

COMMONWEALTH OF THE  
NORTHERN MARIANA ISLANDS

REPORT ON THE AUDIT OF FINANCIAL  
STATEMENTS IN ACCORDANCE  
WITH THE UNIFORM GUIDANCE

YEAR ENDED SEPTEMBER 30, 2017

COMMONWEALTH OF THE  
NORTHERN MARIANA ISLANDS

BASIC FINANCIAL STATEMENTS,  
ADDITIONAL INFORMATION  
AND  
INDEPENDENT AUDITORS' REPORT

YEAR ENDED SEPTEMBER 30, 2017



## FINANCIAL STATEMENTS

YEAR ENDED SEPTEMBER 30, 2017

TABLE OF CONTENTS

	<u>Page No.</u>
I. Independent Auditors' Report	1
II. Management's Discussion and Analysis	6
III. Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Position	13
Statement of Activities	14
Governmental Fund Financial Statements:	
Balance Sheet	15
Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Position	16
Statement of Revenues, Expenditures, and Changes in Fund Balances (Deficit)	17
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances (Deficit) of Governmental Funds to the Statement of Activities	18
Fiduciary Fund Financial Statements:	
Statement of Fiduciary Net Position	19
Statement of Changes in Fiduciary Net Position	20
Discretely Presented Component Unit Financial Statements:	
Statement of Net Position	21
Statement of Revenues, Expenses, and Changes in Net Position	22
Notes to the Basic Financial Statements	23
IV. Required Supplementary Information:	73
Schedule of Revenues, Expenditures, and Changes in Deficit - Budget and Actual - General Fund	74
Notes to Required Supplementary Information - Budgetary Reporting	75
V. Other Supplementary Information:	77
Combining Schedule of Expenditures by Account - Governmental Funds	78
Major Governmental Fund - General Fund	79
Major Governmental Fund:	
Combining Schedule of Balance Sheet Accounts - General Fund	81
Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances (Deficit) - General Fund	82

## FINANCIAL STATEMENTS

YEAR ENDED SEPTEMBER 30, 2017

TABLE OF CONTENTS, CONTINUED

	<u>Page No.</u>
V. Other Supplementary Information, Continued:	
Major Governmental Fund - Grants Assistance Fund	83
Major Governmental Fund:	
Combining Balance Sheet - Grants Assistance Fund	84
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - Grants Assistance Fund	85
Major Governmental Fund - Saipan Amusement Fund	86
Major Governmental Fund - Department of Public Lands	87
Nonmajor Governmental Funds - Special Revenue Funds	88
Nonmajor Governmental Funds - Capital Projects Funds	91
Nonmajor Governmental Funds:	
Combining Balance Sheet - Special Revenue Funds	92
Combining Balance Sheet - Capital Projects Funds	94
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances (Deficit) - Special Revenue Funds	95
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances (Deficit) - Capital Projects Funds	97
Fiduciary Funds:	98
Combining Statement of Fiduciary Net Position	99
Combining Statement of Changes in Fiduciary Net Position	100
Fiduciary Funds - Agency:	101
Combining Statement of Assets and Liabilities	102

## **INDEPENDENT AUDITORS' REPORT**

Honorable Ralph DLG. Torres  
Governor  
Commonwealth of the Northern Mariana Islands:

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, 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, 2017, and the related notes to the financial statements. We were not engaged to audit the financial statements of the aggregate discretely presented component units. These financial statements collectively comprise the CNMI's basic financial statements as set forth in Section III of the foregoing table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements 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 financial statements are free from material misstatement. Because of the matters described in the "Basis for Disclaimer of Opinion on the Aggregate Discretely Presented Component Units" paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the aggregate discretely presented component units.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

Except for the matters described in the “Basis for Disclaimer of Opinion on the Aggregate Discretely Presented Component Units” paragraph, we believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

**Summary of Opinions**

<b>Opinion Unit</b>	<b>Type of Opinion</b>
Governmental Activities	Adverse
Aggregate Discretely Presented Component Units	Disclaimer
Each Major Governmental Fund	Unmodified
Aggregate Remaining Fund Information	Adverse

**Basis for Adverse Opinions on the Governmental Activities and the Aggregate Remaining Fund Information**

Management has not adopted Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*, which were effective October 1, 2014. In addition, management has not adopted GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, GASB Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans* and GASB Statement No. 82, *Pension Issues - an amendment of GASB Statements No. 67, No. 68, and No. 73*, which were effective for fiscal years beginning after June 15, 2016, December 15, 2015 and June 16, 2016, respectively. As discussed in note 1 to the financial statements, the CNMI has not recorded pension expense and related net pension asset or liability, deferred inflows of resources and deferred outflows of resources as of and for the year ended September 30, 2017. GASB Statements No. 68 and No. 71 require an employer to recognize its proportionate share of the collective pension expense, as well as the net pension asset or liability, deferred outflows of resources and deferred inflows of resources. GASB Statement No. 73 aligns the reporting requirements for pensions and pension plans not covered in GASB Statements 67 and 68 with the reporting requirements in Statement 68, GASB Statement No. 78 addresses a practice issue regarding the scope and applicability of Statement No. 68 and GASB Statement No. 82 addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The amount by which this departure would affect the assets and deferred outflows of resources, liabilities and deferred inflows of resources, net position and expenses of the governmental activities has not been determined.

Further, the aggregate remaining fund information does not include the financial statements of the Northern Mariana Islands Settlement Fund. Accounting principles generally accepted in the United States of America require the financial statements of the Northern Mariana Islands Settlement Fund be reported with the financial data of the CNMI’s primary government unless the CNMI also issues financial statements for the financial reporting entity that include the financial data for its component units. The CNMI has not issued such reporting entities’ financial statements. Because of the departure from accounting principles generally accepted in the United States of America, the assets and deferred outflows, liabilities and deferred inflows, fund balances, revenues, and expenditures of the aggregate remaining fund information could not be determined.

## ***Adverse Opinions***

In our opinion, because of the significance of the matters discussed in the “Basis for Adverse Opinion on the Governmental Activities and the Aggregate Remaining Fund Information” paragraph, the financial statements referred to above do not present fairly, the respective financial position of the governmental activities, and the aggregate remaining fund information of the CNMI as of September 30, 2017, or the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## ***Basis for Disclaimer of Opinion on the Aggregate Discretely Presented Component Units***

The financial statements of the Commonwealth Ports Authority, the Commonwealth Development Authority and the Marianas Public Land Trust have not been audited. The financial activities of the Commonwealth Ports Authority, the Commonwealth Development Authority and the Marianas Public Land Trust are included in the CNMI’s basic financial statements as discretely presented component units and represent 98%, 98% and 99% of the assets and deferred outflows, net position, and operating revenues, respectively, of the CNMI’s aggregate discretely presented component units. Further, the discretely presented component units’ column does not include the financial statements of the Commonwealth Utilities Corporation, the Northern Marianas College, the Public School System, and the Commonwealth Healthcare Corporation.

## ***Disclaimer of Opinion***

Because of the significance of the matters described in the “Basis for Disclaimer of Opinion on the Aggregate Discretely Presented Component Units” paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the financial statements of the aggregate discretely presented component units of the CNMI. Accordingly, we do not express an opinion on these financial statements.

## ***Unmodified Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund of the CNMI as of September 30, 2017, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## ***Emphasis-of-Matters***

### *Implementation of New Accounting Standards*

As discussed in note 1 to the financial statements, the CNMI adopted GASB Statement No. 77, *Tax Abatement Disclosures*.

### *Correction of Errors*

As discussed in note 19 to the financial statements, the beginning net position of the governmental activities and the beginning fund balance of the Department of Public Lands have been restated for the correction of errors.

## *Going Concern*

The CNMI's plans regarding its General Fund deficit position and the related governmental activities net deficiency position are described in note 16 to the financial statements.

Our opinion is not modified with respect to these matters.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 6 through 12 and 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, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by GASB who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance. Management has omitted the Schedule of Proportionate Share of the Net Pension Liability and the Schedule of Pension Contributions that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by GASB who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the 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 purposes of additional analysis and are not a required part of the basic financial statements. The Other Supplementary Information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Other Supplementary Information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

## **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated June 27, 2018 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 solely 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 effectiveness of the CNMI's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the CNMI's internal control over financial reporting and compliance.

*Deloitte & Touche LLC*

June 27, 2018



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**Management's Discussion and Analysis (MD&A)  
Year Ended September 30, 2017**

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, 2017. Please read it in conjunction with the CNMI's financial statements, which follow this section. Fiscal year 2016 information has been included where appropriate for comparative purposes.

**FINANCIAL HIGHLIGHTS**

- For the fiscal year ended September 30, 2017, the CNMI improved its net position by 53.7%, or \$71.8 million, from \$133.8 million, as restated, to a lowered deficit net position of \$61.9 million.
- During the year, the CNMI's expenses for governmental activities were approximately \$374.9 million which includes payments made to the autonomous agencies. These expenses were funded in part by program revenues of \$147.6 million, general revenues of \$297.5 million, and transfers of \$1.5 million. The difference between total revenues and transfers of \$446.7 million and total expenses of \$374.9 million resulted in a decrease in deficit net position by 53.7%.
- At September 30, 2017, the General Fund reported an unassigned fund deficit of \$44.3 million. This is a 42.1% decrease from prior year's \$76.5 million fund deficit.
- For budgetary reporting purposes, General Fund revenues exceeded projections by 5.7% or \$12.1 million. In addition, actual expenditures were higher than final estimates by 6.0% or \$12.4 million. These amounts do not include transfers to and from other funds, nor do they 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 CNMI and its component units using the integrated approach as prescribed by GASB Statement No. 34. Included in this report are government-wide statements for the governmental activities of the CNMI, together 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 Position 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 Position 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 position and changes in them from the prior year. You can think of the CNMI's net position - 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 position are indicators 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 conditions 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 Position 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 public safety, 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 entities that do not meet the criteria for blending within the CNMI's primary government. These discretely present 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 monies.

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

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

### ***Net Position***

The CNMI's governmental activities deficit net position decreased from \$133.8 million, as restated, to a deficit net position of \$61.9 million, a decrease of 53.7% between fiscal years 2016 and 2017.

A summary of net position (condensed) is presented below, with comparable balances of fiscal year 2016:

	Governmental Activities		Change
	2017	(As Restated) 2016	
Current assets	\$ 151,221,645	\$ 99,209,887	\$ 52,011,758
Capital assets, net	152,186,043	154,125,426	(1,939,383)
Other noncurrent assets	2,500,000	2,500,000	-
Deferred outflows from cost of refunding debt	<u>4,955,621</u>	<u>5,265,348</u>	<u>(309,727)</u>
Total assets and deferred outflows	<u>310,863,309</u>	<u>261,100,661</u>	<u>49,762,648</u>
Long-term debt outstanding	76,036,117	80,482,437	(4,446,320)
Obligations under settlement agreement	137,749,160	170,749,160	(33,000,000)
Other liabilities	<u>158,988,595</u>	<u>143,615,334</u>	<u>15,373,261</u>
Total liabilities	<u>372,773,872</u>	<u>394,846,931</u>	<u>(22,073,059)</u>
Net position:			
Net investment in capital assets	81,105,547	78,908,337	2,197,210
Restricted	8,938,546	8,622,478	316,068
Unrestricted	<u>(151,954,656)</u>	<u>(221,277,085)</u>	<u>69,322,429</u>
Total net position	\$ <u>(61,910,563)</u>	\$ <u>(133,746,270)</u>	\$ <u>71,835,707</u>

Significant changes from 2017 in the Statement of Net Position include decreases in long-term debt as a result of debt service payments and payments toward pension liabilities under the settlement agreement plus a robust increase in current assets fueled by General Fund revenues exceeding projections by 5.7%.

### Changes in Net Position

For the year ended September 30, 2017, net position of the primary government changed as follows, with comparable amounts for fiscal year 2016:

	Governmental Activities		Change
	2017	(As Restated) 2016	
Revenues:			
Program revenues	\$ 147,632,115	\$ 159,012,791	\$ (11,380,676)
Taxes and other general revenues	<u>297,512,511</u>	<u>230,913,413</u>	<u>66,599,098</u>
Total revenues	<u>445,144,626</u>	<u>389,926,204</u>	<u>55,218,422</u>
Expenses:			
Health	49,525,464	40,499,648	9,025,816
Public safety and law enforcement	47,360,125	47,831,475	(471,350)
General government	34,584,973	24,220,035	10,364,938
Community and social services	26,566,773	23,288,977	3,277,796
Other elected officials	12,319,415	10,081,173	2,238,242
Utilities	3,932,732	1,344,520	2,588,212
Public works and capital projects	20,848,662	31,678,016	(10,829,354)
Lands and natural resources	19,462,713	15,734,989	3,727,724
Legislative branch	6,786,594	5,886,648	899,946
Judicial branch	5,980,955	5,255,785	725,170
Education	5,707,088	5,006,410	700,678
Interest and fiscal charges	4,838,393	4,827,310	11,083
Economic development	6,775,412	4,180,510	2,594,902
Payments to autonomous agencies	<u>130,166,799</u>	<u>87,446,539</u>	<u>42,720,260</u>
Total expenses	<u>374,856,098</u>	<u>307,282,035</u>	<u>67,574,063</u>
Increase in net position	70,288,528	82,644,169	(12,355,641)
Transfers (write-offs)	1,547,179	(992,800)	2,539,979
Net position, beginning of year	<u>(133,746,270)</u>	<u>(215,397,639)</u>	<u>81,651,369</u>
Net position, end of year	\$ <u>(61,910,563)</u>	\$ <u>(133,746,270)</u>	\$ <u>71,835,707</u>

The CNMI's governmental activities' decrease in deficit net position of \$71.8 million represents a 53.7% decrease from the prior year. The results indicate that the CNMI's financial condition, as a whole, improved greatly in the current year. Significant changes from 2016 in the Statement of Activities include an increase in general revenues of \$66.6 million. Additionally, there is an increase in expenses of \$67.6 million from the prior year, \$42.7 million of which were payments to component units.

## Governmental Activities

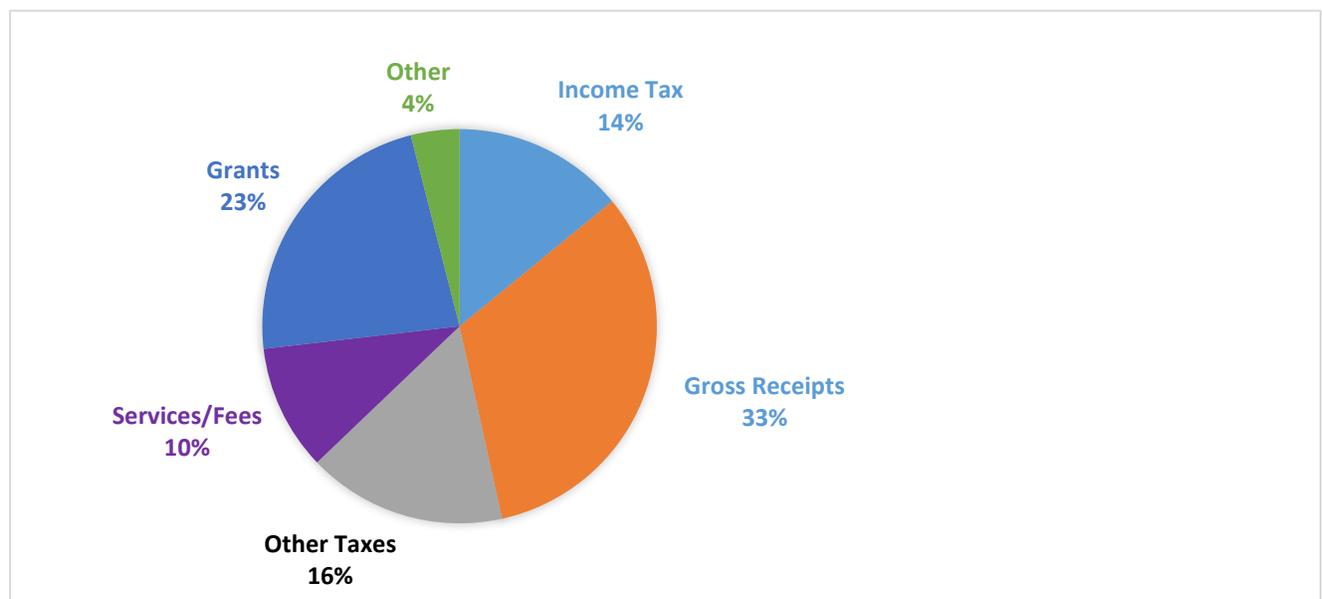
To aid in the understanding of the Statement of Activities some additional explanation is given.

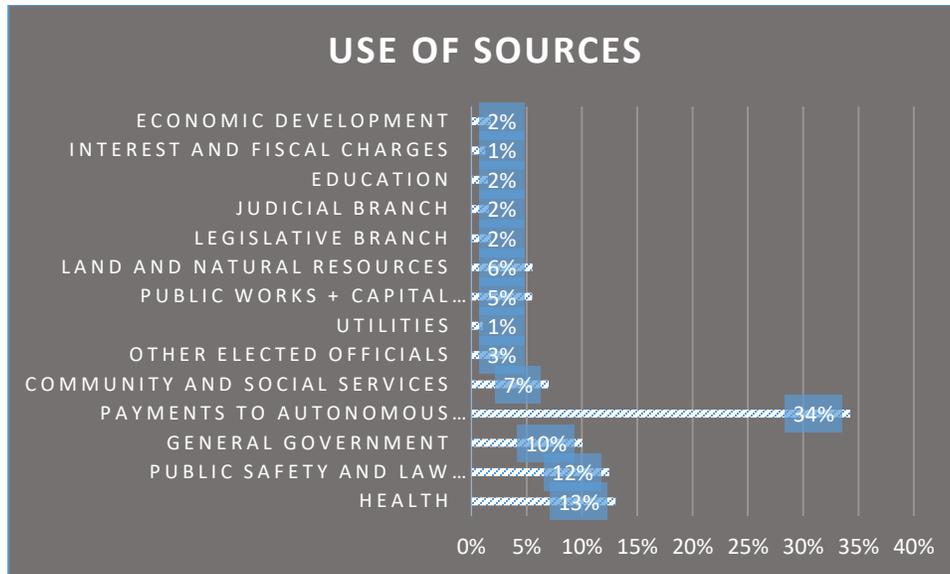
Of particular interest is the format that is significantly different than a typical Statement of Revenues, Expenditures, and Changes in Fund Balance. You will notice that expenses are listed in the first column with revenues from that particular program reported to the right. The result is a Net (Expense)/Revenue. The reason for this 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 that all taxes are classified as general revenue even if restricted for a specific purpose.

The following table illustrates the financial weight governmental activities affect the general sources:

	Net Revenue (Expense) of Governmental Activities					
	<u>Total Expense of Services</u>	<u>Net Revenue (Expense) of Services</u>	<u>Total Expense of Services</u>	<u>Net Revenue (Expense) of Services</u>	<u>Total Expense of Services</u>	<u>Net Revenue (Expense) of Services</u>
	<u>2017</u>	<u>2017</u>	<u>2016</u>	<u>2016</u>	<u>Change</u>	<u>Change</u>
Health	\$ 49,525,464	\$ (19,236,277)	\$ 40,499,648	\$ (13,950,282)	\$ 9,025,816	\$ (5,285,995)
Public safety and law enforcement	47,360,125	(22,597,502)	47,831,475	(22,688,443)	(471,350)	90,941
General government	34,584,973	(2,283,361)	24,220,035	(5,006,848)	10,364,938	2,723,487
Community and social services	26,566,773	(7,603,853)	23,288,977	(5,155,648)	3,277,796	(2,448,205)
Other elected officials	12,319,415	(12,319,415)	10,081,173	(10,081,173)	2,238,242	(2,238,242)
Public works and capital projects	20,848,662	(3,713,109)	31,678,016	(318,005)	(10,829,354)	(3,395,104)
Lands and natural resources	19,462,713	(2,144,798)	15,734,989	(1,363,956)	3,727,724	(780,842)
Legislative branch	6,786,594	(6,786,594)	5,886,648	(5,886,648)	899,946	(899,946)
Judicial branch	5,980,955	(4,993,580)	5,255,785	(4,584,559)	725,170	(409,021)
Utilities	3,932,732	(3,825,104)	1,344,520	(667,584)	2,588,212	(3,157,520)
Education	5,707,088	(5,707,088)	5,006,410	(1,596,607)	700,678	(4,110,481)
Payments to autonomous agencies	130,166,799	(128,615,476)	87,446,539	(71,283,002)	42,720,260	(57,332,474)
Interest and fiscal charges	4,838,393	(4,838,393)	4,827,310	(4,827,310)	11,083	(11,083)
Economic development	6,775,412	(2,559,433)	4,180,510	(859,179)	2,594,902	(1,700,254)
	<u>\$ 374,856,098</u>	<u>\$ (227,223,983)</u>	<u>\$ 307,282,035</u>	<u>\$ (148,269,244)</u>	<u>\$ 67,574,063</u>	<u>\$ (78,954,739)</u>

For the year ended September 30, 2017, the CNMI's governmental activities were funded as follows:





For the year ended September 30, 2017, total expenses for governmental activities amounted to \$374.9 million. Of these total expenses, taxpayers and other general revenues funded \$297.5 million, \$101.7 million from grants and other contributions and \$45.9 million from charges for services.

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

The CNMI completed its 2017 fiscal year with a reported combined fund balance of \$18.4 million. This is a first in recent years, as the CNMI had combined fund deficits of \$13.3 million, as restated, in 2016 and \$64.3 million in 2015. This improvement is due in large part to a dramatic increase in government revenues exceeding increases in expenditures.

Individual fund highlights include:

- For the year ended September 30, 2017, the General Fund's total fund deficit decreased by \$32.2 million or 45.4%, to a total fund deficit of \$38.7 million, largely through a reduction in the unassigned general fund.
- The Grants Assistance Fund balance remains primarily unchanged from prior year with a fund balance of \$5.3 million.
- The Saipan Amusement Fund accounts for casino license fees and other electronic gaming fees. Revenues and expenditures netted a \$16.7 million increase, however, accounting for operating transfers primarily to the General Fund, there is an overall decrease in fund balance ending the year at \$17.9 million.
- The Department of Public Lands fund balance increased by \$4.0 million from \$7.0 million, as restated, in 2016 to \$11.0 million in 2017.
- The Pension and Other Employee Benefit Trust Fund's fiduciary net position increased by \$4.5 million or 14.5% for the year. This fund type includes the retirement fund.

#### General Fund Budgetary Highlights

Original and final revenue estimates remained constant at \$211.2 million. The General Fund's actual revenues of \$223.4 million was more than the final estimates by \$12.1 million, a variance of 5.7%. The General Fund's actual expenditures of \$220.3 million exceeded appropriations by \$12.4 million, a variance of 6.0%, due mainly to unanticipated expenditures in Public Safety (\$2.5 million), Judgments (\$8.9 million) and Public Health, such as Medicaid local expenses and medical referrals (\$9 million).

## CAPITAL ASSET AND DEBT ADMINISTRATION

### Capital Assets

At the end of September 30, 2017, the CNMI had just under \$152.2 million invested in capital assets, net of accumulated depreciation where applicable, including land, infrastructure, vehicles and other machinery and equipment, buildings, and various projects under construction (see table below). This represents a net decrease of \$1.9 million or 1.3% from the previous year.

	<u>Governmental Activities</u>		
	<u>2017</u>	<u>2016</u>	<u>Change</u>
Infrastructure, net	\$ 26,279,056	\$ 28,244,360	\$ (1,965,304)
Buildings and improvements, net	63,340,238	65,947,746	(2,607,508)
Machinery and equipment, net	8,094,474	7,651,381	443,093
Land	30,064,154	30,064,154	-
Construction in progress	<u>24,408,121</u>	<u>22,217,785</u>	<u>2,190,336</u>
Total	\$ <u>152,186,043</u>	\$ <u>154,125,426</u>	\$ <u>(1,939,383)</u>

See note 7 to the financial statements for more detailed information on the CNMI's capital assets and changes therein.

