

COMMONWEALTH OF THE
NORTHERN MARIANA ISLANDS

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

YEAR ENDED SEPTEMBER 30, 2013

COMMONWEALTH OF THE
NORTHERN MARIANA ISLANDS

BASIC FINANCIAL STATEMENTS,
ADDITIONAL INFORMATION
AND
INDEPENDENT AUDITORS' REPORT

YEAR ENDED SEPTEMBER 30, 2013

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

FINANCIAL STATEMENTS

YEAR ENDED SEPTEMBER 30, 2013

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FINANCIAL STATEMENTS

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INDEPENDENT AUDITORS' REPORT

Honorable Eloy S. Inos
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, 2013, 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. We did not audit the financial statements of the Public School System and the Marianas Visitors Authority, which represent 15%, 12% and 14%, respectively, of the assets and deferred outflows, net position and operating 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 the Public School System and the Marianas Visitors Authority, is based on the reports of the other auditors.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

Opinion Unit	Type of Opinion
Governmental Activities	Unmodified
Aggregate Discretely Presented Component Units	Adverse
Each Major Fund	Unmodified
Aggregate Remaining Fund Information	Adverse

Basis for Adverse Opinion on the Aggregate Discretely Presented Component Units and the Aggregate Remaining Fund Information

The financial statements do not include notes to the financial statements for the Pension Trust Fund (comprised of the Northern Mariana Islands Retirement Fund, the CNMI Group Health and Life Insurance Trust Fund and the CNMI Workers’ Compensation Commission) and a certain Discretely Presented Component Unit (the Commonwealth Utilities Corporation). Accounting principles generally accepted in the United States of America require notes to the financial statements for the Pension Trust Fund and the component units be reported with the financial data of the CNMI’s primary government unless the CNMI also issues financial statements for the financial reporting entity that include the financial data for its component units. The CNMI has not issued such reporting entity financial statements. Additionally, the financial statements of the Pension Trust fund and certain Discretely Presented Component Units (the Commonwealth Utilities Corporation, the Marianas Public Land Trust, the Northern Marianas College and the Commonwealth Healthcare Corporation) have not been audited. The financial activities of the Pension Trust Fund are included in the CNMI’s basic financial statements and represent 95%, 95% and 67%, respectively, of the assets, net position/fund balance and revenues of the aggregate remaining fund information. The financial activities of the unaudited discretely presented component units are included in the CNMI’s basic financial statements and represent 42%, 44% and 73% of the assets and deferred outflows, net position and operating revenues, respectively, of the CNMI’s aggregate discretely presented component units. Because of the departure from accounting principles generally accepted in the United States of America, and the lack of audited financial statements for the Pension Trust Fund and certain Discretely Presented Component Units, the assets and deferred outflows, liabilities, net position, revenues, and expenses of the aggregate discretely presented component units and the aggregate remaining fund information could not be determined. In addition, the assets, liabilities, fund balances, revenues, and expenditures of the aggregate remaining fund information could not be determined.

Adverse Opinion

In our opinion, because of the significance of the matters discussed in the “Basis for Adverse Opinion on 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 aggregate discretely presented component units and the aggregate remaining fund information of the CNMI, as of September 30, 2013, 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.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the CNMI, as of September 30, 2013, 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

New Accounting Pronouncements

As described in Note 16 to the financial statements, during the year ended September 30, 2013, the CNMI has implemented Governmental Accounting Standards Board (GASB) Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*, and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. The beginning net position of the governmental activities and the aggregate discretely presented component units has been restated for the effect of adopting these accounting pronouncements.

Going Concern

The CNMI’s plans regarding its General Fund deficit position and the related governmental activities net deficiency position are described in note 13 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 the Governmental Accounting Standards Board 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.

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, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Other Supplementary Information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Other Supplementary Information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 30, 2014 on our consideration of the CNMI's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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.

Debitte & Touche LLC

June 30, 2014



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**Management's Discussion and Analysis (MD&A)
Year Ended September 30, 2013**

Our discussion and analysis of the Commonwealth of the Northern Mariana Islands (the CNMI) financial performance provides an overview of the CNMI's financial activities for the fiscal year ended September 30, 2013. Please read it in conjunction with the CNMI's financial statements, which follow this section. Fiscal year 2012 comparative information has been included where appropriate for comparative purposes.

FINANCIAL HIGHLIGHTS

- For the fiscal year ended September 30, 2013, the CNMI's total deficit net position decreased by \$9.4 million, to a deficit net position of \$217.1 million, which represents a decrease of approximately 4.2% from the restated deficit net position at the beginning of the year.
- During the year, the CNMI's expenses for governmental activities were \$237.0 million, including expenses recorded for payments made or due to the autonomous agencies, and were funded in part by program revenues of \$105.4 million, further funded with taxes and other general revenues that totaled \$141.0 million. The difference between total revenues of \$246.4 million and total expenses of \$237.0 million is what resulted in the \$9.4 million decrease in deficit net position.
- At September 30, 2013, the General Fund reported an unassigned fund deficit of \$79.0 million, which is an increase in the unassigned fund deficit of 1.0% from the prior year's reported unassigned fund deficit of \$78.3 million.
- For budgetary reporting purposes, General Fund actual revenues were higher than final estimates by \$11.5 million, or 8.6%, while reported actual expenditures exceeded final estimated appropriations by \$15.1 million, or 11.6%. These amounts do not 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 governmental-wide statements for the governmental activities of the CNMI, along with the CNMI's discretely-presented component units. The government-wide financial statements present the complete financial picture of the CNMI from the economic resources measurement focus using the accrual basis of accounting. These statements include all assets of the CNMI (including infrastructure capital assets) as well as all liabilities (including all long-term debt).

Reporting the CNMI as a Whole

The Statement of Net Position and the Statement of Activities

One of the most frequently asked questions about the CNMI's finances is, "Has the CNMI's overall financial condition improved, declined or remained steady over the past year?" The Statement of Net Position and the Statement of Activities report information about the CNMI as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two government-wide statements report the CNMI's net position and changes in them from the prior year. You can think of the CNMI's net position - the difference between assets and liabilities - as one way to measure the CNMI's financial condition, or position. Over time, increases or decreases in the CNMI's net position are indicators of whether its financial health is improving, deteriorating, or remaining steady. However, you must consider other nonfinancial factors, such as changes in the CNMI's tax base, the condition of the CNMI's roads and infrastructure, and the quality of services to assess the overall health and performance of the CNMI.

As mentioned above in the Statement of Net 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 and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the CNMI's general government operations and the basic service it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the CNMI's programs. The differences of results in the Governmental Fund financial statements to those in the Government-Wide financial statements are explained in a reconciliation following each Governmental Fund financial statement.

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

Additional information on the restatement of the beginning net position/fund balances of the governmental activities and the aggregate discretely presented component units can be found in note 16 to the financial statements.

A FINANCIAL ANALYSIS OF THE CNMI AS A WHOLE

Net Position

The CNMI's governmental activities deficit net position, as restated, decreased from \$226.6 million to a deficit net position of \$217.1 million, a decrease in the deficit of 4.2%, between fiscal years 2012 and 2013.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended September 30, 2013

A summary of net position (condensed) is presented below, with comparable balances for fiscal year 2012:

	Governmental Activities <u>2013</u>	Governmental Activities <u>2012</u>	<u>Change</u>
Current assets	\$ 52,016,083	\$ 54,851,756	\$ (2,835,673)
Capital assets, net	198,540,972	204,184,547	(5,643,575)
Other noncurrent assets	2,500,000	2,500,000	-
Deferred outflows from cost of refunding debt	<u>6,194,529</u>	<u>6,504,256</u>	<u>(309,727)</u>
Total assets and deferred outflows	<u>259,251,584</u>	<u>268,040,559</u>	<u>(8,788,975)</u>
Long-term debt outstanding	97,713,669	100,665,173	(2,951,504)
Other liabilities	<u>378,670,692</u>	<u>392,426,114</u>	<u>(13,755,422)</u>
Total liabilities	<u>476,384,361</u>	<u>493,091,287</u>	<u>(16,706,926)</u>
Net position:			
Invested in capital assets, net of related debt	107,021,832	112,505,725	(5,483,893)
Restricted	17,938,694	13,266,289	4,672,405
Unrestricted	<u>(342,093,303)</u>	<u>(350,822,742)</u>	<u>8,729,439</u>
Total net position	<u>\$ (217,132,777)</u>	<u>\$ (225,050,728)</u>	<u>\$ 7,917,951</u>

Significant changes from 2012 in the Statement of Net Position include a net decrease in long-term debt outstanding and other liabilities as a result of debt service payments and a transfer of pension liabilities.

Changes in Net Position

For the year ended September 30, 2013, net position of the primary government changed as follows, with comparable amounts for fiscal year 2012:

	Governmental Activities <u>2013</u>	Governmental Activities <u>2012</u>	<u>Change</u>
Revenues:			
Program revenues	\$ 105,405,863	\$ 111,520,048	\$ (6,114,185)
Taxes and other general revenues	<u>141,023,960</u>	<u>129,767,383</u>	<u>11,256,577</u>
Total revenues	<u>246,429,823</u>	<u>241,287,431</u>	<u>5,142,392</u>
Expenses:			
Capital projects	410,347	899,761	(489,414)
Health	51,379,750	34,828,647	16,551,103
Public safety and law enforcement	28,834,600	25,693,286	3,141,314
General government	16,820,074	26,508,246	(9,688,172)
Community and social services	21,453,705	21,938,630	(484,925)
Other elected officials	7,017,950	6,429,277	588,673
Utilities	11,337,831	10,945,447	392,384
Public works	16,452,092	16,307,910	144,182
Lands and natural resources	13,521,151	11,385,019	2,136,132
Legislative branch	5,414,217	5,210,254	203,963
Judicial branch	4,001,602	4,257,399	(255,797)
Education	3,568,754	4,004,919	(436,165)
Unallocated interest	5,128,833	5,855,016	(726,183)
Economic development	3,139,508	1,300,333	1,839,175
Payments to autonomous agencies	<u>48,505,485</u>	<u>55,421,904</u>	<u>(6,916,419)</u>
Total expenses	<u>236,985,899</u>	<u>230,986,048</u>	<u>5,999,851</u>
Increase in net position	9,443,924	10,301,383	(857,459)
Prior period adjustment (note 16)	(1,525,973)	-	(1,525,973)
Net position, beginning of year	<u>(225,050,728)</u>	<u>(235,352,111)</u>	<u>10,301,383</u>
Net position, end of year	<u>\$ (217,132,777)</u>	<u>\$ (225,050,728)</u>	<u>\$ 7,917,951</u>

The CNMI's governmental activities' decrease in net position of \$9.4 million represents a 4.2% decrease from the prior year. The results indicate the CNMI's financial condition, as a whole, improved in the current year compared to the previous two years. Significant changes from 2012 in the Statement of Activities include increases in income, gross receipts, excise, hotel and other taxes resulting from an increase in visitor arrivals to the CNMI and a surge in the tourism industry.

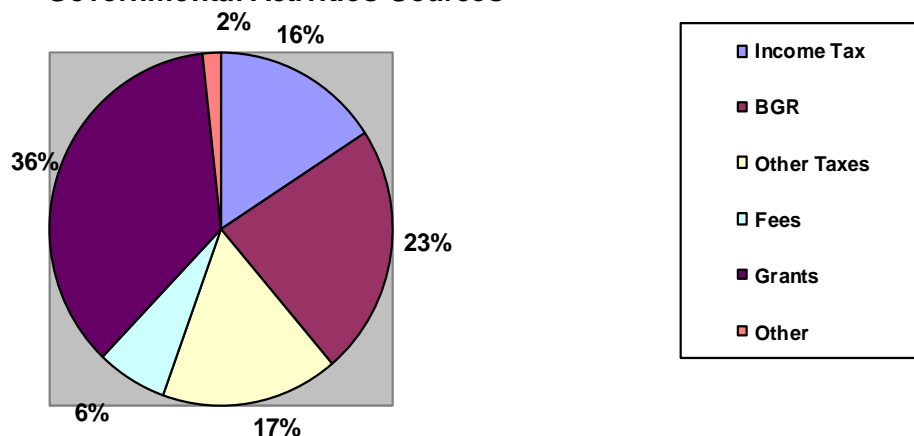
Governmental Activities

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

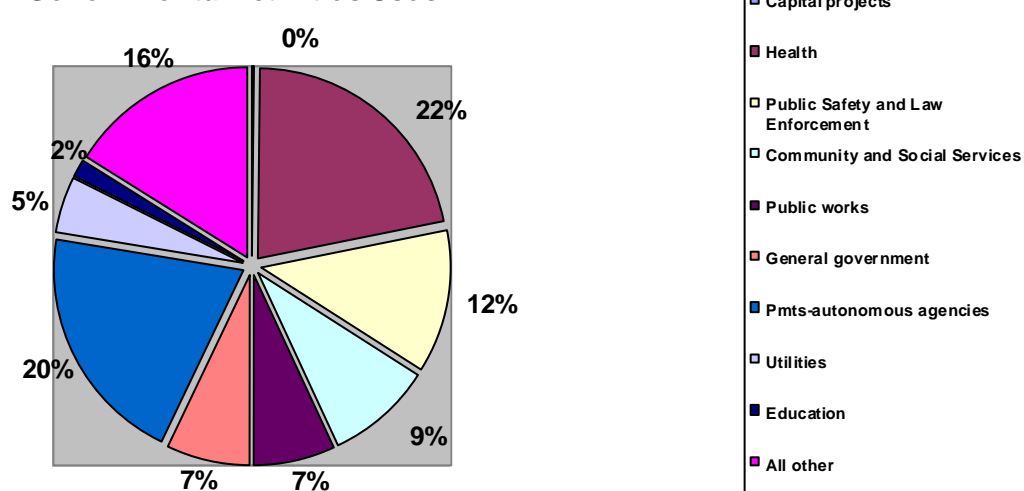
Of particular interest is the format that is significantly different than a typical Statement of Revenues, Expenses, and Changes in Fund Balance. You will notice that expenses are listed in the first column with revenues from that particular program reported to the right. The result is a Net (Expense)/Revenue. The reason for this 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.

For the year ended September 30, 2013, the CNMI's governmental activities were funded as follows:

Governmental Activities Sources



Governmental Activities Uses



COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended September 30, 2013

For the year ended September 30, 2013, total expenses for governmental activities amounted to \$237.0 million. Of these total expenses, taxpayers and other general revenues funded \$141.0 million, while those directly benefiting from the activities funded \$89.0 million from grants and other contributions and \$16.4 million from charges for services, with the remaining expenses under revenues decreasing the net position.

Net Revenue (Expense) of Governmental Activities

	<u>Total Expense of Services</u>	<u>Net Revenue (Expense) of Services</u>	<u>Total Expense of Services</u>	<u>Net Revenue (Expense) of Services</u>	<u>Total Expense of Services</u>	<u>Net Revenue (Expense) of Services</u>
	<u>2013</u>	<u>2013</u>	<u>2012</u>	<u>2012</u>	<u>Change</u>	<u>Change</u>
Capital projects	\$ 410,347	\$ -	\$ 899,761	\$ (61,546)	\$ (489,414)	\$ 61,546
Health	51,379,750	(17,912,672)	34,828,647	(8,577,257)	16,551,103	(9,335,415)
Public safety and law enforcement	28,834,600	(17,235,141)	25,693,286	(15,625,579)	3,141,314	(1,609,562)
General government	16,820,074	1,141,162	26,508,246	(6,923,331)	(9,688,172)	8,064,493
Community and social services	21,453,705	(3,636,309)	21,938,630	(3,817,926)	(484,925)	181,617
Public works	16,452,092	(8,060,755)	16,307,910	148,550	144,182	(8,209,305)
Utilities	11,337,831	(10,329,916)	10,945,447	(8,880,619)	392,384	(1,449,297)
Education	3,568,754	(3,396,305)	4,004,919	(3,724,445)	(436,165)	328,140
Payments to autonomous agencies	48,505,485	(47,837,165)	55,421,904	(48,441,816)	(6,916,419)	604,651
All others	<u>38,223,261</u>	<u>(24,312,935)</u>	<u>34,437,298</u>	<u>(23,562,031)</u>	<u>3,785,963</u>	<u>(750,904)</u>
Total	\$ <u>236,985,899</u>	\$ <u>(131,580,036)</u>	\$ <u>230,986,048</u>	\$ <u>(119,466,000)</u>	\$ <u>5,999,851</u>	\$ <u>(12,114,036)</u>

A FINANCIAL ANALYSIS OF THE CNMI'S FUNDS

As the CNMI completed its 2013 fiscal year, the governmental funds reported a combined fund deficit of \$59.8 million, when compared with the prior year fund deficit of \$56.5 million, which is an increase in the deficit of \$3.3 million or 5.9%, due to the an increase in governmental expenditures.

Individual fund highlights include:

- For the year ended September 30, 2013, the General Fund's total fund deficit increased by \$0.8 million or 1.1%, to a total fund deficit of \$74.1 million, while the total unassigned fund deficit increased by \$0.7 million or 1.0%, for a total unassigned fund deficit of \$79.0 million.
- The Grants Assistance Fund's revenues and expenditures netted to approximately a \$2.5 million decrease in fund balance, providing a remaining fund balance for grant expenditures of \$2.5 million.
- For the year ended September 30, 2013, the Department of Public Lands' total fund balance increased by \$0.1 million or 2.1%, to a total fund balance of \$5.2 million.
- The Private Grants Fund's revenues and expenditures netted to approximately a \$0.2 million increase in fund deficit, providing a fund deficit of \$0.4 million.

General Fund Budgetary Highlights

Original and final revenue estimates remained constant at \$133.3 million, while original expenditure estimates remained constant at \$129.5 million. The General Fund's actual revenues of \$144.8 million were more than the final estimates by \$11.5 million, a variance of 8.6%, mainly due to higher than anticipated tax collections and other revenues. The General Fund's actual expenditures (including transfers out) of \$144.9 million exceeded appropriations by \$9.7 million, a variance of 7.1%, due mainly to unanticipated expenditures that significantly increased for government utilities, medical referral and the local match for Medicaid.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of September 30, 2013, the CNMI had \$198.5 million invested in capital assets, net of depreciation where applicable, including land, infrastructure, vehicles and other machinery and equipment, buildings, and various projects under construction (see table below). This represents a net decrease of \$5,643,575 or 2.8% from last year.

	Governmental Activities <u>2013</u>	Governmental Activities <u>2012</u>	<u>Change</u>
Infrastructure, net	\$ 30,990,037	\$ 23,832,626	\$ 7,157,411
Buildings and improvements, net	112,276,109	114,388,745	(2,112,636)
Machinery and equipment, net	9,646,000	10,137,844	(491,844)
Land	29,899,810	29,899,810	-
Construction in progress	<u>15,729,016</u>	<u>25,925,522</u>	<u>(10,196,506)</u>
Total	\$ <u>198,540,972</u>	\$ <u>204,184,547</u>	\$ <u>(5,643,575)</u>

The decrease in construction in progress, due to the completion of road projects, attributed to the decrease in capital assets as of September 30, 2013. See note 6 to the financial statements for more detailed information on the CNMI's capital assets and changes therein.

