

COMMONWEALTH OF THE  
NORTHERN MARIANA ISLANDS

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

YEAR ENDED SEPTEMBER 30, 2018

COMMONWEALTH OF THE  
NORTHERN MARIANA ISLANDS

BASIC FINANCIAL STATEMENTS,  
ADDITIONAL INFORMATION  
AND  
INDEPENDENT AUDITORS' REPORT

YEAR ENDED SEPTEMBER 30, 2018

FINANCIAL STATEMENTS

YEAR ENDED SEPTEMBER 30, 2018

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YEAR ENDED SEPTEMBER 30, 2018

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## **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, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Commonwealth of the Northern Mariana Islands (CNMI) as of and for the year ended September 30, 2018, and the related notes to the financial statements, which 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.

### ***Auditors' Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Commonwealth Utilities Corporation (CUC), the Northern Marianas College (NMC), the Public School System (PSS) and the Marianas Visitors Authority (MVA), which represent 42%, 42% and 75%, respectively, of the assets, net position, and revenues of the CNMI's discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for CUC, NMC, PSS and MVA, is based solely on the reports of the other auditors. 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.

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.

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	Adverse
Each Major Governmental Fund	Unmodified
Aggregate Remaining Fund Information	Adverse

**Basis for Adverse Opinions on the Governmental Activities, the Aggregate Discretely Presented Component Units and the Aggregate Remaining Fund Information**

Management has not adopted Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*. 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, 2018. GASB Statement No. 68 requires 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. 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 CNMI’s component units’ column does not include the financial statements of the Commonwealth Healthcare Corporation (CHCC). Accounting principles generally accepted in the United States of America require the financial statements of CHCC be reported with the financial data of the CNMI’s component units’ column 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, net position, revenues, and expenses of the aggregately discretely presented component units could not be determined.

Finally, the CNMI’s aggregate remaining fund information does not include the financial statements of the Northern Mariana Islands Settlement Fund (NMISF), a fiduciary fund component unit. Accounting principles generally accepted in the United States of America require the financial statements of NMISF be reported with the financial data of the CNMI’s aggregate remaining fund information. The amount by which this departure would affect the assets, deferred outflows of resources, liabilities, deferred inflows of resources, net position, additions, and deductions of the fiduciary funds has not been determined.

### ***Adverse Opinions***

In our opinion, because of the significance of the matters discussed in the “Basis for Adverse Opinions on the Governmental Activities, the Aggregate Discretely Presented Component Units 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, the aggregate discretely presented component units and the aggregate remaining fund information of the CNMI as of September 30, 2018, 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.

### ***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, 2018, 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***

#### *Correction of Errors*

As discussed in note 18 to the financial statements, the beginning net position of the aggregate discretely presented component units has 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 15 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 5 through 11 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 August 16, 2019 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*

August 16, 2019





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**Management's Discussion and Analysis (MD&A)  
Year Ended September 30, 2018**

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, 2018. Please read it in conjunction with the CNMI's financial statements, which follow this section. Fiscal year 2017 information has been included where appropriate for comparative purposes.

**FINANCIAL HIGHLIGHTS**

- For the fiscal year ended September 30, 2018, the CNMI improved its net position by 16.9%, or \$10.5 million, to a lowered deficit net position of \$51.5 million.
- During the year, the CNMI's expenses for governmental activities were approximately \$397.9 million which includes expenses payments made or due to the autonomous agencies. These expenses were funded in part by program revenues of \$130.7 million and general revenues of \$277.6 million. The difference between total revenues of \$408.3 million and total expenses of \$397.9 million improved the CNMI's deficit net position by \$10.5 million.
- At September 30, 2018, the General Fund reported an unassigned fund deficit of \$80.3 million. This is an 81.0% increase from prior year's \$44.3 million fund deficit.
- For budgetary reporting purposes, General Fund revenues were in line with projections at \$236.0 million. In addition, actual expenditures were higher than final projected estimates by 13.7%, or \$31.6 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, which includes the CNMI's discretely presented component units, also known as autonomous agencies. 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.



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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 presented component units are often referred to as autonomous agencies.

## **Reporting the CNMI's Most Significant Funds**

### ***Fund Financial Statements***

The Fund financial statements provide detailed information about the most significant funds - not the CNMI as a whole. Some funds are required to be established by law or regulation and by bond covenants. However, management establishes many other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants, and other 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 remaining balances 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.



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

**Net Position**

The CNMI's governmental activities deficit net position decreased from \$61.9 million to a deficit net position of \$51.5 million, a decrease of 16.9% between fiscal years 2017 and 2018.

A summary of net position (condensed) is presented below with comparable balances of fiscal year 2017:

	Governmental Activities		Change
	2018	2017	
Current assets	\$ 107,876,452	\$ 151,221,645	\$ (43,345,193)
Capital assets, net	152,078,484	152,186,043	(107,559)
Other noncurrent assets	2,500,000	2,500,000	-
Deferred outflows from cost of refunding debt	4,645,894	4,955,621	(309,727)
Total assets and deferred outflows	<u>267,100,830</u>	<u>310,863,309</u>	<u>(43,762,479)</u>
Long-term debt outstanding	71,329,797	76,036,117	(4,706,320)
Obligations under settlement agreement	92,749,160	137,749,160	(45,000,000)
Other liabilities	154,478,157	158,988,595	(4,510,438)
Total liabilities	<u>318,557,114</u>	<u>372,773,872</u>	<u>(54,216,758)</u>
Net position:			
Net investment in capital assets	85,394,581	81,105,547	4,289,034
Restricted	6,975,449	8,938,546	(1,963,097)
Unrestricted	<u>(143,826,314)</u>	<u>(151,954,656)</u>	<u>8,128,342</u>
Total net position	<u>\$ (51,456,284)</u>	<u>\$ (61,910,563)</u>	<u>\$ 10,454,279</u>

Significant results from the prior year in the Statement of Net Position include decreases in long-term debt from payments toward pension liabilities under the settlement agreement and debt services, plus a robust increase in other noncurrent assets.

**Changes in Net Position**

For the year ended September 30, 2018, net position of the primary government changed as follows, with comparable amounts for fiscal year 2017:

	Governmental Activities		Change
	2018	2017	
Revenues:			
Program revenues	\$ 130,700,293	\$ 147,632,115	\$ (16,931,822)
Taxes and other general revenues	277,628,313	297,512,511	(19,884,198)
Total revenues	<u>408,328,606</u>	<u>445,144,626</u>	<u>(36,816,020)</u>
Expenses:			
Health	66,174,538	49,525,464	16,649,074
Public safety and law enforcement	50,816,397	47,360,125	3,456,272
General government	28,076,946	34,584,973	(6,508,027)
Community and social services	36,098,021	26,566,773	9,531,248
Other elected officials	13,584,291	12,319,415	1,264,876
Utilities	1,934,374	3,932,732	(1,998,358)
Public works and capital projects	14,342,240	20,848,662	(6,506,422)
Lands and natural resources	25,995,116	19,462,713	6,532,403
Legislative branch	7,115,563	6,786,594	328,969
Judicial branch	6,856,485	5,980,955	875,530
Education	7,192,464	5,707,088	1,485,376
Interest and fiscal charges	4,432,605	4,838,393	(405,788)
Economic development	5,682,400	6,775,412	(1,093,012)
Payments to CNMI Group Health and Life Insurance Trust Fund	10,013,861	10,268,830	(254,969)
Payments to autonomous agencies	119,559,026	119,897,969	(338,943)
Total expenses	<u>397,874,327</u>	<u>374,856,098</u>	<u>23,018,229</u>
Increase in net position	10,454,279	70,288,528	(59,834,249)
Transfers	-	1,547,179	(1,547,179)
Net position, beginning of year	<u>(61,910,563)</u>	<u>(133,746,270)</u>	<u>71,835,707</u>
Net position, end of year	<u>\$ (51,456,284)</u>	<u>\$ (61,910,563)</u>	<u>\$ 10,454,279</u>



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The CNMI's primary governmental activities' decrease in deficit net position of \$51.5 million represents a \$10.5 million decrease from the prior year. The results indicate that the CNMI's financial condition, as a whole, improved another year. Significant changes from 2017 in the Statement of Activities include a decrease in general revenues by \$36.8 million and increased expenditures to health by \$16.6 million.

**Governmental Activities**

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

Of particular interest is the format that is significantly different than a typical Statement of Revenues, 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 after collecting fees and charges for services:

**Net Revenue (Expense) of Governmental Activities**

	<u>2018</u>	<u>2017</u>	<u>Change</u>
Health	\$ (28,224,289)	\$ (19,236,277)	\$ (8,988,012)
Public safety and law enforcement	(35,164,624)	(22,597,502)	(12,567,122)
General government	(8,468,400)	(2,283,361)	(6,185,039)
Community and social services	(10,438,397)	(7,603,853)	(2,834,544)
Other elected officials	(13,584,291)	(12,319,415)	(1,264,876)
Utilities	(1,852,030)	(3,825,104)	1,973,074
Public works and capital projects	(2,706,091)	(3,713,109)	1,007,018
Land and natural resources	(9,045,382)	(2,144,798)	(6,900,584)
Legislative branch	(7,115,563)	(6,786,594)	(328,969)
Judicial branch	(6,856,485)	(4,993,580)	(1,862,905)
Education	(7,192,464)	(5,707,088)	(1,485,376)
Interest and fiscal charges	(4,432,605)	(4,838,393)	405,788
Economic development	(3,655,332)	(2,559,433)	(1,095,899)
Payments to CNMI Group Health and Life Insurance Trust Fund	(10,013,861)	(10,268,830)	254,969
Payments to autonomous agencies	(118,424,220)	(118,346,646)	(77,574)
<b>Total</b>	<b>\$ (267,174,034)</b>	<b>\$ (227,223,983)</b>	<b>\$ (39,950,051)</b>

For the year ended September 30, 2018, the CNMI's governmental activities were funded from general revenues of \$277.6 million. The following chart illustrates the areas of revenue sources:

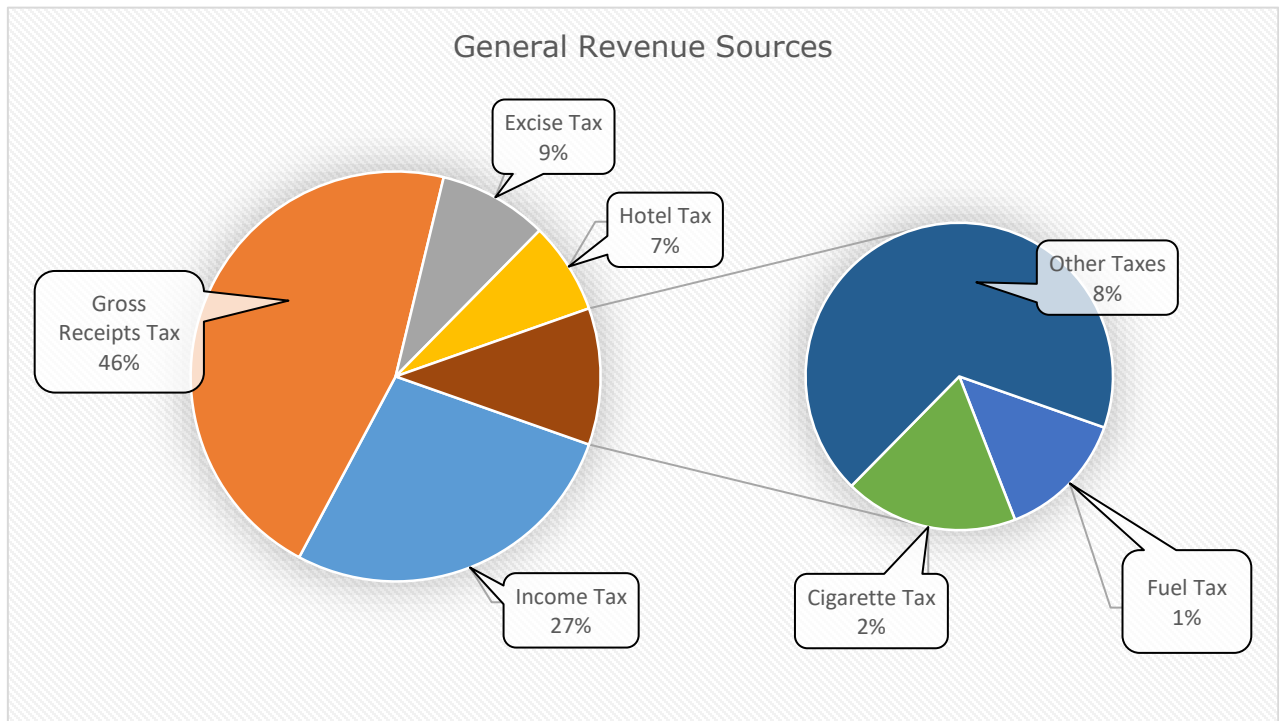


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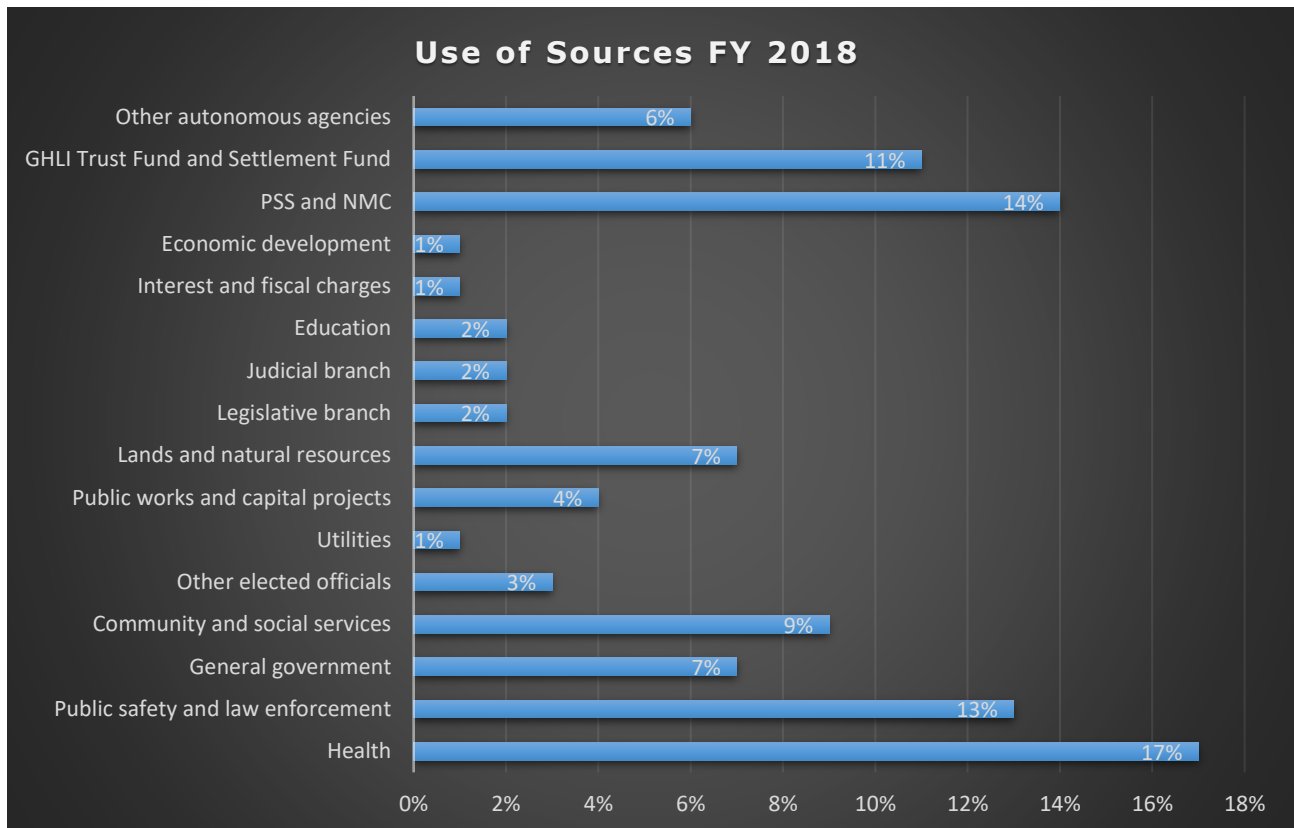


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For the year ended September 30, 2018, the CNMI's activities by function are as follows:





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For the year ended September 30, 2018, total expenses for governmental activities amounted to \$397.9 million. Of these total expenses, taxpayers funded \$277.6 million, \$99.5 million from grants and other contributions, and \$31.1 million from charges for services.

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

The CNMI completed its 2018 fiscal year with a reported combined fund deficit of \$26.4 million.

Individual fund highlights include:

- For the year ended September 30, 2018, the General Fund's total fund deficit increased by \$36.3 million or 93.8%, to a total fund deficit of \$75.1 million, largely through an increase in the unassigned general fund.
- The Grants Assistance Fund balance decreased by \$0.8 million from prior year with a fund balance of \$4.5 million due to a decrease in federal contributions.
- The Saipan Amusement Fund accounts for casino license fees and other electronic gaming fees. Revenues and expenditures netted a \$2.5 million increase; however, accounting for operating transfers primarily to the General Fund, there is an overall decrease in fund balance ending the year at \$14.3 million.
- The Department of Public Lands fund balance decreased by \$3.9 million from \$11.0 million in 2017 to \$7.1 million in 2018.
- The Pension and Other Employee Benefit Trust Fund's fiduciary net position increased by \$5.7 million or 16.2% for the year. This fund type includes the retirement fund.