### Long-Term Debt

At year end, the CNMI had \$76 million in long-term debt outstanding, which represents a net decrease of \$4.4 million or 5.5% from the prior year. The CNMI's changes in long-term debt outstanding are as follows:

	<u>Governmental Activities</u>		
	<u>2017</u>	<u>2016</u>	<u>Change</u>
Bonds payable	\$ <u>76,036,117</u>	\$ <u>80,482,437</u>	\$ <u>(4,446,320)</u>

As of September 30, 2017, no rating information was provided from Fitch Ratings or Standard and Poor's Financial Services, LLC for the CNMI's General Obligation Bonds.

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, 2017.

See note 11 to the financial statements for more detailed information on the CNMI's long-term debt and changes therein.

## ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

In the prior years' Management's Discussion and Analysis, the following was mentioned:

"The prospects for fiscal year 2017 are expected to reverse this trend with a significant investment in the CNMI as a result of the awarding of an exclusive gaming license to an investor. The project is in its construction phase, but...expected to infuse additional revenue into the economy well in advance of the project."

As exhibited in the 2017 financial reports, the casino and electronic gaming industry has positively impacted the economic and financial well-being of the CNMI. At the end of 2017, the Saipan Amusement Fund had excess revenues of \$16.7 million over expenditures. Moreover, in early 2018, the casino began operations at the main site, though still at a limited scale as construction is still in progress for additional gaming areas as well as hotel and resort facilities. The positive financial impact in such a short period of time has been dramatic, and it is expected that this positive effect will continue and be reflected in future budgets as they expand their operations to full scale. Additionally, this revived economy is spurring regional and international investments.

We continue towards fiscal year 2019 with a positive outlook, yet we remain conservative as fiscal year 2018 presents some cautionary signals. As it currently stands, the Consolidated Natural Resources Act (USPL 110-229), will greatly reduce the CNMI workforce in 2019. The CNMI government, alongside the private sector, have made great progress in addressing the need to increase the labor pool and as of publication, amendments to the Act have currently passed the U.S. House of Representatives, and we anticipate passage in the US Senate in the near future.

The CNMI is optimistic that the recent economic and social progresses will continue for the residents of these islands.

### **CONTACTING THE CNMI'S FINANCIAL OFFICERS**

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Statement of Net Position  
September 30, 2017

	<u>Primary Government</u>	<u>Component Units</u>
<u>ASSETS AND DEFERRED OUTFLOWS</u>		
Current assets:		
Cash and cash equivalents	\$ 99,076,480	\$ 55,657,692
Time certificates of deposit	295,751	3,500,000
Receivables, net of allowance for uncollectibles	29,116,731	17,498,926
Due from primary government	-	2,748,500
Due from component units	1,400,315	-
Due from fiduciary funds	1,768,204	-
Inventories	804,343	-
Advances	1,100,538	-
Other assets	-	1,027,634
Restricted assets:		
Cash and cash equivalents	16,314,678	15,025,687
Investments	1,344,605	21,784,087
Total current assets	<u>151,221,645</u>	<u>117,242,526</u>
Noncurrent assets:		
Other assets	2,500,000	80,664,168
Receivables:		
Loans, net of allowance for uncollectibles	-	14,582,545
Notes, net of allowance for uncollectibles	-	4,551,904
Other	-	1,920,113
Foreclosed real estate	-	1,865,291
Nondepreciable capital assets	54,472,275	77,852,082
Depreciable capital assets, net of accumulated depreciation	97,713,768	117,510,093
Total noncurrent assets	<u>154,686,043</u>	<u>298,946,196</u>
Deferred outflows from cost of refunding debt	4,955,621	644,988
Total assets and deferred outflows	<u>310,863,309</u>	<u>416,833,710</u>
<u>LIABILITIES AND DEFERRED INFLOWS</u>		
Current liabilities:		
Current portion of obligations under Settlement Agreement	45,000,000	-
Current portion of bonds payable	4,706,320	2,285,000
Current portion of notes payable	-	572,797
Current portion of claims and judgments payable	13,276,940	-
Current portion of compensated absences	3,932,133	254,417
Loan payable under Settlement Agreement	3,664,853	-
Accounts payable	10,414,035	14,020,083
Tax rebates payable	70,203,616	-
Recovery rebate payable	393,837	-
Accrued interest payable	1,580,250	-
Health and life insurance payable	1,470,966	-
Other liabilities and accruals	15,808,451	11,622,022
Due to fiduciary funds	11,534,522	-
Due to component units	11,823,283	-
Due to primary government	-	2,007,363
Unearned revenues	1,724,551	129,154
Total current liabilities	<u>195,533,757</u>	<u>30,890,836</u>
Noncurrent liabilities:		
Obligations under Settlement Agreement	92,749,160	-
Bonds payable, net of current portion	71,329,797	33,668,306
Notes payable, net of current portion	-	3,695,205
Compensated absences, net of current portion	4,770,241	460,726
Due to component units	2,664,865	-
Accrued interest payable	-	546,679
Unearned revenues, net of current portion	-	8,749,391
Landfill closure and post closure costs	5,726,052	-
Total noncurrent liabilities	<u>177,240,115</u>	<u>47,120,307</u>
Deferred inflows of resources	-	6,300
Total liabilities and deferred inflows of resources	<u>372,773,872</u>	<u>78,017,443</u>
Commitments and contingencies		
<u>NET POSITION</u>		
Net investment in capital assets	81,105,547	156,101,831
Restricted for:		
Expendable:		
Capital projects	4,346,674	-
Retirement of indebtedness	2,399,056	-
Federal programs and projects	1,731,355	-
Other purposes	461,461	154,493,535
Unrestricted	<u>(151,954,656)</u>	<u>28,220,901</u>
Total net position	<u>\$ (61,910,563)</u>	<u>\$ 338,816,267</u>

See accompanying notes to financial statements.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Statement of Activities  
For the Year Ended September 30, 2017

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Position	
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government	Component Units
Primary government:						
Governmental activities:						
Health	\$ 49,525,464	\$ -	\$ 30,289,187	\$ -	\$ (19,236,277)	\$ -
Public safety and law enforcement	47,360,125	6,289,834	18,472,789	-	(22,597,502)	-
General government	34,584,973	28,366,102	3,309,512	625,998	(2,283,361)	-
Community and social services	26,566,773	-	18,962,920	-	(7,603,853)	-
Other elected officials	12,319,415	-	-	-	(12,319,415)	-
Utilities	3,932,732	-	-	107,628	(3,825,104)	-
Utilities - Capital Projects	-	-	-	2,616,448	2,616,448	-
Public works	20,848,662	783,178	7,042	13,728,885	(6,329,557)	-
Lands and natural resources	19,462,713	9,090,123	8,227,792	-	(2,144,798)	-
Legislative branch	6,786,594	-	-	-	(6,786,594)	-
Judicial branch	5,980,955	987,375	-	-	(4,993,580)	-
Education	5,707,088	-	-	-	(5,707,088)	-
Interest and fiscal charges	4,838,393	-	-	-	(4,838,393)	-
Economic development	6,775,412	402,502	1,563,162	2,250,315	(2,559,433)	-
Education:						
Payments to Public School System	47,217,476	-	221,603	-	(46,995,873)	-
Payments to Northern Marianas College	5,978,211	-	74,187	-	(5,904,024)	-
Payments to Commonwealth Utilities Corporation	2,634,506	-	-	-	(2,634,506)	-
Payments to Commonwealth Healthcare Corporation	10,173,964	-	1,255,533	-	(8,918,431)	-
Payments to Marianas Visitors Authority	16,980,247	-	-	-	(16,980,247)	-
Payments to CNMI Group Health and Life Insurance Trust Fund	10,268,830	-	-	-	(10,268,830)	-
Payments to Settlement Fund	36,913,565	-	-	-	(36,913,565)	-
Total primary government	<u>\$ 374,856,098</u>	<u>\$ 45,919,114</u>	<u>\$ 82,383,727</u>	<u>\$ 19,329,274</u>	<u>(227,223,983)</u>	<u>-</u>
Component units:						
Commonwealth Ports Authority	\$ 29,977,040	\$ 18,081,318	\$ -	\$ 6,497,837	-	(5,397,885)
Commonwealth Development Authority	8,880,040	1,499,031	8,261,602	-	-	880,593
Marianas Public Land Trust	2,884,365	-	-	-	-	(2,884,365)
Marianas Visitors Authority	13,530,186	57,491	184,291	-	-	(13,288,404)
Total component units	<u>\$ 55,271,631</u>	<u>\$ 19,637,840</u>	<u>\$ 8,445,893</u>	<u>\$ 6,497,837</u>	<u>-</u>	<u>(20,690,061)</u>
General revenues:						
Taxes:						
Income				62,667,614	-	-
Gross receipts				144,500,954	-	-
Excise				32,569,884	-	-
Hotel				20,211,575	-	-
Fuel				3,758,683	-	-
Cigarette				8,914,878	-	-
Other taxes				7,167,821	-	-
Unrestricted investment earnings and dividends				259,689	3,256,461	-
Contributions from primary government				-	15,336,943	-
Other				17,461,413	18,280,620	-
Total general revenues				<u>297,512,511</u>	<u>36,874,024</u>	
Transfers in from fiduciary funds				1,547,179	-	-
Total general revenues and transfers in				<u>299,059,690</u>	<u>36,874,024</u>	
Change in net position				<u>71,835,707</u>	<u>16,183,963</u>	
Net position - beginning, as previously reported				(134,746,270)	322,632,304	
Prior period adjustment (note 19)				1,000,000	-	
Net position - beginning, as restated				<u>(133,746,270)</u>	<u>322,632,304</u>	
Net position - ending				<u>\$ (61,910,563)</u>	<u>\$ 338,816,267</u>	

See accompanying notes to financial statements.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Balance Sheet  
Governmental Funds  
September 30, 2017

<u>Assets</u>	<u>General</u>	<u>Grants Assistance</u>	<u>Saipan Amusement</u>	<u>Department of Public Lands</u>	<u>Other Governmental Funds</u>	<u>Total</u>
Cash and cash equivalents	\$ 74,880,895	\$ -	\$ -	\$ 24,195,585	\$ -	\$ 99,076,480
Time certificates of deposit	295,751	-	-	-	-	295,751
Restricted cash and cash equivalents	14,255,247	2,052,466	-	-	6,965	16,314,678
Restricted investments	-	-	-	-	1,344,605	1,344,605
Receivables, net:						
Federal agencies	6,875,037	6,086,044	-	-	284,562	13,245,643
Taxes	8,885,019	-	-	-	-	8,885,019
General	2,779,563	-	-	2,983,789	-	5,763,352
Other	-	12,831	-	-	1,209,886	1,222,717
Due from other funds	2,068,330	4,473,298	29,548,873	-	20,986,508	57,077,009
Due from fiduciary funds	1,000,000	-	-	-	768,204	1,768,204
Due from component units	-	-	-	-	1,400,315	1,400,315
Advances	1,100,538	-	-	-	-	1,100,538
Inventories	232,387	571,956	-	-	-	804,343
Other assets	2,500,000	-	-	-	-	2,500,000
	<u>\$ 114,872,767</u>	<u>\$ 13,196,595</u>	<u>\$ 29,548,873</u>	<u>\$ 27,179,374</u>	<u>\$ 26,001,045</u>	<u>\$ 210,798,654</u>
<u>Liabilities and Fund Balances (Deficit)</u>						
Liabilities:						
Accounts payable	\$ 4,171,048	\$ 5,255,905	\$ 86,342	\$ 197,018	\$ 703,722	\$ 10,414,035
Health and life insurance payable	-	-	-	-	1,470,966	1,470,966
Tax rebates payable	70,203,616	-	-	-	-	70,203,616
Recovery rebates payable	393,837	-	-	-	-	393,837
Other liabilities and accruals	2,819,973	1,770,533	-	11,067,173	150,772	15,808,451
Claims and judgments payable	8,276,940	-	-	-	-	8,276,940
Loan payable under Settlement Agreement	3,664,853	-	-	-	-	3,664,853
Due to other funds	55,008,679	336,833	-	1,143,018	588,479	57,077,009
Due to fiduciary funds	-	-	11,534,522	-	-	11,534,522
Due to component units	9,078,645	-	-	2,744,638	-	11,823,283
Unearned revenues	-	571,956	-	1,052,527	100,068	1,724,551
Total liabilities	<u>153,617,591</u>	<u>7,935,227</u>	<u>11,620,864</u>	<u>16,204,374</u>	<u>3,014,007</u>	<u>192,392,063</u>
Fund balances (deficit):						
Non-spendable	2,732,387	-	-	-	-	2,732,387
Restricted	2,855,711	5,261,368	-	-	821,467	8,938,546
Committed	-	-	17,928,009	10,975,000	22,175,260	51,078,269
Unassigned:						
General fund	(44,332,922)	-	-	-	-	(44,332,922)
Special revenue funds	-	-	-	-	(9,689)	(9,689)
Total fund balances (deficit)	<u>(38,744,824)</u>	<u>5,261,368</u>	<u>17,928,009</u>	<u>10,975,000</u>	<u>22,987,038</u>	<u>18,406,591</u>
	<u>\$ 114,872,767</u>	<u>\$ 13,196,595</u>	<u>\$ 29,548,873</u>	<u>\$ 27,179,374</u>	<u>\$ 26,001,045</u>	<u>\$ 210,798,654</u>

See accompanying notes to financial statements.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Reconciliation of Governmental Funds Balance Sheet  
to the Statement of Net Position  
September 30, 2017

Total fund balances - governmental funds		\$ 18,406,591
Amounts reported for governmental activities in the statement of net position are different because:		
Deferred outflows of resources are charged to future periods and are not reported in the funds. Those deferred outflows consist of:		
Deferred loss on refunding		4,955,621
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. Those assets consist of:		
Land	\$ 30,064,154	
Construction in progress	24,408,121	
Depreciable capital assets and infrastructure, net of \$220,943,478 of accumulated depreciation	<u>97,713,768</u>	
Capital assets, net of accumulated depreciation		152,186,043
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds. These liabilities include:		
Obligations under Settlement Agreement	(137,749,160)	
Bonds payable	(76,036,117)	
Claims and judgments payable	(5,000,000)	
Accrued interest payable	(1,580,250)	
Compensated absences payable	(8,702,374)	
Due to component unit	(2,664,865)	
Landfill closure and postclosure costs	<u>(5,726,052)</u>	
Long-term liabilities		<u>(237,458,818)</u>
Net position of governmental activities		<u>\$ (61,910,563)</u>

See accompanying notes to financial statements.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Statement of Revenues, Expenditures, and Changes in Fund Balances (Deficit)  
Governmental Funds  
For the Year Ended September 30, 2017

	General	Grants Assistance	Saipan Amusement	Department of Public Lands	Other Governmental Funds	Total
<b>Revenues:</b>						
Taxes	\$ 201,769,061	\$ -	\$ 70,483,539	\$ -	\$ 7,538,809	\$ 279,791,409
Federal contributions	-	94,796,000	-	-	4,605,352	99,401,352
Licenses and fees	11,392,566	753,173	16,244,382	1,057,462	7,812,481	37,260,064
Charges for sales and services	1,347,271	-	-	6,903,510	408,269	8,659,050
Contributions from component units	1,636,226	49,425	-	-	625,998	2,311,649
Interest and dividends	170,334	5,893	7,155	40,396	35,911	259,689
Other	8,664,756	368,261	-	1,249,533	7,178,863	17,461,413
<b>Total revenues</b>	<b>224,980,214</b>	<b>95,972,752</b>	<b>86,735,076</b>	<b>9,250,901</b>	<b>28,205,683</b>	<b>445,144,626</b>
<b>Expenditures:</b>						
<b>Current:</b>						
Health	10,124,002	37,761,877	254,755	-	1,384,830	49,525,464
General government	21,226,743	2,041,547	6,739,013	-	3,559,970	33,567,273
Public safety and law enforcement	27,261,725	18,472,789	16,024	-	898,024	46,648,562
Community and social services	5,890,309	18,962,920	800,655	-	717,861	26,371,745
Lands and natural resources	4,770,687	8,980,965	547,527	5,295,761	58,005	19,652,945
Utilities	200,988	107,628	3,624,116	-	-	3,932,732
Other elected officials	11,836,752	-	-	-	482,663	12,319,415
Legislative branch	6,723,954	-	62,640	-	-	6,786,594
Judicial branch	5,664,681	-	25,000	-	-	5,689,681
Education	3,072,315	-	250,569	-	2,384,204	5,707,088
Economic development	1,364,897	3,018,429	17,853	-	2,374,233	6,775,412
<b>Payments to:</b>						
Public School System	36,465,093	221,603	10,241,826	-	288,954	47,217,476
Marianas Visitors Authority	15,753,034	-	-	-	1,227,213	16,980,247
Northern Marianas College	4,904,024	74,187	1,000,000	-	-	5,978,211
Commonwealth Utilities Corporation	338,265	-	2,146,241	-	150,000	2,634,506
Commonwealth Healthcare Corporation	1,086,105	1,255,533	7,000,000	-	832,326	10,173,964
CNMI Group Health and Life Insurance Trust Fund	10,268,830	-	-	-	-	10,268,830
Settlement Fund	33,000,000	-	36,913,565	-	-	69,913,565
<b>Debt service:</b>						
Interest and fiscal charges	4,620,278	-	-	-	-	4,620,278
Principal retirement	5,794,846	-	-	-	-	5,794,846
<b>Capital outlay:</b>						
Public works	4,085,579	9,925,623	362,819	-	7,393,388	21,767,409
Utilities - Capital Projects	-	2,616,448	-	-	-	2,616,448
<b>Total expenditures</b>	<b>214,453,107</b>	<b>103,439,549</b>	<b>70,002,603</b>	<b>5,295,761</b>	<b>21,751,671</b>	<b>414,942,691</b>
Excess (deficiency) of revenues over (under) expenditures	10,527,107	(7,466,797)	16,732,473	3,955,140	6,454,012	30,201,935
<b>Other financing sources (uses):</b>						
Operating transfers in	30,113,046	7,472,690	-	-	2,470,926	40,056,662
Operating transfers out	(8,396,437)	-	(26,847,155)	-	(3,265,891)	(38,509,483)
<b>Total other financing sources (uses), net</b>	<b>21,716,609</b>	<b>7,472,690</b>	<b>(26,847,155)</b>	<b>-</b>	<b>(794,965)</b>	<b>1,547,179</b>
<b>Net change in fund balances (deficit)</b>	<b>32,243,716</b>	<b>5,893</b>	<b>(10,114,682)</b>	<b>3,955,140</b>	<b>5,659,047</b>	<b>31,749,114</b>
Fund balances (deficit) at beginning of year, as previously reported	(70,988,540)	5,255,475	28,042,691	6,019,860	17,327,991	(14,342,523)
Prior period adjustment (note 19)	-	-	-	1,000,000	-	1,000,000
Fund balances (deficit) at beginning of year, as restated	(70,988,540)	5,255,475	28,042,691	7,019,860	17,327,991	(13,342,523)
<b>Fund balances (deficit) at end of year</b>	<b>\$ (38,744,824)</b>	<b>\$ 5,261,368</b>	<b>\$ 17,928,009</b>	<b>\$ 10,975,000</b>	<b>\$ 22,987,038</b>	<b>\$ 18,406,591</b>

See accompanying notes to financial statements.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Reconciliation of the Statement of Revenues, Expenditures, and Changes in  
Fund Balances (Deficit) of Governmental Funds to the Statement of Activities  
September 30, 2017

Total net change in fund balances - governmental funds		\$ 31,749,114
Amounts reported for governmental activities in the statement of activities are different because:		
Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. For the current year, these amounts consist of:		
Capital outlays	9,084,576	
Depreciation expense	<u>(11,023,959)</u>	(1,939,383)
The incurrence of long-term debt (e.g., bonds and leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and deferred amounts on refundings when debt is issued, whereas these amounts are deferred and amortized in the statement of activities. For the current year, these amounts consist of:		
Repayment of obligations under Settlement Agreement	33,000,000	
Repayment of claims and judgments	5,000,000	
Repayment of bonds	4,440,000	
Amortization of bond premiums	6,320	
Amortization of deferred amount on refunding	<u>(309,727)</u>	42,136,593
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. For the current year, these activities consist of:		
Change in accrued interest payable	85,292	
Change in due to component unit	1,354,846	
Change in landfill closure and postclosure care costs	(381,737)	
Change in compensated absences payable	<u>(1,169,018)</u>	(110,617)
Change in net position of governmental activities		<u>\$ 71,835,707</u>

See accompanying notes to financial statements.



COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Statement of Changes in Fiduciary Net Position  
Fiduciary Funds  
Year Ended September 30, 2017

	Pension (and Other Employee Benefit) Trust Fund
Additions:	
Employee contributions	\$ 5,691,415
Employer contributions	<u>2,098,285</u>
	<u>7,789,700</u>
Investment income:	
Net change in the fair value of investments	3,287,505
Interest and dividend income	<u>112,187</u>
Total investment income	3,399,692
Less management and custodial fees	<u>(278,120)</u>
Net investment income	<u>3,121,572</u>
Interest and fees on loans	<u>317,019</u>
Transfers and rollovers	<u>838,650</u>
Other	<u>191,506</u>
Total additions	<u>12,258,447</u>
Deductions:	
Benefits and refund payments:	
Withdrawal and refunds	4,958,118
Forfeitures	827,478
Retirement benefits	240,943
Health and life insurance premiums	67,337
Survivor benefits	<u>6,000</u>
Total benefits and refund payments	<u>6,099,876</u>
Administrative expenses:	
Salaries and wages	90,982
Employee benefits	22,132
Professional fees	3,808
Miscellaneous	<u>10,261</u>
Total administrative expenses	<u>127,183</u>
Transfers out to other funds	<u>1,547,179</u>
Total deductions	<u>7,774,238</u>
Change in net position held in trust for employees' pension benefits	4,484,209
Fiduciary net position held in trust:	
Beginning of year	<u>30,885,874</u>
End of year	<u>\$ 35,370,083</u>

See accompanying notes to financial statements.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Statement of Net Position  
Component Units  
September 30, 2017

	Commonwealth Ports Authority	Commonwealth Development Authority	Marianas Public Land Trust	Marianas Visitors Authority	Total
<b>ASSETS AND DEFERRED OUTFLOWS</b>					
Current assets:					
Cash and cash equivalents	\$ 38,103,823	\$ 8,935,337	\$ 2,554,031	\$ 6,064,501	\$ 55,657,692
Time certificates of deposit	-	3,500,000	-	-	3,500,000
Receivables, net:					
Loans	-	2,513,082	-	-	2,513,082
Notes	-	-	3,498,927	-	3,498,927
Federal agencies	1,050,885	-	-	-	1,050,885
General	3,505,998	-	-	-	3,505,998
Interest and dividends	-	65,675	211,430	-	277,105
Dividend	-	1,800,000	-	-	1,800,000
Other	2,332,229	2,459,722	50,577	10,401	4,852,929
Due from primary government	-	-	-	2,748,500	2,748,500
Other assets	1,010,033	11,715	5,886	-	1,027,634
Restricted assets:					
Cash and cash equivalents	-	15,025,687	-	-	15,025,687
Investments	21,784,087	-	-	-	21,784,087
Total current assets	67,787,055	34,311,218	6,320,851	8,823,402	117,242,526
Noncurrent assets:					
Investments	-	-	80,664,168	-	80,664,168
Receivables:					
Loans, net	-	14,582,545	-	-	14,582,545
Notes, net	-	-	4,551,904	-	4,551,904
Other	-	1,920,113	-	-	1,920,113
Nondepreciable capital assets	70,238,902	7,472,530	140,650	-	77,852,082
Depreciable capital assets, net of accumulated depreciation	115,676,035	1,409,855	182,397	241,806	117,510,093
Foreclosed real estate	-	1,765,891	99,400	-	1,865,291
Total noncurrent assets	185,914,937	27,150,934	85,638,519	241,806	298,946,196
Deferred outflows from cost of refunding debt	644,988	-	-	-	644,988
Total assets and deferred outflows	254,346,980	61,462,152	91,959,370	9,065,208	416,833,710
<b>LIABILITIES AND DEFERRED INFLOWS</b>					
Current liabilities:					
Current portion of bonds payable	2,285,000	-	-	-	2,285,000
Current portion of notes payable	275,813	296,984	-	-	572,797
Accounts payable	5,825,301	6,005,727	55,509	2,133,546	14,020,083
Current portion of compensated absences	243,231	-	-	11,186	254,417
Due to primary government	2,007,363	-	-	-	2,007,363
Other liabilities and accruals	8,691,122	2,262,671	376,453	291,776	11,622,022
Unearned revenues	101,927	27,227	-	-	129,154
Total current liabilities	19,429,757	8,592,609	431,962	2,436,508	30,890,836
Noncurrent liabilities:					
Bonds payable, net of current portion	33,668,306	-	-	-	33,668,306
Notes payable, net of current portion	3,695,205	-	-	-	3,695,205
Compensated absences, net of current portion	366,445	-	-	94,281	460,726
Accrued interest payable	546,679	-	-	-	546,679
Unearned revenues, net of current portion	-	8,749,391	-	-	8,749,391
Total noncurrent liabilities	38,276,635	8,749,391	-	94,281	47,120,307
Deferred inflows of resources	-	-	-	6,300	6,300
Total liabilities and deferred inflows of resources	57,706,392	17,342,000	431,962	2,537,089	78,017,443
<b>NET POSITION</b>					
Net investment in capital assets	146,635,600	8,901,378	323,047	241,806	156,101,831
Restricted	21,784,087	35,218,774	91,204,361	6,286,313	154,493,535
Unrestricted	28,220,901	-	-	-	28,220,901
Total net position	\$ 196,640,588	\$ 44,120,152	\$ 91,527,408	\$ 6,528,119	\$ 338,816,267

See accompanying notes to financial statements.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Statement of Revenues, Expenses, and Changes in Net Position  
 Components Units  
 Year Ended September 30, 2017

	Commonwealth Ports Authority	Commonwealth Development Authority	Marianas Public Land Trust	Marianas Visitors Authority	Total
Operating revenues:					
Charges for services and fees	\$ 18,081,318	\$ 1,499,031	\$ -	\$ 57,491	\$ 19,637,840
Grants and contributions	-	8,261,602	-	184,291	8,445,893
Other	9,330,150	366,672	6,722,373	7,008	16,426,203
	27,411,468	10,127,305	6,722,373	248,790	44,509,936
Provision for uncollectible receivables	(2,271,767)	(1,038,072)	-	-	(3,309,839)
Total operating revenues	25,139,701	9,089,233	6,722,373	248,790	41,200,097
Operating expenses:					
Cost of services	8,278,312	4,354,676	-	11,514,376	24,147,364
Depreciation and amortization	12,412,848	197,598	38,724	78,984	12,728,154
Administration	7,101,046	3,617,247	1,035,227	1,936,826	13,690,346
Total operating expenses	27,792,206	8,169,521	1,073,951	13,530,186	50,565,864
Operating income (loss)	(2,652,505)	919,712	5,648,422	(13,281,396)	(9,365,767)
Nonoperating revenues (expenses):					
Contributions from the primary government	-	-	-	15,336,943	15,336,943
Dividend income	-	2,880,000	-	-	2,880,000
Unrestricted investment earnings	357,440	19,021	-	-	376,461
Contributions to the primary government	-	(676,676)	(1,810,414)	-	(2,487,090)
Interest expense	(2,184,834)	(21,843)	-	-	(2,206,677)
Other expense	-	(12,000)	-	-	(12,000)
Other revenues	4,942,665	221,591	-	-	5,164,256
Nonoperating revenues (expenses), net	3,115,271	2,410,093	(1,810,414)	15,336,943	19,051,893
Income before capital contributions and federal grants	462,766	3,329,805	3,838,008	2,055,547	9,686,126
Capital contributions and federal grants	6,497,837	-	-	-	6,497,837
Change in net position	6,960,603	3,329,805	3,838,008	2,055,547	16,183,963
Net position - beginning	189,679,985	40,790,347	87,689,400	4,472,572	322,632,304
Net position - ending	\$ 196,640,588	\$ 44,120,152	\$ 91,527,408	\$ 6,528,119	\$ 338,816,267

See accompanying notes to financial statements.

# COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

## Notes to the Financial Statements September 30, 2017

### (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. 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 basic financial statements to be misleading or incomplete. The criteria to be considered in determining financial accountability include whether the CNMI, as the primary government, has appointed a voting majority of an organization's governing body and either has the ability to impose its will on that organization or there is potential for the organization to provide specific financial benefits to or impose specific financial burdens on the CNMI. Financial accountability also exists if an organization is determined to be fiscally dependent on the primary government, although the primary government does not appoint a voting majority of the organization's governing board.

Each component unit of the CNMI has a September 30 year end.

Component units are entities that are legally separate organizations for which the CNMI's elected officials are financially accountable or other organizations for which the nature and significance of their relationship with the CNMI are such that exclusion would cause the CNMI's basic financial statements to be misleading or incomplete. The CNMI is financially accountable because it appoints the members of the governing authorities of each of the component units and because it is able to impose its will on these organizations or because the organizations provide specific financial benefits or impose specific financial burdens on the CNMI.

The financial statements of the component units have been included in the financial reporting entity as discretely presented component units in accordance with GASB Statement No. 14, *The Financial Reporting Entity*, as amended by GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*. The component units' column of the basic financial statements includes the financial data of the following discretely presented component units:

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2017

(1) Summary of Significant Accounting Policies, Continued

A. Reporting Entity, Continued

- 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. The CNMI has the ability to impose its will on CPA.
- 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 seven-member Board of Directors appointed by the Governor. The CNMI has the ability to impose its will on CDA.
- The Marianas Public Land Trust (MPLT) manages all monies received by it from the CNMI Department 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. The CNMI has the ability to impose its will on MPLT.
- The Marianas Visitors Authority (MVA) is responsible for the promotion and development of the tourism industry in the CNMI. MVA is governed by a nine-member Board of Directors, five of which are appointed by the Governor with the remaining four chosen by the members of MVA. The CNMI provides financial support to MVA through legislative appropriations.

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

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

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

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

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2017

(1) Summary of Significant Accounting Policies, Continued

A. Reporting Entity, Continued

In addition, the fiduciary component units are subject to legislative and executive controls. These component units, while meeting the definition of a component unit and while legally separate, are presented in the fund financial statements of the CNMI. They have been omitted from the government-wide financial statements as their resources are not available to fund operations of the CNMI. The fiduciary component units are as follows:

- 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 was governed by a seven-member Board of Trustees who appointed an Administrator who administered NMIRF in a manner that furthered its purposes. The Board of Trustees has not been renewed by the Governor as a result of Civil Case No. 09-00023 and NMIRF is administered by the CNMI Secretary of Finance who serves as the Acting Administrator.
- The Defined Contribution Plan (DCP) was created by Public Law 15-13 to provide an individual account retirement system for any person employed by the CNMI or its autonomous agencies. Participating employers include the CNMI, NMIRF, CGECU, CDA, CHCC, CPA, CUC, MPLT, MVA, NMC, NMHC and PSS. The NMIRF Acting Administrator is responsible for the general administration and operation of DCP. DCP, by its nature, is fully funded on a current basis from employer and member contributions. DCP is a voluntary multi-employer pension plan and is the single retirement program for all new employees whose employment commenced on or after January 1, 2007.

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

Northern Mariana Islands Retirement Fund  
P.O. Box 5234 CHRB  
Saipan, MP 96950

Omitted Component Units

The CNMI has omitted the Commonwealth Utilities Corporation (CUC), a Discretely Presented Component Unit, from the basic financial statements due to the lack of available financial information. CUC is responsible for supervising the construction, maintenance, operations, and regulation of electric, water and sewage services, provided however, that whenever feasible, CUC shall contract with private businesses to assume its duties with respect to one or more of these divisions. CUC was also designated the responsibility to establish rates, meter, bill and collect fees in a fair and rational manner from all customers of utility services in order for CUC to become financially independent of appropriations by the CNMI Legislature. CUC is governed by a board of directors appointed for terms of four years by the Governor of the CNMI with the advice and consent of the Senate. The CNMI has the ability to impose its will on CUC.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2017

(1) Summary of Significant Accounting Policies, Continued

A. Reporting Entity, Continued

The CNMI has omitted the Northern Marianas College (NMC), a Discretely Presented Component Unit, from the basic financial statements due to the lack of available financial information. NMC serves as the state 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. The CNMI provides financial support to NMC through legislative appropriations.

The CNMI has omitted the Public School System (PSS), a Discretely Presented Component Unit, from the basic financial statements due to the lack of available financial information. PSS is the state educational agency responsible for pre-school, elementary and secondary education programs in the CNMI. PSS is governed by a five-member Board of Education elected at-large. The CNMI provides financial support to PSS through legislative appropriations.

The CNMI has omitted the Commonwealth Healthcare Corporation (CHCC), a Discretely Presented Component Unit, from the basic financial statements due to the lack of available financial information. CHCC is responsible for providing healthcare services in the CNMI. CHCC is governed by a Chief Executive Officer (CEO) who governs the operations of CHCC in a manner that furthers its purposes. A seven-member Board of Trustees, three of which are ex officio voting members consisting of the CEO, the Director of Medical Affairs and a U.S. citizen selected from CHCC's non-physician healthcare professionals and the remaining four appointed by the Governor with the advice and consent of the Senate, acts in an advisory role to the CEO. The CNMI provides financial support to CHCC through legislative appropriations.

The omission of the above component units is considered material to the discretely presented component units' reporting column.

The CNMI has omitted the Northern Mariana Islands Settlement Fund (NMISF), a Fiduciary Fund Type - Pension (and Other Employee Benefit) Trust Fund from the basic financial statements due to the lack of available financial information. NMISF exists to accept the transfer of NMIRF assets, receive annual contributions and payments from the CNMI and to carry out the consent judgment entered by the United States District Court for the Northern Mariana Islands (District Court) for Civil Case No. 09-000023. NMISF is governed by a Trustee appointed by the District Court. The omission of this component unit is considered material to the aggregate remaining fund information.

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2017

(1) Summary of Significant Accounting Policies, Continued

A. Reporting Entity, Continued

Program and Other Revenue Recognition

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

B. Government-Wide Financial Statements

The Statement of Net Position and the Statement of Activities report information on all non-fiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been eliminated from these statements except for other changes between the primary government and the discretely presented component units. Elimination of these changes would distort the direct costs and program revenues reported for the various functions concerned. 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 Position presents all of the reporting entity's non-fiduciary assets and deferred outflows of resources, and liabilities and deferred inflows of resources, with the difference reported as net position. Net position is reported in three categories:

- *Net investment in capital assets* 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 position* results when constraints placed on net position use are either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through enabling legislation.
- *Unrestricted net position* consists of net position, which does not meet the definition of the two preceding categories. Unrestricted net position often is designated, to indicate that management does not consider it to be available for general operations.

The government-wide Statement of Net Position reports \$8,938,546 of restricted net position, of which \$461,461 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.

# COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

## Notes to the Financial Statements September 30, 2017

### (1) Summary of Significant Accounting Policies, Continued

#### 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 nonmajor 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 nonmajor governmental funds being combined into a single column.

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

#### D. Measurement Focus and Basis of Accounting

##### Government-Wide Financial Statements:

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.

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.

##### Governmental Fund Financial Statements:

Governmental funds financial statements 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 ninety days of the end of the current fiscal period. Federal grants and assistance awards made on the basis of entitlement periods are recorded as revenue when available and entitlement occurs, which is generally within twelve months of the current fiscal period.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2017

(1) Summary of Significant Accounting Policies, Continued

D. Measurement Focus and Basis of Accounting, Continued

Governmental Fund Financial Statements, Continued:

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. 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. Expenditures generally 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.

Fiduciary Funds and Component Units Financial Statements:

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.

*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:

- General Fund. This fund is the primary operating fund of the CNMI. It is used to account for all governmental transactions, except those required to be accounted for in another fund.
- Grants Assistance Fund, a Governmental Fund Type - Capital Projects Fund/Special Revenue Fund. This fund accounts for all financial transactions related to grants received from various U.S. departments. This fund combines the DOI Capital Projects Fund, a Governmental Fund Type - Capital Projects Fund and Federal Grants Fund, a Governmental Fund Type - Special Revenue Fund and is detailed in the combining statements.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2017

(1) Summary of Significant Accounting Policies, Continued

D. Measurement Focus and Basis of Accounting, Continued

- Saipan Amusement Fund, a Governmental Fund Type - Special Revenue Fund. This fund accounts for all financial transactions related to casino licensing and nonrefundable application fees.
- Department of Public Lands (DPL), a Governmental Fund Type - Special Revenue Fund. This fund accounts for all financial transactions related to those lands defined as public lands.

DPL was previously presented within Other Governmental Funds. During the year ended September 30, 2017, DPL met the definition of a major fund. Accordingly, DPL is presented as a major fund of the CNMI. The effect of this presentation is a decrease of \$7,019,860 in the beginning fund balance of the Other Governmental Funds.

For all discretely presented component units, the CNMI utilizes the flow of economic resources measurement focus. GASB is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

E. 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, 2017, 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.

F. 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 position/balance sheet.

G. 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".

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2017

(1) Summary of Significant Accounting Policies, Continued

H. 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.

I. 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 position. Interfund receivables and payables have been eliminated from the statement of net position.

J. Advances

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

K. Inventories

Inventories are stated at the lower of cost or market using the first-in/first-out (FIFO) method.

Food stamp balances held at year end are recorded as inventories based on face value. Inventories reported in the Grants Assistance Fund of \$571,956 are offset by unearned revenues.

L. 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.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2017

(1) Summary of Significant Accounting Policies, Continued

L. Capital Assets and Depreciation, Continued

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. Accordingly, fixed asset records consist of additions commencing in 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

M. Fund Equity/Net Position

The CNMI reports net position as restricted where legally segregated for a specific future use by enabling legislation in accordance with GASB Statement No. 46, *Net Assets Restricted by Enabling Legislation*. Otherwise, these balances are considered unrestricted.

Net position has been restricted as follows:

"Restricted for capital projects" - identifies amounts held for Capital Projects.

"Restricted for retirement of indebtedness" - identifies amounts held to fund future debt service obligations.

"Restricted for federal programs and projects" - identifies amounts held for various externally imposed restrictions by federal grantor agencies.

"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.

Fund balance classifications are based on the extent to which the CNMI is bound to honor constraints on the specific purposes for which amounts in those funds can be spent and are reported under the following fund balance classifications:

- Non-spendable - includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.
- Restricted - includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2017

(1) Summary of Significant Accounting Policies, Continued

M. Fund Equity/Net Position, Continued

- Committed - includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the CNMI Legislature, the CNMI's highest level of decision making authority, and does not lapse at year-end. Formal action of the CNMI Legislature is required to remove the limitations of committed fund balances.
- Unassigned - includes negative fund balances in other governmental funds.

The CNMI has a general policy to first use restricted resources for expenditures incurred for which both restricted and unrestricted (committed and unassigned) resources are available. When expenditures are incurred for which only unrestricted resources are available, the general policy of the CNMI is to use committed resources first, followed by unassigned. The use of restricted resources may be deferred based on a review of the specific transaction. A formal minimum fund balance policy has not been adopted.

N. 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, 2017.

O. 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 position with amounts to be paid during the next fiscal year reported as current. The liability as of September 30, 2017, is \$8,702,374.

Annual leave accumulates at the rate of thirteen working days for each year of service for up to three years of service, nineteen and a half working days for each year of service for three to six years of service, and twenty-six working days for each year of service for more than six years of service. Accrued annual leave is limited to forty-five working days, with any amounts over forty-five days transferred to sick leave.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2017

(1) Summary of Significant Accounting Policies, Continued

P. Unearned Revenues

In the government-wide financial statements, unearned revenue is recognized when cash, receivables or other assets are recorded prior to their being earned. In the governmental fund financial statements, unearned 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. Unearned 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 unearned revenue is removed from the governmental fund balance sheet and revenue is recognized.

Q. Casino License and Application Fees

Public Law 18-38, as amended by Public Law 18-43 and Public Law 18-56 was enacted to authorize, establish and regulate an exclusive gaming license within the CNMI. Public laws allow the Commonwealth Lottery Commission (the Commission) to impose a one-time nonrefundable casino license application fee of \$1,000,000 for each applicant and impose an annual casino license fee of \$15,000,000.

Funds collected from licensing must be deposited in the CNMI Treasury and allocated to pay for the 25% reduction of the retirees and the beneficiaries' pension and to pay interest to active members who terminated their membership from the defined benefit plan under Public Law 17-82, as amended by Public Law 18-02. The nonrefundable casino license application fees must be deposited in a Special Fund and be expended by the Commission, without appropriation for the investigation of license applicants pursuant to 1 CMC §2318 and any other costs associated with reviewing the applications and granting or denying applications for the exclusive license.

On August 12, 2014, a casino license agreement between the Commission and Imperial Pacific International (CNMI), LLC (the Licensee) was approved. The casino license agreement is valid for a consecutive period of twenty-five years with an option to extend the initial license term for an additional consecutive period of fifteen years. The annual casino license fee is \$15,000,000 and must be paid every year to the CNMI Treasurer on the date of the issuance of the license and on every subsequent anniversary.

During the year ended September 30, 2017, the CNMI recorded a casino license fee of \$15,000,000, which represents license fees for the fourth year of the total license term. Accordingly, during the year, the CNMI recorded payment to NMISF related to the 25% reduction of the retirees and the beneficiaries' pension (see note 18).

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2017

(1) Summary of Significant Accounting Policies, Continued

R. Bond Premiums, Discounts and Issuance Costs

In the government-wide financial statements, bond premiums and discounts are deferred and amortized over the term of the bonds using the straight-line method. Bonds payable are reported net of bond premiums and discounts. Bond issuance costs are expensed in the period incurred.

In the fund financial statements, governmental fund types recognize bond premiums, 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. Premiums received and discounts deducted on debt issuance are reported as other financing sources and other financing uses, respectively. Issuance costs, whether or not withheld from the actual debt proceeds, are reported as expenditures.

S. Deferred Outflows/Inflows of Resources

The statement of net position reports separate sections for deferred outflows and deferred inflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (deduction of net position) until then. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (additions to net position) until then.

T. 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.

During the calendar year, the CNMI collects individual and corporate income taxes through withholdings and payments from taxpayers. At September 30, the CNMI estimates the amount owed to taxpayers for overpayments and rebates. These estimated amounts and the actual tax rebates claimed for prior years but not paid at year end are recorded as tax rebates payable with a corresponding reduction of tax revenue in the General Fund. The estimated tax rebate liability is evaluated on a regular basis by the CNMI and is based upon the CNMI's periodic review of tax returns in light of historical experience and the nature and volume of tax returns submitted. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available. Accordingly, changes to estimates are accounted for on a prospective basis.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2017

(1) Summary of Significant Accounting Policies, Continued

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. GASB Statement No. 68

In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions* and in November 2013, GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*, which revised and established new financial reporting requirements for most governments that provided their employees with pension benefits through plans that are administered through trusts. The provisions in Statements No. 68 and No. 71 were effective for fiscal years beginning after June 15, 2014. Management acknowledges the requirement to recognize within the government-wide financial statements net pension liability, deferred outflows of resources, deferred inflows of resources and pension expense. However, the CNMI did not record the effects of GASB Statements No. 68 and No. 71 as of and for the year ended September 30, 2017 as the amounts are not available. In addition, management is of the opinion that the required supplementary information related to pension must be obtained from NMISF. As of September 30, 2017, the financial statements of NMISF were not included within the CNMI's financial statements.

W. New Accounting Standards

During the year ended September 30, 2017, the CNMI did not implement the following pronouncements as the CNMI did not record the effects of GASB Statements No. 68 and No. 71 as of and for the year ended September 30, 2017 as amounts are not available:

- GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, which aligns the reporting requirements for pensions and pension plans not covered in GASB Statements 67 and 68 with the reporting requirements in Statement 68.
- GASB Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, which addresses a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2017

(1) Summary of Significant Accounting Policies, Continued

W. New Accounting Standards, Continued

- GASB Statement No. 82, *Pension Issues - an amendment of GASB Statements No. 67, No. 68, and No. 73*, which addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

During the year ended September 30, 2017, the CNMI implemented the following pronouncements:

- GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, as amended*, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, and addresses financial reporting requirements for governments whose employees are provided with postemployment benefits other than pensions (other postemployment benefits or OPEB). The implementation of this statement did not have a material effect on the accompanying financial statements.
- GASB Statement No. 77, *Tax Abatement Disclosures*, which requires governments that enter into tax abatement agreements to disclose certain information about the agreements. See note 3 for further information on tax abatements.
- GASB Statement No. 80, *Blending Requirements for Certain Component Units - an amendment of GASB Statement No. 14*, which improves financial reporting by clarifying the financial statement presentation requirements for certain component units. The implementation of this statement did not have a material effect on the accompanying financial statements.

In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, and provides guidance on reporting by governments that provide OPEB to their employees and for governments that finance OPEB for employees of other governments. The provisions in Statement No. 75 are effective for fiscal years beginning after June 15, 2017. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2017

(1) Summary of Significant Accounting Policies, Continued

W. New Accounting Standards, Continued

In March 2016, GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*, which improves accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The provisions in Statement No. 81 are effective for fiscal years beginning after December 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In November 2016, GASB issued Statement No. 83, *Certain Asset Retirement Obligations*, which addresses accounting and financial reporting for certain asset retirement obligations (AROs) associated with the retirement of a tangible capital asset. The provisions in Statement No. 83 are effective for fiscal years beginning after June 15, 2018. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*, which establishes criteria for identifying fiduciary activities of all state and local governments. The provisions in Statement No. 84 are effective for fiscal years beginning after December 15, 2018. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In March 2017, GASB issued Statement No. 85, *Omnibus 2017*, which address practice issues that have been identified during implementation and application of certain GASB Statements including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits). The provisions in Statement No. 85 are effective for fiscal years beginning after June 15, 2017. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In May 2017, GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*, which improves consistency in accounting and financial reporting for in-substance defeasance of debt. The provisions in Statement No. 86 are effective for fiscal years beginning after June 15, 2017. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In June 2017, GASB issued Statement No. 87, *Leases*, which establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The provisions in Statement No. 87 are effective for fiscal years beginning after December 15, 2019. Management has yet to determine whether the implementation of this statement will have a material effect on the financial statements.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2017

(1) Summary of Significant Accounting Policies, Continued

X. Estimates

The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and deferred outflows of resources, liabilities and deferred inflows of resources, 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. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the tax rebate payable.

In determining the tax rebates payable, the CNMI makes various estimates. In conjunction with these estimates, the CNMI has established a permanent tax rebate reserve of \$1,500,000 to offset potential estimated disputes or claims.

Y. Encumbrances

The CNMI utilizes encumbrance accounting to identify fund obligations. Encumbrances represent commitments related to unperformed contracts for goods. At September 30, 2017, the CNMI has significant encumbrances summarized as follows:

<u>General</u>	<u>Grants Assistance</u>	<u>Saipan Amusement</u>	<u>Department of Public Lands</u>	<u>Other Governmental Funds</u>	<u>Total</u>
\$ <u>3,279,595</u>	\$ <u>13,625,858</u>	\$ <u>114,679</u>	\$ <u>1,977,223</u>	\$ <u>12,148,072</u>	\$ <u>31,145,427</u>

Z. 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, 2016 from which summarized information was derived.

(2) Deposits and Investments

Deposit and Investment Policy

The CNMI has no formal deposit and investment policy other than the requirements stipulated in applicable bond indentures.

