

COMMONWEALTH OF THE  
NORTHERN MARIANA ISLANDS

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

YEAR ENDED SEPTEMBER 30, 2014

COMMONWEALTH OF THE  
NORTHERN MARIANA ISLANDS

BASIC FINANCIAL STATEMENTS,  
ADDITIONAL INFORMATION  
AND  
INDEPENDENT AUDITORS' REPORT

YEAR ENDED SEPTEMBER 30, 2014

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS  
 FINANCIAL STATEMENTS  
 YEAR ENDED SEPTEMBER 30, 2014

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COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

FINANCIAL STATEMENTS

YEAR ENDED SEPTEMBER 30, 2014

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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, 2014, and the related notes to the financial statements, which collectively comprise the CNMI's basic financial statements as set forth in Section III of the foregoing table of contents.

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

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

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

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Commonwealth Utilities Corporation, Marianas Public Land Trust, the Northern Marianas College, the Public School System and the Marianas Visitors Authority, which represent 49%, 46% and 67%, 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 Commonwealth Utilities Corporation, the Marianas Public Land Trust, the Northern Marianas College, the Public School System and the Marianas Visitors Authority, is based on the reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

**Summary of Opinions**

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

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

The propriety of the Commonwealth Healthcare Corporation's receivables, inventories, due to/from CNMI, accounts payable, due to related parties, accrued payroll, accrued taxes and other liabilities and related revenues, expenses and nonoperating income (expense) could not be determined as of and for the year ended September 30, 2014. The financial activities of the Commonwealth Healthcare Corporation are included in the CNMI's basic financial statements as a discretely presented component unit and represent 9%, 8% and 18% of the assets and deferred outflows, net position and operating revenues, respectively, of the CNMI's aggregate discretely presented component units.

***Basis for Adverse Opinion on the Aggregate Remaining Fund Information***

The financial statements do not include the financial statements of the Northern Mariana Islands Settlement Fund. Accounting principles generally accepted in the United States of America require the financial statements of the Northern Mariana Islands Settlement Fund be reported with the financial data of the CNMI's primary government unless the CNMI also issues financial statements for the financial reporting entity that include the financial data for its component units. The CNMI has not issued such reporting entity financial statements. Additionally, the financial statements of the Pension Trust Fund (comprised of the Northern Mariana Islands Retirement Fund and the CNMI Group Health and Life Insurance Trust Fund) have not been audited. The financial activities of the Pension Trust Fund are included in the CNMI's basic financial statements and represent 51%, 61% and 28%, respectively, of the assets, net position/fund balance and revenues of the aggregate remaining fund information. 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, the assets, liabilities, net position/fund balances, revenues, and expenditures of the aggregate remaining fund information could not be determined.

### ***Disclaimer of Opinion***

Because of the significance of the matters discussed in the “Basis for Disclaimer of Opinion on the Aggregate Discretely Presented Component Units” paragraph, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the assets and deferred outflows, liabilities, net position, revenues, and expenses of the aggregate discretely presented component units.

### ***Adverse Opinion***

In our opinion, because of the significance of the matters discussed in the “Basis for Adverse Opinion on the Aggregate Remaining Fund Information” paragraph, the financial statements referred to above do not present fairly, the respective financial position of the aggregate remaining fund information of the CNMI, as of September 30, 2014, or the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Unmodified 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, 2014, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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

#### *Correction of Errors*

As discussed in note 16 to the financial statements, the beginning fund balances and net position of governmental funds/governmental activities, fiduciary funds and the aggregate discretely presented component units have been restated for the transfer of the CNMI Workers' Compensation Commission fund and for the correction of errors.

#### *Going Concern*

The CNMI's plans regarding its General Fund deficit position and the related governmental activities net deficiency position are described in note 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 12 and the Schedule of Revenues, Expenditures, and Changes in Deficit - Budget and Actual - General Fund and notes thereto, as set forth in Section IV of the foregoing table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by 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 29, 2015 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.

*Deloitte & Touche LLC*

June 29, 2015





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Department of Finance



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**Management's Discussion and Analysis (MD&A)  
Year Ended September 30, 2014**

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, 2014. Please read it in conjunction with the CNMI's financial statements, which follow this section. Fiscal year 2013 comparative information has been included where appropriate for comparative purposes.

**FINANCIAL HIGHLIGHTS**

- For the fiscal year ended September 30, 2014, the CNMI's total deficit net position increased by \$24.1 million, to a deficit net position of \$239.3 million, which represents an increase of approximately 11.2% from the restated deficit net position at the beginning of the year.
- During the year, the CNMI's expenses for governmental activities were \$272.4 million, including expenses recorded for payments made or due to the autonomous agencies, and were funded in part by program revenues of \$125.9 million, further funded with taxes and other general revenues that totaled \$161.2 million. The difference between total revenues of \$287.2 million and total expenses of \$272.4 million resulted in a \$14.8 million decrease in deficit net position. However, transfer of capital assets totaling \$39.9 million to the Commonwealth Healthcare Corporation and recoveries of \$1.1 million resulted in a net increase in deficit net position of \$24.1 million.
- At September 30, 2014, the General Fund reported an unassigned fund deficit of \$111.1 million, which is an increase in the unassigned fund deficit of 40.7% from the prior year's reported unassigned fund deficit of \$79.0 million.
- For budgetary reporting purposes, General Fund actual revenues were higher than final estimates by \$5.3 million, or 3.4%, while reported actual expenditures exceeded final estimated appropriations by \$15.1 million, or 9.7%. 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 government-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, the aggregate remaining fund information 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, increased from \$215.2 million to a deficit net position of \$239.3 million, an increase in the deficit of 11.2%, between fiscal years 2013 and 2014.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
Year Ended September 30, 2014

A summary of net position (condensed) is presented below, with comparable balances for fiscal year 2014:

	Governmental Activities 2014	Governmental Activities 2013 As Restated	Change
Current assets	\$ 64,624,727	\$ 53,945,292	\$ 10,679,435
Capital assets, net	159,477,148	198,540,972	(39,063,824)
Other noncurrent assets	2,500,000	2,500,000	-
Deferred outflows from cost of refunding debt	<u>5,884,802</u>	<u>6,194,529</u>	<u>(309,727)</u>
<b>Total assets and deferred outflows</b>	<b><u>232,486,677</u></b>	<b><u>261,180,793</u></b>	<b><u>(28,694,116)</u></b>
Long-term debt outstanding	88,840,077	96,700,078	(7,860,001)
Obligations under settlement agreement	227,749,160	252,749,160	(25,000,000)
Other liabilities	<u>155,173,945</u>	<u>126,935,123</u>	<u>28,238,822</u>
<b>Total liabilities</b>	<b><u>471,763,182</u></b>	<b><u>476,384,361</u></b>	<b><u>(4,621,179)</u></b>
Net position:			
Net investment in capital assets	76,521,873	107,021,832	(30,499,959)
Restricted	54,051,603	19,867,903	34,183,700
Unrestricted	<u>(369,849,981)</u>	<u>(342,093,303)</u>	<u>(27,756,678)</u>
<b>Total net position</b>	<b><u>\$ (239,276,505)</u></b>	<b><u>\$ (215,203,568)</u></b>	<b><u>\$ (24,072,937)</u></b>

Significant changes from 2013 in the Statement of Net Position include a net decrease in capital assets and investment in capital assets as a result of asset transfers to the Commonwealth Healthcare Corporation, an increase in both current and long-term claims and judgments, and an increase in restricted assets. This was mitigated by decreases in long-term debt and other liabilities as a result of debt service payments and payments toward pension liabilities under the settlement agreement.

### ***Changes in Net Position***

For the year ended September 30, 2014, net position of the primary government changed as follows, with comparable amounts for fiscal year 2013:

	Governmental Activities 2014	Governmental Activities 2013 As Restated	Change
<b>Revenues:</b>			
Program revenues	\$ 125,949,699	\$ 105,405,863	\$ 20,543,836
Taxes and other general revenues	<u>161,236,936</u>	<u>141,023,960</u>	<u>20,212,976</u>
<b>Total revenues</b>	<b><u>287,186,635</u></b>	<b><u>246,429,823</u></b>	<b><u>40,756,812</u></b>
<b>Expenses:</b>			
Capital projects	2,442,753	410,347	2,032,406
Health	38,286,263	51,379,750	(13,093,487)
Public safety and law enforcement	53,700,799	28,834,600	24,866,199
General government	28,663,023	16,820,074	11,842,949
Community and social services	21,454,460	21,453,705	755
Other elected officials	8,738,133	7,017,950	1,720,183
Utilities	3,716,608	11,337,831	(7,621,223)
Public works	12,397,253	16,452,092	(4,054,839)
Lands and natural resources	14,691,441	13,521,151	1,170,290
Legislative branch	5,346,232	5,414,217	(67,985)
Judicial branch	4,583,395	4,001,602	581,793
Education	3,836,548	3,568,754	267,794
Interest and fiscal charges	4,212,349	5,128,833	(916,484)
Economic development	2,880,763	3,139,508	(258,745)
Payments to autonomous agencies	<u>67,461,855</u>	<u>48,505,485</u>	<u>18,956,370</u>
<b>Total expenses</b>	<b><u>272,411,875</u></b>	<b><u>236,985,899</u></b>	<b><u>35,425,976</u></b>
<b>Increase in net position</b>	<b>14,774,760</b>	<b>9,443,924</b>	<b>5,330,836</b>
<b>Recoveries</b>	<b>1,068,393</b>	<b>-</b>	<b>1,068,393</b>
<b>Net capital assets transferred to CHCC</b>	<b>(39,916,090)</b>	<b>-</b>	<b>(39,916,090)</b>
<b>Transfer of WCC assets (note 16)</b>	<b>-</b>	<b>1,929,209</b>	<b>(1,929,209)</b>
<b>Net position, beginning of year, as restated</b>	<b><u>(215,203,568)</u></b>	<b><u>(226,576,701)</u></b>	<b><u>11,373,133</u></b>
<b>Net position, end of year</b>	<b><u>\$ (239,276,505)</u></b>	<b><u>\$ (215,203,568)</u></b>	<b><u>\$ (24,072,937)</u></b>

The CNMI's governmental activities' increase in deficit net position of \$24.1 million represents an 11.2% increase from the prior year. Significant changes from 2013 in the Statement of Activities include an increase in net deficit position from a transfer of \$39.9 million in capital assets to the Commonwealth Healthcare Corporation. This was mitigated by a \$14.8 decrease in net deficit position from governmental activities including implementation of casino and electronic gaming license fees and increases in gross receipts, excise, hotel and other taxes resulting from an increase in visitor arrivals to the CNMI and a surge in the tourism industry.

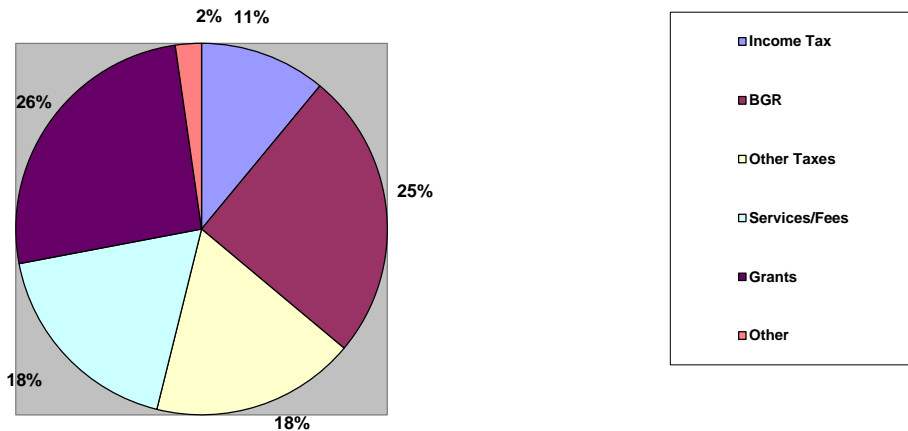
**Governmental Activities**

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

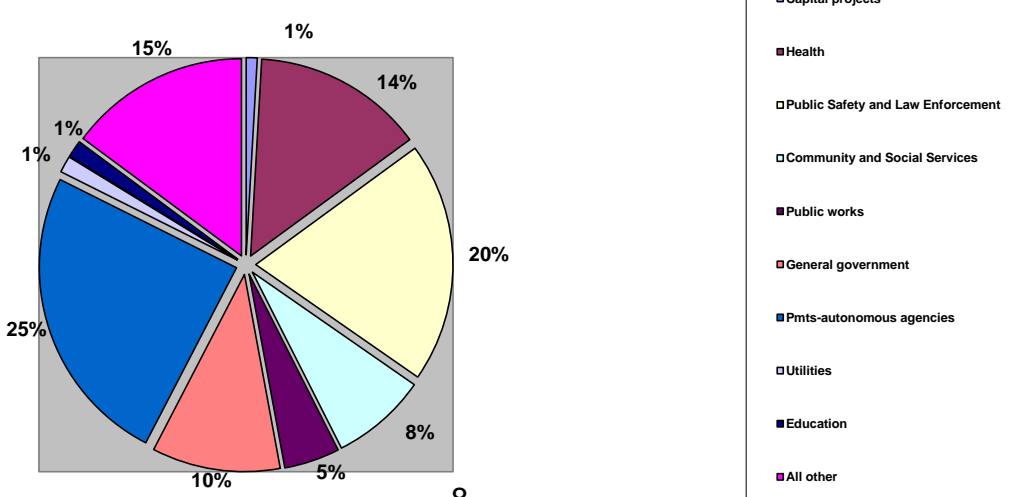
Of particular interest is the format that is significantly different than a typical Statement of Revenues, Expenses, and Changes in Fund Balance. You will notice that expenses are listed in the first column with revenues from that particular program reported to the right. The result is a Net (Expense)/Revenue. 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, 2014, 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, 2014

For the year ended September 30, 2014, total expenses for governmental activities amounted to \$272.4 million. Of these total expenses, taxpayers and other general revenues funded \$161.2 million, while those directly benefiting from the activities funded \$73.8 million from grants and other contributions and \$52.1 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>
	2014	2014	2013	2013	Change	Change
Capital projects	\$ 2,442,753	\$ -	\$ 410,347	\$ -	\$ 2,032,406	\$ -
Health	38,286,263	(14,106,409)	51,379,750	(17,912,672)	(13,093,487)	3,806,263
Public safety and law enforcement	53,700,799	(37,161,545)	28,834,600	(17,235,141)	24,866,199	(19,926,404)
General government	28,663,023	14,008,736	16,820,074	1,141,162	11,842,949	12,867,574
Community and social services	21,454,460	(4,544,968)	21,453,705	(3,636,309)	755	(908,659)
Public works	12,397,253	(3,612,913)	16,452,092	(8,060,755)	(4,054,839)	4,447,842
Utilities	3,716,608	(3,310,875)	11,337,831	(10,329,916)	(7,621,223)	7,019,041
Education	3,836,548	(3,716,825)	3,568,754	(3,396,305)	267,794	(320,520)
Payments to auto- nomous agencies	67,461,855	(67,154,532)	48,505,485	(47,837,165)	18,956,370	(19,317,367)
All others	40,452,313	(26,862,845)	38,223,261	(24,312,935)	2,229,052	(2,549,910)
<b>Total</b>	<b>\$ <u>272,411,875</u></b>	<b>\$ <u>(146,462,176)</u></b>	<b>\$ <u>236,985,899</u></b>	<b>\$ <u>(131,580,036)</u></b>	<b>\$ <u>35,425,976</u></b>	<b>\$ <u>(14,882,140)</u></b>

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

As the CNMI completed its 2014 fiscal year, the governmental funds reported a combined fund deficit of \$52.6 million, when compared with the prior year restated fund deficit of \$57.9 million, which is a decrease in the deficit of \$5.3 million or 9.2%, due to an increase in governmental revenues mainly from casino licensing fees.

