

COMMONWEALTH GOVERNMENT
EMPLOYEES' CREDIT UNION

FINANCIAL STATEMENT
AND
INDEPENDENT AUDITORS' REPORT

YEAR ENDED DECEMBER 31, 2004

INDEPENDENT AUDITORS' REPORT

Board of Directors
Commonwealth Government Employees' Credit Union:

We have audited the accompanying statement of net assets of the Commonwealth Government Employees' Credit Union (the Credit Union), a component unit of the Commonwealth of the Northern Mariana Islands, as of December 31, 2004. This financial statement is the responsibility of the Credit Union's management. Our responsibility is to express an opinion on this financial statement based on our audit.

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 statement of net assets is 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 Credit Union'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 statement of net assets, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall statement of net assets presentation. We believe that our audit of the statement of net assets provides a reasonable basis for our opinion.

In our opinion, such statement of net assets present fairly, in all material respects, the financial position of the Commonwealth Government Employees' Credit Union as of December 31, 2004 in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis (MD&A) on pages 3 through 5 is not a required part of the basic financial statement but is supplementary information required by the Governmental Accounting Standards Board (GASB). This supplementary information is the responsibility of the Credit Union's management.

We did not audit and do not express and opinion on such information. However, we have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. As a result of these limited procedures, we believe that the MD&A is not in conformity with guidelines established by GASB as our audit was limited to the statement of net assets and the MD&A does not include discussions on the statements of revenues, expenses and changes in net assets and cash flows and significant differences therein, and the MD&A does not include discussions on the Credit Union's significant long-term debt.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 8, 2007, on our consideration of internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Deloitte & Touche LLC

May 8, 2007

*Commonwealth Government Employees'
Credit Union*

PO Box 500135, Saipan MP 96950

Debra L. Camacho
Chairwoman

Jose I. Sablan
General Manager

**MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended December 31, 2004**

This Management's Discussion and Analysis (MD&A) of the Commonwealth Government Employees Credit Union's (CGECU) financial performance and condition for calendar year 2004 is intended to contribute to the reader, a better understanding of CGECU's structure and activities. The report should be read in conjunction with the audited financial statements and associated reports.

Note that this report may at times anticipate future events that are based upon current assumptions subject to risk and uncertainties. Actual events may differ materially from these expectations.

Overview

CGECU is a member-owned, nonprofit cooperative financial institution formed to permit those in the field of membership to pool their savings, lend them to one another, and own the organization where they save, borrow and obtain related financial services. The members are the owners and the only "customers" of CGECU. The objective of CGECU is to protect and safeguard the assets of the members, to offer financial services of high quality at fair and reasonable rates, to educate members in sensible money management and to promote CGECU's philosophy.

CGECU, a nonprofit government corporation, was formed on February 13, 1995 through legislation. It was created by Public Law 9-27, repealed in its entirety by Public Law 9-52 and amended by Public Law 10-37. The law provides that CGECU be administered by a Board of Directors consisting of five members appointed by the Governor. Each member shall serve a term four years. Under the administration of the Board, CGECU shall be managed by a General Manager who shall be appointed by the Board and serve at the Board's pleasure. The General Manager shall have the authority over the day-to-day operations of CGECU subject to the supervision of the Board. CGECU presently has four other personnel.

Funding Operations

CGECU has funded its operations from a \$2,000,000 loan from the Northern Mariana Island Retirement Fund (NMIRF). This loan was authorized by Public Law 9-52 and is backed by the full faith and credit of the Commonwealth of the Northern Mariana Islands Government. The borrowed funds were used to loan to qualified members. Presently, the operations of CGECU are funded from biweekly allotments from members for the repayment of loans. Additionally, CGECU is realizing other sources of income through money made from loan interest, service charges and penalties.

Operations

Financial assistance is provided to members through the extension of signature loans up to \$3,000 per member. The repayment of these loans is made through biweekly payroll deductions authorized by Public Law 9-52. Loan interest rates are 16% or 18% depending on the borrower's credit history from Equifax Information Services.