Cash and Cash Equivalents and Time Certificates of Deposit

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.

# COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

## Notes to the Financial Statements September 30, 2017

### (2) Deposits and Investments, Continued

#### Cash and Cash Equivalents and Time Certificates of Deposit, Continued

As of September 30, 2017, the carrying amount of the primary government's total unrestricted cash and cash equivalents and time certificates of deposit were \$99,372,231 and the corresponding bank balances were \$101,916,865, which are maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance.

Restricted cash and cash equivalents for the primary government represent amounts held and administered by the CNMI in accordance with legal mandates and certain capital projects. Restricted cash and cash equivalents at September 30, 2017 amounted to \$16,314,678 and the corresponding bank balances were \$15,127,054. Of the bank balance amounts, \$13,067,623 is maintained in financial institutions subject to FDIC insurance. The remaining amount of \$2,059,431 represents short-term investments held and administered by the CNMI's trustees in accordance with various trust agreements and bond indentures. Based on negotiated trust and custody contracts, all of the investments were held in the CNMI's name by the CNMI's custodial financial institutions at September 30, 2017. As of September 30, 2017, bank deposits in the amount of \$750,000 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, 2017, is presently not determinable. Accordingly, these deposits are exposed to custodial credit risk.

As of September 30, 2017, the carrying amount of the fiduciary fund's total cash and cash equivalents was \$5,402,988 and the corresponding bank balances were \$5,430,576, which are maintained in financial institutions subject to FDIC insurance. As of September 30, 2017, bank deposits in the amount of \$633,836 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.

As of September 30, 2017, the carrying amount of the discretely presented component units' restricted and unrestricted cash and cash equivalents and time certificates of deposit were \$74,183,379 and the corresponding bank balances were \$74,639,134. Of the bank balance amounts, \$72,377,996 is maintained in financial institutions subject to FDIC insurance and \$8,255 represents amounts maintained in a non-FDIC insured bank. The remaining amount of \$2,252,883 represents amount held and administered by the discretely presented components units' investment manager subject to Securities Investor Protection Corporation (SIPC) insurance up to \$250,000 with coverage in excess of SIPC provided by a supplemental insurance policy through certain underwriters with a per client aggregate limit of \$1.9 million. As of September 30, 2017, bank deposits in the amount of \$7,185,699 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

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2017

(2) Deposits and Investments, Continued

Investments, Continued

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

Custodial credit risk for investments is the risk that in the event of the failure of the counterparty to the transaction, the CNMI will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The CNMI's investments are held and administered by trustees in accordance with various bond indentures for the purpose of funding various capital projects, land settlement claims and future debt service requirements. Based on negotiated trust and custody contracts, all of these investments were held in the CNMI's name by the CNMI's custodial financial institutions at September 30, 2017.

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.

Fair Value Measurement of Investments:

Investments and related investment earnings are reported at fair value using quoted market prices. Fair value is the price that would be received to sell an asset or paid to transfer a liability (ie, the exit price) in an orderly transaction between market participants at the date as of which the fair value of an asset or liability is determined.

The CNMI categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs. In certain instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy is based on the lowest level of input that is significant to the fair measurement. Investments not categorized under the fair value hierarchy are shown at either Net Asset Value (NAV) or amortized cost.

A. Primary Government

Investments held by a bank administered trust company as of September 30, 2017, are as follows:

Stock mutual fund	\$ 921,677
Mutual bond funds	379,656
Money market placements	<u>43,272</u>
	\$ <u>1,344,605</u>

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2017

(2) Deposits and Investments, Continued

Investments, Continued

A. Primary Government, Continued

Stock mutual funds are categorized as Level 1, mutual bond funds are measured at net asset value (NAV) and money market placements are recorded at amortized cost.

The following is a listing of fixed income securities of Other Governmental Funds at September 30, 2017:

Investment Type	NAV	Investment Maturities (In Years)				Credit Rating
		Less Than 1	1 - 5	6 - 10	More Than 10	
Mutual bond funds	\$ <u>379,656</u>	\$ <u>379,656</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	Unrated

B. Fiduciary Funds

Contributions to the defined contribution plan are invested under the authority of the plan members. In investing these contributions, NMIRF employs the services of a professional investment company to assist in the investment program. The investment company provides plan members with investment options to make investment decisions. The contributions are usually invested in stocks, bonds, and real estate traded in recognized stock markets. Investments at September 30, 2017 consist of the following:

Mutual funds	\$ 30,222,294
Loans	<u>1,267,763</u>
	\$ <u>31,490,057</u>

Investments not categorized under the fair value hierarchy are shown at either NAV or amortized cost. The following table sets forth by fair value hierarchy level assets carried at fair value at September 30, 2017:

	Total	Fair Value Measurements Using		
		Level 1	Level 2	Level 3
Investments by fair value level:				
Core funds	\$ <u>2,679,947</u>	\$ <u>2,679,947</u>	\$ <u>-</u>	\$ <u>-</u>
Total investments by fair value level	2,679,947	\$ <u>2,679,947</u>	\$ <u>-</u>	\$ <u>-</u>
Investments measured at NAV:				
ASC Direct Retirement Trust	27,542,347			
Investments measured at amortized cost:				
Loans	<u>1,267,763</u>			
	\$ <u>31,490,057</u>			

C. Discretely Presented Component Units

CPA:

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, 2017. As of September 30, 2017, investments at fair value consist of investments in U.S. Government money market placements and mutual funds amounting to \$21,784,087. All CPA investments are categorized as Level 1.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2017

(2) Deposits and Investments, Continued

Investments, Continued

C. Discretely Presented Component Units, Continued

CDA:

A Memorandum of Agreement (MOA) was established between CDA and the Commonwealth Utilities Corporation (CUC) on November 21, 2002, as amended in January 2004, to waive a portion of the capital development loans receivable and to provide for the conversion into equity ownership of the balance. Public Laws 13-35, 13-36 and 16-17 were enacted to effectuate the settlement of disputes between CDA and CUC as required by the MOA.

On May 7, 2009, CUC and CDA, entered into a Preferred Stock Agreement (the Agreement) to effectuate the terms and conditions of the MOA by requiring CUC to issue shares of cumulative, non-convertible and non-transferrable preferred stock of \$45,000,000 to CDA and yielding annual dividends of two percent. The Commonwealth Public Utilities Commission approved the Agreement on September 3, 2009. The Agreement provides CUC the right to purchase from CDA up to \$16,200,000 of the \$45,000,000 preferred stock through offset against CUC's future, internally-funded capital improvement projects. Subject to CUC purchase exception, CDA shall not transfer any of its rights, title or interest to such preferred stock. Further, the Agreement provides for deferral of the dividend payments for the first three years after issuance, with such deferred dividend payments being amortized, interest free, over a fifteen-year period. Dividends were to be paid to CDA beginning October 1, 2012 but were not received. The Agreement cancels and discharges the indebtedness of CUC to CDA of \$61,568,750 in principal and \$138,670,797 in accrued interest, including related late charges and any other charges owed by CUC on the capital development loans.

CUC issued to CDA forty-five shares of preferred stock with a par value of \$1,000,000 per share for a total aggregate value of \$45,000,000 dated September 28, 2009. The preferred stock yields guaranteed dividends at two percent per annum payable quarterly in advance. The dividends of the preferred stock are cumulative from and after October 1, 2009 and bear no interest. CDA has taken the position that the value of the preferred stock represents the net present value of the future stream of dividend payments required by CUC and not the face value of the stock itself. At September 30, 2017 and 2016, CDA has recorded an investment of \$11,309,651, with a corresponding 100% valuation allowance, based on the discounted cash flows of the future dividend payments at 6.27% per annum.

Minimum receipts (which do not factor in CUC's right to purchase up to \$16,200,000 of preferred stock through offset against CUC's future, internally-funded capital improvement projects) under the original agreement are as follows:

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2017

(2) Deposits and Investments, Continued

Investments, Continued

C. Discretely Presented Component Units, Continued

CDA, Continued:

<u>Year ending September 30,</u>	<u>Principal Amount</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 875,589	\$ 204,411	\$ 1,080,000
2014	822,775	257,225	1,080,000
2015	773,147	306,853	1,080,000
2016	726,512	353,488	1,080,000
2017	682,691	397,309	1,080,000
2018 - 2022	2,843,258	2,556,742	5,400,000
2023 - 2027	2,083,152	3,316,848	5,400,000
2028 - 2032	1,271,875	3,228,125	4,500,000
2033 - 2037	931,857	3,568,143	4,500,000
2038 - 2039	<u>298,795</u>	<u>1,501,205</u>	<u>1,800,000</u>
	\$ <u>11,309,651</u>	\$ <u>15,690,349</u>	\$ <u>27,000,000</u>

On August 17, 2016, CDA entered into an agreement with CUC for the total amount of unpaid dividend payments owed by CUC to CDA and agreed to a dividend of \$4,320,000 for the year ended September 30, 2016. The agreement states that CUC will make quarterly dividend payments beginning October 1, 2016, as required by the preferred stock agreement, with a payment to CDA of \$270,000 which represents the full amount of the quarterly dividend due. CDA has determined that, prospectively, dividend income will be recognized upon collection. At September 30, 2017, CDA recorded dividend receivable of \$1,800,000 for deferred dividend earned for the first three years after issuance of the preferred stocks and amortized over fifteen-year period.

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, 2017.

As of September 30, 2017, investments at fair value are as follows:

		<u>Fair Value Measurement Using</u>		
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments by fair value level				
Debt securities:				
Mortgaged and asset backed securities	\$ 11,110,238	\$ -	\$ 11,110,238	\$ -
Government bonds	5,244,501	5,244,501	-	-
Corporate bonds	<u>12,106,514</u>	-	<u>12,106,514</u>	-
Total debt securities	<u>28,461,253</u>	<u>5,244,501</u>	<u>23,216,752</u>	-
Equity securities:				
Domestic common stock	20,477,758	20,477,758	-	-
International common stock	4,781,059	4,781,059	-	-
Master limited partnerships	8,667,331	8,667,331	-	-
Real estate investment trusts	<u>9,281,851</u>	<u>9,281,851</u>	-	-
Total equity securities	<u>43,207,999</u>	<u>43,207,999</u>	-	-
Total investments by fair value level	71,669,252	\$ <u>48,452,500</u>	\$ <u>23,216,752</u>	\$ -
Investments measured at net asset value (NAV):				
Mutual funds	<u>8,994,916</u>			
	\$ <u>80,664,168</u>			

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2017

(2) Deposits and Investments, Continued

Investments, Continued

C. Discretely Presented Component Units, Continued

MPLT, Continued:

The following is a listing of MPLT's fixed income securities at September 30, 2017:

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	\$ 11,110,238	\$ 3,738,671	\$ 4,461,629	\$ 1,325,002	\$ 1,584,936	AA+
Government bonds	5,244,501	-	-	-	5,244,501	AA+
Corporate bonds	512,035	-	512,035	-	-	AA+
Corporate bonds	1,330,955	-	978,248	352,707	-	A+
Corporate bonds	1,449,591	-	1,362,749	86,842	-	A-
Corporate bonds	2,981,421	-	1,708,875	1,272,546	-	A
Corporate bonds	1,272,045	-	-	1,272,045	-	BBB+
Corporate bonds	100,775	-	100,775	-	-	BBB-
Corporate bonds	95,823	-	-	95,823	-	BBB
Corporate bonds	861,325	-	485,778	375,547	-	BB+
Corporate bonds	975,297	-	522,709	358,238	94,350	BB-
Corporate bonds	611,663	94,275	68,170	449,218	-	BB
Corporate bonds	921,495	-	465,757	455,738	-	B+
Corporate bonds	370,397	-	179,550	190,847	-	B-
Corporate bonds	532,225	-	439,525	92,700	-	B
Corporate bonds	91,467	-	91,467	-	-	CCC+
	<u>\$ 28,461,253</u>	<u>\$ 3,832,946</u>	<u>\$ 11,377,267</u>	<u>\$ 6,327,253</u>	<u>\$ 6,923,787</u>	

(3) Receivables and Tax Abatements

A. Receivables

*Primary Government*

Receivables as of September 30, 2017, for the primary government's individual major governmental funds and nonmajor governmental funds in the aggregate, including allowances for uncollectible accounts, are as follows:

	General	Grants Assistance	Saipan Amusement	Department of Public Lands	Other Governmental Funds	Total
Receivables:						
Federal agencies	\$ 6,875,037	\$ 14,373,777	\$ -	\$ -	\$ 2,687,198	\$ 23,936,012
General	4,641,075	-	-	20,331,750	-	24,972,645
Taxes	8,885,019	-	-	-	-	8,885,019
Other	3,103,600	12,831	-	32,363	1,209,886	4,358,680
Gross receivables	23,504,731	14,386,608	-	20,363,933	3,897,084	62,152,356
Less allowance for uncollectibles	(4,965,112)	(8,287,733)	-	(17,380,144)	(2,402,636)	(33,035,625)
Net receivables	<u>\$ 18,539,619</u>	<u>\$ 6,098,875</u>	<u>\$ -</u>	<u>\$ 2,983,789</u>	<u>\$ 1,494,448</u>	<u>\$ 29,116,731</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.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2017

(3) Receivables and Tax Abatements, Continued

A. Receivables, Continued

*Fiduciary Funds*

Receivables as of September 30, 2017, for the fiduciary funds, including allowances for uncollectible accounts, are as follows:

	<u>NMIRF</u>	<u>Defined Contribution Plan</u>	<u>Total</u>
Receivables:			
Notes	\$ 3,100,110	\$ -	\$ 3,100,110
Agency	-	664,614	664,614
Other	<u>7,951</u>	<u>-</u>	<u>7,951</u>
Gross receivables	3,108,061	664,614	3,772,675
Less allowance for uncollectibles	<u>(615,654)</u>	<u>-</u>	<u>(615,654)</u>
Net receivables	<u>\$ 2,492,407</u>	<u>\$ 664,614</u>	<u>\$ 3,157,021</u>

Notes receivable recorded by NMIRF consist of mortgage home loans from various individuals, with interest at 5.6% to 10.0% and terms from thirteen to thirty years.

*Discretely Presented Component Units*

Receivables as of September 30, 2017, for the discretely presented component units, including allowances for uncollectible accounts are as follows:

	<u>CPA</u>	<u>CDA</u>	<u>MPLT</u>	<u>MVA</u>	<u>Total</u>
Receivables:					
Loan	\$ 3,385,131	\$ 51,387,964	\$ -	\$ -	\$ 54,773,095
Notes	-	-	11,940,078	-	11,940,078
Federal agencies	1,050,885	-	-	-	1,050,885
General	9,092,220	-	-	-	9,092,220
Interest and dividends	-	3,479,015	211,430	-	3,690,445
Other	<u>2,332,229</u>	<u>4,379,835</u>	<u>50,577</u>	<u>10,401</u>	<u>6,773,042</u>
Gross receivables	15,860,465	59,246,814	12,202,085	10,401	87,319,765
Less allowance for uncollectibles	<u>(8,971,353)</u>	<u>(35,905,677)</u>	<u>(3,889,247)</u>	<u>-</u>	<u>(48,766,277)</u>
Net receivables	<u>\$ 6,889,112</u>	<u>\$ 23,341,137</u>	<u>\$ 8,312,838</u>	<u>\$ 10,401</u>	<u>\$ 38,553,488</u>

Loan and notes receivable recorded by the discretely presented component units consist of the following:

CPA:

Loan receivable from CUC, bearing interest at 6.25% per annum over a term of five years, commencing on July 1, 2008 as reimbursement for project costs paid by CPA for the Sewerline Project and loan receivable from CUC, bearing interest at 6.25% per annum, for repayment of wharfage fees. CPA's utility charges can be offset in lieu of payments. Due to the potential uncollectibility, the amount has been fully allowed for.

\$ 3,385,131

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2017

(3) Receivables and Tax Abatements, Continued

A. Receivables, Continued

*Discretely Presented Component Units, Continued*

CDA:

Economic development loans for commercial purposes due within various periods not to exceed thirty (30) years. The interest rates charged are based on the economic purpose of the loan. Production development loans bear interest at 7% to 9% per annum, marine and agriculture loans bear interest at 4.5% per annum, commercial development loans bear interest at 7% to 9% per annum, and microloans bear interest at 7% to 12% per annum. In October 2007, CDA initiated a "Debt Relief Program", which provides for reduction of interest to two percent and extension of term up to thirty years with a mandated three-year callable provision where warranted and justified. \$ 34,372,544

NMHC housing loans for the specific purpose of providing residents of the Northern Mariana Islands with approved low-cost housing. The loans have terms from ten to thirty-three years in duration at interest rates of 4.5% to 12% per annum. 13,044,401

Loan receivable from CPA, bearing interest at 2.5% per annum, with quarterly principal and interest payments in the amount of \$204,113, with maturity date of November 16, 2014. Proceeds were used for the Saipan Harbor Project. On June 29, 2010, the note was revised with monthly principal and interest payments in the amount of \$31,000, with a maturity date of June 15, 2030. 3,971,019

\$ 51,387,964

MPLT:

Notes receivable (Home Loan Program) from various individuals obtained through a settlement agreement with NMHC dated December 31, 2007, interest at 2% per annum (5.5% to 8.5% prior to January 1, 2009) and terms from ten to thirty years. \$ 6,068,982

Note receivable from Adelantun Publickun Luta Enteramente, Incorporated (APLE 501, Inc.), interest at 5% per annum, due on October 18, 2017, with monthly principal and interest payments in the amount of \$1,225, collateralized by a loan portfolio. Proceeds were used to fund an independently administered individual or parent-student loan program. MPLT has ceased future loan commitments and disbursements to APLE 501, Inc. 59,247

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2017

(3) Receivables and Tax Abatements, Continued

A. Receivables, Continued

*Discretely Presented Component Units, Continued*

MPLT, Continued:

Note receivable from CDA, interest at 6.5% per annum, due on June 1, 2018, collateralized by future distributable net income for the maintenance and development of the American Memorial Park and is to be repaid from earnings of the investments pursuant to CNMI Public Law 11-72. 296,984

Note receivable from the CNMI Government, interest at 7% per annum, due on December 28, 2019. Public Law 18-71 earmarks and appropriates from future interest income distributions starting fiscal year 2016 until the note is fully reimbursed. Interest is due annually. 2,664,865

Note receivable from CHCC, interest at 5% per annum, due on June 18, 2018. Collateralized by future distributable income of fiscal year 2017 and CHCC's real properties for CHCC's operational and bridge capital pursuant to CNMI Public Law 17-76. 2,850,000

\$ 11,940,078

B. Tax Abatements

As of September 30, 2017, the CNMI provided tax abatements through the following program:

*Qualifying Certificate (QC) Program*

The QC Program was created under Public Law 12-32 and amended under Public Law 12-50 and Public Law 12-80 as an economic incentive tool to encourage investment in activities that would strengthen the island economy, enrich its growth, and enhance the quality of life in the CNMI. Qualified individuals and companies may be granted the following tax abatements:

- Up to 100% abatement of taxes of whatever nature, except taxes under NMTIT, paid or to be paid to the Government of the CNMI for a period of twenty-five (25) years;
- Up to 100% rebate of taxes of whatever nature, paid to the Government of the CNMI for a period of twenty-five (25) years.

During the year ended September 30, 2017, information relevant to the disclosure of the QC program is as follows:

	<u>Total Estimated Revenue Reduced</u>
Developer's tax	\$ -
Excise tax	\$ -
Gross receipts tax	\$ 2,207,044

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2017

(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, 2017, are summarized as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Other governmental	\$ 588,479
General	Department of Public Lands	1,143,018
General	Grants Assistance	336,833
Grants Assistance	General	4,473,298
Saipan Amusement	General	29,548,873
Other governmental	General	<u>20,986,508</u>
		\$ <u>57,077,009</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 from fiduciary funds of the primary government as of September 30, 2017, are summarized as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	NMIRF	\$ 1,000,000
Other governmental	NMIRF	<u>768,204</u>
		\$ <u>1,768,204</u>

Balances reflected as due to fiduciary funds of the primary government as of September 30, 2017, are summarized as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
NMISF	Saipan Amusement Fund	\$ <u>11,534,522</u>

Due to primary government of the discretely presented component units of \$2,007,363 relates to CPA recording 1% public auditor fee for which the primary government recorded a corresponding allowance.

The amount recorded as due from fiduciary funds of the primary government of \$1,768,204 does not equal the corresponding due to primary government of the fiduciary funds of \$2,351,662 by \$583,458. The difference relates to the primary government not recording the pension contributions collected by the NMIRF.

Balances reflected as due to component units of the primary government as of September 30, 2017, are summarized as follows:

<u>Due From</u>	<u>Due To</u>	<u>Amount</u>
MPLT	Department of Public Lands	\$ 2,744,638
MPLT	General	2,664,865
CUC	General	5,578,317
MVA	General	2,748,500
PSS	General	6,906
NMC	General	185,235
CHCC	General	<u>559,687</u>
		\$ <u>14,488,148</u>

## COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

### Notes to the Financial Statements September 30, 2017

#### (4) Interfund Receivables and Payables, Continued

The amount recorded as due from primary government of the discretely presented component units of \$2,748,500 does not equal the corresponding due to component units of the primary government of \$14,488,148 by \$11,739,648. The difference of \$5,409,503 with MPLT is due to \$2,664,865 recorded as notes receivable by MPLT and \$2,744,638 excess revenue of DPL owed to MPLT which was not recorded by MPLT. The remaining difference of \$6,330,145 is due to lack of financial information from CUC, PSS, NMC and CHCC.

#### (5) Other Assets

As of September 30, 2017, the General Fund holds 10.8% and 11% of the shares of the Pacific Islands Development Bank (PIDB) and the United Micronesia Development Association, Inc. (UMDA) in the amount of \$1,000,000 and \$1,500,000, respectively. Other assets have been recorded at cost. These equity interests do not meet the definition of investments as the assets are held primarily for economic development and are presented as other assets in the accompanying financial statements.

#### (6) Restricted Assets

##### Primary Government

Restricted assets of \$14,255,247 recorded in the General Fund represents cash and cash equivalents of \$2,793,398 for State Small Business Credit Initiative to strengthen programs that support private financing to small business and small manufacturers and is funded by the U.S. Department of Treasury; \$4,844,762 restricted for various Federal programs and projects; \$3,870,468 for the purpose of funding ongoing vocational educational curricula and program development by the CNMI and is funded by the U.S. Department of Homeland Security; \$2,399,056 restricted for future debt service requirements and \$347,563 restricted for group health and life insurance payments.

Restricted assets of \$2,052,466 recorded in the Grants Assistance Fund represents cash and cash equivalents restricted for capital projects.

Restricted assets of \$1,351,570 recorded in the Other Governmental Funds represent cash and cash equivalents of \$6,965 for other purposes and investments of \$1,344,605 for the purpose of compensating for injury increasing disability in accordance with §(f) of Section 9308 of Public Law 10-19.

##### Fiduciary Funds

Restricted assets of \$1,995,300 as of September 30, 2017, represent deposits of foreign investors required by law to operate a business in the CNMI.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2017

(6) Restricted Assets, Continued

Discretely Presented Component Units

CPA:

Restricted assets of CPA as of September 30, 2017, represent the unused proceeds of the Airport Revenue Bonds and the Seaport Revenue Bonds, both issued on March 26, 1998, deposited with the Trustee. The Trustee is a commercial lending institution and the securities are held in the name of CPA. Disbursements from unused bond proceeds are to be made solely for the purpose of paying the costs of the projects, and pursuant to the Act establishing CPA (Public Law No. 2-48), payment of the costs of issuance and the payment of bond principal and interest to the extent provided in the Indenture.

