	212,417,847
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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	(101,798,527)
Accrued interest	(2,403,549)
Other long-term debt	(8,557,738)
Compensated absences	(9,185,789)
Claims and judgment payable	(16,507,281)
Other noncurrent liability	<u>(1,908,684)</u>

Long-term liabilities	<u>(140,361,568)</u>
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Net assets of governmental activities	<u>\$ (79,221,157)</u>
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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, 2007

	Special Revenue			Capital Projects	Other Governmental Funds	Total
	General	Federal Grants	NMTT Rebate Trust	DOI Capital Projects		
Revenues:						
Taxes	\$ 125,969,155	\$ -	\$ -	\$ -	\$ 3,681,545	\$ 129,650,700
Federal contributions	-	47,084,792	-	13,251,139	996,108	61,332,039
Charges for sales and services	18,202,428	-	-	-	2,489,113	20,691,541
Licenses and fees	11,124,869	177,364	-	-	14,524,283	25,826,516
Interest and dividends	888,577	-	-	509,700	309,440	1,707,717
Contributions from component units	2,228,048	-	-	326,358	332,449	2,886,855
Other	1,466,479	122,565	-	-	623,852	2,212,896
Total revenues	159,879,556	47,384,721	-	14,087,197	22,956,790	244,308,264
Expenditures:						
Current:						
Health	44,460,898	17,504,577	-	3,845,203	1,691,259	67,501,937
Public safety and law enforcement	29,934,425	8,494,690	-	554,660	1,861,528	40,845,303
General government	12,413,719	97,124	-	-	620,209	13,131,052
Community and social services	5,486,381	14,176,683	-	400,429	1,403,865	21,467,358
Other elected officials	16,618,279	-	-	-	535,114	17,153,393
Utilities	3,531,208	-	-	-	-	3,531,208
Lands and natural resources	5,629,173	6,242,115	-	-	3,593,481	15,464,769
Legislative branch	7,627,740	-	-	-	-	7,627,740
Judicial branch	4,788,405	-	-	-	22,502	4,810,907
Education	3,722,842	299,293	-	1,984,857	3,192,249	9,199,241
Economic development	1,445,811	592,703	-	6,054,402	1,211,927	9,304,843
Debt service:						
Principal retirement	-	-	-	-	2,457,358	2,457,358
Interest and fiscal charges	-	-	-	1,933,352	2,326,033	4,259,385
Bond issuance costs	1,895,805	-	-	-	-	1,895,805
Capital outlay:						
Utilities - Capital Projects	-	-	-	3,937,294	364,001	4,301,295
Public works	6,705,988	87,057	-	2,296,892	3,637,479	12,727,416
Payments to:						
PSS	37,526,034	2,000,000	-	-	-	39,526,034
NMC	4,178,956	350,000	-	-	819,201	5,348,157
MVA	6,140,322	-	-	-	100,149	6,240,471
MPLT	-	-	-	-	1,250,000	1,250,000
NMIRF and WCC	1,030,816	-	-	-	41	1,030,857
Total expenditures	193,136,802	49,844,242	-	21,007,089	25,086,396	289,074,529
Excess (deficiency) of revenues over (under) expenditures	(33,257,246)	(2,459,521)	-	(6,919,892)	(2,129,606)	(44,766,265)
Other financing sources (uses):						
Long-term debt issued	100,490,000	-	-	-	-	100,490,000
Premium on long-term debt issued	166,950	-	-	-	-	166,950
Payment to escrow agent for bond refundings	(98,761,145)	-	-	-	-	(98,761,145)
Operating transfers in	7,067,124	5,281,435	-	1,931,975	15,069,376	29,349,910
Operating transfers out	(11,959,793)	(2,821,914)	-	(479,768)	(14,088,435)	(29,349,910)
Total other financing sources (uses), net	(2,996,864)	2,459,521	-	1,452,207	980,941	1,895,805
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	(36,254,110)	-	-	(5,467,685)	(1,148,665)	(42,870,460)
Fund balances (deficit) at beginning of year, as restated	(162,997,260)	-	-	24,769,320	27,931,666	(110,296,274)
Fund balances (deficit) at end of year	\$ (199,251,370)	\$ -	\$ -	\$ 19,301,635	\$ 26,783,001	\$ (153,166,734)

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, 2007

Net change in fund deficit - total governmental funds	\$ (42,870,460)
Add:	
Capital assets purchased that were capitalized	7,946,375
Principal payments on long-term debt	2,457,358
Net change in accrued interest payable	371,007
Less:	
Net change in compensated absences	(333,379)
Interest expense on refunded bonds	(1,705,255)
Claims and judgments	(7,486,538)
Depreciation expense	(13,499,233)
Amortization of bond discount and issuance costs	(38,353)
Provision for landfill closure costs	<u>(381,737)</u>
Change in net assets of governmental activities	<u>\$ (55,540,215)</u>

See accompanying notes to financial statements.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Statement of Fiduciary Net Assets Fiduciary Funds September 30, 2007

	Pension (and Other Employee Benefit) Trust Fund	Agency Funds
	<u>Trust Fund</u>	<u>Funds</u>
<u>Assets</u>		
Cash and cash equivalents	\$ 2,466,047	\$ 2,984,792
Receivables:		
Loans	8,553,063	-
Notes	8,439,678	-
General	7,575,149	-
Interest and dividends	1,280,675	-
Other	3,024,126	-
Due from General Fund	52,984,189	1,367,151
Prepaid items	4,834	-
Investments, at fair market value:		
Equity securities	281,389,031	-
U.S. Government securities	86,785,918	-
Mutual funds	70,266,668	-
Money market placements	15,023,915	-
Corporate debt securities	29,797,877	-
Restricted assets	126,146	3,414,554
Capital assets	3,829,945	-
	<u>571,547,261</u>	<u>\$ 7,766,497</u>
<u>Liabilities and Other Credits</u>		
Accounts payable	18,288,826	-
Claims and judgments payable	-	1,367,151
Deposits payable	-	6,399,346
Other liabilities and accruals	683,374	-
Due to Judicial Building Fund	1,227,727	-
Deferred revenue	56,686,685	-
	<u>76,886,612</u>	<u>\$ 7,766,497</u>
Net assets:		
Held in trust for pension benefits	510,701,250	
Held in trust for medical and life insurance benefits	(17,254,520)	
Held in trust for workers' compensation benefits and other purposes	1,213,919	
Held in trust for other purposes	-	
	<u>\$ 494,660,649</u>	

See accompanying notes to financial statements.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

**Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
Year Ended September 30, 2007**

	Pension (and Other Employee Benefit) Trust Fund
<u>Additions</u>	
Contributions:	
Employer	\$ 58,151,686
Employee	9,711,613
Revenues:	
Premiums	9,608,930
Rent income and other	<u>1,546,954</u>
Total contributions and revenues	<u>79,019,183</u>
Net investment income:	
Net appreciation in fair value	56,439,514
Interest	<u>15,494,203</u>
Total investment income	71,933,717
Less: investment expense	<u>2,425,728</u>
Net investment income	<u>69,507,989</u>
Total additions	<u>148,527,172</u>
<u>Deductions</u>	
Benefits	58,556,904
General and administrative	3,474,787
Bad debts	35,828,502
Refunds	5,278,316
Medical claims	<u>7,999,679</u>
Total deductions	<u>111,138,188</u>
Other financing sources:	
Transfer in	<u>868,346</u>
Change in net assets	38,257,330
Net assets at beginning of year	<u>456,403,319</u>
Net assets at end of year	<u><u>\$ 494,660,649</u></u>

See accompanying notes to financial statements.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Statement of Net Assets Component Units September 30, 2007

	Commonwealth Ports Authority	Commonwealth Development Authority	Commonwealth Utilities Corporation	Marianas Public Land Trust	Northern Marianas College	Public School System	Marianas Visitors Authority	Total
Assets								
Current assets:								
Cash and cash equivalents	\$ 9,678,551	\$ 2,287,675	\$ 2,630,385	\$ 5,095,584	\$ 1,831,675	\$ 2,491,087	\$ 400,623	\$ 24,415,580
Time certificates of deposit	-	1,078,122	-	-	309,600	-	-	1,387,722
Receivables, net of allowance for uncollectibles:								
Loans	-	6,629,308	-	107,400	-	-	-	6,736,708
Federal agencies	4,470,495	-	1,561,774	-	1,823,397	2,330,630	-	10,186,296
General	4,540,961	79,543	16,480,427	-	438,286	-	-	21,539,217
Interest and dividends	-	494,240	-	2,368,903	-	-	-	2,863,143
Other	108,250	23,444	2,025,501	549	-	84,098	17,603	2,259,445
Due from primary government	-	-	-	6,868	98,652	2,693,942	2,201,848	5,001,310
Inventories	-	-	8,939,510	-	446,873	-	-	9,386,383
Other assets	97,369	5,988	154,904	4,435	5,514	326,910	-	595,120
Restricted assets:								
Cash and cash equivalents	-	7,053,728	7,860,736	-	-	-	-	14,914,464
Time certificates of deposit	-	14,675,892	-	-	-	-	-	14,675,892
Investments	18,729,555	-	-	62,907,025	-	-	-	81,636,580
Total current assets	37,625,181	32,327,940	39,653,237	70,490,764	4,953,997	7,926,667	2,620,074	195,597,860
Noncurrent assets:								
Investments	-	-	-	-	4,395,849	-	-	4,395,849
Receivables:								
Loans, net	-	16,140,016	-	6,501,066	-	-	-	22,641,082
Deferred bond issue costs	1,528,232	-	-	-	-	-	-	1,528,232
Other assets	4,700,947	-	-	-	-	-	-	4,700,947
Capital assets (net of accumulated depreciation)	183,344,112	13,112,790	98,207,440	26,135	5,943,606	88,738,945	54,810	389,427,838
Foreclosed real estate	-	1,701,032	-	-	-	-	-	1,701,032
Total noncurrent assets	189,573,291	30,953,838	98,207,440	6,527,201	10,339,455	88,738,945	54,810	424,394,980
Total assets	227,198,472	63,281,778	137,860,677	77,017,965	15,293,452	96,665,612	2,674,884	619,992,840
Liabilities and Net Assets								
Current liabilities:								
Accounts payable	9,253,867	1,461,862	10,633,397	24,071	1,221,913	1,310,258	705,037	24,610,405
Compensated absences	242,557	-	359,277	-	317,705	-	5,949	925,488
Due to primary government	1,352,521	-	2,720,971	2,241,498	-	-	-	6,314,990
Other liabilities and accruals	3,534,190	6,259,317	10,793,152	4,716	125,985	1,530,365	224,958	22,472,683
Current portion of notes and bonds payable	2,546,659	114,243	62,963,346	-	-	-	-	65,624,248
Current obligations under capital lease	-	-	1,821,040	-	-	-	-	1,821,040
Accrued interest payable	-	5,097,695	115,870,094	-	-	-	-	120,967,789
Deferred revenue	5,625	1,335,947	-	-	1,219,206	406,205	100	2,967,083
Total current liabilities	16,935,419	14,269,064	205,161,277	2,270,285	2,884,809	3,246,828	936,044	245,703,726
Noncurrent liabilities:								
Notes and bonds payable, net of current portion	55,871,283	11,497,600	7,113,924	-	-	-	-	74,482,807
Deferred revenue, net of current portion	-	4,461,617	-	-	-	-	-	4,461,617
Compensated absences, net of current portion	505,246	-	381,501	-	220,564	3,773,604	158,385	5,039,300
Obligations under capital lease, net of current portion	-	-	860,695	-	-	-	-	860,695
Due to primary government	-	-	180,911	-	-	-	-	180,911
Total noncurrent liabilities	56,376,529	15,959,217	8,537,031	-	220,564	3,773,604	158,385	85,025,330
Total liabilities	73,311,948	30,228,281	213,698,308	2,270,285	3,105,373	7,020,432	1,094,429	330,729,056
Net assets:								
Invested in capital assets, net of related debt	126,454,402	14,092,267	29,127,059	26,135	5,943,606	88,555,296	54,810	264,253,575
Restricted	18,729,555	18,961,230	7,860,736	74,721,545	6,219,246	-	-	126,492,312
Unrestricted	8,702,567	-	(112,825,426)	-	25,227	1,089,884	1,525,645	(101,482,103)
Total net assets	\$ 153,886,524	\$ 33,053,497	\$ (75,837,631)	\$ 74,747,680	\$ 12,188,079	\$ 89,645,180	\$ 1,580,455	\$ 289,263,784