Financial Policies

CGECU's financial policies follow accounting principles generally accepted in the United States of America (GAAP). Management is required to make estimates, disclosures and assumptions in preparation of financial statements in conformity with GAAP and actual results may differ from amounts reported during the reporting period. The accrual basis of accounting is utilized whereby revenues are recorded when earned, and expenses when liabilities are incurred.

Significant financial policies of CGECU include a regular reserve requirement (in an amount which is equivalent to 6% of the average of the principal amounts of all CGECU loans in the immediate preceding fiscal year) and a special reserve requirement (in an amount which is equivalent to 6% of the average daily balance of all CGECU savings and investment accounts on deposit in the immediate preceding fiscal year). These reserves are held in time certificates of deposit (TCDs) with Federal Deposit Insurance Corporation commercial banks.

OVERVIEW OF FINANCIAL CONDITION

Loan Portfolio. CGECU has approved a total of seven hundred forty-seven (747) loans (including refinancing) amounting to approximately \$1.789 million at December 31, 2004 or forty-seven (47) loans more than the seven hundred (700) loans existing at December 31, 2003.

CGECU's goal during the year was to recruit more members and provide more loans as well as to improve the services to its members.

The following condensed Statements of Net Assets highlights the aforementioned changes in condition with comparative information from prior year.

	Statements of Net Assets			
	<u>2004</u>	<u>2003</u>	<u>\$Change</u>	<u>%Change</u>
Current and other assets	\$ 1,868,221	\$ 2,159,018	\$ (290,797)	-13%
Capital assets	<u>41,340</u>	<u>-</u>	<u>41,340</u>	100%
Total assets	<u>\$ 1,909,561</u>	<u>\$ 2,159,018</u>	<u>\$ (249,457)</u>	-12%
Members' savings accounts	\$ 941,520	\$ 1,628,303	\$ (686,783)	-42%
Loan payable	1,828,428	1,865,350	(36,922)	-2%
Other liabilities	<u>86,429</u>	<u>37,312</u>	<u>49,117</u>	132%
Total liabilities	<u>2,856,377</u>	<u>3,530,965</u>	<u>(674,588)</u>	-19%
Net assets:				
Invested in capital assets	41,340	-	41,340	100%
Restricted	<u>(988,156)</u>	<u>(1,371,947)</u>	<u>383,791</u>	-28%
Total net assets	<u>(946,816)</u>	<u>(1,371,947)</u>	<u>425,131</u>	-31%
Total liabilities and net assets	<u>\$ 1,909,561</u>	<u>\$ 2,159,018</u>	<u>\$ (249,457)</u>	-12%

Affiliations

CGECU membership and partnership affiliations include NACUSO, an association of credit unions. Benefits received from these associations include information exchange and training opportunities.

RISK MANAGEMENT

The primary risk that CGECU faces is the collection of delinquent accounts. The Board of Directors and management have acquired the services of a law firm to assist in the collection.

SIGNIFICANT FUTURE EVENTS

Activities of significance planned in 2005 include the development of new computer software that can provide more accurate reports of member accounts.

COMMONWEALTH GOVERNMENT EMPLOYEES' CREDIT UNION

Statement of Net Assets
December 31, 2004

ASSETS

Current assets:	
Cash and cash equivalents	\$ 252,000
Receivables:	
Member loans, net of allowance for loan losses	700,984
Accrued interest, net of allowance of \$123,821	14,081
Other	8,663
Due from Board members	8,304
Prepaid insurance	<u>838</u>
Total current assets	984,870
Restricted cash and cash equivalents	52,044
Member loans receivable, net	831,307
Plant and equipment, net	<u>41,340</u>
	<u>\$ 1,909,561</u>

LIABILITIES AND NET ASSETS

Current liabilities:	
Members' savings accounts	\$ 941,520
Current portion of loan payable	32,635
Bank overdraft	14,356
Accounts payable	23,944
Due to Saipan Credit Union	5,401
Accrued taxes	1,369
Accrued payroll	9,278
Deferred income	<u>32,081</u>
Total current liabilities	1,060,584
Loan payable	<u>1,795,793</u>
Total liabilities	<u>2,856,377</u>
Net assets:	
Invested in capital assets	41,340
Restricted	<u>(988,156)</u>
Total net assets	<u>(946,816)</u>
	<u>\$ 1,909,561</u>

See accompanying notes to financial statement.