**General Fund Budgetary Highlights**

Original and final revenue estimates for the General Fund remained constant at \$236.0 million. Actual revenues was slightly less coming in at \$236.0 million. General Fund actual expenditures of \$262.6 million exceeded appropriations by \$31.6 million, contributed mainly to unanticipated expenditures in public safety and law enforcement services (\$4.0 million) and health programs (\$19.7 million).

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital Assets**

At the end of September 30, 2018, the CNMI had \$152.1 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). Refer to note 7 to the financial statements for detailed information on the CNMI's capital assets and changes therein.

	<u>Governmental Activities</u>		
	<u>2018</u>	<u>2017</u>	<u>Change</u>
Infrastructure, net	\$ 38,388,006	\$ 26,279,056	\$ 12,108,950
Buildings and improvements, net	62,929,882	63,340,238	(410,356)
Machinery and equipment, net	10,294,860	8,094,474	2,200,386
Land	30,064,154	30,064,154	-
Construction in progress	<u>10,401,582</u>	<u>24,408,121</u>	<u>(14,006,539)</u>
Total	\$ <u>152,078,484</u>	\$ <u>152,186,043</u>	\$ <u>(107,559)</u>

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





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**Long- Term Debt**

At year end, the CNMI had \$71.3 million in long-term debt outstanding, which represents a net decrease of \$4.7 million or 6.2% from the prior year. The CNMI's changes in long-term debt outstanding are as follows:

	Governmental Activities		Change
	2018	2017	
Bonds payable	\$ <u>71,329,797</u>	\$ <u>76,036,117</u>	\$ <u>(4,706,320)</u>

As of September 30, 2018, 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, 2018.

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**

The CNMI underwent two typhoons during the months of September and October 2018: Typhoon Mangkhut destroyed much of the resources for the island of Rota, and Super Typhoon Yutu devastated the islands of Tinian and Saipan. These disasters had detrimental effects to the CNMI's economic activity, leaving the two main sectors of our economy (tourism and gaming) at standstill for the first quarter of the fiscal year. Despite these setbacks, the CNMI remains resilient, moving forward with investments in infrastructure and disaster aid services to rebuild the economy and the lives of its residents.

Furthermore, the CNMI is optimistic as foreign direct investment is continuing in the tourism sector with developments in the northern end of Saipan and on Tinian. The re-opening of established small and medium sized businesses after the typhoons stood at 85% in March 2019 and is anticipated to reach completion by the end of the fiscal year. Our forecasts for the gaming and casino industry remains conservatively steady as this sector shows signs of slight contraction for a short period in the near future. Moreover, the cannabis industry is anticipated to emerge in the latter part of the fiscal year 2019 to help revitalize the economy and increase CNMI financial resources.

The CNMI is optimistic for the year ahead as the continued improvement in infrastructure and economic activity rebounds from the shocking events experienced earlier in the year.

**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, 2018

	<u>Primary Government</u>	<u>Component Units</u>
<u>ASSETS AND DEFERRED OUTFLOWS</u>		
Current assets:		
Cash and cash equivalents	\$ 49,333,341	\$ 113,762,725
Time certificates of deposit	51,404	947,925
Receivables, net of allowance for uncollectibles	27,801,578	35,367,612
Due from primary government	-	9,403,761
Due from component units	1,521,454	-
Due from fiduciary funds	2,523,810	-
Inventories	804,343	10,940,251
Advances	1,218,248	-
Other assets	-	7,404,722
Restricted assets:		
Cash and cash equivalents	23,129,301	28,901,122
Investments	1,492,973	24,840,061
Total current assets	<u>107,876,452</u>	<u>231,568,179</u>
Noncurrent assets:		
Other assets	2,500,000	-
Investments	-	94,682,418
Receivables:		
Loans, net of allowance for uncollectibles	-	8,824,615
Notes, net of allowance for uncollectibles	-	5,403,797
Other	-	1,781,850
Foreclosed real estate	-	2,101,214
Nondepreciable capital assets	40,465,736	141,457,234
Depreciable capital assets, net of accumulated depreciation	<u>111,612,748</u>	<u>244,191,021</u>
Total noncurrent assets	<u>154,578,484</u>	<u>498,442,149</u>
Deferred outflows from cost of refunding debt	<u>4,645,894</u>	<u>587,415</u>
Total assets and deferred outflows	<u>267,100,830</u>	<u>730,597,743</u>
<u>LIABILITIES AND DEFERRED INFLOWS</u>		
Current liabilities:		
Current portion of obligations under Settlement Agreement	44,000,000	-
Current portion of bonds payable	4,966,320	2,415,000
Current portion of notes payable	-	3,808,852
Claims and judgments payable	4,100,550	-
Current portion of compensated absences	4,376,574	3,651,360
Loan payable under Settlement Agreement	2,816,620	-
Accounts payable	14,581,717	38,118,884
Tax rebates payable	52,352,530	-
Recovery rebates payable	393,837	-
Health and life insurance payable	1,852,984	-
Security deposits	11,192,627	-
Other liabilities and accruals	5,344,807	16,182,269
Due to fiduciary funds	29,227,559	-
Due to component units	13,532,441	-
Due to primary government	-	2,178,190
Unearned revenues	<u>1,355,049</u>	<u>2,035,535</u>
Total current liabilities	<u>190,093,615</u>	<u>68,390,090</u>
Noncurrent liabilities:		
Obligations under Settlement Agreement, net of current portion	48,749,160	-
Bonds payable, net of current portion	66,363,477	31,253,306
Dividends payable	-	1,620,000
Compensated absences, net of current portion	4,742,083	2,403,195
Due to fiduciary funds	-	3,469,797
Due to component units	1,011,199	-
Due to primary government	-	8,288,990
Environmental remediation costs	-	9,941,233
Accrued interest payable	1,489,792	-
Unearned revenues, net of current portion	-	15,678,836
Landfill closure and post closure costs	<u>6,107,788</u>	<u>-</u>
Total noncurrent liabilities	<u>128,463,499</u>	<u>72,655,357</u>
Deferred inflows of resources	<u>-</u>	<u>1,220,397</u>
Total liabilities and deferred inflows of resources	<u>318,557,114</u>	<u>142,265,844</u>
Commitments and contingencies		
<u>NET POSITION</u>		
Net investment in capital assets	85,394,581	348,871,756
Restricted for:		
Expendable:		
Capital projects	3,220,480	-
Retirement of indebtedness	2,462,629	-
Federal programs and projects	1,288,213	-
Other purposes	4,127	226,292,465
Unrestricted	<u>(143,826,314)</u>	<u>13,167,678</u>
Total net position	<u>\$ (51,456,284)</u>	<u>\$ 588,331,899</u>

See accompanying notes to financial statements.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Statement of Activities  
For the Year Ended September 30, 2018

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	\$ 66,174,538	\$ 966,285	\$ 36,983,964	\$ -	\$ (28,224,289)	\$ -
Public safety and law enforcement	50,816,397	3,105,758	12,546,015	-	(35,164,624)	-
General government	28,076,946	16,840,863	2,757,462	10,221	(8,468,400)	-
Community and social services	36,098,021	52,614	25,607,010	-	(10,438,397)	-
Other elected officials	13,584,291	-	-	-	(13,584,291)	-
Utilities	1,934,374	-	-	82,344	(1,852,030)	-
Utilities - Capital Projects	3,595,862	-	-	3,595,862	-	-
Public works	10,746,378	1,975,626	33,582	6,031,079	(2,706,091)	-
Lands and natural resources	25,995,116	7,831,343	9,118,391	-	(9,045,382)	-
Legislative branch	7,115,563	-	-	-	(7,115,563)	-
Judicial branch	6,856,485	-	-	-	(6,856,485)	-
Education	7,192,464	-	-	-	(7,192,464)	-
Interest and fiscal charges	4,432,605	-	-	-	(4,432,605)	-
Economic development	5,682,400	380,818	411,782	1,234,468	(3,655,332)	-
Education:						
Payments to Public School System	48,774,788	-	204,905	-	(48,569,883)	-
Payments to Northern Marianas College	5,797,826	-	41,355	-	(5,756,471)	-
Payments to Commonwealth Utilities Corporation	3,540,220	-	-	-	(3,540,220)	-
Payments to Commonwealth Healthcare Corporation	8,998,227	-	888,546	-	(8,109,681)	-
Payments to Marianas Visitors Authority	16,847,272	-	-	-	(16,847,272)	-
Payments to CNMI Group Health and Life Insurance Trust Fund	10,013,861	-	-	-	(10,013,861)	-
Payments to Settlement Fund	35,600,693	-	-	-	(35,600,693)	-
Total primary government	<u>\$ 397,874,327</u>	<u>\$ 31,153,307</u>	<u>\$ 88,593,012</u>	<u>\$ 10,953,974</u>	<u>(267,174,034)</u>	<u>-</u>
Component units:						
Commonwealth Ports Authority	\$ 32,915,287	\$ 30,651,036	\$ 260,097	\$ 6,499,821	-	4,495,667
Commonwealth Development Authority	8,244,467	17,144	5,726,857	1,294,970	-	(1,205,496)
Commonwealth Utilities Corporation	94,968,665	104,908,913	-	9,208,126	-	19,148,374
Marianas Public Land Trust	3,149,121	5,136,862	7,194,024	-	-	9,181,765
Northern Marianas College	17,638,332	2,759,944	8,670,001	-	-	(6,208,387)
Public School System	91,679,195	882,369	40,683,731	-	-	(50,113,095)
Marianas Visitors Authority	14,620,816	108,732	258,418	-	-	(14,253,666)
Total component units	<u>\$ 263,215,883</u>	<u>\$ 144,465,000</u>	<u>\$ 62,793,128</u>	<u>\$ 17,002,917</u>	<u>-</u>	<u>(38,954,838)</u>
General revenues:						
Taxes:						
Income					76,113,029	-
Gross receipts					127,627,321	-
Excise					23,918,326	-
Hotel					20,063,920	-
Fuel					4,097,541	-
Cigarette					5,470,426	-
Other taxes					10,500,607	-
Unrestricted investment earnings and dividends					601,993	2,409,058
Contributions from primary government					-	69,706,903
Other					9,235,150	740,629
Total general revenues					<u>277,628,313</u>	<u>72,856,590</u>
Change in net position					<u>10,454,279</u>	<u>33,901,752</u>
Net position - beginning, as previously reported					<u>(61,910,563)</u>	<u>338,816,267</u>
Prior period adjustment (note 18)					<u>-</u>	<u>215,613,880</u>
Net position - beginning, as restated					<u>(61,910,563)</u>	<u>554,430,147</u>
Net position - ending					<u>\$ (51,456,284)</u>	<u>\$ 588,331,899</u>

See accompanying notes to financial statements.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Balance Sheet  
Governmental Funds  
September 30, 2018

<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	\$ 35,125,013	\$ -	\$ -	\$ 14,208,328	\$ -	\$ 49,333,341
Time certificates of deposit	51,404	-	-	-	-	51,404
Restricted cash and cash equivalents	10,611,751	1,303,364	-	11,207,208	6,978	23,129,301
Restricted investments	-	-	-	-	1,492,973	1,492,973
Receivables, net:						
Federal agencies	6,875,038	6,171,910	-	-	284,562	13,331,510
Taxes	7,986,353	-	-	-	-	7,986,353
General	3,805,867	-	-	1,455,131	56	5,261,054
Other	-	12,831	-	-	1,209,830	1,222,661
Due from other funds	2,618,192	3,081,334	26,459,716	-	21,495,979	53,655,221
Due from fiduciary funds	1,659,022	-	-	-	864,788	2,523,810
Due from component units	-	-	-	-	1,521,454	1,521,454
Advances	1,218,248	-	-	-	-	1,218,248
Inventories	232,387	571,956	-	-	-	804,343
Other assets	2,500,000	-	-	-	-	2,500,000
	<u>\$ 72,683,275</u>	<u>\$ 11,141,395</u>	<u>\$ 26,459,716</u>	<u>\$ 26,870,667</u>	<u>\$ 26,876,620</u>	<u>\$ 164,031,673</u>
<u>Liabilities and Fund Balances (Deficit)</u>						
Liabilities:						
Accounts payable	\$ 8,299,818	\$ 4,194,003	\$ 587,469	\$ 278,408	\$ 1,222,019	\$ 14,581,717
Health and life insurance payable	-	-	-	-	1,852,984	1,852,984
Tax rebates payable	52,352,530	-	-	-	-	52,352,530
Recovery rebates payable	393,837	-	-	-	-	393,837
Other liabilities and accruals	3,853,704	1,083,399	-	265,141	142,563	5,344,807
Security deposits	-	-	-	11,192,627	-	11,192,627
Claims and judgments payable	4,100,550	-	-	-	-	4,100,550
Loan payable under Settlement Agreement	2,816,620	-	-	-	-	2,816,620
Due to other funds	51,037,029	783,344	-	988,635	846,213	53,655,221
Due to fiduciary funds	17,693,037	-	11,534,522	-	-	29,227,559
Due to component units	7,204,756	-	-	6,327,685	-	13,532,441
Unearned revenues	-	571,956	-	683,027	100,066	1,355,049
Total liabilities	<u>147,751,881</u>	<u>6,632,702</u>	<u>12,121,991</u>	<u>19,735,523</u>	<u>4,163,845</u>	<u>190,405,942</u>
Fund balances (deficit):						
Non-spendable	2,732,387	-	-	-	-	2,732,387
Restricted	2,462,629	4,508,693	-	-	4,127	6,975,449
Committed	-	-	14,337,725	7,135,144	22,734,174	44,207,043
Unassigned:						
General fund	(80,263,622)	-	-	-	-	(80,263,622)
Special revenue funds	-	-	-	-	(25,526)	(25,526)
Total fund balances (deficit)	<u>(75,068,606)</u>	<u>4,508,693</u>	<u>14,337,725</u>	<u>7,135,144</u>	<u>22,712,775</u>	<u>(26,374,269)</u>
	<u>\$ 72,683,275</u>	<u>\$ 11,141,395</u>	<u>\$ 26,459,716</u>	<u>\$ 26,870,667</u>	<u>\$ 26,876,620</u>	<u>\$ 164,031,673</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, 2018

Total fund balances - governmental funds		\$ (26,374,269)
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		4,645,894
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	10,401,582	
Depreciable capital assets and infrastructure, net of \$232,761,704 of accumulated depreciation	<u>111,612,748</u>	
Capital assets, net of accumulated depreciation		152,078,484
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	(92,749,160)	
Bonds payable	(71,329,797)	
Accrued interest payable	(1,489,792)	
Compensated absences payable	(9,118,657)	
Due to component units	(1,011,199)	
Landfill closure and postclosure costs	<u>(6,107,788)</u>	
Long-term liabilities		<u>(181,806,393)</u>
Net position of governmental activities		\$ <u>(51,456,284)</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, 2018

	General	Grants Assistance	Saipan Amusement	Department of Public Lands	Other Governmental Funds	Total
<b>Revenues:</b>						
Taxes	\$ 215,175,850	\$ -	\$ 46,349,751	\$ -	\$ 6,265,569	\$ 267,791,170
Federal contributions	-	93,063,214	-	-	4,579,047	97,642,261
Licenses and fees	12,554,422	583,056	3,911	629,236	8,285,564	22,056,189
Charges for sales and services	1,897,507	-	-	6,739,444	460,167	9,097,118
Contributions from component units	1,840,206	-	-	-	64,519	1,904,725
Interest and dividends	287,555	19,783	12,238	246,243	36,174	601,993
Other	6,488,291	356,771	-	172,177	2,217,911	9,235,150
<b>Total revenues</b>	<b>238,243,831</b>	<b>94,022,824</b>	<b>46,365,900</b>	<b>7,787,100</b>	<b>21,908,951</b>	<b>408,328,606</b>
<b>Expenditures:</b>						
<b>Current:</b>						
Health	16,378,708	48,131,193	711,270	-	953,367	66,174,538
General government	20,288,623	866,060	2,961,776	-	3,890,296	28,006,755
Public safety and law enforcement	36,896,702	12,546,015	251,949	-	946,019	50,640,685
Community and social services	7,943,619	25,607,010	1,019,386	-	1,185,023	35,755,038
Lands and natural resources	5,785,904	9,118,391	42,129	11,626,956	91,172	26,664,552
Utilities	1,852,030	82,344	-	-	-	1,934,374
Other elected officials	13,454,313	-	-	-	129,978	13,584,291
Legislative branch	7,063,349	-	52,214	-	-	7,115,563
Judicial branch	6,440,423	-	124,788	-	-	6,565,211
Education	3,611,781	-	640,416	-	2,940,267	7,192,464
Economic development	1,613,848	1,401,376	54,973	-	2,612,203	5,682,400
<b>Payments to:</b>						
Public School System	36,203,787	204,905	11,850,000	-	516,096	48,774,788
Marianas Visitors Authority	14,699,776	-	-	-	2,147,496	16,847,272
Northern Marianas College	4,756,471	41,355	1,000,000	-	-	5,797,826
Commonwealth Utilities Corporation	-	-	3,273,710	-	266,510	3,540,220
Commonwealth Healthcare Corporation	782,857	888,546	5,293,290	-	2,033,534	8,998,227
CNMI Group Health and Life Insurance Trust Fund	10,013,861	-	-	-	-	10,013,861
Settlement Fund	64,340,166	-	16,260,527	-	-	80,600,693
<b>Debt service:</b>						
Interest and fiscal charges	4,219,656	-	-	-	-	4,219,656
Principal retirement	6,353,666	-	-	-	-	6,353,666
<b>Capital outlay:</b>						
Public works	5,058,698	1,665,969	353,120	-	7,973,737	15,051,524
Utilities - Capital Projects	-	3,595,862	-	-	-	3,595,862
<b>Total expenditures</b>	<b>267,758,238</b>	<b>104,149,026</b>	<b>43,889,548</b>	<b>11,626,956</b>	<b>25,685,698</b>	<b>453,109,466</b>
Excess (deficiency) of revenues over (under) expenditures	(29,514,407)	(10,126,202)	2,476,352	(3,839,856)	(3,776,747)	(44,780,860)
<b>Other financing sources (uses):</b>						
Operating transfers in	6,648,222	11,147,229	-	-	3,502,484	21,297,935
Operating transfers out	(13,457,597)	(1,773,702)	(6,066,636)	-	-	(21,297,935)
<b>Total other financing sources (uses), net</b>	<b>(6,809,375)</b>	<b>9,373,527</b>	<b>(6,066,636)</b>	<b>-</b>	<b>3,502,484</b>	<b>-</b>
<b>Net change in fund balances (deficit)</b>	<b>(36,323,782)</b>	<b>(752,675)</b>	<b>(3,590,284)</b>	<b>(3,839,856)</b>	<b>(274,263)</b>	<b>(44,780,860)</b>
Fund balances (deficit) at beginning of year	(38,744,824)	5,261,368	17,928,009	10,975,000	22,987,038	18,406,591
Fund balances (deficit) at end of year	\$ (75,068,606)	\$ 4,508,693	\$ 14,337,725	\$ 7,135,144	\$ 22,712,775	\$ (26,374,269)