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, 2007

	Commonwealth Ports Authority	Commonwealth Development Authority	Commonwealth Utilities Corporation	Marianas Public Land Trust	Northern Marianas College	Public School System	Marianas Visitors Authority	Total
Operating revenues:								
Charges for services and fees	\$ 9,629,179	\$ 4,537,055	\$ 93,808,686	\$ -	\$ 349,195	\$ 1,588,862	\$ 50,566	\$ 109,963,543
Grants and contributions	-	5,915,121	-	-	6,042,046	33,322,780	218,842	45,498,789
Other	5,415,869	251,219	736,337	8,402,283	389,889	-	69,203	15,264,800
Total operating revenues	15,045,048	10,703,395	94,545,023	8,402,283	6,781,130	34,911,642	338,611	170,727,132
Operating expenses:								
Cost of services	5,536,298	16,209,834	73,137,668	-	8,467,417	52,043,535	4,329,106	159,723,858
Depreciation and amortization	10,607,952	478,869	8,678,882	8,975	244,040	1,161,269	38,285	21,218,272
Administration	7,812,531	1,313,276	13,811,584	640,466	4,014,006	14,687,249	1,607,079	43,886,191
Total operating expenses	23,956,781	18,001,979	95,628,134	649,441	12,725,463	67,892,053	5,974,470	224,828,321
Operating income (loss)	(8,911,733)	(7,298,584)	(1,083,111)	7,752,842	(5,944,333)	(32,980,411)	(5,635,859)	(54,101,189)
Nonoperating revenues (expenses):								
Contributions from the primary government	-	-	-	1,250,000	5,056,682	36,721,414	6,340,324	49,368,420
Contributions to the primary government	-	(658,806)	(694,759)	(2,436,965)	-	-	-	(3,790,530)
Grants and contributions	-	-	-	-	-	-	-	-
Unrestricted investment earnings	1,089,631	801,262	392,346	-	241,535	-	-	2,524,774
Interest expense	(3,669,364)	(872,531)	(11,402,816)	-	-	-	-	(15,944,711)
Amortization of bond issue cost	(66,935)	-	-	-	-	-	-	(66,935)
Other expenses	-	-	(923,781)	(368)	-	-	-	(924,149)
Other revenues	1,940,712	535,449	57,567	-	270,115	4,460	-	2,808,303
Nonoperating revenues (expenses), net	(705,956)	(194,626)	(12,571,443)	(1,187,333)	5,568,332	36,725,874	6,340,324	33,975,172
Income (loss) before capital contributions	(9,617,689)	(7,493,210)	(13,654,554)	6,565,509	(376,001)	3,745,463	704,465	(20,126,017)
Capital contributions	31,686,749	-	3,201,837	-	-	-	-	34,888,586
Change in net assets	22,069,060	(7,493,210)	(10,452,717)	6,565,509	(376,001)	3,745,463	704,465	14,762,569
Net assets - beginning, as restated	131,817,464	40,546,707	(65,384,914)	68,182,171	12,564,080	85,899,717	875,990	274,501,215
Net assets - ending	\$ 153,886,524	\$ 33,053,497	\$ (75,837,631)	\$ 74,747,680	\$ 12,188,079	\$ 89,645,180	\$ 1,580,455	\$ 289,263,784

See accompanying notes to financial statements.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements

September 30, 2007

(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 discretely presented component units, the CNMI applies GASB Statement No. 20, unless FASB pronouncements conflict with or contradict GASB pronouncements, and has elected not to apply FASB Statements and Interpretations issued after November 30, 1989. The more significant of the CNMI's accounting policies are described below.

A. Reporting Entity

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

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

1. Blended Component Units

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

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements

September 30, 2007

(1) Summary of Significant Accounting Policies, Continued

A. Reporting Entity, Continued

1. Blended Component Units, Continued

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

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

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

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

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

2. Discretely Presented Component Units

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

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements September 30, 2007

(1) Summary of Significant Accounting Policies, Continued

A. Reporting Entity, Continued

2. Discretely Presented Component Units, Continued

- (b) The Commonwealth Development Authority (CDA) functions to stimulate the economic development of the CNMI. It serves as the administrator of United States economic assistance for economic development loans and aids in the financing of capital improvement projects undertaken by the CNMI and its autonomous public agencies. CDA is governed by a six-member Board of Directors appointed by the Governor.
- (c) The Commonwealth Utilities Corporation (CUC) is responsible for supervising the construction, maintenance operations and regulation of all utility services within the CNMI. CUC is governed by a six-member Board of Directors appointed by the Governor.
- (d) The Marianas Public Land Trust (MPLT) manages all monies received by it from the CNMI Division of Public Lands for the use of public lands and distributes net income to the general fund of the CNMI. Additionally, MPLT is responsible for maintaining a separate trust fund for the development and maintenance of American Memorial Park. MPLT is governed by a five-member Board of Trustees appointed by the Governor.
- (e) The 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.
- (f) 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.
- (g) 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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

**Notes to the Financial Statements
September 30, 2007**

(1) Summary of Significant Accounting Policies, Continued

A. Reporting Entity, Continued

2. Discretely Presented Component Units, Continued

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

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

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

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

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

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

3. Omitted Component Unit

The CNMI has 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.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements September 30, 2007

(1) Summary of Significant Accounting Policies, Continued

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.

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 \$10,387,661 of restricted net assets, of which \$2,252,302 is restricted by enabling legislation.

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

C. Fund Financial Statements

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements September 30, 2007

(1) Summary of Significant Accounting Policies, Continued

C. Fund Financial Statements, Continued

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

D. Measurement Focus and Basis of Accounting

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

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

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

The CNMI reports the following fund types:

1. Governmental Fund Types

i. General Fund

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements
September 30, 2007

(1) Summary of Significant Accounting Policies, Continued

D. Measurement Focus and Basis of Accounting, Continued

1. Governmental Fund Types, Continued

ii. Special Revenue Funds

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

iii. Capital Projects Funds

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

iv. Debt Service Funds

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

2. Fiduciary Funds Types

i. Pension (and Other Employee Benefit) Trust Fund

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

ii. Agency Fund

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

GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - For State and Local Governments*, as amended by GASB Statement No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - For State and Local Governments: 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, 2007

(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, 2007, 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, 2007

(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. 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, 2007

(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 \$1,511,941, 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.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements September 30, 2007

(1) Summary of Significant Accounting Policies, Continued

N. Net Assets, Continued

Net Assets have been restricted as follows:

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

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

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

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.

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, 2007. However, the CNMI has estimated the aggregate assessed valuation of real property to be \$1,596,236,822 as of September 30, 2007. 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, 2007, is \$9,185,789.

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.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements September 30, 2007

(1) Summary of Significant Accounting Policies, Continued

Q. Deferred Revenue

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

R. Bond Discounts and Issuance Costs

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

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

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, 2007, are as follows:

Total income tax and wage and salary tax collections	\$ 52,634,302
Transfers to Rebate Trust Fund	<u>19,406,122</u>
Income taxes and wage and salary taxes per the statement of activities	\$ <u>33,228,180</u>

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements September 30, 2007

(1) Summary of Significant Accounting Policies, Continued

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. The unreserved fund balances for governmental funds represent the amount available for budgeting future operations.

The reserve for related assets as of September 30, 2007, is represented by the following assets:

	<u>General Fund</u>
Restricted cash and cash equivalents	\$ 3,906,558
Restricted time certificate of deposit	382,192
Investments	2,500,000
Due from component unit	<u>4,174,042</u>
	<u>\$ 10,962,792</u>

At September 30, 2007, a reserve for land claims of \$1,860 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 2007, the CNMI implemented GASB Statement No. 44, *Economic Condition Reporting: The Statistical Section, an amendment to NCGA Statement 1*. GASB Statement No. 44 improves the understandability and usefulness of statistical section information and adds information from the new financial reporting model for state and local governments required by GASB Statement No. 34. The implementation of this pronouncement did not have a material impact on the accompanying 2007 financial statements.

During fiscal year 2007, the CNMI implemented 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, 2005. The implementation of this pronouncement did not have a material impact on the accompanying 2007 financial statements.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements September 30, 2007

(1) Summary of Significant Accounting Policies, Continued

V. New Accounting Standards, Continued

In June 2004, GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for 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, 2006. 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.

In December 2006, GASB issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. GASB Statement No. 49 provides guidance and consistency under which a governmental entity would be required to report a liability related to pollution remediation. 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 May 2007, GASB issued Statement No. 50, *Pension Disclosures an amendment of GASB Statements No. 25 and 27*. GASB Statement No. 50 more closely aligns the financial reporting requirements for pensions with those for other post-employment benefits. The provisions of this statement are effective for periods beginning after June 15, 2007. Management does not believe the implementation of this statement will have a material effect on the financial statements of the CNMI.

In June 2007, GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. GASB Statement No. 51 addresses whether and when intangible assets should be considered capital assets for financial reporting purposes. The provisions of this statement are effective for periods beginning after June 15, 2009. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the CNMI.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements September 30, 2007

(1) Summary of Significant Accounting Policies, Continued

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 \$1,908,684 reported as landfill closure and post closure care liability at September 30, 2007 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 2007. Actual cost may be higher due to inflation, changes in technology or changes in regulations.

Y. Total Columns

Total columns are presented primarily to facilitate financial analysis. The Management's Discussion and Analysis includes certain prior year summarized comparative information in total. Such information does not include sufficient detail to constitute a full comparative presentation. Accordingly, such information should be read in conjunction with the CNMI's financial statements for the year ended September 30, 2006 from which summarized information was derived.

(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 |

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements September 30, 2007

(2) Deposits and Investments, Continued

Cash and Cash Equivalents and Time Certificates of Deposit, Continued

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, 2007, the carrying amount of the primary government's total cash and cash equivalents and time certificates of deposit were \$49,596,527 and the corresponding bank balances were \$50,689,301. Of the bank balance amounts, \$32,281,276 is maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. The remaining amount of \$14,182,048 represents short-term investments held and administered by the CNMI's trustees in accordance with various trust agreements and bond indentures and \$4,225,977 represents amounts maintained at a non-FDIC insured bank. 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, 2007. As of September 30, 2007, bank deposits in the amount of \$300,000 were FDIC insured. Public Law No. 12-61, the Government Deposit Safety Act of 1994, as amended, 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, 2007, is presently not determinable. Accordingly, these deposits are exposed to custodial credit risk.

Restricted cash and cash equivalents and time certificates of deposit as of September 30, 2007 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 and time certificates of deposit at September 30, 2007 amounted to \$22,740,411.

As of September 30, 2007, the carrying amount of the Fiduciary Fund's total cash and cash equivalents were \$5,450,839 and the corresponding bank balances were \$6,476,906, which are maintained in financial institutions subject to FDIC insurance. As of September 30, 2007, bank deposits in the amount of \$300,000 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, 2007, approximately \$3,069,000 of NMIRF's cash and cash equivalents are collateralized with their bank's securities totaling \$4,041,195 at September 30, 2007.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements

September 30, 2007

(2) Deposits and Investments, Continued

Cash and Cash Equivalents and Time Certificates of Deposit, Continued

As of September 30, 2007, the carrying amount of the discretely presented component units' total cash and cash equivalents and time certificates of deposit were \$55,393,658 and the corresponding bank balances were \$52,494,930. Of the bank balance amounts, \$50,320,772 is maintained in financial institutions subject to FDIC insurance. The remaining amount of \$1,118,381 represents short-term investments held and administered by the discretely presented component units' trustees in accordance with various trust agreements and bond indentures and \$1,055,777 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, 2007. As of September 30, 2007, bank deposits in the amount of \$1,800,005 were FDIC insured. The component units do not require collateralization of their cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized. Accordingly, these deposits are exposed to custodial credit risk.

Investments

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

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

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

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

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements September 30, 2007

(2) Deposits and Investments, Continued

Investments, Continued

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, 2007.

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, 2007, the General Fund holds 20% and 7% of the shares of the Pacific Islands Development Bank and the United Micronesia Development Association, Inc. in the amount of \$1,000,000 and \$1,500,000, respectively. As the fair market value of these investments is not readily available, such have been recorded at cost.

B. Fiduciary Funds

Northern Mariana Islands Retirement Fund (NMIRF):

NMIRF's investments are held by a bank-administered trust company. Investments that represent 5% or more of NMIRF's assets at September 30, 2007 are equity securities of \$281,389,031, U.S. government securities of \$86,132,975, mutual funds of \$70,266,668 and corporate debt instruments of \$29,797,877.

As of September 30, 2007, NMIRF's investment breakdown is as follows:

<u>Investment Type</u>	<u>Carrying Value</u>		<u>Total</u>
	<u>DB Plan</u>	<u>DC Plan</u>	
Investments categorized:			
U.S. Treasuries	\$ 48,506,148	\$ -	\$ 48,506,148
U.S. agencies	1,793,725	-	1,793,725
Mortgage pass throughs	27,881,845	-	27,881,845
Collateralized mortgage obligations	7,951,257	-	7,951,257
Domestic corporate bonds	29,797,877	-	29,797,877
Domestic stocks (common, preferred, ADRs)	280,530,506	-	280,530,506
Foreign stocks	858,525	-	858,525
Total categorized	397,319,883	-	397,319,883
Investments not categorized:			
Money market funds	14,984,611	-	14,984,611
Mutual bond funds	4,471,938	-	4,471,938
Stock mutual funds	65,291,456	503,574	65,795,030
Total not categorized	84,748,005	503,574	85,251,579
Total investments held outside the State Treasury	\$ 482,067,888	\$ 503,574	\$ 482,571,462

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements September 30, 2007

(2) Deposits and Investments, Continued

Investments, Continued

B. Fiduciary Funds, Continued

Northern Mariana Islands Retirement Fund (NMIRF), Continued:

Credit Risk

NMIRF utilizes external investment managers to manage its portfolios. NMIRF's investment policy for its DB Plan 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.