COMMONWEALTH GOVERNMENT EMPLOYEES' CREDIT UNION

Notes to Financial Statement December 31, 2004

(1) Organization

The Commonwealth Government Employees' Credit Union (the Credit Union), a component unit of the Commonwealth of the Northern Mariana Islands (CNMI), was formed on February 13, 1995, under the provisions of Public Law 9-27, repealed in its entirety by Public Law 9-52 and amended by Public Law 10-37. The law created a nonprofit government corporation managed by a Board of Directors appointed by the Governor of the CNMI. The purpose of the Credit Union is to promote thrift among its members by affording them an opportunity to accumulate their savings, and to create for them a source for credit to be used for provident or productive purposes. The Credit Union considers all of its net assets, except net assets invested in capital assets, to be restricted for such purposes.

(2) Summary of Significant Accounting Policies

The accounting policies of the Credit Union conform to accounting principles generally accepted in the United States of America (GAAP), as applicable to governmental entities, specifically proprietary funds. Governmental Accounting Standards Board (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. The Credit Union has implemented GASB 20 and elected not to apply FASB Statements and Interpretations issued after November 30, 1989.

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 and expenses during the reporting period. Actual results could differ from those estimates.

Basis of Accounting

Proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operation of this fund are included within the statement of net assets. Proprietary fund operating statements (not presented) present increases and decreases in net total assets. The accrual basis of accounting is utilized for proprietary funds. Under this method, revenues are recorded when earned and expenses recorded at the time liabilities are incurred.

Cash and Cash Equivalents

For purposes of the statement of net assets, the Credit Union considers all highly liquid investments with a maturity of three months or less when purchased to be cash and cash equivalents. At December 31, 2004, total cash and cash equivalents were \$304,044 and the corresponding bank balance was \$369,201. Of the bank balance amount, \$369,080 is maintained in a financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance as of December 31, 2004. Bank deposits in the amount of \$100,000 were FDIC insured as of December 31, 2004. CNMI law does not require component units to collateralize their bank accounts and thus the Credit Union's deposits in excess of FDIC insurance are uncollateralized.

COMMONWEALTH GOVERNMENT EMPLOYEES' CREDIT UNION

Notes to Financial Statement
December 31, 2004

(2) Summary of Significant Accounting Policies, Continued

Cash and Cash Equivalents, Continued

The loan agreement with the Northern Mariana Islands Retirement Fund (the Fund), Article 4, Section 4.4, stipulates that the Credit Union shall maintain, at all times, a separate debt service fund in an account separate from its other accounts for the purpose of making repayments to the Fund which shall consist of, at a minimum, of three (3) months of payments of principal and interest due. The Credit Union has restricted cash and cash equivalents to comprise this debt service fund.

Loans and Allowance for Loan Losses

Loans are stated at the amount of unpaid principal and interest, reduced by an allowance for loan losses. Interest on loans is calculated by using the simple interest method on daily balances of the principal amount outstanding. The allowance for loan losses is established through a provision for loan losses charged to expense. Loans are charged against the allowance for loan losses when management believes that the collection of the principal is unlikely. The allowance is an amount that management believes will be adequate to absorb possible losses on existing loans that may be uncollectible, based on evaluations of the collectibility of loans and prior loan loss experience. The evaluations take into consideration such factors as changes in the nature and volume of the loan portfolio, overall portfolio quality, review of specific problem loans and current economic conditions that may affect the borrowers' ability to pay.

Plant and Equipment

Plant and equipment are stated at cost. The Credit Union does not have a capitalization policy for fixed assets; however, items with a cost that equals or exceeds \$100 are generally capitalized at the time of acquisition. Depreciation is provided by using the straight-line method over the estimated useful lives of the assets and is charged as a reduction in the investment in capital assets component of net assets.