Long-Term Debt

At year end, the CNMI had \$97.7 million in long-term debt outstanding, which represents a net decrease of \$4.4 million or 4.3% from the prior year. The CNMI's changes in long-term debt outstanding are as follows:

	Governmental Activities <u>2013</u>	Governmental Activities <u>2012</u>	<u>Change</u>
General Obligation Bonds (backed by the CNMI)	\$ 92,736,088	\$ 96,411,143	\$ (3,675,055)
Loan payable (backed by specific fee revenues)	<u>4,977,581</u>	<u>5,707,338</u>	<u>(729,757)</u>
Total	\$ <u>97,713,669</u>	\$ <u>102,118,481</u>	\$ <u>(4,404,812)</u>

As of September 30, 2013, 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, 2013. However, the CNMI has estimated the aggregate assessed valuation of real property to be \$1,596,236,822 as of September 30, 2013. This estimation was based on the 1995 CNMI Mid-Decade Census.

See note 9 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

During the fiscal year ended September 30, 2013, the United States District Court for the Northern Mariana Islands approved a Settlement Agreement between a retiree (individually and on behalf of similarly-situated persons) and the CNMI, the Northern Mariana Islands Retirement Fund (NMIRF) and others. The Settlement Agreement includes the creation of a Settlement Fund 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 the Settlement Fund to allow for the payment of 75% of Class Members' full benefits annually during the Settlement Fund'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.

As a result of the Settlement Agreement, the nature of the \$267,089,307 judgment against the CNMI in the Civil Case No. 06-0367 has changed in that the total amount is not due within a year. The amount of the judgment is factored into the annual payments disclosed in note 9.

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.

Economic factors continue to play a large role in developing the tax and other revenue budgets for the General Fund of the CNMI. The local economy, expanding by the effects of an increase in tourism, has followed a trend of increasing revenues. The prospects for fiscal year 2014 appear similar.

Management's Discussion and Analysis for the year ended September 30, 2012 is set forth in the CNMI's report on the audit of financial statements, which is dated February 27, 2014. That Discussion and Analysis explains the major factors impacting the 2012 financial statements and can be viewed at the Office of the Public Auditor's website at www.opacnmi.com.

CONTACTING THE CNMI'S FINANCIAL MANAGEMENT

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Statement of Net Position
September 30, 2013

	Primary Government	Component Units
<u>ASSETS AND DEFERRED OUTFLOWS</u>		
Current assets:		
Cash and cash equivalents	\$ 12,489,550	\$ 42,035,928
Time certificates of deposit	387,321	694,446
Receivables, net of allowance for uncollectibles	17,453,352	54,216,595
Due from primary government	-	8,204,393
Inventories	1,170,387	8,920,232
Advances	595,688	-
Other assets	-	7,297,591
Restricted assets:		
Cash and cash equivalents	19,919,785	19,578,533
Investments	-	17,024,045
Total current assets	<u>52,016,083</u>	<u>157,971,763</u>
Noncurrent assets:		
Investments	2,500,000	72,118,978
Receivables:		
Loans, net of allowance for uncollectibles	-	12,454,526
Notes, net of allowance for uncollectibles	-	4,764,454
Other	-	1,593,329
Foreclosed real estate	-	2,491,124
Nondepreciable capital assets	45,628,826	109,742,062
Depreciable capital assets, net of accumulated depreciation	152,912,146	270,366,377
Total noncurrent assets	<u>201,040,972</u>	<u>473,530,850</u>
Deferred outflows from cost of refunding debt	6,194,529	837,150
Total assets and deferred outflows	<u>259,251,584</u>	<u>632,339,763</u>
<u>LIABILITIES AND DEFERRED INFLOWS</u>		
Current liabilities:		
Current portion of bonds payable	3,920,055	1,780,000
Current portion of notes payable	3,710,605	7,311,067
Current portion of obligations under preferred stock agreement	-	1,080,000
Accounts payable	10,664,775	37,892,597
Current portion of compensated absences	2,981,656	1,902,638
Tax rebates payable	38,354,170	-
Recovery rebate payable	399,293	-
Accrued interest payable	2,004,610	546,679
Other liabilities and accruals	7,643,805	22,372,979
Claims and judgments payable	34,641,494	-
Due to external parties	1,390,449	-
Due to component units	15,358,828	-
Due to primary government	-	8,460,731
Unearned revenues	5,865,383	1,919,937
Total current liabilities	<u>126,935,123</u>	<u>83,266,628</u>
Noncurrent liabilities:		
Obligations under Settlement Agreement	252,749,160	-
Bonds payable, net of current portion	88,816,033	41,978,967
Notes payable, net of current portion	1,266,976	7,045,361
Obligations under preferred stock agreement	-	2,520,000
Compensated absences, net of current portion	2,417,964	2,810,662
Due to Pension (and Other Employee Benefit) Trust Fund	-	27,155,445
Unearned revenues, net of current portion	-	7,824,558
Landfill closure	4,199,105	-
Total noncurrent liabilities	<u>349,449,238</u>	<u>89,334,993</u>
Deferred inflows of resources	-	1,439,119
Total liabilities and deferred inflows of resources	<u>476,384,361</u>	<u>174,040,740</u>
Commitments and contingencies		
<u>NET POSITION</u>		
Invested in capital assets, net of related debt	107,021,832	332,179,496
Restricted for:		
Expendable:		
Capital projects	3,989,903	-
Other purposes	13,948,791	169,756,470
Unrestricted	(342,093,303)	(43,636,943)
Total net position	<u>\$ (217,132,777)</u>	<u>\$ 458,299,023</u>

See accompanying notes to financial statements.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Statement of Activities
For the Year Ended September 30, 2013

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	\$ 51,379,750	\$ 44,301	\$ 33,373,203	\$ 49,574	\$ (17,912,672)	\$ -
Public safety and law enforcement	28,834,600	3,033,674	8,565,785	-	(17,235,141)	-
General government	16,820,074	8,257,463	9,694,699	9,074	1,141,162	-
Community and social services	21,453,705	15,140	17,777,256	25,000	(3,636,309)	-
Other elected officials	7,017,950	-	-	-	(7,017,950)	-
Utilities	11,337,831	-	-	1,007,915	(10,329,916)	-
Utilities - Capital Projects	410,347	-	-	410,347	-	-
Public works	16,452,092	479,184	3,945,772	3,966,381	(8,060,755)	-
Lands and natural resources	13,521,151	3,864,531	7,649,245	-	(2,007,375)	-
Legislative branch	5,414,217	-	-	-	(5,414,217)	-
Judicial branch	4,001,602	674,124	-	-	(3,327,478)	-
Education	3,568,754	-	103,764	68,685	(3,396,305)	-
Unallocated interest	5,128,833	-	-	-	(5,128,833)	-
Economic development	3,139,508	-	8,262	1,714,164	(1,417,082)	-
Education:						
Payments to Public School System	31,585,753	-	498,140	-	(31,087,613)	-
Payments to Northern Marianas College	4,890,463	-	170,180	-	(4,720,283)	-
Payments to Commonwealth Healthcare Corporation	1,152,912	-	-	-	(1,152,912)	-
Payments to Marianas Visitors Authority	10,876,357	-	-	-	(10,876,357)	-
Total primary government	\$ 236,985,899	\$ 16,368,417	\$ 81,786,306	\$ 7,251,140	(131,580,036)	-
Component units:						
Commonwealth Ports Authority	\$ 27,507,723	\$ 19,393,606	\$ -	\$ 14,743,092	-	6,628,975
Commonwealth Development Authority	8,914,888	1,379,961	6,825,216	-	-	(709,711)
Commonwealth Utilities Corporation	101,165,533	90,393,569	-	11,489,591	-	717,627
Marianas Public Land Trust	3,241,942	-	-	-	-	(3,241,942)
Northern Marianas College	15,565,799	2,069,835	8,882,907	-	-	(4,613,057)
Public School System	63,528,344	1,342,330	28,532,681	444,936	-	(33,208,397)
Marianas Visitors Authority	6,322,050	145,595	188,664	-	-	(5,987,791)
Commonwealth Healthcare Corporation	39,112,979	44,180,167	5,500	-	-	5,072,688
Total component units	\$ 265,359,258	\$ 158,905,063	\$ 44,434,968	\$ 26,677,619	-	(35,341,608)
General revenues:						
Taxes:						
Income					39,002,232	-
Gross receipts					56,595,937	-
Excise					18,303,689	-
Hotel					8,910,854	-
Fuel					3,991,371	-
Cigarette					5,249,892	-
Other taxes					4,694,392	-
Unrestricted investment earnings and dividends					27,253	2,458,510
Contributions from primary government					-	43,698,550
Other					4,248,340	16,985,474
Total general revenues					141,023,960	63,142,534
Change in net position					9,443,924	27,800,926
Net position - beginning, as previously reported					(225,050,728)	431,185,311
Prior period adjustment (note 16)					(1,525,973)	(687,214)
Net position - beginning, as restated					(226,576,701)	430,498,097
Net position - ending					\$ (217,132,777)	\$ 458,299,023

See accompanying notes to financial statements.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Balance Sheet
Governmental Funds
September 30, 2013

	General	Grants Assistance	Department of Public Lands	Private Grants	Other Governmental Funds	Total
<u>Assets</u>						
Cash and cash equivalents	\$ 3,871,986	\$ -	\$ 8,617,564	\$ -	\$ -	\$ 12,489,550
Time certificates of deposit	-	-	387,321	-	-	387,321
Investments	2,500,000	-	-	-	-	2,500,000
Restricted cash and cash equivalents	17,366,538	2,416,352	-	-	136,895	19,919,785
Receivables, net:						
Federal agencies	5,702,781	2,164,707	-	284,562	980,651	9,132,701
Taxes	5,935,571	-	-	-	-	5,935,571
General	386,343	-	776,077	-	-	1,162,420
Other	-	12,831	-	-	1,209,829	1,222,660
Due from other funds	4,085,585	6,846,471	-	3,749,280	8,810,940	23,492,276
Advances	595,688	-	-	-	-	595,688
Inventories	232,387	938,000	-	-	-	1,170,387
	<u>\$ 40,676,879</u>	<u>\$ 12,378,361</u>	<u>\$ 9,780,962</u>	<u>\$ 4,033,842</u>	<u>\$ 11,138,315</u>	<u>\$ 78,008,359</u>
<u>Liabilities and Fund Balances (Deficit)</u>						
Liabilities:						
Accounts payable	\$ 3,984,183	\$ 4,534,173	\$ 447,919	\$ 73,867	\$ 1,624,633	\$ 10,664,775
Tax rebates payable	38,354,170	-	-	-	-	38,354,170
Recovery rebates payable	399,293	-	-	-	-	399,293
Other liabilities and accruals	2,808,102	3,255,680	252,016	-	1,328,007	7,643,805
Claims and judgments payable	34,073,951	-	567,543	-	-	34,641,494
Due to other funds	19,406,691	1,196,515	1,792,935	-	1,096,135	23,492,276
Due to component units	14,362,085	-	996,743	-	-	15,358,828
Due to external parties	1,390,449	-	-	-	-	1,390,449
Unearned revenues	-	938,000	481,760	4,345,555	100,068	5,865,383
Total liabilities	<u>114,778,924</u>	<u>9,924,368</u>	<u>4,538,916</u>	<u>4,419,422</u>	<u>4,148,843</u>	<u>137,810,473</u>
Fund balances (deficit):						
Non-spendable	2,732,387	-	-	-	-	2,732,387
Restricted	2,125,558	3,989,903	5,242,046	-	8,047,905	19,405,412
Unassigned:						
General fund	(78,959,990)	-	-	-	-	(78,959,990)
Special revenue funds	-	-	-	(385,580)	(368,843)	(754,423)
Capital projects funds	-	(1,535,910)	-	-	(689,590)	(2,225,500)
Total fund balances (deficit)	<u>(74,102,045)</u>	<u>2,453,993</u>	<u>5,242,046</u>	<u>(385,580)</u>	<u>6,989,472</u>	<u>(59,802,114)</u>
	<u>\$ 40,676,879</u>	<u>\$ 12,378,361</u>	<u>\$ 9,780,962</u>	<u>\$ 4,033,842</u>	<u>\$ 11,138,315</u>	<u>\$ 78,008,359</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, 2013

Total fund deficit - governmental funds		\$ (59,802,114)
Amounts reported for governmental activities in the statement of net position are different because:		
Bonds issued by the CNMI have associated costs that are paid from current available resources in the funds. However, these costs are deferred on the statement of net position.		
		6,194,529
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. Those assets consist of:		
Land	\$ 29,899,810	
Construction in progress	15,729,016	
Depreciable capital assets and infrastructure, net of \$206,061,135 of accumulated depreciation	<u>152,912,146</u>	
Capital assets, net of accumulated depreciation		198,540,972
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	(252,749,160)	
Bonds payable	(92,736,088)	
Accrued interest payable	(2,004,610)	
NMIRF loan payable	(4,977,581)	
Compensated absences payable	(5,399,620)	
Landfill closure and postclosure costs	<u>(4,199,105)</u>	
Long-term liabilities		<u>(362,066,164)</u>
Net position of governmental activities		<u>\$ (217,132,777)</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, 2013

	General	Grants Assistance	Department of Public Lands	Private Grants	Other Governmental Funds	Total
Revenues:						
Taxes	\$ 133,212,675	\$ -	\$ -	\$ -	\$ 3,535,692	\$ 136,748,367
Federal contributions	-	84,628,243	-	-	2,593,498	87,221,741
Licenses and fees	7,207,648	159,002	300,403	-	4,864,571	12,531,624
Charges for sales and services	679,146	-	3,128,328	-	35,393	3,842,867
Contributions from component units	1,783,804	-	-	-	25,827	1,809,631
Interest and dividends	13,447	239	13,182	-	385	27,253
Other	1,923,368	196,535	130,515	570,097	1,427,825	4,248,340
Total revenues	144,820,088	84,984,019	3,572,428	570,097	12,483,191	246,429,823
Expenditures:						
Current:						
Health	8,597,649	40,648,314	-	111,708	163,900	49,521,571
General government	18,003,937	7,772,964	-	-	35,120	25,812,021
Public safety and law enforcement	19,406,781	7,862,660	-	377,456	260,986	27,907,883
Community and social services	2,807,478	17,749,195	-	163,914	291,178	21,011,765
Lands and natural resources	3,156,669	7,808,247	2,775,158	168	-	13,740,242
Utilities	10,329,916	1,007,915	-	-	-	11,337,831
Other elected officials	6,941,379	-	-	-	76,571	7,017,950
Legislative branch	5,414,217	-	-	-	-	5,414,217
Judicial branch	3,710,328	-	-	-	-	3,710,328
Education	1,460,920	172,449	-	-	1,935,385	3,568,754
Economic development	867,142	1,722,426	-	129,460	420,480	3,139,508
Payments to:						
Public School System	31,087,613	498,140	-	-	-	31,585,753
Marianas Visitors Authority	10,876,357	-	-	-	-	10,876,357
Northern Marianas College	4,626,308	264,155	-	-	-	4,890,463
Commonwealth Healthcare Corporation	1,152,912	-	-	-	-	1,152,912
Pension (and Other Employee Benefit)	-	-	-	-	-	-
Trust Fund	5,071,398	-	-	-	-	5,071,398
Debt service:						
Interest and fiscal charges	4,360,454	-	-	-	464,860	4,825,314
Principal retirement	3,670,000	-	-	-	729,757	4,399,757
Capital outlay:						
Public works	2,996,614	5,779,575	-	-	5,597,535	14,373,724
Utilities - Capital Projects	-	410,347	-	-	-	410,347
Total expenditures	144,538,072	91,696,387	2,775,158	782,706	9,975,772	249,768,095
Excess (deficiency) of revenues over (under) expenditures	282,016	(6,712,368)	797,270	(212,609)	2,507,419	(3,338,272)
Other financing sources (uses):						
Operating transfers in	4,865,855	5,612,071	-	-	807,186	11,285,112
Operating transfers out	(5,953,927)	(1,379,802)	(689,634)	-	(3,261,749)	(11,285,112)
Total other financing sources (uses), net	(1,088,072)	4,232,269	(689,634)	-	(2,454,563)	-
Net change in fund balances (deficit)	(806,056)	(2,480,099)	107,636	(212,609)	52,856	(3,338,272)
Fund balances (deficit) at beginning of year	(73,295,989)	4,934,092	5,134,410	(172,971)	6,936,616	(56,463,842)
Fund balances (deficit) at end of year	\$ (74,102,045)	\$ 2,453,993	\$ 5,242,046	\$ (385,580)	\$ 6,989,472	\$ (59,802,114)

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, 2013

Total net change in fund deficit - governmental funds		\$ (3,338,272)
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, net of disposals	6,037,114	
Depreciation expense	<u>(11,680,689)</u>	
		(5,643,575)
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 bonds	3,670,000	
Repayment of NMIRF loan	729,757	
Amortization of bond premium	6,320	
Amortization of bond discount	(1,265)	
Amortization of deferred amount on refunding	<u>(309,727)</u>	
		4,095,085
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	1,153	
Change in compensated absences payable	371,123	
Change in landfill closure and postclosure care costs	(381,737)	
Change in obligations under Settlement Agreement	<u>14,340,147</u>	
		<u>14,330,686</u>
Change in net position of governmental activities		<u>\$ 9,443,924</u>

See accompanying notes to financial statements.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Statement of Fiduciary Net Position
Fiduciary Funds
September 30, 2013

	<u>Assets</u>	Pension (and Other Employee Benefit) Trust Fund	Agency Funds
Cash and cash equivalents		\$ 30,151,285	\$ 1,132,758
Receivables:			
Loan		4,977,581	-
Notes		6,822,780	-
Benefits		7,631,344	-
Other		857,170	-
		<u>20,288,875</u>	<u>-</u>
Due from General Fund		249,768,055	1,390,449
Due from component units		64,066,812	-
Less allowance for uncollectible receivables		<u>(212,899,139)</u>	<u>-</u>
		<u>100,935,728</u>	<u>1,390,449</u>
Due from Miscellaneous Special Revenue Funds		614,477	-
Prepaid items		<u>808,969</u>	<u>-</u>
Investments, at fair market value:			
Equity securities		965,733	-
Corporate debt securities		66,458,356	-
U.S. Government securities		940,564	-
Mutual funds		89,998,279	-
		<u>158,362,932</u>	<u>-</u>
Restricted assets		<u>133,396</u>	<u>1,427,116</u>
Capital assets		<u>3,740,351</u>	<u>-</u>
Total assets		<u>315,036,013</u>	<u>\$ 3,950,323</u>
	<u>Liabilities and Other Credits</u>		
Accounts payable		18,101,896	-
Refunds payable		40,972,443	-
Claims and judgments payable		-	1,390,449
Deposits payable		-	2,559,874
Other liabilities and accruals		687,372	-
Due to Judicial Building Fund		504	-
Unearned revenue		<u>109,709,655</u>	<u>-</u>
Total liabilities and other credits		<u>169,471,870</u>	<u>\$ 3,950,323</u>
Net position:			
Held in trust for pension benefits		159,676,473	
Held in trust for medical and life insurance benefits		(15,923,273)	
Held in trust for workers' compensation benefits and other purposes		<u>1,810,943</u>	
Total net position		<u>\$ 145,564,143</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, 2013

	<u>Pension (and Other Employee Benefit) Trust Fund</u>
	<u>Trust Fund</u>
<u>Additions</u>	
Contributions:	
Employer	\$ 17,077,779
Employee	7,818,345
Revenues:	
Premiums	8,134
Rent income and other	<u>2,682,406</u>
Total contributions and revenues	<u>27,586,664</u>
Net investment earnings:	
Net appreciation in fair value of investments	(9,053,555)
Interest	<u>7,127,609</u>
Net investment earnings	<u>(1,925,946)</u>
Other financing sources:	
Transfers in	<u>60,241</u>
Total additions	<u>25,720,959</u>
<u>Deductions</u>	
Benefits	73,422,651
General and administrative	2,987,860
Refunds and withdrawals	<u>61,515,821</u>
Total deductions	<u>137,926,332</u>
Change in net position	(112,205,373)
Net position at beginning of year	<u>257,769,516</u>
Net position at end of year	<u>\$ 145,564,143</u>