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:

Investment Type	Fair Value	Investment Maturities (In Years)				Credit Rating
		Less Than 1	1 - 5	6 - 10	More Than 10	
U.S. Treasuries	\$ 48,506,148	\$ -	\$ 16,484,346	\$ 15,540,270	\$ 16,481,532	AAA
U.S. agencies	1,793,725	-	1,171,208	622,517	-	AAA
Mortgage pass through	27,881,845	-	-	2,313,502	25,568,343	AAA
Collateralized mortgage obligations	7,951,257	-	-	2,488,348	5,462,909	AAA
Mutual bond funds	4,471,938	-	-	4,471,938	-	AAA
Domestic corporate bonds	29,797,877	1,753,494	13,353,330	9,281,897	5,409,156	AAA/AA/A/BBB
	<u>\$ 120,402,790</u>	<u>\$ 1,753,494</u>	<u>\$ 31,008,884</u>	<u>\$ 34,718,472</u>	<u>\$ 52,921,940</u>	

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements

September 30, 2007

(2) Deposits and Investments, Continued

Investments, Continued

B. Fiduciary Funds, Continued

Northern Mariana Islands Retirement Fund (NMIRF), Continued:

Securities Lending

CNMI statutes permit NMIRF to participate in securities lending transactions, and NMIRF has, pursuant to a Securities Lending Authorization Agreement, authorized an agent in lending NMIRF's securities to broker-dealers and banks pursuant to a form of loan agreement. During the year ended September 30, 2007, the agent loaned, on behalf of NMIRF, securities, including U.S. government obligations, domestic corporate bonds, and domestic and international equities, held by agent as custodian and received, as collateral, United States and foreign currency cash, securities issued or guaranteed by the United States government, sovereign debt of foreign countries and irrevocable bank letters of credit. The agent does not have the ability to pledge or sell collateral securities absent borrower default. Borrowers delivered collateral for each loan equal to 125% of the fair value of the loaned securities. In accordance with GASB Statement No. 28, securities lending collateral reported in the statement of plan net assets represented only cash collateral invested in the lending agent's cash collateral investment pool.

Securities Lending Collateral Interest Rate Risk

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

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

Concentration of Credit

As of September 30, 2007, 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, 2007, 100% of NMIRF's investments were held in NMIRF's name, and NMIRF is not exposed to custodial credit risk related to these investments.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements September 30, 2007

(2) Deposits and Investments, Continued

Investments, Continued

B. Fiduciary Funds, Continued

Northern Mariana Islands Retirement Fund (NMIRF), Continued:

Foreign Currency Risk

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

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

Derivatives

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

Workmen's Compensation Commission (WCC):

WCC's investments are held by a bank administered trust company. Investments that represent 32% of WCC's total assets at September 30, 2007 are as follows:

Fixed income securities:	
Domestic fixed income	\$ 652,943
Other investments:	
Money market placements	<u>39,304</u>
	<u>\$ 692,247</u>

The following is a listing of WCC's fixed income securities at September 30, 2007:

Investment Type	Fair Value	Investment Maturities (In Years)				Credit Rating
		Less Than 1	1 - 5	6 - 10	More Than 10	
U.S. Treasuries	\$ 603,424	\$ -	\$ 603,424	\$ -	\$ -	AAA
U.S. agencies	<u>49,519</u>	<u>49,519</u>	<u>-</u>	<u>-</u>	<u>-</u>	AAA
	<u>\$ 652,943</u>	<u>\$ 49,519</u>	<u>\$ 603,424</u>	<u>\$ -</u>	<u>\$ -</u>	

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements

September 30, 2007

(2) Deposits and Investments, Continued

Investments, Continued

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, 2007. As of September 30, 2007, investments at fair value consist of investments in U.S. Government money market placements amounting to \$18,729,555.

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, 2007.

As of September 30, 2007, investments at fair value are as follows:

Fixed income securities:

Domestic fixed income \$ 36,903,934

Other investments:

Domestic equities 26,003,091

\$ 62,907,025

The following is a listing of MPLT's fixed income securities at September 30, 2007:

Investment Type	Fair Value	Investment Maturities (In Years)				Credit Rating
		Less Than 1	1 - 5	6 - 10	More Than 10	
Mortgage and asset backed securities	\$ 6,232,664	\$ -	\$ 1,063,158	\$ 1,854,974	\$ 3,314,532	AAA
Mortgaged and asset backed securities	1,332,424	-	-	-	1,332,424	No rating
Government obligations	2,274,547	-	-	-	2,274,547	AAA
Government agencies	1,346,216	-	429,951	916,265	-	AAA
Corporate bonds	1,429,976	-	584,558	677,585	167,833	AAA
Corporate bonds	289,430	-	5,729	283,701	-	AA+
Corporate bonds	2,767,859	-	1,887,982	789,512	90,365	AA-
Corporate bonds	2,211,156	-	567,338	1,643,818	-	AA
Corporate bonds	6,670,304	350,929	2,578,629	2,308,589	1,432,157	A+
Corporate bonds	2,555,746	34,693	1,435,601	369,726	715,726	A-
Corporate bonds	8,031,454	143,614	2,081,249	3,612,245	2,194,346	A
Corporate bonds	1,120,771	-	812,439	267,022	41,310	BBB+
Corporate bonds	236,017	-	236,017	-	-	BBB-
Corporate bonds	<u>405,370</u>	-	<u>293,576</u>	-	<u>111,794</u>	BBB
	<u>\$ 36,903,934</u>	<u>\$ 529,236</u>	<u>\$ 11,976,227</u>	<u>\$ 12,723,437</u>	<u>\$ 11,675,034</u>	

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements

September 30, 2007

(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, 2007.

As of September 30, 2007, investments at fair value are as follows:

Fixed income securities:	
Domestic fixed income	\$ 1,385,671
International fixed income	<u>52,404</u>
	<u>1,438,075</u>
Other investments:	
Domestic equities	2,871,623
Other	<u>86,151</u>
	<u>2,957,774</u>
	<u>\$ 4,395,849</u>

The following is a listing of NMC's fixed income securities at September 30, 2007:

Investment Type	Fair Value	Investment Maturities (In Years)				Credit Rating
		Less Than 1	1 - 5	6 - 10	More Than 10	
U.S. Treasury bonds	\$ 880,673	\$ 25,008	\$ 709,643	\$ 112,492	\$ 33,530	AAA
Mortgage and asset backed securities	165,006	-	-	-	165,006	AAA
International bonds	27,773	-	14,106	-	13,667	A-
International bonds	15,507	-	-	-	15,507	AA-
International bonds	9,125	-	-	-	9,125	BBB+
Corporate bonds	44,033	-	-	32,082	11,951	AAA
Corporate bonds	14,451	-	-	-	14,451	AA
Corporate bonds	65,263	-	26,140	39,123	-	AA-
Corporate bonds	39,697	-	11,519	14,473	13,705	A+
Corporate bonds	28,095	-	-	13,545	14,550	A
Corporate bonds	28,020	-	-	-	28,020	A-
Corporate bonds	54,628	-	-	27,393	27,235	BBB+
Corporate bonds	37,557	-	-	37,557	-	BBB
Corporate bonds	<u>28,247</u>	<u>-</u>	<u>-</u>	<u>14,035</u>	<u>14,212</u>	BBB-
	<u>\$ 1,438,075</u>	<u>\$ 25,008</u>	<u>\$ 761,408</u>	<u>\$ 290,700</u>	<u>\$ 360,959</u>	

(3) Receivables

Receivables as of September 30, 2007, 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, 2007

(3) Receivables, Continued

	<u>General</u>	<u>Federal Grants</u>	<u>DOI Capital Projects</u>	<u>Rebate Trust</u>	<u>Governmental Funds</u>	<u>Totals</u>
Receivables:						
Federal agencies	\$ 6,203	\$ 11,100,143	\$ 9,399,885	\$ -	\$ 923,653	\$ 21,429,884
Other agencies	108,141,615	-	-	-	-	108,141,615
Taxes	38,612,721	-	-	77,079	-	38,689,800
General	1,341,902	-	12,831	-	14,645,761	16,000,494
Other	<u>250,368</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>109,856</u>	<u>360,224</u>
Gross receivables	148,352,809	11,100,143	9,412,716	77,079	15,679,270	184,622,017
Less allowance for uncollectibles	<u>(109,173,075)</u>	<u>(3,843,022)</u>	<u>(5,690,151)</u>	<u>-</u>	<u>(15,361,130)</u>	<u>(134,067,378)</u>
Net receivables	\$ <u>39,179,734</u>	\$ <u>7,257,121</u>	\$ <u>3,722,565</u>	\$ <u>77,079</u>	\$ <u>318,140</u>	\$ <u>50,554,639</u>

Receivables as of September 30, 2007, for individual major fiduciary funds, including allowances for uncollectible accounts, are as follows:

	<u>NMIF</u>	<u>GHLIF</u>	<u>WCC</u>	<u>Totals</u>
Receivables:				
Loans	\$ 17,626,917	\$ -	\$ -	\$ 17,626,917
General	6,660,897	-	914,252	7,575,149
Interest and dividends	1,280,675	-	-	1,280,675
Other	<u>2,489,999</u>	<u>531,868</u>	<u>2,259</u>	<u>3,024,126</u>
Gross receivables	28,058,488	531,868	916,511	29,506,867
Less allowance for uncollectibles	<u>(634,176)</u>	<u>-</u>	<u>-</u>	<u>(634,176)</u>
Net receivables	\$ <u>27,424,312</u>	\$ <u>531,868</u>	\$ <u>916,511</u>	\$ <u>28,872,691</u>

Receivables as of September 30, 2007 for individual major discretely presented component units, including allowances for uncollectible accounts are as follows:

	<u>CPA</u>	<u>CDA</u>	<u>CUC</u>	<u>MPLT</u>	<u>NMC</u>	<u>PSS</u>	<u>MVA</u>	<u>Totals</u>
Receivables:								
Loans	\$ -	\$ 119,715,272	\$ -	\$ 10,751,622	\$ -	\$ -	\$ -	\$ 130,466,894
Federal agencies	4,470,495	-	1,561,774	-	1,823,397	2,330,630	-	10,186,296
General	5,779,683	79,543	29,224,738	-	2,636,978	-	-	37,720,942
Interest and dividends	-	16,740,240	-	2,368,903	-	-	-	19,109,143
Other	<u>108,250</u>	<u>23,444</u>	<u>2,923,568</u>	<u>549</u>	<u>-</u>	<u>84,098</u>	<u>17,603</u>	<u>3,157,512</u>
Gross receivables	10,358,428	136,558,499	33,710,080	13,121,074	4,460,375	2,414,728	17,603	200,640,787
Less allowance for uncollectibles	<u>(1,238,722)</u>	<u>(113,191,948)</u>	<u>(13,642,378)</u>	<u>(4,143,156)</u>	<u>(2,198,692)</u>	<u>-</u>	<u>-</u>	<u>(134,414,896)</u>
Net receivables	\$ <u>9,119,706</u>	\$ <u>23,366,551</u>	\$ <u>20,067,702</u>	\$ <u>8,977,918</u>	\$ <u>2,261,683</u>	\$ <u>2,414,728</u>	\$ <u>17,603</u>	\$ <u>66,225,891</u>

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, 2007 are summarized as follows:

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

**Notes to the Financial Statements
September 30, 2007**

(4) Interfund Receivables and Payables, Continued

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Nonmajor governmental funds	\$ 994,420
DOI Capital Projects	General	9,709,880
General	DOI Capital Projects	213,739
NMTIT Rebate Trust	General	36,600,660
Nonmajor governmental funds	General	19,229,802
General	Federal Grants Fund	4,451,993
Agency Fund	General	1,367,151
DOI Capital Projects	Nonmajor governmental funds	58,997
Nonmajor governmental funds	Nonmajor governmental funds	<u>711,002</u>
		\$ <u>73,337,644</u>

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

Balances reflected as due to/from component units as of September 30, 2007 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	Marianas Public Land Trust	2,228,048
Nonmajor governmental funds	Marianas Public Land Trust	<u>13,450</u>
		\$ <u>6,415,540</u>
Public School System (PSS)	General	\$ 620,975
Northern Marianas College	General	84,607
Marianas Visitors Authority	General	2,001,847
Commonwealth Utilities Corporation	General	763,602
Northern Marianas College (NMC)	Nonmajor governmental funds	14,045
Marianas Public Land Trust	Nonmajor governmental funds	<u>6,868</u>
		\$ <u>3,491,944</u>

The amount recorded as due from component units of the primary government of \$6,415,540 does not equal the corresponding due to primary government of the discretely presented component units of \$6,314,990 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 and the difference of \$1,352,521 and \$2,720,971 due to CPA and CUC, respectively, recording 1% public auditor fee for which the primary government recorded a corresponding allowance.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements September 30, 2007

(4) Interfund Receivables and Payables, Continued

The amount recorded as due from primary government of the discretely presented component units of \$5,001,310 does not equal the corresponding due to component units of the primary government of \$3,491,944 by \$1,509,366. The difference of \$200,000 with MVA is due to \$200,000 recorded by MVA as supplemental allotment from the CNMI not allotted by the CNMI Office of Management and Budget (OMB). The difference of \$2,072,968 with PSS is due to PSS recording appropriations of \$2,000,000 in fiscal year 2006 more than the allotted appropriation by OMB and \$72,968 in unreconciled differences. The difference of \$763,602 with CUC is due to \$763,302 recorded as general receivables by CUC.

The amount recorded as due to Pension (and Other Employee Benefit) Trust Funds beneficiaries of \$175,108,992 does not equal the corresponding due from the general fund of the Fiduciary Funds of \$52,984,189 due to the Pension (and Other Employee Benefit) Trust Fund recording an allowance for uncollectible receivables of \$136,584,033, the difference of \$11,945,017 due to additional penalty on contributions assessed by NMIRF which the primary government is currently contesting and the remaining difference of \$2,514,213 due to NMC's deficient retirement contributions recorded by the primary government as a liability.

(5) Restricted Assets

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.