Members' Savings Accounts

Members' savings accounts, which consist of regular savings and time certificates of deposit, are subordinated to all other liabilities of the Credit Union upon liquidation. Interest on members' savings accounts is based on available earnings at the end of an interest period and is not guaranteed by the Credit Union. Interest rates on members' savings accounts are set by the Board of Directors, based on an evaluation of current and future market conditions. For the year ended December 31, 2004, the interest paid was two percent (2%) for regular savings and five percent (3%) for time certificates of deposit.

Deferred Loan Fees

Loan origination fees are deferred and amortized to income as an adjustment of yield using the straight-line method over the contractual life of the loans. Direct loan origination costs are expensed as incurred. Differences between this method and the method prescribed by SFAS No. 91, *Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases* are not significant and do not otherwise materially affect the accompanying financial statements.

COMMONWEALTH GOVERNMENT EMPLOYEES' CREDIT UNION

Notes to Financial Statement
December 31, 2004

(2) Summary of Significant Accounting Policies, Continued

Retirement Plan

The Credit Union contributes to the Northern Mariana Islands Retirement Fund (the Fund), a cost-sharing multiple employer defined benefit pension plan administered by the CNMI. The Fund provides retirement, security and other benefits to employees, and their spouses and dependents of the CNMI Government and CNMI agencies, instrumentalities, and public corporations. CNMI Public Law 6-17, the Northern Mariana Retirement Fund Act of 1988 assigns the authority to establish and amend benefit provisions to the Fund's Board of Trustees. The Fund issues a publicly available financial report that includes financial statements and required supplementary information for the Fund. 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 Credit Union is required to contribute at an actuarially determined rate. The current rate is 26.4% of annual covered payroll. The contribution requirements of plan members and the Credit Union are established and may be amended by the Fund's Board of Trustees. The Credit Union's contributions to the Fund for the year ended December 31 2004 was \$24,028 equal to the required contributions for the year.

Net Assets

GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, has required the Credit Union to establish net asset categories as follows:

- Investment in capital assets; capital assets, net of accumulated depreciation.
- Restricted:

Nonexpendable - Net assets subject to externally imposed stipulations that the Credit Union maintain them permanently. At December 31, 2004, the Credit Union does not have nonexpendable net assets.

Expendable - Net assets whose use by the Credit Union is subject to externally imposed stipulations that can be fulfilled by actions of the Credit Union pursuant to those stipulations or that expire by the passage of time. As described in note 1, the Credit Union considers all assets, except investments in capital assets, to be restricted for financing to its members.

- Unrestricted; net assets that are not subject to externally imposed stipulations. As the Credit Union considers all assets, except investments in capital assets, to be restricted for financing to its members, the Credit Union does not have unrestricted net assets as of December 31, 2004.

COMMONWEALTH GOVERNMENT EMPLOYEES' CREDIT UNION

Notes to Financial Statement December 31, 2004

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards

For fiscal year 2005, the Credit Union will be implementing GASB Statement No. 40, *Deposit and Investment Risk Disclosures (an amendment of GASB Statement No. 3)* and GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. GASB Statement No. 40 addresses common deposit and investment related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. As an element of interest risk, GASB Statement No. 40 requires certain disclosures of investments that have fair values that are highly sensitive to changes in interest rates. GASB Statement No. 42 establishes standards for impairment of capital assets when its service utility has declined significantly and unexpectedly. The provisions of this Statement are effective for periods beginning after December 15, 2004. Management does not believe that the implementation of these statements will have a material effect on the financial statements of the Credit Union.

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

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

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

In June 2005, GASB issued Statement No. 47, *Accounting for Termination Benefits*. GASB Statement No. 47 establishes guidance for state and local governmental employers on accounting and financial reporting for termination benefits. These benefits include incentives for voluntary terminations (e.g., early retirement window programs) and severance payments with respect to involuntary terminations. The provisions of this Statement are effective for periods beginning after June 15, 2005. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Credit Union.