See accompanying notes to financial statements.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Statement of Net Position
Component Units
September 30, 2013

	Commonwealth Ports Authority	Commonwealth Development Authority	Commonwealth Utilities Corporation	Marianas Public Land Trust	Northern Marianas College	Public School System	Marianas Visitors Authority	Commonwealth Healthcare Corporation	Total
Assets and Deferred Outflows									
Current assets:									
Cash and cash equivalents	\$ 12,464,858	\$ 3,080,831	\$ 7,695,022	\$ 2,473,202	\$ 5,525,846	\$ 3,184,570	\$ 2,915,751	\$ 4,695,848	\$ 42,035,928
Time certificates of deposit	-	-	-	-	694,446	-	-	-	694,446
Receivables, net of allowance for uncollectibles:									
Loans	-	4,622,902	-	-	-	-	-	-	4,622,902
Notes	-	-	308,678	4,203,844	-	-	-	-	4,512,522
Federal agencies	435,900	-	116,347	-	1,427,101	661,463	-	-	2,640,811
General	2,963,504	-	10,074,254	-	1,982,777	-	-	-	15,020,535
Interest and dividends	-	377,281	-	439,412	-	-	-	24,360,761	25,177,454
Other	457,892	122,882	-	1,196,737	-	407,502	15,308	42,050	2,242,371
Due from primary government	-	-	-	-	365,521	1,487,371	4,924,828	1,426,673	8,204,393
Inventories	-	-	9,221,399	-	597,067	-	-	(898,234)	8,920,232
Other assets	304,220	4,171	6,895,885	40,242	1,393	-	51,680	-	7,297,591
Restricted assets:									
Cash and cash equivalents	-	9,179,533	10,399,000	-	-	-	-	-	19,578,533
Investments	17,024,045	-	-	-	-	-	-	-	17,024,045
Total current assets	33,650,419	17,387,600	44,710,585	8,353,437	10,594,151	5,740,906	7,907,567	29,627,098	157,971,763
Noncurrent assets:									
Investments	-	-	-	65,197,186	6,921,792	-	-	-	72,118,978
Receivables:									
Loans, net	-	12,454,526	-	-	-	-	-	-	12,454,526
Notes	-	-	1,234,710	3,529,744	-	-	-	-	4,764,454
Other	-	1,593,329	-	-	-	-	-	-	1,593,329
Nondepreciable capital assets	47,974,011	7,572,530	15,266,848	116,000	1,113,376	37,699,297	-	-	109,742,062
Depreciable capital assets, net of accumulated depreciation	148,023,297	2,072,705	72,337,044	206,814	3,910,432	43,810,955	5,130	-	270,366,377
Foreclosed real estate	-	1,985,553	-	505,571	-	-	-	-	2,491,124
Total noncurrent assets	195,997,308	25,678,643	88,838,602	69,555,315	11,945,600	81,510,252	5,130	-	473,530,850
Deferred outflows from cost of refunding debt	837,150	-	-	-	-	-	-	-	837,150
Total assets and deferred outflows	230,484,877	43,066,243	133,549,187	77,908,752	22,539,751	87,251,158	7,912,697	29,627,098	632,339,763
LIABILITIES AND DEFERRED INFLOWS									
Current liabilities:									
Current portion of bonds payable	1,780,000	-	-	-	-	-	-	-	1,780,000
Current portion of notes payable	251,387	157,100	3,902,580	-	-	-	-	3,000,000	7,311,067
Current portion of obligations under preferred stock agreement	-	-	1,080,000	-	-	-	-	-	1,080,000
Accounts payable	3,974,125	911,641	7,672,075	49,773	960,963	9,476,886	903,691	13,943,443	37,892,597
Compensated absences	250,247	-	116,169	-	380,949	1,141,747	13,526	-	1,902,638
Due to primary government	2,073,592	-	6,387,139	-	-	-	-	-	8,460,731
Other liabilities and accruals	2,444,162	2,983,723	11,664,757	1,304,297	505,662	4,742	1,196,911	2,268,725	22,372,979
Accrued interest payable	546,679	-	-	-	-	-	-	-	546,679
Unearned revenues	80,046	943,431	-	-	891,660	-	4,800	-	1,919,937
Total current liabilities	11,400,238	4,995,895	30,822,720	1,354,070	2,739,234	10,623,375	2,118,928	19,212,168	83,266,628
Noncurrent liabilities:									
Bonds payable, net of current portion	41,978,967	-	-	-	-	-	-	-	41,978,967
Notes payable, net of current portion	4,755,739	674,843	1,614,779	-	-	-	-	-	7,045,361
Obligations under preferred stock agreement, net of current portion	-	-	2,520,000	-	-	-	-	-	2,520,000
Compensated absences, net of current portion	321,615	-	813,179	-	197,679	1,395,469	82,720	-	2,810,662
Due to Pension (and Other Employee Benefit) Trust Fund	-	-	3,388,379	-	-	23,767,066	-	-	27,155,445
Unearned revenues, net of current portion	-	7,824,558	-	-	-	-	-	-	7,824,558
Total noncurrent liabilities	47,056,321	8,499,401	8,336,337	-	197,679	25,162,535	82,720	-	89,334,993
Deferred inflows of resources	-	-	-	-	145,120	1,293,999	-	-	1,439,119
Total liabilities and deferred inflows of resources	58,456,559	13,495,296	39,159,057	1,354,070	3,082,033	37,079,909	2,201,648	19,212,168	174,040,740
NET POSITION									
Invested in capital assets, net of related debt	148,068,365	9,645,235	87,603,892	322,814	5,023,808	81,510,252	5,130	-	332,179,496
Restricted	17,024,045	19,925,712	48,565,364	76,231,868	6,921,792	1,087,689	-	-	169,756,470
Unrestricted	6,935,908	-	(41,779,126)	-	7,512,118	(32,426,692)	5,705,919	10,414,930	(43,636,943)
Total net position	\$ 172,028,318	\$ 29,570,947	\$ 94,390,130	\$ 76,554,682	\$ 19,457,718	\$ 50,171,249	\$ 5,711,049	\$ 10,414,930	\$ 458,299,023

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, 2013

	Commonwealth Ports Authority	Commonwealth Development Authority	Commonwealth Utilities Corporation	Marianas Public Land Trust	Northern Marianas College	Public School System	Marianas Visitors Authority	Commonwealth Healthcare Corporation	Total
Operating revenues:									
Charges for services and fees	\$ 11,684,377	\$ 1,185,119	\$ 90,393,569	\$ -	\$ 1,370,666	\$ 1,342,330	\$ 63,708	\$ 44,180,167	\$ 150,219,936
Grants and contributions	-	6,825,216	-	-	8,882,907	28,532,681	188,664	5,500	44,434,968
Other	7,709,229	194,842	-	4,572,307	699,169	-	81,887	3,270,164	16,527,598
	19,393,606	8,205,177	90,393,569	4,572,307	10,952,742	29,875,011	334,259	47,455,831	211,182,502
Provision for uncollectible receivables	84,321	(195,047)	-	514,655	-	-	-	-	403,929
Total operating revenues	19,477,927	8,010,130	90,393,569	5,086,962	10,952,742	29,875,011	334,259	47,455,831	211,586,431
Operating expenses:									
Cost of services	6,582,260	4,843,351	71,931,652	-	11,350,547	57,458,511	4,803,448	17,614,074	174,583,843
Depreciation and amortization	12,598,802	240,532	8,333,369	41,087	550,506	4,658,196	10,706	-	26,433,198
Administration	5,622,384	3,445,413	18,958,651	751,765	3,664,746	1,411,637	1,507,896	21,281,722	56,644,214
Total operating expenses	24,803,446	8,529,296	99,223,672	792,852	15,565,799	63,528,344	6,322,050	38,895,796	257,661,255
Operating income (loss)	(5,325,519)	(519,166)	(8,830,103)	4,294,110	(4,613,057)	(33,653,333)	(5,987,791)	8,560,035	(46,074,824)
Nonoperating revenues (expenses):									
Contributions from the primary government	-	-	-	-	4,474,062	30,239,861	8,984,627	-	43,698,550
Contributions to the primary government	-	(25,827)	(417,561)	(2,448,673)	-	-	-	-	(2,892,061)
Unrestricted investment earnings	262,938	19,442	2,176,130	-	-	-	-	-	2,458,510
Interest expense	(2,788,598)	(58,571)	(1,327,555)	-	-	-	-	(217,183)	(4,391,907)
Amortization of bond issue cost	-	-	-	-	-	-	-	-	-
Other expenses	-	(106,147)	(196,745)	(417)	-	-	-	-	(303,309)
Other revenues	2,785,217	731,064	303,236	-	757,030	-	-	1,815,376	6,391,923
Nonoperating revenues (expenses), net	259,557	559,961	537,505	(2,449,090)	5,231,092	30,239,861	8,984,627	1,598,193	44,961,706
Income (loss) before change in recovery of fuel costs	(5,065,962)	40,795	(8,292,598)	1,845,020	618,035	(3,413,472)	2,996,836	10,158,228	(1,113,118)
Change in recovery of fuel costs	-	-	2,236,425	-	-	-	-	-	2,236,425
Income (loss) before capital contributions and federal grants	(5,065,962)	40,795	(6,056,173)	1,845,020	618,035	(3,413,472)	2,996,836	10,158,228	1,123,307
Capital contributions and federal grants	14,743,092	-	11,489,591	-	-	444,936	-	-	26,677,619
Change in net position	9,677,130	40,795	5,433,418	1,845,020	618,035	(2,968,536)	2,996,836	10,158,228	27,800,926
Net position - beginning, as previously reported	163,544,715	29,530,152	88,956,712	74,709,662	18,839,683	52,633,472	2,714,213	256,702	431,185,311
Prior period adjustment (note 16)	(1,193,527)	-	-	-	-	506,313	-	-	(687,214)
Net position - beginning, as restated	162,351,188	29,530,152	88,956,712	74,709,662	18,839,683	53,139,785	2,714,213	256,702	430,498,097
Net position - ending	\$ 172,028,318	\$ 29,570,947	\$ 94,390,130	\$ 76,554,682	\$ 19,457,718	\$ 50,171,249	\$ 5,711,049	\$ 10,414,930	\$ 458,299,023

See accompanying notes to financial statements.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements
September 30, 2013

(1) Summary of Significant Accounting Policies

The accompanying basic financial statements of the Commonwealth of the Northern Mariana Islands (CNMI) have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is the recognized standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the CNMI's accounting policies are described below.

A. Reporting Entity

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

For financial reporting purposes, the CNMI has included all funds, organizations, agencies, boards, commissions and institutions. The CNMI has also considered all potential component units for which it is financially accountable as well as other entities for which the nature and significance of their relationship with the CNMI are such that exclusion would cause the CNMI's basic financial statements to be misleading or incomplete. The criteria to be considered in determining financial accountability include whether the CNMI, as the primary government, has appointed a voting majority of an organization's governing body and either has the ability to impose its will on that organization or there is potential for the organization to provide specific financial benefits to or impose specific financial burdens on the CNMI. Financial accountability also exists if an organization is determined to be fiscally dependent on the primary government, although the primary government does not appoint a voting majority of the organization's governing board.

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

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

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements
September 30, 2013

(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 all utility services within the CNMI. CUC is headed by an Executive Director appointed by the Governor. 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, 2013

(1) Summary of Significant Accounting Policies, Continued

A. Reporting Entity, Continued

- The Commonwealth Healthcare Corporation (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.

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

Commonwealth Healthcare Corporation
P.O. Box 500409
Saipan, MP 96950-0409

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements
September 30, 2013

(1) Summary of Significant Accounting Policies, Continued

A. Reporting Entity, Continued

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

- The Northern Mariana Islands Retirement Fund (NMIRF), a Fiduciary Fund Type - Pension (and Other Employee Benefit) Trust Fund, exists to provide retirement security and other benefits to government employees, their spouses and dependents, former Governors and Lieutenant Governors, and to provide for an actuarially sound, locally funded pension system within the CNMI. NMIRF is governed by a seven-member Board of Trustees appointed by the Governor.
- The CNMI Group Health and Life Insurance Trust Fund (GHLITF), a Fiduciary Fund Type - Pension (and Other Employee Benefit) Trust Fund, is responsible for administering the life and health insurance programs for CNMI government employees. The Board of Trustees of NMIRF administers GHLITF. The GHLITF health benefit administration was privatized on November 1, 2007.
- The CNMI Workers' Compensation Commission (WCC), a Fiduciary Fund Type - Pension (and Other Employee Benefit) Trust Fund, is responsible for the payment of compensation to workers who are not adequately covered under their employer's insurance policy. The Board of Trustees of NMIRF administers WCC.

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 501247
Saipan, MP 96950-1247

CNMI Group Health and Life Insurance Trust Fund
P.O. Box 501247
Saipan, MP 96950-1247

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements
September 30, 2013

(1) Summary of Significant Accounting Policies, Continued

A. Reporting Entity, Continued

Omitted Component Unit

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.

Program and Other Revenue Recognition

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

B. Government-Wide Financial Statements

The Statement of Net Position and the Statement of Activities report information on all non-fiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been eliminated from these statements except for other changes between the primary government and the discretely presented component units. Elimination of these changes would distort the direct costs and program revenues reported for the various functions concerned. Primary government activities are all governmental in nature. Governmental activities generally are financed through taxes, intergovernmental revenues and other non-exchange revenues. Discretely presented component unit activities are presented with their business-type focus.

The Statement of Net Position presents all of the reporting entity's non-fiduciary assets and liabilities, with the difference reported as net position. Net position is reported in three categories:

- *Invested in capital assets, net of related debt* consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt that are attributed to the acquisition, construction or improvement of those assets.
- *Restricted net 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.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements
September 30, 2013

(1) Summary of Significant Accounting Policies, Continued

B. Government-Wide Financial Statements, Continued

The government-wide Statement of Net Position reports \$17,938,694 of restricted net position, of which \$13,948,791 is restricted by enabling legislation.

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

C. Fund Financial Statements

The fund financial statements present a balance sheet and a statement of revenues, expenditures, and changes in fund balances for its major and aggregated 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.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements
September 30, 2013

(1) Summary of Significant Accounting Policies, Continued

D. Measurement Focus and Basis of Accounting, Continued

Governmental Fund Financial Statements:

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

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. Investments and related investment earnings are recorded at fair value. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. Expenditures generally are recorded in the period in which the related fund liability is incurred as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Fiduciary Funds and Component Units Financial Statements:

Discretely presented component units distinguish operating revenues from nonoperating items. Operating revenues generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All other revenues are reported as nonoperating. Operating expenses include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - For State and Local Governments*, as amended by GASB Statement No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - For State and Local Governments: Omnibus*, sets forth minimum criteria (percentage of the assets, liabilities, revenues or expenditures/expenses for either fund category or the governmental and enterprise combined) for the determination of major funds. Major individual governmental funds are reported as separate columns in the fund financial statements. The nonmajor funds are combined in a column in the fund financial statements and detailed in the combining statements. The CNMI reports the following major funds:

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements
September 30, 2013

(1) Summary of Significant Accounting Policies, Continued

D. Measurement Focus and Basis of Accounting, Continued

- 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.
- Department of Public Lands, a Governmental Fund Type - Special Revenue Fund. This fund accounts for all financial transactions related to those lands defined as public lands.
- Private Grants Fund, a Governmental Fund Type - Special Revenue 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.

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, 2013, 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.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements
September 30, 2013

(1) Summary of Significant Accounting Policies, Continued

G. Receivables

In general, tax revenue is recognized on the government-wide financial statements, when assessed or levied. Tax revenue is recognized on the governmental fund financial statements to the extent that it is both measurable and available. Receivables are stated net of estimated allowances for uncollectible accounts. Reimbursements due to the CNMI for expenditures on federally-funded reimbursement and grant programs are reported as “receivables from federal agencies”.

H. Interfund/Intrafund Transactions

As a general rule, the effect of interfund activity has been eliminated in the government-wide financial statements. Exceptions to this rule are: 1) activities between funds reported as governmental activities and funds reported as business-type activities and 2) activities between funds that are reported in different functional categories in either the governmental or business-type activities column. Elimination of these activities would distort the direct costs and program revenues for the functions concerned.

I. Interfund Receivables and Payables

During the course of its operations, the CNMI records transactions between individual funds for goods provided or services rendered. Receivables and payables resulting from transactions between funds are classified as “due from other funds” or “due to other funds” on the governmental funds balance sheet. Receivables and payables resulting from transactions between component units and the primary government are classified as “due to/from primary government” or “due to/from component units” on the governmental balance sheet and statement of net position. Interfund receivables and payables have been eliminated from the statement of net position.

J. Advances

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

K. Inventories

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

Food stamp balances held at year end are recorded as inventories based on face value. Inventories reported in the Grants Assistance Fund of \$938,000 are offset by unearned revenues.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements
September 30, 2013

(1) Summary of Significant Accounting Policies, Continued

L. Capital Assets and Depreciation

Capital assets, which include property, plant, equipment and infrastructure (e.g. roads, bridges, ramps and other similar items), are reported in the governmental activity column of the government-wide financial statements.

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

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

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

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

Applicable capital assets are depreciated using the straight-line method with a full year's depreciation charged in the year of acquisition and disposal, regardless of date. Estimated useful lives are as follows:

	<u>Estimated Useful Life</u>
Buildings and other improvements	10 - 50 years
Infrastructure	20 years
Machinery and equipment	5 - 25 years

M. Fund Equity/Net Position

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

Net position has been restricted as follows:

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

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements
September 30, 2013

(1) Summary of Significant Accounting Policies, Continued

M. Fund Equity/Net Position, Continued

“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.
- Assigned - includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. Intent is expressed by either the CNMI Legislature or a body (for example, a budget or finance committee) or official to which the governing body has delegated the authority to assign amounts to be used for specific purposes.
- 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, assigned, 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 assigned, and then unassigned. The use of restricted/committed resources may be deferred based on a review of the specific transaction.

A formal minimum fund balance policy has not been adopted.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements
September 30, 2013

(1) Summary of Significant Accounting Policies, Continued

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, 2013. However, the CNMI has estimated the aggregate assessed valuation of real property to be \$1,596,236,822 as of September 30, 2013. This estimation was based on the 1995 CNMI Mid-Decade Census.

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, 2013, is \$5,399,620.

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 fund financial statements, unearned revenues arise when potential revenue does not meet both the “measurable” and “available” criteria for recognition in the current period under the modified accrual basis of accounting. Unearned revenues also arise when resources are received by the CNMI before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the CNMI has a legal claim to the resources, the liability for unearned revenue is removed from the governmental fund balance sheet and revenue is recognized.

Q. Bond Premiums, Discounts and Issuance Costs

In the government-wide financial statements, bond premiums, discounts and issuance costs are deferred and amortized over the term of the bonds using the straight-line method. Bonds payable are reported net of bond premiums and discounts. Bond issuance costs are expensed in the period incurred (see note 16).

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements
September 30, 2013

(1) Summary of Significant Accounting Policies, Continued

Q. Bond Premiums, Discounts and Issuance Costs, Continued

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.