Individual fund highlights include:

- For the year ended September 30, 2014, the General Fund's total fund deficit increased by \$7.3 million or 9.8%, to a total fund deficit of \$81.5 million, while the total unassigned fund deficit increased by \$32.1 million or 40.7%, for a total unassigned fund deficit of \$111.1 million.
- The Grants Assistance Fund's revenues and expenditures netted to a \$2.8 million increase in fund balance, providing a remaining fund balance for grant expenditures of \$5.3 million.
- The Saipan Amusement Fund's (a new major fund in 2014 accounting for casino license fees and other electronic gaming fees) revenues and expenditures netted to approximately \$5.5 million increase in fund balance, providing a fund balance of \$5.5 million.

**General Fund Budgetary Highlights**

Original and final revenue estimates remained constant at \$157.6 million, while original expenditure estimates remained constant at \$155.8 million. The General Fund's actual revenues of \$162.9 million were more than the final estimates by \$5.3 million, a variance of 3.4%, mainly due to higher than anticipated tax collections and other revenues. The General Fund's actual expenditures (including net transfers) of \$172.6 million exceeded appropriations by \$11.6 million, a variance of 7.7%, due mainly to unanticipated expenditures that significantly increased expenditures for medical referral and the local match for Medicaid.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

***Capital Assets***

At the end of September 30, 2014, the CNMI had \$159.5 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 \$39,063,824 or 19.7% from last year.

	Governmental Activities <u>2014</u>	Governmental Activities <u>2013</u>	<u>Change</u>
Infrastructure, net	\$ 30,476,209	\$ 30,990,037	\$ (513,828)
Buildings and improvements, net	71,850,680	112,276,109	(40,425,429)
Machinery and equipment, net	7,746,429	9,646,000	(1,899,571)
Land	30,064,154	29,899,810	164,344
Construction in progress	<u>19,339,676</u>	<u>15,729,016</u>	<u>3,610,660</u>
<b>Total</b>	<b><u>\$ 159,477,148</u></b>	<b><u>\$ 198,540,972</u></b>	<b><u>\$ (39,063,824)</u></b>

Transfers of capital assets to the Commonwealth Healthcare Corporation (CHCC) totaling \$39.9 million resulted in a decrease in capital assets as of September 30, 2014. 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 \$88.8 million in long-term debt outstanding, which represents a net decrease of \$8.9 million or 9.1% from the prior year. The CNMI's changes in long-term debt outstanding are as follows:

	Governmental Activities <u>2014</u>	Governmental Activities <u>2013</u>	<u>Change</u>
General Obligation Bonds (backed by the CNMI)	\$ 88,840,077	\$ 92,736,088	\$ (3,896,011)
Loan payable (backed by specific fee revenues)	<u>-</u>	<u>4,977,581</u>	<u>(4,977,581)</u>
<b>Total</b>	<b><u>\$ 88,840,077</u></b>	<b><u>\$ 97,713,669</u></b>	<b><u>\$ (8,873,592)</u></b>

As of September 30, 2014, 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, 2014. However, the CNMI has estimated the aggregate assessed valuation of real property to be \$1,596,236,822 as of September 30, 2014. 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 (NMISF) to accept the transfer of NMIRF assets, receive annual contributions and payments by the CNMI and to carry out the consent judgment entered by the District Court. As part of the Settlement Agreement, the CNMI agrees to make minimum annual payments to 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 CNMI recorded a liability of \$227,749,160 to the Settlement Fund as of September 30, 2014 equivalent to the amount of judgment for Civil Case No. 06-0367 less payments made to the Settlement Fund pursuant to the Settlement. The amount of the judgment is factored into the annual payments disclosed in note 9 to the financial statements.

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.

The Settlement Fund September 30, 2014 financial statements were not available for inclusion in this audit as a CNMI component unit. After consultation with the auditors, the Settlement Fund was determined to be a component unit of the CNMI in March 2015. Shortly after that determination, the Settlement Fund initiated an audit but it has not been completed as of the date of the CNMI audit.

Public Law 18-38, as amended by Public Law 18-43 and Public Law 18-56, was enacted to authorize, establish and regulate an exclusive gaming license within the CNMI. Public laws allow the Commonwealth Lottery Commission (the Commission) to impose a one-time nonrefundable casino application fee of \$1 million for each applicant and impose an annual casino license fee of \$15 million. Application fees are deposited to a special fund and expended without appropriation by the Commission for the investigation of the applicants and other costs associated with reviewing the applicants and granting or denying applications for the exclusive license. Funds collected from license fees are deposited in the CNMI Treasury and allocated to pay the 25% reduction in retirement benefits under the Settlement Agreement and to pay interest to active members who terminated their membership from the defined benefit plan under Public law 17-82 as amended by Public law 18-02. See note 1 to the financial statements for additional information.

During fiscal year 2014, the CNMI recorded application fees of \$2 million and casino license fees of \$30 million (1<sup>st</sup> and 5<sup>th</sup> year license fees). Accordingly, during the fiscal year, the CNMI recorded payment to the Settlement Fund of the 25% reduction in retirement benefits and paid interest to active members who terminated defined benefit plan membership under the applicable public laws.

Management believes that the addition of casino gaming in the CNMI will provide significant additional economic activity in the local economy with an associated increase in government revenues.

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. Since 2012 business gross revenue tax, hotel tax and excise tax collections have increased by 38%, 122% and 34% respectively. The audited Statements of Activities for 2014 and 2013 indicates positive changes of \$15.8 million (before the transfer of capital assets to CHCC) and \$9.4 million, respectively, to the CNMI's deficit net position. The prospects for fiscal year 2015 appear similar.

## **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](mailto:larrisa.larson@gov.mp) or [larrisa.larson@gmail.com](mailto:larrisa.larson@gmail.com).



COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Statement of Net Position  
September 30, 2014

	Primary Government	Component Units
<u>ASSETS AND DEFERRED OUTFLOWS</u>		
Current assets:		
Cash and cash equivalents	\$ 9,979,558	\$ 53,043,901
Time certificates of deposit	2,758,018	2,695,094
Receivables, net of allowance for uncollectibles	19,564,912	50,798,190
Due from primary government	-	6,623,977
Inventories	1,233,387	13,971,129
Advances	489,318	-
Other assets	-	6,850,859
Restricted assets:		
Cash and cash equivalents	29,375,229	17,223,105
Time certificates of deposit	133,528	2,800,000
Investments	1,090,777	89,914,806
Total current assets	<u>64,624,727</u>	<u>243,921,061</u>
Noncurrent assets:		
Investments	2,500,000	7,355,502
Receivables:		
Loans, net of allowance for uncollectibles	-	11,315,756
Notes, net of allowance for uncollectibles	-	3,054,728
Other	-	1,551,301
Foreclosed real estate	-	2,964,705
Nondepreciable capital assets	49,403,830	122,890,920
Depreciable capital assets, net of accumulated depreciation	110,073,318	289,811,109
Total noncurrent assets	<u>161,977,148</u>	<u>438,944,021</u>
Deferred outflows from cost of refunding debt	5,884,802	801,719
Total assets and deferred outflows	<u>232,486,677</u>	<u>683,666,801</u>
<u>LIABILITIES AND DEFERRED INFLOWS</u>		
Current liabilities:		
Current portion of bonds payable	4,056,320	1,895,000
Current portion of notes payable	4,814,903	5,991,450
Current portion of obligations under preferred stock agreement	-	2,340,000
Current portion of claims and judgments payable	43,682,326	-
Current portion of compensated absences	3,048,399	1,781,593
Stipulated order penalties assessed	-	36,041,000
Accounts payable	10,250,534	32,101,074
Tax rebates payable	43,048,353	-
Recovery rebate payable	398,688	-
Accrued interest payable	1,826,375	668,983
Other liabilities and accruals	6,652,232	32,776,882
Due to Pension (and Other Employee Benefit) Trust Fund	19,229	-
Due to external parties	1,391,134	-
Due to component units	11,583,616	-
Due to primary government	-	5,110,039
Unearned revenues	5,661,138	4,056,946
Total current liabilities	<u>136,433,247</u>	<u>122,762,967</u>
Noncurrent liabilities:		
Obligations under Settlement Agreement	227,749,160	-
Bonds payable, net of current portion	84,783,757	40,088,747
Notes payable, net of current portion	-	5,861,592
Claims and judgments payable, net of current portion	15,000,000	-
Obligations under preferred stock agreement	-	2,160,000
Compensated absences, net of current portion	3,216,177	3,322,433
Due to Pension (and Other Employee Benefit) Trust Fund	-	27,154,219
Due to primary government	-	6,754,086
Accrued interest payable	-	546,679
Unearned purchase obligation rebate	-	6,131,316
Unearned revenues, net of current portion	-	8,356,816
Landfill closure	4,580,841	-
Total noncurrent liabilities	<u>335,329,935</u>	<u>100,375,888</u>
Deferred inflows of resources	-	4,154,501
Total liabilities and deferred inflows of resources	<u>471,763,182</u>	<u>227,293,356</u>
Commitments and contingencies		
<u>NET POSITION</u>		
Net investment in capital assets	76,521,873	366,762,562
Restricted for:		
Expendable:		
Capital projects	6,529,847	-
Retirement of indebtedness	2,298,222	-
Other purposes	45,223,534	172,526,884
Unrestricted	(369,849,981)	(82,916,001)
Total net position	<u>\$ (239,276,505)</u>	<u>\$ 456,373,445</u>

See accompanying notes to financial statements.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Statement of Activities  
For the Year Ended September 30, 2014

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	\$ 38,286,263	\$ 59,017	\$ 23,799,317	\$ 321,520	\$ (14,106,409)	\$ -
Public safety and law enforcement	53,700,799	8,422,843	8,095,735	20,676	(37,161,545)	-
General government	28,663,023	37,858,484	4,503,643	309,632	14,008,736	-
Community and social services	21,454,460	23,944	16,885,548	-	(4,544,968)	-
Other elected officials	8,738,133	-	-	-	(8,738,133)	-
Utilities	3,716,608	-	-	405,733	(3,310,875)	-
Utilities - Capital Projects	2,442,753	-	-	2,442,753	-	-
Public works	12,397,253	377,905	1,090,025	7,316,410	(3,612,913)	-
Lands and natural resources	14,691,441	4,955,591	6,678,871	-	(3,056,979)	-
Legislative branch	5,346,232	-	-	-	(5,346,232)	-
Judicial branch	4,583,395	402,197	-	-	(4,181,198)	-
Education	3,836,548	-	119,723	-	(3,716,825)	-
Interest and fiscal charges	4,212,349	-	-	-	(4,212,349)	-
Economic development	2,880,763	-	20,580	1,532,229	(1,327,954)	-
Education:						
Payments to Public School System	32,582,724	-	220,004	-	(32,362,720)	-
Payments to Northern Marianas College	5,208,772	-	87,319	-	(5,121,453)	-
Payments to Commonwealth Healthcare Corporation						
Corporation	1,208,675	-	-	-	(1,208,675)	-
Payments to Marianas Visitors Authority	8,934,537	-	-	-	(8,934,537)	-
Payments to Pension (and Other Employee Benefit) Trust Fund						
Benefit) Trust Fund	7,596,351	-	-	-	(7,596,351)	-
Payments to Settlement Fund	11,930,796	-	-	-	(11,930,796)	-
Total primary government	<u>\$ 272,411,875</u>	<u>\$ 52,099,981</u>	<u>\$ 61,500,765</u>	<u>\$ 12,348,953</u>	<u>(146,462,176)</u>	<u>-</u>
Component units:						
Commonwealth Ports Authority	\$ 27,305,226	\$ 21,059,862	\$ -	\$ 9,155,039	-	2,909,675
Commonwealth Development Authority	8,956,579	1,554,192	7,015,497	-	-	(386,890)
Commonwealth Utilities Corporation	110,063,538	98,931,151	-	6,270,224	-	(4,862,163)
Marianas Public Land Trust	1,857,016	-	-	-	-	(1,857,016)
Northern Marianas College	15,044,715	2,068,228	8,996,516	-	-	(3,979,971)
Public School System	65,372,622	1,616,203	30,319,671	-	-	(33,436,748)
Marianas Visitors Authority	7,972,969	147,943	33,117	-	-	(7,791,909)
Commonwealth Healthcare Corporation	64,185,575	47,675,810	52,658,313	-	-	36,148,548
Total component units	<u>\$ 300,758,240</u>	<u>\$ 173,053,389</u>	<u>\$ 99,023,114</u>	<u>\$ 15,425,263</u>	<u>-</u>	<u>(13,256,474)</u>
General revenues:						
Taxes:						
Income					31,572,512	-
Gross receipts					72,052,458	-
Excise					21,548,571	-
Hotel					12,898,482	-
Fuel					4,359,109	-
Cigarette					7,176,134	-
Other taxes					5,108,674	-
Unrestricted investment earnings and dividends					279,235	1,289,206
Contributions from primary government					-	46,218,030
Other					6,241,761	13,553,400
Total general revenues					<u>161,236,936</u>	<u>61,060,636</u>
Recoveries					<u>1,068,393</u>	<u>-</u>
Net capital assets transferred to Commonwealth Healthcare Corporation					<u>(39,916,090)</u>	<u>-</u>
Change in net position					<u>(24,072,937)</u>	<u>47,804,162</u>
Net position - beginning, as previously reported					<u>(217,132,777)</u>	<u>458,299,023</u>
Prior period adjustment (note 16)					<u>1,929,209</u>	<u>(49,729,740)</u>
Net position - beginning, as restated					<u>(215,203,568)</u>	<u>408,569,283</u>
Net position - ending					<u>\$ (239,276,505)</u>	<u>\$ 456,373,445</u>