Discretely Presented Component Units

Commonwealth Ports Authority (CPA):

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements September 30, 2007

(5) Restricted Assets, Continued

Discretely Presented Component Units, Continued

Commonwealth Ports Authority (CPA), Continued:

<u>Fund</u>	<u>1998 Senior Series A Airport Revenue Bonds</u>	<u>1998 Senior Series A Seaport Revenues Bonds</u>	<u>Total</u>
Bond Reserve Fund	\$ 1,525,233	\$ 3,489,728	\$ 5,014,961
Supplemental Reserve Fund	-	8,059,119	8,059,119
Construction Fund	979,159	3,101,624	4,080,783
Reimbursement Fund	-	5,693	5,693
Bond Fund	262,205	448,539	710,744
Maintenance and Operation	404,586	344,926	749,512
Interest Fund	<u>-</u>	<u>108,743</u>	<u>108,743</u>
	<u>\$ 3,171,183</u>	<u>\$ 15,558,372</u>	<u>\$ 18,729,555</u>

Commonwealth Development Authority (CDA):

Restricted assets of CDA are comprised of the following:

	<u>Development Banking Division</u>	<u>Development Corporation Division</u>	<u>Northern Marianas Housing Corporation</u>	<u>Total</u>
Cash and cash equivalents	\$ 932,704	\$ -	\$ 6,121,024	\$ 7,053,728
Time certificates of deposit	<u>8,074,512</u>	<u>6,601,380</u>	<u>-</u>	<u>14,675,892</u>
	<u>\$ 9,007,216</u>	<u>\$ 6,601,380</u>	<u>\$ 6,121,024</u>	<u>\$ 21,729,620</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	\$ 256,872
Savings account restricted for Koblerville Section 8 project repairs and maintenance expenses, per contract with the U.S. Department of Housing and Urban Development	196,425

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements September 30, 2007

(5) Restricted Assets, Continued

Discretely Presented Component Units, Continued

Commonwealth Development Authority (CDA), Continued:

Savings account maintained as a guarantee of housing loans made by a savings and loan in the CNMI	74,888
Marianas Public Land Trust (MPLT) collateral account	1,043,485
Time certificates of deposit for MPLT loan program	2,641,310
Checking account maintained for Section 8 Housing Choice Vouchers Program expenses	1,644,962
Other depository accounts reserved for various purposes	<u>263,082</u>
	\$ <u>6,121,024</u>

Commonwealth Utilities Corporation:

Cash and cash equivalents of \$7,830,519 as of September 30, 2007 represent customer deposits segregated pursuant to CUC policy. Cash and cash equivalents of \$30,217 as of September 30, 2007 represent advances from a grantor agency for the use of a specific project.

(6) Fixed Assets and Depreciation

Capital assets activities of the primary government for the year ended September 30, 2007, are as follows:

	Balance October 1, 2006	Additions	Retirements	Reclassifications	Balance September 30, 2007
Historical cost:					
Assets not being depreciated:					
Land	\$ 28,627,266	\$ -	\$ -	\$ -	\$ 28,627,266
Construction in progress	<u>10,974,183</u>	<u>6,487,742</u>	<u>-</u>	<u>(3,155,063)</u>	<u>14,306,862</u>
Subtotal assets not being depreciated	<u>39,601,449</u>	<u>6,487,742</u>	<u>-</u>	<u>(3,155,063)</u>	<u>42,934,128</u>
Depreciable assets:					
Buildings and other improvements	165,241,244	-	-	2,538,146	167,779,390
Machinery and equipment	15,978,035	1,434,743	-	-	17,412,778
Infrastructure	<u>123,895,979</u>	<u>23,314</u>	<u>-</u>	<u>616,917</u>	<u>124,536,210</u>
Subtotal depreciable assets	<u>305,115,258</u>	<u>1,458,057</u>	<u>-</u>	<u>3,155,063</u>	<u>309,728,378</u>
Total capital assets at cost	<u>344,716,707</u>	<u>7,945,799</u>	<u>-</u>	<u>-</u>	<u>352,662,506</u>
Accumulated depreciation:					
Buildings and other improvements	(31,901,596)	(5,249,732)	-	(29,234)	(37,180,562)
Machinery and equipment	(6,390,975)	(2,050,360)	-	29,025	(8,412,310)
Infrastructure	<u>(88,452,856)</u>	<u>(6,199,140)</u>	<u>-</u>	<u>209</u>	<u>(94,651,787)</u>
Total accumulated depreciation	<u>(126,745,427)</u>	<u>(13,499,232)</u>	<u>-</u>	<u>-</u>	<u>(140,244,659)</u>
Capital assets, net	\$ <u>217,971,280</u>	\$ <u>(5,553,433)</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>212,417,847</u>

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements

September 30, 2007

(6) Fixed Assets and Depreciation, Continued

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

Community and Social Services	\$ 1,175,325
General Government	1,017,775
Health	1,386,799
Public Works	7,697,292
Judicial Branch	291,274
Public Safety and Law Enforcement	1,595,418
Lands and Natural Resources	<u>335,349</u>
Total depreciation expense - governmental activities	\$ <u>13,499,232</u>

(7) Tax Rebates Payable

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

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

The rebate percentage is either 90%, 70% or 50%, based on the specified tax brackets for taxes paid. Amounts may be withdrawn from the trust fund only for the purpose of making rebates, payments into the general fund (but only after a final determination that the amount in question is not validly subject to rebate), or payments into the general fund of interest derived from the trust accounts. Tax rebate liabilities amounted to \$36,040,583 as of September 30, 2007. Cash to fund this liability is to be provided by the General Fund. Any changes in the estimate will be accounted for in a prospective manner.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements September 30, 2007

(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, 2007, cash balances held by NMIRF for the retirement of debt totaled \$1,227,727. 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. On July 15, 1999, the loan agreement was amended to extend the term of the loan to twenty years and to increase interest rate to 7.75%. Pursuant to the amendment, principal and interest are payable in monthly installments of \$120,000. As of September 30, 2007, amount outstanding and payable is \$8,557,738.

\$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, 2007, amount outstanding and payable is \$3,170,000.

\$60,000,000 Bond Issue

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

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

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements September 30, 2007

(8) Long-Term Debt Obligations, Continued

\$60,000,000 Bond Issue, Continued

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

Mandatory sinking fund payments due June 1 are as follows:

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

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

As of September 30, 2007, amount outstanding and payable is \$3,460,000.

\$40,000,000 Bond Issue

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements September 30, 2007

(8) Long-Term Debt Obligations, Continued

\$40,000,000 Bond Issue, Continued

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

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

As of September 30, 2007, amount outstanding and payable is \$2,600,000 less unamortized discount on bond issuance of \$233,395.

Refunding of Debt

In April 2007, the CNMI issued \$100,490,000 of Series 2007A and Series 2007B General Obligation bonds to primarily refund the outstanding debt obligations of the Series 2000A and Series 2003A General Obligation bonds, and to pay certain expenses related to the issuance of the bonds. The primary purpose of the refunding was to refinance at lower interest rates. The refunding resulted in a cash flow savings of \$7,801,220 and did not extend the length of original bonds.

The refunding resulted in the advance defeasance of approximately 95% of the Series 2000A and Series 2003A General Obligation bonds by placing deposits in an irrevocable trust and escrow account for the purchase of U.S. government securities to pay the principal and interest on the defeased bonds as they are due and payable. For financial reporting purposes, both the defeased bonds outstanding and the escrowed securities have been excluded from the financial statements.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements
September 30, 2007

(8) Long-Term Debt Obligations, Continued

Refunding of Debt, Continued

Although the advance refunding resulted in the recognition of an accounting loss of \$8.2 million for the year ended September 30, 2007, the CNMI in effect reduced its aggregate debt service payments by \$7.8 million over the next twenty-six years and obtained an economic gain (difference between the present values of the old and new debt service payments) of \$7.475 million.

At September 30, 2007, Series 2000A bonds outstanding of \$50,925,000 and Series 2003A bonds outstanding of \$37,400,000, for a total of \$88,325,000, are considered defeased.

\$57,800,000 Bond Issue

In April 2007, the CDA, acting for and on behalf of the CNMI, issued general obligations refunding bonds, Series 2007A in the aggregate principal amount of \$57,800,000 with interest rate at 5% per annum to refund \$52,435,000 of the 2000 Series A general obligation bonds. Installments of principal are to be paid to the Bond Trustee annually commencing June 1, 2009 through June 1, 2030. Interest is payable semi-annually beginning December 1, 2007 through June 1, 2030

Amount outstanding and payable as of September 30, 2007, consist of the following:

Series 2007A general obligations refunding bonds	\$ 57,800,000
Unamortized premium on bond issuance	97,488
Deferred costs on bond refunding	<u>(2,893,047)</u>
	<u>\$ 55,004,441</u>

\$42,690,000 Bond Issue

In April 2007, the CDA, acting for and on behalf of the CNMI, issued general obligations refunding bonds, Series 2007B in the aggregate principal amount of \$42,690,000 with interest rate at 5% per annum to refund \$37,400,000 of the 2003 Series A general obligation bonds. Installments of principal are to be paid to the Bond Trustee annually commencing October 1, 2011 through October 1, 2033. Interest is payable semi-annually beginning October 1, 2007 through October 1, 2033.

Amount outstanding and payable as of September 30, 2007, consist of the following:

Series 2007B general obligations refunding bonds	\$ 42,690,000
Unamortized premium on bond issuance	66,829
Deferred costs on bond refunding	<u>(5,159,844)</u>
	<u>\$ 37,596,985</u>

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

**Notes to the Financial Statements
September 30, 2007**

(8) Long-Term Debt Obligations, Continued

Changes in long-term liabilities for the year ended September 30, 2007, are as follows:

	<u>Balance October 1, 2006</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance September 30, 2007</u>	<u>Due Within One Year</u>
Loans and bonds payable:					
NMIRF loan	\$ 9,275,096	\$ -	\$ (717,358)	\$ 8,557,738	\$ 894,509
1999 Series A Bonds	4,910,000	-	(1,740,000)	3,170,000	1,830,000
2000 Series A Bonds	55,895,000	-	(52,435,000)	3,460,000	40,000
2003 Series A Bonds	40,000,000	-	(37,400,000)	2,600,000	-
2007 Series A Bonds	-	57,800,000	-	57,800,000	-
2007 Series B Bonds	-	42,690,000	-	42,690,000	-
	<u>110,080,096</u>	<u>100,490,000</u>	<u>(92,292,358)</u>	<u>118,277,738</u>	<u>2,764,509</u>
Deferred amounts:					
Deferred costs of bond refunding	-	(8,181,944)	129,053	(8,052,891)	111,271
Unamortized discount on bonds issued	(525,599)	-	492,700	(32,899)	1,265
Unamortized premium on bonds issued	-	166,950	(2,633)	164,317	3,750
	<u>109,554,497</u>	<u>92,475,006</u>	<u>(91,673,238)</u>	<u>110,356,265</u>	<u>2,880,795</u>
Other:					
Compensated absences	8,644,848	4,983,736	(4,442,795)	9,185,789	3,157,172
Claims and judgments payable	9,020,743	8,136,568	(650,030)	16,507,281	-
Other noncurrent liability	1,526,947	381,737	-	1,908,684	-
	<u>19,192,538</u>	<u>13,502,041</u>	<u>(5,092,825)</u>	<u>27,601,754</u>	<u>3,157,172</u>
	<u>\$ 128,747,035</u>	<u>\$ 105,977,047</u>	<u>\$ (96,766,063)</u>	<u>\$ 137,958,019</u>	<u>\$ 6,037,967</u>

The annual requirement to amortize all debt of the governmental activities outstanding as of September 30, 2007 is as follows:

<u>Year ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 2,764,509	\$ 6,267,339	\$ 9,031,848
2009	4,288,840	5,997,986	10,286,826
2010	3,129,624	5,780,539	8,910,163
2011	3,521,174	5,574,576	9,095,750
2012	4,527,976	5,339,524	9,867,500
2013 - 2017	24,110,615	22,464,170	46,574,785
2018 - 2022	22,940,000	16,373,875	39,313,875
2023 - 2027	23,785,000	10,738,500	34,523,500
2028 - 2032	23,065,000	4,258,750	27,323,750
2033 - 2037	<u>6,145,000</u>	<u>311,125</u>	<u>6,456,125</u>
	<u>\$ 118,277,738</u>	<u>\$ 83,106,384</u>	<u>\$ 201,384,122</u>

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements September 30, 2007

(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. \$ 6,026,715

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. 1,611,843

Northern Marianas Housing Corporation (NMHC):

Note payable to MPLT, bearing interest at 8.5% per annum, due on March 1, 2016, collateralized by the full faith and credit of the CNMI Government. Public Law No. 12-27 approved the repayment of this loan through legislative appropriation of operating transfers to the general fund of the CNMI Government from investment income of MPLT. Accordingly, operating transfers in the general fund from MPLT reduces NMHC's payable to MPLT but NMHC recognizes a payable to the CNMI Government for the same amount, deferred for ten years. 8,996,623

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

Commonwealth Utilities Corporation

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

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements
September 30, 2007

(8) Long-Term Debt Obligations, Continued

Discretely Presented Component Units, Continued

Commonwealth Utilities Corporation, Continued

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

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

Loan payable to CPA. Principal of \$3,385,131, interest at 6.25% per annum, with a maturity date of October 31, 2017. Principal and interest payments are due in monthly installments of \$38,008 beginning October 31, 2007. 3,385,131

Loan payable to CPA. Principal of \$4,829,895, interest at 6.25% per annum, with a maturity date of October 31, 2012. Principal and interest payments are due in monthly installments of \$93,938 beginning October 31, 2007. 4,829,895

Short-term note with Mobil. Principal of \$574,105, interest at 6% per annum, with a maturity date of June 15, 2008. Principal and interest payments are due in monthly installments of \$33,431 beginning January 30, 2007 and continuing on the 15th day of each calendar month thereafter until June 2008. 293,494

\$ 87,715,828

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, 2007

(8) Long-Term Debt Obligations, Continued

Discretely Presented Component Units, Continued

As of September 30, 2007, 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.