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, 2018

Total net change in fund balances - governmental funds		\$ (44,780,860)
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	\$ 11,710,667	
Depreciation expense	<u>(11,818,226)</u>	(107,559)
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	45,000,000	
Repayment of bonds	4,700,000	
Amortization of bond premiums	6,320	
Amortization of deferred amount on refunding	<u>(309,727)</u>	49,396,593
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	90,458	
Change in claims and judgments payable	5,000,000	
Change in due to component units	1,653,666	
Change in landfill closure and postclosure care costs	(381,736)	
Change in compensated absences payable	<u>(416,283)</u>	5,946,105
Change in net position of governmental activities		<u>\$ 10,454,279</u>

See accompanying notes to financial statements.

## COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Statement of Fiduciary Net Position  
Fiduciary Funds  
September 30, 2018

	Pension (and Other Employee Benefit) Trust Fund	Agency Funds
<u>Assets</u>		
Cash and cash equivalents	\$ 3,760,790	\$ 1,634,202
Receivables, net:		
Notes	2,207,940	-
Agency	737,288	-
Other	7,951	-
	<u>2,953,179</u>	<u>-</u>
Defined contribution plan investments	36,816,854	-
Foreclosed real estate	209,095	-
Restricted assets	-	1,962,939
Total assets	<u>43,739,918</u>	<u>\$ 3,597,141</u>
<u>Liabilities and Fiduciary Net Position</u>		
Accounts payable and accrued expenses	132,498	-
Deposits payable	-	3,597,141
Due to primary government	2,523,810	-
Total liabilities	<u>2,656,308</u>	<u>\$ 3,597,141</u>
Fiduciary net position:		
Held in trust for pension benefits	<u>\$ 41,083,610</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, 2018

	Pension (and Other Employee Benefit) Trust Fund
Additions:	
Employee contributions	\$ 6,831,820
Employer contributions	<u>2,544,917</u>
	<u>9,376,737</u>
Investment income:	
Net change in the fair value of investments	2,356,271
Interest and dividend income	<u>159,113</u>
Total investment income	2,515,384
Less management and custodial fees	<u>(332,230)</u>
Net investment income	<u>2,183,154</u>
Interest and fees on loans	<u>219,247</u>
Transfers and rollovers	<u>81,118</u>
Other	<u>495,153</u>
Total additions	<u>12,355,409</u>
Deductions:	
Benefits and refund payments:	
Withdrawal and refunds	6,086,758
Retirement benefits	254,802
Forfeitures	99,543
Health and life insurance premiums	64,396
Survivor benefits	<u>6,000</u>
Total benefits and refund payments	<u>6,511,499</u>
Administrative expenses:	
Salaries and wages	101,115
Employee benefits	28,571
Professional fees	397
Miscellaneous	<u>300</u>
Total administrative expenses	<u>130,383</u>
Total deductions	<u>6,641,882</u>
Change in net position held in trust for employees' pension benefits	5,713,527
Fiduciary net position held in trust:	
Beginning of year	<u>35,370,083</u>
End of year	<u>\$ 41,083,610</u>

See accompanying notes to financial statements.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Statement of Net Position  
Component Units  
September 30, 2018

	Commonwealth Ports Authority	Commonwealth Development Authority	Commonwealth Utilities Corporation	Marianas Public Land Trust	Northern Marianas College	Public School System	Marianas Visitors Authority	Total
<b>ASSETS AND DEFERRED OUTFLOWS</b>								
<b>Current assets:</b>								
Cash and cash equivalents	\$ 37,064,903	\$ 15,379,250	\$ 33,225,084	\$ 3,522,626	\$ 10,458,619	\$ 6,265,824	\$ 7,846,419	\$ 113,762,725
Time certificates of deposit	-	250,000	-	-	697,925	-	-	947,925
Receivables, net:								
Loans	-	5,515,568	-	-	-	-	-	5,515,568
Notes	-	-	94,865	866,421	-	-	-	961,286
Federal agencies	1,113,392	-	1,104,568	-	1,564,799	1,548,465	-	5,331,224
General	3,697,035	-	13,510,974	-	966,838	-	-	18,174,847
Interest and dividends	-	236,314	-	296,951	-	-	-	533,265
Dividend	-	1,620,000	-	-	-	-	-	1,620,000
Other	73,010	1,641,289	-	83,143	-	1,428,644	5,336	3,231,422
Due from primary government	-	-	-	6,327,685	178,761	351,056	2,546,259	9,403,761
Inventories	-	-	10,495,618	-	444,633	-	-	10,940,251
Other assets	1,084,847	8,925	6,255,003	9,808	3,958	-	42,181	7,404,722
Restricted assets:								
Cash and cash equivalents	-	16,745,519	12,155,603	-	-	-	-	28,901,122
Investments	24,840,061	-	-	-	-	-	-	24,840,061
<b>Total current assets</b>	<b>67,873,248</b>	<b>41,396,865</b>	<b>76,841,715</b>	<b>11,106,634</b>	<b>14,315,533</b>	<b>9,593,989</b>	<b>10,440,195</b>	<b>231,568,179</b>
<b>Noncurrent assets:</b>								
Investments	-	-	-	86,077,796	8,604,622	-	-	94,682,418
Receivables:								
Loans, net	-	8,824,615	-	-	-	-	-	8,824,615
Notes, net	-	-	53,077	5,350,720	-	-	-	5,403,797
Other	-	1,781,850	-	-	-	-	-	1,781,850
Nondepreciable capital assets	76,028,352	8,832,019	18,008,810	153,000	1,113,376	37,321,677	-	141,457,234
Depreciable capital assets, net of accumulated depreciation	110,562,465	1,333,770	89,270,423	151,807	2,570,327	40,116,162	186,067	244,191,021
Foreclosed real estate	-	2,101,214	-	-	-	-	-	2,101,214
<b>Total noncurrent assets</b>	<b>186,590,817</b>	<b>22,873,468</b>	<b>107,332,310</b>	<b>91,733,323</b>	<b>12,288,325</b>	<b>77,437,839</b>	<b>186,067</b>	<b>498,442,149</b>
Deferred outflows from cost of refunding debt	587,415	-	-	-	-	-	-	587,415
<b>Total assets and deferred outflows</b>	<b>255,051,480</b>	<b>64,270,333</b>	<b>184,174,025</b>	<b>102,839,957</b>	<b>26,603,858</b>	<b>87,031,828</b>	<b>10,626,262</b>	<b>730,597,743</b>
<b>LIABILITIES AND DEFERRED INFLOWS</b>								
<b>Current liabilities:</b>								
Current portion of bonds payable	2,415,000	-	-	-	-	-	-	2,415,000
Current portion of notes payable	3,695,607	113,245	-	-	-	-	-	3,808,852
Accounts payable	19,686,464	6,760,481	3,878,757	61,000	1,283,430	3,916,659	2,532,093	38,118,884
Current portion of compensated absences	251,850	-	1,052,669	-	380,950	1,948,012	17,879	3,651,360
Due to primary government	2,178,190	-	-	-	-	-	-	2,178,190
Other liabilities and accruals	1,367,965	2,097,601	11,996,482	80,410	208,089	-	431,722	16,182,269
Unearned revenues	569,670	27,227	-	-	1,438,638	-	-	2,035,535
<b>Total current liabilities</b>	<b>30,164,746</b>	<b>8,998,554</b>	<b>16,927,908</b>	<b>141,410</b>	<b>3,311,107</b>	<b>5,864,671</b>	<b>2,981,694</b>	<b>68,390,090</b>
<b>Noncurrent liabilities:</b>								
Bonds payable, net of current portion	31,253,306	-	-	-	-	-	-	31,253,306
Dividends payable	-	-	1,620,000	-	-	-	-	1,620,000
Compensated absences, net of current portion	422,470	-	-	-	203,292	1,674,852	102,581	2,403,195
Due to fiduciary funds	-	-	3,469,797	-	-	-	-	3,469,797
Due to primary government	-	-	8,288,990	-	-	-	-	8,288,990
Environmental remediation costs	-	-	9,941,233	-	-	-	-	9,941,233
Unearned revenues, net of current portion	-	9,458,677	6,220,159	-	-	-	-	15,678,836
<b>Total noncurrent liabilities</b>	<b>31,675,776</b>	<b>9,458,677</b>	<b>29,540,179</b>	<b>-</b>	<b>203,292</b>	<b>1,674,852</b>	<b>102,581</b>	<b>72,655,357</b>
Deferred inflows of resources	-	-	107,750	-	174,401	935,246	3,000	1,220,397
<b>Total liabilities and deferred inflows of resources</b>	<b>61,840,522</b>	<b>18,457,231</b>	<b>46,575,837</b>	<b>141,410</b>	<b>3,688,800</b>	<b>8,474,769</b>	<b>3,087,275</b>	<b>142,265,844</b>
<b>NET POSITION</b>								
Net investment in capital assets	149,814,318	10,165,789	107,279,233	304,807	3,683,703	77,437,839	186,067	348,871,756
Restricted	24,840,061	35,647,313	45,000,000	102,393,740	8,604,622	2,453,809	7,352,920	226,292,465
Unrestricted	18,556,579	-	(14,681,045)	-	10,626,733	(1,334,589)	-	13,167,678
<b>Total net position</b>	<b>\$ 193,210,958</b>	<b>\$ 45,813,102</b>	<b>\$ 137,598,188</b>	<b>\$ 102,698,547</b>	<b>\$ 22,915,058</b>	<b>\$ 78,557,059</b>	<b>\$ 7,538,987</b>	<b>\$ 588,331,899</b>

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, 2018

	Commonwealth Ports Authority	Commonwealth Development Authority	Commonwealth Utilities Corporation	Marianas Public Land Trust	Northern Marianas College	Public School System	Marianas Visitors Authority	Total
Expenses	\$ 32,915,287	\$ 8,244,467	\$ 94,968,665	\$ 3,149,121	\$ 17,638,332	\$ 91,679,195	\$ 14,620,816	\$ 263,215,883
Program revenues:								
Charges for services	30,651,036	17,144	104,908,913	5,136,862	2,759,944	882,369	108,732	144,465,000
Operating grants and contributions	260,097	5,726,857	-	7,194,024	8,670,001	40,683,731	258,418	62,793,128
Capital grants and contributions	6,499,821	1,294,970	9,208,126	-	-	-	-	17,002,917
Total program revenues	37,410,954	7,038,971	114,117,039	12,330,886	11,429,945	41,566,100	367,150	224,261,045
Net program revenues (expenses)	4,495,667	(1,205,496)	19,148,374	9,181,765	(6,208,387)	(50,113,095)	(14,253,666)	(38,954,838)
General revenues:								
Contributions from the primary government	-	-	-	-	5,912,865	48,569,262	15,224,776	69,706,903
Dividend income	-	900,000	-	-	-	-	-	900,000
Unrestricted investment earnings	504,273	19,841	625,600	-	359,344	-	-	1,509,058
Other revenues	-	248,256	158,068	-	-	294,547	39,758	740,629
Total general revenues	504,273	1,168,097	783,668	-	6,272,209	48,863,809	15,264,534	72,856,590
Change in net position	4,999,940	(37,399)	19,932,042	9,181,765	63,822	(1,249,286)	1,010,868	33,901,752
Net position at beginning of year, as previously reported	196,640,588	44,120,152	-	91,527,408	-	-	6,528,119	338,816,267
Prior period adjustment (note 18)	(8,429,570)	1,730,349	117,666,146	1,989,374	22,851,236	79,806,345	-	215,613,880
Net position - beginning, as restated	188,211,018	45,850,501	117,666,146	93,516,782	22,851,236	79,806,345	6,528,119	554,430,147
Net position - ending	\$ 193,210,958	\$ 45,813,102	\$ 137,598,188	\$ 102,698,547	\$ 22,915,058	\$ 78,557,059	\$ 7,538,987	\$ 588,331,899

See accompanying notes to financial statements.

# COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

## Notes to the Financial Statements September 30, 2018

### (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* and GASB Statement No. 61, *The Financial Reporting Entity: Omnibus - an Amendment of GASB Statements No. 14 and 34*. 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, 2018

(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 Commonwealth Utilities Corporation (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.
- 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 Northern Marianas College (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 Public School System (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 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.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2018

(1) Summary of Significant Accounting Policies, Continued

A. Reporting Entity, Continued

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

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

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

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

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

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

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.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2018

(1) Summary of Significant Accounting Policies, Continued

A. Reporting Entity, Continued

- 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 Healthcare Corporation (CHCC) 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 unit is considered material to the discretely presented component units' reporting column.

The CNMI has omitted the Northern Mariana Islands Settlement Fund (NMISF) 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, 2018

(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 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 \$6,975,449 of restricted net position, of which \$4,127 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, 2018

### (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 Funds 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, 2018

(1) Summary of Significant Accounting Policies, Continued

D. Measurement Focus and Basis of Accounting, Continued

Governmental Funds 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:

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.
- 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.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2018

(1) Summary of Significant Accounting Policies, Continued

D. Measurement Focus and Basis of Accounting, Continued

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, 2018, 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 in the government-wide financial statements, when assessed or levied. Tax revenue is recognized in the governmental funds 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".

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.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2018

(1) Summary of Significant Accounting Policies, Continued

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" in the governmental funds 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 activities column of the government-wide financial statements.

Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

All land, non-depreciable land improvements are capitalized, regardless of cost. Singular pieces of machinery and equipment, other than vehicles, that equal or exceed \$50,000 are capitalized. Buildings and infrastructure projects with a cost that equals or exceeds \$100,000 are capitalized. The costs of normal maintenance and repairs that do not add to the value of assets or materially extend asset lives are not capitalized.

All vehicles have been grouped together regardless of cost and depreciated on a composite basis.

Management has elected to present only assets acquired subsequent to 1990, except for roads. Accordingly, fixed asset records consist of additions commencing in fiscal year 1990.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2018

(1) Summary of Significant Accounting Policies, Continued

L. Capital Assets and Depreciation, Continued

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.
- 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.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2018

(1) Summary of Significant Accounting Policies, Continued

M. Fund Equity/Net Position, Continued

- 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, 2018.

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, 2018, is \$9,118,657.

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.

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 funds 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 funds balance sheet and revenue is recognized.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2018

(1) Summary of Significant Accounting Policies, Continued

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 Casino 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.

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.



COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2018

(1) Summary of Significant Accounting Policies, Continued

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.

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*, 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 Statement No. 68 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 Statement No. 68 as of and for the year ended September 30, 2018 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, 2018, the financial statements of NMISF were not included within the CNMI's financial statements.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2018

(1) Summary of Significant Accounting Policies, Continued

W. New Accounting Standards

During the year ended September 30, 2018, the CNMI implemented the following pronouncements:

- GASB 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.
- GASB 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.
- GASB 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).
- GASB Statement No. 86, *Certain Debt Extinguishment Issues*, which improves consistency in accounting and financial reporting for in-substance defeasance of debt.

The implementation of these statements did not have a material effect on the CNMI's 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 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, 2018

(1) Summary of Significant Accounting Policies, Continued

W. New Accounting Standards, Continued

In April 2018, GASB issued Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, which improves the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. The provisions in Statement No. 88 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 June 2018, GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, which requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. The provisions in Statement No. 89 are effective for fiscal years beginning after December 15, 2019. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In August 2018, GASB issued Statement No. 90, *Majority Equity Interests – an Amendment of GASB Statements No. 14 and No. 61*, which improves the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and the relevance of financial statement information for certain component units. The provisions in Statement No. 90 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.