See accompanying notes to financial statements.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Balance Sheet  
Governmental Funds  
September 30, 2014

	General	Grants Assistance	Saipan Amusement	Other Governmental Funds	Total
<u>Assets</u>					
Cash and cash equivalents	\$ 3,761,849	\$ -	\$ -	\$ 6,217,709	\$ 9,979,558
Time certificates of deposit	92,195	-	-	2,665,823	2,758,018
Investments	2,500,000	-	-	-	2,500,000
Restricted cash and cash equivalents	26,898,629	2,295,045	-	181,555	29,375,229
Restricted time certificates of deposit	-	-	-	133,528	133,528
Restricted investments	-	-	-	1,090,777	1,090,777
Receivables, net:					
Federal agencies	6,461,422	2,895,678	-	284,562	9,641,662
Taxes	7,215,662	-	-	-	7,215,662
General	1,037,711	-	-	447,217	1,484,928
Other	-	12,831	-	1,209,829	1,222,660
Due from other funds	3,058,169	6,378,843	5,509,412	15,359,582	30,306,006
Due from component units	-	-	-	-	-
Advances	489,318	-	-	-	489,318
Inventories	232,387	1,001,000	-	-	1,233,387
	<u>\$ 51,747,342</u>	<u>\$ 12,583,397</u>	<u>\$ 5,509,412</u>	<u>\$ 27,590,582</u>	<u>\$ 97,430,733</u>
<u>Liabilities and Fund Balances (Deficit)</u>					
Liabilities:					
Accounts payable	\$ 4,291,093	\$ 5,030,215	\$ 30,999	\$ 898,227	\$ 10,250,534
Tax rebates payable	43,048,353	-	-	-	43,048,353
Recovery rebates payable	398,688	-	-	-	398,688
Other liabilities and accruals	5,677,007	177,975	-	797,250	6,652,232
Claims and judgments payable	35,882,326	-	-	-	35,882,326
Notes payable	4,814,903	-	-	-	4,814,903
Due to Pension (and Other Employee Benefit) Trust Fund	19,229	-	-	-	19,229
Due to other funds	27,247,837	1,119,191	-	1,938,978	30,306,006
Due to component units	10,428,022	-	-	1,155,594	11,583,616
Due to external parties	1,391,134	-	-	-	1,391,134
Unearned revenues	-	1,001,000	-	4,660,138	5,661,138
Total liabilities	<u>133,198,592</u>	<u>7,328,381</u>	<u>30,999</u>	<u>9,450,187</u>	<u>150,008,159</u>
Fund balances (deficit):					
Non-spendable	2,732,387	-	-	-	2,732,387
Restricted	26,898,629	5,255,016	5,478,413	18,267,999	55,900,057
Unassigned:					
General fund	(111,082,266)	-	-	-	(111,082,266)
Special revenue funds	-	-	-	(127,440)	(127,440)
Capital projects funds	-	-	-	(164)	(164)
Total fund balances (deficit)	<u>(81,451,250)</u>	<u>5,255,016</u>	<u>5,478,413</u>	<u>18,140,395</u>	<u>(52,577,426)</u>
	<u>\$ 51,747,342</u>	<u>\$ 12,583,397</u>	<u>\$ 5,509,412</u>	<u>\$ 27,590,582</u>	<u>\$ 97,430,733</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, 2014

Total fund deficit - governmental funds		\$ (52,577,426)
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.		
		5,884,802
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. Those assets consist of:		
Land	\$ 30,064,154	
Construction in progress	19,339,676	
Depreciable capital assets and infrastructure, net of \$190,165,284 of accumulated depreciation	<u>110,073,318</u>	
Capital assets, net of accumulated depreciation		159,477,148
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	(227,749,160)	
Bonds payable	(88,840,077)	
Claims and judgment payable	(22,800,000)	
Accrued interest payable	(1,826,375)	
Compensated absences payable	(6,264,576)	
Landfill closure and postclosure costs	<u>(4,580,841)</u>	
Long-term liabilities		<u>(352,061,029)</u>
Net position of governmental activities		<u>\$ (239,276,505)</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, 2014

	General	Grants Assistance	Saipan Amusement	Other Governmental Funds	Total
Revenues:					
Taxes	\$ 150,181,692	\$ -	\$ -	\$ 4,650,137	\$ 154,831,829
Federal contributions	-	68,164,728	-	5,015,080	73,179,808
Licenses and fees	8,640,377	187,762	32,447,905	4,917,306	46,193,350
Charges for sales and services	1,557,659	-	-	4,247,549	5,805,208
Contributions from component units	653,737	-	-	-	653,737
Interest and dividends	266,100	231	1,707	36,077	304,115
Other	2,977,195	271,643	-	3,586,191	6,835,029
	164,276,760	68,624,364	32,449,612	22,452,340	287,803,076
Recoveries (bad debts)	1,068,393	-	-	(616,441)	451,952
Total revenues	165,345,153	68,624,364	32,449,612	21,835,899	288,255,028
Expenditures:					
Current:					
Health	7,635,203	30,542,575	-	209,077	38,386,855
General government	11,495,042	940,079	14,915,342	27,949	27,378,412
Public safety and law enforcement	20,671,148	8,095,735	-	877,925	29,644,808
Community and social services	3,399,846	16,885,548	94,446	608,711	20,988,551
Lands and natural resources	3,352,720	6,678,871	-	4,714,754	14,746,345
Utilities	3,310,875	405,733	-	-	3,716,608
Other elected officials	8,713,985	-	-	24,148	8,738,133
Legislative branch	5,315,617	-	30,615	-	5,346,232
Judicial branch	4,292,121	-	-	-	4,292,121
Education	1,714,134	119,723	-	2,002,691	3,836,548
Economic development	812,252	1,552,805	-	515,706	2,880,763
Payments to:					
Public School System	32,362,720	220,004	-	-	32,582,724
Marianas Visitors Authority	8,894,439	-	-	40,098	8,934,537
Northern Marianas College	5,121,453	87,319	-	-	5,208,772
Commonwealth Healthcare Corporation	1,208,675	-	-	-	1,208,675
Pension (and Other Employee Benefit) Trust Fund	7,596,351	-	-	-	7,596,351
Settlement Fund	25,000,000	-	11,930,796	-	36,930,796
Debt service:					
Interest and fiscal charges	4,061,868	-	-	-	4,061,868
Principal retirement	8,892,581	-	-	-	8,892,581
Capital outlay:					
Public works	4,778,266	3,395,862	-	6,970,988	15,145,116
Utilities - Capital Projects	-	2,442,753	-	-	2,442,753
Total expenditures	168,629,296	71,367,007	26,971,199	15,992,047	282,959,549
Excess (deficiency) of revenues over (under) expenditures	(3,284,143)	(2,742,643)	5,478,413	5,843,852	5,295,479
Other financing sources (uses):					
Operating transfers in	4,170,641	6,457,638	-	1,752,315	12,380,594
Operating transfers out	(8,176,622)	(913,972)	-	(3,290,000)	(12,380,594)
Total other financing sources (uses), net	(4,005,981)	5,543,666	-	(1,537,685)	-
Net change in fund balances (deficit)	(7,290,124)	2,801,023	5,478,413	4,306,167	5,295,479
Fund balances (deficit) at beginning of year, as previously reported	(74,161,126)	2,453,993	-	11,905,019	(59,802,114)
Prior period adjustment (note 16)	-	-	-	1,929,209	1,929,209
Fund balances (deficit) at beginning of year, as restated	(74,161,126)	2,453,993	-	13,834,228	(57,872,905)
Fund balances (deficit) at end of year	\$ (81,451,250)	\$ 5,255,016	\$ 5,478,413	\$ 18,140,395	\$ (52,577,426)

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, 2014

Total net change in fund balances - governmental funds		\$ 5,295,479
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	10,909,317	
Depreciation expense	(10,057,051)	
Capital assets transferred to the Commonwealth Healthcare Corporation	<u>(39,916,090)</u>	(39,063,824)
The incurrence of long-term debt (e.g., bonds and leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and deferred amounts on refundings when debt is issued, whereas these amounts are deferred and amortized in the Statement of Activities. For the current year, these amounts consist of:		
Repayment of obligations under Settlement Agreement	25,000,000	
Transfer of NMISF loan to governmental funds	4,977,581	
Repayment of bonds	3,915,000	
Amortization of bond premium	6,320	
Amortization of bond discount	(25,309)	
Amortization of deferred amount on refunding	<u>(309,727)</u>	33,563,865
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	178,235	
Change in landfill closure and postclosure care costs	(381,736)	
Change in compensated absences payable	(864,956)	
Change in claims and judgment payable	<u>(22,800,000)</u>	(23,868,457)
Change in net position of governmental activities		\$ <u>(24,072,937)</u>

See accompanying notes to financial statements.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Statement of Fiduciary Net Position  
Fiduciary Funds  
September 30, 2014

	<u>Assets</u>	Pension (and Other Employee Benefit) Trust Fund	Agency Funds
Cash and cash equivalents		\$ 2,445,221	\$ 1,643,840
Receivables:			
Loan		3,361,820	-
Notes		904,235	-
Other		7,236	-
		<u>4,273,291</u>	<u>-</u>
Due from General Fund		-	1,391,134
Due from component units		1,923,735	-
		<u>1,923,735</u>	<u>1,391,134</u>
Investments, at fair market value:			
Mutual funds		22,550,222	-
		<u>22,550,222</u>	<u>-</u>
Restricted assets		-	1,575,245
Capital assets		2,414,567	-
Total assets		<u>33,607,036</u>	<u>4,610,219</u>
	<u>Liabilities and Other Credits</u>		
Accounts payable		2,590,317	-
Claims and judgments payable		-	1,391,134
Deposits payable		-	3,219,085
Other liabilities and accruals		2,571,128	-
Unearned revenue		893,468	-
Total liabilities and other credits		<u>6,054,913</u>	<u>\$ 4,610,219</u>
Net position:			
Held in trust for pension benefits		27,829,885	
Held in trust for medical and life insurance benefits		(277,762)	
Total net position		<u>\$ 27,552,123</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, 2014

	<u>Pension (and Other Employee Benefit) Trust Fund</u>
<u>Additions</u>	
Contributions:	
Employer	\$ 1,292,033
Employee	4,490,587
Revenues:	
Premiums	508,209
Rent income and other	618,810
Total contributions and revenues	<u>6,909,639</u>
Net investment earnings:	
Net appreciation in fair value of investments	1,476,909
Interest	90,711
Net investment earnings	<u>1,567,620</u>
Total additions	<u>8,477,259</u>
<u>Deductions</u>	
Benefits	192,557
General and administrative	3,040,962
Loss on settlement	124,139,208
Refunds and withdrawals	14,103,348
Total deductions	<u>141,476,075</u>
Change in net position	<u>(132,998,816)</u>
Net position at beginning of year	143,753,200
Prior period adjustment (note 16)	16,797,739
Net position at beginning of year, as restated	<u>160,550,939</u>
Net position at end of year	<u>\$ 27,552,123</u>

See accompanying notes to financial statements.



COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Statement of Net Position  
Component Units  
September 30, 2014

	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
<b>ASSETS AND DEFERRED OUTFLOWS</b>									
Current assets:									
Cash and cash equivalents	\$ 20,844,321	\$ 2,400,471	\$ 9,180,020	\$ 1,701,030	\$ 6,399,585	\$ 5,400,358	\$ 6,031,538	\$ 1,086,578	\$ 53,043,901
Time certificates of deposit	-	2,000,000	-	-	695,094	-	-	-	2,695,094
Receivables, net of allowance for uncollectibles:									
Loans	-	5,462,675	-	-	-	-	-	-	5,462,675
Notes	-	275,769	86,855	3,569,689	-	-	-	-	3,932,313
Federal agencies	1,328,572	-	819,393	-	1,167,224	2,459,382	-	-	5,774,571
General	3,025,325	-	10,039,708	-	1,625,999	-	-	18,708,264	33,399,296
Interest and dividends	-	356,849	-	366,502	-	-	-	-	723,351
Other	514,241	383,865	-	106,302	-	346,030	14,376	141,170	1,505,984
Due from primary government	-	-	-	-	177,561	6,909	4,402,286	2,037,221	6,623,977
Inventories	-	-	11,079,929	-	534,685	-	-	2,356,515	13,971,129
Other assets	264,433	12,612	6,088,514	3,554	68,793	-	50,000	362,953	6,850,859
Restricted assets:									
Cash and cash equivalents	-	7,025,588	10,197,517	-	-	-	-	-	17,223,105
Time certificates of deposit	-	2,800,000	-	-	-	-	-	-	2,800,000
Investments	17,918,281	-	-	71,996,525	-	-	-	-	89,914,806
Total current assets	43,895,173	20,717,829	47,491,936	77,743,602	10,668,941	8,212,679	10,498,200	24,692,701	243,921,061
Noncurrent assets:									
Investments	-	-	-	-	7,355,502	-	-	-	7,355,502
Receivables:									
Loans, net	-	11,315,756	-	-	-	-	-	-	11,315,756
Notes	-	-	105,224	2,949,504	-	-	-	-	3,054,728
Other	-	1,551,301	-	-	-	-	-	-	1,551,301
Nondepreciable capital assets	58,670,840	7,472,530	15,662,061	116,000	1,113,376	37,699,297	-	2,156,816	122,890,920
Depreciable capital assets, net of accumulated depreciation	135,801,013	1,822,320	69,050,159	170,621	3,535,150	41,489,832	182,740	37,759,274	289,811,109
Foreclosed real estate	-	2,324,705	-	640,000	-	-	-	-	2,964,705
Total noncurrent assets	194,471,853	24,486,612	84,817,444	3,876,125	12,004,028	79,189,129	182,740	39,916,090	438,944,021
Deferred outflows from cost of refunding debt	801,719	-	-	-	-	-	-	-	801,719
Total assets and deferred outflows	239,168,745	45,204,441	132,309,380	81,619,727	22,672,969	87,401,808	10,680,940	64,608,791	683,666,801
<b>LIABILITIES AND DEFERRED INFLOWS</b>									
Current liabilities:									
Current portion of bonds payable	1,895,000	-	-	-	-	-	-	-	1,895,000
Current portion of notes payable	257,790	212,697	2,520,963	-	-	-	-	3,000,000	5,991,450
Current portion of obligations under preferred stock agreement	-	-	2,340,000	-	-	-	-	-	2,340,000
Accounts payable	6,354,137	1,059,352	6,042,615	227,407	697,489	10,329,987	1,807,376	5,582,711	32,101,074
Compensated absences	241,658	-	350,675	-	380,949	763,311	45,000	-	1,781,593
Stipulated order penalties assessed	-	-	36,041,000	-	-	-	-	-	36,041,000
Due to primary government	725,561	-	-	-	-	-	-	4,384,478	5,110,039
Other liabilities and accruals	2,758,237	4,281,967	9,078,998	8,708	370,523	130	1,102,194	15,176,125	32,776,882
Accrued interest payable	-	-	668,983	-	-	-	-	-	668,983
Unearned revenues	1,779,563	931,902	-	-	852,703	-	-	492,778	4,056,946
Total current liabilities	14,011,946	6,485,918	57,043,234	236,115	2,301,664	11,093,428	2,954,570	28,636,092	122,762,967
Noncurrent liabilities:									
Bonds payable, net of current portion	40,088,747	-	-	-	-	-	-	-	40,088,747
Notes payable, net of current portion	4,499,649	509,343	852,600	-	-	-	-	-	5,861,592
Obligations under preferred stock agreement, net of current portion	-	-	2,160,000	-	-	-	-	-	2,160,000
Compensated absences, net of current portion	304,970	-	527,866	-	214,776	2,220,325	54,496	-	3,322,433
Due to primary government	-	-	6,754,086	-	-	-	-	-	6,754,086
Due to Pension (and Other Employee Benefit) Trust Fund	-	-	3,387,153	-	-	23,767,066	-	-	27,154,219
Accrued interest payable	546,679	-	-	-	-	-	-	-	546,679
Unearned purchase obligation rebate	-	-	6,131,316	-	-	-	-	-	6,131,316
Unearned revenues, net of current portion	-	8,356,816	-	-	-	-	-	-	8,356,816
Total noncurrent liabilities	45,440,045	8,866,159	19,813,021	-	214,776	25,987,391	54,496	-	100,375,888
Deferred inflows of resources	-	-	2,788,238	-	131,293	1,223,770	11,200	-	4,154,501
Total liabilities and deferred inflows of resources	59,451,991	15,352,077	79,644,493	236,115	2,647,733	38,304,589	3,020,266	28,636,092	227,293,356
<b>NET POSITION</b>									
Net investment in capital assets	148,532,386	9,294,850	84,712,220	286,621	4,648,526	79,189,129	182,740	39,916,090	366,762,562
Restricted	17,918,281	20,557,514	44,510,907	81,096,991	7,355,502	1,087,689	-	-	172,526,884
Unrestricted	13,266,087	-	(76,558,240)	-	8,021,208	(31,179,599)	7,477,934	(3,943,391)	(82,916,001)
Total net position	\$ 179,716,754	\$ 29,852,364	\$ 52,664,887	\$ 81,383,612	\$ 20,025,236	\$ 49,097,219	\$ 7,660,674	\$ 35,972,699	\$ 456,373,445