At September 30, 2007, CUC was in default of repayment terms of all loans payable to CDA. In accordance with the associated loan agreements, in the event of default, CDA may accelerate all remaining amounts due. Thus, \$61,568,750 at September 30, 2007, associated with the loans payable to CDA including interest payable on these notes of \$115,870,094 as of September 30, 2007 has been classified as current liabilities in CUC's financial statements.

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.

In January 2004, the MOA entered into on November 21, 2002 between CUC and CDA was amended to exclude a provision requiring CUC to obtain legislative approval for rate increases.

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, 2007, 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.

On January 23, 2007, the Governor of the CNMI approved P.L. 15-44 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. As of September 30, 2007, 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. 15-44.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements

September 30, 2007

(8) Long-Term Debt Obligations, Continued

Discretely Presented Component Units, Continued

\$20,050,000 Bond Issue

On March 26, 1998, CPA issued \$20,050,000 of tax-exempt airport revenue bonds which in part were used for a current refunding of \$8,250,000 of 1987 Series B tax-exempt airport revenue bonds. The refunding was undertaken to consolidate existing bonds with new bonds issued for the purpose of financing various airport projects and to reduce total future debt service payments. 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. The transaction also resulted in an economic gain of \$688,620 and an increase of \$7,616,151 in future debt service payments.

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, 2007, consist of the following:

1998 Senior Series A tax-exempt airport revenue bonds	\$ 17,230,000
Deferred costs of debt refunding	<u>-</u>
	<u>\$ 17,230,000</u>

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

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

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements
September 30, 2007

(8) Long-Term Debt Obligations, Continued

Discretely Presented Component Units, Continued

\$33,775,000 Bond Issue

On March 26, 1998, CPA issued \$33,775,000 of Senior Series A tax-exempt seaport revenue bonds which in part were used 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 payments. 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. The transaction also resulted in an economic gain of \$1,724,777 and a decrease of \$6,983,345 in future debt service payments.

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, 2007, consist of the following:

1998 Senior Series A tax-exempt seaport revenue bonds	\$ 29,120,000
Deferred costs of debt refunding	<u>(1,069,062)</u>
	<u>\$ 28,050,938</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, 2007, total deposits in the Seaport supplemental reserve fund amounted to \$8,059,119.

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

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

\$7,225,000 Bond Issue

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements

September 30, 2007

(8) Long-Term Debt Obligations, Continued

Discretely Presented Component Units, Continued

\$7,225,000 Bond Issue, Continued

Revenue bonds payable as of September 30, 2007, consist of the following:

2005 Senior Series A tax-exempt seaport revenue bonds	\$ 7,225,000
Discount on bonds	<u>(114,711)</u>
	<u>\$ 7,110,289</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, 2007, except for the collection of gross revenues requirement related to the Airport and Seaport bond indenture. Section 6.11 (A) of the Airport and Seaport Bond Indenture Agreement (Indenture) states that CPA shall impose, levy, enforce and collect such fees/dockage, entry and wharfage fees, tariffs, lease rentals, licensing fees and other fees and charges in aggregate amount with respect to each fiscal year to produce gross revenues to comply with subsections (A)(1), (A)(2), (A)(3) and (A)(4) of Section 6.11.

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

The annual requirements to amortize all debt of the Discretely Presented Component Units outstanding as of September 30, 2007, including interest payments, for those audit entities whose audit reports include such, are as follows:

<u>Year ending</u> <u>September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 65,624,248	\$ 128,133,581	\$ 191,757,829
2009	3,331,474	4,655,324	7,986,798
2010	3,517,342	4,466,581	7,983,923
2011	3,714,023	4,266,455	7,980,478
2012	3,921,408	4,054,736	7,976,144
2013 - 2017	24,316,294	16,190,845	40,507,139
2018 - 2022	13,291,039	9,637,674	22,928,713
2023 - 2027	17,815,000	4,742,466	22,557,466
2028 - 2031	<u>5,760,000</u>	<u>344,665</u>	<u>6,104,665</u>
	<u>\$ 141,290,828</u>	<u>\$ 174,492,327</u>	<u>\$ 315,783,155</u>

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements September 30, 2007

(8) Long-Term Debt Obligations, Continued

Discretely Presented Component Units, Continued

Obligations Under Capital Lease

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

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

The effects of adopting EITF No. 01-8 were to increase plant and obligations under capital lease by \$9,959,000. CUC has not obtained the actual cost of the power plant and has not obtained an appraisal to determine the fair value of the leased property, which is required by accounting principles generally accepted in the United States of America. As a result, management has not been able to assess its compliance with the EITF requirements and the impact of this matter on the accompanying financial statements is uncertain. The lease has an effective interest rate of 18%. The total obligation under capital lease at September 30, 2007 was \$2,681,735.

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements
September 30, 2007**(8) Long-Term Debt Obligations, Continued****Discretely Presented Component Units, Continued****Obligations Under Capital Lease, Continued**

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

The annual requirement to amortize all obligations under capital lease outstanding as of September 30, 2007 is as follows:

<u>Year ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 1,821,040	\$ 338,960	\$ 2,160,000
2009	<u>860,695</u>	<u>39,305</u>	<u>900,000</u>
	<u>\$ 2,681,735</u>	<u>\$ 378,265</u>	<u>\$ 3,060,000</u>

Changes in long-term liabilities of the discretely presented component units for the year ended September 30, 2007, are as follows:

	<u>Balance October 1, 2006</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance September 30, 2007</u>	<u>Due Within One Year</u>
Notes and bonds payable:					
CPA	\$ 61,301,553	\$ -	\$ (1,699,838)	\$ 59,601,715	\$ 2,546,659
CDA	11,712,943	-	(101,100)	11,611,843	114,243
CUC	<u>70,465,411</u>	<u>-</u>	<u>(388,141)</u>	<u>70,077,270</u>	<u>62,963,346</u>
	143,479,907	-	(2,189,079)	141,290,828	65,624,248
Deferred amounts:					
CPA:					
Deferred costs of debt refunding	(1,105,940)	-	36,878	(1,069,062)	-
Discount	<u>(119,490)</u>	<u>-</u>	<u>4,779</u>	<u>(114,711)</u>	<u>-</u>
	142,254,477	-	(2,147,422)	140,107,055	65,624,248
Other liabilities:					
Obligations under capital lease	4,203,535	-	(1,521,800)	2,681,735	1,821,040
Compensated absences	5,912,609	1,136,541	(1,084,362)	5,964,788	925,488
Deferred revenue	7,552,834	8,628,438	(8,753,572)	7,427,700	2,967,083
Due to primary government	<u>3,718,293</u>	<u>3,048,210</u>	<u>(270,602)</u>	<u>6,495,901</u>	<u>6,314,990</u>
	<u>\$ 163,641,748</u>	<u>\$ 12,819,189</u>	<u>\$ (13,777,758)</u>	<u>\$ 162,677,179</u>	<u>\$ 77,652,849</u>

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements September 30, 2007

(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, 2007, consist of the following:

	<u>Authorizing Legislation</u>	<u>Outstanding Balance</u>
General Fund:		
PSS Bond Interest	Public Law No. 14-63	\$ 87,431
Homeland Security	Public Law No. 14-63	113,136
Saipan Ambulance Fee	Public Law No. 13-12	98,658
Other programs	Various	<u>8,825</u>
		\$ <u>308,050</u>
Local Capital Projects Fund:		
Gualo Rai Sewer System	Public Law No. 12-21	\$ 28,631
Sadog Tasi/Chalan Kiya Road Paving	Saipan Local Law Nos. 12-20 and 12-23	36,570
Commonwealth Prison Project	Public Law No. 13-56	22,065
Commonwealth Prison Project	Public Law No. 14-20	118,262
Rota Hemodialysis Facility	Public Law No. 14-20	397,445
CUC Emergency Power Plant	House Joint Resolution No. 14-36	315,985
Other programs	Various	<u>42,594</u>
		\$ <u>961,552</u>

(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, 2007, 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	\$ 5,281,435	\$ -
DOI Capital Projects Fund	1,931,975	-
Nonmajor governmental funds	4,746,383	-
To General Fund from:		
Nonmajor governmental funds	-	4,245,210
Federal Grants Fund	<u>-</u>	<u>2,821,914</u>
	<u>11,959,793</u>	<u>7,067,124</u>
<u>Federal Grants Funds</u>		
From Federal Grants Fund to:		
General Fund	2,821,914	-
To Federal Grants Fund from:		
General Fund	<u>-</u>	<u>5,281,435</u>
	<u>2,821,914</u>	<u>5,281,435</u>

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements September 30, 2007

(10) Transfers In/Out, Continued

Operating Fund Transfers, Continued

<u>Source/Recipient</u>	<u>Transfer Out</u>	<u>Transfer In</u>
<u>DOI Capital Projects Fund</u>		
From DOI Capital Projects Fund to:		
Nonmajor governmental funds	479,768	-
To DOI Capital Projects Fund from:		
General Fund	-	1,931,975
	<u>479,768</u>	<u>1,931,975</u>
<u>Nonmajor governmental funds</u>		
From nonmajor governmental funds to:		
General Fund	4,245,210	-
Nonmajor governmental funds	9,843,225	-
To nonmajor governmental funds from:		
DOI Capital Projects Fund	-	479,768
General Fund	-	4,746,383
Nonmajor governmental funds	-	9,843,225
	<u>14,088,435</u>	<u>15,069,376</u>
	<u>\$ 29,349,910</u>	<u>\$ 29,349,910</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.

The amount recorded as payments to component units from the primary government of \$52,364,662 does not equal the corresponding contributions from the primary government of \$49,368,420 by \$2,996,242. The difference of \$291,475 with NMC is due to \$350,000 compact impact grant recorded by NMC as grants and contribution while the CNMI recorded the amount as payments to NMC and \$58,525 1% Public Auditor fees recorded by the CNMI as reductions to the payments to NMC. The difference of \$99,853 with MVA is due to \$200,000 recorded by MVA as supplemental allotment from the CNMI not allotted by OMB and \$100,147 timing difference in recording payments. The net difference of \$2,804,620 with PSS is due to the \$2,000,000 compact impact grant and \$1,554,431 capital contribution, recorded by PSS as grants and contributions while the CNMI recorded the amount as payments to PSS, \$367,214 1% Public Auditor fees recorded by the CNMI as reductions to the payments to PSS and \$382,597 timing difference in the current fiscal year payments.

The amount recorded as contributions from component units of the primary government of \$2,886,855 does not equal the corresponding contributions to the primary government of the component units of \$3,790,530 due to \$208,916 recorded as contributions to the primary government by MPLT relating to the repayment of MPLT's loans receivable from CDA and \$694,759 recorded as contributions to the primary government by CUC relating to the 1% OPA fees which have not been paid by CUC.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements

September 30, 2007

(11) Commitments

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.

Operating Lease

On August 18, 2003, NMC entered into an assignment of lease with a corporation (Assignor), whereby the Assignor assigns leases and leasehold estate and other rights on the La Fiesta property to NMC for a total payment of \$4,000,000 payable in annual installments of \$200,000 beginning October 29, 2004. On September 15, 2004, NMC and the CNMI entered into a Memorandum of Agreement for the transfer of the lease assignment. On January 7, 2005, NMC and CNMI executed an Assignment of Contract Rights whereby NMC assigns and transfers to the CNMI all right, titles and interest to the assignment of leases dated August 18, 2003. Rental expense for this lease for the fiscal year ended September 30, 2007 is \$200,000.

CNMI's future rentals under the lease as of September 30, 2007 are as follows:

<u>September 30,</u>	
2008	\$ 200,000
2009	200,000
2010	200,000
2011	200,000
2012	200,000
2013 - 2017	1,000,000
2018 - 2022	1,000,000
2023 - 2025	<u>600,000</u>
	\$ <u>3,600,000</u>

(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.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements September 30, 2007

(12) Contingencies, Continued

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 \$7,249,314 have been set forth in the CNMI's Single Audit Report for the year ended September 30, 2007. The ultimate disposition of these questioned costs can be determined only by final action of the respective grantor agencies. Therefore, no provision for any liability that may result upon resolution of this matter has been made in the accompanying financial statements.

Insurance Coverage

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

Unfunded Pension Liability

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

The unfunded pension liability is the amount of contributions that the CNMI should have paid to the NMIRF for the retirement benefits of an undetermined number of individuals employed before October 1, 1980, the date the Fund was established, who collected money from the Fund based on their years of service but were not required to pay their share of contribution as mandated by this law. Based on the latest actuarial valuation report, dated October 1, 2006, the actual unfunded pension liability is \$514,460,449.

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, 2007, the CNMI suspended employer contributions of \$47,035,810. The CNMI has recorded a liability of \$47,035,810 at September 30, 2007.

The CNMI is currently contesting \$11,945,017 in penalties on contributions to NMIRF.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements September 30, 2007

(12) Contingencies, Continued

General Fund Financial Position

The CNMI's General Fund has sustained recurring operating deficits and has an unreserved fund deficit of \$218,202,121 at September 30, 2007. In addition, at September 30, 2007, the primary government's current liabilities exceed current assets by \$164,066,072, and total liabilities exceed total assets by \$79,221,157.

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 \$172.6 million as of September 30, 2007. On June 16, 2006 the Commonwealth passed three laws related to public employee pensions (Public Laws 15-13, 15-14 and 15-15.