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 tax rebates payable.

In determining 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, 2018, the CNMI has significant encumbrances summarized as follows:

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2018

(1) Summary of Significant Accounting Policies, Continued

Y. Encumbrances, Continued

<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>4,305,967</u>	\$ <u>14,116,820</u>	\$ <u>586,628</u>	\$ <u>-</u>	\$ <u>8,927,592</u>	\$ <u>27,937,007</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, 2017 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.

As of September 30, 2018, the carrying amount of the primary government's total unrestricted cash and cash equivalents and time certificates of deposit were \$49,384,745 and the corresponding bank balances were \$53,502,063, 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, 2018 amounted to \$23,129,301 and the corresponding bank balances were \$23,175,595. Of the bank balance amounts, \$21,865,253 is maintained in financial institutions subject to FDIC insurance. The remaining amount of \$1,310,342 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, 2018. As of September 30, 2018, 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, 2018, is presently not determinable. Accordingly, these deposits are exposed to custodial credit risk.

# COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

## Notes to the Financial Statements September 30, 2018

### (2) Deposits and Investments, Continued

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

As of September 30, 2018, the carrying amount of the fiduciary fund's total cash and cash equivalents was \$5,394,992 and the corresponding bank balances were \$5,411,352, which are maintained in financial institutions subject to FDIC insurance. As of September 30, 2018, bank deposits in the amount of \$383,837 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, 2018, the carrying amount of the discretely presented component units' restricted and unrestricted cash and cash equivalents and time certificates of deposit were \$143,611,772 and the corresponding bank balances were \$139,880,198. Of the bank balance amounts, \$136,441,679 is maintained in financial institutions subject to FDIC insurance and \$254,847 represents amounts maintained in a non-FDIC insured bank. The remaining amount of \$3,183,672 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, 2018, bank deposits in the amount of \$10,706,317 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.

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, 2018.

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.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2018

(2) Deposits and Investments, Continued

Investments, Continued

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, 2018, are as follows:

Stock mutual fund	\$ 1,066,708
Mutual bond funds	373,898
Money market placements	<u>52,367</u>
	<u>\$ 1,492,973</u>

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, 2018:

Investment Type	NAV	Investment Maturities (In Years)			Credit Rating	
		Less Than 1	1 - 5	6 - 10		More Than 10
Mutual bond funds	\$ <u>373,898</u>	\$ <u>373,898</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, 2018 consist of the following:

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2018

(2) Deposits and Investments, Continued

Investments, Continued

B. Fiduciary Funds, Continued

Mutual funds	\$ 35,209,083
Loans	<u>1,607,771</u>
	<u>\$ 36,816,854</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, 2018:

	Total	Fair Value Measurements Using		
		Level 1	Level 2	Level 3
Investments by fair value level:				
Core funds	\$ <u>3,013,788</u>	\$ <u>3,013,788</u>	\$ -	\$ -
Total investments by fair value level	3,013,788	\$ <u>3,013,788</u>	\$ -	\$ -
Investments measured at NAV:				
ASC Direct Retirement Trust	32,195,295			
Investments measured at amortized cost:				
Loans	<u>1,607,771</u>			
	<u>\$ 36,816,854</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, 2018. As of September 30, 2018, investments at fair value consist of investments in U.S. Government money market placements and mutual funds amounting to \$24,840,061. All CPA investments are categorized as Level 1.

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.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2018

(2) Deposits and Investments, Continued

Investments, Continued

C. Discretely Presented Component Units, Continued

CDA, Continued:

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, 2018, 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:

<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	298,795	1,501,205	1,800,000
	\$ <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. In 2015, CDA has determined that, prospectively, dividend income will be recognized upon collection; however, changes in circumstances in CUC's cash flows resulted in collections of dividends receivable as of September 30, 2018. At September 30, 2018, CDA recorded dividends receivable of \$1,620,000 for deferred dividends earned for the first three years after issuance of the preferred stock, which is being amortized over a fifteen-year period.



COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2018

(2) Deposits and Investments, Continued

Investments, Continued

C. Discretely Presented Component Units, Continued

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, 2018.

As of September 30, 2018, investments at fair value are as follows:

Investments by fair value level	Total	Fair Value Measurement Using		
		Level 1	Level 2	Level 3
Debt securities:				
Mortgaged and asset backed securities	\$ 3,949,191	\$ -	\$ 3,949,191	\$ -
Government bonds	11,403,319	11,403,319	-	-
Corporate bonds	<u>14,251,152</u>	<u>-</u>	<u>14,251,152</u>	<u>-</u>
Total debt securities	<u>29,603,662</u>	<u>11,403,319</u>	<u>18,200,343</u>	<u>-</u>
Equity securities:				
Domestic common stock	24,153,442	24,153,442	-	-
International common stock	4,800,326	4,800,326	-	-
Master limited partnerships	8,948,472	8,948,472	-	-
Real estate investment trusts	<u>9,778,134</u>	<u>9,778,134</u>	<u>-</u>	<u>-</u>
Total equity securities	<u>47,680,374</u>	<u>47,680,374</u>	<u>-</u>	<u>-</u>
Total investments by fair value level	77,284,036	\$ <u>59,083,693</u>	\$ <u>18,200,343</u>	\$ <u>-</u>
Investments measured at net asset value (NAV):				
Mutual funds	<u>8,793,760</u>			
	\$ <u>86,077,796</u>			

The following is a listing of MPLT's fixed income securities at September 30, 2018:

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	\$ 3,949,191	\$ -	\$ 1,894,886	\$ 1,280,416	\$ 773,889	AA+
Government bonds	11,403,319	-	1,359,550	5,372,219	4,671,550	AA+
Corporate bonds	510,857	-	510,857	-	-	AA+
Corporate bonds	1,901,018	-	1,901,018	-	-	A+
Corporate bonds	2,038,267	-	2,038,267	-	-	A
Corporate bonds	3,851,347	-	3,851,347	-	-	A-
Corporate bonds	1,277,825	-	1,277,825	-	-	BBB+
Corporate bonds	42,313	-	42,313	-	-	BBB-
Corporate bonds	624,599	-	350,502	274,097	-	BB+
Corporate bonds	691,421	-	340,271	351,150	-	BB-
Corporate bonds	529,870	-	291,245	238,625	-	BB
Corporate bonds	1,025,548	-	490,741	534,807	-	B+
Corporate bonds	624,855	-	534,937	89,918	-	B-
Corporate bonds	967,389	-	448,669	518,720	-	B
Corporate bonds	<u>165,843</u>	<u>-</u>	<u>165,843</u>	<u>-</u>	<u>-</u>	CCC+
	\$ <u>29,603,662</u>	\$ <u>-</u>	\$ <u>15,498,271</u>	\$ <u>8,659,952</u>	\$ <u>5,445,439</u>	

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2018

(2) Deposits and Investments, Continued

Investments, Continued

C. Discretely Presented Component Units, Continued

NMC:

NMC's investments are held and administered by trustees in accordance with negotiated trust and custody agreements. Based on these agreements, all of these investments were held in NMC's name by NMC's custodial financial institutions at September 30, 2018.

As of September 30, 2018, investments at fair value are as follows:

Investments by fair value level:	Fair Value Measurement Using			
		Level 1	Level 2	Level 3
Debt securities:				
Government sponsored enterprise	\$ 124,994	\$ -	\$ 124,994	\$ -
Real estate and tangibles	702,792	-	-	702,792
Cash and cash equivalents	980,436	-	-	980,436
Asset-backed, mortgage-backed, collateralized mortgage obligation	199,724	-	199,724	-
U.S. Treasury	1,061,845	-	1,061,845	-
Corporate bonds	962,747	-	962,747	-
Mutual funds	350,626	350,626	-	-
Equity securities:				
Domestic equity	2,312,702	2,312,702	-	-
International equity	<u>1,908,756</u>	<u>1,908,756</u>	-	-
Total investments by fair value level	\$ <u>8,604,622</u>	\$ <u>4,572,084</u>	\$ <u>2,349,310</u>	\$ <u>1,683,228</u>

The following is a listing of NMC's fixed income securities at September 30, 2018:

Investment Type	Fair Value	Investment Maturities (In Years)				Credit Rating
		Less Than 1	1 - 5	6 - 10	More Than 10	
Government and GSE bonds	\$ 1,061,845	\$ 847,008	\$ 214,837	\$ -	\$ -	AAA
Government and GSE bonds	124,994	124,994	-	-	-	AA+
Corporate bonds	65,096	65,096	-	-	-	AA+
Corporate bonds	55,117	-	55,117	-	-	AA-
Corporate bonds	90,356	-	90,356	-	-	AA
Corporate bonds	216,888	191,677	25,211	-	-	A+
Corporate bonds	319,279	135,500	183,779	-	-	A-
Corporate bonds	81,597	81,597	-	-	-	A
Corporate bonds	134,413	62,483	71,930	-	-	BBB+
Corporate bonds	<u>199,724</u>	-	<u>199,724</u>	-	-	No rating
	\$ <u>2,349,309</u>	\$ <u>1,508,355</u>	\$ <u>840,954</u>	\$ <u>-</u>	\$ <u>-</u>	

(3) Receivables and Tax Abatements

A. Receivables

*Primary Government*

Receivables as of September 30, 2018, for the primary government's individual major governmental funds and nonmajor governmental funds in the aggregate, including allowances for uncollectible accounts, are as follows:

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2018

(3) Receivables and Tax Abatements, Continued

A. Receivables, Continued

*Primary Government, Continued*

	General	Grants Assistance	Saipan Amusement	Department of Public Lands	Other Governmental Funds	Total
Receivables:						
Federal agencies	\$ 6,875,038	\$ 14,459,643	\$ -	\$ -	\$ 2,687,198	\$ 24,021,879
General	5,667,379	-	-	5,550,173	56	11,217,608
Taxes	7,986,353	-	-	-	-	7,986,353
Other	<u>3,103,600</u>	<u>12,831</u>	<u>-</u>	<u>15,339</u>	<u>1,209,830</u>	<u>4,341,600</u>
Gross receivables	23,632,370	14,472,474	-	5,565,512	3,897,084	47,567,440
Less allowance for uncollectibles	<u>(4,965,112)</u>	<u>(8,287,733)</u>	<u>-</u>	<u>(4,110,381)</u>	<u>(2,402,636)</u>	<u>(19,765,862)</u>
Net receivables	\$ <u>18,667,258</u>	\$ <u>6,184,741</u>	\$ <u>-</u>	\$ <u>1,455,131</u>	\$ <u>1,494,448</u>	\$ <u>27,801,578</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.

*Fiduciary Funds*

Receivables as of September 30, 2018, for the fiduciary funds, including allowances for uncollectible accounts, are as follows:

	NMIRF	Defined Contribution Plan	Total
Receivables:			
Notes	\$ 2,823,594	\$ -	\$ 2,823,594
Agency	-	737,288	737,288
Other	<u>7,951</u>	<u>-</u>	<u>7,951</u>
Gross receivables	2,831,545	737,288	3,568,833
Less allowance for uncollectibles	<u>(615,654)</u>	<u>-</u>	<u>(615,654)</u>
Net receivables	\$ <u>2,215,891</u>	\$ <u>737,288</u>	\$ <u>2,953,179</u>

Notes receivable recorded by NMIRF consist of mortgage home loans from various individuals, with interest at 8.5% to 9.0% per annum and terms from fifteen to thirty years.

*Discretely Presented Component Units*

Receivables as of September 30, 2018, for the discretely presented component units, including allowances for uncollectible accounts are as follows:

	CPA	CDA	CUC	MPLT	NMC	PSS	MVA	Total
Receivables:								
Loans	\$ -	\$ 49,516,379	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 49,516,379
Notes	-	-	185,420	9,612,529	-	-	-	9,797,949
Federal agencies	1,113,392	-	1,104,568	-	1,564,799	1,548,465	-	5,331,224
General	9,085,388	-	63,526,770	296,951	1,620,967	-	-	74,530,076
Interest and dividends	-	2,556,555	-	-	-	-	-	2,556,555
Other	<u>73,010</u>	<u>3,423,139</u>	<u>-</u>	<u>83,143</u>	<u>-</u>	<u>1,625,460</u>	<u>5,336</u>	<u>5,210,088</u>
Gross receivables	10,271,790	55,496,073	64,816,758	9,992,623	3,185,766	3,173,925	5,336	146,942,271
Less allowance for uncollectibles	<u>(5,388,353)</u>	<u>(35,876,437)</u>	<u>(50,053,274)</u>	<u>(3,395,388)</u>	<u>(654,129)</u>	<u>(196,816)</u>	<u>-</u>	<u>(95,564,397)</u>
Net receivables	\$ <u>4,883,437</u>	\$ <u>19,619,636</u>	\$ <u>14,763,484</u>	\$ <u>6,597,235</u>	\$ <u>2,531,637</u>	\$ <u>2,977,109</u>	\$ <u>5,336</u>	\$ <u>51,377,874</u>

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2018

(3) Receivables and Tax Abatements, Continued

A. Receivables, Continued

*Discretely Presented Component Units, Continued*

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

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. \$ 32,773,608

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. 13,047,163

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. 3,695,608

\$ 49,516,379

CUC:

Notes receivable from customers, bearing interest at 12% per annum with terms ranging from six months to ten years. \$ 185,420

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. \$ 5,584,499

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2018

(3) Receivables and Tax Abatements, Continued

A. Receivables, Continued

*Discretely Presented Component Units, Continued*

MPLT, Continued:

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. 53,588

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. 113,244

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. 1,011,198

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

\$ 9,612,529

B. Tax Abatements

As of September 30, 2018, 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.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2018

(3) Receivables and Tax Abatements, Continued

B. Tax Abatements, Continued

*Qualifying Certificate (QC) Program, Continued*

During the year ended September 30, 2018, information relevant to the disclosure of the QC program is as follows:

	<u>Total Estimated Revenue Reduced</u>
Excise tax	\$ 5,988
Gross receipts tax	\$ 481,456

(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, 2018, are summarized as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Other governmental	\$ 846,213
General	Department of Public Lands	988,635
General	Grants Assistance	783,344
Grants Assistance	General	3,081,334
Saipan Amusement	General	26,459,716
Other governmental	General	<u>21,495,979</u>
		<u>\$ 53,655,221</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, 2018, are summarized as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	NMIRF	\$ 1,659,022
Other governmental	NMIRF	<u>864,788</u>
		<u>\$ 2,523,810</u>

Balances reflected as due to fiduciary funds of the primary government as of September 30, 2018, are summarized as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
NMISF	Saipan Amusement Fund	\$ 11,534,522
NMISF	General Fund	<u>17,693,037</u>
		<u>\$ 29,227,559</u>

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2018

(4) Interfund Receivables and Payables, Continued

The amount recorded as due from the component units of the primary government of \$1,521,454 does not equal to the corresponding due to primary government of the discretely presented component units of \$10,467,180 due to CPA and CUC recording public auditor fee of \$2,178,190 and \$8,288,990, respectively, for which the primary government recorded a corresponding allowance. The remaining difference of \$1,521,454 relates to the amount of health and life insurance, which was not recorded by the component units.

Balances reflected as due to component units of the primary government as of September 30, 2018, are summarized as follows:

<u>Due From</u>	<u>Due To</u>	<u>Amount</u>
MPLT	Department of Public Lands	\$ 6,327,685
MPLT	General	1,011,199
CUC	General	4,040,445
MVA	General	2,546,259
PSS	General	351,056
NMC	General	178,761
CHCC	General	<u>88,235</u>
		\$ <u>14,543,640</u>

The amount recorded as due from primary government of the discretely presented component units of \$9,403,761 does not equal the corresponding due to component units of the primary government of \$14,543,640 by \$5,139,879. The difference of \$1,011,199 with MPLT is due to amounts recorded as notes receivable by MPLT. The difference of \$4,040,445 with CUC is due to amounts recorded as general receivables by CUC. The remaining difference of \$88,235 is due to lack of financial information from CHCC.

(5) Other Assets

As of September 30, 2018, the CNMI holds 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 \$10,611,751 recorded in the General Fund represents cash and cash equivalents of \$1,610,152 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; \$1,269,512 restricted for various Federal programs and projects; \$4,284,661 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; \$2,462,629 restricted for future debt service requirements and \$984,797 restricted for group health and life insurance payments.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2018

(6) Restricted Assets, Continued

Primary Government, Continued

Restricted assets of \$1,303,364 recorded in the Grants Assistance Fund represents cash and cash equivalents restricted for capital projects.

Restricted assets of \$11,207,208 recorded in DPL represent security deposits received from lessees.

Restricted assets of \$1,499,951 recorded in the Other Governmental Funds represent cash and cash equivalents of \$6,978 for other purposes and investments of \$1,492,973 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 \$1,962,939 as of September 30, 2018, represent deposits of foreign investors required by law to operate a business in the CNMI.