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, 2014

	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	\$ 12,419,319	\$ 936,898	\$ 98,931,151	\$ -	\$ 1,219,826	\$ 1,616,203	\$ 92,193	\$ 47,675,810	\$ 162,891,400
Grants and contributions	-	7,015,497	-	-	8,996,516	30,319,671	33,117	-	46,364,801
Other	8,640,543	617,294	-	5,236,483	848,402	-	55,750	266,819	15,665,291
	21,059,862	8,569,689	98,931,151	5,236,483	11,064,744	31,935,874	181,060	47,942,629	224,921,492
(Provision for) recovery of uncollectible receivables	(392,797)	965,539	(6,906,360)	145,611	-	-	-	(9,434,557)	(15,622,564)
Total operating revenues	20,667,065	9,535,228	92,024,791	5,382,094	11,064,744	31,935,874	181,060	38,508,072	209,298,928
Operating expenses:									
Cost of services	5,748,864	4,968,738	70,501,932	-	12,127,568	58,564,601	6,236,140	15,636,963	173,784,806
Depreciation and amortization	13,063,444	266,315	7,227,734	41,570	512,189	1,411,637	18,811	-	22,541,700
Administration	5,598,206	4,625,870	18,313,501	827,924	2,404,958	5,396,384	1,718,018	26,955,724	65,840,585
Total operating expenses	24,410,514	9,860,923	96,043,167	869,494	15,044,715	65,372,622	7,972,969	42,592,687	262,167,091
Operating income (loss)	(3,743,449)	(325,695)	(4,018,376)	4,512,600	(3,979,971)	(33,436,748)	(7,791,909)	(4,084,615)	(52,868,163)
Nonoperating revenues (expenses):									
Contributions from the primary government	-	-	-	-	4,113,778	32,362,718	9,741,534	-	46,218,030
Contributions to the primary government	-	-	(366,948)	(987,522)	-	-	-	-	(1,354,470)
Unrestricted investment earnings	251,986	29,021	574,488	-	433,711	-	-	-	1,289,206
Interest expense	(2,501,915)	(49,195)	(1,206,204)	-	-	-	-	(177,779)	(3,935,093)
Amortization of bond issue cost	-	-	-	-	-	-	-	-	-
Amortization of unearned purchase obligation rebate	-	-	468,684	-	-	-	-	-	468,684
Stipulated order penalties	-	-	(4,574,000)	-	-	-	-	-	(4,574,000)
Other expenses	-	(12,000)	(966,859)	-	-	-	-	(11,980,552)	(12,959,411)
Other revenues	4,526,775	639,286	213,785	1,303,852	-	-	-	1,208,675	7,892,373
Nonoperating revenues (expenses), net	2,276,846	607,112	(5,857,054)	316,330	4,547,489	32,362,718	9,741,534	(10,949,656)	33,045,319
Income (loss) before change in recovery of fuel costs	(1,466,603)	281,417	(9,875,430)	4,828,930	567,518	(1,074,030)	1,949,625	(15,034,271)	(19,822,844)
Change in recovery of fuel costs	-	-	(456,570)	-	-	-	-	-	(456,570)
Income (loss) before capital contributions and federal grants	(1,466,603)	281,417	(10,332,000)	4,828,930	567,518	(1,074,030)	1,949,625	(15,034,271)	(20,279,414)
Capital contributions and federal grants	9,155,039	-	6,270,224	-	-	-	-	52,658,313	68,083,576
Change in net position	7,688,436	281,417	(4,061,776)	4,828,930	567,518	(1,074,030)	1,949,625	37,624,042	47,804,162
Net position - beginning, as previously reported	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
Prior period adjustment (note 16)	-	-	(37,663,467)	-	-	-	-	(12,066,273)	(49,729,740)
Net position - beginning, as restated	172,028,318	29,570,947	56,726,663	76,554,682	19,457,718	50,171,249	5,711,049	(1,651,343)	408,569,283
Net position - ending	\$ 179,716,754	\$ 29,852,364	\$ 52,664,887	\$ 81,383,612	\$ 20,025,236	\$ 49,097,219	\$ 7,660,674	\$ 35,972,699	\$ 456,373,445

See accompanying notes to financial statements.

# COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

## Notes to the Financial Statements September 30, 2014

### (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.

# COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

## Notes to the Financial Statements September 30, 2014

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

#### A. Reporting Entity, Continued

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:

- 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.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2014

(1) Summary of Significant Accounting Policies, Continued

A. Reporting Entity, Continued

- 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.
- 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 OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2014

(1) Summary of Significant Accounting Policies, Continued

A. Reporting Entity, Continued

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

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 the CNMI.
- 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. GHLITF is governed by the CNMI. The GHLITF health benefit administration was privatized on November 1, 2007.

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

Northern Mariana Islands Settlement Fund  
P.O. Box 501247  
Saipan, MP 96950-1247

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

CNMI Group Health and Life Insurance Trust Fund  
P.O. Box 5234 CHRB  
Saipan, MP 96950

Omitted Component Units

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

# COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2014

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

### A. Reporting Entity, Continued

#### Omitted Component Units, Continued

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:

- *Net investment in capital assets* consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt that are attributed to the acquisition, construction or improvement of those assets.
- *Restricted net position* results when constraints placed on net position use are either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through enabling legislation.
- *Unrestricted net position* consists of net position, which does not meet the definition of the two preceding categories. Unrestricted net position often is designated, to indicate that management does not consider it to be available for general operations.

# COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

## Notes to the Financial Statements September 30, 2014

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

#### B. Government-Wide Financial Statements, Continued

The government-wide Statement of Net Position reports \$54,051,603 of restricted net position, of which \$45,223,534 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, 2014

### (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.

# COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

## Notes to the Financial Statements September 30, 2014

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

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

Major individual governmental funds are reported as separate columns in the fund financial statements. The nonmajor funds are combined in a column in the fund financial statements and detailed in the combining statements. The CNMI reports the following major funds:

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

The Department of Public Lands and Private Grants Fund were previously presented as major funds of the CNMI. During the year ended September 30, 2014, these funds did not meet the definition of a major fund. Accordingly, the funds were presented within other governmental funds. The effect of this presentation is an increase of \$4,856,466 in the beginning fund balance of other governmental funds.

The Judicial Building Fund (JBF) was previously presented within other governmental funds. During the year ended September 30, 2014, the NMISF loan was transferred to the General Fund (see note 9). As a result of the transfer, JBF was presented in the General Fund. The effect of this presentation is an increase of \$59,081 in the beginning fund deficit of the General Fund.

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, 2014, 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.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2014

(1) Summary of Significant Accounting Policies, Continued

F. Cash and Cash Equivalents and Time Certificates of Deposit

The CNMI pools cash resources of its various funds in order to facilitate the management of cash. Unless otherwise required by law, interest income received on pooled cash accrues to the General Fund. Cash and cash equivalents applicable to a particular fund are readily identifiable. Cash and cash equivalents include cash held in demand accounts as well as short-term investments in U.S. Treasury obligations with a maturity date within three months of the date acquired by the CNMI. Time certificates of deposit with original maturity dates greater than ninety days are separately classified on the statement of net position/balance sheet.

G. Receivables

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

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.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2014

(1) Summary of Significant Accounting Policies, Continued

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 \$1,001,000 are offset by unearned revenues.

L. Capital Assets and Depreciation

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

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

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

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

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

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

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

M. Fund Equity/Net Position

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

# COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

## Notes to the Financial Statements September 30, 2014

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

#### M. Fund Equity/Net Position, Continued

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.

“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, 2014

### (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, 2014. However, the CNMI has estimated the aggregate assessed valuation of real property to be \$1,596,236,822 as of September 30, 2014. 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, 2014, is \$6,264,576.

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. Casino License and Application Fees

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2014

(1) Summary of Significant Accounting Policies, Continued

Q. Casino License and Application Fees, Continued

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

On August 12, 2014, a casino license agreement between the Commission and Imperial Pacific International (CNMI) LLC (the Licensee) was approved. The casino license agreement is valid for a consecutive period of twenty five years with an option to extend the initial license term for an additional consecutive period of fifteen years. The annual casino license fee is \$15,000,000 and must be paid every year to the CNMI Treasurer on the date of the issuance of the license and on every subsequent anniversary. Further, the casino license agreement, pursuant to the terms of Public Law 18-56, requires the Licensee to deliver a sum of \$30,000,000 into a third party independent escrow account designated by the CNMI Treasurer as a deposit for the annual license fee for the first and fifth years of the total license term.

During the fiscal year, the CNMI recorded casino application fees of \$2,000,000 and casino license fee of \$30,000,000 which represents license fees for first and fifth year of the total license term. Accordingly, during the calendar year, the CNMI recorded payment to NMISF related to 25% reduction of the retirees and the beneficiaries' pension of and paid interest to active members who terminated their membership from the defined benefit plan under Public Law 17-82, as amended by Public Law 18-02 (see note 15).

R. Bond Premiums, Discounts and Issuance Costs

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

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

# COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2014

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

### S. 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.

### T. 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.

### U. New Accounting Standards

During the year ended September 30, 2014, the CNMI implemented the following pronouncements:

- GASB 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 implementation of this statement did not have a material effect on the accompanying financial statements.



COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2014

(1) Summary of Significant Accounting Policies, Continued

U. New Accounting Standards, Continued

- GASB 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 implementation of this statement did not have a material effect on the accompanying financial statements.

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. The provisions in Statement No. 67 are effective for fiscal years beginning after June 15, 2013. CNMI management is of the opinion that the required supplementary information must be obtained from NMISF. As of September 30, 2014, NMISF financial statements were not included within the CNMI's financial statements.

In June 2012, GASB issued 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 No. 68 are effective for fiscal years beginning after June 15, 2014. Management does not believe that the implementation of this statement will have a material effect 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 No. 69 are effective for fiscal years beginning after December 15, 2013. Management has not yet determined the effect of implementation of this statement on the financial statements of the CNMI.

In November 2013, GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*, which addresses an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. The provisions in Statement 71 are effective for fiscal years beginning after June 15, 2014. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the CNMI.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2014

(1) Summary of Significant Accounting Policies, Continued

V. 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.

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.

W. Encumbrances

The CNMI utilizes encumbrance accounting to identify fund obligations. Encumbrances represent commitments related to unperformed contracts for goods. At September 30, 2014, the CNMI has significant encumbrances summarized as follows:

<u>General</u>	<u>Grants Assistance</u>	<u>Saipan Amusement</u>	<u>Other Governmental Funds</u>	<u>Total</u>
\$ <u>3,894,515</u>	\$ <u>24,763,016</u>	\$ <u>-</u>	\$ <u>10,628,037</u>	\$ <u>39,285,568</u>

X. 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, 2013 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, 2014

### (2) Deposits and Investments, Continued

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

As of September 30, 2014, the carrying amount of the primary government's total cash and cash equivalents and time certificates of deposit were \$12,737,576 and the corresponding bank balances were \$12,831,775. Of the bank balance amounts, \$11,421,870 is maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. The remaining amount of \$1,409,905 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 and time certificates of deposit at September 30, 2014 amounted to \$29,508,757 and the corresponding bank balances were \$30,657,459. Of the bank balance amounts, \$26,064,268 is maintained in financial institutions subject to FDIC insurance. The remaining amount of \$4,593,191 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, 2014. As of September 30, 2014, bank deposits in the amount of \$1,000,000 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, 2014, is presently not determinable. Accordingly, these deposits are exposed to custodial credit risk.

As of September 30, 2014, the carrying amount of the discretely presented component units' restricted and unrestricted cash and cash equivalents and time certificates of deposit were \$75,762,100 and the corresponding bank balances were \$78,505,107. Of the bank balance amounts, \$70,158,369 is maintained in financial institutions subject to FDIC insurance and \$6,962,395 represents amounts maintained in a non-FDIC insured bank. The remaining amount of \$1,384,343 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, 2014, bank deposits in the amount of \$9,066,862 were FDIC insured. The component units do not require collateralization of their cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized. Accordingly, these deposits are exposed to custodial credit risk.