<u>Fund</u>	<u>Airport Revenue Bonds</u>	<u>Seaport Revenue Bonds</u>	<u>Total</u>
Bond Reserve Fund	\$ 1,607,032	\$ 3,481,367	\$ 5,088,399
Supplemental Reserve Fund	-	7,991,935	7,991,935
Construction Fund	-	7,199	7,199
Reimbursement Fund	-	5,825	5,825
Bond Fund	496,201	1,049,637	1,545,838
Maintenance and Operation	4,561,232	2,569,984	7,131,216
Optional Redemption Fund	12,136	-	12,136
Revenue Fund	<u>726</u>	<u>813</u>	<u>1,539</u>
	\$ <u>6,677,327</u>	\$ <u>15,106,760</u>	\$ <u>21,784,087</u>

CDA:

Restricted assets of CDA's Development Banking Division of \$4,149,500 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 CDA's Development Corporation Division of \$7,663,544 represent funds for the State Small Business Credit Initiative loan program maintained by CDA as the disbursing agent deposited with commercial lending institutions held in the name of CDA.

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

Escrow and savings accounts maintained as a guarantee for any deficiency in foreclosure proceeds related to U.S. Department of Agriculture Rural Development loans	\$ 1,448,451
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Savings account restricted for Koblerville Section 8 project repairs and maintenance expenses, per contract with the U.S. Department of Housing and Urban Development	199,872
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COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2017

(6) Restricted Assets, Continued

Discretely Presented Component Units, Continued

CDA, Continued:

Savings account maintained as a guarantee of housing loans made by a CNMI savings and loan	336
Checking account maintained for Section 8 Housing Choice Vouchers Program expenses	1,057,016
Other depository accounts reserved for various purposes	<u>506,968</u>
	<u>\$ 3,212,643</u>

(7) Capital Assets and Depreciation

Capital asset activities for the year ended September 30, 2017, are as follows:

Primary Government

	Balance October 1, 2016	Additions	Reclassifications	Balance September 30, 2017
Assets not being depreciated:				
Land	\$ 30,064,154	\$ -	\$ -	\$ 30,064,154
Construction in progress	22,217,785	4,726,685	(2,536,349)	24,408,121
	<u>52,281,939</u>	<u>4,726,685</u>	<u>(2,536,349)</u>	<u>54,472,275</u>
Depreciable assets:				
Buildings and other improvements	126,632,031	-	1,886,186	128,518,217
Machinery and equipment	36,859,996	4,357,891	-	41,217,887
Infrastructure	148,270,979	-	650,163	148,921,142
	<u>311,763,006</u>	<u>4,357,891</u>	<u>2,536,349</u>	<u>318,657,246</u>
Accumulated depreciation:				
Buildings and other improvements	(60,684,285)	(4,493,694)	-	(65,177,979)
Machinery and equipment	(29,208,615)	(3,914,798)	-	(33,123,413)
Infrastructure	(120,026,619)	(2,615,467)	-	(122,642,086)
Total accumulated depreciation	<u>(209,919,519)</u>	<u>(11,023,959)</u>	<u>-</u>	<u>(220,943,478)</u>
Depreciable assets, net	<u>101,843,487</u>	<u>(6,666,068)</u>	<u>2,536,349</u>	<u>97,713,768</u>
	<u>\$ 154,125,426</u>	<u>\$ (1,939,383)</u>	<u>\$ -</u>	<u>\$ 152,186,043</u>

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

Public Works	\$ 5,392,777
Public Safety and Law Enforcement	2,589,032
Community and Social Services	1,822,191
General Government	443,461
Judicial Branch	291,274
Lands and Natural Resources	<u>485,224</u>
Total depreciation expense - governmental activities	<u>\$ 11,023,959</u>

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2017

(7) Capital Assets and Depreciation, Continued

Discretely Presented Component Units

	Estimated Useful Lives	Balance at October 1, 2016	Additions	Retirements	Balance at September 30, 2017
Assets not being depreciated:					
Land		\$ 8,077,609	\$ -	\$ -	\$ 8,077,609
Construction in progress		<u>69,157,668</u>	<u>8,298,491</u>	<u>(7,681,686)</u>	<u>69,774,473</u>
		<u>77,235,277</u>	<u>8,298,491</u>	<u>(7,681,686)</u>	<u>77,852,082</u>
Depreciable assets:					
Runway and improvements	20 years	114,151,817	-	(40,673)	114,111,144
Terminal facilities	20 years	103,723,249	7,015,901	-	110,739,150
Harbor facilities	20 years	63,601,422	-	-	63,601,422
Other improvements	3 - 20 years	28,887,867	488,825	(385,942)	28,990,750
Fire and rescue	2 - 8 years	13,975,107	712,097	(1,866,500)	12,820,704
Terminal equipment	2 - 10 years	9,537,484	1,498	(245,270)	9,293,712
Housing projects	30 years	7,977,392	-	(354,619)	7,622,773
Office furniture and fixtures	2 - 10 years	2,416,662	643,156	(19,900)	3,039,918
Other equipment	3 - 5 years	3,399,782	45,523	(515,093)	2,930,212
Infrastructure	30 years	2,823,491	-	-	2,823,491
General transportation	3 - 5 years	1,679,308	366,169	(48,892)	1,996,585
Ground maintenance and shop equipment	2 - 5 years	1,614,350	91,718	-	1,706,068
Buildings	5 - 50 years	<u>194,592</u>	<u>38,019</u>	<u>10,464</u>	<u>243,075</u>
		353,982,523	9,402,906	(3,466,425)	359,919,004
Less accumulated depreciation		<u>(233,163,228)</u>	<u>(12,728,154)</u>	<u>3,482,471</u>	<u>(242,408,911)</u>
Depreciable assets net		<u>120,819,295</u>	<u>(3,325,248)</u>	<u>16,046</u>	<u>117,510,093</u>
		\$ <u>198,054,572</u>	\$ <u>4,973,243</u>	\$ <u>(7,665,640)</u>	\$ <u>195,362,175</u>

(8) Loan Payable Under Settlement Agreement

On February 28, 1995, the CNMI entered into a loan agreement with 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 within the CNMI General Fund, to finance debt service on the loan.

The loan was initially for a period of fifteen years, due February 28, 2010, with interest at 7.5% per annum, 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 to 7.75% per annum. Pursuant to the amendment, principal and interest are payable in monthly installments of \$120,000. On October 1, 2013, the loan was transferred from NMIRF to NMISF pursuant to Section 8 of the Settlement for Civil Case No. 09-00023. The loan is due on March 1, 2015. At September 30, 2017, principal outstanding and payable is \$3,664,853.

(9) Tax Rebates Payable

The CNMI makes significant estimates in determining tax rebates payable. A 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.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2017

(9) Tax Rebates Payable, Continued

The rebate percentage is either 90%, 70% or 50%, based on the specified tax brackets for taxes paid. Tax rebate liabilities amounted to \$70,203,616 as of September 30, 2017. 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.

(10) Recovery Rebates Payable

The Congress of the United States passed the Economic Stimulus Act of 2008, which was approved and became law on February 13, 2008 as U.S. Public Law 110-185 (the Act). Among other things, the Act provides economic stimulus through recovery rebates to individuals meeting certain criteria. The Act provides that the U.S. Department of Treasury will make payment to the CNMI in an amount equal to the aggregate amount of the credits allowable by reason of the provision to the CNMI's residents against their CNMI income tax to cover advance and final payments. In 2008, the CNMI received total funds of \$16,100,000 pursuant to the Act. The recovery rebates payable of \$393,837 recorded in the General Fund represents the remaining undisbursed funds as of September 30, 2017.

(11) Long-Term Debt Obligations

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 accompanying financial statements.

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. The excess of the reacquisition price over the net carrying amount of the old debt of \$8,181,944 was recorded as deferred outflow from cost of refunding debt and is being amortized over the remaining life of the debt or twenty-six years. At September 30, 2017, deferred outflows from cost of refunding debt amounted to \$4,955,621.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2017

(11) Long-Term Debt Obligations, Continued

Refunding of Debt, Continued

\$57,800,000 Bond Issue

In April 2007, CDA, acting for and on behalf of the CNMI, issued general obligation 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, 2017, consist of the following:

Series 2007A general obligations refunding bonds	\$ 38,175,000
Unamortized premium on bond issuance	<u>59,991</u>
	<u>\$ 38,234,991</u>

\$42,690,000 Bond Issue

In April 2007, 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, 2017, consist of the following:

Series 2007B general obligations refunding bonds	\$ 37,760,000
Unamortized premium on bond issuance	<u>41,126</u>
	<u>\$ 37,801,126</u>

The annual debt service requirements to maturity for general obligation bonds payable is as follows:

<u>Year ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 4,700,000	\$ 3,760,375	\$ 8,460,375
2019	4,960,000	3,522,875	8,482,875
2020	5,235,000	3,272,375	8,507,375
2021	3,970,000	3,008,250	6,978,250
2022	4,075,000	2,810,000	6,885,000
2023 - 2027	23,785,000	10,738,500	34,523,500
2028 - 2032	23,065,000	4,258,750	27,323,750
2033 - 2034	<u>6,145,000</u>	<u>311,125</u>	<u>6,456,125</u>
	<u>\$ 75,935,000</u>	<u>\$ 31,682,250</u>	<u>\$ 107,617,250</u>

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2017

(11) Long-Term Debt Obligations, Continued

Obligations Under Settlement Agreement

The CNMI has agreed to make minimum annual payments to the Settlement Fund sufficient to enable the Settlement Fund to pay 75% of Class Members' Full Benefits each year for the Settlement Fund's expected life and as determined by an independent actuary appointed by the Trustee and approved by the District Court. The Parties project that the minimum annual payments necessary to enable the Settlement Fund to pay 75% of Class Members' Full Benefits each year will likely be at least:

2018	\$ 45,000,000
2019	\$ 44,000,000
2020	\$ 43,000,000
2021	\$ 42,000,000
2022	\$ 41,000,000
2023	\$ 40,000,000
2024	\$ 39,000,000

The CNMI has agreed to continue to make annual payments in these minimum amounts unless the District Court determines after a hearing that a different amount is required to enable payment to Class Members of 75% of their Full Benefits.

After fiscal year 2024, the CNMI has agreed to make minimum annual payments to the Settlement Fund sufficient to enable the Settlement Fund to pay 75% of Class Members' Full Benefits each year for the Settlement Fund's expected life as determined by an independent actuary appointed by the Trustee and approved by the District Court.

As a result of the Settlement, the CNMI recorded a liability of \$137,749,160 to NMISF equivalent to the amount of judgment for Civil Case No. 06-0367 less payments made to NMISF pursuant to the Settlement. The CNMI is awaiting the actuarial determination for the amount of liability and, as a result, the effect on the accompanying financial statements has not been determined.

Claims and Judgments

On September 26, 2014, the District Court issued a court order to fund and implement Stipulated Order Number Two (SO2) (Dkt. no. 15) filed by the United States, CUC and the CNMI (jointly the Parties). The successful funding and implementation of the SO2 will result in timely and cost-efficient improvements to CUC's infrastructure, proper oil management and disposal and oil spill prevention, preparedness and response action. The District Court established an Engineering and Environmental Management Company (EEMC) in order to achieve expeditious compliance with SO2. The EEMC must implement the SO2 and be funded. The court order requires the CNMI to fund the SO2 as follows:

1. The CNMI must deposit \$5,000,000 no later than December 31, 2014, into the Court Registry (the Registry) established by the District Court for the CNMI.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2017

(11) Long-Term Debt Obligations, Continued

Claims and Judgments, Continued

2. The CNMI must deposit the following amounts on or before the dates specified into the Registry or, if applicable, must file a notice with the Court of the U.S. Department of the Interior's (US DOI) Authorization to Proceed (ATP) for funding SO2 projects: (a) \$2,800,000 no later than February 1, 2015; (b) \$5,000,000 no later than February 1, 2016; (c) \$5,000,000 no later than February 1, 2017; and (d) \$5,000,000 no later than February 1, 2018. The notice must include a commitment from CNMI/CUC that the ATP will be fully available for the EEMC as specified in the ATP and that the grantee will not re-program the associated funds without mutual agreement of the Parties.

The funds must be used to reimburse EEMC for the approved expenses for SO2 projects and should not be utilized for CUC's day-to-day expenses. If CUC, the CNMI or the EEMC do not meet the requirements of the court order, the United States is authorized to seek emergency relief. The parties must file a notice of satisfaction to the District Court upon completion of the requirements of the court order and termination of the EEMC. If the District Court finds CUC and the CNMI satisfied the requirements of the court order and the EEMC has been terminated, any funds remaining in the Registry should be transferred to the CUC's restricted fund for Technical Manager for Oil account.

On December 24, 2014, Public Law 18-71 was enacted to appropriate future MPLT interest distributions to meet the CNMI's obligations under the court order for the SO2. Public Law 18-71 authorized DPL to transfer \$5,000,000 to MPLT and MPLT to loan \$5,000,000 to the CNMI at an interest rate of 7% per annum. Public Law 18-71 authorized MPLT to withhold future interest income that would be remitted to the CNMI pursuant to Article XI § 6(d) of the Constitution beginning fiscal year 2016 and future fiscal years thereafter until the loan plus annual interest is fully paid.

On December 29, 2014, DPL transferred \$5,000,000 to MPLT and MPLT entered into a \$5,000,000 loan agreement with the CNMI to effectuate the requirements of Public Law 18-71. The loan bears interest at 7% per annum and has a five-year amortization period which will mature on September 30, 2020. The CNMI's future annual payments on the loan could not be determined. Accordingly, the loan was recorded as due to component units in the accompanying financial statements. The CNMI's total principal and interest payments during the year amounted to \$1,354,846 and \$281,380, respectively.

On December 30, 2014, the CNMI transferred \$5,000,000 to the Registry to satisfy its obligation for SO2. On February 5, 2015, US DOI awarded the CNMI an ATP (Funding No. CNMI-CIP-2015-5 D15AP00012) for the CUC pipeline construction related to SO2 amounting to \$2,648,082. On February 15, 2015, US DOI awarded the CNMI an additional funding of \$151,958 to its original ATP for management and administration of the SO2 projects. Therefore, the CNMI met its 2015 obligations for SO2. On March 1, 2016, US DOI awarded \$3,887,161 to the CNMI for Oil Pipeline Project (Funding No. CNMI-CIP-2016-2 D16AP00013). On March 8, 2016, US DOI awarded the CNMI additional funding of \$382,225 to its original ATP to provide EEMC support for oil spill prevention, preparedness and response and to comply with the SO2. On March 17, 2016, US DOI awarded the CNMI additional funding of \$730,614 to its original ATP for the "Tank 103 Cleanout, Inspect and Repair" project. The additional ATPs would satisfy the CNMI's 2016 SO2 obligation.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2017

(11) Long-Term Debt Obligations, Continued

Claims and Judgments, Continued

On March 17, 2017, US DOI awarded \$777,000 to the CNMI for an ATP (Funding No. CNMI-CIP-2017-3 D17AP00016) for the development of a Facility Waste Management Plan for power plants 1 and 2 on Saipan, an SO2 project. On March 27, 2017, US DOI awarded the CNMI additional funding of \$4,019,000 to its original ATP for the repairs of "Tank 103" and its secondary containment as required by the SO2. On March 29, 2017, US DOI awarded the CNMI additional funding of \$204,000 to its original ATP to provide EEMC support for construction management and administration of the SO2 projects. The additional ATPs would satisfy the CNMI's 2017 SO2 obligation. As of September 30, 2017, the CNMI's claims and judgement liability related to SO2 amounted to \$5,000,000.

Changes in long-term liabilities of the primary government for the year ended September 30, 2017, are as follows:

	Balance October 1, 2016	Additions	Reductions	Balance September 30, 2017	Due Within One Year
Loans and bonds payable:					
2007 Series A Bonds	\$ 41,260,000	\$ -	\$ (3,085,000)	\$ 38,175,000	\$ 3,245,000
2007 Series B Bonds	<u>39,115,000</u>	<u>-</u>	<u>(1,355,000)</u>	<u>37,760,000</u>	<u>1,455,000</u>
	80,375,000	-	(4,440,000)	75,935,000	4,700,000
Deferred amounts:					
Unamortized premium on bonds issued	<u>107,437</u>	<u>-</u>	<u>(6,320)</u>	<u>101,117</u>	<u>6,320</u>
	<u>80,482,437</u>	<u>-</u>	<u>(4,446,320)</u>	<u>76,036,117</u>	<u>4,706,320</u>
Other:					
Obligations under Settlement Agreement	170,749,160	-	(33,000,000)	137,749,160	45,000,000
Claims and judgments	39,988,284	11,872,781	(38,584,125)	13,276,940	13,276,940
Compensated absences	7,533,356	8,342,426	(7,173,408)	8,702,374	3,932,133
Due to component units	4,019,711	-	(1,354,846)	2,664,865	-
Landfill closure	<u>5,344,315</u>	<u>381,737</u>	<u>-</u>	<u>5,726,052</u>	<u>-</u>
	<u>227,634,826</u>	<u>20,596,944</u>	<u>(80,112,379)</u>	<u>168,119,391</u>	<u>62,209,073</u>
	<u>\$ 308,117,263</u>	<u>\$ 20,596,944</u>	<u>\$ (84,558,699)</u>	<u>\$ 244,155,508</u>	<u>\$ 66,915,393</u>

Discretely Presented Component Units

CPA:

Note payable to CDA, interest at 2.5% per annum, with maturity date of June 15, 2030. Principal and interest payments in the amount of \$31,000 are due monthly beginning June 15, 2010. The payment of accrued interest totaling \$546,679 has been deferred until the maturity of the loan or until the loan is paid off, whichever comes first.

\$ 3,971,018

CDA:

Note payable 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 (AMP), and is being repaid from investment earnings of MPLT's AMP Fund pursuant to CNMI Public Law 11-72.

296,984

\$ 4,268,002



COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2017

(11) Long-Term Debt Obligations, Continued

Discretely Presented Component Units, Continued

CPA \$33,775,000 Bond Issue, Continued

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

Revenue bonds payable as of September 30, 2017, consist of the following:

1998 Senior Series A tax-exempt seaport revenue bonds	\$ <u>19,780,000</u>
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Additionally, CPA has resolved to hold \$8,000,000 in the Seaport supplemental reserve fund. The supplemental reserve fund was established pursuant to the First Supplemental Indenture dated March 1, 2000 for the purpose of providing funding and maintenance for the 1998 Senior Series A Seaport Bonds. At September 30, 2017, total deposits in the Seaport supplemental reserve fund amounted to \$7,991,935.

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.

CPA \$7,225,000 Bond Issue

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

Revenue bonds payable as of September 30, 2017, consist of the following:

2005 Senior Series A tax-exempt seaport revenue bonds	\$ 5,300,000
Discount on bonds	<u>(71,694)</u>
	\$ <u>5,228,306</u>

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2017

(11) Long-Term Debt Obligations, Continued

Discretely Presented Component Units, Continued

CPA Bond Issues

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, 2017. Section 6.11 of the Airport and Seaport Bond Indenture Agreements (Indenture) states that CPA shall impose, levy, enforce and collect such dockage, entry and wharfage fees, tariffs, lease rentals, licensing fees and other fees and charges in an aggregate amount with respect to each fiscal year to produce gross revenues of 125% of debt service requirements. Management of CPA has determined that gross revenues consist of total operating revenues, other grant revenue and contributions, interest income and passenger facility charges to meet the Indenture requirements. For fiscal year 2017, management of CPA determined that 100% of passenger facility charges would be considered as gross revenues for these purposes.

Annual debt service requirements to maturity for principal and interest for bonds payable are as follows:

<u>Year ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 2,285,000	\$ 2,208,345	\$ 4,493,345
2019	2,415,000	2,058,804	4,473,804
2020	2,565,000	1,900,328	4,465,328
2021	2,730,000	1,731,797	4,461,797
2022	2,900,000	1,552,568	4,452,568
2023 - 2027	17,455,000	4,657,466	22,112,466
2028 - 2031	<u>5,675,000</u>	<u>342,008</u>	<u>6,017,008</u>
	\$ <u>36,025,000</u>	\$ <u>14,451,316</u>	\$ <u>50,476,316</u>

Changes in long-term liabilities of the discretely presented component units for the year ended September 30, 2017, are as follows:

	<u>Balance October 1, 2016</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance September 30, 2017</u>	<u>Due Within One Year</u>
Bonds payable:					
CPA	\$ 38,160,000	\$ -	\$ (2,135,000)	\$ 36,025,000	\$ 2,285,000
Notes payable:					
CPA	4,240,425	-	(269,407)	3,971,018	275,813
CDA	<u>449,330</u>	<u>-</u>	<u>(152,346)</u>	<u>296,984</u>	<u>296,984</u>
	42,849,755	-	(2,556,753)	40,293,002	2,857,797
Deferred amounts:					
CPA:					
Discount	<u>(71,694)</u>	<u>-</u>	<u>-</u>	<u>(71,694)</u>	<u>-</u>
	42,778,061	-	(2,556,753)	40,221,308	2,857,797
Other liabilities:					
Accrued interest:					
CPA	546,679	102,794	(102,794)	546,679	-
Compensated absences	621,643	584,799	(491,299)	715,143	254,417
Unearned revenues:					
CPA	84,838	17,089	-	101,927	101,927
CDA	<u>9,558,218</u>	<u>-</u>	<u>(781,600)</u>	<u>8,776,618</u>	<u>27,227</u>
	\$ <u>53,589,439</u>	\$ <u>704,682</u>	\$ <u>(3,932,446)</u>	\$ <u>50,361,675</u>	\$ <u>3,241,368</u>

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2017

(12) Fund Balances

Classifications of fund balances comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The following table enumerates the fund balance classifications:

	General	Grants Assistance	Saipan Amusement	Department Public of Lands	Other Governmental Funds	Total
Non-spendable						
Inventories	\$ 232,387	\$ -	\$ -	\$ -	\$ -	\$ 232,387
UMDA	1,500,000	-	-	-	-	1,500,000
PIDB	1,000,000	-	-	-	-	1,000,000
Restricted for:						
Capital projects	-	3,973,155	-	-	373,519	4,346,674
Public works and highway projects	-	-	-	-	443,142	443,142
Federal programs and projects	-	1,288,213	-	-	-	1,288,213
Debt service reserve	2,399,056	-	-	-	-	2,399,056
Other purposes	456,655	-	-	-	4,806	461,461
Committed to:						
Saipan Amusement Fund	-	-	17,928,009	-	-	17,928,009
Public lands	-	-	-	10,975,000	-	10,975,000
Local senatorial districts	-	-	-	-	7,922,232	7,922,232
Workers' Compensation Commission	-	-	-	-	2,498,832	2,498,832
Private grants	-	-	-	-	2,301,988	2,301,988
Commonwealth Casino Commission	-	-	-	-	3,789,320	3,789,320
CNMI Group Health and Life Insurance Trust Fund	-	-	-	-	1,548,467	1,548,467
Infrastructure	-	-	-	-	1,648,625	1,648,625
Other purposes	-	-	-	-	2,465,796	2,465,796
Unassigned	(44,332,922)	-	-	-	(9,689)	(44,342,611)
	\$ (38,744,824)	\$ 5,261,368	\$ 17,928,009	\$ 10,975,000	\$ 22,987,038	\$ 18,406,591

(13) Settlement Income

Discretely Presented Component Units

During the year ended September 30, 2017, a study was commissioned by CPA to assess compliance with the Airline Use Agreement with various airlines. The agreement states that CPA will charge fees in relation to the cost of operations and other factors each year. The study, performed for fiscal years 2015-2016, determined amounts due to and from various airlines and resulted in a net \$1,481,259 due CPA.