Public Law 15-13 established a Defined Contribution Retirement Plan (DCP) for all new public employees hired after January 1, 2007 (eligible employees hired prior to this date participate in the Retirement Fund which is a defined benefit plan) and defined the conditions under which certain members of the defined benefit Retirement Fund could transfer benefits to the DCP. Since the DCP has a 4% employer contribution rate versus 24% for the defined benefit plan, increasing annual savings will result as government employment includes more and more DCP participants. The defined benefit plan will have a fixed or declining number of members which will stabilize required contributions.

Public Law 15-14 extended the date by which the defined benefit plan must be fully funded from the year 2020 to 2045. This will reduce the annual amount required to liquidate the unfunded liability and reduce the annual required employer contribution.

Public Law 15-15 suspended payment of required employer contributions for the period March 1, 2006 through September 30, 2007. It was thought that this would relieve the General Fund of the annual expense and change it to long term debt but as our auditors concluded the expense had to be recorded to conform to GAAP, only a cash disbursement benefit has been realized.

Public Law 15-70 was passed on June 14, 2007 increasing employee contributions to the defined benefit plan by 1% per year beginning in FY2008 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 2009 will be reduced.

The Commonwealth Legislature is in the process of authorizing an initiative to be placed on the ballot for voters to approve issuance of pension obligation bonds to pay the outstanding liability to the retirement fund. This would not change the total assets and liabilities immediately but would address the General Fund and current assets and liabilities deficits.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements September 30, 2007

(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. Various laws and other austerity measures, including reduced work hours, hiring freeze, stringent review of non personnel expenditures and reduced budget allotments have reduced General Fund expenditures from \$245 million in 2005 to \$180 million in 2007. On the revenue side, Public Law 15-48 reinstated payment of Marianas Public land Trust interest to the General Fund and Public Law 16-2 increased various government fees by 100%.

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 \$30.1 million in fiscal year 2007 following increases of \$2.9 million in fiscal year 2006 and \$20.8 million in fiscal year 2005.

Other

The CNMI records expenditures for sick leave when the leave is actually taken. Sick leave is compensated absence during working hours arising from employee illness or injury. Sick leave accumulates at the rate of thirteen working days for each year of service, without limit. No liability is recorded for nonvesting accumulating rights to receive sick pay benefits. The accumulated estimated amount of unused sick leave as of September 30, 2007, is \$38,332,785.

As of September 30, 2007, the Northern Mariana Islands Government Health and Insurance (GHLI) Trust Fund has a net deficit of \$17,254,520. In addition, GHLI submitted unprocessed claims from service providers with service dates as of September 30, 2007 and earlier that totaled \$35 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, 2007. 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, 2007

(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 \$650,030, \$348,144 and \$468,984 for the years ended September 30, 2007, 2006 and 2005, respectively. Changes in the balance of claims liabilities during the past year are as follows:

	<u>Year ended September 30,</u>
Unpaid claims at beginning of year	\$ 9,020,743
Incurred claims	8,136,568
Claim payments	<u>(650,030)</u>
Unpaid claims at end of year	\$ <u>16,507,281</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 36.7727% of annual covered payroll effective October 1, 2005. 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 2007, 2006 and 2005 were \$116,238,545, \$124,341,718 and \$133,496,390, respectively, which were covered in total by NMIRF's pension plan.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements September 30, 2007

(14) Pension Trust Fund, Continued

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.

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 2007, NMIRF assessed a penalty of \$4,442,262 based on the unpaid contribution during the year at a prorated interest rate. The CNMI, however, has determined that there is no penalty for fiscal year 2007 due to the suspension of employer contributions pursuant to P.L. 15-15. The difference of \$4,442,262 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, 2007.

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

	<u>Government- Wide Level</u>	<u>General Fund</u>	<u>Other Governmental Funds</u>
<u>Primary Government</u>			
Net assets (deficit), as previously reported September 30, 2006	\$ (49,402,866)	\$ (152,103,534)	\$ 19,787,059
Overstatement of taxes receivables previously reported	(2,256,863)	(2,256,863)	-
Overstatement of advances previously reported	(3,353,630)	(3,353,630)	-
Understatement of accounts payable previously reported	(609,644)	(609,644)	-
Overstatement of tax rebates payable previously reported	4,399,070	4,399,070	-
Understatement of deferred revenues previously reported for governmental activities	(1,067,935)	-	-
Understatement retirement employer's contribution expense previously reported	(9,072,659)	(9,072,659)	-
Net assets of the Department of Public Lands previously not reported	<u>37,683,585</u>	<u>-</u>	<u>8,144,607</u>
Net assets (deficit), as restated September 30, 2006	\$ <u>(23,680,942)</u>	\$ <u>(162,997,260)</u>	\$ <u>27,931,666</u>

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements September 30, 2007

(15) Restatement of Government-Wide Net Assets, Continued

	<u>Government- Wide Level</u>	<u>Governmental Fund</u>
<u>Discretely Presented Component Units</u>		
Net assets, as previously reported September 30, 2006		\$ 356,845,224
Net deficit previously not reported in 2006: Commonwealth Utilities Corporation		(65,384,914)
Overstatement of net assets reported in 2006: Commonwealth Development Authority		(12,376,107)
Commonwealth Ports Authority		(1,720,478)
Northern Marianas College		(2,098,028)
Marianas Visitors Authority		<u>(764,482)</u>
Net assets, as restated September 30, 2006		\$ <u>274,501,215</u>

(16) Subsequent Events

On June 24, 2008, the Office of the Governor confirmed that the CNMI will be responsible for NMC's deficient retirement contribution from October 1, 2005 through September 30, 2007 totaling \$2,514,213. Accordingly, as of September 30, 2007, the CNMI has recorded a liability of \$2,514,213 in the general fund and is included in due to pension (and other employee benefit) trust fund.

On May 3, 2008, Public Law 16-2 was enacted to provide flexibility to the governor and other expenditure authorities to reprogram funds for the remainder of fiscal year 2008, to suspend earmarking of certain non-general fund revenues, to set the government employer contribution rate at 11% for fiscal year 2008, to increase certain government services fees, and for other purposes.

On January 24, 2008, Public Law 15-126 was enacted to impose an employer retirement contribution rate of eighteen percent for employees funded by the general fund.

On December 31, 2007, MPLT and NMHC entered into a Settlement Agreement to settle all disputed issues and claims relating to the \$10,000,000 note receivable. Under the Settlement Agreement, NMHC will pay MPLT \$2,025,000 and will assign to MPLT certain loans and mortgages in the NMHC Owned Loan Portfolio amounting to \$10,621,895.

On December 21, 2007, the CNMI received \$26,407,000 of cover over funds from the Internal Revenue Service. As of September 30, 2007, the CNMI has recorded in the General Fund taxes receivables of \$26,407,000, deferred revenue of \$24,407,000 and due to the NMTIT Rebate Trust of \$2,000,000.

On October 10, 2007, Public Law 15-98 was enacted to authorize Class 1 Members of the Retirement Fund with fifteen years of actual service contributions to the Retirement Fund to withdraw their contributions.

**COMMONWEALTH OF THE
NORTHERN MARIANA ISLANDS**

**REQUIRED SUPPLEMENTARY INFORMATION
- BUDGETARY REPORTING**

YEAR ENDED SEPTEMBER 30, 2007

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Revenues, Expenditures, and Changes in Deficit - Budget and Actual - General Fund Year Ended September 30, 2007

	Budgeted Amounts		Actual - Budgetary Basis	Variance
	Original	Final	(see note 1)	
Revenues:				
Taxes	\$ 155,028,000	\$ 130,850,000	\$ 126,520,708	\$ (4,329,292)
Charges for sales and services	24,700,000	20,500,000	18,202,428	(2,297,572)
Licenses and fees	13,913,000	11,313,000	11,124,869	(188,131)
Other	3,702,000	2,400,000	4,031,551	1,631,551
Total revenues	197,343,000	165,063,000	159,879,556	(5,183,444)
Expenditures - budgetary basis by function:				
Executive branch	95,178,351	74,635,897	74,213,143	422,754
Second Senatorial District - Tinian	10,998,230	9,005,287	8,848,781	156,506
First Senatorial District - Rota	10,988,273	8,486,332	8,297,100	189,232
Government utilities	-	2,538,867	3,542,563	(1,003,696)
Legislative branch	7,626,360	6,474,231	5,723,103	751,128
Judicial branch	4,433,478	3,764,084	3,764,094	(10)
Independent programs	1,377,852	722,847	1,582,063	(859,216)
Office of the Mayors	2,655,410	2,047,442	2,006,924	40,518
Office of the Public Auditor	-	1,576,090	1,388,633	187,457
Office of the Washington Representative	1,334,028	899,941	955,661	(55,720)
Boards and commissions	760,065	517,581	706,260	(188,679)
Education (payment to PSS and NMC)	43,723,746	41,122,184	41,689,003	(566,819)
Tourism (payment to MVA)	6,522,369	6,140,324	6,140,322	2
Employee benefits (payment to NMIRF and WCC)	1,228,586	1,030,816	1,030,816	-
Payment to DPL	-	-	3,327	(3,327)
Judgments	453,330	448,796	448,686	110
Disaster expenditures	-	(723,417)	(701,784)	(21,633)
Unallocated adjustments, net	-	-	(120,101)	120,101
Total expenditures	187,280,078	158,687,302	159,518,594	(831,292)
Deficiency of revenues under expenditures	10,062,922	6,375,698	360,962	(6,014,736)
Other financing sources (uses):				
Operating transfers in	7,150,000	5,400,000	7,067,124	1,667,124
Operating transfers out	(17,212,922)	(11,775,698)	(11,763,581)	12,117
Total other financing sources (uses), net	(10,062,922)	(6,375,698)	(4,696,457)	1,679,241
Deficiency of revenues and other financing sources under expenditures and other financing uses	-	-	(4,335,495)	(4,335,495)
Other changes in unreserved deficit:				
Decrease in reserve for supplies	-	-	(2,266)	(2,266)
Decrease in reserve for related assets	-	-	138,742	138,742
Increase in reserve for continuing appropriations	-	-	2,704,585	2,704,585
Other - unallocated deficit reduction	-	-	-	-
Deficit at beginning of year	-	-	(165,372,755)	(165,372,755)
Deficit at end of year	\$ -	\$ -	\$ (166,867,189) *	\$ (166,867,189)

* 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, 2007

(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 15, 2006, the CNMI passed Public Law 15-28 as the Appropriations and Budget Authority Act for 2007. Total estimated local revenues and resources available and identified for fiscal year 2007 is \$193,483,041 under PL 15-28.

On June 26, 2007, the CNMI passed Public Law 15-71 to amend Public Law 15-28. Public Law 15-71 provided for an immediate emergency reduction in the revenue estimate and the appropriations for all budgeted activities previously appropriated pursuant to PL 15-28. Total estimated local revenues and resources available and identified is \$163,260,013 under PL 15-71.

Under Section 2(c) of PL 15-71, the Governor has unlimited authority to reprogram funding lapses from all budget activities, except the legislative branch, judicial branch, unappropriated local revenues and appropriations enacted by the respective senatorial legislative delegations, as the Governor deems fiscally prudent and in the best interest of the public. Further, pursuant to PL 15-71, the Governor is authorized to transfer qualified, operational expenses to appropriate accounts not to exceed a total of \$7,165,459. Total expense transfers during the fiscal year ended September 30, 2007 pursuant to PL 15-71 are as follows:

Transfers from:	
General Fund	\$ (3,014,918)
Transfers to:	
Federal Grants Fund	\$ 13,574
Special Revenue Funds	\$ 3,001,344

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to Required Supplementary Information - Budgetary Reporting September 30, 2007

(1) Budgetary Information, Continued

The Governor's reprogramming authority under section 2(c) of PL 15-71 expires on September 30, 2007.

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, 2007, expenditures of the General Fund exceeded budget at the program area level (i.e., the legal level of budgetary control) as follows:

<u>Program Area</u>	<u>Excess</u>
Executive Branch:	
Corrections	\$ (395,723)
Finance	\$ (825,116)
Independent Programs:	
Joeten/Kiyu Public Library	\$ (30,293)
Utilities	\$ (1,003,696)
Office of the Washington Representative	\$ (55,720)

(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.

On June 24, 2008, the Office of the Governor confirmed that the CNMI will be responsible for NMC's deficient retirement contributions from October 1, 2005 through September 30, 2007 totaling \$2,514,213. The amount of \$2,514,213 is not budgeted under P.L. 15-28 and P.L. 15-71.