R. 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.

S. 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.

T. New Accounting Standards

During the year ended September 30, 2013, the CNMI implemented the following pronouncements:

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements
September 30, 2013

(1) Summary of Significant Accounting Policies, Continued

T. New Accounting Standards, Continued

- GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, which addressed how to account for and report service concession arrangements (SCAs), a type of public-private or public-public partnership that state and local governments are increasingly entering into. The implementation of this statement did not have a material effect on the accompanying financial statements.
- GASB Statement No. 61, *The Financial Reporting Entity: Omnibus*, which improved financial reporting for governmental entities by amending the requirements of Statements No. 14, *The Financial Reporting Entity*, and No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, to better meet user needs and address reporting entity issues that have come to light since those Statements were issued in 1991 and 1999, respectively. The implementation of this statement did not have a material effect on the accompanying financial statements.
- GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which enhanced the usefulness of its Codification by incorporating guidance that previously could only be found in certain Financial Accounting Standards Board (FASB) and American Institute of Certified Public Accountants (AICPA) pronouncements issued on or before November 30, 1989, which does not conflict or contradict GASB pronouncements. GASB Statement no. 62 superceded GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*. The implementation of this statement did not have a material effect on the accompanying financial statements.
- GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which established guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position, and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which clarifies the appropriate reporting of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. These Statements amend the net asset reporting requirements in Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. With the implementation of GASB Statement No. 63 and Statement No. 65, the Statement of Net Assets was renamed the Statement of Net Position. In addition, the Statement of Net Position includes two new classifications separate from assets and liabilities. Amounts reported as deferred outflows of resources are reported in a separate section following assets.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements
September 30, 2013

(1) Summary of Significant Accounting Policies, Continued

T. New Accounting Standards, Continued

In April 2012, GASB issued Statement No. 66, *Technical Corrections - 2012*, which enhances the usefulness of financial reports by resolving conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting. The provisions of this statement are effective for periods beginning after December 15, 2012. Management has not yet determined the effect of implementation of this statement on the financial statements of the CNMI.

In June 2012, GASB issued Statement No. 67, *Financial Reporting for Pension Plans*, which revises existing guidance for the financial reports of most pension plans, and Statement No. 68, *Accounting and Financial Reporting for Pensions*, which revises and establishes new financial reporting requirements for most governments that provide their employees with pension benefits. The provisions in Statement 67 are effective for financial statements for periods beginning after June 15, 2013. The provisions in Statement 68 are effective for fiscal years beginning after June 15, 2014. Management has not yet determined the effect of implementation of these statements on the financial statements of the CNMI.

In January 2013, GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations*, which improves accounting and financial reporting for state and local governments' combinations and disposals of government operations. Government combinations include mergers, acquisitions, and transfers of operations. A disposal of government operations can occur through a transfer to another government or a sale. The provisions in Statement 69 are effective for fiscal years beginning after December 15, 2013. Management has not yet determined the effect of implementation of these statements on the financial statements of the CNMI.

In April 2013, GASB issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, which requires a state or local government guarantor that offers a nonexchange financial guarantee to another organization or government to recognize a liability on its financial statements when it is more likely than not that the guarantor will be required to make a payment to the obligation holders under the agreement. The provisions in Statement 69 are effective for fiscal years beginning after June 15, 2013. Management has not yet determined the effect of implementation of these statements on the financial statements of the CNMI.

U. Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenditures and expenses during the reporting period. Actual results may differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the tax rebate payable.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements
September 30, 2013

(1) Summary of Significant Accounting Policies, Continued

U. Estimates, Continued

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

V. Encumbrances

The CNMI utilizes encumbrance accounting to identify fund obligations. Encumbrances represent commitments related to unperformed contracts for goods. At September 30, 2013, the CNMI has significant encumbrances summarized as follows:

	<u>General</u>	<u>Grants Assistance</u>	<u>Department of Public Lands</u>	<u>Private Grants</u>	<u>Other Governmental Funds</u>	<u>Total</u>
Encumbrances	\$ <u>3,425,351</u>	\$ <u>9,325,665</u>	\$ <u>-</u>	\$ <u>439,801</u>	\$ <u>8,974,881</u>	\$ <u>22,165,698</u>

W. 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, 2012 from which summarized information was derived.

(2) Deposits and Investments

Deposit and Investment Policy

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

Cash and Cash Equivalents and Time Certificates of Deposit

Custodial credit risk is the risk that in the event of a bank failure, the CNMI's deposits may not be returned to it. Such deposits are not covered by depository insurance and are either uncollateralized or collateralized with securities held by the pledging financial institution or held by the pledging financial institution but not in the depositor-government's name. The CNMI does not have a deposit policy for custodial credit risk.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements
September 30, 2013

(2) Deposits and Investments, Continued

Cash and Cash Equivalents and Time Certificates of Deposit, Continued

As of September 30, 2013, the carrying amount of the primary government's total cash and cash equivalents and time certificates of deposit were \$12,876,871 and the corresponding bank balances were \$12,639,509. Of the bank balance amounts, \$10,855,014 is maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. The remaining amount of \$1,784,495 represents amounts maintained in a non-FDIC insured bank. 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, 2013 amounted to \$19,919,785 and the corresponding bank balances were \$19,892,092. Of the bank balance amounts, \$17,443,925 is maintained in financial institutions subject to FDIC insurance. The remaining amount of \$2,448,167 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, 2013. As of September 30, 2013, 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, 2013, is presently not determinable. Accordingly, these deposits are exposed to custodial credit risk.

As of September 30, 2013, the carrying amount of the discretely presented component units' total cash and cash equivalents and time certificates of deposit were \$44,214,885 and the corresponding bank balances were \$44,617,440. Of the bank balance amounts, \$42,287,799 is maintained in financial institutions subject to FDIC insurance and \$101,133 represents amounts maintained in a non-FDIC insured bank. The remaining amount of \$2,228,508 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, 2013, bank deposits in the amount of \$5,339,296 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. Balances do not include CUC's total cash and cash equivalents and time certificates of deposit of \$18,094,022 as details were not made available.

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.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements
September 30, 2013

(2) Deposits and Investments, Continued

Investments, Continued

Custodial credit risk for investments is the risk that in the event of the failure of the counterparty to the transaction, the CNMI will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The CNMI's investments are held and administered by trustees in accordance with various bond indentures for the purpose of funding various capital projects, land settlement claims and future debt service requirements. Based on negotiated trust and custody contracts, all of these investments were held in the CNMI's name by the CNMI's custodial financial institutions at September 30, 2013.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of debt instruments. The CNMI does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

A. Governmental Funds

As of September 30, 2013, the General Fund holds 14% and 11% of the shares of the Pacific Islands Development Bank and the United Micronesia Development Association, Inc. in the amount of \$1,000,000 and \$1,500,000, respectively. As the fair market value of these investments is not readily available, such have been recorded at cost.

B. Fiduciary Funds

NMIRF:

As of September 30, 2013, NMIRF's investment breakdown was not made available and, accordingly, NMIRF's fixed income securities and their maturities could not be determined.

WCC:

As of September 30, 2013, WCC's investment breakdown was not made available and, accordingly, WCC's fixed income securities and their maturities could not be determined.

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, 2013. As of September 30, 2013, investments at fair value consist of investments in U.S. Government money market placements amounting to \$17,024,045.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements
September 30, 2013

(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, 2013.

As of September 30, 2013, investments at fair value are as follows:

Mutual funds	\$ 9,288,613
Fixed income securities:	
Domestic fixed income	40,195,374
Other investments:	
Domestic equities	11,707,827
International equities	<u>4,005,372</u>
	<u>\$ 65,197,186</u>

The following is a listing of MPLT's fixed income securities at September 30, 2013:

Investment Type	Fair Value	Investment Maturities (In Years)				Credit Rating
		Less Than 1	1 - 5	6 - 10	More Than 10	
Asset and mortgage backed securities	\$ 489,712	\$ -	\$ -	\$ 489,712	\$ -	AAA
Asset and mortgage backed securities	6,996,580	-	2,739,963	1,245,563	3,011,054	AA+*
Asset and mortgage backed securities	4,072,130	-	4,072,130	-	-	AA+
Asset and mortgage backed securities	43,009	-	-	-	43,009	NA
Government bonds	2,843,161	-	-	-	2,843,161	AA+*
Municipal bonds	1,351,928	-	-	1,351,928	-	AA+
Corporate bonds	241,800	-	-	241,800	-	A+
Corporate bonds	2,981,437	191,775	164,081	2,625,581	-	A
Corporate bonds	8,543,569	389,812	-	7,892,414	261,343	A-
Corporate bonds	1,598,687	60,524	168,740	1,369,423	-	BBB+
Corporate bonds	464,321	131,644	262,950	69,727	-	BBB
Corporate bonds	1,361,136	136,462	689,992	411,198	123,484	BBB-
Corporate bonds	976,280	129,859	430,208	272,489	143,724	BB+
Corporate bonds	1,284,469	-	275,497	788,036	220,936	BB
Corporate bonds	1,690,130	-	849,481	612,961	227,688	BB-
Corporate bonds	1,629,503	-	492,478	723,241	413,784	B+
Corporate bonds	1,307,560	156,960	271,821	818,479	60,300	B
Corporate bonds	405,990	-	63,945	342,045	-	B-
Corporate bonds	260,824	-	68,829	191,995	-	CCC+
Corporate bonds	1,437,598	-	813,044	383,876	240,678	NA
Corporate bonds	215,550	-	215,550	-	-	NR
	<u>\$ 40,195,374</u>	<u>\$ 1,197,036</u>	<u>\$ 11,578,709</u>	<u>\$ 19,830,468</u>	<u>\$ 7,589,161</u>	

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements
September 30, 2013

(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, 2013.

As of September 30, 2013, investments at fair value are as follows:

Fixed income securities:	
Domestic fixed income	\$ <u>1,894,101</u>
Other investments:	
Domestic equities	3,975,138
Other	<u>1,052,553</u>
	<u>5,027,691</u>
	<u>\$ 6,921,792</u>

The following is a listing of NMC's fixed income securities at September 30, 2013:

Investment Type	Fair Value	Investment Maturities (In Years)				Rating
		Less Than 1	1 - 5	6 - 10	More Than 10	
Government and GSE bonds	\$ 1,333,494	\$ 95,972	\$ 918,955	\$ 186,162	\$ 132,405	AAA
Government and GSE bonds	110,624	-	-	-	110,624	No rating
Corporate bonds	93,162	-	19,138	56,748	17,276	A
Corporate bonds	42,548	-	42,548	-	-	A-
Corporate bonds	56,644	-	19,870	-	36,774	A+
Corporate bonds	18,556	-	-	-	18,556	AA
Corporate bonds	22,212	-	-	22,212	-	AA-
Corporate bonds	20,972	-	20,972	-	-	AA+
Corporate bonds	<u>195,889</u>	<u>-</u>	<u>22,992</u>	<u>115,391</u>	<u>57,506</u>	BBB
	\$ <u>1,894,101</u>	\$ <u>95,972</u>	\$ <u>1,044,475</u>	\$ <u>380,513</u>	\$ <u>373,141</u>	

(3) Receivables

Governmental Funds

Receivables as of September 30, 2013, 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, 2013

(3) Receivables, Continued

Governmental Funds, Continued

	<u>General</u>	<u>Grants Assistance</u>	<u>Department of Public Lands</u>	<u>Private Grants</u>	<u>Other Governmental Funds</u>	<u>Total</u>
Receivables:						
Federal agencies	\$ 5,702,781	\$ 13,436,958	\$ -	\$ 284,562	\$ 3,536,701	\$ 22,961,002
Other	3,543,054	-	-	-	-	3,543,054
Taxes	5,935,571	-	-	-	-	5,935,571
General	<u>1,808,401</u>	<u>12,831</u>	<u>20,729,726</u>	<u>-</u>	<u>1,209,829</u>	<u>23,760,787</u>
Gross receivables	16,989,807	13,449,789	20,729,726	284,562	4,746,530	56,200,414
Less allowance for uncollectibles	<u>(4,965,112)</u>	<u>(11,272,251)</u>	<u>(19,953,649)</u>	<u>-</u>	<u>(2,556,050)</u>	<u>(38,747,062)</u>
Net receivables	\$ <u>12,024,695</u>	\$ <u>2,177,538</u>	\$ <u>776,077</u>	\$ <u>284,562</u>	\$ <u>2,190,480</u>	\$ <u>17,453,352</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, 2013, for the fiduciary funds, including allowances for uncollectible accounts, are as follows:

	<u>NMIRF</u>	<u>GHLTF</u>	<u>WCC</u>	<u>Total</u>
Receivables:				
Contributions	\$ 55,829,753	\$ -	\$ -	\$ 55,829,753
Loan	4,977,581	-	-	4,977,581
Notes	6,822,780	-	-	6,822,780
Benefits	7,318,318	-	313,026	7,631,344
Other	<u>856,764</u>	<u>56</u>	<u>350</u>	<u>857,170</u>
Gross receivables	75,805,196	56	313,376	76,118,628
Less allowance for uncollectibles	<u>(55,829,753)</u>	<u>-</u>	<u>-</u>	<u>(55,829,753)</u>
Net receivables	\$ <u>19,975,443</u>	\$ <u>56</u>	\$ <u>313,376</u>	\$ <u>20,288,875</u>

Contributions receivable of \$55,829,753 recorded by the NMIRF represent amounts owed to the NMIRF for employer contributions from various CNMI autonomous agencies. At September 30, 2013, a corresponding allowance for uncollectible contribution receivables of \$55,829,753 is recorded by the NMIRF.

Loan receivable of \$4,977,581 recorded by the NMIRF represents a receivable from the CNMI pursuant to a loan agreement entered into in February 28, 1995. The loan is for a period of twenty years, with interest rate at 7.75% per annum and payable in monthly installments of \$120,000.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements
September 30, 2013

(3) Receivables, Continued

Discretely Presented Component Units

Receivables as of September 30, 2013, for the discretely presented component units, including allowances for uncollectible accounts are as follows:

	CPA	CDA	MPLT	NMC	PSS	MVA	CHCC	Total
Receivables:								
Loans	\$ 3,385,131	\$ 55,526,059	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 58,911,190
Notes	-	-	12,675,143	-	-	-	-	12,675,143
Federal agencies	435,900	-	-	1,427,101	661,463	-	-	2,524,464
General	4,651,598	-	-	3,849,295	-	-	244,257,411	252,758,304
Interest and dividends	-	1,745,446	439,412	-	-	-	-	2,184,858
Other	<u>457,892</u>	<u>1,716,211</u>	<u>1,196,737</u>	<u>-</u>	<u>407,502</u>	<u>15,308</u>	<u>42,050</u>	<u>3,835,700</u>
Gross receivables	8,930,521	58,987,716	14,311,292	5,276,396	1,068,965	15,308	244,299,461	332,889,659
Less allowance for uncollectibles	<u>(5,073,225)</u>	<u>(39,816,796)</u>	<u>(4,941,555)</u>	<u>(1,866,518)</u>	<u>-</u>	<u>-</u>	<u>(219,896,650)</u>	<u>(271,594,744)</u>
Net receivables	\$ <u>3,857,296</u>	\$ <u>19,170,920</u>	\$ <u>9,369,737</u>	\$ <u>3,409,878</u>	\$ <u>1,068,965</u>	\$ <u>15,308</u>	\$ <u>24,402,811</u>	\$ <u>61,294,915</u>

The balances above do not include CUC's total net receivable of \$11,733,989 as details were not made available.

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

CPA:

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

\$ 3,385,131

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.

\$ 38,545,269

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.

11,973,664

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements
September 30, 2013

(3) Receivables, Continued

Discretely Presented Component Units, Continued

CDA, Continued:

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 maturity date of June 15, 2030.

5,007,126

\$ 55,526,059

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.

\$ 8,087,313

Note receivable from Adelantun Publickun Luta Enteramente, Incorporated (APPLE 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 APPLE 501, Inc.

111,555

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.

831,943

Note receivable from the CNMI Government, interest at 7% per annum. Public Law 17-7 earmarks and appropriates from future interest income distributions of fiscal years 2009 to 2013 and additional future fiscal years until the note is fully reimbursed. Interest is due annually.

644,312

Note receivable from CHCC, interest at 7% per annum, due on March 12, 2013, collateralized by future distributable income of fiscal year 2014 and CHCC's real properties for CHCC's operational and bridge capital pursuant to CNMI Public Law 17-76.

3,000,020

\$ 12,675,143

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements
September 30, 2013

(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, 2013, are summarized as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	DPL	\$ 1,792,935
General	Nonmajor governmental	1,096,135
General	Grants Assistance	1,196,515
Grants Assistance	General	6,846,471
Private Grants	General	3,749,280
Nonmajor governmental	General	8,810,940
Fiduciary	General	<u>1,390,449</u>
		\$ <u>24,882,725</u>

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

Balances reflected as due to/from component units as of September 30, 2013, are summarized as follows:

<u>Due From</u>	<u>Due To</u>	<u>Amount</u>
PSS	General	\$ 1,487,371
NMC	General	365,521
MVA	General	7,366,179
CUC	General	3,240,901
MPLT	General	644,312
CHCC	General	1,257,801
CUC	DPL	<u>996,743</u>
		\$ <u>15,358,828</u>

The amount recorded as due from component units of the primary government of \$-0- does not equal the corresponding due to primary government of the discretely presented component units of \$8,460,731 due to CPA and CUC recording 1% public auditor fee of \$2,073,592 and \$6,387,139, respectively, for which the primary government recorded a corresponding allowance.

The amount recorded as due from primary government of the discretely presented component units of \$8,204,393 does not equal the corresponding due to component units of the primary government of \$15,358,828 by \$7,154,435. The difference of \$4,237,644 with CUC is due to the amount recorded as general receivables by CUC. The difference of \$644,312 with MPLT is due to the amount recorded as notes receivables by MPLT. The difference of \$2,441,351 with MVA is due to an allowance of \$1,585,460 and a write-off of \$855,891 recorded by MVA. The difference of \$168,872 with CHCC is due to unaudited financial statements.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements
September 30, 2013

(4) Interfund Receivables and Payables, Continued

The amount recorded as due to Pension (and Other Employee Benefit) Trust Fund of \$-0- does not equal the corresponding due from the general fund and due from nonmajor special revenue funds of the Fiduciary Funds of \$251,158,504 as a result of the Settlement Agreement discussed in note 15.

(5) Restricted Assets

Governmental Funds

Restricted assets of \$17,366,538 recorded in the General Fund represents cash and cash equivalents of \$2,125,558 for capital projects, \$5,430,716 for federal programs and projects, \$1,270,425 for future debt service requirements, \$3,749,280 for State Small Business Credit Initiative (SSBCI) payments and \$4,790,559 for other various purposes.

Restricted assets of \$2,416,352 recorded in the Grants Assistance Fund represents \$2,400,462 cash and cash equivalents restricted for capital projects, and \$15,890 for federal programs and projects.

Restricted assets of \$136,895 recorded in the Other Governmental Funds represent cash and cash equivalents of \$129,965 for capital projects and \$6,930 for other purposes.

Fiduciary Fund Type - Pension (and Other Employee Benefit) Trust Fund

WCC

Restricted assets of \$133,396 as of September 30, 2013, represents time certificates of deposit established for the purpose of making compensation for injury increasing disability in accordance with Subsection (f) of Section 9308 of Public Law 10-19.

Fiduciary Fund Type - Agency Fund

Restricted assets of \$1,427,116 as of September 30, 2013, represent deposits of foreign investors required by law to operate a business in the CNMI.