Discretely Presented Component Units

CPA:

Investments in U.S. Treasury obligations restricted for construction and debt service purposes represent the unused proceeds of the Airport Revenue Bonds and the Seaport Revenue Bonds. These investments are summarized as follows:

<u>Fund</u>	<u>Airport Revenue Bonds</u>	<u>Seaport Revenue Bonds</u>	<u>Total</u>
Bond Reserve Fund	\$ 1,628,992	\$ 3,487,417	\$ 5,116,409
Supplemental Reserve Fund	-	7,991,935	7,991,935
Construction Fund	-	7,279	7,279
Reimbursement Fund	-	5,889	5,889
Bond Fund	519,435	1,111,161	1,630,596
Maintenance and Operation	6,994,269	3,079,858	10,074,127
Optional Redemption Fund	12,270	-	12,270
Revenue Fund	<u>734</u>	<u>822</u>	<u>1,556</u>
	\$ <u>9,155,700</u>	\$ <u>15,684,361</u>	\$ <u>24,840,061</u>

CDA:

Restricted assets of CDA's Development Banking Division of \$8,830,442 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 \$5,019,329 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.



COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2018

(6) Restricted Assets, Continued

Discretely Presented Component Units, Continued

CDA, Continued:

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	\$ 1,380,536
Savings account restricted for Koblerville Section 8 project repairs and maintenance expenses, per contract with the U.S. Department of Housing and Urban Development	230,349
Savings account maintained as a guarantee of housing loans made by a CNMI savings and loan	258
Checking account maintained for Section 8 Housing Choice Vouchers Program expenses	749,526
Other depository accounts reserved for various purposes	<u>535,079</u>
	<u>\$ 2,895,748</u>

CUC:

Restricted assets of \$12,155,603 recorded in CUC represent customer deposits.

(7) Capital Assets and Depreciation

Capital asset activities for the year ended September 30, 2018, are as follows:

Primary Government

	Balance October 1, 2017	Additions	Reclassifications	Balance September 30, 2018
Assets not being depreciated:				
Land	\$ 30,064,154	\$ -	\$ -	\$ 30,064,154
Construction in progress	<u>24,408,121</u>	<u>6,698,245</u>	<u>(20,704,784)</u>	<u>10,401,582</u>
	<u>54,472,275</u>	<u>6,698,245</u>	<u>(20,704,784)</u>	<u>40,465,736</u>
Depreciable assets:				
Buildings and other improvements	128,518,217	-	4,322,082	132,840,299
Machinery and equipment	41,217,887	5,012,422	755,258	46,985,567
Infrastructure	<u>148,921,142</u>	<u>-</u>	<u>15,627,444</u>	<u>164,548,586</u>
	<u>318,657,246</u>	<u>5,012,422</u>	<u>20,704,784</u>	<u>344,374,452</u>
Accumulated depreciation:				
Buildings and other improvements	(65,177,979)	(4,732,438)	-	(69,910,417)
Machinery and equipment	(33,123,413)	(3,567,294)	-	(36,690,707)
Infrastructure	<u>(122,642,086)</u>	<u>(3,518,494)</u>	<u>-</u>	<u>(126,160,580)</u>
Total accumulated depreciation	<u>(220,943,478)</u>	<u>(11,818,226)</u>	<u>-</u>	<u>(232,761,704)</u>
Depreciable assets, net	<u>97,713,768</u>	<u>(6,805,804)</u>	<u>20,704,784</u>	<u>111,612,748</u>
	<u>\$ 152,186,043</u>	<u>\$ (107,559)</u>	<u>\$ -</u>	<u>\$ 152,078,484</u>

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2018

(7) Capital Assets and Depreciation, Continued

Primary Government, Continued

Public Works	\$ 5,930,508
Public Safety and Law Enforcement	2,378,386
Community and Social Services	2,000,857
General Government	619,855
Judicial Branch	291,274
Lands and Natural Resources	<u>597,346</u>

Total depreciation expense - governmental activities \$ 11,818,226

Discretely Presented Component Units

	Estimated Useful Lives	Balance at October 1, 2017	Additions	Retirements	Reclassifications	Balance at September 30, 2018
Assets not being depreciated:						
Land		\$ 45,838,835	\$ 12,350	\$ -	\$ -	\$ 45,851,185
Construction in progress		<u>96,491,620</u>	<u>18,269,999</u>	<u>-</u>	<u>(19,155,570)</u>	<u>95,606,049</u>
		<u>142,330,455</u>	<u>18,282,349</u>	<u>-</u>	<u>(19,155,570)</u>	<u>141,457,234</u>
Depreciable assets:						
Runway and improvements	20 years	114,111,144	166,182	-	-	114,277,326
Terminal facilities	20 years	110,739,150	4,657,251	-	-	115,396,401
Harbor facilities	20 years	63,601,422	725,591	-	-	64,327,013
Other improvements	3 - 20 years	28,990,750	40,908	-	-	29,031,658
Fire and rescue	2 - 8 years	12,820,704	80,290	-	-	12,900,994
Terminal equipment	2 - 10 years	9,293,712	28,644	-	-	9,322,356
Electric plant	25 years	147,485,242	47,290,639	(41,683,821)	4,406,155	157,498,215
Water plant	25 years	74,365,783	8,341,058	(10,205,917)	6,570,203	79,071,127
Sewer plant	25 years	51,880,772	3,132,776	(3,338,846)	2,844,378	54,519,080
Housing projects	30 years	7,622,773	-	(10,264)	-	7,612,509
Office furniture and fixtures	2 - 10 years	4,527,797	930,706	(127,862)	-	5,330,641
Other equipment	3 - 5 years	11,178,126	774,620	(212,832)	-	11,739,914
Infrastructure	30 years	2,823,491	-	-	-	2,823,491
General transportation	3 - 5 years	8,557,843	2,049,121	(149,348)	-	10,457,616
Ground maintenance and shop equipment	2 - 5 years	1,706,068	1,300	-	-	1,707,368
Buildings	5 - 50 years	<u>68,643,314</u>	<u>1,315,309</u>	<u>-</u>	<u>-</u>	<u>69,958,623</u>
		718,348,091	69,534,395	(55,728,890)	13,820,736	745,974,332
Less accumulated depreciation		<u>(481,383,830)</u>	<u>(22,697,023)</u>	<u>2,297,542</u>	<u>-</u>	<u>(501,783,311)</u>
Depreciable assets net		<u>236,964,261</u>	<u>46,837,372</u>	<u>(53,431,348)</u>	<u>13,820,736</u>	<u>244,191,021</u>
		<u>\$ 379,294,716</u>	<u>\$ 65,119,721</u>	<u>\$ (53,431,348)</u>	<u>\$ (5,334,834)</u>	<u>\$ 385,648,255</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, 2018, principal outstanding and payable is \$2,816,620.

## COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

### Notes to the Financial Statements September 30, 2018

#### (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.

The rebate percentage is either 90%, 70% or 50%, based on the specified tax brackets for taxes paid. Tax rebate liabilities amounted to \$52,352,530 as of September 30, 2018. 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, 2018.

#### (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.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2018

(11) Long-Term Debt Obligations, Continued

Refunding of Debt, Continued

Although the advance refunding resulted in the recognition of an accounting loss of \$8.2 million for the year ended September 30, 2007, the CNMI in effect reduced its aggregate debt service payments by \$7.8 million over the next twenty-six years and obtained an economic gain (difference between the present values of the old and new debt service payments) of \$7.475 million. 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, 2018, deferred outflows from cost of refunding debt amounted to \$4,645,894.

\$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, 2018, consist of the following:

Series 2007A general obligations refunding bonds	\$ 34,930,000
Unamortized premium on bond issuance	<u>56,242</u>
	<u>\$ 34,986,242</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, 2018, consist of the following:

Series 2007B general obligations refunding bonds	\$ 36,305,000
Unamortized premium on bond issuance	<u>38,555</u>
	<u>\$ 36,343,555</u>

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2018

(11) Long-Term Debt Obligations, Continued

<u>Year ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	4,285,000	2,603,875	6,888,875
2024 - 2028	24,985,000	9,536,125	34,521,125
2029 - 2033	20,575,000	3,089,625	23,664,625
2034	<u>3,150,000</u>	<u>78,750</u>	<u>3,228,750</u>
	\$ <u>71,235,000</u>	\$ <u>27,921,875</u>	\$ <u>99,156,875</u>

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:

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 \$92,749,160 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.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2018

(11) Long-Term Debt Obligations, Continued

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.
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 \$1,653,666 and \$186,541, respectively.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2018

(11) Long-Term Debt Obligations, Continued

Claims and Judgments, Continued

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.

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. On March 5, 2018, USDOI 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. As of September 30, 2018, the CNMI's claims and judgment liability related to SO2 amounted to \$-0-.

Changes in long-term liabilities of the primary government for the year ended September 30, 2018, are as follows:

	Balance October 1, 2017	Additions	Reductions	Balance September 30, 2018	Due Within One Year
Loans and bonds payable:					
2007 Series A Bonds	\$ 38,175,000	\$ -	\$ (3,245,000)	\$ 34,930,000	\$ 3,405,000
2007 Series B Bonds	<u>37,760,000</u>	<u>-</u>	<u>(1,455,000)</u>	<u>36,305,000</u>	<u>1,555,000</u>
	75,935,000	-	(4,700,000)	71,235,000	4,960,000
Deferred amounts:					
Unamortized premium on bonds issued	<u>101,117</u>	<u>-</u>	<u>(6,320)</u>	<u>94,797</u>	<u>6,320</u>
	<u>76,036,117</u>	<u>-</u>	<u>(4,706,320)</u>	<u>71,329,797</u>	<u>4,966,320</u>
Other:					
Obligations under Settlement Agreement	137,749,160	-	(45,000,000)	92,749,160	44,000,000
Claims and judgments	13,276,940	1,530,006	(10,706,396)	4,100,550	4,100,550
Compensated absences	8,702,374	8,832,096	(8,415,813)	9,118,657	4,376,574
Due to component units	2,664,865	-	(1,653,666)	1,011,199	-
Landfill closure	<u>5,726,052</u>	<u>381,736</u>	<u>-</u>	<u>6,107,788</u>	<u>-</u>
	<u>168,119,391</u>	<u>10,743,838</u>	<u>(65,775,875)</u>	<u>113,087,354</u>	<u>52,477,124</u>
	\$ <u>244,155,508</u>	\$ <u>10,743,838</u>	\$ <u>(70,482,195)</u>	\$ <u>184,417,151</u>	\$ <u>57,443,444</u>

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2018

(11) Long-Term Debt Obligations, Continued

Discretely Presented Component Units

CPA \$20,050,000 Bond Issue

On March 26, 1998, CPA issued \$20,050,000 of tax-exempt airport revenue bonds which, in part, were used for a current refunding of \$8,250,000 of 1987 Series B tax-exempt airport revenue bonds. The refunding was undertaken to consolidate existing bonds with new bonds issued for the purpose of financing various airport projects and to reduce total future debt service payments. The reacquisition price exceeded the net carrying amount of the old debt by \$503,906. This amount was netted against the new debt and is being amortized over the refunded debt's life, which is shorter than the life of the new debt. The transaction also resulted in an economic gain of \$688,620 and an increase of \$7,616,151 in future debt service payments.

Installments are paid to the Bond Trustee annually on March 15 through 2028. Interest is payable semi-annually, at 6.25% per annum, on March 15 and September 15 of each year.

Revenue bonds payable as of September 30, 2018, consists of the following:

1998 Senior Series A tax-exempt airport revenue bonds	\$ <u>10,215,000</u>
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The 1998 Senior Series A tax-exempt airport revenue bonds are limited obligations of CPA and, except to the extent payable from bond proceeds, are payable solely out of revenues, assets and funds pledged under the Indenture.

CPA \$33,775,000 Bond Issue

On March 26, 1998, CPA issued \$33,775,000 of Senior Series A tax-exempt seaport revenue bonds which, in part, were used for a current refunding of \$22,470,000 of 1995 Series A tax-exempt seaport revenue bonds. The refunding was undertaken to consolidate existing debt with new debt issued for the purpose of financing various seaport projects and to reduce total future debt service payments. The reacquisition price exceeded the net carrying amount of the old debt by \$1,345,593. This amount is recorded as a deferred outflow from cost of refunding debt and is being amortized over the refunded debt's life, which is shorter than the life of the new debt. At September 30, 2018, deferred outflows from cost of refunding debt amounted to \$644,988. The transaction also resulted in an economic gain of \$1,724,777 and a decrease of \$6,983,345 in future debt service payments.

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

Revenue bonds payable as of September 30, 2018, consist of the following:

1998 Senior Series A tax-exempt seaport revenue bonds	\$ <u>18,485,000</u>
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COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2018

(11) Long-Term Debt Obligations, Continued

Discretely Presented Component Units, Continued

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

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, 2018, 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% per annum on March 15 and September 15 of each year.

Revenue bonds payable as of September 30, 2018, consist of the following:

2005 Senior Series A tax-exempt seaport revenue bonds	\$ 5,040,000
Discount on bonds	<u>(71,964)</u>
	<u>\$ 4,968,036</u>

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, 2018. 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 2018, management of CPA determined that 100% of passenger facility charges would be considered as gross revenues for these purposes.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2018

(11) Long-Term Debt Obligations, Continued

Discretely Presented Component Units, Continued

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>
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	3,080,000	1,362,174	4,442,174
2024 - 2028	18,550,000	3,510,801	22,060,801
2029 - 2031	<u>1,500,000</u>	<u>126,500</u>	<u>1,626,500</u>
	\$ <u>33,740,000</u>	\$ <u>12,242,972</u>	\$ <u>45,982,972</u>

CUC Environmental Remediation Costs

CUC is involved in environmental remediation and ongoing compliance. On March 10, 2011, CUC received an order from the U.S. EPA, which requires CUC to perform cleanup activities of Power Plants 1 and 2, pursuant to the National Oil and Hazardous Substances Pollution Contingency Plan, which appears at Title 40, CFR Part 300 and paragraphs 12 and 14 of SO2 for Preliminary Injunctive Relief. On April 26, 2017, CUC received an assessment to reimburse the United States Coast Guard for the costs incurred for oil discharge pollution removal at CUC Power Plants 1 and 2 totaling \$7,809,537. The financial statements reflect an accrual for these remedial activities. These assessments are still outstanding.

On October 27, 2011, EPA contacted CUC regarding release or threatened release of hazardous substance connected with the Rota Power Plant located in Songsong Village, Rota (the Site). As a current owner and operator of the Rota Power Plant, EPA believes that CUC may be liable pursuant to Section 107(a) of the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA), as amended, 42 U.S.C. 9607(a), for response costs incurred to address environmental contamination at the Site. By letter dated November 3, 2011, CUC indicated that it lacked the financial ability to perform an immediate cleanup of hazardous substances and requested EPA's assistance in performing such a cleanup. EPA has incurred at least \$2,131,696 in costs related to the Site as of January 31, 2016. The financial statements include an accrual for these response costs. These assessments are still outstanding.

Changes in long-term liabilities of the discretely presented component units for the year ended September 30, 2018, are as follows:

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2018

(11) Long-Term Debt Obligations, Continued

Discretely Presented Component Units, Continued

	Balance October 1, 2017	<u>Additions</u>	<u>Reductions</u>	Balance September 30, 2018	Due Within One Year
Bonds payable:					
CPA	\$ 36,025,000	\$ -	\$ (2,285,000)	\$ 33,740,000	\$ 2,415,000
Deferred amounts:					
CPA:					
Discount	(71,694)	-	-	(71,694)	-
	35,953,306	-	(2,285,000)	33,668,306	2,415,000
Other liabilities:					
Dividends payable:					
CUC	1,800,000	-	(180,000)	1,620,000	-
Due to fiduciary fund:					
CUC	3,452,169	17,628	-	3,469,797	-
Due to primary government:					
CUC	7,981,211	307,779	-	8,288,990	-
Environmental remediation costs:					
CUC	9,941,233	-	-	9,941,233	-
Compensated absences	5,043,588	2,277,842	(1,266,875)	6,054,555	3,651,360
Unearned revenues:					
CPA	101,927	467,743	-	569,670	569,670
CDA	8,776,618	709,286	-	9,485,904	27,227
CUC	3,962,117	2,258,042	-	6,220,159	-
NMC	1,683,301	-	(244,663)	1,438,638	1,438,638
	\$ 78,695,470	\$ 6,038,320	\$ (3,976,538)	\$ 80,757,252	\$ 8,101,895

(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	-	3,220,480	-	-	-	3,220,480
Federal programs and projects	-	1,288,213	-	-	-	1,288,213
Debt service reserve	2,462,629	-	-	-	-	2,462,629
Other purposes	-	-	-	-	4,127	4,127
Committed to:						
Saipan Amusement Fund	-	-	14,337,725	-	-	14,337,725
Public lands	-	-	-	7,135,144	-	7,135,144
Local senatorial districts	-	-	-	-	6,892,225	6,892,225
Workers' Compensation Commission	-	-	-	-	2,721,781	2,721,781
Private grants	-	-	-	-	1,328,171	1,328,171
Commonwealth Casino Commission	-	-	-	-	5,084,223	5,084,223
CNMI Group Health and Life Insurance Trust Fund	-	-	-	-	1,533,045	1,533,045
Capital projects	-	-	-	-	373,519	373,519
Public works and highway projects	-	-	-	-	745,699	745,699
Infrastructure	-	-	-	-	2,173,450	2,173,450
Other purposes	-	-	-	-	1,882,061	1,882,061
Unassigned	(80,263,622)	-	-	-	(25,526)	(80,289,148)
	\$ (75,068,606)	\$ 4,508,693	\$ 14,337,725	\$ 7,135,144	\$ 22,712,775	\$ (26,374,269)

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2018

(13) 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, 2018, are as follows:

<u>Source/Recipient</u>	<u>Transfer Out</u>	<u>Transfer In</u>
<u>General Fund</u>		
Grants Assistance Fund	\$ 11,147,229	\$ 1,004,817
Other Governmental Funds	2,310,368	-
Saipan Amusement Fund	-	5,643,405
	<u>13,457,597</u>	<u>6,648,222</u>
<u>Grants Assistance Fund</u>		
General Fund	1,004,817	11,147,229
Other Governmental Funds	768,885	-
	<u>1,773,702</u>	<u>11,147,229</u>
<u>Saipan Amusement Fund</u>		
General Fund	5,643,405	-
Other Governmental Funds	423,231	-
	<u>6,066,636</u>	<u>-</u>
<u>Other Governmental Funds</u>		
General Fund	-	2,310,368
Grants Assistance Fund	-	768,885
Saipan Amusement Fund	-	423,231
	<u>-</u>	<u>3,502,484</u>
	<u>\$ 21,297,935</u>	<u>\$ 21,297,935</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 \$101,865,989 does not equal the corresponding contributions from the primary government of \$69,706,903 by \$32,159,086. The difference of \$1,622,496 with MVA is due to \$2,147,496 of expenditures incurred and paid by the CNMI related to Public Law 18-01 that were not recorded by MVA and \$525,000 of timing differences. The difference of \$3,540,220 with CUC is due to appropriations received by CUC that were recorded as part of capital contributions. The difference of \$115,039 with NMC is due to \$156,394 unreconciled differences less \$41,355 Compact Impact funds that were recorded as federal revenue by NMC. The difference of \$205,526 with PSS is due to \$204,905 Compact Impact funds that were recorded as federal revenue by PSS and \$621 unreconciled differences. The remaining difference of \$26,905,883 is due to lack of financial information from CHCC and NMISF.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2018

(14) 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 \$2,816,620 and \$14,553, respectively. For the year ended September 30, 2018, principal and interest payments were \$848,232 and \$252,314, respectively, and total Judicial Building Fund revenues were \$1,103,313.