The CNMI made payments for land compensation totaling \$132,341 during the year ended September 30, 2007. 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, 2007, the CNMI has netted payments 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.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to Required Supplementary Information - Budgetary Reporting
September 30, 2007

(2) Explanation of Differences, Continued

The following reconciles budget to GAAP differences:

Deficit at end of year, budgetary basis	\$ 166,867,189
Accumulated deferred retirement contributions per P.L. 15-15	47,035,810
NMC retirement contributions	2,514,213
Payments to DPL, offset against decrease in reserve for land claims	129,014
Decrease in reserve for land claims	(129,014)
Accumulated bad debt	<u>1,784,909</u>
Deficit at end of year, GAAP basis	\$ <u>218,202,121</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, 2007

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

**Combining Schedule of Expenditures by Account
Governmental Funds
Year Ended September 30, 2007**

	<u>Major Governmental Funds</u>				<u>Other Governmental Funds</u>	<u>Total</u>
	<u>General</u>	<u>Federal Grants</u>	<u>NMTIT Rebate Trust</u>	<u>DOI Capital Projects</u>		
Salaries and wages	\$ 70,878,141	\$ 7,783,712	\$ -	\$ 199,101	\$ 4,069,919	\$ 82,930,873
Employee benefits	30,330,546	1,915,051	-	62,787	999,288	33,307,672
Construction in progress	18,760	573,283	-	15,810,204	1,804,610	18,206,857
Professional services	4,939,476	13,372,817	-	1,317,132	2,077,108	21,706,533
Capital outlay:						
Office equipment	187,303	497,106	-	468	36,717	721,594
Vehicles	175,564	670,856	-	-	244,655	1,091,075
Machinery and equipment	88,224	1,280,413	-	77,520	9,403	1,455,560
Furniture and fixtures	41,048	149,115	-	1,072,432	46,836	1,309,431
Road improvements	3,061	148,861	-	-	642,237	794,159
Building improvements	14,050	1,505,928	-	82,304	7,147	1,609,429
Other	276,485	185,635	-	169,162	86,590	717,872
Utilities	8,389,579	200,759	-	181	22,630	8,613,149
Supplies	6,110,486	1,546,823	-	2,581	1,665,789	9,325,679
Food items	949,372	8,130,789	-	-	24,458	9,104,619
Scholarships/grants	4,232,661	2,447,538	-	35,503	3,198,291	9,913,993
Interest	-	-	-	1,933,352	2,258,632	4,191,984
Travel	2,646,212	1,378,120	-	64	509,783	4,534,179
Rentals	2,331,092	468,414	-	63,737	727,961	3,591,204
Communications	1,412,533	577,618	-	691	63,335	2,054,177
Repairs and maintenance	1,589,909	721,770	-	17,378	94,980	2,424,037
Bad debts	284,952	-	-	-	-	284,952
Indirect costs	-	1,788,846	-	-	-	1,788,846
Principal repayment	-	-	-	-	2,457,358	2,457,358
Education:						
Payments to PSS	37,470,200	2,000,000	-	-	245,187	39,715,387
Payments to NMC	4,178,956	350,000	-	-	819,201	5,348,157
Payments to MVA	6,123,131	-	-	-	100,000	6,223,131
Payments to NMIRF and WCC	1,030,817	-	-	-	-	1,030,817
Payments to MPLA	132,341	-	-	-	-	132,341
Payments to CPA	-	-	-	-	430,223	430,223
Payments to MPLT	-	-	-	-	1,250,000	1,250,000
Miscellaneous services	1,003,950	65,907	-	-	26,414	1,096,271
Fuel and lubrication	1,457,871	248,782	-	14,662	137,778	1,859,093
Claims and judgments	640,530	-	-	-	9,500	650,030
Printing	235,498	191,639	-	1,720	27,523	456,380
Official representation	239,520	-	-	-	2,226	241,746
Advertising	174,118	346,593	-	26	69,546	590,283
Dues and subscriptions	148,805	65,186	-	-	8,831	222,822
Freight	129,498	55,597	-	8,420	6,200	199,715
Insurance	124,434	436,403	-	-	118,331	679,168
Books and library materials	44,483	69,233	-	-	13,134	126,850
Licenses and fees	29,005	29,011	-	-	500	58,516
Bond issuance costs	1,895,805	-	-	-	-	1,895,805
NMC retirement contributions	2,514,213	-	-	-	-	2,514,213
Other	664,173	642,437	-	137,664	774,075	2,218,349
	<u>\$ 193,136,802</u>	<u>\$ 49,844,242</u>	<u>\$ -</u>	<u>\$ 21,007,089</u>	<u>\$ 25,086,396</u>	<u>\$ 289,074,529</u>

See Accompanying Independent Auditors' Report.

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

September 30, 2007

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

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.

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.

See Accompanying Independent Auditors' Report.

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

September 30, 2007

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.

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, 2007, 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. With the enactment of Public Law 15-35 on October 24, 2006, the Public Utilities Commission was established and abolished the Commonwealth Telecommunication Commission.

Saipan Trust Fund

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

See Accompanying Independent Auditors' Report.

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

September 30, 2007

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.

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.

See Accompanying Independent Auditors' Report.

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

September 30, 2007

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 Expendable Trust Fund
- Probation Services Fund
- Agriculture Revolving Fund
- Public Utilities Commission Fund
- Soil and Water Conservation Fund
- Outer Cover Marina Fund
- Special Disabilities Fund

See Accompanying Independent Auditors' Report.

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

September 30, 2007

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, 2007

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, 2007

	Special Revenue Funds								
	Department of Public Lands	Private Grants	Commonwealth Arts Council	Human Resource Development Trust	Oil Overcharge	Commonwealth Nonresident Workers' Fee	Commonwealth Alien Registration	Commonwealth Museum	Judicial Building
Assets									
Cash and cash equivalents	\$ 6,125,703	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Restricted cash and cash equivalents	4,189,639	-	-	-	-	-	-	-	-
Receivables, net of allowance for uncollectibles:									
Other	109,856	-	-	-	-	-	-	-	-
Due from other funds	-	1,207,151	3,342	206,818	47,208	-	312,116	222,777	436,559
Due from component unit	-	-	-	-	-	-	-	-	-
Due from Pension and Other Employee Benefit Trust Funds	-	-	-	-	-	-	-	-	1,227,727
	<u>\$ 10,425,198</u>	<u>\$ 1,207,151</u>	<u>\$ 3,342</u>	<u>\$ 206,818</u>	<u>\$ 47,208</u>	<u>\$ -</u>	<u>\$ 312,116</u>	<u>\$ 222,777</u>	<u>\$ 1,664,286</u>
Liabilities and Fund Balances (Deficit)									
Liabilities:									
Accounts payable	\$ 52,340	\$ 22,045	\$ 1,271	\$ 1,304	\$ -	\$ -	\$ 16,232	\$ 47,237	\$ -
Other liabilities and accruals	1,714,922	-	-	18,572	-	19,655	61	6,165	-
Due to other funds	66,736	-	-	-	-	25,516	-	-	-
Due to component units	-	-	-	-	-	14,045	-	-	-
Deferred revenues	2,012,491	1,071,175	-	-	47,208	-	-	-	-
Total liabilities	<u>3,846,489</u>	<u>1,093,220</u>	<u>1,271</u>	<u>19,876</u>	<u>47,208</u>	<u>59,216</u>	<u>16,293</u>	<u>53,402</u>	<u>-</u>
Commitments and contingencies									
Fund balances (deficit):									
Reserved for:									
Debt service	-	-	-	-	-	-	-	-	1,227,727
Encumbrances	-	123,043	1,516	1,379	-	-	46,395	13,077	-
Other	-	-	-	-	-	-	-	-	-
Unreserved:									
Undesignated	6,578,709	(9,112)	555	185,563	-	(59,216)	249,428	156,298	436,559
Total fund balances (deficit)	<u>6,578,709</u>	<u>113,931</u>	<u>2,071</u>	<u>186,942</u>	<u>-</u>	<u>(59,216)</u>	<u>295,823</u>	<u>169,375</u>	<u>1,664,286</u>
	<u>\$ 10,425,198</u>	<u>\$ 1,207,151</u>	<u>\$ 3,342</u>	<u>\$ 206,818</u>	<u>\$ 47,208</u>	<u>\$ -</u>	<u>\$ 312,116</u>	<u>\$ 222,777</u>	<u>\$ 1,664,286</u>

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Combining Balance Sheet Nonmajor Governmental Funds September 30, 2007

Special Revenue Funds											
Local Revenue	CNMI Telecom- munications Commission	Sageen Trust	Tobacco Settlement Trust	Macromesa Garment Manufacturing	Tobacco Control	Solid Waste Revolving	Governor's Education Initiative	Managaha Landing Fee	La Fiente Revolving Fund	Miscellaneous	Total Special Revenue Funds
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 6,125,703
-	-	79,974	-	-	-	-	-	-	-	-	4,269,613
-	-	-	-	-	-	-	-	-	-	-	109,856
9,174,820	-	13,450	1,167	456,655	447,283	4,020,412	17	39,580	-	1,603,938	18,179,843
-	-	-	-	-	-	-	-	-	-	-	13,450
-	-	-	-	-	-	-	-	-	-	-	1,227,727
<u>\$ 9,174,820</u>	<u>\$ -</u>	<u>\$ 93,424</u>	<u>\$ 1,167</u>	<u>\$ 456,655</u>	<u>\$ 447,283</u>	<u>\$ 4,020,412</u>	<u>\$ 17</u>	<u>\$ 39,580</u>	<u>\$ -</u>	<u>\$ 1,603,938</u>	<u>\$ 29,926,192</u>
\$ 55,571	\$ -	\$ -	\$ -	\$ -	\$ 43,721	\$ 20,598	\$ -	\$ -	\$ -	\$ 7,613	\$ 267,932
217,053	-	-	-	-	-	250,000	-	-	-	311,600	2,538,028
-	-	75,994	-	-	-	-	-	-	97,697	897,389	1,163,332
-	-	-	-	-	-	-	-	-	-	-	14,045
-	-	-	-	-	-	-	-	-	-	-	3,130,874
<u>272,624</u>	<u>-</u>	<u>75,994</u>	<u>-</u>	<u>-</u>	<u>43,721</u>	<u>270,598</u>	<u>-</u>	<u>-</u>	<u>97,697</u>	<u>1,216,602</u>	<u>7,114,211</u>
1,925,788	-	-	990	-	195,419	1,411,513	-	-	-	157,840	1,227,727
-	-	-	-	-	-	1,908,684	-	-	-	-	3,876,960
-	-	-	-	-	-	-	-	-	-	-	1,908,684
<u>6,976,408</u>	<u>-</u>	<u>17,430</u>	<u>177</u>	<u>456,655</u>	<u>208,143</u>	<u>429,617</u>	<u>17</u>	<u>39,580</u>	<u>(97,697)</u>	<u>229,496</u>	<u>15,798,610</u>
<u>8,902,196</u>	<u>-</u>	<u>17,430</u>	<u>1,167</u>	<u>456,655</u>	<u>403,562</u>	<u>3,749,814</u>	<u>17</u>	<u>39,580</u>	<u>(97,697)</u>	<u>387,336</u>	<u>22,811,981</u>
<u>\$ 9,174,820</u>	<u>\$ -</u>	<u>\$ 93,424</u>	<u>\$ 1,167</u>	<u>\$ 456,655</u>	<u>\$ 447,283</u>	<u>\$ 4,020,412</u>	<u>\$ 17</u>	<u>\$ 39,580</u>	<u>\$ -</u>	<u>\$ 1,603,938</u>	<u>\$ 29,926,192</u>

See Accompanying Independent Auditors' Report.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Combining Balance Sheet, Continued Nonmajor Governmental Funds September 30, 2007

	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	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 6,125,703
Restricted cash and cash equivalents	-	-	-	-	137,821	-	137,821	3,407,392	7,814,826
Receivables, net of allowance for uncollectibles	-	-	-	-	-	-	-	-	-
Federal	-	-	188,656	-	-	-	188,656	-	188,656
Other	-	-	-	19,628	-	-	19,628	-	129,484
Due from other funds	93,207	608,282	44,363	-	-	1,015,109	1,760,961	-	19,940,804
Due from component unit	-	-	-	-	-	-	-	-	13,450
Due from Pension and Other Employee Benefit Trust Funds	-	-	-	-	-	-	-	-	1,227,727
	<u>\$ 93,207</u>	<u>\$ 608,282</u>	<u>\$ 233,019</u>	<u>\$ 19,628</u>	<u>\$ 137,821</u>	<u>\$ 1,015,109</u>	<u>\$ 2,107,066</u>	<u>\$ 3,407,392</u>	<u>\$ 35,440,650</u>
Liabilities and Fund Balances (Deficit)									
Liabilities:									
Accounts payable	\$ -	\$ 261	\$ 233,019	\$ -	\$ 115,514	\$ 31,574	\$ 380,368	\$ -	\$ 648,300
Other liabilities and accruals	-	-	-	-	461,908	-	461,908	-	2,999,936
Due to other funds	-	-	-	152,493	448,594	-	601,087	-	1,764,419
Due to component units	-	-	-	6,868	-	-	6,868	-	20,913
Deferred revenue	93,207	-	-	-	-	-	93,207	-	3,224,081
Total liabilities	<u>93,207</u>	<u>261</u>	<u>233,019</u>	<u>159,361</u>	<u>1,026,016</u>	<u>31,574</u>	<u>1,543,438</u>	<u>-</u>	<u>8,657,649</u>
Fund balances (deficit):									
Reserved for Debt service	-	-	-	-	-	-	-	3,407,392	4,635,119
Encumbrances	2,668	199,099	1,606,883	53,038	852,067	24,389	2,738,144	-	6,615,104
Continuing appropriations	-	-	-	-	961,552	-	961,552	-	961,552
Other	-	-	-	-	-	-	-	-	1,908,684
Unreserved: Undesignated	(2,668)	408,922	(1,606,883)	(192,771)	(2,701,814)	959,146	(3,136,068)	-	12,662,542
Total fund balances (deficit)	<u>-</u>	<u>608,021</u>	<u>-</u>	<u>(139,733)</u>	<u>(888,195)</u>	<u>983,535</u>	<u>563,628</u>	<u>3,407,392</u>	<u>26,783,001</u>
	<u>\$ 93,207</u>	<u>\$ 608,282</u>	<u>\$ 233,019</u>	<u>\$ 19,628</u>	<u>\$ 137,821</u>	<u>\$ 1,015,109</u>	<u>\$ 2,107,066</u>	<u>\$ 3,407,392</u>	<u>\$ 35,440,650</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, 2007