Discretely Presented Component Units

CPA:

Restricted assets of CPA as of September 30, 2013, represent the unused proceeds of the Airport Revenue Bonds and the Seaport Revenue Bonds, both issued on March 26, 1998, deposited with the Trustee. The Trustee is a commercial lending institution and the securities are held in the name of CPA. Disbursements from unused bond proceeds are to be made solely for the purpose of paying the costs of the projects, and pursuant to the Act establishing CPA (Public Law No. 2-48), payment of the costs of issuance and the payment of bond principal and interest to the extent provided in the Indenture.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements
September 30, 2013

(5) Restricted Assets, Continued

Discretely Presented Component Units, Continued

CPA, Continued:

<u>Fund</u>	<u>Airport Revenue Bonds</u>	<u>Seaport Revenue Bonds</u>	<u>Total</u>
Bond Reserve Fund	\$ 1,586,660	\$ 3,479,724	\$ 5,066,384
Supplemental Reserve Fund	-	8,034,239	8,034,239
Construction Fund	-	7,178	7,178
Reimbursement Fund	-	5,807	5,807
Bond Fund	411,190	787,681	1,198,871
Maintenance and Operation	1,282,857	1,415,074	2,697,931
Optional Redemption Fund	12,100	-	12,100
Revenue Fund	<u>724</u>	<u>811</u>	<u>1,535</u>
	\$ <u>3,293,531</u>	\$ <u>13,730,514</u>	\$ <u>17,024,045</u>

CDA:

Restricted assets of CDA's Development Banking Division of \$4,750,538 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 NMHC represent depository accounts with financial institutions in the CNMI that are restricted for various purposes, as summarized below:

Escrow account maintained as a guarantee for any deficiency in foreclosure proceeds related to USDA Rural Development Loans	\$ 2,879,935
Savings account restricted for Koblerville Section 8 project repairs and maintenance expenses, per contract with the U.S. Department of Housing and Urban Development	200,107
Savings account maintained as a guarantee of housing loans made by a savings and loan in the CNMI	91
Checking account maintained for Section 8 Housing Choice Vouchers Program expenses	1,305,144
Other depository accounts reserved for various purposes	<u>43,718</u>
	<u>\$ 4,428,995</u>

CUC:

Cash and cash equivalents of \$10,399,000 as of September 30, 2013, represent customer deposits segregated pursuant to CUC policy. Of the \$10,399,000, \$7,500,000 is held as security pursuant to a letter of credit obtained from a financial institution to secure a \$7,500,000 credit limit for fuel purchases.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements
September 30, 2013

(5) Restricted Assets, Continued

Discretely Presented Component Units, Continued

MPLT:

Restricted assets of \$65,197,186 represent investments held and administered by trustees in accordance with trust and custody agreements for purposes of investment and distribution to the CNMI General Fund in accordance with provisions of the CNMI Constitution.

(6) Fixed Assets and Depreciation

Capital asset activities for the year ended September 30, 2013, are as follows:

Primary Government

	Balance October 1, 2012	Additions	Retirements	Reclassifications	Balance September 30, 2013
Assets not being depreciated:					
Land	\$ 29,899,810	\$ -	\$ -	\$ -	\$ 29,899,810
Construction in progress	<u>25,925,522</u>	<u>3,242,261</u>	<u>-</u>	<u>(13,438,767)</u>	<u>15,729,016</u>
	<u>55,825,332</u>	<u>3,242,261</u>	<u>-</u>	<u>(13,438,767)</u>	<u>45,628,826</u>
Depreciable assets:					
Buildings and other improvements	179,982,105	-	-	3,723,091	183,705,196
Machinery and equipment	29,184,722	2,794,853	-	87,036	32,066,611
Infrastructure	<u>133,572,833</u>	<u>-</u>	<u>-</u>	<u>9,628,640</u>	<u>143,201,473</u>
	<u>342,739,660</u>	<u>2,794,853</u>	<u>-</u>	<u>13,438,767</u>	<u>358,973,280</u>
Accumulated depreciation:					
Buildings and other improvements	(65,593,360)	(5,835,727)	-	-	(71,429,087)
Machinery and equipment	(19,046,878)	(3,373,733)	-	-	(22,420,611)
Infrastructure	<u>(109,740,207)</u>	<u>(2,471,229)</u>	<u>-</u>	<u>-</u>	<u>(112,211,436)</u>
Total accumulated depreciation	<u>(194,380,445)</u>	<u>(11,680,689)</u>	<u>-</u>	<u>-</u>	<u>(206,061,134)</u>
Depreciable assets, net	<u>148,359,215</u>	<u>(8,885,836)</u>	<u>-</u>	<u>13,438,767</u>	<u>152,912,146</u>
	<u>\$ 204,184,547</u>	<u>\$ (5,643,575)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 198,540,972</u>

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

Community and Social Services	\$ 1,318,275
General Government	731,904
Health	1,858,179
Public Works	4,130,732
Judicial Branch	291,274
Public Safety and Law Enforcement	3,168,926
Lands and Natural Resources	<u>181,399</u>
Total depreciation expense - governmental activities	<u>\$ 11,680,689</u>

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements
September 30, 2013

(6) Fixed Assets and Depreciation, Continued

Discretely Presented Component Units

	Estimated Useful Lives	Balance at October 1, 2012	Additions	Retirements	Balance at September 30, 2013
Assets not being depreciated:					
Land		\$ 45,914,185	\$ -	\$ -	\$ 45,914,185
Construction in progress		<u>39,154,578</u>	<u>17,975,952</u>	<u>(8,569,501)</u>	<u>48,561,029</u>
		<u>85,068,763</u>	<u>17,975,952</u>	<u>(8,569,501)</u>	<u>94,475,214</u>
Depreciable assets:					
Housing projects	30 years	8,018,298	2,000	(42,906)	7,977,392
Buildings	5 - 50 years	67,038,969	1,292,007	(876)	68,330,100
Harbor facilities	20 years	63,635,195	-	-	63,635,195
Infrastructure	30 years	4,426,139	83,759	(63,224)	4,446,674
Terminal facilities	20 years	94,509,828	7,297,396	(4,285)	101,802,939
Runway and improvements	20 years	113,833,981	22,074	-	113,856,055
Terminal equipment	2 - 10 years	10,763,111	122,707	(584,030)	10,301,788
Other improvements	3 - 20 years	27,822,711	106,946	(475,959)	27,453,698
Fire and rescue	2 - 8 years	11,527,325	-	(13,044)	11,514,281
Office furniture and fixtures	2 - 10 years	4,817,895	958,161	(223,007)	5,553,049
General transportation	3 - 5 years	9,847,741	360,499	(187,650)	10,020,590
Other equipment	3 - 5 years	3,904,778	313,541	(1,588,708)	2,629,611
Ground maintenance and shop equipment	2 - 5 years	<u>515,532</u>	<u>-</u>	<u>(127,343)</u>	<u>388,189</u>
		420,661,503	10,559,090	(3,311,032)	427,909,561
Less accumulated depreciation		<u>(217,136,949)</u>	<u>(16,043,419)</u>	<u>3,300,140</u>	<u>(229,880,228)</u>
Depreciable assets net		<u>203,524,554</u>	<u>(5,484,329)</u>	<u>(10,892)</u>	<u>198,029,333</u>
		\$ <u>288,593,317</u>	\$ <u>12,491,623</u>	\$ <u>(8,580,393)</u>	\$ <u>292,504,547</u>

The balances above do not include CUC's net capital assets of \$87,603,892 as details were not made available.

(7) 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 \$38,354,170 as of September 30, 2013. Cash to fund this liability is to be provided by the General Fund. Any changes in the estimate will be accounted for in a prospective manner.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements
September 30, 2013

(8) 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 \$399,293 recorded in the General Fund represents the remaining undisbursed funds as of September 30, 2013.

(9) Long-Term Debt Obligations

NMIRF Loan

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 - Special Revenue Fund, to finance debt service on the loan. As of September 30, 2013, cash balances held by NMIRF for the retirement of debt totaled \$504. 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. As of September 30, 2013, the principal outstanding and payable is \$4,977,581.

\$40,000,000 Bond Issue

On December 1, 2003, CDA, acting for and on behalf of the CNMI, issued \$40,000,000 in 2003A general obligation bonds, with interest rate at 6.75% per annum. The bonds were authorized by Public Law 13-17 as amended by Public Law 13-25, Public Law 13-39 and Public Law 13-56. Bond proceeds, net of bond issuance costs and discount of \$999,309, were used to fund the (i) land compensation claims amounting to \$28,000,691, (ii) the prison project of \$9,104,694 and (iii) reimburse CDA for interim financing of \$1,895,306.

Installments of principal are paid to the Bond Trustee annually commencing October 1, 2009 through October 1, 2033. Interest is payable semiannually beginning April 1, 2004 through October 1, 2033.

The 2003 Series A general obligation bonds are subject to redemption.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements
September 30, 2013

(9) Long-Term Debt Obligations, Continued

\$40,000,000 Bond Issue, Continued

- (a) **Optional Redemption** - The bonds maturing after October 1, 2013 are subject to redemption prior to their respective maturities, at the option of the Commonwealth, from any source of available funds, on any date on or after October 1, 2013, as a whole, or in part by such maturity or maturities as may be specified by request of the Commonwealth (and by lot within a maturity as selected by the Trustee), at a redemption price of one hundred percent (100%) of the principal amount thereof plus accrued interest thereon to the dated fixed for redemption.
- (b) **Mandatory Redemption from Sinking Fund Payments** - The bonds are subject to redemption prior to their stated maturities, in part, by lot, from mandatory sinking fund payments deposited in the principal account in the Bond Payment Fund pursuant to Section 4.05 of this Indenture, on each October 1 from and after October 1, 2009, at the principal amount thereof plus accrued interest thereon, if any, to the date of redemption (without premium).
- (c) **Partial Redemption of Bonds** - Upon surrender of any bond redeemed in part only, the Paying Agent shall provide a replacement bond in a principal amount equal to the portion of such bond not redeemed, and deliver it to the registered owner thereof. The bond so surrendered shall be cancelled by the Paying Agent as provided herein. The Authority, the Trustee and the Paying Agent shall be fully released and discharged from all liability to the extent of payment of the redemption price for such partial redemption.
- (d) **Effect of Redemption** - Moneys for payment of the redemption price of, together with interest accrued to the redemption date on, the bonds (or portions thereof) so called for redemption being held by the Paying Agent, on the redemption date designated in such notice, shall become due and payable at the redemption price specified in such notice and interest accrued thereon to the redemption date, said bonds (or portions thereof) shall cease to be entitled to any benefit or security under this Indenture, and the Holders of said bonds shall have no rights in respect thereof except to receive payment of said redemption price and accrued interest to the redemption date. Any accrued interest payable upon the redemption of bonds may be paid from amounts held in the interest account for the payment of interest on the next following interest payment date.

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

As of September 30, 2013, principal outstanding and payable is \$900,000 less unamortized discount on bond issuance of \$25,309.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements
September 30, 2013

(9) Long-Term Debt Obligations, Continued

Refunding of Debt

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

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

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

At September 30, 2013, Series 2003A bonds outstanding of \$37,400,000 are considered defeased.

\$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, 2013, consist of the following:

Series 2007A general obligations refunding bonds	\$ 49,670,000
Unamortized premium on bond issuance	<u>74,990</u>
	\$ <u>49,744,990</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.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements
September 30, 2013

(9) Long-Term Debt Obligations, Continued

\$42,690,000 Bond Issue, Continued

Amount outstanding and payable as of September 30, 2013, consist of the following:

Series 2007B general obligations refunding bonds	\$ 42,065,000
Unamortized premium on bond issuance	<u>51,407</u>
	<u>\$ 42,116,407</u>

Changes in long-term liabilities for the year ended September 30, 2013, are as follows:

	<u>Balance October 1, 2012</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance September 30, 2013</u>	<u>Due Within One Year</u>
Loans and bonds payable:					
NMIRF loan	\$ 5,707,338	\$ -	\$ (729,757)	\$ 4,977,581	\$ 3,710,605
2003 Series A Bonds	1,700,000	-	(800,000)	900,000	900,000
2007 Series A Bonds	52,220,000	-	(2,550,000)	49,670,000	2,675,000
2007 Series B Bonds	<u>42,385,000</u>	<u>-</u>	<u>(320,000)</u>	<u>42,065,000</u>	<u>340,000</u>
	102,012,338	-	(4,399,757)	97,612,581	7,625,605
Deferred amounts:					
Unamortized discount on bonds issued	(26,574)	-	1,265	(25,309)	(1,265)
Unamortized premium on bonds issued	<u>132,717</u>	<u>-</u>	<u>(6,320)</u>	<u>126,397</u>	<u>6,320</u>
	<u>102,118,481</u>	<u>-</u>	<u>(4,404,812)</u>	<u>97,713,669</u>	<u>7,630,660</u>
Other:					
Obligations under Settlement Agreement	267,089,307	-	(14,340,147)	252,749,160	-
Compensated absences	5,770,743	6,287,294	(6,658,417)	5,399,620	2,981,656
Landfill closure	<u>3,817,368</u>	<u>381,737</u>	<u>-</u>	<u>4,199,105</u>	<u>-</u>
	<u>276,677,418</u>	<u>6,669,031</u>	<u>(20,998,564)</u>	<u>262,347,885</u>	<u>2,981,656</u>
	<u>\$ 378,795,899</u>	<u>\$ 6,669,031</u>	<u>\$ (25,403,376)</u>	<u>\$ 360,061,554</u>	<u>\$ 10,612,316</u>

The annual debt service requirements to maturity for the NMIRF loan payable is as follows:

<u>Year ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 3,710,605	\$ 154,771	\$ 3,865,376
2015	<u>1,266,976</u>	<u>50,060</u>	<u>1,317,036</u>
	<u>\$ 4,977,581</u>	<u>\$ 204,831</u>	<u>\$ 5,182,412</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, 2013

(9) Long-Term Debt Obligations, Continued

<u>Year ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 3,915,000	\$ 4,608,625	\$ 8,523,625
2015	4,050,000	4,404,625	8,454,625
2016	4,295,000	4,199,625	8,494,625
2017	4,440,000	3,984,875	8,424,875
2018	4,700,000	3,760,375	8,460,375
2019 - 2023	22,525,000	15,217,375	37,742,375
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>92,635,000</u>	\$ <u>48,880,000</u>	\$ <u>141,515,000</u>

Obligations Under Settlement Agreement

The CNMI has agreed to make the following minimum annual payments under the Settlement Agreement for the following fiscal years:

Year ending September 30,

2014	\$ 25,000,000
2015	\$ 27,000,000

After fiscal year 2015, 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:

2016	\$ 30,000,000
2017	\$ 33,000,000
2018	\$ 45,000,000
2019	\$ 44,000,000
2020	\$ 43,000,000
2021	\$ 42,000,000
2022	\$ 41,000,000
2023	\$ 40,000,000
2024	\$ 39,000,000

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

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements
September 30, 2013

(9) Long-Term Debt Obligations, Continued

Discretely Presented Component Units

CPA:

Note payable to CDA, due November 16, 2014, interest at 2.5% per annum, with maturity date of June 15, 2030. Principal and interest payments in the amount of \$31,000 are due monthly beginning June 15, 2010. The payment of accrued interest totaling \$546,679 has been deferred until the maturity of the loan or until the loan is paid off, whichever comes first. \$ 5,007,126

CDA:

Note payable to MPLT, bearing interest at 6.5% per annum, due over a fifteen-year term, beginning June 2003. The note is collateralized by the full faith and credit of the CNMI Government held in trust by MPLT, for the purpose of development and maintenance of the American Memorial Park, and is being repaid from earnings of the investments pursuant to CNMI Public Law 11-72. 831,943

CHCC:

Note payable to MPLT, bearing interest at 7% per annum, due over a one-year term, beginning on March 12, 2013. The note is collateralized by accounts receivable, future distributable income in fiscal year 2015 and CHCC's real properties for CHCC's operational and bridge capital pursuant to CNMI Public Law No. 17-76. 3,000,000
\$ 8,839,069

Annual debt service requirements to maturity for principal and interest for notes payable outstanding as of September 30, 2013 are as follows:

<u>Year ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 3,408,487	\$ 170,836	\$ 3,579,323
2015	421,590	154,013	575,603
2016	436,466	136,561	573,027
2017	451,506	118,244	569,750
2018	429,157	99,648	528,805
2019 - 2023	1,488,368	371,632	1,860,000
2024 - 2028	1,686,323	173,677	1,860,000
2029 - 2031	<u>517,172</u>	<u>556,127</u>	<u>1,073,299</u>
	\$ <u>8,839,069</u>	\$ <u>1,780,738</u>	\$ <u>10,619,807</u>

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements
September 30, 2013

(9) Long-Term Debt Obligations, Continued

Discretely Presented Component Units, Continued

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%, on March 15 and September 15 of each year.

Revenue bonds payable as of September 30, 2013, consists of the following:

1998 Senior Series A tax-exempt airport revenue bonds \$ 13,425,000

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

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

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

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, 2013, deferred outflows from cost of refunding debt amounted to \$837,150. The transaction also resulted in an economic gain of \$1,724,777 and a decrease of \$6,983,345 in future debt service payments.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements
September 30, 2013

(9) Long-Term Debt Obligations, Continued

Discretely Presented Component Units, Continued

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

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

Revenue bonds payable as of September 30, 2013, consist of the following:

1998 Senior Series A tax-exempt seaport revenue bonds	\$ <u>24,220,000</u>
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Additionally, CPA has resolved to hold \$8,000,000 in the Seaport supplemental reserve fund. The supplemental reserve fund was established pursuant to the First Supplemental Indenture dated March 1, 2000 for the purpose of providing funding and maintenance for the 1998 Senior Series A Seaport Bonds. At September 30, 2013, total deposits in the Seaport supplemental reserve fund amounted to \$8,034,239.

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

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

CPA \$7,225,000 Bond Issue

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

Revenue bonds payable as of September 30, 2013, consist of the following:

2005 Senior Series A tax-exempt seaport revenue bonds	\$ 6,200,000
Discount on bonds	<u>(86,033)</u>
	\$ <u>6,113,967</u>

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements
September 30, 2013

(9) Long-Term Debt Obligations, Continued

Discretely Presented Component Units, Continued

CPA Bond Issues

The bond indentures contain several restrictive covenants, including restrictions on the use of bond proceeds. Management of CPA is of the opinion that CPA was in compliance with all significant covenants as of September 30, 2013. 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 2013, management of CPA determined that 100% of passenger facility charges would be considered as gross revenues for these purposes.

Annual debt service requirements to maturity for principal and interest for bonds payable outstanding as of September 30, 2013 are as follows:

<u>Year ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 1,780,000	\$ 2,721,958	\$ 4,501,958
2015	1,895,000	2,605,060	4,500,060
2016	2,010,000	2,480,840	4,490,840
2017	2,135,000	2,348,968	4,483,968
2018	2,285,000	2,208,345	4,493,345
2019 - 2023	13,690,000	8,605,671	22,295,671
2024 - 2028	18,550,000	3,510,801	22,060,801
2029 - 2031	<u>1,500,000</u>	<u>126,499</u>	<u>1,626,499</u>
	\$ <u>43,845,000</u>	\$ <u>24,608,142</u>	\$ <u>68,453,142</u>

Obligations Under Preferred Stock Agreement

A Memorandum of Agreement (MOA) was established between CDA and 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.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements
September 30, 2013

(9) Long-Term Debt Obligations, Continued

Discretely Presented Component Units, Continued

Obligations Under Preferred Stock Agreement, Continued

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 stocks. 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 are to be paid to CDA beginning October 1, 2012. 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, 2013 and 2012, 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. In accordance with the Agreement, CDA was to receive dividends of \$1,080,000 during the year ended September 30, 2013, which were factored into the recorded investment. Such dividends were not received justifying the 100% valuation allowance.