(14) 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, 2017, are as follows:

Source/Recipient	Transfer Out	Transfer In
General Fund		
Grants Assistance Fund	\$ 7,472,690	\$ -
Other Governmental Funds	923,747	3,265,891
Saipan Amusement Fund	-	26,847,155
	<u>8,396,437</u>	<u>30,113,046</u>

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2017

(14) Transfers In/Out, Continued

Operating Fund Transfers, Continued

<u>Source/Recipient</u>	<u>Transfer Out</u>	<u>Transfer In</u>
<u>Grants Assistance Fund</u>		
General Fund	-	<u>7,472,690</u>
<u>Saipan Amusement Fund</u>		
General Fund	<u>26,847,155</u>	-
<u>Other Governmental Funds</u>		
General Fund	3,265,891	923,747
Fiduciary Funds	-	<u>1,547,179</u>
	<u>3,265,891</u>	<u>2,470,926</u>
<u>Fiduciary Funds</u>		
Other Governmental Funds	<u>1,547,179</u>	-
	<u>\$ 40,056,662</u>	<u>\$ 40,056,662</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 \$119,897,969 does not equal the corresponding contributions from the primary government of \$15,336,943 by \$104,561,026. The difference of \$1,643,304 with MVA is due to \$1,227,213 of expenditures incurred and paid by the CNMI related to Public Law 18-01 that were not recorded by MVA and \$416,091 of unreconciled differences. The remaining difference of \$102,917,722 is due to lack of financial information from CUC, PSS, NMC, CHCC and NMISF.

(15) 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.

Dedicated Revenues and Pledges

CNMI has pledged all Judicial Building Fund (a Governmental Fund Type - General Fund) revenues to repay a loan of \$15,000,000 to NMIRF pursuant to an agreement entered into in February 1995. On October 1, 2013, the loan was transferred from NMIRF to NMISF pursuant to Section 8 of the Settlement of Civil Case No. 09-00023. Total principal and interest remaining on this loan is approximately \$3,679,054. For the year ended September 30, 2017, principal and interest payments were \$616,242 and \$326,530, respectively, and total Judicial Building Fund revenues were \$987,375.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2017

(15) Commitments, Continued

Discretely Presented Component Units

CPA has pledged future gross revenues to repay \$20,050,000 and \$33,775,000 in 1998 Senior Series A and \$7,225,000 of 2005 Senior Series A tax-exempt special revenue bonds. Proceeds from the bonds provided financing for capital assets. The bonds are payable from pledged gross revenues. The bonds are payable through fiscal years 2028, 2028 and 2031, respectively. The total principal and interest payable for the remainder of the life of these bonds are \$50,476,316 at September 30, 2017. Pledged gross revenues received during the year ended September 30, 2017 were \$27,411,468. Debt service payments during the year ended September 30, 2017 amounted to \$4,468,968 representing 16% of pledged gross revenues.

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 the 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, 2017, is \$200,000.

CNMI's future rentals under the lease are as follows:

<u>September 30,</u>	
2018	\$ 200,000
2019	200,000
2020	200,000
2021	200,000
2022	200,000
2023 - 2025	<u>600,000</u>
	\$ <u>1,600,000</u>

(16) 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 related costs will be funded through grant awards from the U.S. Department of the Interior.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2017

(16) Contingencies, Continued

Landfill Closure Costs, Continued

State and federal laws and regulations require the CNMI to place a final cover on its landfill sites when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for 30 years after closure. Although landfill closure and postclosure 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 postclosure costs as an expense in each period based on landfill capacity used as of each balance sheet date. The \$5,726,052 liability reported as landfill closure and postclosure costs at September 30, 2017 within the accompanying financial statements, represents the cumulative amount reported based on 55% capacity used. The Marpi landfill has an estimated lifespan of eighteen years. The CNMI will recognize the remaining estimated cost of closure and post closure care of \$1,145,210 as the remaining estimated capacity is filled. These amounts are based on what it would cost to perform all closure and post closure care in 2017. Actual costs may be higher due to inflation, changes in technology or changes in regulations.

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 \$21,722,238 have been set forth in the CNMI's Single Audit Report for the year ended September 30, 2017. 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.

Tax Returns

The CNMI is unable to estimate unfiled or unprocessed tax returns related to tax years 2016 and prior. Therefore, no provision for any liability that may result upon resolution of this matter has been made in the accompanying financial statements. CNMI management does not believe that this will have a material impact on the financial statements.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2017

(16) Contingencies, Continued

General Fund Financial Position

The CNMI's General Fund has an unassigned fund deficit of \$44,332,922 at September 30, 2017. In addition, at September 30, 2017, the primary government's current liabilities exceed current assets by \$44,312,112, and total liabilities and deferred inflows of resources exceed total assets and deferred outflows of resources by \$61,910,563. On September 30, 2013, the District Court approved a Settlement Agreement between a retiree (individually and on behalf of similarly-situated persons) and the CNMI, NMIRF and others. The Settlement Agreement includes the creation of NMISF to accept the transfer of NMIRF assets, receive annual contributions and payments by the CNMI and to carry out the consent judgment entered by the District Court. As part of the Settlement Agreement, the CNMI agrees to make minimum annual payments to NMISF to allow for the payment of 75% of Class Members' full benefits annually during NMISF's expected life and as determined by an actuary appointed by a Trustee and approved by the District Court. The CNMI is awaiting the actuarial determination and the effect on the accompanying financial statements has not been determined. Management believes that the actuarial determination will have a positive effect on the General Fund Financial Position and will commence the process of reducing the abovementioned General Fund deficit position.

Sick Leave

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, 2017, is \$43,242,138.

CHCC

Public Law 16-51 established CHCC as a public corporation with certain limitations on liability provided by the CNMI Government Liability Act (GLA) and immunity from seizure of its property to pay judgment debts. Public Law 15-22 amended the GLA, which provides that employees who have been personally sued for actions taken within the scope of their employment may have the government substituted as the defendant and the employee dismissed from the suit. In the event of loss due to employee malpractice action, the CNMI will be self-insured for the amount of judgment rendered against it.

DPL

The CNMI Constitution requires that all revenues received by DPL in excess of the amount necessary to meet reasonable expenses of administration and management, land surveying, homestead development, and any other expenses reasonably necessary for the accomplishment of its functions, must be transferred to MPLT. Management of DPL has determined that the following transactions may have violated DPL's constitutional mandate:

- DPL transferred \$2,500,000 to the CNMI during the year ended September 30, 2010;

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2017

(16) Contingencies, Continued

DPL, Continued

- Between March 2009 and November 2010, DPL reimbursed the CNMI \$1,395,459 for land compensation payments made by the CNMI and has recorded \$581,669 as due to CNMI for additional reimbursements;
- Between June 2010 and September 2014, DPL disbursed \$2,002,146 directly to the Northern Mariana Islands Retirement Fund which may have duplicated payments made by the CNMI and has subsequently recorded the amount as a fully reserved receivable.

The effects of potential noncompliance with the CNMI Constitution could not be determined by DPL management and are not reflected in the accompanying financial statements.

Budgetary Compliance

For the year ended September 30, 2017, 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>
Health (Medicaid and medical referrals)	\$ 9,030,858
Judgments	\$ 8,866,590
Executive branch:	
Department of Public Safety	\$ 2,551,959
Department of Finance	\$ 1,166,349
Department of Fire and Emergency Medical Services	\$ 799,943
Department of Commerce	\$ 258,721
Department of Corrections	\$ 112,404
Debt service	\$ 1,954,749
Office of the Public Auditor	\$ 714,053
Tourism (payment to MVA)	\$ 552,403
Employee benefits (payment to GHLITF)	\$ 122,013
Government utilities	\$ 90,688
Boards and commissions	\$ 14,205

(17) 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 \$11,872,781, \$3,189,685 and \$8,314,667 for the years ended September 30, 2017, 2016 and 2015, respectively. Changes in the balance of claims liabilities during the past year are as follows:

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2017

(17) Risk Management, Continued

	<u>Year ended September 30,</u>
Unpaid claims at beginning of year	\$ 39,988,284
Incurred claims	11,872,781
Claim payments	(31,942,321)
Reversals	<u>(6,641,804)</u>
Unpaid claims at end of year	\$ <u>13,276,940</u>

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 fund represents the net amount available after the costs of land acquisitions. Land condemnation proceedings are still in process. At September 30, 2017, the CNMI recorded claims and judgments liability of \$1,396,269 related to land condemnation proceedings.

On June 15, 2015, the CNMI and a Corporation organized and operating under the law of the CNMI entered into an agreement to settle and extinguish the Corporation's existing judgment against the CNMI (Civil Action No. 04-0589) of \$5,919,850 using tax offsets and credits pursuant to 1 CMC 7207(a) and 1 CMC 7207(a) subsection (b). Of the total judgments, \$1,500,000 was assigned to another Corporation organized and operating under the law of the CNMI pursuant to Civil Action No. 02-0566C and was settled through reduced tax liability credits of \$1,000,000; \$1,454,730 was offset against delinquent tax liabilities of the Corporation; \$2,000,000 was assigned to an Estate pursuant to Civil Action No. 02-0566C and was agreed to be settled as estate tax liability credits for the period October 2015 to April 2017; the remaining amount of \$965,120 was settled as tax liability credits to the Corporation during the period May 2017 to September 2017. Accordingly, in fiscal years 2017, 2016 and 2015, the CNMI reversed the \$1,641,804, \$1,323,315 and \$2,954,730, respectively, claims and judgment liability as a result of the settlement agreement. As of September 30, 2017, the claims and judgment liability related to this settlement amounted to \$-0-.

In addition, the CNMI reversed claims and judgement liability of \$5,000,000 related to its obligation on SO2 projects (see note 11).

(18) Pension and Other Postemployment Benefits Trust Fund

The CNMI contributed to NMIRF's defined benefit plan (DB Plan), a cost-sharing, multiple-employer plan established and administered by the CNMI. On September 30, 2013, the DB Plan was transferred to NMISF and the CNMI now contributes to NMISF. The CNMI also contributes to a defined contribution plan (DC Plan).

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2017

(18) Pension and Other Postemployment Benefits Trust Fund, Continued

GASB Statement No. 45 requires employers to record other postemployment benefits (OPEB) expense for their contractually required contributions to the OPEB plan. The CNMI has complied with GASB 45 by recording OPEB expense based on the statutory determined contribution rate of NMISF. The CNMI's OPEB liability is incorporated into the Due to Pension (and Other Employee Benefit) Trust Fund liability amount. It is the understanding of the management of the CNMI that the statutory determined contribution rate of NMISF incorporates both the pension liability and the OPEB liability. GASB 45 also requires detailed disclosure of information related to the OPEB plan and CNMI management was unable to obtain this information from NMIRF and NMISF's financial reports. CNMI management is unable to obtain the required disclosures and is of the opinion that such information must be obtained from NMIRF and NMISF. It is the position of the management of the CNMI that NMIRF and NMISF are solely responsible for disclosure of OPEB information.

Defined Benefit Plan (DB Plan)

The DB Plan provides retirement, disability, security and other benefits to employees of the CNMI Government and CNMI agencies, instrumentalities and public corporations and their spouses and dependents. 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, 11-9, 11-95, 13-60, 15-14, 15-70, 15-126, 16-2, 16-36, 17-79, 17-82 and 18-02.

DB Plan members are required to contribute 6.5% and 9% of their annual covered salary for Class I and Class II members, respectively. On June 14, 2007, Public Law No. 15-70 was enacted to amend the NMIRF Act to improve the DB Plan's fiscal solvency. Public Law No. 15-70 provides for increasing employee contributions to the DB Plan by 1% per year beginning in fiscal year 2008 until reaching 10.5% for Class I members and 11% for Class II members. The actuarial contribution rate for fiscal year ended September 30, 2017 has yet to be determined. The actuarially determined contribution rate for the fiscal year ended September 30, 2010 is 72.7215% of covered payroll based on an actuarial valuation as of October 1, 2010 issued in October 2012. The established statutory rate at September 30, 2017 is 72.7215% of covered payroll. Public Law No. 15-126, authorizes the CNMI Government to remit only 18% of covered payroll and accrue the remaining as liability to NMIRF for fiscal year 2009. The employer contribution remittance was further reduced by Public Law No. 16-2 to 11% of covered payroll. On June 29, 2009, the CNMI was ordered to pay employer contribution of 16% beginning August 2009. Effective November 2009, the employer contribution was increased to 20%. On November 10, 2010, the CNMI was ordered to remit the employer contribution rate of 30% effective October 1, 2010.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2017

(18) Pension and Other Postemployment Benefits Trust Fund, Continued

Defined Benefit Plan (DB Plan), Continued

On August 30, 2012, Public Law 17-79 was enacted to amend Title I of the Commonwealth Code to include the intent of the CNMI to participate in the retirement insurance system established by Title II of the U.S. Federal Insurance Contributions Act (FICA) and for participation to be extended to elected officials, employees, political subdivisions and instrumentalities of the CNMI. On September 11, 2012, Public Law 17-82 *CNMI Pension Reform Recovery Act of 2012* was enacted. Unless specifically exempted or authorized by federal law, Public Law 17-82 provides for mandatory membership of CNMI Government employees and elected officials in the U.S. Social Security system and authorizes employees, who elect to, to buy quarters of service in the U.S. Social Security system from contributions made to the DB plan. In addition, Public Law 17-82 provides active and inactive DB Plan members the option to voluntarily terminate membership in the DB Plan, withdraw or roll over contributions to the DC Plan and to participate in the U.S. Social Security system without termination of employment or penalty. Further, Public Law 17-82 allows the CNMI Government to continue remitting its 4% employer contribution to the DC Plan unless the employee ceases to contribute its employee share.

On March 11, 2013, Public Law 18-02 was enacted to amend certain provisions in Public Law 17-82. Public Law 18-02 requires class members who elect to terminate membership in the DB Plan to receive employee contributions with regular interest without penalty and without separating from government service. Further, Public Law 18-02 allows the CNMI Government to continue to withhold and remit the employee's portion to the employee's DB account with respect to employees who do not terminate membership in the DB Plan. All but fifty-two active employees voluntarily terminated membership in the DB Plan.

On August 7, 2013, the District Court issued an order for the preliminary approval of Civil Case No. 09-00023, Class Action Settlement (the Settlement), between a retiree (individually and on behalf of similarly-situated persons) and the CNMI, NMIRF and others. The Settlement includes the creation of NMISF to accept the transfer of NMIRF assets, receive annual contributions and payments from the CNMI and to carry out the consent judgment entered by the District Court. On September 30, 2013, the District Court approved the Settlement.

As part of the Settlement, the CNMI agrees to make minimum annual payments to NMISF to allow for the payment of 75% of Class Members' full benefits annually during the NMISF's expected life and as determined by an independent actuary appointed by the NMISF Trustee and approved by the District Court. For the year ended September 30, 2017, the CNMI recorded payments to NMISF of \$33,000,000 and \$14,740,001, which relates to the fiscal year 2017 annual payment pursuant to Section 4 of the Settlement and payment of 25% of the class members full benefits, respectively.

Section 4.2 of the Settlement requires that if 17% of the CNMI's total annual revenue, as agreed by the Settlement Fund Trustee, Counsel, and the CNMI or as determined by the District Court, is greater than the minimum annual payments, the CNMI must pay the difference to the Settlement Fund within 60 days. Accordingly, during fiscal year 2017, the CNMI recorded payments to the Settlement Fund of \$18,663,564 which relates to fiscal years 2014, 2015 and 2016 difference of 17% agreed revenue over annual payments.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2017

(18) Pension and Other Postemployment Benefits Trust Fund, Continued

Defined Benefit Plan (DB Plan), Continued

On December 19, 2016, Public law 19-75 was approved which requires the CNMI to pay \$3,500,000 in bonuses to retirees and beneficiaries. Accordingly, during fiscal year 2017, the CNMI recorded payments to the Settlement Fund of \$3,510,000 to pay bonuses for retirees and beneficiaries and administrative fees of \$10,000.

In addition, Section 5 of the Settlement requires class members who are employed by the CNMI or an autonomous agency and who did not terminate from the DB Plan pursuant to Public Law 17-82, as amended by Public Law 18-02, to continue to pay employee contributions as required by the laws of the CNMI existing as of August 6, 2013. Required contributions are remitted to NMISF and the CNMI and autonomous agencies make supplemental payments to NMISF in the amount of the employer contributions at the same contribution rates they were paying as of June 26, 2013. Accordingly, NMIRF has no obligations or duties to pay retirement benefits to class members. For the year ended September 30, 2017, the CNMI recorded contributions to NMISF of \$683,620.

Further, Section 8.1 of the Settlement assigns the CNMI the rights to collect deficient employer contributions and related costs as of August 6, 2013 from autonomous agencies. At September 30, 2017, the CNMI has not determined the amount of receivables from autonomous agencies.

Defined Contribution Plan (DC Plan)

On June 16, 2006, Public Law No. 15-13 was enacted which created the DC Plan, a multi-employer pension plan and is the single retirement program for all employees whose first time CNMI government employment commences on or after January 1, 2007. Each member of the DC Plan is required to contribute to the member's individual account an amount equal to 10% of the member's compensation. Public Law 17-82 requires the CNMI to contribute to each member's individual account an amount equal to 4% unless the employee ceases to contribute its employee share. The CNMI's recorded DC contributions for the years ended September 30, 2017, 2016 and 2015 were \$656,465, \$578,182 and \$555,792, respectively, equal to the required contributions for each year.

Members of the DC Plan, who have completed five years of government service, have a vested balance of 100% of both member and employer contributions plus any earnings thereon.

The contribution requirements of plan members and the CNMI are established and may be amended by the Board of Trustees of NMIRF.

All component units of the CNMI government reporting entity also contribute to the DC Plan. Separate actuarial valuations have not been performed for these separate component units.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2017

(19) Restatements

Subsequent to the issuance of the CNMI's 2016 financial statements, CNMI management determined that certain amounts due to a component unit and due from other funds of the Department of Public Lands were overstated by \$1,000,000. Accordingly, account balances have been restated from amounts previously reported.

(20) Subsequent Event

On March 5, 2018, USDOJ awarded \$5,000,000 to the CNMI for an ATP (Funding No. CNMI-CIP-2018-3 D18AP00026) for the EEMC, CUC pipeline smart pigging, waste management and facility drainage projects. Accordingly, this ATP would satisfy the CNMI's 2018 SO2 obligation.

COMMONWEALTH OF THE  
NORTHERN MARIANA ISLANDS

REQUIRED SUPPLEMENTARY INFORMATION  
- BUDGETARY REPORTING

YEAR ENDED SEPTEMBER 30, 2017

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Revenues, Expenditures, and Changes in Deficit  
- Budget and Actual - General Fund  
Year Ended September 30, 2017

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance
	Original	Final		
Revenues:				
Taxes	\$ 191,971,298	\$ 191,971,298	\$ 201,769,061	\$ 9,797,763
Charges for sales and services	2,425,000	2,425,000	1,347,271	(1,077,729)
Licenses and fees	13,983,000	13,983,000	11,392,566	(2,590,434)
Contributions from component units	1,500,000	1,500,000	1,636,226	136,226
Other	1,370,000	1,370,000	7,228,236	5,858,236
Total revenues	<u>211,249,298</u>	<u>211,249,298</u>	<u>223,373,360</u>	<u>12,124,062</u>
Expenditures - budgetary basis by function:				
Executive branch:				
Office of the Governor	1,319,192	1,546,512	1,448,903	97,609
Office of the Lt. Governor	931,662	777,651	527,783	249,868
Other Offices of the Governor and Lt. Governor	8,690,515	7,461,231	7,150,951	310,280
Department of Commerce	1,419,333	1,231,114	1,489,835	(258,721)
Department of Community and Cultural Affairs	2,553,485	2,536,352	2,337,633	198,719
Department of Corrections	4,524,753	4,903,931	5,016,335	(112,404)
Department of Finance	4,979,492	5,570,269	6,736,618	(1,166,349)
Department of Fire and Emergency Medical Services	4,109,609	4,648,863	5,448,806	(799,943)
Department of Labor	910,261	925,738	679,917	245,821
Department of Lands and Natural Resources	2,841,266	2,935,478	2,926,409	9,069
Department of Public Safety	6,324,170	7,934,462	10,486,421	(2,551,959)
Department of Public Works	3,689,838	3,620,080	3,499,379	120,701
Second Senatorial District - Tinian and Aguiguan	7,586,496	7,905,870	7,450,391	455,479
First Senatorial District - Rota	7,502,220	8,066,398	7,699,368	367,030
Government utilities	110,300	110,300	200,988	(90,688)
Legislative branch	7,054,017	7,054,019	6,777,596	276,423
Judicial branch	5,970,053	5,970,053	5,734,659	235,394
Independent programs	2,874,718	2,556,128	1,752,208	803,920
Office of the Attorney General	2,883,439	3,194,054	3,069,760	124,294
Third Senatorial District - Saipan and the Northern Islands	2,811,802	2,868,178	2,711,609	156,569
Office of the Public Auditor	1,006,501	1,013,668	1,727,721	(714,053)
Boards and commissions	1,802,290	1,883,077	1,897,282	(14,205)
Education (payment to PSS, NMC and Board of Education)	40,841,345	40,841,344	40,552,389	288,955
Tourism (payment to MVA)	15,200,631	15,200,631	15,753,034	(552,403)
Pension contributions (payment to NMISF and NMIRF)	37,309,156	36,990,922	33,167,570	3,823,352
Employee benefits (payment to GHLITF)	12,790,147	10,326,817	10,448,830	(122,013)
Health (Medicaid local expenses and medical referrals)	7,622,366	7,663,277	16,694,135	(9,030,858)
Health (payment to CHCC)	917,796	917,796	123,779	794,017
MPLT funds diverted to CUC	1,500,000	1,500,000	-	1,500,000
Judgments	1,000,000	1,000,000	9,866,590	(8,866,590)
Disaster expenditures	338,173	338,173	22,235	315,938
Debt service	8,460,375	8,460,375	10,415,124	(1,954,749)
Unallocated adjustments, net	-	-	(3,481,611)	3,481,611
Total expenditures	<u>207,875,401</u>	<u>207,952,761</u>	<u>220,332,647</u>	<u>(12,379,886)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>3,373,897</u>	<u>3,296,537</u>	<u>3,040,713</u>	<u>(255,824)</u>
Other financing sources (uses):				
Operating transfers in	1,400,000	1,400,000	26,847,155	25,447,155
Operating transfers out	(9,230,000)	(9,230,000)	(923,747)	8,306,253
Total other financing sources (uses), net	<u>(7,830,000)</u>	<u>(7,830,000)</u>	<u>25,923,408</u>	<u>33,753,408</u>
Other changes:				
Encumbrances	4,456,103	4,456,103	3,279,595	(1,176,508)
Net change in deficit	\$ -	\$ (77,360)	\$ 32,243,716	* \$ 32,321,076

\* 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, 2017

#### (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 unassigned deficit of the Governmental Fund Balance Sheet within the other changes in unassigned 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 re-appropriated and honored during the subsequent fiscal year.

On September 28, 2016, the CNMI passed Public Law 19-68 as the Appropriations and Budget Authority Act of 2017 (the Act). The Act allocates local funds for the operations and activities of the Government of the CNMI, its agencies, its instrumentalities, independent agencies and political subdivisions and provides authority for government corporations for Fiscal Year 2017 commencing October 1, 2016 and ending September 30, 2017.

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.