	Special Revenue Funds								
	Department of Public Lands	Private Grants	Commonwealth Arts Council	Human Resources Development Trust	Oil Overcharge	Commonwealth Nonresident Workers' Fee	Commonwealth Alien Deportation	Commonwealth Museum	Judicial Building
Revenues:									
Federal contributions	\$ -	\$ 69,483	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Charges for sales and services	2,454,544	-	-	-	-	-	-	4,366	-
Taxes	-	-	-	-	-	-	-	-	-
Licenses and fees	599,984	-	-	-	-	5,427,558	588,250	7,314	1,211,591
Interest and dividends	158,063	-	-	-	-	-	-	(3)	50,404
Other	6,262	108,917	20,044	-	-	-	(60,027)	42	5
Total revenues	3,218,853	178,400	20,044	-	-	5,427,558	528,223	11,719	1,262,000
Expenditures:									
Community and social services	-	105,953	18,746	439,164	-	44,321	-	245,519	-
Health	-	45,778	-	-	-	-	-	-	-
Public safety and law enforcement	-	26,669	-	-	-	371,988	1,219,872	-	-
General government	-	-	-	-	-	-	-	-	-
Lands and natural resources	3,534,751	-	-	-	-	-	-	-	-
Public works	-	-	-	-	-	-	-	-	-
Debt service:									
Principal retirement	-	-	-	-	-	-	-	-	717,358
Interest and fiscal charges	-	-	-	-	-	-	-	-	701,582
Other elected officials	-	-	-	-	-	-	-	-	-
Education (payment to NMC)	-	-	-	-	-	819,201	-	-	-
Economic development	-	-	-	-	-	-	-	-	-
Payments to MVA	-	-	-	-	-	-	-	-	-
Payments to MPLT	1,250,000	-	-	-	-	-	-	-	-
Payments to NMIRF and WCC	-	-	-	-	-	-	-	-	-
Judicial branch	-	-	-	-	-	-	-	-	-
Education	-	-	-	-	-	-	-	-	-
Total expenditures	4,784,751	178,400	18,746	439,164	-	1,235,510	1,219,872	245,519	1,418,940
Excess (deficiency) of revenues over (under) expenditures	(1,565,898)	-	1,298	(439,164)	-	4,192,048	(691,649)	(233,800)	(156,940)
Other financing sources (uses):									
Operating transfers in	-	-	-	395,541	-	-	-	-	-
Operating transfers out	-	-	-	-	-	(4,245,210)	-	-	-
Total other financing sources (uses), net	-	-	-	395,541	-	(4,245,210)	-	-	-
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	(1,565,898)	-	1,298	(43,623)	-	(53,162)	(691,649)	(233,800)	(156,940)
Fund balances (deficit) at beginning of year	8,144,607	113,931	773	230,565	-	(6,054)	987,472	403,175	1,821,226
Fund balances (deficit) at end of year	\$ 6,578,709	\$ 113,931	\$ 2,071	\$ 186,942	\$ -	\$ (59,216)	\$ 295,823	\$ 169,375	\$ 1,664,286

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, 2007

Special Revenue Funds											
Local Revenue	CNMI Telecom- munications Commission	Sapran 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
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 69,483
-	-	-	-	-	-	-	-	-	-	30,203	2,489,113
-	-	-	-	-	1,613,132	1,933,431	-	-	-	-	3,546,563
6,007,970	-	-	-	-	-	509,085	-	-	-	171,304	14,523,056
-	-	1,456	-	-	-	-	-	-	-	7,144	217,064
3,526	-	-	516,704	-	-	-	-	-	-	2,630	598,103
6,011,496	-	1,456	516,704	-	1,613,132	2,442,516	-	-	-	211,281	21,443,382
227,464	-	49,000	-	-	161,370	43,852	-	1,000	-	66,374	1,402,763
-	-	-	520,855	-	1,062,654	-	-	-	-	4,873	1,634,160
-	-	-	-	-	1,560	3,095	-	-	-	153,402	1,776,586
311,076	272,044	-	-	-	-	-	-	-	37,342	(253)	620,209
-	-	-	-	-	-	28,800	-	-	-	29,930	3,593,481
636,034	-	-	-	-	-	1,972,097	-	-	-	-	2,608,131
-	-	-	-	-	-	-	-	-	-	-	717,358
-	-	-	-	-	-	-	-	-	-	-	701,582
535,114	-	-	-	-	-	-	-	-	-	-	535,114
-	-	-	-	-	-	-	-	-	-	-	819,201
430,222	-	-	-	-	-	-	-	-	-	-	430,222
149	-	-	-	-	-	-	-	100,000	-	-	100,149
-	-	-	-	-	-	-	-	-	-	-	1,250,000
-	-	-	-	-	-	-	-	-	-	41	41
-	-	-	-	-	-	-	-	-	-	22,502	22,502
2,580,690	-	200,000	-	-	256,246	-	155,313	-	-	-	3,192,249
4,720,749	272,044	249,000	520,855	-	1,481,830	2,047,844	155,313	101,000	37,342	276,869	19,403,748
1,290,747	(272,044)	(247,544)	(4,151)	-	131,302	394,672	(155,313)	(101,000)	(37,342)	(65,588)	2,039,634
7,838,267	-	-	-	-	1,836,458	104,500	-	-	-	-	10,174,766
(7,838,267)	-	-	-	-	(1,836,458)	(104,500)	-	-	-	-	(14,024,435)
-	-	-	-	-	-	-	-	-	-	-	(3,849,669)
1,290,747	(272,044)	(247,544)	(4,151)	-	131,302	394,672	(155,313)	(101,000)	(37,342)	(65,588)	(1,810,035)
7,611,449	272,044	264,974	5,318	456,655	272,260	3,355,142	155,330	140,580	(60,355)	452,924	24,622,016
\$ 8,902,196	\$ -	\$ 17,430	\$ 1,167	\$ 456,655	\$ 403,562	\$ 3,749,814	\$ 17	\$ 39,580	\$ (97,697)	\$ 387,336	\$ 22,811,981

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, 2007**

	Capital Projects Funds							
	Commonwealth Development Authority	Infrastructure Tax	Public Works Grants	American Memorial Park	Local Capital Projects	Private Capital Grants	Total Capital Projects Funds	Total Non-Major Governmental Funds
Revenues:								
Federal contributions	\$ 53,410	\$ -	\$ 873,215	\$ -	\$ -	\$ -	\$ 926,625	\$ 996,108
Charges for sales and services	-	-	-	-	-	-	-	2,489,113
Taxes	-	134,982	-	-	-	-	134,982	3,681,545
Licenses and fees	-	1,227	-	-	-	-	1,227	14,524,283
Interest and dividends	-	3,064	-	-	6,731	-	9,795	309,440
Contributions from component units	698	-	-	-	331,751	-	332,449	332,449
Other	-	25,749	-	-	-	-	25,749	623,852
Total revenues	54,108	165,022	873,215	-	338,482	-	1,430,827	22,956,790
Expenditures by account:								
Community and social services	-	1,102	-	-	-	-	1,102	1,403,865
Health	-	-	-	-	57,099	-	57,099	1,691,259
Public safety and law enforcement	-	2,393	-	-	82,549	-	84,942	1,861,528
General government	-	-	-	-	-	-	-	620,209
Lands and natural resources	-	-	-	-	-	-	-	3,593,481
Public works	54,108	78,713	873,215	-	23,312	-	1,029,348	3,637,479
Debt service:								
Principal retirement	-	-	-	-	-	-	-	1,740,000
Interest and fiscal charges	-	-	-	-	-	-	-	1,624,451
Other elected officials	-	-	-	-	-	-	-	535,114
Education (payment to NMC)	-	-	-	-	-	-	-	819,201
Economic development	-	-	-	-	781,705	-	781,705	1,211,927
Payments to MVA	-	-	-	-	-	-	-	100,149
Payments to MPLT	-	-	-	-	-	-	-	1,250,000
Payments to NMIRF and WCC	-	-	-	-	-	-	-	41
Judicial branch	-	-	-	-	-	-	-	22,502
Education	-	-	-	-	-	-	-	3,192,249
Utilities - Capital Projects	-	-	-	-	364,001	-	364,001	364,001
Total expenditures	54,108	82,208	873,215	-	1,308,666	-	2,318,197	25,086,396
Excess (deficiency) of revenues over (under) expenditures	-	82,814	-	-	(970,184)	-	(887,370)	(2,129,606)
Other financing sources (uses):								
Operating transfers in	-	64,000	-	-	479,768	-	543,768	15,069,376
Operating transfers out	-	(64,000)	-	-	-	-	(64,000)	(14,088,435)
Total other financing sources (uses), net	-	-	-	-	479,768	-	479,768	980,941
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	-	82,814	-	-	(490,416)	-	(407,602)	(1,148,665)
Fund balances (deficit) at beginning of year	-	525,207	-	(139,733)	(397,779)	983,535	971,230	27,931,666
Fund balances (deficit) at end of year	\$ -	\$ 608,021	\$ -	\$ (139,733)	\$ (888,195)	\$ 983,535	\$ 563,628	\$ 26,783,001

See Accompanying Independent Auditors' Report.

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

September 30, 2007

Pension and Other Employee Benefits Trust Funds

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

Northern Mariana Islands Retirement Fund (NMIRF)

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

CNMI Workers' Compensation Commission

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

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

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

See Accompanying Independent Auditors' Report.

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

September 30, 2007

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, 2007**

	Pension (and Other Employee Benefit) Trust Fund				Agency Funds		
	Northern Mariana Islands Retirement Fund	CNMI Government Health and Life Insurance Trust	CNMI Workers' Compensation Commission	Total	Tinian Land Condemnation Fund	Security Deposit Fund	Total
Assets							
Cash and cash equivalents	\$ 2,068,666	\$ 285,727	\$ 111,654	\$ 2,466,047	\$ -	\$ 2,984,792	\$ 2,984,792
Receivables:							
Loans	8,553,063	-	-	8,553,063	-	-	-
Notes	8,439,678	-	-	8,439,678	-	-	-
General	6,660,897	-	914,252	7,575,149	-	-	-
Interest and dividends	1,280,675	-	-	1,280,675	-	-	-
Other	2,489,999	531,868	2,259	3,024,126	-	-	-
Due from General Fund	52,672,989	-	311,200	52,984,189	1,367,151	-	1,367,151
Prepaid items	4,834	-	-	4,834	-	-	-
Investments, at fair market value:							
Equity securities	281,389,031	-	-	281,389,031	-	-	-
U.S. Government securities	86,132,975	-	652,943	86,785,918	-	-	-
Mutual funds	70,266,668	-	-	70,266,668	-	-	-
Money market placements	14,984,611	-	39,304	15,023,915	-	-	-
Corporate debt securities	29,797,877	-	-	29,797,877	-	-	-
Restricted assets	-	-	126,146	126,146	-	3,414,554	3,414,554
Capital assets	3,808,204	20,498	1,243	3,829,945	-	-	-
Total assets	568,550,167	838,093	2,159,001	571,547,261	1,367,151	6,399,346	7,766,497
Liabilities and Other Credits							
Accounts payable	165,383	18,092,613	30,830	18,288,826	-	-	-
Claims and judgments payable	-	-	-	-	1,367,151	-	1,367,151
Deposits payable	-	-	-	-	-	6,399,346	6,399,346
Other liabilities and accruals	683,374	-	-	683,374	-	-	-
Due to Judicial Building Fund	1,227,727	-	-	1,227,727	-	-	-
Deferred revenue	55,772,433	-	914,252	56,686,685	-	-	-
Total liabilities and other credits	57,848,917	18,092,613	945,082	76,886,612	\$ 1,367,151	\$ 6,399,346	\$ 7,766,497
Net assets:							
Held in trust for pension benefits	510,701,250	-	-	510,701,250			
Held in trust for medical and life insurance benefits	-	(17,254,520)	-	(17,254,520)			
Held in trust for workers' compensation benefits and other purposes	-	-	1,213,919	1,213,919			
Held in trust for other purposes	-	-	-	-			
Total net assets	\$ 510,701,250	\$ (17,254,520)	\$ 1,213,919	\$ 494,660,649			

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, 2007**

	Pension (and Other Employee Benefit) Trust Fund			
	Northern Mariana Islands Retirement Fund	CNMI Government Health and Life Insurance Trust	CNMI Workers' Compensation Commission	Total
<u>Additions</u>				
Contributions:				
Employer	\$ 58,151,686	\$ -	\$ -	\$ 58,151,686
Employee	9,711,613	-	-	9,711,613
Revenues:				
Premiums	-	9,559,092	49,838	9,608,930
Rent income and other	1,411,465	67,766	67,723	1,546,954
Total contributions and revenues	69,274,764	9,626,858	117,561	79,019,183
Net investment income:				
Net appreciation in fair value	56,439,514	-	-	56,439,514
Interest	15,494,203	-	-	15,494,203
Total investment income	71,933,717	-	-	71,933,717
Less: investment expense	2,425,728	-	-	2,425,728
Net investment income	69,507,989	-	-	69,507,989
Total additions	138,782,753	9,626,858	117,561	148,527,172
<u>Deductions</u>				
Benefits	58,556,904	-	-	58,556,904
General and administrative	1,781,430	1,514,267	179,090	3,474,787
Bad debts	35,828,502	-	-	35,828,502
Refunds	5,278,316	-	-	5,278,316
Medical claims	-	7,986,031	13,648	7,999,679
Total deductions	101,445,152	9,500,298	192,738	111,138,188
Other financing sources (uses):				
Transfer in	675,159	-	193,187	868,346
Change in net assets	38,012,760	126,560	118,010	38,257,330
Net assets at beginning of year, as restated	472,688,490	(17,381,080)	1,095,909	456,403,319
Net assets at end of year	\$ 510,701,250	\$ (17,254,520)	\$ 1,213,919	\$ 494,660,649

See Accompanying Independent Auditors' Report.