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 is \$45,982,972 at September 30, 2018. Pledged gross revenues received during the year ended September 30, 2018 were \$26,003,399. Debt service payments during the year ended September 30, 2018 amounted to \$4,493,345 representing 17% 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, 2018, is \$200,000.

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

<u>September 30,</u>	
2019	\$ 200,000
2020	200,000
2021	200,000
2022	200,000
2023	200,000
2024 - 2025	<u>400,000</u>
	\$ <u>1,400,000</u>

## COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

### Notes to the Financial Statements September 30, 2018

#### (15) 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.

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 \$6,107,788 liability reported as landfill closure and postclosure costs at September 30, 2018 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 \$763,474 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 2018. 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 \$20,317,045 have been set forth in the CNMI's Single Audit Report for the year ended September 30, 2018. 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 2017 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, 2018

### (15) Contingencies, Continued

#### General Fund Financial Position

The CNMI's General Fund has an unassigned fund deficit of \$80,263,622 at September 30, 2018. In addition, at September 30, 2018, the primary government's current liabilities exceed current assets by \$82,217,163, and total liabilities and deferred inflows of resources exceed total assets and deferred outflows of resources by \$51,456,284. 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, 2018, is \$28,551,600.

#### 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.

#### Stipulated Orders

The U.S. Environmental Protection Agency (EPA) brought suit against CUC and the CNMI Government alleging a failure to comply with various regulations and requirements related to the Safe Drinking Water Act ("SDWA") and the Federal Water Pollution Control Act ("FWPCA"). To date there have been two primary stipulated orders entered as a result of this action.

Stipulated Order One is intended to ensure that CUC's wastewater and drinking water systems achieve compliance with the SDWA and the FWPCA. The major components of Stipulated Order One are:

1. The reformation of CUC's management, finances and operations;
2. The construction of wastewater infrastructure.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2018

(15) Contingencies, Continued

Stipulated Orders, Continued

CUC is also required to take steps to comply with National Pollution Discharge Elimination System permits and compliance orders, comply with drinking water standards, and to eliminate spills from the wastewater system.

Stipulated Order Two is intended to ensure that CUC's power plant facilities achieve compliance with the Clean Water Act (CWA). These requirements include requiring CUC to eliminate oil spills, implement appropriate spill prevention measures, implement effective inspection procedures for its oil storage facilities, provide containment for oil storage facilities and prepare appropriate operating plans.

The SO<sub>2</sub> projects continue under the direction of the Court's appointed Engineering and Environmental Management Company (EEMC) – Gilbane Federal – pursuant to the provisions of the Stipulated Order entered on September 26, 2014. Progress on outstanding issues under Court order are projected to be completed in 2020 with consideration by the Court to terminate SO<sub>2</sub> provisions along with a continuing obligation to fund the TMO fund for an additional five years as a maintenance reserve for SO<sub>2</sub> funded improvements.

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;
- Between March 2009 and November 2010, DPL reimbursed the CNMI \$1,395,459 for land compensation payments made by the CNMI;
- 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 not recorded the amount as a 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, 2018, expenditures of the General Fund exceeded budget at the program area level (i.e., the legal level of budgetary control) as follows:



COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2018

(15) Contingencies, Continued

Budgetary Compliance, Continued

<u>Program Area</u>	<u>Excess</u>
Executive branch:	
Office of the Governor	\$ 476,643
Office of the Lt. Governor	\$ 5,208
Other Offices of the Governor and Lt. Governor	\$ 734,774
Department of Commerce	\$ 314,039
Department of Community and Cultural Affairs	\$ 242,562
Department of Corrections	\$ 922,520
Department of Finance	\$ 1,188,521
Department of Fire and Emergency Medical Services	\$ 2,265,246
Department of Lands and Natural Resources	\$ 144,806
Department of Public Safety	\$ 4,000,931
Department of Public Works	\$ 270,573
Second Senatorial District - Tinian and Aguiguan	\$ 519,208
First Senatorial District - Rota	\$ 77,613
Government utilities	\$ 1,852,030
Independent programs	\$ 637,732
Office of the Attorney General	\$ 240,259
Third Senatorial District - Saipan and the Northern Islands	\$ 160,146
Office of the Public Auditor	\$ 692,600
Boards and commissions	\$ 182,743
Health (Medicaid local expenses and medical referrals)	\$ 19,697,438
Health (payment to CHCC)	\$ 122,788
Judgments	\$ 2,181,392
Disaster expenditures	\$ 1,147,576
Debt service	\$ 1,090,447
Unallocated expenses	\$ 3,136,582

(16) 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 \$1,530,006, \$11,872,781 and \$3,189,685 for the years ended September 30, 2018, 2017 and 2016, respectively. Changes in the balance of claims liabilities during the past year are as follows:

	<u>Year ended September 30,</u>
Unpaid claims at beginning of year	\$ 13,276,940
Incurred claims	1,530,006
Claim payments	(5,706,396)
Reversals	<u>(5,000,000)</u>
Unpaid claims at end of year	\$ <u>4,100,550</u>

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2018

(16) Risk Management, Continued

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, 2018, the CNMI recorded claims and judgments liability of \$1,396,662 related to land condemnation proceedings.

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

(17) 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).

GASB Statement No. 75 requires employers to record other postemployment benefits (OPEB) expense for their contractually required contributions to the OPEB plan. The CNMI has complied with GASB 75 by recording OPEB expense based on the statutorial 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 statutorial determined contribution rate of NMISF incorporates both the pension liability and the OPEB liability. GASB 75 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.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2018

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

Defined Benefit Plan (DB Plan), Continued

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, 2018 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, 2018 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.

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.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2018

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

Defined Benefit Plan (DB Plan), Continued

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, 2018, the CNMI recorded payments to NMISF of \$45,000,000 and \$14,407,656, which relates to the fiscal year 2018 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 2018, the CNMI recorded a liability to the Settlement Fund of \$29,227,559, which relates to fiscal years 2016 and 2017 differences of 17% agreed revenue over annual payments. The CNMI and NMISF still have yet to determine the amount of excess, if any, for fiscal year 2018.

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, 2018, the CNMI recorded contributions to NMISF of \$551,039.

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, 2018, the CNMI has not determined the amount of receivables from autonomous agencies.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2018

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

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, 2018, 2017 and 2016 were \$814,292, \$656,465 and \$578,182, 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.

(18) Restatements

Subsequent to the issuance of the CNMI's 2017 financial statements, CNMI management determined that certain account balances of CDA and MPLT were understated by \$1,730,349 and \$1,989,374, respectively, and certain account balances of CPA were overstated by \$8,429,570. In addition, the beginning net position of CUC, NMC and PSS, component units previously omitted in the CNMI's 2017 financial statements of \$117,666,146, \$22,851,236 and \$79,806,345, respectively, was included as a result of the availability of 2018 financial statements of CUC, NMC and PSS. Accordingly, account balances of the discretely presented component units have been restated from amounts previously reported.

(19) Subsequent Events

On October 15, 2018, the CNMI Office of the Attorney General (OAG) issued an opinion on the constitutionality of DPL's expenditure of revenues from public lands to cover its operating expenses. The opinion concluded that supplemental appropriations to DPL may not be made from unobligated and unencumbered prior fiscal year balances and that these balances must be transferred to MPLT. As such, DPL disbursed \$3,345,700 on May 3, 2019 and \$2,414,477 on May 13, 2019 to MPLT. The OAG opinion also questioned how much, if any, and for what may the Legislature appropriate from public land revenues to DPL and recommended that a certified question be presented to the CNMI Supreme Court.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2018

(19) Subsequent Events, Continued

On October 24 through 25, 2018, the CNMI was devastated by Super Typhoon Yutu resulting in damages to infrastructures and public and private properties and was declared a disaster by President Trump on October 26, 2018 under the Robert T. Stafford Disaster Relief and Emergency Assistance Act. President Trump ordered Federal assistance to the CNMI and, accordingly, authorized federal cost shares for all categories of public assistance, hazard mitigation and the other needs assistance at 75 percent of total eligible costs. Federal cost shares for debris removal and emergency protective measures were authorized at 100 percent for 30 days from the start of the incident. On February 26, 2019, additional disaster assistance was made available to the CNMI increasing federal funding and authorizing federal cost shares for all categories of public assistance, hazard mitigation and the other needs assistance to be increased to 90 percent of total eligible costs. In addition, federal cost shares for debris removal and emergency protective measures were increased to 180 days from the start of the incident. The CNMI is unable to determine the extent of total damages.

COMMONWEALTH OF THE  
NORTHERN MARIANA ISLANDS

REQUIRED SUPPLEMENTARY INFORMATION  
- BUDGETARY REPORTING

YEAR ENDED SEPTEMBER 30, 2018

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Revenues, Expenditures, and Changes in Deficit  
- Budget and Actual - General Fund  
Year Ended September 30, 2018

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance
	Original	Final		
Revenues:				
Taxes	\$ 216,302,522	\$ 216,302,522	\$ 215,175,850	\$ (1,126,672)
Charges for sales and services	2,549,950	2,549,950	1,897,507	(652,443)
Licenses and fees	14,492,000	14,492,000	12,554,422	(1,937,578)
Contributions from component units	1,000,000	1,000,000	1,840,206	840,206
Other	1,626,000	1,626,000	4,497,346	2,871,346
Total revenues	<u>235,970,472</u>	<u>235,970,472</u>	<u>235,965,331</u>	<u>(5,141)</u>
Expenditures - budgetary basis by function:				
Executive branch:				
Office of the Governor	1,342,361	1,761,347	2,237,990	(476,643)
Office of the Lt. Governor	981,630	752,718	757,926	(5,208)
Other Offices of the Governor and Lt. Governor	10,037,470	7,304,439	8,039,213	(734,774)
Department of Commerce	1,647,533	1,630,703	1,944,742	(314,039)
Department of Community and Cultural Affairs	2,999,251	3,129,318	3,371,880	(242,562)
Department of Corrections	5,206,947	6,043,810	6,966,330	(922,520)
Department of Finance	5,557,159	6,410,029	7,598,550	(1,188,521)
Department of Fire and Emergency Medical Services	4,245,574	5,249,079	7,514,325	(2,265,246)
Department of Labor	968,065	1,064,303	812,238	252,065
Department of Lands and Natural Resources	3,314,713	3,496,584	3,641,390	(144,806)
Department of Public Safety	6,722,657	7,973,738	11,974,669	(4,000,931)
Department of Public Works	3,834,262	3,693,615	3,964,188	(270,573)
Second Senatorial District - Tinian and Aguiguan	8,510,715	8,890,330	9,409,538	(519,208)
First Senatorial District - Rota	8,131,648	8,661,804	8,739,417	(77,613)
Government utilities	-	-	1,852,030	(1,852,030)
Legislative branch	7,847,639	7,847,628	7,183,494	664,134
Judicial branch	6,644,406	6,662,311	6,480,330	181,981
Independent programs	2,227,411	2,279,281	2,917,013	(637,732)
Office of the Attorney General	2,885,763	3,213,329	3,453,588	(240,259)
Third Senatorial District - Saipan and the Northern Islands	3,216,799	3,244,043	3,404,189	(160,146)
Office of the Public Auditor	1,205,376	1,230,720	1,923,320	(692,600)
Boards and commissions	1,766,386	1,980,815	2,163,558	(182,743)
Education (payment to PSS, NMC and Board of Education)	41,198,491	41,198,490	40,248,415	950,075
Tourism (payment to MVA)	16,422,019	16,422,019	14,699,776	1,722,243
Pension contributions (payment to NMISF and NMIRF)	51,360,279	51,026,798	45,152,555	5,874,243
Employee benefits (payment to GHLITF)	14,002,086	11,034,674	10,013,861	1,020,813
Health (Medicaid local expenditures and medical referrals)	7,473,662	7,548,863	27,246,301	(19,697,438)
Health (payment to CHCC)	701,298	701,298	824,086	(122,788)
Judgments	990,099	990,099	3,171,491	(2,181,392)
Disaster expenditures	-	-	1,147,576	(1,147,576)
Debt service	9,482,875	9,482,875	10,573,322	(1,090,447)
Unallocated adjustments, net	493	-	3,136,582	(3,136,582)
Total expenditures	<u>230,925,067</u>	<u>230,925,060</u>	<u>262,563,883</u>	<u>(31,638,823)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>5,045,405</u>	<u>5,045,412</u>	<u>(26,598,552)</u>	<u>(31,643,964)</u>
Other financing sources (uses):				
Operating transfers in	800,000	800,000	5,643,405	4,843,405
Operating transfers out	(9,125,000)	(9,125,000)	(2,310,368)	6,814,632
Total other financing sources (uses), net	<u>(8,325,000)</u>	<u>(8,325,000)</u>	<u>3,333,037</u>	<u>11,658,037</u>
Other changes:				
Encumbrances	<u>3,279,595</u>	<u>3,279,595</u>	<u>4,305,967</u>	<u>1,026,372</u>
Net change in deficit	<u>\$ -</u>	<u>\$ 7</u>	<u>\$ (18,959,548) *</u>	<u>\$ (18,959,555)</u>

\* 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, 2018

#### (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 26, 2017, the CNMI passed Public Law 20-11 as the Appropriations and Budget Authority Act of 2018 (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 2018 commencing October 1, 2017 and ending September 30, 2018. On February 16, 2018, the CNMI passed Public Law 20-41 to amend Public Law 20-11 to reflect the revised fiscal year 2018 operations budget for CUC.

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.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to Required Supplementary Information - Budgetary Reporting  
September 30, 2018

(2) Explanation of Differences

Total revenues of \$238,243,831 reported under GAAP basis does not equal total revenues of \$235,965,331 reported under the budgetary basis due to \$2,278,500 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, \$629,930 was transferred to NMC, \$654,285 was transferred to the Northern Marianas Trade Institute and \$665,482 was transferred to Latte Training Academy. Amounts were also not reported as expenditures for budgetary purposes.

The CNMI recognizes pension expenditures when it is probable that a loss has occurred and the amount of loss can be reasonably estimated. The CNMI budget does not reflect the accrual of pension expenditures of \$17,693,037.