#### (2) Explanation of Differences

Total revenues of \$224,980,214 reported under GAAP basis does not equal total revenues of \$223,373,360 reported under the budgetary basis due to \$1,606,854 of contract workers funds received from the U.S. Department of Homeland Security (USDHS) pursuant to US Public Law 110-229 for the purpose of funding ongoing vocational educational curricula and program development by the CNMI. The amount was included as other revenue in the governmental funds but was not included in the budgetary schedule. CNMI management has taken the position that these funds are not considered general fund revenues to be reported under the budgetary basis but are treated as pass-through funds from the USDHS. Of this amount, \$527,774 was transferred to NMC, and \$1,079,080 was transferred to the Northern Marianas Trade Institute. Amounts were also not reported as expenditures for budgetary purposes.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to Required Supplementary Information - Budgetary Reporting  
September 30, 2017

(2) Explanation of Differences, Continued

The amount reported as operating transfers in of \$30,113,046 under GAAP basis does not equal the amount reported as operating transfers in of \$26,847,155 under the budgetary basis due to \$3,265,891 of transfers pursuant to Public Law 19-68 reported as operating transfers in the governmental fund financial statements but were reported as a reduction of expenditures for budgetary purposes.

The amount reported as operating transfers out of \$8,396,437 under GAAP basis does not equal the amount reported as operating transfers out of \$923,747 under the budgetary basis due to federal grants local match reported as transfers out in the governmental fund financial statements but were reported as expenditures for budgetary purposes.

The following reconciles budget to GAAP differences:

Net change in fund balance - budgetary basis	\$ 28,964,121
Encumbrances not recognized under GAAP basis	<u>3,279,595</u>
Net change in fund balance - General Fund	\$ <u>32,243,716</u>

COMMONWEALTH OF THE  
NORTHERN MARIANA ISLANDS

OTHER SUPPLEMENTARY INFORMATION

YEAR ENDED SEPTEMBER 30, 2017

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Combining Schedule of Expenditures by Account  
Governmental Funds  
Year Ended September 30, 2017

	General	Grants Assistance	Saipan Amusement	Department of Public Lands	Other Governmental Funds	Total
Salaries and wages	\$ 46,971,505	\$ 9,853,365	\$ 3,378,768	\$ 1,895,941	\$ 3,554,240	\$ 65,653,819
Professional services	6,841,029	53,682,151	1,654,767	599,869	4,409,118	67,186,934
Payments to Settlement Fund	33,000,000	-	36,913,565	-	-	69,913,565
Education:						
Payments to Public School System	36,465,093	221,603	10,241,826	-	288,954	47,217,476
Payments to Northern Marianas						
College	4,904,024	74,187	1,000,000	-	-	5,978,211
Employee benefits	19,409,513	1,778,978	150,420	367,771	747,173	22,453,855
Food items	929,537	10,760,883	-	1,979	27,367	11,719,766
Utilities	3,444,693	507,574	3,331,576	44,198	60,285	7,388,326
Capital outlay:						
Road improvements	4,280	-	36,895	-	2,641,819	2,682,994
Vehicles	1,272,276	1,547,292	517,800	-	315,463	3,652,831
Furniture and fixtures	371,106	228,452	40,778	5,735	512,979	1,159,050
Office equipment	515,852	746,817	-	608	15,443	1,278,720
Construction in progress	78,554	35,048	-	-	268,243	381,845
Machinery and equipment	91,617	187,256	43,908	7,977	147,212	477,970
Building improvements	45,557	355,016	36,510	-	95,479	532,562
Other	522,360	405,186	34,491	-	76,733	1,038,770
Payments to Marianas Visitors Authority	15,753,034	-	-	-	-	15,753,034
Payments to Marianas Public Land Trust	-	-	-	1,878,299	-	1,878,299
Contributions/donations	1,067,015	658,435	548,970	-	127,474	2,401,894
Claims and judgments	9,885,350	-	-	-	-	9,885,350
Interest	4,584,867	-	21,154	-	4,000	4,610,021
Travel	4,736,487	1,724,004	327,076	108,958	2,179,639	9,076,164
Principal repayment	5,794,846	-	441,205	-	-	6,236,051
Rentals	4,047,319	949,482	124,907	133,120	497,794	5,752,622
Scholarships/grants	2,665,143	10,554,110	57,425	-	2,245,535	15,522,213
Supplies	1,985,488	1,492,104	91,842	46,248	675,151	4,290,833
Payments to Commonwealth Utilities Corporation	338,265	-	2,146,241	-	150,000	2,634,506
Payments to Commonwealth Healthcare Corporation	1,086,105	1,255,533	7,000,000	-	832,326	10,173,964
Repairs and maintenance	1,930,200	941,623	74,832	16,553	753,476	3,716,684
Communications	941,812	421,168	304,077	17,962	96,794	1,781,813
Fuel and lubrication	971,004	281,988	8,642	19,359	194,637	1,475,630
Indirect costs	-	2,449,975	-	-	18,555	2,468,530
Advertising	72,473	187,480	2,479	10,065	35,534	308,031
Printing	275,855	158,384	4,287	4,367	61,609	504,502
Dues and subscriptions	242,663	83,714	-	657	18,227	345,261
Miscellaneous services	263,687	112,054	16,491	-	121,613	513,845
Official representation	217,179	-	-	-	12,135	229,314
Insurance	15,925	674,263	-	24,459	3,863	718,510
Freight	173,789	15,633	3,646	-	4,801	197,869
Books and library materials	49,858	41,403	15,799	-	3,124	110,184
Licenses and fees	13,445	31,964	-	4,484	2,487	52,380
Other	2,474,302	1,022,424	1,432,226	107,152	552,389	5,588,493
	<u>\$ 214,453,107</u>	<u>\$ 103,439,549</u>	<u>\$ 70,002,603</u>	<u>\$ 5,295,761</u>	<u>\$ 21,751,671</u>	<u>\$ 414,942,691</u>

See Accompanying Independent Auditors' Report.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS  
MAJOR GOVERNMENTAL FUND - GENERAL FUND

September 30, 2017

The General Fund is the CNMI's primary operating fund and is used to account for all financial transactions not accounted for in any other fund.

NMTIT Rebate Trust

This fund was created 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.

Commonwealth Museum Fund

This fund was created by Public Law No. 10-5 to account 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.

Human Resources Development Trust Fund

This fund was created by 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.

Micronesian Garment Manufacturing Fund

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

Debt Service Fund

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

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, 2017, the project was completed. Revenues generated by the court will be used to finance the debt service on the loan payable under Settlement Agreement.

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 fund represents the net amount available after the costs of land acquisitions. Land condemnation proceedings are still in process.

See Accompanying Independent Auditors' Report.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS  
MAJOR GOVERNMENTAL FUND - GENERAL FUND

September 30, 2017

Miscellaneous General Fund

The miscellaneous general 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
- Department of Corrections Revolving Fund
- Miscellaneous Expendable Trust Fund
- Agriculture Revolving Fund
- Public Utilities Commission Fund
- Soil and Water Conservation Fund
- Governor's Education Initiative Fund

See Accompanying Independent Auditors' Report.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Combining Schedule of Balance Sheet Accounts  
General Fund  
September 30, 2017

	General	NMTIT Rebate Trust	Commonwealth Museum	Human Resources Development Trust	Micronesia Garment Manufacturing	Debt Service	Judicial Building	Tinian Land Condemnation	Miscellaneous	Eliminations	Total
<b>Assets</b>											
Cash and cash equivalents	\$ 74,880,895	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 74,880,895
Time certificates of deposit	295,751	-	-	-	-	-	-	-	-	-	295,751
Restricted cash and cash equivalents	11,856,191	-	-	-	-	2,399,056	-	-	-	-	14,255,247
Receivables, net:											
Federal agencies	-	6,875,037	-	-	-	-	-	-	-	-	6,875,037
Taxes	8,885,019	-	-	-	-	-	-	-	-	-	8,885,019
General	2,779,563	-	-	-	-	-	-	-	-	-	2,779,563
Due from other funds	-	-	-	-	-	-	-	-	-	2,068,330	2,068,330
Due to/from General Funds	(60,884,295)	63,328,579	(565,228)	(173,572)	456,655	-	(3,515,798)	1,396,269	(42,610)	-	-
Due from fiduciary funds	1,000,000	-	-	-	-	-	-	-	-	-	1,000,000
Advances	1,100,538	-	-	-	-	-	-	-	-	-	1,100,538
Inventories	232,387	-	-	-	-	-	-	-	-	-	232,387
Other assets	2,500,000	-	-	-	-	-	-	-	-	-	2,500,000
	<u>\$ 42,646,049</u>	<u>\$ 70,203,616</u>	<u>\$ (565,228)</u>	<u>\$ (173,572)</u>	<u>\$ 456,655</u>	<u>\$ 2,399,056</u>	<u>\$ (3,515,798)</u>	<u>\$ 1,396,269</u>	<u>\$ (42,610)</u>	<u>\$ 2,068,330</u>	<u>\$ 114,872,767</u>
<b>Liabilities and Fund Balances (Deficit)</b>											
Liabilities:											
Accounts payable	\$ 4,087,175	\$ -	\$ 1,148	\$ 80	\$ -	\$ -	\$ -	\$ -	\$ 82,645	\$ -	\$ 4,171,048
Tax rebates payable	-	70,203,616	-	-	-	-	-	-	-	-	70,203,616
Recovery rebates payable	393,837	-	-	-	-	-	-	-	-	-	393,837
Other liabilities and accruals	2,743,676	-	7,925	68,372	-	-	-	-	-	-	2,819,973
Claims and judgments payable	6,880,671	-	-	-	-	-	-	1,396,269	-	-	8,276,940
Loan payable under Settlement Agreement	3,664,853	-	-	-	-	-	-	-	-	-	3,664,853
Due to other funds	52,940,349	-	-	-	-	-	-	-	-	2,068,330	55,008,679
Due to fiduciary funds	-	-	-	-	-	-	-	-	-	-	-
Due to component units	9,078,645	-	-	-	-	-	-	-	-	-	9,078,645
Total liabilities	<u>79,789,206</u>	<u>70,203,616</u>	<u>9,073</u>	<u>68,452</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,396,269</u>	<u>82,645</u>	<u>2,068,330</u>	<u>153,617,591</u>
Fund balances (deficit):											
Non-spendable	2,732,387	-	-	-	-	-	-	-	-	-	2,732,387
Restricted	-	-	-	-	456,655	2,399,056	-	-	-	-	2,855,711
Unassigned	(39,875,544)	-	(574,301)	(242,024)	-	-	(3,515,798)	-	(125,255)	-	(44,332,922)
Total fund balances (deficit)	<u>(37,143,157)</u>	<u>-</u>	<u>(574,301)</u>	<u>(242,024)</u>	<u>456,655</u>	<u>2,399,056</u>	<u>(3,515,798)</u>	<u>-</u>	<u>(125,255)</u>	<u>-</u>	<u>(38,744,824)</u>
	<u>\$ 42,646,049</u>	<u>\$ 70,203,616</u>	<u>\$ (565,228)</u>	<u>\$ (173,572)</u>	<u>\$ 456,655</u>	<u>\$ 2,399,056</u>	<u>\$ (3,515,798)</u>	<u>\$ 1,396,269</u>	<u>\$ (42,610)</u>	<u>\$ 2,068,330</u>	<u>\$ 114,872,767</u>

See Accompanying Independent Auditors' Report.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances (Deficit)  
General Fund  
For the Year Ended September 30, 2017

	General	Commonwealth Museum	Human Resources Development Trust	Micronesia Garment Manufacturing	Debt Service	Judicial Building	Miscellaneous	Eliminations	Total
<b>Revenues:</b>									
Taxes	\$ 201,769,061	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 201,769,061
Licenses and fees	10,405,191	-	-	-	-	987,375	-	-	11,392,566
Contributions from component units	1,636,226	-	-	-	-	-	-	-	1,636,226
Charges for sales and services	1,316,779	-	-	-	-	-	30,492	-	1,347,271
Interest and dividends	167,867	-	-	-	2,036	-	431	-	170,334
Other	8,616,192	46,450	-	-	-	-	2,114	-	8,664,756
<b>Total revenues</b>	<b>223,911,316</b>	<b>46,450</b>	<b>-</b>	<b>-</b>	<b>2,036</b>	<b>987,375</b>	<b>33,037</b>	<b>-</b>	<b>224,980,214</b>
<b>Expenditures:</b>									
<b>Current:</b>									
Public safety and law enforcement	27,261,725	-	-	-	-	-	-	-	27,261,725
General government	21,226,743	-	-	-	-	-	-	-	21,226,743
Utilities	200,988	-	-	-	-	-	-	-	200,988
Other elected officials	11,836,752	-	-	-	-	-	-	-	11,836,752
Legislative branch	6,723,954	-	-	-	-	-	-	-	6,723,954
Health	10,124,002	-	-	-	-	-	-	-	10,124,002
Judicial branch	5,650,423	-	-	-	-	-	14,258	-	5,664,681
Lands and natural resources	4,767,108	-	-	-	-	-	3,579	-	4,770,687
Community and social services	5,721,839	168,470	-	-	-	-	-	-	5,890,309
Education	3,072,315	-	-	-	-	-	-	-	3,072,315
Economic development	1,364,897	-	-	-	-	-	-	-	1,364,897
<b>Payments to:</b>									
Public School System	36,465,093	-	-	-	-	-	-	-	36,465,093
Marianas Visitors Authority	15,753,034	-	-	-	-	-	-	-	15,753,034
Commonwealth Utilities Corporation	338,265	-	-	-	-	-	-	-	338,265
Commonwealth Healthcare Corporation	1,086,105	-	-	-	-	-	-	-	1,086,105
Northern Marianas College	4,904,024	-	-	-	-	-	-	-	4,904,024
CNMI Group Health and Life Insurance Trust Fund	10,268,830	-	-	-	-	-	-	-	10,268,830
Settlement Fund	33,000,000	-	-	-	-	-	-	-	33,000,000
<b>Debt service:</b>									
Interest and fiscal charges	302,930	-	-	-	3,998,736	318,612	-	-	4,620,278
Principal retirement	1,354,846	-	-	-	4,440,000	-	-	-	5,794,846
<b>Capital outlay:</b>									
Public works	4,085,579	-	-	-	-	-	-	-	4,085,579
<b>Total expenditures</b>	<b>205,509,452</b>	<b>168,470</b>	<b>-</b>	<b>-</b>	<b>8,438,736</b>	<b>318,612</b>	<b>17,837</b>	<b>-</b>	<b>214,453,107</b>
Excess (deficiency) of revenues over (under) expenditures	18,401,864	(122,020)	-	-	(8,436,700)	668,763	15,200	-	10,527,107
<b>Other financing sources (uses):</b>									
Operating transfers in	30,113,046	-	-	-	8,502,877	-	-	(8,502,877)	30,113,046
Operating transfers out	(16,899,314)	-	-	-	-	-	-	8,502,877	(8,396,437)
<b>Total other financing sources (uses), net</b>	<b>13,213,732</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>8,502,877</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>21,716,609</b>
<b>Net change in fund balances (deficit)</b>	<b>31,615,596</b>	<b>(122,020)</b>	<b>-</b>	<b>-</b>	<b>66,177</b>	<b>668,763</b>	<b>15,200</b>	<b>-</b>	<b>32,243,716</b>
Fund balances (deficit) at beginning of year	(68,758,753)	(452,281)	(242,024)	456,655	2,332,879	(4,184,561)	(140,455)	-	(70,988,540)
<b>Fund balances (deficit) at end of year</b>	<b>\$ (37,143,157)</b>	<b>\$ (574,301)</b>	<b>\$ (242,024)</b>	<b>\$ 456,655</b>	<b>\$ 2,399,056</b>	<b>\$ (3,515,798)</b>	<b>\$ (125,255)</b>	<b>\$ -</b>	<b>\$ (38,744,824)</b>

See Accompanying Independent Auditors' Report.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS  
MAJOR GOVERNMENTAL FUND - GRANTS ASSISTANCE FUND

September 30, 2017

The Grants Assistance Fund is used to account for all transactions related to grants received from various U.S. departments.

Federal Grants Fund

This fund accounts for all financial transactions related to direct grants received from various U.S. departments.

DOI Capital Projects Fund

This fund accounts for various capital projects funded through grant awards from the U.S. Department of the Interior.

See Accompanying Independent Auditors' Report.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Combining Balance Sheet  
Grants Assistance Fund  
September 30, 2017

<u>Assets</u>	<u>Federal Grants</u>	<u>DOI Capital Projects</u>	<u>Total</u>
Restricted cash and cash equivalents	\$ -	\$ 2,052,466	\$ 2,052,466
Receivables, net:			
Federal agencies	6,005,727	80,317	6,086,044
Other	-	12,831	12,831
Due from other funds	2,102,016	2,371,282	4,473,298
Inventories	571,956	-	571,956
	<u>\$ 8,679,699</u>	<u>\$ 4,516,896</u>	<u>\$ 13,196,595</u>
<u>Liabilities and Fund Balances</u>			
Liabilities:			
Accounts payable	\$ 5,059,597	\$ 196,308	\$ 5,255,905
Other liabilities and accruals	1,423,100	347,433	1,770,533
Due to other funds	336,833	-	336,833
Unearned revenues	571,956	-	571,956
Total liabilities	7,391,486	543,741	7,935,227
Fund balances:			
Restricted	1,288,213	3,973,155	5,261,368
	<u>\$ 8,679,699</u>	<u>\$ 4,516,896</u>	<u>\$ 13,196,595</u>

See Accompanying Independent Auditors' Report.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Combining Statement of Revenues, Expenditures  
and Changes in Fund Balances  
Grants Assistance Fund  
For the Year Ended September 30, 2017

	Federal Grants	DOI Capital Projects	Total
Revenues:			
Federal contributions	\$ 79,952,453	\$ 14,843,547	\$ 94,796,000
Licenses and fees	753,173	-	753,173
Interest and dividends	-	5,893	5,893
Contributions from component units	-	49,425	49,425
Other	368,261	-	368,261
Total revenues	<u>81,073,887</u>	<u>14,898,865</u>	<u>95,972,752</u>
Expenditures:			
Current:			
Health	37,761,877	-	37,761,877
Community and social services	18,962,920	-	18,962,920
General government	2,041,547	-	2,041,547
Lands and natural resources	8,980,965	-	8,980,965
Public safety and law enforcement	18,472,789	-	18,472,789
Utilities	-	107,628	107,628
Economic development	768,114	2,250,315	3,018,429
Payments to:			
Public School System	221,603	-	221,603
Northern Marianas College	74,187	-	74,187
Commonwealth Healthcare Corporation	1,255,533	-	1,255,533
Capital outlay:			
Public works	7,042	9,918,581	9,925,623
Utilities - Capital Projects	-	2,616,448	2,616,448
Total expenditures	<u>88,546,577</u>	<u>14,892,972</u>	<u>103,439,549</u>
(Deficiency) excess of revenues (under) over expenditures	(7,472,690)	5,893	(7,466,797)
Other financing sources:			
Operating transfers in	7,472,690	-	7,472,690
Net change in fund balances	-	5,893	5,893
Fund balances at beginning of year	<u>1,288,213</u>	<u>3,967,262</u>	<u>5,255,475</u>
Fund balances at end of year	<u>\$ 1,288,213</u>	<u>\$ 3,973,155</u>	<u>\$ 5,261,368</u>

See Accompanying Independent Auditors' Report.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS  
MAJOR GOVERNMENTAL FUND - SAIPAN AMUSEMENT FUND

September 30, 2017

This fund was created to account for funds collected for casino licensing fees and to allocate these funds pursuant to Public Law 18-38, as amended by Public Law 18-43 and further amended by Public Law 18-56. This fund also includes nonrefundable application fees to be expended by the Commonwealth Lottery Commission (CLC), without appropriation, for the investigation of license applicants pursuant to 1 CMC § 2318 and any other costs associated with reviewing the applications and granting or denying applications for the exclusive license. The expenditure authority for CLC is the Chairman.

See Accompanying Independent Auditors' Report.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS  
MAJOR GOVERNMENTAL FUND - DEPARTMENT OF PUBLIC LANDS

September 30, 2017

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.

See Accompanying Independent Auditors' Report.

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

September 30, 2017

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

Private Grants Fund

This fund accounts for all financial transactions related to miscellaneous grants that are not directly from the U.S. government. Included in this fund are transactions relating to grants from world organizations and private business organizations in the CNMI. The fund also includes State Small Business Credit Initiative (SSBCI), a federal program administered by the U.S. Department of Treasury to strengthen programs that support private financing to small businesses and small manufacturers. Funds received under SSBCI are not considered federal assistance or a grant for the purposes of Subtitle V of Title 31 of the U.S. Code.

Commonwealth Arts Council Fund

This 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.

Oil Overcharge Fund

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

Commonwealth Nonresident Workers' Fee Fund

This fund was created by Public Law No. 5-32, as amended by Public Law No. 10-66 to account 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

This fund was created by Public Law No. 10-1 to account for the collection of nonresident workers' fees designated for the fund and for the expenditure of those funds in detecting and deporting illegal aliens.

Local Revenue Fund

This 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.

Saipan Trust Fund

This 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, CONTINUED

September 30, 2017

Tobacco Settlement Trust Fund

This fund was created by Public Law No. 13-37 to account for all monies received from the Master Settlement Agreement. The monies must be used to implement programs and services to achieve the goals stated in Section 3 of Public Law 13-37.

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.

Managaha Landing Fee Fund

This fund was created 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.

Qualifying Certificate Reserve Fund

This fund was created to account for the financial transactions of the Qualifying Certificate program.

MVA Trust Fund

This fund was created by Public Law 18-01 to account for revenues entitled to the Marianas Visitors Authority pursuant to Title 4 CMC § 1803. However, the Secretary of Finance may withhold up to 2.5 percent of the funds deposited for the purpose of funding revenue and tax personnel to enforce the provisions of Public Law 18-01 and other CNMI tax laws.

CNMI Scholarship Fund

This fund was created by Public Law 18-40 to account for all funds appropriated, donated or accruing to the benefit of the CNMI Scholarship Office and for the payments made therefrom as directed by the Board of Directors.

See Accompanying Independent Auditors' Report.

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

September 30, 2017

CNMI Workers' Compensation Commission (WCC) Fund

This fund was created by Public Law No. 6-33 which 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. On November 9, 2012, Public Law 17-88 transferred administrative function of WCC from NMIRF to the CNMI Department of Commerce.

Judiciary Legal Services Fund

This fund was created by Public Law 18-36 to account for abandoned or unclaimed properties or monies held by the Commonwealth Judicial Branch. Monies in this fund must be used to pay for indigent legal services, pro se legal resources and payment of NMISF loan. The Chief Justice or a designee is the expenditure authority for this fund.

Commonwealth Casino Commission Fund

This fund was created by Public Law 19-24 to account for the financial transactions of the Commonwealth Casino Commission.

CNMI Group Health and Life Insurance Trust Fund (GHLITF)

GHLITF 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. GHLITF acts in a trustee capacity for health and life insurance coverage payments to the third-party providers. Contributions from employees and employers are based on rates agreed to by the Acting Administrator and the third-party providers.

Miscellaneous Special Revenue Funds

The miscellaneous special revenue fund combines the following:

- Zoning Board Revolving Fund
- Joeten-Kiyu Library Revolving Fund
- Animal Health Revolving Fund
- Fish and Game Revolving Fund
- Tobacco License Fee Fund
- Probation Services Fund
- Outer Cover Marina Fund

See Accompanying Independent Auditors' Report.