COMMONWEALTH GOVERNMENT EMPLOYEES' CREDIT UNION

**Notes to Financial Statement
December 31, 2004**

(3) Member Loans and Allowance for Loan Losses

Loans receivable are reported net of the allowance for loan losses. The following is a schedule of loans receivable and allowance as of December 31, 2004:

	<u>Loan Balance</u>	<u>Allowance</u>	<u>Net Amount</u>
Loans receivable	\$ <u>1,788,875</u>	\$ <u>(256,584)</u>	\$ <u>1,532,291</u>

Maturities of the above principal balances subsequent to December 31, 2004, will be as follows:

Fully matured and others	\$ 302,547
1 - 6 months	135,120
7 - 18 months	883,397
19 months - 3 years	<u>467,811</u>
	\$ <u>1,788,875</u>

Allowance for Loan Losses

An analysis of the change in the allowance for loan losses is as follows:

Balance - beginning of year	\$ 127,893
Provision for loans losses	<u>128,691</u>
Balance - end of year	\$ <u>256,584</u>

Certain officers and employees of the Credit Union were loan customers during 2004. Such loans were in the ordinary course of business and do not represent more than a normal risk of collection. Total loans outstanding to these persons at December 31, 2004 were \$14,244. Loans granted to these persons were \$15,510 during the year ended December 31, 2004. Principal repayments during the same year were \$4,920.

(4) Property and Equipment

A summary of property and equipment as of December 31, 2004, is as follows:

	<u>Estimated Useful Lives</u>	
Furniture and equipment	5 years	\$ 125,460
Vehicles	5 years	15,085
Building and improvements	10 years	<u>51,916</u>
		192,461
Less accumulated depreciation and amortization		<u>(151,121)</u>
		\$ <u>41,340</u>

COMMONWEALTH GOVERNMENT EMPLOYEES' CREDIT UNION

Notes to Financial Statement
December 31, 2004

(5) Loan Payable

On August 15, 1996, the Credit Union entered into a loan agreement with the Northern Mariana Islands Retirement Fund (the Fund), an affiliated entity and component unit of the CNMI. The loan bears interest at a floating rate based on the actuarial rate of return on the Fund investments, with a minimum rate of 7.5% and a maximum rate of 10% per annum. The interest rate for the year ended December 31, 2004 was 8%. The loan is payable in monthly installments over a period of thirty years expiring on March 15, 2026. Funds borrowed are collateralized by the full faith and credit of the CNMI Government, a first mortgage on real property (owned by the CNMI Government) in Navy Hill, Saipan, a security interest in the CNMI Government's accounts receivable, and deeds to real property (owned by the CNMI Government) on the islands of Rota and Tinian.

Principal payments for subsequent years ending December 31 and applicable interest due, are as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 32,635	\$ 147,365	\$ 180,000
2006	35,382	144,618	180,000
2007	38,361	141,639	180,000
2008	41,182	138,818	180,000
2009	45,059	134,941	180,000
2010 - 2014	288,576	611,424	900,000
2015 - 2019	432,356	467,644	900,000
2020 - 2024	647,696	252,304	900,000
2025 - 2029	<u>267,181</u>	<u>21,023</u>	<u>288,204</u>
	<u>\$ 1,828,428</u>	<u>\$ 2,059,776</u>	<u>\$ 3,888,204</u>

Changes in loans payable for the year ended December 31, 2004, are as follows:

	<u>Balance January 1, 2004</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance December 30, 2004</u>	<u>Due Within One Year</u>
Northern Mariana Islands Retirement Fund	\$ <u>1,865,350</u>	\$ <u>-</u>	\$ <u>(36,922)</u>	\$ <u>1,828,428</u>	\$ <u>32,635</u>

(6) Risk Management

The Credit Union 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. The Credit Union has elected to purchase commercial insurance from independent third parties for the risks of losses to which it is exposed. Settled claims from these risks have not exceeded commercial insurance coverage.