#### Investments

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2014

(2) Deposits and Investments, Continued

Investments, Continued

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

Custodial credit risk for investments is the risk that in the event of the failure of the counterparty to the transaction, the CNMI will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The CNMI's investments are held and administered by trustees in accordance with various bond indentures for the purpose of funding various capital projects, land settlement claims and future debt service requirements. Based on negotiated trust and custody contracts, all of these investments were held in the CNMI's name by the CNMI's custodial financial institutions at September 30, 2014.

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, 2014, the General Fund holds 13% 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.

Investments of Other Governmental Funds are held by a bank administered trust company. Investments at September 30, 2014, are as follows:

Stock mutual fund	\$ 722,459
Mutual bond funds	345,269
Money market placements	<u>23,049</u>
	<u>\$ 1,090,777</u>

The following is a listing of fixed income securities of Other Governmental Funds at September 30, 2014:

Investment Type	Fair Value	Investment Maturities (In Years)			Credit Rating	
		Less Than 1	1 - 5	6 - 10		More Than 10
Mutual bond funds	\$ <u>345,269</u>	\$ <u>345,269</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	Unrated

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2014

(2) Deposits and Investments, Continued

Investments, Continued

B. 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, 2014. As of September 30, 2014, investments at fair value consist of investments in U.S. Government money market placements amounting to \$17,918,281.

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, 2014.

As of September 30, 2014, investments at fair value are as follows:

Mutual funds	\$ 7,755,756
Fixed income securities:	
Domestic fixed income	30,559,005
Other investments:	
Domestic equities	30,006,341
International equities	<u>3,675,423</u>
	<u>\$ 71,996,525</u>

The following is a listing of MPLT's fixed income securities at September 30, 2014:

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	\$ 41,449	\$ -	\$ -	\$ -	\$ 41,449	AAA
Asset and mortgage backed securities	5,456,254	-	1,868,857	867,212	2,720,185	AA+*
Asset and mortgage backed securities	4,727,840	-	4,727,840	-	-	AA+
Government bonds	10,996,769	-	2,153,155	4,917,483	3,926,131	AA+*
Corporate bonds	878,997	-	-	878,997	-	AA+
Corporate bonds	321,448	-	-	321,448	-	AA-
Corporate bonds	1,569,413	158,227	556,882	854,304	-	A
Corporate bonds	2,304,667	-	-	2,304,667	-	A-
Corporate bonds	562,121	-	-	562,121	-	BBB+
Corporate bonds	307,363	-	83,562	223,801	-	BBB-
Corporate bonds	381,412	-	-	381,412	-	BB+
Corporate bonds	917,739	-	149,970	767,769	-	BB
Corporate bonds	671,497	-	76,285	520,447	74,765	BB-
Corporate bonds	420,345	-	115,521	304,824	-	B+
Corporate bonds	403,155	-	37,125	366,030	-	B
Corporate bonds	412,911	-	185,470	227,441	-	B-
Corporate bonds	70,350	-	-	70,350	-	CCC+
Corporate bonds	115,275	-	-	115,275	-	N/A
	<u>\$ 30,559,005</u>	<u>\$ 158,227</u>	<u>\$ 9,954,667</u>	<u>\$ 13,683,581</u>	<u>\$ 6,762,530</u>	

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2014

(2) Deposits and Investments, Continued

Investments, Continued

B. 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, 2014.

As of September 30, 2014, investments at fair value are as follows:

Fixed income securities:	
Domestic fixed income	\$ 1,980,530
Other investments:	
Domestic equities	4,348,119
Cash and cash equivalents	<u>1,026,853</u>
	<u>\$ 7,355,502</u>

The following is a listing of NMC's fixed income securities at September 30, 2014:

Investment Type	Fair Value	Investment Maturities (In Years)				Rating
		Less Than 1	1 - 5	6 - 10	More Than 10	
Government and GSE bonds	\$ 1,477,097	\$ -	\$ 1,139,894	\$ 337,203	\$ -	AAA
Government and GSE bonds	3,896	3,896	-	-	-	No rating
Corporate bonds	20,207	20,207	-	-	-	AA
Corporate bonds	40,277	-	-	19,525	20,752	A
Corporate bonds	131,565	-	76,228	-	55,337	A-
Corporate bonds	20,059	-	-	20,059	-	AA+
Corporate bonds	139,825	-	19,029	61,408	59,388	BBB
Corporate bonds	61,650	-	-	20,962	40,688	BBB-
Corporate bonds	80,305	-	19,314	19,684	41,307	BBB+
Corporate bonds	5,649	5,649	-	-	-	No rating
	<u>\$ 1,980,530</u>	<u>\$ 29,752</u>	<u>\$ 1,254,465</u>	<u>\$ 478,841</u>	<u>\$ 217,472</u>	

(3) Receivables

Governmental Funds

Receivables as of September 30, 2014, 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, 2014

(3) Receivables, Continued

Governmental Funds, Continued

	<u>General</u>	<u>Grants Assistance</u>	<u>Saipan Amusement</u>	<u>Other Governmental Funds</u>	<u>Total</u>
Receivables:					
Federal agencies	\$ 6,461,422	\$ 11,099,961	\$ -	\$ 2,687,198	\$ 20,248,581
Other	3,103,600	-	-	27,572	3,131,172
Taxes	7,215,662	-	-	-	7,215,662
General	<u>2,899,223</u>	<u>12,831</u>	<u>-</u>	<u>22,199,564</u>	<u>25,111,618</u>
Gross receivables	19,679,907	11,112,792	-	24,914,334	55,707,033
Less allowance for uncollectibles	<u>(4,965,112)</u>	<u>(8,204,283)</u>	<u>-</u>	<u>(22,972,726)</u>	<u>(36,142,121)</u>
Net receivables	\$ <u>14,714,795</u>	\$ <u>2,908,509</u>	\$ <u>-</u>	\$ <u>1,941,608</u>	\$ <u>19,564,912</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, 2014, for the fiduciary funds, including allowances for uncollectible accounts, are as follows:

	<u>NMIRF</u>	<u>GHLTF</u>	<u>Total</u>
Receivables:			
Loan	\$ 4,154,718	\$ -	\$ 4,154,718
Notes	7,034,736	-	7,034,736
Other	<u>7,236</u>	<u>-</u>	<u>7,236</u>
Gross receivables	11,196,690	-	11,196,690
Less allowance for uncollectibles	<u>(6,923,399)</u>	<u>-</u>	<u>(6,923,399)</u>
Net receivables	\$ <u>4,273,291</u>	\$ <u>-</u>	\$ <u>4,273,291</u>

Discretely Presented Component Units

Receivables as of September 30, 2014, for the discretely presented component units, including allowances for uncollectible accounts are as follows:

	<u>CPA</u>	<u>CDA</u>	<u>CUC</u>	<u>MPLT</u>	<u>NMC</u>	<u>PSS</u>	<u>MVA</u>	<u>CHCC</u>	<u>Total</u>
Receivables:									
Loans	\$ 3,385,131	\$ 55,025,623	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 58,410,754
Notes	-	275,769	349,831	11,450,482	-	-	-	-	12,076,082
Federal agencies	1,328,572	-	819,393	-	1,167,224	2,459,382	-	-	5,774,571
General	4,357,633	-	46,040,815	-	3,554,704	-	-	42,849,331	96,802,483
Interest and dividends	-	2,235,767	-	366,502	-	-	-	-	2,602,269
Other	<u>514,241</u>	<u>1,935,166</u>	<u>-</u>	<u>106,302</u>	<u>-</u>	<u>623,988</u>	<u>14,376</u>	<u>141,170</u>	<u>3,335,243</u>
Gross receivables	9,585,577	59,472,325	47,210,039	11,923,286	4,721,928	3,083,370	14,376	42,990,501	179,001,402
Less allowance for uncollectibles	<u>(4,717,439)</u>	<u>(40,126,110)</u>	<u>(36,158,859)</u>	<u>(4,931,289)</u>	<u>(1,928,705)</u>	<u>(277,958)</u>	<u>-</u>	<u>(24,141,067)</u>	<u>(112,281,427)</u>
Net receivables	\$ <u>4,868,138</u>	\$ <u>19,346,215</u>	\$ <u>11,051,180</u>	\$ <u>6,991,997</u>	\$ <u>2,793,223</u>	\$ <u>2,805,412</u>	\$ <u>14,376</u>	\$ <u>18,849,434</u>	\$ <u>66,719,975</u>

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2014

(3) Receivables, Continued

Discretely Presented Component Units, Continued

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.

\$ 38,149,881

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.

12,118,302

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

4,757,440

Note receivable from Arctic Circle Air Co. (Arctic Circle), bearing interest at 7% per annum, with monthly principal and interest payments in the amount of \$55,846, with a maturity date of February 12, 2015 and secured by a chattel mortgage loan of \$649,000.

275,769

\$ 55,301,392

CUC:

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

\$ 349,831



COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2014

(3) Receivables, Continued

Discretely Presented Component Units, Continued

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. \$ 7,653,850

Note receivable from Adelantun Publickun Luta Enteramente, Incorporated (APLE 501, Inc.), interest at 5% per annum, due on October 18, 2017, with monthly principal and interest payments in the amount of \$1,225, collateralized by a loan portfolio. Proceeds were used to fund an independently administered individual or parent-student loan program. MPLT has ceased future loan commitments and disbursements to APLE 501, Inc. 101,289

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. 695,343

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. 3,000,000

\$ 11,450,482

(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, 2014, are summarized as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Nonmajor governmental	\$ 1,938,978
General	Grants Assistance	1,119,191
Grants Assistance	General	6,378,843
Saipan Amusement	General	5,509,412
Nonmajor governmental	General	15,359,582
Fiduciary	General	<u>1,391,134</u>
		<u>\$ 31,697,140</u>

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2014

(4) Interfund Receivables and Payables, Continued

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, 2014, are summarized as follows:

<u>Due From</u>	<u>Due To</u>	<u>Amount</u>
PSS	General	\$ 6,906
MVA	General	6,192,009
CUC	General	4,053,060
CHCC	General	176,047
MPLT	DPL	<u>1,155,594</u>
		<u>\$ 11,583,616</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 \$11,864,125 due to CPA, CHCC and CUC recording 1% public auditor fee of \$725,561, \$1,147,691 and \$6,646,790, respectively, for which the primary government recorded a corresponding allowance. The difference is also due to CHCC's contribution to the DB Plan of \$3,236,787 and CUC's advances to the CNMI of \$107,296. The difference of \$3 with PSS is due to rounding.

The amount recorded as due from primary government of the discretely presented component units of \$6,623,977 does not equal the corresponding due to component units of the primary government of \$11,583,616 by \$4,959,639. The difference of \$4,053,060 with CUC is due to amounts recorded as general receivables by CUC. The difference of \$177,561 with NMC is due to retirement contributions paid for retired NMC employees that were not recorded by the CNMI. The difference of \$1,789,723 with MVA is due to an allowance of \$792,730 and a write-off of \$855,891 and an unreconciled amount of \$141,102. The difference of \$1,861,174 with CHCC is due to unreconciled amounts.

(5) Restricted Assets

Governmental Funds

Restricted assets of \$26,898,629 recorded in the General Fund represents cash and cash equivalents of \$1,852,316 for capital projects, \$5,054,333 for federal programs and projects, \$2,298,222 for future debt service requirements, \$4,023,336 for State Small Business Credit Initiative payments, \$6,653,580 for Saipan Amusement payments, \$1,007,786 for MVA Trust, \$1,477,389 for education fee payments and \$4,531,667 for other various purposes.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2014

(5) Restricted Assets, Continued

Governmental Funds, Continued

Restricted assets of \$2,295,045 recorded in the Grants Assistance Fund represents cash and cash equivalents restricted for capital projects.

Restricted assets of \$1,405,860 recorded in the Other Governmental Funds represent cash and cash equivalents of \$181,555 for other purposes, a time certificate of deposit of \$133,528 and investments of \$1,090,777 for the purpose of compensating for injury increasing disability in accordance with §(f) of Section 9308 of Public Law 10-19.

Fiduciary Fund Type - Agency Fund

Restricted assets of \$1,575,245 as of September 30, 2014, 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, 2014, represent the unused proceeds of the Airport Revenue Bonds and the Seaport Revenue Bonds, both issued on March 26, 1998, deposited with the Trustee. The Trustee is a commercial lending institution and the securities are held in the name of CPA. Disbursements from unused bond proceeds are to be made solely for the purpose of paying the costs of the projects, and pursuant to the Act establishing CPA (Public Law No. 2-48), payment of the costs of issuance and the payment of bond principal and interest to the extent provided in the Indenture.

<u>Fund</u>	<u>Airport Revenue Bonds</u>	<u>Seaport Revenue Bonds</u>	<u>Total</u>
Bond Reserve Fund	\$ 1,589,375	\$ 3,479,779	\$ 5,069,154
Supplemental Reserve Fund	-	8,034,239	8,034,239
Construction Fund	-	7,179	7,179
Reimbursement Fund	-	5,809	5,809
Bond Fund	428,720	916,481	1,345,201
Maintenance and Operation	1,908,612	1,534,451	3,443,063
Optional Redemption Fund	12,101	-	12,101
Revenue Fund	<u>724</u>	<u>811</u>	<u>1,535</u>
	<u>\$ 3,939,532</u>	<u>\$ 13,978,749</u>	<u>\$ 17,918,281</u>

CDA:

Restricted assets of CDA's Development Banking Division of \$5,205,686 represent the proceeds of Covenant funding and liquidated revenue bonds derived from pledged Covenant funding to be used for capital development purposes.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2014

(5) Restricted Assets, Continued

Discretely Presented Component Units, Continued

CDA, Continued:

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

Escrow and savings account maintained as a guarantee for any deficiency in foreclosure proceeds related to USDA Rural Development Loans	\$ 3,237,677
Savings account restricted for Koblerville Section 8 project repairs and maintenance expenses, per contract with the U.S. Department of Housing and Urban Development	200,348
Savings account maintained as a guarantee of housing loans made by a CNMI savings and loan	91
Checking account maintained for Section 8 Housing Choice Vouchers Program expenses	1,134,808
Other depository accounts reserved for various purposes	<u>46,978</u>
	<u>\$ 4,619,902</u>

CUC:

Restricted assets of \$10,197,517 as of September 30, 2014, represent customer deposits segregated pursuant to CUC policy.