The amount reported as operating transfers in of \$6,648,222 under GAAP basis does not equal the amount reported as operating transfers in of \$5,643,405 under the budgetary basis due to \$1,004,817 of Compact Impact funds 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 \$13,457,597 under GAAP basis does not equal the amount reported as operating transfers out of \$2,310,368 under the budgetary basis due to \$11,147,229 of 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	\$ (18,959,548)
Less accrual of pension expenditures	17,693,037
Add contract workers fund not recognized under budgetary basis	<u>328,803</u>
Net change in fund balance - General Fund	\$ <u>(36,323,782)</u>

COMMONWEALTH OF THE  
NORTHERN MARIANA ISLANDS

OTHER SUPPLEMENTARY INFORMATION

YEAR ENDED SEPTEMBER 30, 2018

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Combining Schedule of Expenditures by Account  
Governmental Funds  
Year Ended September 30, 2018

	General	Grants Assistance	Saipan Amusement	Department of Public Lands	Other Governmental Funds	Total
Salaries and wages	\$ 61,068,637	\$ 10,727,296	\$ 1,765,967	\$ 2,087,692	\$ 4,523,971	\$ 80,173,563
Professional services	8,575,056	56,227,411	361,584	676,105	3,346,978	69,187,134
Payments to Settlement Fund	64,340,166	-	16,260,527	-	-	80,600,693
Education:						
Payments to Public School System	36,203,787	204,905	11,850,000	-	516,096	48,774,788
Payments to Northern Marianas						
College	4,756,421	41,355	1,000,000	-	-	5,797,776
Employee benefits	21,185,582	2,103,332	131,746	431,636	920,673	24,772,969
Food items	1,056,906	15,749,602	28,868	-	19,666	16,855,042
Utilities	7,598,388	615,035	19,835	46,019	116,036	8,395,313
Capital outlay:						
Road improvements	144,206	1,350	-	-	2,913,770	3,059,326
Vehicles	1,779,169	1,414,347	452,551	-	507,877	4,153,944
Furniture and fixtures	508,364	219,484	25,242	11,829	1,221,835	1,986,754
Office equipment	957,122	673,564	-	2,581	4,457	1,637,724
Construction in progress	24,307	420,462	17,566	-	319,384	781,719
Machinery and equipment	208,929	250,159	14,179	-	95,534	568,801
Building improvements	689,413	85,853	49,665	-	244,778	1,069,709
Other	526,671	578,651	30,089	620,805	219,978	1,976,194
Payments to Marianas Visitors Authority	14,699,776	-	-	-	-	14,699,776
Payments to Marianas Public Land Trust	-	-	-	7,194,024	-	7,194,024
Contributions/donations	2,857,243	879,124	1,873,255	-	1,455,722	7,065,344
Claims and judgments	1,530,006	-	-	-	-	1,530,006
Interest	4,206,412	-	-	-	103,336	4,309,748
Travel	7,851,605	1,792,979	945,291	191,582	838,730	11,620,187
Principal repayment	6,353,666	-	-	-	-	6,353,666
Rentals	5,255,962	699,881	148,025	105,502	568,477	6,777,847
Scholarships/grants	1,608,692	2,901,228	51,550	-	2,671,495	7,232,965
Supplies	2,802,659	1,310,286	85,560	62,929	647,026	4,908,460
Payments to Commonwealth Utilities Corporation	-	-	3,273,710	-	266,510	3,540,220
Payments to Commonwealth Healthcare Corporation	782,857	888,546	5,293,290	-	2,033,534	8,998,227
Repairs and maintenance	2,311,001	961,751	97,636	34,948	918,773	4,324,109
Communications	1,245,030	460,956	17,996	17,574	94,547	1,836,103
Fuel and lubrication	1,232,278	355,043	30,880	19,464	194,807	1,832,472
Indirect costs	-	2,237,773	-	-	-	2,237,773
Advertising	109,562	197,342	5,950	20,103	43,340	376,297
Printing	436,161	163,522	20,367	8,966	54,471	683,487
Dues and subscriptions	315,161	66,582	230	589	4,560	387,122
Miscellaneous services	263,574	122,678	4,557	8,356	141,733	540,898
Official representation	270,559	-	12,367	-	41,618	324,544
Insurance	43,913	812,031	-	26,597	5,792	888,333
Freight	268,213	-	5,155	1,765	29,546	304,679
Books and library materials	75,291	23,824	1,845	-	13,084	114,044
Licenses and fees	27,117	21,319	-	13,315	1,450	63,201
Other	3,588,376	941,355	14,065	44,575	586,114	5,174,485
	<u>\$ 267,758,238</u>	<u>\$ 104,149,026</u>	<u>\$ 43,889,548</u>	<u>\$ 11,626,956</u>	<u>\$ 25,685,698</u>	<u>\$ 453,109,466</u>

See Accompanying Independent Auditors' Report.

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

September 30, 2018

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, 2018, 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, 2018

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, 2018

	General	NMTT 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	\$ 35,125,013	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 35,125,013
Time certificates of deposit	51,404	-	-	-	-	-	-	-	-	-	51,404
Restricted cash and cash equivalents	8,149,122	-	-	-	-	2,462,629	-	-	-	-	10,611,751
Receivables, net:											
Federal agencies	-	6,875,038	-	-	-	-	-	-	-	-	6,875,038
Taxes	7,986,353	-	-	-	-	-	-	-	-	-	7,986,353
General	3,805,867	-	-	-	-	-	-	-	-	-	3,805,867
Due from other funds	-	-	-	-	-	-	-	-	-	2,618,192	2,618,192
Due to/from General Funds	(43,855,783)	45,477,492	(994,157)	(177,052)	456,655	-	(2,665,150)	1,396,662	361,333	-	-
Due from fiduciary funds	1,659,022	-	-	-	-	-	-	-	-	-	1,659,022
Advances	1,218,248	-	-	-	-	-	-	-	-	-	1,218,248
Inventories	232,387	-	-	-	-	-	-	-	-	-	232,387
Other assets	2,500,000	-	-	-	-	-	-	-	-	-	2,500,000
	<u>\$ 16,871,633</u>	<u>\$ 52,352,530</u>	<u>\$ (994,157)</u>	<u>\$ (177,052)</u>	<u>\$ 456,655</u>	<u>\$ 2,462,629</u>	<u>\$ (2,665,150)</u>	<u>\$ 1,396,662</u>	<u>\$ 361,333</u>	<u>\$ 2,618,192</u>	<u>\$ 72,683,275</u>
<b>Liabilities and Fund Balances (Deficit)</b>											
Liabilities:											
Accounts payable	\$ 8,201,097	\$ -	\$ 15,995	\$ 80	\$ -	\$ -	\$ -	\$ -	\$ 82,646	\$ -	\$ 8,299,818
Tax rebates payable	-	52,352,530	-	-	-	-	-	-	-	-	52,352,530
Recovery rebates payable	393,837	-	-	-	-	-	-	-	-	-	393,837
Other liabilities and accruals	3,779,748	-	9,064	64,892	-	-	-	-	-	-	3,853,704
Claims and judgments payable	2,703,888	-	-	-	-	-	-	1,396,662	-	-	4,100,550
Loan payable under Settlement Agreement	2,816,620	-	-	-	-	-	-	-	-	-	2,816,620
Due to other funds	48,045,318	-	-	-	-	-	-	-	373,519	2,618,192	51,037,029
Due to fiduciary funds	17,693,037	-	-	-	-	-	-	-	-	-	17,693,037
Due to component units	7,204,756	-	-	-	-	-	-	-	-	-	7,204,756
Total liabilities	<u>90,838,301</u>	<u>52,352,530</u>	<u>25,059</u>	<u>64,972</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,396,662</u>	<u>456,165</u>	<u>2,618,192</u>	<u>147,751,881</u>
Fund balances (deficit):											
Non-spendable	2,732,387	-	-	-	-	-	-	-	-	-	2,732,387
Restricted	-	-	-	-	-	2,462,629	-	-	-	-	2,462,629
Unassigned	(76,699,055)	-	(1,019,216)	(242,024)	456,655	-	(2,665,150)	-	(94,832)	-	(80,263,622)
Total fund balances (deficit)	<u>(73,966,668)</u>	<u>-</u>	<u>(1,019,216)</u>	<u>(242,024)</u>	<u>456,655</u>	<u>2,462,629</u>	<u>(2,665,150)</u>	<u>-</u>	<u>(94,832)</u>	<u>-</u>	<u>(75,068,606)</u>
	<u>\$ 16,871,633</u>	<u>\$ 52,352,530</u>	<u>\$ (994,157)</u>	<u>\$ (177,052)</u>	<u>\$ 456,655</u>	<u>\$ 2,462,629</u>	<u>\$ (2,665,150)</u>	<u>\$ 1,396,662</u>	<u>\$ 361,333</u>	<u>\$ 2,618,192</u>	<u>\$ 72,683,275</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, 2018

	General	Commonwealth Museum	Human Resources Development Trust	Micronesia Garment Manufacturing	Debt Service	Judicial Building	Miscellaneous	Eliminations	Total
<b>Revenues:</b>									
Taxes	\$ 215,175,850	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 215,175,850
Licenses and fees	11,451,109	-	-	-	-	1,103,313	-	-	12,554,422
Contributions from component units	1,840,206	-	-	-	-	-	-	-	1,840,206
Charges for sales and services	1,858,937	-	-	-	-	-	38,570	-	1,897,507
Interest and dividends	279,304	-	-	-	7,780	-	471	-	287,555
Other	6,484,618	3,000	-	-	-	-	673	-	6,488,291
<b>Total revenues</b>	<b>237,090,024</b>	<b>3,000</b>	<b>-</b>	<b>-</b>	<b>7,780</b>	<b>1,103,313</b>	<b>39,714</b>	<b>-</b>	<b>238,243,831</b>
<b>Expenditures:</b>									
<b>Current:</b>									
Public safety and law enforcement	36,896,702	-	-	-	-	-	-	-	36,896,702
General government	20,288,623	-	-	-	-	-	-	-	20,288,623
Utilities	1,852,030	-	-	-	-	-	-	-	1,852,030
Other elected officials	13,454,313	-	-	-	-	-	-	-	13,454,313
Legislative branch	7,063,349	-	-	-	-	-	-	-	7,063,349
Health	16,378,708	-	-	-	-	-	-	-	16,378,708
Judicial branch	6,431,408	-	-	-	-	-	9,015	-	6,440,423
Lands and natural resources	5,785,628	-	-	-	-	-	276	-	5,785,904
Community and social services	7,495,704	447,915	-	-	-	-	-	-	7,943,619
Education	3,611,781	-	-	-	-	-	-	-	3,611,781
Economic development	1,613,848	-	-	-	-	-	-	-	1,613,848
<b>Payments to:</b>									
Public School System	36,203,787	-	-	-	-	-	-	-	36,203,787
Marianas Visitors Authority	14,699,776	-	-	-	-	-	-	-	14,699,776
Commonwealth Healthcare Corporation	782,857	-	-	-	-	-	-	-	782,857
Northern Marianas College	4,756,471	-	-	-	-	-	-	-	4,756,471
CNMI Group Health and Life Insurance Trust Fund	10,013,861	-	-	-	-	-	-	-	10,013,861
Settlement Fund	64,340,166	-	-	-	-	-	-	-	64,340,166
<b>Debt service:</b>									
Interest and fiscal charges	187,421	-	-	-	3,779,570	252,665	-	-	4,219,656
Principal retirement	1,653,666	-	-	-	4,700,000	-	-	-	6,353,666
<b>Capital outlay:</b>									
Public works	5,058,698	-	-	-	-	-	-	-	5,058,698
<b>Total expenditures</b>	<b>258,568,797</b>	<b>447,915</b>	<b>-</b>	<b>-</b>	<b>8,479,570</b>	<b>252,665</b>	<b>9,291</b>	<b>-</b>	<b>267,758,238</b>
Excess (deficiency) of revenues over (under) expenditures	(21,478,773)	(444,915)	-	-	(8,471,790)	850,648	30,423	-	(29,514,407)
<b>Other financing sources (uses):</b>									
Operating transfers in	6,648,222	-	-	-	8,535,363	-	-	(8,535,363)	6,648,222
Operating transfers out	(21,992,960)	-	-	-	-	-	-	8,535,363	(13,457,597)
<b>Total other financing sources (uses), net</b>	<b>(15,344,738)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>8,535,363</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(6,809,375)</b>
<b>Net change in fund balances (deficit)</b>	<b>(36,823,511)</b>	<b>(444,915)</b>	<b>-</b>	<b>-</b>	<b>63,573</b>	<b>850,648</b>	<b>30,423</b>	<b>-</b>	<b>(36,323,782)</b>
Fund balances (deficit) at beginning of year	(37,143,157)	(574,301)	(242,024)	456,655	2,399,056	(3,515,798)	(125,255)	-	(38,744,824)
<b>Fund balances (deficit) at end of year</b>	<b>\$ (73,966,668)</b>	<b>\$ (1,019,216)</b>	<b>\$ (242,024)</b>	<b>\$ 456,655</b>	<b>\$ 2,462,629</b>	<b>\$ (2,665,150)</b>	<b>\$ (94,832)</b>	<b>\$ -</b>	<b>\$ (75,068,606)</b>

See Accompanying Independent Auditors' Report.



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

September 30, 2018

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, 2018

<u>Assets</u>	<u>Federal Grants</u>	<u>DOI Capital Projects</u>	<u>Total</u>
Restricted cash and cash equivalents	\$ -	\$ 1,303,364	\$ 1,303,364
Receivables, net:			
Federal agencies	6,092,846	79,064	6,171,910
Other	-	12,831	12,831
Due from other funds	674,613	2,406,721	3,081,334
Inventories	571,956	-	571,956
	<u>\$ 7,339,415</u>	<u>\$ 3,801,980</u>	<u>\$ 11,141,395</u>
<u>Liabilities and Fund Balances</u>			
Liabilities:			
Accounts payable	\$ 3,959,936	\$ 234,067	\$ 4,194,003
Other liabilities and accruals	735,966	347,433	1,083,399
Due to other funds	783,344	-	783,344
Unearned revenues	571,956	-	571,956
Total liabilities	6,051,202	581,500	6,632,702
Fund balances:			
Restricted	1,288,213	3,220,480	4,508,693
	<u>\$ 7,339,415</u>	<u>\$ 3,801,980</u>	<u>\$ 11,141,395</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, 2018

	<u>Federal Grants</u>	<u>DOI Capital Projects</u>	<u>Total</u>
Revenues:			
Federal contributions	\$ 86,611,486	\$ 6,451,728	\$ 93,063,214
Licenses and fees	583,056	-	583,056
Interest and dividends	-	19,783	19,783
Other	<u>356,771</u>	<u>-</u>	<u>356,771</u>
Total revenues	<u>87,551,313</u>	<u>6,471,511</u>	<u>94,022,824</u>
Expenditures:			
Current:			
Health	48,131,193	-	48,131,193
Community and social services	25,607,010	-	25,607,010
General government	852,266	13,794	866,060
Lands and natural resources	9,118,391	-	9,118,391
Public safety and law enforcement	12,546,015	-	12,546,015
Utilities	-	82,344	82,344
Economic development	270,462	1,130,914	1,401,376
Payments to:			
Public School System	204,905	-	204,905
Northern Marianas College	41,355	-	41,355
Commonwealth Healthcare Corporation	888,546	-	888,546
Capital outlay:			
Public works	33,582	1,632,387	1,665,969
Utilities - Capital Projects	<u>-</u>	<u>3,595,862</u>	<u>3,595,862</u>
Total expenditures	<u>97,693,725</u>	<u>6,455,301</u>	<u>104,149,026</u>
(Deficiency) excess of revenues (under) over expenditures	<u>(10,142,412)</u>	<u>16,210</u>	<u>(10,126,202)</u>
Other financing sources (uses):			
Operating transfers in	11,147,229	-	11,147,229
Operating transfers out	<u>(1,004,817)</u>	<u>(768,885)</u>	<u>(1,773,702)</u>
Total other financing sources (uses), net	<u>10,142,412</u>	<u>(768,885)</u>	<u>9,373,527</u>
Net change in fund balances	-	(752,675)	(752,675)
Fund balances at beginning of year	<u>1,288,213</u>	<u>3,973,155</u>	<u>5,261,368</u>
Fund balances at end of year	<u>\$ 1,288,213</u>	<u>\$ 3,220,480</u>	<u>\$ 4,508,693</u>

See Accompanying Independent Auditors' Report.