Future 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) for subsequent fiscal years 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	<u>298,795</u>	<u>1,501,205</u>	<u>1,800,000</u>
	\$ <u>11,309,651</u>	\$ <u>15,690,349</u>	\$ <u>27,000,000</u>

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements
September 30, 2013

(9) Long-Term Debt Obligations, Continued

Discretely Presented Component Units, Continued

Obligations Under Preferred Stock Agreement, Continued

On November 15, 2011, CDA entered into an agreement to unconditionally guaranty a loan of Arctic Circle Air Co. (Arctic Circle) with Independence Bank. The agreement provides that CDA purchase 600,000 shares of Arctic Circle class A common stock, no par value, at an aggregate purchase price of \$600,000. The agreement further provides that the investment be secured by a pledge agreement which requires CDA to transfer \$600,000 to an escrow account, in Arctic Circle's name, with Independence Bank.

On November 21, 2012, CDA and Arctic Circle amended the stock purchase agreement to convert the total number of shares from 600,000 shares of class A common stock to (i) 94,600 shares of class B common stock, at a purchase price of \$94,600 and (ii) 505,400 shares of preferred stock, at a purchase price of \$505,400. As of September 30, 2013 and 2012, the loan transaction had not occurred and the investment was 100% allowed for. CDA is in ongoing negotiations with Arctic Circle for the repayment of the investment.

Changes in long-term liabilities of the discretely presented component units for the year ended September 30, 2013, are as follows:

	Balance October 1, 2012	Additions	Reductions	Balance September 30, 2013	Due Within One Year
Bonds payable:					
CPA	\$ 45,520,000	\$ -	\$ (1,675,000)	\$ 43,845,000	\$ 1,780,000
Notes payable:					
CPA	5,251,438	-	(244,312)	5,007,126	251,387
CDA	980,643	-	(148,700)	831,943	157,100
CHCC	<u>3,328,688</u>	<u>3,000,000</u>	<u>(3,328,688)</u>	<u>3,000,000</u>	<u>3,000,000</u>
	55,080,769	3,000,000	(5,396,700)	52,684,069	5,188,487
Deferred amounts:					
CPA:					
Discount	<u>(90,813)</u>	<u>-</u>	<u>4,780</u>	<u>(86,033)</u>	<u>-</u>
	54,989,956	3,000,000	(5,391,920)	52,598,036	5,188,487
Other liabilities:					
Obligations under preferred stock agreement	2,700,000	900,000	-	3,600,000	1,080,000
Due to Pension (and Other Employee Benefit) Trust Fund:					
PSS	23,077,909	2,520,886	(1,831,729)	23,767,066	-
Compensated absences	4,096,438	1,612,002	(1,924,488)	3,783,952	1,786,469
Unearned revenues	<u>10,269,468</u>	<u>1,081,828</u>	<u>(1,606,801)</u>	<u>9,744,495</u>	<u>1,919,937</u>
	<u>\$ 95,133,771</u>	<u>\$ 9,114,716</u>	<u>\$ (10,754,938)</u>	<u>\$ 93,493,549</u>	<u>\$ 9,974,893</u>

The balances above do not include CUC's total notes payable and compensated absences of \$5,517,359 and \$929,348, respectively, as details were not made available.

(10) 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:

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements
September 30, 2013

(10) Fund Balances, Continued

	<u>General</u>	<u>Grants Assistance</u>	<u>Department of Public Lands</u>	<u>Private Grants</u>	<u>Other Governmental Funds</u>	<u>Total</u>
Non-spendable						
Inventories	\$ 232,387	\$ -	\$ -	\$ -	\$ -	\$ 232,387
United Micronesia Development Association	1,500,000	-	-	-	-	1,500,000
Pacific Islands Development Bank	1,000,000	-	-	-	-	1,000,000
Restricted for:						
Capital projects	2,125,558	3,989,903	-	-	710,728	6,826,189
Public lands	-	-	5,242,046	-	-	5,242,046
Other purposes	-	-	-	-	7,337,177	7,337,177
Unassigned	<u>(78,959,990)</u>	<u>(1,535,910)</u>	<u>-</u>	<u>(385,580)</u>	<u>(1,058,433)</u>	<u>(81,939,913)</u>
	<u>\$ (74,102,045)</u>	<u>\$ 2,453,993</u>	<u>\$ 5,242,046</u>	<u>\$ (385,580)</u>	<u>\$ 6,989,472</u>	<u>\$ (59,802,114)</u>

(11) 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, 2013, are as follows:

<u>Source/Recipient</u>	<u>Transfer Out</u>	<u>Transfer In</u>
<u>General Fund</u>		
From General Fund to:		
Grants Assistance Fund	\$ 5,612,071	\$ -
Nonmajor governmental funds	341,856	-
To General Fund from:		
Grants Assistance Fund	-	914,472
Nonmajor governmental funds	-	3,261,749
Department of Public Lands	-	689,634
	<u>5,953,927</u>	<u>4,865,855</u>
<u>Grants Assistance Fund</u>		
From Grants Assistance Fund to:		
General Fund	914,472	-
Nonmajor governmental funds	465,330	-
To Grants Assistance Fund from:		
General Fund	-	5,612,071
	<u>1,379,802</u>	<u>5,612,071</u>
<u>Department of Public Lands</u>		
From Department of Public Lands to:		
General Fund	689,634	-
<u>Nonmajor governmental funds</u>		
From nonmajor governmental funds to:		
General Fund	3,261,749	-
To nonmajor governmental funds from:		
Nonmajor governmental funds	-	807,186
	<u>3,261,749</u>	<u>807,186</u>
	<u>\$ 11,285,112</u>	<u>\$ 11,285,112</u>

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements
September 30, 2013

(11) Transfers In/Out, Continued

Operating Fund Transfers, Continued

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 \$48,505,485 does not equal the corresponding contributions from the primary government of \$43,698,550 by \$4,806,935. The difference of \$416,401 with NMC is due to timing differences in recording payments. The difference of \$1,345,892 with PSS is due to timing differences. The difference of \$1,891,730 with MVA is due to timing differences. The difference of \$1,152,912 with CHCC is due to unaudited financial statements.

(12) 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 - Special Revenue Fund) revenues to repay a loan of \$15,000,000 to NMIRF pursuant to an agreement entered into in February 1995. Total principal and interest remaining on this loan is approximately \$5,182,412 payable through September 2015. For the year ended September 30, 2013, principal and interest paid were \$729,757 and \$464,860, respectively, and total Judicial Building Fund revenues were \$674,669.

Discretely Presented Component Units

CPA has pledged future gross revenues to repay \$20,050,000 and \$33,775,000 in 1998 Senior Series A and \$7,225,000 of 2005 Senior Series A tax-exempt special revenue bonds. Proceeds from the bonds provided financing for capital assets. The bonds are payable from pledged gross revenues. The bonds are payable through fiscal years 2028, 2028 and 2031, respectively. The total principal and interest payable for the remainder of the life of these bonds are \$68,453,142 at September 30, 2013. Pledged gross revenues received during the year ended September 30, 2013 were \$19,393,606. Debt service payments during the year ended September 30, 2013 amounted to \$4,506,857 representing 25% of pledged gross revenues.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements
September 30, 2013

(12) Commitments, Continued

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, 2013, is \$200,000.

CNMI's future rentals under the lease as of September 30, 2013, are as follows:

<u>September 30,</u>	
2014	\$ 200,000
2015	200,000
2016	200,000
2017	200,000
2018	200,000
2019 - 2023	1,000,000
2024 - 2025	<u>400,000</u>
	\$ <u>2,400,000</u>

(13) 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 \$4,199,105 liability reported as landfill closure and postclosure costs at September 30, 2013 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 \$2,675,157 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 2013. Actual costs may be higher due to inflation, changes in technology or changes in regulations.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements
September 30, 2013

(13) Contingencies, Continued

Questioned Costs Under Federally Funded Programs

The CNMI participates in a number of federally assisted grant programs funded by the United States Government. These programs are subject to financial and compliance audits to ascertain if Federal laws and guidelines have been followed. Cumulative questioned costs of \$45,848,108 have been set forth in the CNMI's Single Audit Report for the year ended September 30, 2013. The ultimate disposition of these questioned costs can be determined only by final action of the respective grantor agencies. Therefore, no provision for any liability that may result upon resolution of this matter has been made in the accompanying financial statements.

Insurance Coverage

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

Unfunded Pension Liability

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

The unfunded pension liability is the amount of contributions that the CNMI should have paid to the NMIRF for the retirement benefits of an undetermined number of individuals employed before October 1, 1980, the date the Fund was established, who collected money from the Fund based on their years of service but were not required to pay their share of contribution as mandated by this law. Based on the latest actuarial valuation report, dated October 1, 2010, the actual unfunded pension liability is \$622,602,189.

Tax Returns

The CNMI is unable to estimate unfiled or unprocessed tax returns related to tax years 2010 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, 2013

(13) Contingencies, Continued

General Fund Financial Position

The CNMI's General Fund has sustained recurring operating deficits and has an unassigned fund deficit of \$78,959,990 at September 30, 2013. In addition, at September 30, 2013, the primary government's current liabilities exceed current assets by \$74,919,040, and total liabilities exceed total assets by \$217,132,777. Subsequent to September 30, 2013, the United States District Court for the Northern Mariana Islands 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 a Settlement Fund 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 the Settlement Fund to allow for the payment of 75% of Class Members' full benefits annually during the Settlement Fund'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.

NMIRF Loan

At September 30, 2013, the CNMI was in arrears \$2,425,377 with its loan payable to NMIRF.

Other

The CNMI records expenditures for sick leave when the leave is actually taken. Sick leave is compensated absence during working hours arising from employee illness or injury. Sick leave accumulates at the rate of thirteen working days for each year of service, without limit. No liability is recorded for nonvesting accumulating rights to receive sick pay benefits. The accumulated estimated amount of unused sick leave as of September 30, 2013, is \$37,964,305.

As of September 30, 2013, the CNMI Group Health and Insurance Trust Fund (GHLITF) has a net deficit of \$15,923,273. In addition, GHLITF submitted unprocessed claims from service providers with service dates as of September 30, 2013 and earlier that totaled \$35.3 million. These claims include claims from the Commonwealth Health Center (CHC), Rota Health Center (RHC) and Tinian Health Center which are part of the General Fund. The ultimate liability that will result from these claims has not been determined by GHLITF; as such these claims have not been recorded as of September 30, 2013. Under Public Law No. 10-19, liabilities of the GHLITF shall be liabilities of the primary government, and unless GHLITF becomes profitable, the General Fund could be liable for the amount in excess of the claims from the CHC, RHC and THC. The related CHC, RHC and THC receivables from the GHLITF recorded by the General Fund are fully reserved for as of September 30, 2013. The outcome of this matter is presently not determinable; therefore, no provision has been made in the accompanying financial statements. With the privatization of the health benefit plan in November 1, 2007, the CNMI will not be liable for medical claims accruing after privatization. The CNMI is only liable for its share of medical premiums.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements
September 30, 2013

(14) 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 \$155,065, \$714,603 and \$798,193 for the years ended September 30, 2013, 2012 and 2011, 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	\$ 31,877,104
Incurred claims	3,199,455
Claim payments	<u>(435,065)</u>
Unpaid claims at end of year	\$ <u>34,641,494</u>

(15) Pension and Other Postemployment Benefits Trust Fund

The CNMI contributes to NMIRF's defined benefit plan (DB Plan) and defined contribution plan (DC Plan), a cost sharing, and multi-employer plan (the Plan) established and administered by the CNMI.

NMIRF issues a publicly available financial report that includes financial statements and required supplementary information for the Plan. That report may be obtained by writing to NMIRF, P.O. Box 501247, Saipan, MP, 96950-1247.

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements
September 30, 2013

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

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 and 17-82.

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, 2013 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, 2013 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.

The CNMI's recorded DB contributions to NMIRF for the years ended September 30, 2013, 2012 and 2011 were \$1,314,146, \$6,892,314 and \$3,372,795, respectively, equal to the required statutory contributions for each year.

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. Authorization of participation has not been obtained from the U.S. Government. 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.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements
September 30, 2013

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

Defined Benefit Plan (DB Plan), Continued

For the year ended September 30, 2013, the CNMI contributed social security benefits of \$7,528,458. In addition, all but sixty-seven active employees voluntarily terminated membership in the DB Plan.

On August 7, 2013, the United States District Court for the Northern Mariana Islands 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 a Settlement Fund 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, the CNMI agrees to make minimum annual payments to the Settlement Fund to allow for the payment of 75% of Class Members' full benefits annually during the Settlement Fund's expected life and as determined by an independent actuary appointed by the Trustee and approved by the District Court. In addition, the Settlement authorizes NMIRF to distribute employee contributions (exclusive of interest) of \$10,000,000 to former members of the DB Plan who elected to terminate their membership in accordance with Public Law 17-82 with the remainder to be distributed upon final approval of the Settlement Agreement. On September 30, 2013, the United States District Court for the Northern Mariana Islands approved the Settlement Agreement. As a result of the Settlement Agreement, the CNMI has recorded a liability to the Settlement Fund of \$252,749,160 within the governmental activities as of September 30, 2013.

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. The CNMI is required to contribute to each member's individual account an amount equal to 4% of the member's compensation. The CNMI's recorded DC contributions for the years ended September 30, 2013, 2012 and 2011 were \$588,012, \$911,304 and \$920,866, 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.

Pursuant to Public Law No. 6-41, codified in 1CMC § 8362, any employer who fails to pay or remit contributions as required by this section shall pay a penalty of 10% per month or part thereof for which the contribution remains unpaid, up to a maximum penalty of 25% of the unpaid contribution. At September 30, 2013, NMIRF assessed accumulated penalties of \$52,734,553. The CNMI has recorded a liability of \$55,505,683 at September 30, 2013.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements
September 30, 2013

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

Defined Contribution Plan (DC Plan), Continued

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

(16) Restatement

At September 30, 2013, the CNMI adopted Government Accounting Standards Board issued GASB Statement (GASB) No. 65, *Previously Reported as Assets and Liabilities*. GASB 65 requires debt issuance costs to be expensed in the period incurred. Management has determined the following restatement is required to comply with GASB 65:

Governmental activities:

Net position:

Net position at beginning of year 2012, as stated	\$ (225,050,728)
Deferred bond issuance cost adjustment	<u>(1,525,973)</u>

Net position at beginning of year 2012, as restated	\$ <u>(226,576,701)</u>
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Government-Wide
Level

Discretely Presented Component Units

Net position, as previously reported September 30, 2012	\$ 431,185,311
(Overstatement) understatement of net position reported in 2012:	
Commonwealth Ports Authority	(1,193,527)
Public School System	<u>506,313</u>

Net position, as restated September 30, 2012	\$ <u>430,498,097</u>
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COMMONWEALTH OF THE
NORTHERN MARIANA ISLANDS

REQUIRED SUPPLEMENTARY INFORMATION
- BUDGETARY REPORTING

YEAR ENDED SEPTEMBER 30, 2013

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Revenues, Expenditures, and Changes in Deficit
 - Budget and Actual - General Fund
 Year Ended September 30, 2013

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance
	Original	Final		
Revenues:				
Taxes	\$ 121,170,000	\$ 121,170,000	\$ 133,212,675	\$ 12,042,675
Charges for sales and services	2,450,000	2,450,000	679,146	(1,770,854)
Licenses and fees	7,420,000	7,420,000	7,207,648	(212,352)
Contributions from component units	1,300,000	1,300,000	1,783,804	483,804
Other	1,009,000	1,009,000	1,936,815	927,815
Total revenues	<u>133,349,000</u>	<u>133,349,000</u>	<u>144,820,088</u>	<u>11,471,088</u>
Expenditures - budgetary basis by function:				
Executive branch	39,070,269	40,025,415	41,951,914	(1,926,499)
Second Senatorial District - Tinian	4,628,887	4,646,051	4,801,761	(155,710)
First Senatorial District - Rota	4,429,751	4,429,751	4,419,770	9,981
Government utilities	6,000,853	6,000,853	10,329,916	(4,329,063)
Legislative branch	5,331,718	5,331,699	5,562,616	(230,917)
Judicial branch	3,736,436	3,736,436	3,710,834	25,602
Independent programs	1,467,982	495,683	473,410	22,273
Third Senatorial District - Saipan	1,578,754	1,578,754	1,584,452	(5,698)
Office of the Public Auditor	791,266	791,274	1,753,366	(962,092)
Boards and commissions	527,772	527,772	549,589	(21,817)
Education (payment to Public School System, Northern Marianas College and Board of Education)	34,750,913	34,750,913	35,713,922	(963,009)
Tourism (payment to Marianas Visitors Authority)	5,822,510	5,822,510	10,876,357	(5,053,847)
Employee benefits (payment to Pension (and Other Employee Benefit) Trust Fund)	10,276,319	10,276,319	10,613,658	(337,339)
Health (payment to CHCC)	1,152,717	1,152,717	1,152,912	(195)
Public Law 17-7 (Marianas Public Land Trust funds diverted to Commonwealth Utilities Corporation)	1,300,000	1,300,000	-	1,300,000
Judgments	9,900	9,900	10,000	(100)
Debt service	8,496,000	8,496,000	8,017,554	478,446
Miscellaneous/continuing appropriations	-	-	3,041,379	(3,041,379)
Unallocated	127,670	127,670	13,927	113,743
Total expenditures	<u>129,499,717</u>	<u>129,499,717</u>	<u>144,577,337</u>	<u>(15,077,620)</u>
Excess of revenues over expenditures	<u>3,849,283</u>	<u>3,849,283</u>	<u>242,751</u>	<u>(3,606,532)</u>
Other financing sources (uses):				
Operating transfers in	292,000	292,000	820,717	528,717
Operating transfers out	(5,690,000)	(5,690,000)	(336,757)	5,353,243
Total other financing sources (uses), net	<u>(5,398,000)</u>	<u>(5,398,000)</u>	<u>483,960</u>	<u>5,881,960</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	<u>\$ (1,548,717)</u>	<u>\$ (1,548,717)</u>	<u>\$ 726,711</u>	<u>* \$ 2,275,428</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, 2013

(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 30, 2012, the CNMI passed Public Law 17-85 as the Appropriations and Budget Authority Act of 2013. 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 2013 commencing October 1, 2012 and ending September 30, 2013.

Expenditures may not legally exceed budgeted appropriations at the program area level. Certain activity levels within the General Fund have over expended budgeted appropriations; however, the effect of such over expenditures, if any, is presently not determinable.

For the year ended September 30, 2013, expenditures of the General Fund exceeded budget at the program area level (i.e., the legal level of budgetary control) as follows:

<u>Program Area</u>	<u>Excess</u>
Executive branch	\$ 1,926,499
Second Senatorial District - Tinian	\$ 155,710
Government utilities	\$ 4,329,063
Legislative branch	\$ 230,917
Third Senatorial District - Saipan	\$ 5,698
Office of the Public Auditor	\$ 962,092
Boards and commissions	\$ 21,817
Tourism	\$ 5,053,847
Employee benefits (payment to Pension (and Other Employee Benefit) Trust Fund)	\$ 337,339
Health	\$ 195
Judgments	\$ 100
Miscellaneous/continuing appropriations	\$ 3,541,380

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to Required Supplementary Information - Budgetary Reporting
September 30, 2013

(2) Explanation of Differences

CNMI Public Law 15-15 authorized the suspension of government obligations owing to the Northern Mariana Islands Retirement Fund (NMIRF) for parts of fiscal year 2006 and all of fiscal year 2007. The CNMI budgeted for this deferred retirement contribution on the cash basis rather than the modified accrual basis. At September 30, 2013, the retirement contribution is \$21,172.