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

September 30, 2017

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

Combining Balance Sheet  
Nonmajor Governmental Funds  
September 30, 2017

Assets	Special Revenue Funds								
	Private Grants	Commonwealth Arts Council	Oil Overcharge	Commonwealth Nonresident Workers' Fee	Commonwealth Alien Deportation	Local Revenue	Saipan Trust	Tobacco Settlement Trust	Tobacco Control
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Restricted cash and cash equivalents	-	-	-	-	-	-	6,965	-	-
Restricted investments	-	-	-	-	-	-	-	-	-
Receivables, net:									
Federal	284,562	-	-	-	-	-	-	-	-
General	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	1,209,830	-
Due from other funds	2,049,113	2,943	48,178	-	-	7,993,997	16,500	-	198,418
Due from fiduciary funds	-	-	-	-	-	-	-	-	-
Due from component units	-	-	-	-	-	-	-	-	-
	<u>\$ 2,333,675</u>	<u>\$ 2,943</u>	<u>\$ 48,178</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,993,997</u>	<u>\$ 23,465</u>	<u>\$ 1,209,830</u>	<u>\$ 198,418</u>
<b>Liabilities and Fund Balances (Deficit)</b>									
Liabilities:									
Accounts payable	\$ 28,982	\$ 3,303	\$ -	\$ -	\$ 9,268	\$ 71,765	\$ -	\$ 19,479	\$ 4,153
Health and life insurance payable	-	-	-	-	-	-	-	-	-
Other liabilities and accruals	2,705	-	-	-	61	-	19,338	-	-
Due to other funds	-	-	-	-	-	-	-	588,479	-
Due to component units	-	-	-	-	-	-	-	-	-
Unearned revenues	-	-	47,499	-	-	-	-	-	-
Total liabilities	<u>31,687</u>	<u>3,303</u>	<u>47,499</u>	<u>-</u>	<u>9,329</u>	<u>71,765</u>	<u>19,338</u>	<u>607,958</u>	<u>4,153</u>
Fund balances (deficit):									
Restricted	-	-	679	-	-	-	4,127	-	-
Committed	2,301,988	-	-	-	-	7,922,232	-	601,872	194,265
Unassigned	-	(360)	-	-	(9,329)	-	-	-	-
Total fund balances (deficit)	<u>2,301,988</u>	<u>(360)</u>	<u>679</u>	<u>-</u>	<u>(9,329)</u>	<u>7,922,232</u>	<u>4,127</u>	<u>601,872</u>	<u>194,265</u>
	<u>\$ 2,333,675</u>	<u>\$ 2,943</u>	<u>\$ 48,178</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,993,997</u>	<u>\$ 23,465</u>	<u>\$ 1,209,830</u>	<u>\$ 198,418</u>

See Accompanying Independent Auditors' Report.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Combining Balance Sheet, Continued  
 Nonmajor Governmental Funds  
 September 30, 2017

Special Revenue Funds										
Solid Waste Revolving	Managaha Landing Fee	Qualifying Certificate Reserve	MVA Trust	CNMI Scholarship	CNMI Workers' Compensation Commission	Judiciary Legal Services	Commonwealth Casino Commission	CNMI Group Health and Life Insurance Trust	Miscellaneous	Total Special Revenue Funds
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-	-	-	-	-	6,965
-	-	-	-	-	1,344,605	-	-	-	-	1,344,605
-	-	-	-	-	-	-	-	-	-	284,562
-	-	-	-	-	-	-	-	-	-	-
706,706	39,580	49,548	-	440,438	1,154,628	44,007	3,789,320	56	542,295	1,209,886
-	-	-	-	-	-	-	-	861,075	-	17,936,746
-	-	-	-	-	-	-	-	768,204	-	768,204
-	-	-	-	-	-	-	-	1,400,315	-	1,400,315
<u>\$ 706,706</u>	<u>\$ 39,580</u>	<u>\$ 49,548</u>	<u>\$ -</u>	<u>\$ 440,438</u>	<u>\$ 2,499,233</u>	<u>\$ 44,007</u>	<u>\$ 3,789,320</u>	<u>\$ 3,029,650</u>	<u>\$ 542,295</u>	<u>\$ 22,951,283</u>
\$ 90,350	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,814	\$ 4,891	\$ 236,005
-	-	-	-	-	-	-	-	1,470,966	-	1,470,966
58,000	-	-	-	-	401	-	-	6,403	-	86,908
-	-	-	-	-	-	-	-	-	-	588,479
-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	47,499
<u>148,350</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>401</u>	<u>-</u>	<u>-</u>	<u>1,481,183</u>	<u>4,891</u>	<u>2,429,857</u>
-	-	-	-	-	-	-	-	-	-	4,806
558,356	39,580	49,548	-	440,438	2,498,832	44,007	3,789,320	1,548,467	537,404	20,526,309
-	-	-	-	-	-	-	-	-	-	(9,689)
<u>558,356</u>	<u>39,580</u>	<u>49,548</u>	<u>-</u>	<u>440,438</u>	<u>2,498,832</u>	<u>44,007</u>	<u>3,789,320</u>	<u>1,548,467</u>	<u>537,404</u>	<u>20,521,426</u>
<u>\$ 706,706</u>	<u>\$ 39,580</u>	<u>\$ 49,548</u>	<u>\$ -</u>	<u>\$ 440,438</u>	<u>\$ 2,499,233</u>	<u>\$ 44,007</u>	<u>\$ 3,789,320</u>	<u>\$ 3,029,650</u>	<u>\$ 542,295</u>	<u>\$ 22,951,283</u>

See Accompanying Independent Auditors' Report.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Combining Balance Sheet, Continued  
 Nonmajor Governmental Funds  
 September 30, 2017

Assets	Capital Projects Funds						Total Capital Projects Funds	Total Nonmajor Governmental Funds
	Commonwealth Development Authority	Infrastructure Tax	Public Works Grants	American Memorial Park	Local Capital Projects	Private Capital Grants		
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Restricted cash and cash equivalents	-	-	-	-	-	-	-	6,965
Restricted investments	-	-	-	-	-	-	-	1,344,605
Receivables, net:								
Federal	-	-	-	-	-	-	-	284,562
General	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	1,209,886
Due from other funds	52,895	1,848,991	729,558	6,869	6,356	405,093	3,049,762	20,986,508
Due from fiduciary funds	-	-	-	-	-	-	-	768,204
Due from component units	-	-	-	-	-	-	-	1,400,315
	<u>\$ 52,895</u>	<u>\$ 1,848,991</u>	<u>\$ 729,558</u>	<u>\$ 6,869</u>	<u>\$ 6,356</u>	<u>\$ 405,093</u>	<u>\$ 3,049,762</u>	<u>\$ 26,001,045</u>
<b>Liabilities and Fund Balances (Deficit)</b>								
Liabilities:								
Accounts payable	\$ -	\$ 200,366	\$ 229,421	\$ -	\$ 6,356	\$ 31,574	\$ 467,717	\$ 703,722
Health and life insurance payable	-	-	-	-	-	-	-	1,470,966
Other liabilities and accruals	-	-	56,995	6,869	-	-	63,864	150,772
Due to other funds	-	-	-	-	-	-	-	588,479
Due to component units	-	-	-	-	-	-	-	-
Unearned revenues	52,569	-	-	-	-	-	52,569	100,068
Total liabilities	<u>52,569</u>	<u>200,366</u>	<u>286,416</u>	<u>6,869</u>	<u>6,356</u>	<u>31,574</u>	<u>584,150</u>	<u>3,014,007</u>
Fund balances (deficit):								
Restricted	-	-	443,142	-	-	373,519	816,661	821,467
Committed	326	1,648,625	-	-	-	-	1,648,951	22,175,260
Unassigned	-	-	-	-	-	-	-	(9,689)
Total fund balances (deficit)	<u>326</u>	<u>1,648,625</u>	<u>443,142</u>	<u>-</u>	<u>-</u>	<u>373,519</u>	<u>2,465,612</u>	<u>22,987,038</u>
	<u>\$ 52,895</u>	<u>\$ 1,848,991</u>	<u>\$ 729,558</u>	<u>\$ 6,869</u>	<u>\$ 6,356</u>	<u>\$ 405,093</u>	<u>\$ 3,049,762</u>	<u>\$ 26,001,045</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, 2017

	Special Revenue Funds								
	Private Grants	Commonwealth Arts Council	Oil Overcharge	Commonwealth Nonresident Workers' Fee	Commonwealth Alien Deportation	Local Revenue	Saipan Trust	Tobacco Settlement Trust	Tobacco Control
Revenues:									
Federal contributions	\$ 795,048	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Taxes	-	-	-	-	-	-	-	-	3,650,468
Licenses and fees	-	-	-	4,984	-	3,908,728	-	-	-
Contributions from component units	-	-	-	-	-	-	-	-	-
Interest and dividends	-	-	53	-	-	-	-	751	-
Charges for sales and services	-	-	-	-	-	-	-	-	-
Other	4,830,820	-	-	-	-	42,562	-	1,648,636	-
<b>Total revenues</b>	<b>5,625,868</b>	<b>-</b>	<b>53</b>	<b>4,984</b>	<b>-</b>	<b>3,951,290</b>	<b>-</b>	<b>1,649,387</b>	<b>3,650,468</b>
Expenditures by function:									
Current:									
Education	-	-	-	-	-	2,384,204	-	-	-
Economic development	2,352,153	-	-	-	-	-	-	-	-
Public safety and law enforcement	448,384	-	-	223,578	-	-	-	-	-
Community and social services	165,084	4,341	-	-	-	74,251	-	-	-
Health	41,475	-	-	-	-	92,650	-	-	1,250,000
Lands and natural resources	-	-	-	-	-	-	-	-	-
General government	-	-	-	-	-	616,617	-	91,224	-
Other elected officials	-	-	-	-	-	350,663	-	132,000	-
Payment to Public School System	-	-	-	-	-	-	-	288,954	-
Payment to Marianas Visitors Authority	-	-	-	-	-	-	-	-	-
Payment to Commonwealth Utilities Corporation	-	-	-	-	-	-	-	-	-
Payment to Commonwealth Healthcare Corporation	-	-	-	-	-	-	-	462,326	370,000
Capital outlay:									
Public works	-	-	-	-	-	259,082	-	-	-
<b>Total expenditures</b>	<b>3,007,096</b>	<b>4,341</b>	<b>-</b>	<b>223,578</b>	<b>-</b>	<b>3,777,467</b>	<b>-</b>	<b>974,504</b>	<b>1,620,000</b>
Excess (deficiency) of revenues over (under) expenditures	2,618,772	(4,341)	53	(218,594)	-	173,823	-	674,883	2,030,468
Other financing sources (uses):									
Operating transfers in	-	-	-	644,057	-	-	-	-	-
Operating transfers out	-	-	-	-	-	-	-	(1,444,769)	(1,821,122)
<b>Total other financing sources (uses), net</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>644,057</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(1,444,769)</b>	<b>(1,821,122)</b>
<b>Net change in fund balances (deficit)</b>	<b>2,618,772</b>	<b>(4,341)</b>	<b>53</b>	<b>425,463</b>	<b>-</b>	<b>173,823</b>	<b>-</b>	<b>(769,886)</b>	<b>209,346</b>
Fund balances (deficit) at beginning of year	(316,784)	3,981	626	(425,463)	(9,329)	7,748,409	4,127	1,371,758	(15,081)
Prior period adjustment	-	-	-	-	-	-	-	-	-
Fund balances (deficit) at beginning of year, as restated	(316,784)	3,981	626	(425,463)	(9,329)	7,748,409	4,127	1,371,758	(15,081)
Fund balances (deficit) at end of year	\$ 2,301,988	\$ (360)	\$ 679	\$ -	\$ (9,329)	\$ 7,922,232	\$ 4,127	\$ 601,872	\$ 194,265

See Accompanying Independent Auditors' Report.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Combining Statement of Revenues, Expenditures  
and Changes in Fund Balances (Deficit), Continued  
Nonmajor Governmental Funds  
For the Year Ended September 30, 2017

Special Revenue Funds										
Solid Waste Revolving	Managaha Landing Fee	Qualifying Certificate Reserve	MVA Trust	CNMI Scholarship	CNMI Workers' Compensation Commission	Judiciary Legal Services	Commonwealth Casino Commission	CNMI Group Health and Life Insurance Trust	Miscellaneous	Total Special Revenue Funds
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 795,048
2,900,003	-	-	715,591	-	-	-	-	-	-	7,266,062
783,178	-	-	-	-	-	-	3,000,000	-	65,775	7,762,665
-	-	-	-	-	-	-	-	-	-	-
1,569	-	-	-	-	27,783	-	3,188	-	-	33,344
-	-	-	-	-	-	-	-	-	408,269	408,269
-	-	-	76,065	129,253	202,576	-	-	1,993	29,827	6,961,732
<u>3,684,750</u>	<u>-</u>	<u>-</u>	<u>791,656</u>	<u>129,253</u>	<u>230,359</u>	<u>-</u>	<u>3,003,188</u>	<u>1,993</u>	<u>503,871</u>	<u>23,227,120</u>
-	-	-	-	-	-	-	-	-	-	2,384,204
-	-	-	-	-	-	-	-	-	-	2,352,153
-	-	-	-	-	10,000	-	-	-	64,777	746,739
-	-	-	-	-	-	-	-	-	32,458	276,134
-	-	-	-	-	-	-	-	705	-	1,384,830
-	-	-	-	-	-	-	-	-	58,005	58,005
-	-	-	-	32,921	-	-	2,819,208	-	-	3,559,970
-	-	-	-	-	-	-	-	-	-	482,663
-	-	-	-	-	-	-	-	-	-	288,954
-	-	-	1,227,213	-	-	-	-	-	-	1,227,213
-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	832,326
<u>3,034,630</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,293,712</u>
<u>3,034,630</u>	<u>-</u>	<u>-</u>	<u>1,227,213</u>	<u>32,921</u>	<u>10,000</u>	<u>-</u>	<u>2,819,208</u>	<u>705</u>	<u>155,240</u>	<u>16,886,903</u>
<u>650,120</u>	<u>-</u>	<u>-</u>	<u>(435,557)</u>	<u>96,332</u>	<u>220,359</u>	<u>-</u>	<u>183,980</u>	<u>1,288</u>	<u>348,631</u>	<u>6,340,217</u>
-	-	-	110,707	-	-	-	-	1,547,179	-	2,301,943
-	-	-	-	-	-	-	-	-	-	(3,265,891)
-	-	-	110,707	-	-	-	-	1,547,179	-	(963,948)
<u>650,120</u>	<u>-</u>	<u>-</u>	<u>(324,850)</u>	<u>96,332</u>	<u>220,359</u>	<u>-</u>	<u>183,980</u>	<u>1,548,467</u>	<u>348,631</u>	<u>5,376,269</u>
(91,764)	39,580	49,548	324,850	344,106	2,278,473	44,007	3,605,340	-	188,773	15,145,157
-	-	-	-	-	-	-	-	-	-	-
<u>(91,764)</u>	<u>39,580</u>	<u>49,548</u>	<u>324,850</u>	<u>344,106</u>	<u>2,278,473</u>	<u>44,007</u>	<u>3,605,340</u>	<u>-</u>	<u>188,773</u>	<u>15,145,157</u>
<u>\$ 558,356</u>	<u>\$ 39,580</u>	<u>\$ 49,548</u>	<u>\$ -</u>	<u>\$ 440,438</u>	<u>\$ 2,498,832</u>	<u>\$ 44,007</u>	<u>\$ 3,789,320</u>	<u>\$ 1,548,467</u>	<u>\$ 537,404</u>	<u>\$ 20,521,426</u>

See Accompanying Independent Auditors' Report.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Combining Statement of Revenues, Expenditures  
and Changes in Fund Balances (Deficit), Continued  
Nonmajor Governmental Funds  
For the Year Ended September 30, 2017

	Capital Projects Funds						Total Capital Projects Funds	Total Nonmajor Governmental Funds
	Commonwealth Development Authority	Infrastructure Tax	Public Works Grants	American Memorial Park	Local Capital Projects	Private Capital Grants		
Revenues:								
Federal contributions	\$ -	\$ -	\$ 3,810,304	\$ -	\$ -	\$ -	\$ 3,810,304	\$ 4,605,352
Taxes	-	272,747	-	-	-	-	272,747	7,538,809
Licenses and fees	-	49,816	-	-	-	-	49,816	7,812,481
Contributions from component units	-	-	-	-	625,998	-	625,998	625,998
Interest and dividends	-	2,567	-	-	-	-	2,567	35,911
Charges for sales and services	-	-	-	-	-	-	-	408,269
Other	-	217,131	-	-	-	-	217,131	7,178,863
Total revenues	-	542,261	3,810,304	-	625,998	-	4,978,563	28,205,683
Expenditures by function:								
Current:								
Education	-	-	-	-	-	-	-	2,384,204
Economic development	-	-	-	-	22,080	-	22,080	2,374,233
Public safety and law enforcement	-	151,285	-	-	-	-	151,285	898,024
Community and social services	-	441,727	-	-	-	-	441,727	717,861
Health	-	-	-	-	-	-	-	1,384,830
Lands and natural resources	-	-	-	-	-	-	-	58,005
General government	-	-	-	-	-	-	-	3,559,970
Other elected officials	-	-	-	-	-	-	-	482,663
Payment to Public School System	-	-	-	-	-	-	-	288,954
Payment to Marianas Visitors Authority	-	-	-	-	-	-	-	1,227,213
Payment to Commonwealth Utilities Corporation	-	150,000	-	-	-	-	150,000	150,000
Payment to Commonwealth Healthcare Corporation	-	-	-	-	-	-	-	832,326
Capital outlay:								
Public works	-	63,879	3,566,359	-	469,438	-	4,099,676	7,393,388
Total expenditures	-	806,891	3,566,359	-	491,518	-	4,864,768	21,751,671
Excess (deficiency) of revenues over (under) expenditures	-	(264,630)	243,945	-	134,480	-	113,795	6,454,012
Other financing sources (uses):								
Operating transfers in	-	-	-	-	168,983	-	168,983	2,470,926
Operating transfers out	-	-	-	-	-	-	-	(3,265,891)
Total other financing sources (uses), net	-	-	-	-	168,983	-	168,983	(794,965)
Net change in fund balances (deficit)	-	(264,630)	243,945	-	303,463	-	282,778	5,659,047
Fund balances (deficit) at beginning of year	326	1,913,255	199,197	-	(303,463)	373,519	2,182,834	17,327,991
Prior period adjustment	-	-	-	-	-	-	-	-
Fund balances (deficit) at beginning of year, as restated	326	1,913,255	199,197	-	(303,463)	373,519	2,182,834	17,327,991
Fund balances (deficit) at end of year	\$ 326	\$ 1,648,625	\$ 443,142	\$ -	\$ -	\$ 373,519	\$ 2,465,612	\$ 22,987,038

See Accompanying Independent Auditors' Report.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS  
FIDUCIARY FUNDS

September 30, 2017

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 initially established through CNMI Public Law (P.L.) 1-43, as amended by P.L. 6-17, to provide retirement security and other benefits to government employees, their spouses and dependents. NMIRF was governed by a seven-member Board of Trustees who appointed an Administrator who administered NMIRF in a manner that furthered its purposes. On September 30, 2013, District Court approved a Settlement Agreement between retirees, the CNMI, the NMIRF and others for Civil Case No. 09-00023. The Board of Trustees has not been renewed by the Governor and NMIRF is administered by the CNMI Secretary of Finance who serves as the Acting Administrator.

Defined Contribution Plan (DCP)

DCP was created by Public Law 15-13 to provide an individual account retirement system for any person employed by the CNMI or its autonomous agencies. Participating employers include the CNMI, NMIRF, CGECU, CDA, CHCC, CPA, CUC, MPLT, MVA, NMC, NMHC and PSS. The NMIRF Acting Administrator is responsible for the general administration and operation of DCP. DCP, by its nature, is fully funded on a current basis from employer and member contributions. DCP is a voluntary multi-employer pension plan and is the single retirement program for all new employees whose employment commenced on or after January 1, 2007.

See Accompanying Independent Auditors' Report.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Combining Statement of Fiduciary Net Position  
 Fiduciary Funds - Pension Trusts  
 September 30, 2017

	Northern Mariana Islands Retirement Fund	Defined Contribution Plan	Total
<u>Assets</u>			
Cash and cash equivalents	\$ 3,629,050	\$ -	\$ 3,629,050
Receivables, net:			
Notes	2,484,456	-	2,484,456
Agency	-	664,614	664,614
Other	7,951	-	7,951
Total receivables, net	<u>2,492,407</u>	<u>664,614</u>	<u>3,157,021</u>
Defined contribution plan investments	-	31,490,057	31,490,057
Foreclosed real estate	209,095	-	209,095
Total assets	<u>6,330,552</u>	<u>32,154,671</u>	<u>38,485,223</u>
<u>Liabilities and Fiduciary Net Position</u>			
Accounts payable and accrued expenses	587,303	-	587,303
Due to Settlement Fund	176,175	-	176,175
Due to primary government	2,351,662	-	2,351,662
Total liabilities	<u>3,115,140</u>	<u>-</u>	<u>3,115,140</u>
Fiduciary net position:			
Held in trust for pension benefits	<u>\$ 3,215,412</u>	<u>\$ 32,154,671</u>	<u>\$ 35,370,083</u>

See Accompanying Independent Auditors' Report.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Combining Statement of Changes in Fiduciary Net Position  
Fiduciary Funds - Pension Trusts  
Year Ended September 30, 2017

	Northern Mariana Islands Retirement Fund	CNMI Group Health and Life Insurance Trust Fund	Defined Contribution Plan	Total
<b>Additions:</b>				
Employee contributions	\$ 61,519	\$ -	\$ 5,629,896	\$ 5,691,415
Employer contributions	-	-	2,098,285	2,098,285
	<u>61,519</u>	<u>-</u>	<u>7,728,181</u>	<u>7,789,700</u>
<b>Investment income:</b>				
Net change in the fair value of investments	-	-	3,287,505	3,287,505
Interest and dividend income	-	-	112,187	112,187
Total investment income	-	-	3,399,692	3,399,692
Less management and custodial fees	-	-	(278,120)	(278,120)
Net investment income	-	-	<u>3,121,572</u>	<u>3,121,572</u>
Interest and fees on loans	317,019	-	-	317,019
Transfers and rollovers	-	-	838,650	838,650
Other	191,506	-	-	191,506
Total additions	<u>570,044</u>	<u>-</u>	<u>11,688,403</u>	<u>12,258,447</u>
<b>Deductions:</b>				
<b>Benefits and refund payments:</b>				
Withdrawal and refunds	49,051	-	4,909,067	4,958,118
Forfeitures	-	-	827,478	827,478
Retirement benefits	240,943	-	-	240,943
Health and life insurance premiums	67,337	-	-	67,337
Survivor benefits	6,000	-	-	6,000
Total benefits and refund payments	<u>363,331</u>	<u>-</u>	<u>5,736,545</u>	<u>6,099,876</u>
<b>Administrative expenses:</b>				
Salaries and wages	90,982	-	-	90,982
Employee benefits	22,132	-	-	22,132
Professional fees	3,808	-	-	3,808
Miscellaneous	10,261	-	-	10,261
Total administrative expenses	<u>127,183</u>	<u>-</u>	<u>-</u>	<u>127,183</u>
Transfers out to other funds	-	1,547,179	-	1,547,179
Total deductions	<u>490,514</u>	<u>1,547,179</u>	<u>5,736,545</u>	<u>7,774,238</u>
Change in net position held in trust for employees' pension benefits	79,530	(1,547,179)	5,951,858	4,484,209
<b>Fiduciary net position held in trust:</b>				
Beginning of year	<u>3,135,882</u>	<u>1,547,179</u>	<u>26,202,813</u>	<u>30,885,874</u>
End of year	<u>\$ 3,215,412</u>	<u>\$ -</u>	<u>\$ 32,154,671</u>	<u>\$ 35,370,083</u>

See Accompanying Independent Auditors' Report.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS  
FIDUCIARY FUNDS - AGENCY

September 30, 2017

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 Assets and Liabilities  
Fiduciary Funds - Agency  
September 30, 2017

	<u>Assets</u>	<u>Security Deposit</u>
Cash and cash equivalents		\$ 1,773,938
Restricted assets		<u>1,995,300</u>
Total assets		<u>\$ 3,769,238</u>
	<u>Liabilities</u>	
Deposits payable		<u>\$ 3,769,238</u>
Total liabilities		<u>\$ 3,769,238</u>

See Accompanying Independent Auditors' Report.