MPLT:

Restricted assets of \$71,996,525 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, 2014, are as follows:

Primary Government

	Balance October 1, 2013	Additions	Reclassifications	Transfers to CHCC	Balance September 30, 2014
Assets not being depreciated:					
Land	\$ 29,899,810	\$ 164,344	\$ -	\$ -	\$ 30,064,154
Construction in progress	<u>15,729,016</u>	<u>8,561,297</u>	<u>(2,793,821)</u>	<u>(2,156,816)</u>	<u>19,339,676</u>
	<u>45,628,826</u>	<u>8,725,641</u>	<u>(2,793,821)</u>	<u>(2,156,816)</u>	<u>49,403,830</u>

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2014

(6) Fixed Assets and Depreciation, Continued

Primary Government, Continued

	Balance October 1, 2013	Additions	Reclassifications	Transfers to CHCC	Balance September 30, 2014
Depreciable assets:					
Buildings and other improvements	183,705,196	-	503,640	(60,228,508)	123,980,328
Machinery and equipment	32,066,611	2,183,676	229,759	(3,483,667)	30,996,379
Infrastructure	<u>143,201,473</u>	<u>-</u>	<u>2,060,422</u>	<u>-</u>	<u>145,261,895</u>
	<u>358,973,280</u>	<u>2,183,676</u>	<u>2,793,821</u>	<u>(63,712,175)</u>	<u>300,238,602</u>
Accumulated depreciation:					
Buildings and other improvements	(71,429,087)	(4,303,704)	-	23,603,143	(52,129,648)
Machinery and equipment	(22,420,611)	(3,179,097)	-	2,349,758	(23,249,950)
Infrastructure	<u>(112,211,436)</u>	<u>(2,574,250)</u>	<u>-</u>	<u>-</u>	<u>(114,785,686)</u>
Total accumulated depreciation	<u>(206,061,134)</u>	<u>(10,057,051)</u>	<u>-</u>	<u>25,952,901</u>	<u>(190,165,284)</u>
Depreciable assets, net	<u>152,912,146</u>	<u>(7,873,375)</u>	<u>2,793,821</u>	<u>(37,759,274)</u>	<u>110,073,318</u>
	<u>\$ 198,540,972</u>	<u>\$ 852,266</u>	<u>\$ -</u>	<u>\$ (39,916,090)</u>	<u>\$ 159,477,148</u>

Public Law 16-51 created CHCC which is responsible for providing healthcare services in the CNMI as of October 1, 2011. Healthcare services had previously been accounted for within the General Fund of the CNMI. Public Law 16-51 requires the CNMI and CHCC to transfer and accept all real properties owned by the CNMI Department of Public Health, and all other real and personal property used exclusively for the functions and duties assumed by CHCC. On December 11, 2013, CHCC requested the CNMI to transfer the aforementioned capital assets to CHCC. On December 18, 2013, the CNMI approved CHCC's request. Accordingly, the CNMI and CHCC agreed to record the transfer of net capital assets of \$39,916,090 as of September 30, 2014.

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

Public Works	\$ 4,291,909
Public Safety and Law Enforcement	3,300,222
Community and Social Services	1,353,271
General Government	596,999
Judicial Branch	291,274
Lands and Natural Resources	<u>223,376</u>
Total depreciation expense - governmental activities	<u>\$ 10,057,051</u>

Discretely Presented Component Units

	Estimated Useful Lives	Balance at October 1, 2013	Additions and Transfers	Retirements	Balance at September 30, 2014
Assets not being depreciated:					
Land		\$ 45,914,185	\$ -	\$ (100,000)	\$ 45,814,185
Construction in progress		<u>63,200,482</u>	<u>14,323,453</u>	<u>(447,200)</u>	<u>77,076,735</u>
		<u>109,114,667</u>	<u>14,323,453</u>	<u>(547,200)</u>	<u>122,890,920</u>

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2014

(6) Fixed Assets and Depreciation, Continued

Discretely Presented Component Units, Continued

	Estimated Useful Lives	Balance at October 1, 2013	Additions and Transfers	Retirements	Balance at September 30, 2014
Depreciable assets:					
Housing projects	30 years	7,977,392	-	-	7,977,392
Buildings	5 - 50 years	68,330,100	60,228,508	-	128,558,608
Harbor facilities	20 years	63,635,195	-	(33,773)	63,601,422
Infrastructure	30 years	4,446,674	-	(26,038)	4,420,636
Terminal facilities	20 years	101,802,939	96,916	(211,564)	101,688,291
Runway and improvements	20 years	113,856,055	-	-	113,856,055
Terminal equipment	2 - 10 years	10,301,788	85,885	(854,555)	9,533,118
Electric plant	20 years	128,881,452	854,128	(2,493)	129,733,087
Water plant	20 years	67,805,784	146,396	-	67,952,180
Sewer plant	20 years	45,730,511	2,585,462	-	48,315,973
Other improvements	3 - 20 years	27,453,698	259,330	(286,706)	27,426,322
Fire and rescue	2 - 8 years	11,514,281	60,225	-	11,574,506
Office furniture and fixtures	2 - 10 years	9,220,795	4,197,489	(443,334)	12,974,950
General transportation	3 - 5 years	8,495,395	236,145	(82,599)	8,648,941
Other equipment	3 - 5 years	4,154,806	144,681	(78,216)	4,221,271
Ground maintenance and shop equipment	2 - 5 years	<u>388,189</u>	<u>-</u>	<u>(33,279)</u>	<u>354,910</u>
		673,995,054	68,895,165	(2,052,557)	740,837,662
Less accumulated depreciation		<u>(403,566,063)</u>	<u>(49,453,582)</u>	<u>1,993,092</u>	<u>(451,026,553)</u>
Depreciable assets net		<u>270,428,991</u>	<u>19,441,583</u>	<u>(59,465)</u>	<u>289,811,109</u>
		\$ <u>379,543,658</u>	\$ <u>33,765,036</u>	\$ <u>(606,665)</u>	\$ <u>412,702,029</u>

(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 \$43,048,353 as of September 30, 2014. 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.

(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 \$398,688 recorded in the General Fund represents the remaining undisbursed funds as of September 30, 2014.

# COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

## Notes to the Financial Statements September 30, 2014

### (9) Long-Term Debt Obligations

#### NMISF 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, 2014, cash balances held by NMISF for the retirement of debt totaled \$519. The loan was initially for a period of fifteen years, due February 28, 2010, with interest at 7.5% per annum, principal and interest payable in monthly installments of \$137,198. On July 15, 1999, the loan agreement was amended to extend the term of the loan to twenty years and to increase interest to 7.75% per annum. Pursuant to the amendment, principal and interest are payable in monthly installments of \$120,000. On October 1, 2013, the loan was transferred from NMIRF to NMISF pursuant to Section 8 of the Settlement for Civil Case No. 09-00023. The loan is due on March 1, 2015. Accordingly, the principal and interest outstanding and payable of \$4,814,903 and \$29,023, respectively, as of September 30, 2014, were transferred to the governmental fund financial statements.

#### \$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.

- (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).

# COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

## Notes to the Financial Statements September 30, 2014

### (9) Long-Term Debt Obligations, Continued

#### \$40,000,000 Bond Issue, Continued

- (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, 2014, the debt was retired in full.

#### Refunding of Debt

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

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



COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2014

(9) Long-Term Debt Obligations, Continued

Refunding of Debt, Continued

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

At September 30, 2014, 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, 2014, consist of the following:

Series 2007A general obligations refunding bonds	\$ 46,995,000
Unamortized premium on bond issuance	<u>71,240</u>
	\$ <u><u>47,066,240</u></u>

\$42,690,000 Bond Issue

In April 2007, CDA, acting for and on behalf of the CNMI, issued general obligations refunding bonds, Series 2007B in the aggregate principal amount of \$42,690,000 with interest rate at 5% per annum to refund \$37,400,000 of the 2003 Series A general obligation bonds. Installments of principal are to be paid to the Bond Trustee annually commencing October 1, 2011 through October 1, 2033. Interest is payable semi-annually beginning October 1, 2007 through October 1, 2033.

Amount outstanding and payable as of September 30, 2014, consist of the following:

Series 2007B general obligations refunding bonds	\$ 41,725,000
Unamortized premium on bond issuance	<u>48,837</u>
	\$ <u><u>41,773,837</u></u>

Changes in long-term liabilities for the year ended September 30, 2014, are as follows:

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2014

(9) Long-Term Debt Obligations, Continued

	<u>Balance October 1, 2013</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance September 30, 2014</u>	<u>Due Within One Year</u>
Loans and bonds payable:					
NMISF loan	\$ 4,977,581	\$ -	\$ (4,977,581)	\$ -	\$ -
2003 Series A Bonds	900,000	-	(900,000)	-	-
2007 Series A Bonds	49,670,000	-	(2,675,000)	46,995,000	2,795,000
2007 Series B Bonds	<u>42,065,000</u>	<u>-</u>	<u>(340,000)</u>	<u>41,725,000</u>	<u>1,255,000</u>
	97,612,581	-	(8,892,581)	88,720,000	4,050,000
Deferred amounts:					
Unamortized discount on bonds issued	(25,309)	-	25,309	-	-
Unamortized premium on bonds issued	<u>126,397</u>	<u>-</u>	<u>(6,320)</u>	<u>120,077</u>	<u>6,320</u>
	<u>97,713,669</u>	<u>-</u>	<u>(8,873,592)</u>	<u>88,840,077</u>	<u>4,056,320</u>
Other:					
Obligations under Settlement Agreement	252,749,160	-	(25,000,000)	227,749,160	27,000,000
Claims and judgments	-	22,800,000	-	22,800,000	7,800,000
Compensated absences	5,399,620	6,802,728	(5,937,772)	6,264,576	3,048,399
Landfill closure	<u>4,199,105</u>	<u>381,736</u>	<u>-</u>	<u>4,580,841</u>	<u>-</u>
	<u>262,347,885</u>	<u>29,984,464</u>	<u>(30,937,772)</u>	<u>261,394,577</u>	<u>37,848,399</u>
	<u>\$ 360,061,554</u>	<u>\$ 29,984,464</u>	<u>\$ (39,811,364)</u>	<u>\$ 350,234,654</u>	<u>\$ 41,904,719</u>

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

<u>Year ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	4,960,000	3,522,875	8,482,875
2020 - 2024	22,060,000	14,081,875	36,141,875
2025 - 2029	26,305,000	8,271,625	34,576,625
2030 - 2034	<u>17,910,000</u>	<u>2,753,125</u>	<u>20,663,125</u>
	<u>\$ 88,720,000</u>	<u>\$ 44,979,000</u>	<u>\$ 133,699,000</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,

2015 \$ 27,000,000

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2014

(9) Long-Term Debt Obligations, Continued

Obligations Under Settlement Agreement, Continued

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.

As a result of the Settlement, the CNMI recorded a liability of \$227,749,160 to NMISF equivalent to the amount of judgment for Civil Case No. 06-0367 less payments made to NMISF pursuant to the Settlement. The CNMI is awaiting the actuarial determination for the amount of liability and as a result, the effect on the accompanying financial statements has not been determined.

Claims and Judgments

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2014

(9) Long-Term Debt Obligations, Continued

Claims and Judgments, Continued

1. The CNMI must deposit \$5,000,000 no later than December 31, 2014, into the Court Registry (the Registry) established by District Court for the CNMI.
2. The CNMI must deposit the following amounts on or before the dates specified into the Registry or, if applicable, must file a notice with the Court of the Department of Interior's Authorization to Proceed (ATP) for funding SO2 projects: a. \$2,800,000 no later than February 1, 2015; b. \$5,000,000 no later than February 1, 2016; c. \$5,000,000 no later than February 1, 2017; and d. \$5,000,000 no later than February 1, 2018. The notice must include a commitment from CNMI/CUC that the ATP will be fully available for the EEMC as specified in the ATP and that the grantee will not re-program the associated funds without mutual agreement of the Parties.

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

At September 30, 2014, the CNMI recorded claims and judgment liability of \$22,800,000.

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.

\$ 4,757,439

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.

722,040

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2014

(9) Long-Term Debt Obligations, Continued

Discretely Presented Component Units, Continued

CUC:

Loan payable to CPA, net of receivable from CPA of \$3,385,131, with a remaining unreconciled difference of \$11,568. Principal of \$3,385,131, interest at 6.5% per annum, with a maturity date of October 31, 2017. Principal and interest payments are due in monthly installments of \$38,008 beginning October 31, 2007. 3,373,563

CHCC:

Note payable to MPLT, bearing interest at 7% per annum, due over a one-year term, beginning on June 4, 2015. 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

\$ 11,853,042

Annual debt service requirements to maturity for principal and interest for notes payable outstanding as of September 30, 2014 are as follows:

<u>Year ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 5,991,450	\$ 963,421	\$ 6,954,871
2016	831,912	197,214	1,029,126
2017	872,388	153,461	1,025,849
2018	465,429	101,384	566,813
2019	282,994	89,006	372,000
2020 - 2024	1,526,007	333,992	1,859,999
2025 - 2029	1,728,967	131,033	1,860,000
2030 - 2031	<u>153,895</u>	<u>547,405</u>	<u>701,300</u>
	<u>\$ 11,853,042</u>	<u>\$ 2,516,916</u>	<u>\$ 14,369,958</u>

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.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2014

(9) Long-Term Debt Obligations, Continued

Discretely Presented Component Units, Continued

CPA \$20,050,000 Bond Issue, Continued

Revenue bonds payable as of September 30, 2014, consists of the following:

1998 Senior Series A tax-exempt airport revenue bonds \$ 12,860,000

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, 2014, deferred outflows from cost of refunding debt amounted to \$801,719. The transaction also resulted in an economic gain of \$1,724,777 and a decrease of \$6,983,345 in future debt service payments.

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

Revenue bonds payable as of September 30, 2014, consist of the following:

1998 Senior Series A tax-exempt seaport revenue bonds \$ 23,210,000

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2014

(9) Long-Term Debt Obligations, Continued

Discretely Presented Component Units, Continued

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

Additionally, CPA has resolved to hold \$8,000,000 in the Seaport supplemental reserve fund. The supplemental reserve fund was established pursuant to the First Supplemental Indenture dated March 1, 2000 for the purpose of providing funding and maintenance for the 1998 Senior Series A Seaport Bonds. At September 30, 2014, 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, 2014, consist of the following:

2005 Senior Series A tax-exempt seaport revenue bonds	\$ 5,995,000
Discount on bonds	<u>(81,253)</u>
	\$ <u>5,913,747</u>

CPA Bond Issues

The bond indentures contain several restrictive covenants, including restrictions on the use of bond proceeds. Management of CPA is of the opinion that CPA was in compliance with all significant covenants as of September 30, 2014. 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 2014, management of CPA determined that 100% of passenger facility charges would be considered as gross revenues for these purposes.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2014

(9) Long-Term Debt Obligations, Continued

Discretely Presented Component Units, Continued

Annual debt service requirements to maturity for principal and interest for bonds payable outstanding as of September 30, 2014 are as follows:

<u>Year ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	2,415,000	2,058,804	4,473,804
2020 - 2024	14,545,000	7,706,858	22,251,858
2025 - 2029	15,755,000	2,420,247	18,175,247
2030 - 2031	<u>1,025,000</u>	<u>57,062</u>	<u>1,082,062</u>
	<u>\$ 42,065,000</u>	<u>\$ 21,886,184</u>	<u>\$ 63,951,184</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.