The CNMI recognizes bad debts (recovery) based on identification of receivables. The CNMI budget does not reflect bad debts on the modified accrual basis. As of September 30, 2013, the bad debts amounted to \$1,273,634.

The CNMI recognizes claims and judgment expenditures when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. The CNMI budget does not reflect claims and judgment expenditures on the modified accrual basis. As of September 30, 2013, the claims and judgments expenditures accrued are \$2,907,395.

Encumbrance accounting is employed in governmental funds. For budgetary purposes, the 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. As of September 30, 2013, change in encumbrance amounted to \$2,669,434.

The amount reported as operating transfers in of \$4,865,855 under GAAP basis does not equal the amount reported as operating transfers in of \$820,717 under budgetary basis by \$4,045,138 due to: (a) \$783,389 in Compact impact funds; and (b) \$3,261,749 of transfers pursuant to Public Law 17-85 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 \$5,953,927 under GAAP basis does not equal the amount reported as operating transfers out of \$336,757 under budgetary basis due to \$5,617,170 in 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 (deficit) - budgetary basis	\$ <u>726,711</u>
Retirement contributions	(21,172)
Bad debts	(1,273,634)
Claims and judgments	(2,907,395)
Change in encumbrances	<u>2,669,434</u>
	<u>(1,532,767)</u>
Net change in fund balance (deficit) - General Fund	\$ <u>(806,056)</u>

COMMONWEALTH OF THE
NORTHERN MARIANA ISLANDS

OTHER SUPPLEMENTARY INFORMATION

YEAR ENDED SEPTEMBER 30, 2013

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Combining Schedule of Expenditures by Account
Governmental Funds
Year Ended September 30, 2013

	General	Grants Assistance	Department of Public Lands	Private Grants	Other Governmental Funds	Total
Salaries and wages	\$ 37,649,391	\$ 12,575,179	\$ 1,637,986	\$ 140,568	\$ 879,223	\$ 52,882,347
Professional services	6,627,865	43,306,703	133,740	81,299	2,606,464	52,756,071
Food items	764,942	13,351,288	-	65,700	2,957	14,184,887
Employee benefits	5,837,482	1,635,066	276,634	17,877	297,992	8,065,051
Capital outlay:						
Road improvements	-	45,480	-	-	713,969	759,449
Vehicles	174,410	2,023,705	-	-	69,379	2,267,494
Machinery and equipment	57,297	639,268	-	23,937	91,337	811,839
Office equipment	194,937	938,444	-	-	2,461	1,135,842
Furniture and fixtures	60,187	-	-	7,294	4,442	71,923
Building improvements	4,115	249,502	-	-	44,850	298,467
Construction in progress	-	-	-	-	820,409	820,409
Other	133,058	651,456	-	-	4,380	788,894
Utilities	10,417,574	641,129	99,954	-	3,242	11,161,899
Scholarships/grants	1,268,288	2,126,158	-	-	2,038,735	5,433,181
Interest	4,802,000	-	-	-	464,859	5,266,859
Travel	1,952,840	2,120,563	56,499	74,947	96,797	4,301,646
Principal repayment	-	-	-	-	729,758	729,758
Education:						
Payments to Public School System	31,087,614	327,733	-	-	-	31,415,347
Payments to Northern Marianas College	4,626,308	271,115	-	-	-	4,897,423
Payments to Commonwealth Healthcare Corporation	1,152,912	779,238	-	-	-	1,932,150
Payments to Marianas Visitors Authority	10,876,357	-	-	-	-	10,876,357
Payments to Pension (and Other Employee and Benefit) Trust Fund	2,428,381	-	-	-	-	2,428,381
Claims and judgments	2,907,395	-	-	-	8,000	2,915,395
Rentals	1,721,873	773,702	103,925	81,916	260,706	2,942,122
Supplies	835,047	2,291,056	34,448	68,195	161,544	3,390,290
Repairs and maintenance	1,214,299	1,056,970	19,548	97,561	324,848	2,713,226
Fuel and lubrication	1,248,485	520,228	31,232	22,610	183,641	2,006,196
Communications	1,266,379	715,362	21,529	37,924	50,971	2,092,165
Indirect costs	-	1,574,525	-	-	-	1,574,525
Advertising	19,421	608,255	4,050	48,220	17,243	697,189
Printing	100,270	364,575	-	4,792	18,728	488,365
Insurance	5,377	348,840	13,824	-	-	368,041
Miscellaneous services	109,081	105,867	-	7,680	4,077	226,705
Dues and subscriptions	300,440	57,930	-	655	8,176	367,201
Freight	73,202	74,651	-	381	4,479	152,713
Books and library materials	28,989	75,298	-	1,050	2,971	108,308
Official representation	75,429	-	-	-	18,042	93,471
Licenses and fees	9,290	22,181	-	100	3,569	35,140
(Recovery) bad debts	1,273,634	-	125,723	-	-	1,399,357
Penalty on retirement contributions	11,719,775	-	-	-	-	11,719,775
Public Auditor fee	-	-	31,034	-	-	31,034
Other	1,513,728	1,424,920	185,032	-	37,523	3,161,203
	<u>\$ 144,538,072</u>	<u>\$ 91,696,387</u>	<u>\$ 2,775,158</u>	<u>\$ 782,706</u>	<u>\$ 9,975,772</u>	<u>\$ 249,768,095</u>

See Accompanying Independent Auditors' Report.

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

September 30, 2013

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 established to account for at least 75% of amounts paid to the CNMI with respect to taxes. Amounts may be withdrawn from the trust fund only for the purpose of making rebates, payments into the General Fund (but only after a final determination that the amount in question is not validly subject to rebate), or payments into the General Fund of interest derived from the trust accounts.

Commonwealth Museum Fund

This fund was established pursuant to Public Law No. 10-5. This fund accounts for all funds received from legislative appropriations for the activities and operations of the Museum; fees generated by the Museum and all gifts, loans or other funds designated for any and all operations and activities of the Museum.

Human Resources Development Trust Fund

This fund was established pursuant to Public Law No. 5-3 to account for all revenues raised from the licensing of amusement machines. Public Law No. 5-3 was subsequently amended by Public Law No. 10-41, which required that funds collected under Public Law No. 5-3 to be transferred into the General Fund for general appropriation.

Micronesian Garment Manufacturing Fund

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

Governor's Education Initiative Fund

This fund was established by Executive Order No. 232, *Establishment of Governor's Education Initiative Fund and Related Programs*. The fund accounts for specific education programs appropriated by the Governor.

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.

See Accompanying Independent Auditors' Report.

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

September 30, 2013

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

See Accompanying Independent Auditors' Report.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Combining Schedule of Balance Sheet Accounts
General Fund
September 30, 2013

	General	NMTIT Rebate Trust	Commonwealth Museum	Human Resources Development Trust	Micronesian Garment Manufacturing	Governor's Education Initiative	Debt Service	Miscellaneous	Eliminations	Total
Assets										
Cash and cash equivalents	\$ 3,871,986	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,871,986
Investments	2,500,000	-	-	-	-	-	-	-	-	2,500,000
Restricted cash and cash equivalents	16,096,113	-	-	-	-	-	1,270,425	-	-	17,366,538
Receivables, net:										
Federal agencies	-	5,702,781	-	-	-	-	-	-	-	5,702,781
Taxes	5,935,571	-	-	-	-	-	-	-	-	5,935,571
General	386,343	-	-	-	-	-	-	-	-	386,343
Due from other funds	-	-	-	-	-	-	-	-	4,085,585	4,085,585
Due to/from General Funds	(37,083,520)	36,603,151	(184,203)	4,558	456,655	17	-	203,342	-	-
Advances	595,688	-	-	-	-	-	-	-	-	595,688
Inventories	232,387	-	-	-	-	-	-	-	-	232,387
	<u>\$ (7,465,432)</u>	<u>\$ 42,305,932</u>	<u>\$ (184,203)</u>	<u>\$ 4,558</u>	<u>\$ 456,655</u>	<u>\$ 17</u>	<u>\$ 1,270,425</u>	<u>\$ 203,342</u>	<u>\$ 4,085,585</u>	<u>\$ 40,676,879</u>
Liabilities and Fund Balances (Deficit)										
Liabilities:										
Accounts payable	\$ 3,980,463	\$ -	\$ 1,048	\$ 29	\$ -	\$ -	\$ -	\$ 2,643	\$ -	\$ 3,984,183
Tax rebates payable	-	38,354,170	-	-	-	-	-	-	-	38,354,170
Recovery rebates payable	399,293	-	-	-	-	-	-	-	-	399,293
Other liabilities and accruals	2,739,418	-	9,086	59,598	-	-	-	-	-	2,808,102
Claims and judgments payable	34,073,951	-	-	-	-	-	-	-	-	34,073,951
Due to other funds	12,386,273	3,951,762	-	-	-	-	-	373,520	2,695,136	19,406,691
Due to external parties	-	-	-	-	-	-	-	-	1,390,449	1,390,449
Due to component units	14,362,085	-	-	-	-	-	-	-	-	14,362,085
Total liabilities	<u>67,941,483</u>	<u>42,305,932</u>	<u>10,134</u>	<u>59,627</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>376,163</u>	<u>4,085,585</u>	<u>114,778,924</u>
Fund balances (deficit):										
Non-spendable	2,732,387	-	-	-	-	-	-	-	-	2,732,387
Restricted	2,125,558	-	-	-	-	-	-	-	-	2,125,558
Unassigned	(80,264,860)	-	(194,337)	(55,069)	456,655	17	1,270,425	(172,821)	-	(78,959,990)
Total fund balances (deficit)	<u>(75,406,915)</u>	<u>-</u>	<u>(194,337)</u>	<u>(55,069)</u>	<u>456,655</u>	<u>17</u>	<u>1,270,425</u>	<u>(172,821)</u>	<u>-</u>	<u>(74,102,045)</u>
	<u>\$ (7,465,432)</u>	<u>\$ 42,305,932</u>	<u>\$ (184,203)</u>	<u>\$ 4,558</u>	<u>\$ 456,655</u>	<u>\$ 17</u>	<u>\$ 1,270,425</u>	<u>\$ 203,342</u>	<u>\$ 4,085,585</u>	<u>\$ 40,676,879</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, 2013

	General	NMTIT Rebate Trust	Commonwealth Museum	Human Resources Development Trust	Micronesian Garment Manufacturing	Governor's Education Initiative	Debt Service	Miscellaneous	Eliminations	Total
Revenues:										
Taxes	\$ 133,212,675	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 133,212,675
Licenses and fees	7,207,648	-	-	-	-	-	-	-	-	7,207,648
Contributions from component units	1,783,804	-	-	-	-	-	-	-	-	1,783,804
Charges for sales and services	651,127	-	-	-	-	-	-	28,019	-	679,146
Interest and dividends	12,798	-	-	-	-	-	45	604	-	13,447
Other	1,923,368	-	-	-	-	-	-	-	-	1,923,368
Total revenues	144,791,420	-	-	-	-	-	45	28,623	-	144,820,088
Expenditures:										
Current:										
Public safety and law enforcement	19,406,249	-	-	-	-	-	-	532	-	19,406,781
General government	18,003,937	-	-	-	-	-	-	-	-	18,003,937
Utilities	10,329,916	-	-	-	-	-	-	-	-	10,329,916
Other elected officials	6,941,379	-	-	-	-	-	-	-	-	6,941,379
Legislative branch	5,414,217	-	-	-	-	-	-	-	-	5,414,217
Health	8,597,649	-	-	-	-	-	-	-	-	8,597,649
Judicial branch	3,710,328	-	-	-	-	-	-	-	-	3,710,328
Lands and natural resources	3,094,677	-	-	-	-	-	-	61,992	-	3,156,669
Community and social services	2,593,923	-	90,560	122,995	-	-	-	-	-	2,807,478
Education	1,460,920	-	-	-	-	-	-	-	-	1,460,920
Economic development	867,142	-	-	-	-	-	-	-	-	867,142
Payments to:										
Public School System	31,087,613	-	-	-	-	-	-	-	-	31,087,613
Marianas Visitors Authority	10,876,357	-	-	-	-	-	-	-	-	10,876,357
Commonwealth Healthcare Corporation	1,152,912	-	-	-	-	-	-	-	-	1,152,912
Northern Marianas College	4,626,308	-	-	-	-	-	-	-	-	4,626,308
Pension (and Other Employee Benefit) Trust Fund	5,071,398	-	-	-	-	-	-	-	-	5,071,398
Debt service:										
Interest and fiscal charges	12,900	-	-	-	-	-	4,347,554	-	-	4,360,454
Principal retirement	-	-	-	-	-	-	3,670,000	-	-	3,670,000
Capital outlay:										
Public works	2,996,614	-	-	-	-	-	-	-	-	2,996,614
Total expenditures	136,244,439	-	90,560	122,995	-	-	8,017,554	62,524	-	144,538,072
Excess (deficiency) of revenues over (under) expenditures	8,546,981	-	(90,560)	(122,995)	-	-	(8,017,509)	(33,901)	-	282,016
Other financing sources (uses):										
Operating transfers in	4,865,818	-	-	37	-	-	8,583,703	-	(8,583,703)	4,865,855
Operating transfers out	(14,537,630)	-	-	-	-	-	-	-	8,583,703	(5,953,927)
Total other financing sources (uses), net	(9,671,812)	-	-	37	-	-	8,583,703	-	-	(1,088,072)
Net change in fund balances (deficit)	(1,124,831)	-	(90,560)	(122,958)	-	-	566,194	(33,901)	-	(806,056)
Fund balances (deficit) at beginning of year	(74,282,084)	-	(103,777)	67,889	456,655	17	704,231	(138,920)	-	(73,295,989)
Fund balances (deficit) at end of year	\$ (75,406,915)	\$ -	\$ (194,337)	\$ (55,069)	\$ 456,655	\$ 17	\$ 1,270,425	\$ (172,821)	\$ -	\$ (74,102,045)

See Accompanying Independent Auditors' Report.

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

September 30, 2013

The Grants Assistance Fund is used to account for all transactions related to 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.

Federal Grants Fund

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

See Accompanying Independent Auditors' Report.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Combining Balance Sheet
Grants Assistance Fund
September 30, 2013

	Federal Grants	DOI Capital Projects	Total
<u>Assets</u>			
Restricted cash and cash equivalents	\$ 98,207	\$ 2,318,145	\$ 2,416,352
Receivables, net of allowance for uncollectibles:			
Federal agencies	2,150,542	14,165	2,164,707
Other	-	12,831	12,831
Due from other funds	3,631,384	3,215,087	6,846,471
Inventories	938,000	-	938,000
	<u>\$ 6,818,133</u>	<u>\$ 5,560,228</u>	<u>\$ 12,378,361</u>
<u>Liabilities and Fund Balances (Deficit)</u>			
Liabilities:			
Accounts payable	\$ 3,964,395	\$ 569,778	\$ 4,534,173
Other liabilities and accruals	2,255,133	1,000,547	3,255,680
Due to other funds	1,196,515	-	1,196,515
Unearned revenues	938,000	-	938,000
Total liabilities	<u>8,354,043</u>	<u>1,570,325</u>	<u>9,924,368</u>
Fund balances (deficit):			
Restricted	-	3,989,903	3,989,903
Unassigned	(1,535,910)	-	(1,535,910)
Total fund balances (deficit)	<u>(1,535,910)</u>	<u>3,989,903</u>	<u>2,453,993</u>
	<u>\$ 6,818,133</u>	<u>\$ 5,560,228</u>	<u>\$ 12,378,361</u>

See Accompanying Independent Auditors' Report.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances (Deficit)
 Grants Assistance Fund
 For the Year Ended September 30, 2013

	<u>Federal Grants</u>	<u>DOI Capital Projects</u>	<u>Total</u>
Revenues:			
Federal contributions	\$ 79,976,675	\$ 4,651,568	\$ 84,628,243
Licenses and fees	159,002	-	159,002
Interest and dividends	-	239	239
Other	<u>196,535</u>	<u>-</u>	<u>196,535</u>
Total revenues	<u>80,332,212</u>	<u>4,651,807</u>	<u>84,984,019</u>
Expenditures:			
Current:			
Health	40,604,814	43,500	40,648,314
Community and social services	17,724,195	25,000	17,749,195
General government	7,763,890	9,074	7,772,964
Lands and natural resources	7,808,247	-	7,808,247
Public safety and law enforcement	7,862,660	-	7,862,660
Utilities	-	1,007,915	1,007,915
Education	103,764	68,685	172,449
Economic development	8,262	1,714,164	1,722,426
Payments to:			
Public School System	498,140	-	498,140
Northern Marianas College	264,155	-	264,155
Capital outlay:			
Public works	3,945,772	1,833,803	5,779,575
Utilities - Capital Projects	<u>-</u>	<u>410,347</u>	<u>410,347</u>
Total expenditures	<u>86,583,899</u>	<u>5,112,488</u>	<u>91,696,387</u>
Deficiency of revenues under expenditures	<u>(6,251,687)</u>	<u>(460,681)</u>	<u>(6,712,368)</u>
Other financing sources (uses):			
Operating transfers in	5,590,171	21,900	5,612,071
Operating transfers out	<u>(783,389)</u>	<u>(596,413)</u>	<u>(1,379,802)</u>
Total other financing sources (uses), net	<u>4,806,782</u>	<u>(574,513)</u>	<u>4,232,269</u>
Net change in fund balances (deficit)	(1,444,905)	(1,035,194)	(2,480,099)
Fund balances (deficit) at beginning of year	<u>(91,005)</u>	<u>5,025,097</u>	<u>4,934,092</u>
Fund balances (deficit) at end of year	<u>\$ (1,535,910)</u>	<u>\$ 3,989,903</u>	<u>\$ 2,453,993</u>

See Accompanying Independent Auditors' Report.

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

September 30, 2013

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
MAJOR GOVERNMENTAL FUND - PRIVATE GRANTS FUND

September 30, 2013

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.

See Accompanying Independent Auditors' Report.

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

September 30, 2013

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

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

The Commonwealth Nonresident Workers Fee Fund was established pursuant to Public Law No. 5-32, as amended by Public Law No. 10-66. The fund accounts for the collection of fees related to application and renewal certificates of nonresident workers and their immediate relatives. In accordance with the enabling legislation, the fees collected are to be appropriated by the CNMI Legislature for several educational and training programs administered through the Northern Marianas College and the Mayors' offices.

Commonwealth Alien Deportation Fund

The Commonwealth Alien Deportation Fund was established pursuant to Public Law No. 10-1. The fund accounts for the collection of nonresident workers' fees designated for the fund and for the expenditure of those funds in detecting and deporting illegal aliens.

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, 2013, the project was completed. Revenues generated by the court will be used to finance the debt service on the loan with NMIRF.

Local Revenue Fund

Accounts for revenues generated under local senatorial district laws for use by the local governments of Saipan, Rota and Tinian. Such revenues are based on Saipan local laws 11-1 and 11-2 and Rota local law 11-1.

Saipan Trust Fund

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

See Accompanying Independent Auditors' Report.

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

September 30, 2013

Tobacco Settlement Trust Fund

Pursuant to Public Law No. 13-37, the Tobacco Settlement Trust Fund was established to account for all monies received from the Master Settlement Agreement. The monies shall be used to implement programs and services to achieve the goals stated in Section 3 of Public Law 13-37.