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

September 30, 2018

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, 2018

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, 2018

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, 2018

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, 2018

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, 2018

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, 2018

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
Restricted cash and cash equivalents	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 6,978	\$ -	\$ -
Restricted investments	-	-	-	-	-	-	-	-	-
Receivables, net:									
Federal	284,562	-	-	-	-	-	-	-	-
General	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	1,209,830	-
Due from other funds	1,131,427	6,947	48,234	1,296	-	6,960,273	16,487	-	482,901
Due from fiduciary funds	-	-	-	-	-	-	-	-	-
Due from component units	-	-	-	-	-	-	-	-	-
	<u>\$ 1,415,989</u>	<u>\$ 6,947</u>	<u>\$ 48,234</u>	<u>\$ 1,296</u>	<u>\$ -</u>	<u>\$ 6,960,273</u>	<u>\$ 23,465</u>	<u>\$ 1,209,830</u>	<u>\$ 482,901</u>
<b>Liabilities and Fund Balances (Deficit)</b>									
Liabilities:									
Accounts payable	\$ 87,818	\$ 3,771	\$ -	\$ -	\$ 9,268	\$ 68,048	\$ -	\$ 15,321	\$ 482,901
Health and life insurance payable	-	-	-	-	-	-	-	-	-
Other liabilities and accruals	-	-	-	1,296	61	-	19,338	-	-
Due to other funds	-	-	-	-	-	-	-	846,213	-
Unearned revenues	-	-	47,497	-	-	-	-	-	-
Total liabilities	<u>87,818</u>	<u>3,771</u>	<u>47,497</u>	<u>1,296</u>	<u>9,329</u>	<u>68,048</u>	<u>19,338</u>	<u>861,534</u>	<u>482,901</u>
Fund balances (deficit):									
Restricted	-	-	-	-	-	-	4,127	-	-
Committed	1,328,171	3,176	737	-	-	6,892,225	-	348,296	-
Unassigned	-	-	-	-	(9,329)	-	-	-	-
Total fund balances (deficit)	<u>1,328,171</u>	<u>3,176</u>	<u>737</u>	<u>-</u>	<u>(9,329)</u>	<u>6,892,225</u>	<u>4,127</u>	<u>348,296</u>	<u>-</u>
	<u>\$ 1,415,989</u>	<u>\$ 6,947</u>	<u>\$ 48,234</u>	<u>\$ 1,296</u>	<u>\$ -</u>	<u>\$ 6,960,273</u>	<u>\$ 23,465</u>	<u>\$ 1,209,830</u>	<u>\$ 482,901</u>

See Accompanying Independent Auditors' Report.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Combining Balance Sheet, Continued  
 Nonmajor Governmental Funds  
 September 30, 2018

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
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 6,978
-	-	-	-	-	1,492,973	-	-	-	-	1,492,973
-	-	-	-	-	-	-	-	-	-	284,562
-	-	-	-	-	-	-	-	56	-	56
136,836	39,580	49,548	31,630	474,825	1,229,209	34,137	5,092,179	1,006,134	943,100	17,684,743
-	-	-	-	-	-	-	-	864,788	-	864,788
-	-	-	-	-	-	-	-	1,521,454	-	1,521,454
<u>\$ 136,836</u>	<u>\$ 39,580</u>	<u>\$ 49,548</u>	<u>\$ 31,630</u>	<u>\$ 474,825</u>	<u>\$ 2,722,182</u>	<u>\$ 34,137</u>	<u>\$ 5,092,179</u>	<u>\$ 3,392,432</u>	<u>\$ 943,100</u>	<u>\$ 23,065,384</u>
\$ 95,030	\$ -	\$ -	\$ 31,630	\$ -	\$ 401	\$ -	\$ 7,956	\$ 6,403	\$ 11,664	\$ 820,211
-	-	-	-	-	-	-	-	1,852,984	-	1,852,984
58,003	-	-	-	-	-	-	-	-	-	78,698
-	-	-	-	-	-	-	-	-	-	846,213
-	-	-	-	-	-	-	-	-	-	47,497
<u>153,033</u>	<u>-</u>	<u>-</u>	<u>31,630</u>	<u>-</u>	<u>401</u>	<u>-</u>	<u>7,956</u>	<u>1,859,387</u>	<u>11,664</u>	<u>3,645,603</u>
-	-	-	-	-	-	-	-	-	-	4,127
-	39,580	49,548	-	474,825	2,721,781	34,137	5,084,223	1,533,045	931,436	19,441,180
(16,197)	-	-	-	-	-	-	-	-	-	(25,526)
<u>(16,197)</u>	<u>39,580</u>	<u>49,548</u>	<u>-</u>	<u>474,825</u>	<u>2,721,781</u>	<u>34,137</u>	<u>5,084,223</u>	<u>1,533,045</u>	<u>931,436</u>	<u>19,419,781</u>
<u>\$ 136,836</u>	<u>\$ 39,580</u>	<u>\$ 49,548</u>	<u>\$ 31,630</u>	<u>\$ 474,825</u>	<u>\$ 2,722,182</u>	<u>\$ 34,137</u>	<u>\$ 5,092,179</u>	<u>\$ 3,392,432</u>	<u>\$ 943,100</u>	<u>\$ 23,065,384</u>

See Accompanying Independent Auditors' Report.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Combining Balance Sheet, Continued  
 Nonmajor Governmental Funds  
 September 30, 2018

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		
Restricted cash and cash equivalents	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 6,978
Restricted investments	-	-	-	-	-	-	-	1,492,973
Receivables, net:								
Federal	-	-	-	-	-	-	-	284,562
General	-	-	-	-	-	-	-	56
Other	-	-	-	-	-	-	-	1,209,830
Due from other funds	52,895	2,181,902	1,023,016	6,869	141,461	405,093	3,811,236	21,495,979
Due from fiduciary funds	-	-	-	-	-	-	-	864,788
Due from component units	-	-	-	-	-	-	-	1,521,454
	<u>\$ 52,895</u>	<u>\$ 2,181,902</u>	<u>\$ 1,023,016</u>	<u>\$ 6,869</u>	<u>\$ 141,461</u>	<u>\$ 405,093</u>	<u>\$ 3,811,236</u>	<u>\$ 26,876,620</u>
<b>Liabilities and Fund Balances (Deficit)</b>								
Liabilities:								
Accounts payable	\$ -	\$ 8,452	\$ 220,321	\$ -	\$ 141,461	\$ 31,574	\$ 401,808	\$ 1,222,019
Health and life insurance payable	-	-	-	-	-	-	-	1,852,984
Other liabilities and accruals	-	-	56,996	6,869	-	-	63,865	142,563
Due to other funds	-	-	-	-	-	-	-	846,213
Unearned revenues	52,569	-	-	-	-	-	52,569	100,066
Total liabilities	<u>52,569</u>	<u>8,452</u>	<u>277,317</u>	<u>6,869</u>	<u>141,461</u>	<u>31,574</u>	<u>518,242</u>	<u>4,163,845</u>
Fund balances (deficit):								
Restricted	-	-	-	-	-	-	-	4,127
Committed	326	2,173,450	745,699	-	-	373,519	3,292,994	22,734,174
Unassigned	-	-	-	-	-	-	-	(25,526)
Total fund balances (deficit)	<u>326</u>	<u>2,173,450</u>	<u>745,699</u>	<u>-</u>	<u>-</u>	<u>373,519</u>	<u>3,292,994</u>	<u>22,712,775</u>
	<u>\$ 52,895</u>	<u>\$ 2,181,902</u>	<u>\$ 1,023,016</u>	<u>\$ 6,869</u>	<u>\$ 141,461</u>	<u>\$ 405,093</u>	<u>\$ 3,811,236</u>	<u>\$ 26,876,620</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, 2018

	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	\$ 141,320	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Taxes	-	-	-	-	-	-	-	-	2,480,159
Licenses and fees	2,500	-	-	-	-	3,548,108	-	-	-
Contributions from component units	-	-	-	-	-	-	-	-	-
Interest and dividends	768	-	58	-	-	-	-	347	-
Charges for sales and services	-	-	-	-	-	-	-	-	-
Other	897,574	75,000	-	-	-	56,474	-	356,750	-
<b>Total revenues</b>	<b>1,042,162</b>	<b>75,000</b>	<b>58</b>	<b>-</b>	<b>-</b>	<b>3,604,582</b>	<b>-</b>	<b>357,097</b>	<b>2,480,159</b>
Expenditures by function:									
Current:									
Education	-	-	-	-	-	2,940,267	-	-	-
Economic development	1,453,940	-	-	-	-	-	-	-	-
Public safety and law enforcement	369,047	-	-	242,874	-	-	-	-	-
Community and social services	190,592	71,464	-	-	-	532,087	-	-	-
Health	-	-	-	-	-	53,800	-	108,683	780,951
Lands and natural resources	-	-	-	-	-	23,175	-	-	-
General government	2,400	-	-	-	-	719,705	-	95,853	-
Other elected officials	-	-	-	-	-	91,078	-	38,900	-
Payment to Public School System	-	-	-	-	-	-	-	122,412	393,684
Payment to Marianas Visitors Authority	-	-	-	-	-	-	-	-	-
Payment to Commonwealth Utilities Corporation	-	-	-	-	-	33,510	-	-	-
Payment to Commonwealth Healthcare Corporation	-	-	-	-	-	-	-	244,825	1,788,709
Capital outlay:									
Public works	-	-	-	-	-	240,967	-	-	-
<b>Total expenditures</b>	<b>2,015,979</b>	<b>71,464</b>	<b>-</b>	<b>242,874</b>	<b>-</b>	<b>4,634,589</b>	<b>-</b>	<b>610,673</b>	<b>2,963,344</b>
Excess (deficiency) of revenues over (under) expenditures	(973,817)	3,536	58	(242,874)	-	(1,030,007)	-	(253,576)	(483,185)
Other financing sources:									
Operating transfers in	-	-	-	242,874	-	-	-	-	288,920
<b>Net change in fund balances (deficit)</b>	<b>(973,817)</b>	<b>3,536</b>	<b>58</b>	<b>-</b>	<b>-</b>	<b>(1,030,007)</b>	<b>-</b>	<b>(253,576)</b>	<b>(194,265)</b>
Fund balances (deficit) at beginning of year	2,301,988	(360)	679	-	(9,329)	7,922,232	4,127	601,872	194,265
Fund balances (deficit) at end of year	\$ 1,328,171	\$ 3,176	\$ 737	\$ -	\$ (9,329)	\$ 6,892,225	\$ 4,127	\$ 348,296	\$ -

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, 2018

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
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 141,320
2,000,887	-	-	729,869	-	-	-	-	-	-	5,210,915
833,743	-	-	-	-	-	-	3,812,912	-	76,276	8,273,539
-	-	-	-	-	28,567	-	3,760	-	-	33,500
-	-	-	-	-	-	-	-	-	460,167	460,167
-	-	-	132,620	138,829	204,394	10,847	2,179	-	38,867	1,913,534
<u>2,834,630</u>	<u>-</u>	<u>-</u>	<u>862,489</u>	<u>138,829</u>	<u>232,961</u>	<u>10,847</u>	<u>3,818,851</u>	<u>-</u>	<u>575,310</u>	<u>16,032,975</u>
-	-	-	-	-	-	-	-	-	-	2,940,267
-	-	-	-	-	-	-	-	-	-	1,453,940
-	-	-	-	-	10,012	-	-	5,489	68,438	695,860
-	-	-	-	-	-	-	-	-	44,843	838,986
-	-	-	-	-	-	-	-	9,933	-	953,367
-	-	-	-	-	-	-	-	-	67,997	91,172
-	-	-	-	104,442	-	20,717	2,947,179	-	-	3,890,296
-	-	-	-	-	-	-	-	-	-	129,978
-	-	-	-	-	-	-	-	-	-	516,096
-	-	-	2,147,496	-	-	-	-	-	-	2,147,496
-	-	-	-	-	-	-	-	-	-	33,510
-	-	-	-	-	-	-	-	-	-	2,033,534
<u>3,409,183</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,650,150</u>
<u>3,409,183</u>	<u>-</u>	<u>-</u>	<u>2,147,496</u>	<u>104,442</u>	<u>10,012</u>	<u>20,717</u>	<u>2,947,179</u>	<u>15,422</u>	<u>181,278</u>	<u>19,374,652</u>
<u>(574,553)</u>	<u>-</u>	<u>-</u>	<u>(1,285,007)</u>	<u>34,387</u>	<u>222,949</u>	<u>(9,870)</u>	<u>871,672</u>	<u>(15,422)</u>	<u>394,032</u>	<u>(3,341,677)</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>1,285,007</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>423,231</u>	<u>-</u>	<u>-</u>	<u>2,240,032</u>
<u>(574,553)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>34,387</u>	<u>222,949</u>	<u>(9,870)</u>	<u>1,294,903</u>	<u>(15,422)</u>	<u>394,032</u>	<u>(1,101,645)</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>
<u>\$ (16,197)</u>	<u>\$ 39,580</u>	<u>\$ 49,548</u>	<u>\$ -</u>	<u>\$ 474,825</u>	<u>\$ 2,721,781</u>	<u>\$ 34,137</u>	<u>\$ 5,084,223</u>	<u>\$ 1,533,045</u>	<u>\$ 931,436</u>	<u>\$ 19,419,781</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, 2018

	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	\$ -	\$ -	\$ 4,437,727	\$ -	\$ -	\$ -	\$ 4,437,727	\$ 4,579,047
Taxes	-	1,054,654	-	-	-	-	1,054,654	6,265,569
Licenses and fees	-	12,025	-	-	-	-	12,025	8,285,564
Contributions from component units	-	-	-	-	64,519	-	64,519	64,519
Interest and dividends	-	2,674	-	-	-	-	2,674	36,174
Charges for sales and services	-	-	-	-	-	-	-	460,167
Other	-	304,377	-	-	-	-	304,377	2,217,911
Total revenues	-	1,373,730	4,437,727	-	64,519	-	5,875,976	21,908,951
Expenditures by function:								
Current:								
Education	-	-	-	-	-	-	-	2,940,267
Economic development	-	-	-	-	1,158,263	-	1,158,263	2,612,203
Public safety and law enforcement	-	250,159	-	-	-	-	250,159	946,019
Community and social services	-	346,037	-	-	-	-	346,037	1,185,023
Health	-	-	-	-	-	-	-	953,367
Lands and natural resources	-	-	-	-	-	-	-	91,172
General government	-	-	-	-	-	-	-	3,890,296
Other elected officials	-	-	-	-	-	-	-	129,978
Payment to Public School System	-	-	-	-	-	-	-	516,096
Payment to Marianas Visitors Authority	-	-	-	-	-	-	-	2,147,496
Payment to Commonwealth Utilities Corporation	-	233,000	-	-	-	-	233,000	266,510
Payment to Commonwealth Healthcare Corporation	-	-	-	-	-	-	-	2,033,534
Capital outlay:								
Public works	-	19,709	4,135,170	-	168,708	-	4,323,587	7,973,737
Total expenditures	-	848,905	4,135,170	-	1,326,971	-	6,311,046	25,685,698
Excess (deficiency) of revenues over (under) expenditures	-	524,825	302,557	-	(1,262,452)	-	(435,070)	(3,776,747)
Other financing sources (uses):								
Operating transfers in	-	-	-	-	1,262,452	-	1,262,452	3,502,484
Net change in fund balances (deficit)	-	524,825	302,557	-	-	-	827,382	(274,263)
Fund balances (deficit) at beginning of year	326	1,648,625	443,142	-	-	373,519	2,465,612	22,987,038
Fund balances (deficit) at end of year	\$ 326	\$ 2,173,450	\$ 745,699	\$ -	\$ -	\$ 373,519	\$ 3,292,994	\$ 22,712,775

See Accompanying Independent Auditors' Report.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS  
FIDUCIARY FUNDS

September 30, 2018

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, 2018

	Northern Mariana Islands Retirement Fund	Defined Contribution Plan	Total
<u>Assets</u>			
Cash and cash equivalents	\$ 3,760,790	\$ -	\$ 3,760,790
Receivables, net:			
Notes	2,207,940	-	2,207,940
Agency	-	737,288	737,288
Other	7,951	-	7,951
Total receivables, net	<u>2,215,891</u>	<u>737,288</u>	<u>2,953,179</u>
Defined contribution plan investments	-	36,816,854	36,816,854
Foreclosed real estate	209,095	-	209,095
Total assets	<u>6,185,776</u>	<u>37,554,142</u>	<u>43,739,918</u>
<u>Liabilities and Fiduciary Net Position</u>			
Accounts payable and accrued expenses	132,498	-	132,498
Due to primary government	2,523,810	-	2,523,810
Total liabilities	<u>2,656,308</u>	<u>-</u>	<u>2,656,308</u>
Fiduciary net position:			
Held in trust for pension benefits	<u>\$ 3,529,468</u>	<u>\$ 37,554,142</u>	<u>\$ 41,083,610</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, 2018

	Northern Mariana Islands Retirement Fund	Defined Contribution Plan	Total
Additions:			
Employee contributions	\$ 56,389	\$ 6,775,431	\$ 6,831,820
Employer contributions	-	2,544,917	2,544,917
	<u>56,389</u>	<u>9,320,348</u>	<u>9,376,737</u>
Investment income:			
Net change in the fair value of investments	-	2,356,271	2,356,271
Interest and dividend income	-	159,113	159,113
Total investment income	-	2,515,384	2,515,384
Less management and custodial fees	-	(332,230)	(332,230)
Net investment income	-	<u>2,183,154</u>	<u>2,183,154</u>
Interest and fees on loans	219,247	-	219,247
Transfers and rollovers	-	81,118	81,118
Other	495,153	-	495,153
Total additions	<u>770,789</u>	<u>11,584,620</u>	<u>12,355,409</u>
Deductions:			
Benefits and refund payments:			
Withdrawal and refunds	1,152	6,085,606	6,086,758
Retirement benefits	254,802	-	254,802
Forfeitures	-	99,543	99,543
Health and life insurance premiums	64,396	-	64,396
Survivor benefits	6,000	-	6,000
Total benefits and refund payments	<u>326,350</u>	<u>6,185,149</u>	<u>6,511,499</u>
Administrative expenses:			
Salaries and wages	101,115	-	101,115
Employee benefits	28,571	-	28,571
Professional fees	397	-	397
Miscellaneous	300	-	300
Total administrative expenses	<u>130,383</u>	<u>-</u>	<u>130,383</u>
Total deductions	<u>456,733</u>	<u>6,185,149</u>	<u>6,641,882</u>
Change in net position held in trust for employees' pension benefits	314,056	5,399,471	5,713,527
Fiduciary net position held in trust:			
Beginning of year	<u>3,215,412</u>	<u>32,154,671</u>	<u>35,370,083</u>
End of year	<u>\$ 3,529,468</u>	<u>\$ 37,554,142</u>	<u>\$ 41,083,610</u>

See Accompanying Independent Auditors' Report.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS  
FIDUCIARY FUNDS - AGENCY

September 30, 2018

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, 2018

	<u>Assets</u>	<u>Security Deposit</u>
Cash and cash equivalents		\$ 1,634,202
Restricted assets		<u>1,962,939</u>
Total assets		<u>\$ 3,597,141</u>
	<u>Liabilities</u>	
Deposits payable		<u>\$ 3,597,141</u>
Total liabilities		<u>\$ 3,597,141</u>

See Accompanying Independent Auditors' Report.