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.



COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2014

(9) Long-Term Debt Obligations, Continued

Discretely Presented Component Units, Continued

Obligations Under Preferred Stock Agreement, Continued

CUC has determined that GASB Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*, does not provide a structure to allow preferred stock to be displayed within net assets. As such, CUC and CDA have 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. CUC has treated the Agreement as a troubled debt restructuring and has recorded a long-term liability based on the discounted cash flows of the future dividend payments at 6.27% per annum. At September 30, 2014, CUC has recorded dividends payable to CDA of \$4,500,000 and CDA has recorded an investment of \$11,309,651, with a corresponding 100% valuation allowance. Future receipts for dividends are as follows:

Year ending September 30,

2015	\$ 2,340,000
2016	180,000
2017	180,000
2018	180,000
2019	180,000
2020 - 2024	900,000
2025 - 2027	<u>540,000</u>
	<u>\$ 4,500,000</u>

Changes in long-term liabilities of the discretely presented component units for the year ended September 30, 2014, are as follows:

	Balance October 1, 2013	Additions	Reductions	Balance September 30, 2014	Due Within One Year
Bonds payable:					
CPA	\$ 43,845,000	\$ -	\$ (1,780,000)	\$ 42,065,000	\$ 1,895,000
Notes payable:					
CPA	5,007,126	-	(249,687)	4,757,439	257,790
CUC	7,276,144	-	(3,902,581)	3,373,563	2,520,963
CDA	831,943	-	(109,903)	722,040	212,697
CHCC	<u>3,000,000</u>	<u>3,000,000</u>	<u>(3,000,000)</u>	<u>3,000,000</u>	<u>3,000,000</u>
	59,960,213	3,000,000	(9,042,171)	53,918,042	7,886,450
Deferred amounts:					
CPA:					
Discount	<u>(86,033)</u>	<u>-</u>	<u>4,780</u>	<u>(81,253)</u>	<u>-</u>
	59,874,180	3,000,000	(9,037,391)	53,836,789	7,886,450
Other liabilities:					
Obligations under preferred stock agreement	3,600,000	900,000	-	4,500,000	2,340,000
Due to Pension (and Other Employee Benefit) Trust Fund:					
CUC	3,388,379	349,818	(351,044)	3,387,153	-
PSS	23,767,066	591,570	(591,570)	23,767,066	-
Compensated absences	4,713,300	2,587,850	(2,197,124)	5,104,026	1,781,593
Unearned revenues	<u>10,878,636</u>	<u>2,359,275</u>	<u>(824,149)</u>	<u>12,413,762</u>	<u>4,056,946</u>
	<u>\$ 106,221,561</u>	<u>\$ 9,788,513</u>	<u>\$ (13,001,278)</u>	<u>\$ 103,008,796</u>	<u>\$ 16,064,989</u>

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2014

(9) Long-Term Debt Obligations, Continued

Discretely Presented Component Units, Continued

The balances above do not include CUC's due to primary government and unearned purchase obligation rebate of \$6,754,086 and \$6,131,316, 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:

	General	Grants Assistance	Saipan Amusement	Other Governmental Funds	Total
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	1,852,316	3,966,803	-	710,728	6,529,847
Public lands	-	-	-	4,819,529	4,819,529
Federal programs and projects	5,054,333	1,288,213	-	-	6,342,546
Debt service reserve	2,298,222	-	-	-	2,298,222
State Small Business Credit Initiative	4,023,336	-	-	-	4,023,336
Saipan Amusement Fund	6,653,580	-	5,478,413	-	12,131,993
Education fee (U.S. PL 110-223)	1,477,389	-	-	-	1,477,389
MVA Trust Fund	1,007,786	-	-	-	1,007,786
Local senatorial districts	-	-	-	5,278,544	5,278,544
Solid Waste Revolving	-	-	-	2,662,475	2,662,475
Tobacco Settlement Trust	-	-	-	1,371,622	1,371,622
Workers' Compensation Commission	-	-	-	2,105,058	2,105,058
Other purposes	4,531,667	-	-	1,320,043	5,851,710
Unassigned	<u>(111,082,266)</u>	<u>-</u>	<u>-</u>	<u>(127,604)</u>	<u>(111,209,870)</u>
	\$ <u>(81,451,250)</u>	\$ <u>5,255,016</u>	\$ <u>5,478,413</u>	\$ <u>18,140,395</u>	\$ <u>(52,577,426)</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, 2014, are as follows:

Source/Recipient	Transfer Out	Transfer In
<u>General Fund</u>		
Grants Assistance Fund	\$ 6,457,638	\$ 890,641
Nonmajor governmental funds	<u>1,718,984</u>	<u>3,280,000</u>
	<u>8,176,622</u>	<u>4,170,641</u>
<u>Grants Assistance Fund</u>		
General Fund	890,641	6,457,638
Nonmajor governmental funds	<u>23,331</u>	<u>-</u>
	<u>913,972</u>	<u>6,457,638</u>

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2014

(11) Transfers In/Out, Continued

Operating Fund Transfers, Continued

<u>Source/Recipient</u>	<u>Transfer Out</u>	<u>Transfer In</u>
<u>Nonmajor governmental funds</u>		
General Fund	3,280,000	1,718,984
Grants Assistance Fund	-	23,331
Nonmajor governmental funds	<u>10,000</u>	<u>10,000</u>
	<u>3,290,000</u>	<u>1,752,315</u>
	\$ <u>12,380,594</u>	\$ <u>12,380,594</u>

Transfers are used to 1) move revenues from the fund that enabling legislation or budget requires to collect them to the fund that enabling legislation or budget requires to expend them, 2) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations, and 3) record reductions in interfund loans for amounts that are not expected to be repaid.

The amount recorded as payments to component units from the primary government of \$47,934,708 does not equal the corresponding contributions from the primary government of \$46,218,030 by \$1,716,678. The difference of \$1,094,994 with NMC is due to timing differences. The difference of \$220,006 with PSS is due to amounts recorded by the CNMI as operating grants and revenue. The difference of \$806,997 with MVA is due to timing differences. The difference of \$1,208,675 with CHCC is due to unreconciled amounts.

(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. On October 1, 2013, the loan was transferred from NMIRF to NMISF pursuant to Section 8 of the Settlement of Civil Case No. 09-00023. Total principal and interest remaining on this loan is approximately \$4,843,926 payable through March 2015. For the year ended September 30, 2014, principal and interest expense were \$4,977,581 and \$484,040, respectively, and total Judicial Building Fund revenues were \$761,798.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2014

(12) Commitments, Continued

Discretely Presented Component Units

CPA has pledged future gross revenues to repay \$20,050,000 and \$33,775,000 in 1998 Senior Series A and \$7,225,000 of 2005 Senior Series A tax-exempt special revenue bonds. Proceeds from the bonds provided financing for capital assets. The bonds are payable from pledged gross revenues. The bonds are payable through fiscal years 2028, 2028 and 2031, respectively. The total principal and interest payable for the remainder of the life of these bonds are \$63,951,184 at September 30, 2014. Pledged gross revenues received during the year ended September 30, 2014 were \$21,059,862. Debt service payments during the year ended September 30, 2014 amounted to \$4,501,958 representing 21% of pledged gross revenues.

Operating Lease

On August 18, 2003, NMC entered into an assignment of lease with a corporation (Assignor), whereby the Assignor assigns leases and leasehold estate and other rights on the La Fiesta property to NMC for a total payment of \$4,000,000 payable in annual installments of \$200,000 beginning October 29, 2004. On September 15, 2004, NMC and the CNMI entered into a Memorandum of Agreement for the transfer of the lease assignment. On January 7, 2005, NMC and the CNMI executed an Assignment of Contract Rights whereby NMC assigns and transfers to the CNMI all right, titles and interest to the assignment of leases dated August 18, 2003. Rental expense for this lease for the fiscal year ended September 30, 2014, is \$200,000.

CNMI's future rentals under the lease as of September 30, 2014, are as follows:

<u>September 30,</u>	
2015	\$ 200,000
2016	200,000
2017	200,000
2018	200,000
2019	200,000
2020 - 2024	1,000,000
2025	<u>200,000</u>
	\$ <u>2,200,000</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.

# COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

## Notes to the Financial Statements September 30, 2014

### (13) Contingencies, Continued

#### Landfill Closure Costs, Continued

State and federal laws and regulations require the CNMI to place a final cover on its landfill sites when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for 30 years after closure. Although landfill closure and postclosure costs will be paid only near or after the date that the Marpi landfill stops accepting waste, the CNMI's governmental activities reports a portion of these closure and postclosure costs as an expense in each period based on landfill capacity used as of each balance sheet date. The \$4,580,841 liability reported as landfill closure and postclosure costs at September 30, 2014 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 \$2,290,421 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 2014. Actual costs may be higher due to inflation, changes in technology or changes in regulations.

#### Questioned Costs Under Federally Funded Programs

The CNMI participates in a number of federally assisted grant programs funded by the United States Government. These programs are subject to financial and compliance audits to ascertain if Federal laws and guidelines have been followed. Cumulative questioned costs of \$26,187,584 have been set forth in the CNMI's Single Audit Report for the year ended September 30, 2014. The ultimate disposition of these questioned costs can be determined only by final action of the respective grantor agencies. Therefore, no provision for any liability that may result upon resolution of this matter has been made in the accompanying financial statements.

#### Insurance Coverage

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

#### Tax Returns

The CNMI is unable to estimate unfiled or unprocessed tax returns related to tax years 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, 2014

### (13) Contingencies, Continued

#### General Fund Financial Position

The CNMI's General Fund has sustained recurring operating deficits and has an unassigned fund deficit of \$111,082,266 at September 30, 2014. In addition, at September 30, 2014, the primary government's current liabilities exceed current assets by \$71,808,520, and total liabilities exceed total assets by \$239,276,505. On September 30, 2013, District Court approved a Settlement Agreement between a retiree (individually and on behalf of similarly-situated persons) and the CNMI, NMIRF and others. The Settlement Agreement includes the creation of NMISF to accept the transfer of NMIRF assets, receive annual contributions and payments by the CNMI and to carry out the consent judgment entered by the District Court. As part of the Settlement Agreement, the CNMI agrees to make minimum annual payments to NMISF to allow for the payment of 75% of Class Members' full benefits annually during NMISF's expected life and as determined by an actuary appointed by a Trustee and approved by the District Court. The CNMI is awaiting the actuarial determination and the effect on the accompanying financial statements has not been determined.

Management believes that the actuarial determination will have a positive effect on the General Fund Financial Position and will commence the process of reducing the abovementioned General Fund deficit position.

#### Sick Leave

The CNMI records expenditures for sick leave when the leave is actually taken. Sick leave is compensated absence during working hours arising from employee illness or injury. Sick leave accumulates at the rate of thirteen working days for each year of service, without limit. No liability is recorded for nonvesting accumulating rights to receive sick pay benefits. The accumulated estimated amount of unused sick leave as of September 30, 2014, is \$38,265,961.

#### GHLITF

As of September 30, 2014, GHLITF has a net deficit of \$277,762. 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 net deficit of GHLITF. The outcome of this matter is presently not determinable; therefore, no provision has been made in the accompanying financial statements.

#### CHCC

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

# COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

## Notes to the Financial Statements September 30, 2014

### (13) Contingencies, Continued

#### Discretely Presented Component Units

##### Stipulated Orders

The U.S. Environmental Protection Agency (EPA) sought to force CUC and the CNMI Government to comply with various regulations and requirements. To date, there have been two primary stipulated orders.

Stipulated Order One is intended to ensure that CUC's wastewater and drinking water systems achieve compliance with the Clean Water Act (CWA) and the Safe Drinking Water Act (SDWA). The major components of Stipulated Order One are:

1. The reformation of CUC's management, finances and operations;
2. The development of a wastewater and drinking water Master Plan; and
3. The construction of wastewater infrastructure.

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

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

Fines and penalties related to these Stipulated Orders have accumulated to over \$76 million, but have not been billed to and paid for by CUC, with the exception of \$29,000 and \$140,000 which were paid by CUC to the United States Department of Justice on January 2010 and July 2010, respectively. On September 26, 2014, another Stipulated Order was entered into under which the United States and EPA waived all Stipulated Order Two penalties which have accumulated as of September 25, 2014. The amount waived was approximately \$40 million.

The parties appeared for status conferences and signed further stipulations dated August 12, 2010, in which CUC has agreed to specific performance dates for required projects. On the status conference on December 9, 2010, CUC had met its deadlines on 31 of 33 discrete deliverables, and had made substantial progress on the balance. Pursuant to the March 22, 2011 status conference stipulation, the parties agreed to further deadlines for meter change-outs and the pipeline project. The Federal District Court has expressed its satisfaction with CUC's progress on the water metering project.

There have been three major projects of the highest priority to the Federal District Court: the Pipeline, Tank 102, and the Rota Tanks. CUC completed the Rota Tanks in late December 2012. Tank 102 is progressing with an expected completion date sometime in 2015. The Pipeline design is stalled based on CUC's termination of the primary contractor.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2014

(13) Contingencies, Continued

Discretely Presented Component Units, Continued

Stipulated Orders, Continued

The project will resume under the direction of an Engineering and Environmental Management Company pursuant to the provisions of the Stipulated Order entered on September 26, 2014. Any further penalties and fines are contingent on CUC's performance under both Stipulated Orders One and Two. CUC has chosen to accrue a liability under Stipulated Order One.

The cumulative balance payable at September 30, 2014 was \$36,041,000. These penalties continue to accrue on a daily basis.

(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 \$1,363,940, \$435,065 and \$714,603 for the years ended September 30, 2014, 2013 and 2012, 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	\$ 34,641,494
Incurred claims	30,300,000
Claim payments	(1,363,940)
Reversals	<u>(4,895,228)</u>
Unpaid claims at end of year	\$ <u>58,682,326</u>

(15) Pension and Other Postemployment Benefits Trust Fund

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



# COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

## Notes to the Financial Statements September 30, 2014

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

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

#### Defined Benefit Plan (DB Plan)

The DB Plan provides retirement, disability, security and other benefits to employees of the CNMI Government and CNMI agencies, instrumentalities and public corporations and their spouses and dependents. Benefits are based on the average annual salary of the beneficiary over the term of credited service. Public Law No. 6-17, the Northern Mariana Islands Retirement Fund Act of 1988, is the authority under which benefit provisions are established. Public Law No. 6-17 was subsequently amended by Public Law Nos. 6-41, 8-24, 8-30, 8-31, 8-39, 9-25, 9-45, 10-8, 10-19, 11-9, 11-95, 13-60, 15-14, 15-70, 15-126, 16-2, 16-36, 17-79, 17-82 and 18-02.