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 established by Public Law 11-64 to account for revenues collected from commercial carriers who charge a fee to transport nonresident passengers to Managaha Island. Such fees are to be deposited into the Fund and will be expended exclusively on projects and for the construction, maintenance and operation of the Saipan Cultural and Performing Arts Center, the Saipan Youth Program, the Division of Public Lands, the Commonwealth Museum, and for the cultural heritage activities of the Indigenous and Carolinian Affairs Offices, in accordance with appropriations made by the Saipan and Northern Islands Legislative Delegation.

Qualifying Certificate Reserve Fund

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

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
- Special Disabilities Fund

See Accompanying Independent Auditors' Report.

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

September 30, 2013

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, 2013

	Special Revenue Funds				
	Commonwealth Arts Council	Oil Overcharge	Commonwealth Nonresident Workers' Fee	Commonwealth Alien Deportation	Judicial Building
<u>Assets</u>					
Restricted cash and cash equivalents	\$ -	\$ -	\$ -	\$ -	\$ -
Receivables, net of allowance for uncollectibles:					
Federal	-	-	-	-	-
Other	-	-	-	-	-
Due from other funds	9,313	47,946	-	-	-
	<u>\$ 9,313</u>	<u>\$ 47,946</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<u>Liabilities and Fund Balances (Deficit)</u>					
Liabilities:					
Accounts payable	\$ 6,673	\$ -	\$ -	\$ 9,268	\$ -
Other liabilities and accruals	-	-	11,407	61	-
Due to other funds	-	-	(1,576)	-	59,081
Unearned revenues	-	47,499	-	-	-
Total liabilities	<u>6,673</u>	<u>47,499</u>	<u>9,831</u>	<u>9,329</u>	<u>59,081</u>
Commitments and contingencies					
Fund balances (deficit):					
Restricted	2,640	447	-	-	-
Unassigned	-	-	(9,831)	(9,329)	(59,081)
Total fund balances (deficit)	<u>2,640</u>	<u>447</u>	<u>(9,831)</u>	<u>(9,329)</u>	<u>(59,081)</u>
	<u>\$ 9,313</u>	<u>\$ 47,946</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

See Accompanying Independent Auditors' Report.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Combining Balance Sheet, Continued
 Nonmajor Governmental Funds
 September 30, 2013

Special Revenue Funds								
Local Revenue	Saipan Trust	Tobacco Settlement Trust	Tobacco Control	Solid Waste Revolving	Managaha Landing Fee	Qualifying Certificate Reserve	Miscellaneous	Total Special Revenue Funds
\$ -	\$ 6,930	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 6,930
-	-	-	-	-	-	-	-	-
-	-	1,209,829	-	-	-	-	-	1,209,829
<u>3,802,797</u>	<u>16,535</u>	<u>99,159</u>	<u>-</u>	<u>1,399,706</u>	<u>39,580</u>	<u>49,548</u>	<u>1,718,303</u>	<u>7,182,887</u>
<u>\$ 3,802,797</u>	<u>\$ 23,465</u>	<u>\$ 1,308,988</u>	<u>\$ -</u>	<u>\$ 1,399,706</u>	<u>\$ 39,580</u>	<u>\$ 49,548</u>	<u>\$ 1,718,303</u>	<u>\$ 8,399,646</u>
\$ 181,834	\$ -	\$ -	\$ 5,617	\$ 55,652	\$ -	\$ -	\$ 38,701	\$ 297,745
-	19,338	-	-	58,000	-	-	654,772	743,578
-	-	-	284,985	-	-	-	-	342,490
-	-	-	-	-	-	-	-	47,499
<u>181,834</u>	<u>19,338</u>	<u>-</u>	<u>290,602</u>	<u>113,652</u>	<u>-</u>	<u>-</u>	<u>693,473</u>	<u>1,431,312</u>
3,620,963	4,127	1,308,988	-	1,286,054	39,580	49,548	1,024,830	7,337,177
-	-	-	(290,602)	-	-	-	-	(368,843)
<u>3,620,963</u>	<u>4,127</u>	<u>1,308,988</u>	<u>(290,602)</u>	<u>1,286,054</u>	<u>39,580</u>	<u>49,548</u>	<u>1,024,830</u>	<u>6,968,334</u>
<u>\$ 3,802,797</u>	<u>\$ 23,465</u>	<u>\$ 1,308,988</u>	<u>\$ -</u>	<u>\$ 1,399,706</u>	<u>\$ 39,580</u>	<u>\$ 49,548</u>	<u>\$ 1,718,303</u>	<u>\$ 8,399,646</u>

See Accompanying Independent Auditors' Report.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Combining Balance Sheet, Continued
Nonmajor Governmental Funds
September 30, 2013

	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		
<u>Assets</u>								
Restricted cash and cash equivalents	\$ -	\$ -	\$ -	\$ -	\$ 129,965	\$ -	\$ 129,965	\$ 136,895
Receivables, net of allowance for uncollectibles:								
Federal	-	-	980,651	-	-	-	980,651	980,651
Other	-	-	-	-	-	-	-	1,209,829
Due from other funds	52,405	-	1,163,036	6,869	650	405,093	1,628,053	8,810,940
	<u>\$ 52,405</u>	<u>\$ -</u>	<u>\$ 2,143,687</u>	<u>\$ 6,869</u>	<u>\$ 130,615</u>	<u>\$ 405,093</u>	<u>\$ 2,738,669</u>	<u>\$ 11,138,315</u>
<u>Liabilities and Fund Balances (Deficit)</u>								
Liabilities:								
Accounts payable	\$ -	\$ 66,337	\$ 1,228,918	\$ -	\$ 59	\$ 31,574	\$ 1,326,888	\$ 1,624,633
Other liabilities and accruals	-	-	577,560	6,869	-	-	584,429	1,328,007
Due to other funds	-	580,133	-	-	173,512	-	753,645	1,096,135
Unearned revenues	52,569	-	-	-	-	-	52,569	100,068
Total liabilities	<u>52,569</u>	<u>646,470</u>	<u>1,806,478</u>	<u>6,869</u>	<u>173,571</u>	<u>31,574</u>	<u>2,717,531</u>	<u>4,148,843</u>
Fund balances (deficit):								
Restricted	-	-	337,209	-	-	373,519	710,728	8,047,905
Unassigned	(164)	(646,470)	-	-	(42,956)	-	(689,590)	(1,058,433)
Total fund balances (deficit)	<u>(164)</u>	<u>(646,470)</u>	<u>337,209</u>	<u>-</u>	<u>(42,956)</u>	<u>373,519</u>	<u>21,138</u>	<u>6,989,472</u>
	<u>\$ 52,405</u>	<u>\$ -</u>	<u>\$ 2,143,687</u>	<u>\$ 6,869</u>	<u>\$ 130,615</u>	<u>\$ 405,093</u>	<u>\$ 2,738,669</u>	<u>\$ 11,138,315</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, 2013

	Special Revenue Funds				
	Commonwealth Arts Council	Oil Overcharge	Commonwealth Nonresident Workers' Fee	Commonwealth Alien Deportation	Judicial Building
Revenues:					
Federal contributions	\$ -	\$ -	\$ -	\$ -	\$ -
Taxes	-	-	-	-	-
Licenses and fees	-	-	(1,014)	-	674,124
Contributions from component units	-	-	-	-	-
Interest and dividends	-	89	-	-	45
Charges for sales and services	-	-	-	-	-
Other	20,343	-	-	-	500
Total revenues	20,343	89	(1,014)	-	674,669
Expenditures by account:					
Current:					
Education	-	-	-	-	-
Economic development	-	-	-	-	-
Public safety and law enforcement	-	-	145,637	-	-
Community and social services	18,571	-	-	-	-
Health	-	-	-	-	-
General government	-	-	-	-	-
Other elected officials	-	-	-	-	-
Debt service:					
Interest and fiscal charges	-	-	-	-	464,860
Principal retirement	-	-	-	-	729,757
Capital outlay:					
Public works	-	-	-	-	-
Total expenditures	18,571	-	145,637	-	1,194,617
Excess (deficiency) of revenues over (under) expenditures	1,772	89	(146,651)	-	(519,948)
Other financing sources (uses):					
Operating transfers in	-	-	322,312	19,544	-
Operating transfers out	-	-	-	-	-
Total other financing sources (uses), net	-	-	322,312	19,544	-
Net change in fund balances (deficit)	1,772	89	175,661	19,544	(519,948)
Fund balances (deficit) at beginning of year	868	358	(185,492)	(28,873)	460,867
Fund balances (deficit) at end of year	\$ 2,640	\$ 447	\$ (9,831)	\$ (9,329)	\$ (59,081)

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, 2013

Special Revenue Funds								
Local Revenue	Saipan Trust	Tobacco Settlement Trust	Tobacco Control	Solid Waste Revolving	Managaha Landing Fee	Qualifying Certificate Reserve	Miscellaneous	Total Special Revenue Funds
-	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
3,539,957	-	-	1,369,336	2,120,568	-	-	166,246	3,489,904
25,827	-	-	-	479,184	-	-	-	4,858,497
-	-	49	-	-	-	-	-	25,827
-	-	-	-	-	-	-	35,393	183
5,745	-	1,644,236	-	-	-	-	(245,003)	35,393
<u>3,571,529</u>	<u>-</u>	<u>1,644,285</u>	<u>1,369,336</u>	<u>2,599,752</u>	<u>-</u>	<u>-</u>	<u>(43,364)</u>	<u>9,835,625</u>
1,915,746	-	-	-	-	-	-	-	1,915,746
-	-	-	-	-	-	-	-	-
17,500	-	-	-	-	-	-	66,076	229,213
169,590	-	-	40,266	-	-	-	39,521	267,948
163,900	-	-	-	-	-	-	-	163,900
35,120	-	-	-	-	-	-	-	35,120
76,571	-	-	-	-	-	-	-	76,571
-	-	-	-	-	-	-	-	464,860
-	-	-	-	-	-	-	-	729,757
662,957	-	-	-	1,423,174	-	-	-	2,086,131
<u>3,041,384</u>	<u>-</u>	<u>-</u>	<u>40,266</u>	<u>1,423,174</u>	<u>-</u>	<u>-</u>	<u>105,597</u>	<u>5,969,246</u>
530,145	-	1,644,285	1,329,070	1,176,578	-	-	(148,961)	3,866,379
-	-	-	-	-	-	-	-	341,856
-	-	(1,649,473)	(1,612,276)	-	-	-	-	(3,261,749)
-	-	(1,649,473)	(1,612,276)	-	-	-	-	(2,919,893)
530,145	-	(5,188)	(283,206)	1,176,578	-	-	(148,961)	946,486
3,090,818	4,127	1,314,176	(7,396)	109,476	39,580	49,548	1,173,791	6,021,848
<u>\$ 3,620,963</u>	<u>\$ 4,127</u>	<u>\$ 1,308,988</u>	<u>\$ (290,602)</u>	<u>\$ 1,286,054</u>	<u>\$ 39,580</u>	<u>\$ 49,548</u>	<u>\$ 1,024,830</u>	<u>\$ 6,968,334</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, 2013

	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	\$ -	\$ -	\$ 2,593,498	\$ -	\$ -	\$ -	\$ 2,593,498	\$ 2,593,498
Taxes	-	45,788	-	-	-	-	45,788	3,535,692
Licenses and fees	-	6,074	-	-	-	-	6,074	4,864,571
Contributions from component units	-	-	-	-	-	-	-	25,827
Interest and dividends	-	202	-	-	-	-	202	385
Charges for sales and services	-	-	-	-	-	-	-	35,393
Other	-	2,004	-	-	-	-	2,004	1,427,825
Total revenues	-	54,068	2,593,498	-	-	-	2,647,566	12,483,191
Expenditures by account:								
Current:								
Education	-	19,639	-	-	-	-	19,639	1,935,385
Economic development	-	-	-	-	420,480	-	420,480	420,480
Public safety and law enforcement	-	31,773	-	-	-	-	31,773	260,986
Community and social services	-	23,230	-	-	-	-	23,230	291,178
Health	-	-	-	-	-	-	-	163,900
General government	-	-	-	-	-	-	-	35,120
Other elected officials	-	-	-	-	-	-	-	76,571
Debt service:								
Interest and fiscal charges	-	-	-	-	-	-	-	464,860
Principal retirement	-	-	-	-	-	-	-	729,757
Capital outlay:								
Public works	-	182,425	3,114,063	-	214,916	-	3,511,404	5,597,535
Total expenditures	-	257,067	3,114,063	-	635,396	-	4,006,526	9,975,772
Excess (deficiency) of revenues over (under) expenditures	-	(202,999)	(520,565)	-	(635,396)	-	(1,358,960)	2,507,419
Other financing sources (uses):								
Operating transfers in	-	-	-	-	465,330	-	465,330	807,186
Operating transfers out	-	-	-	-	-	-	-	(3,261,749)
Total other financing sources (uses), net	-	-	-	-	465,330	-	465,330	(2,454,563)
Net change in fund balances (deficit)	-	(202,999)	(520,565)	-	(170,066)	-	(893,630)	52,856
Fund balances (deficit) at beginning of year	(164)	(443,471)	857,774	-	127,110	373,519	914,768	6,936,616
Fund balances (deficit) at end of year	\$ (164)	\$ (646,470)	\$ 337,209	\$ -	\$ (42,956)	\$ 373,519	\$ 21,138	\$ 6,989,472

See Accompanying Independent Auditors' Report.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS
FIDUCIARY FUNDS

September 30, 2013

Pension and Other Employee Benefits Trust Funds

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

Northern Mariana Islands Retirement Fund (NMIRF)

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

CNMI Workers' Compensation Commission

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

CNMI Group Health and Life Insurance Trust Fund

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

See Accompanying Independent Auditors' Report.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS
FIDUCIARY FUNDS

September 30, 2013

Tinian Land Condemnation Fund

As part of the U.S. Military's lease of Tinian, the CNMI Government, the former Marianas Public Land Corporation and the U.S. Government, setup an escrow fund pending the obtaining of all the private land holdings on Tinian within the leased area. Subsequently, the escrow was jointly terminated wherein it was mutually agreed the funds could be used by the CNMI to acquire the private land holdings through direct acquisition or legal condemnation proceedings. This agency fund represents the net amount available after the costs of land acquisitions. Land condemnation proceedings are still in process.

Security Deposit Fund

The Security Deposit Fund was established to account for security deposits received from persons licensed to engage in the business of selling foreign currency notes or receiving money for the purpose of transmitting the same or its equivalent to any country outside the CNMI (pursuant to 1 CMC 2, Section 2454 and 4 CMC 6, Sections 6351 and 6108) and for security deposits received from alien insurers (pursuant to Public Law No. 3-107).

See Accompanying Independent Auditors' Report.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Combining Statement of Fiduciary Net Position
Fiduciary Funds
September 30, 2013

	Pension (and Other Employee Benefit) Trust Fund			
	Northern Mariana Islands Retirement Fund	CNMI Group Health and Life Insurance Trust	CNMI Workers' Compensation Commission	Total
<u>Assets</u>				
Cash and cash equivalents	\$ 28,969,204	\$ 1,007,830	\$ 174,251	\$ 30,151,285
Receivables:				
Loans	4,977,581	-	-	4,977,581
Notes	6,822,780	-	-	6,822,780
Benefits	7,318,318	-	313,026	7,631,344
Other	856,764	56	350	857,170
	<u>19,975,443</u>	<u>56</u>	<u>313,376</u>	<u>20,288,875</u>
Due from General Fund	249,768,055	-	-	249,768,055
Due from component units	64,066,812	-	-	64,066,812
Less allowance for uncollectible receivables	<u>(212,899,139)</u>	<u>-</u>	<u>-</u>	<u>(212,899,139)</u>
	<u>100,935,728</u>	<u>-</u>	<u>-</u>	<u>100,935,728</u>
Due from Nonmajor Special Revenue Funds	<u>-</u>	<u>-</u>	<u>614,477</u>	<u>614,477</u>
Prepaid items	<u>8,969</u>	<u>800,000</u>	<u>-</u>	<u>808,969</u>
Investments, at fair market value:				
Equity securities	965,733	-	-	965,733
Corporate debt securities	66,458,356	-	-	66,458,356
U.S. Government securities	-	-	940,564	940,564
Mutual funds	89,998,279	-	-	89,998,279
	<u>157,422,368</u>	<u>-</u>	<u>940,564</u>	<u>158,362,932</u>
Restricted assets	<u>-</u>	<u>-</u>	<u>133,396</u>	<u>133,396</u>
Capital assets	<u>3,730,447</u>	<u>6,901</u>	<u>3,003</u>	<u>3,740,351</u>
Total assets	<u>311,042,159</u>	<u>1,814,787</u>	<u>2,179,067</u>	<u>315,036,013</u>
<u>Liabilities and Other Credits</u>				
Accounts payable	312,838	17,738,060	50,998	18,101,896
Refunds payable	40,972,443	-	-	40,972,443
Other liabilities and accruals	687,372	-	-	687,372
Due to Judicial Building Fund	504	-	-	504
Unearned revenue	<u>109,392,529</u>	<u>-</u>	<u>317,126</u>	<u>109,709,655</u>
Total liabilities and other credits	<u>151,365,686</u>	<u>17,738,060</u>	<u>368,124</u>	<u>169,471,870</u>
Net position:				
Held in trust for pension benefits	159,676,473	-	-	159,676,473
Held in trust for medical and life insurance benefits	-	(15,923,273)	-	(15,923,273)
Held in trust for workers' compensation benefits and other purposes	<u>-</u>	<u>-</u>	<u>1,810,943</u>	<u>1,810,943</u>
Total net position	<u>\$ 159,676,473</u>	<u>\$ (15,923,273)</u>	<u>\$ 1,810,943</u>	<u>\$ 145,564,143</u>

See Accompanying Independent Auditors' Report.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Combining Statement of Changes in Fiduciary Net Position
Fiduciary Funds
Year Ended September 30, 2013

	Pension (and Other Employee Benefit) Trust Fund			
	Northern Mariana Islands Retirement Fund	CNMI Group Health and Life Insurance Trust	CNMI Workers' Compensation Commission	Total
<u>Additions</u>				
Contributions:				
Employer	\$ 17,077,779	\$ -	\$ -	\$ 17,077,779
Employee	7,818,345	-	-	7,818,345
Revenues:				
Premiums	-	-	8,134	8,134
Rent income and other	2,168,886	512,534	986	2,682,406
Total contributions and revenues	<u>27,065,010</u>	<u>512,534</u>	<u>9,120</u>	<u>27,586,664</u>
Net investment earnings:				
Net change in fair value	(9,130,067)	-	76,512	(9,053,555)
Interest	7,127,609	-	-	7,127,609
Net investment earnings	<u>(2,002,458)</u>	<u>-</u>	<u>76,512</u>	<u>(1,925,946)</u>
Other financing sources:				
Transfer in	-	-	60,241	60,241
Total additions	<u>25,062,552</u>	<u>512,534</u>	<u>145,873</u>	<u>25,720,959</u>
<u>Deductions</u>				
Benefits	73,422,651	-	-	73,422,651
General and administrative	2,888,334	56,600	42,926	2,987,860
Refunds and withdrawals	61,515,821	-	-	61,515,821
Total deductions	<u>137,826,806</u>	<u>56,600</u>	<u>42,926</u>	<u>137,926,332</u>
Change in net position	(112,764,254)	455,934	102,947	(112,205,373)
Net position at beginning of year	<u>272,440,727</u>	<u>(16,379,207)</u>	<u>1,707,996</u>	<u>257,769,516</u>
Net position at end of year	<u>\$ 159,676,473</u>	<u>\$ (15,923,273)</u>	<u>\$ 1,810,943</u>	<u>\$ 145,564,143</u>

See Accompanying Independent Auditors' Report.