

## Independent Auditor's Report

The Board of Trustees  
CNMI Workers' Compensation Commission

I have audited the accompanying statements of net assets of the Commonwealth of the Northern Mariana Islands (CNMI) Workers' Compensation Commission (WCC), a component unit of the CNMI Government, as of September 30, 2004 and 2003 and the related statements of changes in fiduciary net assets for the years then ended. These financial statements are the responsibility of the WCC's management. My responsibility is to express an opinion on these financial statements based on my audits.

I conducted my audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audits provide a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the CNMI Workers' Compensation Commission as of September 30, 2004 and 2003, and its revenues, expenditures and changes in fiduciary net assets for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, I have also issued my report dated January 31, 2005, on my consideration of the CNMI Workers' Compensation Commission's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grants. The purpose of that report is to describe the scope of my testing, and not to provide an opinion on the internal control over financial reporting on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of my audit.

As discussed in notes 3 and 9 to the financial statements, the WCC has a limited period of experience in estimating loss reserves and paying workers' compensation and disability claims. Because of the length of time required for the ultimate liability for workers' compensation and special disability claims to be determined, the WCC has limited historical experience data upon which to base an estimate of the ultimate liability. As a result, the Board of Trustees is unable to establish a reserve for estimated workers' compensation and special disability claims. Accordingly, the financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Saipan, Commonwealth of the Northern Mariana Islands  
January 31, 2005

**CNMI WORKERS' COMPENSATION COMMISSION**  
(a component unit of the CNMI Government)

Statements of Fiduciary Net Assets  
September 30, 2004 and 2003

<b><u>Assets</u></b>	<u>2004</u>	<u>Expendable Trust Fund</u> <u>2003</u>
Cash and cash equivalents (Note 2)	\$ 97,958	\$ 125,508
Restricted cash-Special Disability Fund (Note 3)	104,195	184,747
Restricted certificate of deposit- Special Disability Fund (Note 3)	123,827	123,552
Investments (Notes 2 and 4)	635,370	632,043
Accounts receivable (Notes 6 and 7)	953,080	701,250
Property and equipment, net (Notes 2 and 5)	<u>2,214</u>	<u>2,976</u>
Total assets	<u>\$ 1,916,644</u>	<u>\$ 1,770,076</u>
<b><u>Liabilities</u></b>		
Accounts payable and accrued liabilities (Note 2)	\$ 106,216	\$ 133,888
Deferred revenue (Note 7)	<u>948,758</u>	<u>692,805</u>
Total liabilities	<u>1,054,974</u>	<u>826,693</u>
<b><u>Net Assets</u></b>		
Held in trust for workers' compensation benefits and other purposes	<u>\$ 861,670</u>	<u>\$ 943,383</u>
Contingencies (Note 9)		

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(a component unit of the CNMI Government)

Statements of Changes in Fiduciary Net Assets  
Years ended September 30, 2004 and 2003

	Expendable Trust Fund	
	<u>2004</u>	<u>2003</u>
Revenues:		
CNMI appropriation (Note 8)	\$ 355,300	\$ 355,300
Premiums and insurers	53,871	41,159
Fines and penalties (Note 6)	14,716	15,690
Other	<u>6,628</u>	<u>31,802</u>
Total revenues	<u>430,515</u>	<u>443,951</u>
Expenditures:		
Disability claims	240,310	178,528
Salaries and wages	150,931	167,272
Employee benefits	65,316	54,726
Rent	14,469	10,629
Travel and transportation	9,660	38,548
Professional fees	4,682	725
Utilities	2,943	3,177
Repairs and maintenance	2,912	1,943
Management and custodial fees	2,909	2,796
Communication	2,679	2,548
Office Supplies	2,510	1,767
Dues and subscriptions	1,600	4,750
Printing	1,114	66
Depreciation	1,081	2,070
Freight and postage	74	119
Miscellaneous	<u>9,038</u>	<u>3,884</u>
Total expenditures	<u>512,228</u>	<u>473,548</u>
Net decrease	(81,713)	(29,597)
Net assets, beginning of the year	<u>943,383</u>	<u>972,980</u>
Net assets, end of the year	<u>\$ 861,670</u>	<u>\$ 943,383</u>

See accompanying notes to financial statements.