DB Plan members are required to contribute 6.5% and 9% of their annual covered salary for Class I and Class II members, respectively. On June 14, 2007, Public Law No. 15-70 was enacted to amend the NMIRF Act to improve the DB Plan's fiscal solvency. Public Law No. 15-70 provides for increasing employee contributions to the DB Plan by 1% per year beginning in fiscal year 2008 until reaching 10.5% for Class I members and 11% for Class II members. The actuarial contribution rate for fiscal year ended September 30, 2014 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, 2014 is 72.7215% of covered payroll. Public Law No. 15-126, authorizes the CNMI Government to remit only 18% of covered payroll and accrue the remaining as liability to NMIRF for fiscal year 2009. The employer contribution remittance was further reduced by Public Law No. 16-2 to 11% of covered payroll. On June 29, 2009, the CNMI was ordered to pay employer contribution of 16% beginning August 2009. Effective November 2009, the employer contribution was increased to 20%. On November 10, 2010, the CNMI was ordered to remit the employer contribution rate of 30% effective October 1, 2010.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2014

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

Defined Benefit Plan (DB Plan), Continued

On August 30, 2012, Public Law 17-79 was enacted to amend Title I of the Commonwealth Code to include the intent of the CNMI to participate in the retirement insurance system established by Title II of the U.S. Federal Insurance Contributions Act (FICA) and for participation to be extended to elected officials, employees, political subdivisions and instrumentalities of the CNMI. 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.

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

For the years ended September 30, 2014 and 2013, the CNMI contributed social security benefits of \$3,991,536 and \$3,764,229, respectively. In addition, all but fifty-two active employees voluntarily terminated membership in the DB Plan. For the year ended September 30, 2014, the CNMI recorded payment of interest of \$14,915,342 to active class members who terminated their membership in the DB Plan under Public Law 17-82, as amended by Public Law 18-02.

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

# COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

## Notes to the Financial Statements September 30, 2014

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

#### Defined Benefit Plan (DB Plan), Continued

As part of the Settlement, the CNMI agrees to make minimum annual payments to NMISF to allow for the payment of 75% of Class Members' full benefits annually during the NMISF's expected life and as determined by an independent actuary appointed by the NMISF Trustee and approved by the District Court. For the year ended September 30, 2014, the CNMI recorded payments to NMISF of \$25,000,000 and \$11,930,796, which relates to the fiscal year 2014 annual payment pursuant to Section 4 of the Settlement and payment of 25% of the class members full benefits, respectively.

In addition, Section 5 of the Settlement requires class members who are employed by the CNMI or an autonomous agency and who did not terminate from the DB Plan pursuant to Public Law 17-82, as amended by Public Law 18-02, to continue to pay employee contributions as required by the laws of the CNMI existing as of August 6, 2013. Required contributions are remitted to NMISF and the CNMI and autonomous agencies make supplemental payments to NMISF in the amount of the employer contributions at the same contribution rates they were paying as of June 26, 2013. Accordingly, NMIRF has no obligations or duties to pay retirement benefits to class members. For the year ended September 30, 2014, the CNMI recorded contributions to NMISF of \$859,102.

Further, Section 8.1 of the Settlement assigns the CNMI the rights to collect deficient employer contributions and related costs as of August 6, 2013 from autonomous agencies. At September 30, 2014, the CNMI has not determined the amount of receivables from autonomous agencies.

#### Defined Contribution Plan (DC Plan)

On June 16, 2006, Public Law No. 15-13 was enacted which created the DC Plan, a multi-employer pension plan and is the single retirement program for all employees whose first time CNMI government employment commences on or after January 1, 2007. Each member of the DC Plan is required to contribute to the member's individual account an amount equal to 10% of the member's compensation. 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, 2014, 2013 and 2012 were \$553,304, \$588,012 and \$911,304, respectively, equal to the required contributions for each year.

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

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

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2014

(16) Restatements

Subsequent to the issuance of the CNMI's 2013 financial statements, it was determined that the CNMI failed to record the transfer of the Workers' Compensation Commission fund from fiduciary funds to other governmental funds. As a result, ending fund balance of the governmental funds/governmental activities increased by \$1,929,209 and ending fund balance of fiduciary funds decreased by \$1,810,943. The following account balances have been subsequently included within other governmental funds and restated from the amounts previously recorded:

	<u>As Previously Reported</u>	<u>As Restated</u>
Restricted cash and cash equivalents	\$ 136,895	\$ 311,131
Restricted time certificate of deposit	\$ -	\$ 133,446
Restricted investments	\$ -	\$ 967,155
Other liabilities and accruals	\$ 1,328,007	\$ 673,635

In addition, it was determined that ending net position of the discretely presented component units were overstated by \$49,729,740. The overstatement related to the correction of prior year errors. As a result of this determination, ending net position of the discretely presented component units have been restated from amounts previously reported as follows:

	<u>As Previously Reported</u>	<u>As Restated</u>
Discretely presented component units:		
Commonwealth Utilities Corporation	\$ 94,390,130	\$ 56,726,663
Commonwealth Healthcare Corporation	\$ 10,414,930	\$ (1,651,343)

Further, it was determined that ending net position of the fiduciary component units were understated by \$16,797,739 due to prior year errors discovered in fiscal year 2014. As a result, ending net position of the fiduciary component units have been restated from amounts previously reported as follows:

	<u>As Previously Reported</u>	<u>As Restated</u>
Fiduciary component units:		
Northern Mariana Islands Retirement Fund	\$ 159,676,473	\$ 161,277,731
CNMI Group Health and Life Insurance Trust Fund	\$ (15,923,273)	\$ (726,792)

(17) Subsequent Events

On December 24, 2014, Public Law 18-71 was enacted to appropriate future MPLT interest distributions to meet the CNMI's obligations under the court order on SO2. Pursuant to the court order, the CNMI must deposit \$5,000,000 to the Registry no later than December 31, 2014 to fund the SO2. Public Law 18-71 authorized DPL to transfer \$5,000,000 to MPLT and MPLT to loan \$5,000,000 to the CNMI at an interest rate of 7% per annum. Public Law 18-71 authorized MPLT to withhold future interest income that would be remitted to the CNMI pursuant to Article XI § 6(d) of the Constitution beginning fiscal year 2016 and future fiscal years thereafter until the loan plus annual interest is fully paid. Further, Public Law 18-71 requires CUC to credit \$1,738,940 and \$3,261,060 for PSS and CHCC's past due utility bills, respectively. The \$1,738,940 credit for PSS satisfies the CNMI's outstanding obligation under the Maintenance of Effort Assurance.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2014

(17) Subsequent Events, Continued

On December 29, 2014, DPL transferred \$5,000,000 to MPLT. On December 29, 2014, MPLT and the CNMI entered into a \$5,000,000 loan agreement to effectuate the requirements of Public Law 18-71. The loan earns interest of 7% per annum and has a five-year amortization period which will mature on September 30, 2020. On December 30, 2014, MPLT disbursed the \$5,000,000 to the CNMI and the CNMI transferred the amount to the Registry to satisfy its obligation for SO2.

COMMONWEALTH OF THE  
NORTHERN MARIANA ISLANDS

REQUIRED SUPPLEMENTARY INFORMATION  
- BUDGETARY REPORTING

YEAR ENDED SEPTEMBER 30, 2014

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Revenues, Expenditures, and Changes in Deficit  
- Budget and Actual - General Fund  
Year Ended September 30, 2014

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance
	Original	Final		
Revenues:				
Taxes	\$ 145,404,724	\$ 145,404,724	\$ 150,181,692	\$ 4,776,968
Charges for sales and services	1,500,000	1,500,000	1,557,659	57,659
Licenses and fees	6,570,000	6,570,000	8,640,377	2,070,377
Contributions from component units	1,908,543	1,908,543	653,737	(1,254,806)
Other	2,204,045	2,204,045	1,843,295	(360,750)
Total revenues	<u>157,587,312</u>	<u>157,587,312</u>	<u>162,876,760</u>	<u>5,289,448</u>
Expenditures - budgetary basis by function:				
Executive branch	40,600,627	40,732,366	47,701,502	(6,969,136)
Second Senatorial District - Tinian	5,862,171	5,879,628	5,717,875	161,753
First Senatorial District - Rota	5,483,786	5,485,903	5,473,911	11,992
Government utilities	-	-	3,310,875	(3,310,875)
Legislative branch	5,476,890	5,476,882	5,413,977	62,905
Judicial branch	4,371,807	4,371,807	4,307,937	63,870
Independent programs	1,627,683	1,366,058	855,671	510,387
Third Senatorial District - Saipan	1,791,959	1,791,959	1,773,204	18,755
Office of the Public Auditor	1,466,590	1,464,398	1,667,327	(202,929)
Boards and commissions	658,267	604,976	614,668	(9,692)
Education (payment to Public School System, Northern Marianas College and Board of Education)	36,484,173	36,484,173	36,484,173	-
Tourism (payment to Marianas Visitors Authority)	8,490,149	8,490,149	8,894,439	(404,290)
Employee benefits (payment to Pension (and Other Employee Benefit) Trust Fund)	32,904,379	33,070,182	32,596,351	473,831
Health (payment to CHCC)	1,208,675	1,208,675	1,208,675	-
Public Law 17-7 (Marianas Public Land Trust funds diverted to Commonwealth Utilities Corporation)	689,312	689,312	-	689,312
Judgments	7,921	7,921	421,875	(413,954)
Debt service	8,554,000	8,554,000	12,946,899	(4,392,899)
Disaster expenditures	-	-	25,633	(25,633)
Miscellaneous/continuing appropriations	-	-	1,488,210	(1,488,210)
Unallocated	116,274	116,274	14,534	101,740
Total expenditures	<u>155,794,663</u>	<u>155,794,663</u>	<u>170,917,736</u>	<u>(15,123,073)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>1,792,649</u>	<u>1,792,649</u>	<u>(8,040,976)</u>	<u>(9,833,625)</u>
Other financing sources (uses):				
Operating transfers in	292,000	292,000	-	(292,000)
Operating transfers out	(5,510,000)	(5,510,000)	(1,718,984)	3,791,016
Total other financing sources (uses), net	<u>(5,218,000)</u>	<u>(5,218,000)</u>	<u>(1,718,984)</u>	<u>3,499,016</u>
Deficiency of revenues and other financing sources under expenditures and other financing uses	<u>\$ (3,425,351)</u>	<u>\$ (3,425,351)</u>	<u>\$ (9,759,960) *</u>	<u>\$ (6,334,609)</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, 2014

#### (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 18, 2013, the CNMI passed Public Law 18-18 as the Appropriations and Budget Authority Act of 2014 (the Act). The Act allocates local funds for the operations and activities of the Government of the CNMI, its agencies, its instrumentalities, independent agencies and political subdivisions and provides authority for government corporations for Fiscal Year 2014 commencing October 1, 2013 and ending September 30, 2014. On July 1, 2014, the CNMI passed Public Law 18-53 as the Supplemental Appropriations Act of 2014 (the Supplemental Act). The Supplemental Act identifies additional resources of \$12,386,000 to appropriate for the operations and activities of the CNMI and to meet the CNMI's obligations to the NMISF for fiscal year 2014.

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, 2014, expenditures of the General Fund exceeded budget at the program area level (i.e., the legal level of budgetary control) as follows:



COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to Required Supplementary Information - Budgetary Reporting  
September 30, 2014

(1) Budgetary Information, Continued

<u>Program Area</u>	<u>Excess</u>
Executive branch	\$ 6,969,136
Government utilities	\$ 3,310,875
Office of the Public Auditor	\$ 202,929
Boards and commissions	\$ 9,692
Tourism	\$ 404,290
Judgments	\$ 413,954
Debt service	\$ 4,392,899
Disaster expenditures	\$ 25,633
Miscellaneous/continuing appropriations	\$ 1,488,210

(2) Explanation of Differences

Total revenues of \$164,276,760 reported under GAAP basis does not equal total revenues of \$162,876,760 reported under budgetary basis due to \$1,400,000 of contract workers funds received from the U.S. Department of Homeland Security (USDHS) pursuant to US Public Law 110-229 for the purpose of funding ongoing vocational educational curricula and program development by the CNMI. The amount was included as other revenue in the governmental funds but was not included in the budgetary schedule. CNMI management has taken the position that these funds are not considered general funds to be reported in the budgetary basis but are treated as pass-through funds from the USDHS. Of this amount, \$500,000 was transferred to PSS; \$500,000 was transferred to NMC; and \$400,000 was transferred to the Northern Marianas Trade Institute.

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, 2014, the recovery amounted to \$1,068,393.

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, 2014, the claims and judgments expenditures accrued are \$2,493,072.

The amount reported as operating transfers in of \$4,170,641 under GAAP basis does not equal the amount reported as operating transfers in of \$-0- under budgetary basis by \$4,170,641 due to: (a) \$890,641 in Compact Impact funds; and (b) \$3,280,000 of transfers pursuant to Public Law 18-18 reported as operating transfers in the governmental fund financial statements but were reported as a reduction of expenditures for budgetary purposes.

The amount reported as operating transfers out of \$8,176,622 under GAAP basis does not equal the amount reported as operating transfers out of \$1,718,984 under budgetary basis due to \$6,457,638 in federal grants local match reported as transfers out in the governmental fund financial statements but were reported as expenditures for budgetary purposes.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to Required Supplementary Information - Budgetary Reporting  
September 30, 2014

(2) Explanation of Differences, Continued

The following reconciles budget to GAAP differences:

Net change in fund balance (deficit) - budgetary basis	\$ <u>(9,759,960)</u>
Recovery	1,068,393
Claims and judgments	<u>(2,493,072)</u>
Encumbrances not recognized under GAAP basis	<u>3,894,515</u>
	<u>2,469,836</u>
Net change in fund balance (deficit) - General Fund	\$ <u>(7,290,124)</u>

COMMONWEALTH OF THE  
NORTHERN MARIANA ISLANDS

OTHER SUPPLEMENTARY INFORMATION

YEAR ENDED SEPTEMBER 30, 2014

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Combining Schedule of Expenditures by Account  
 Governmental Funds  
 Year Ended September 30, 2014

	General	Grants Assistance	Saipan Amusement	Other Governmental Funds	Total
Salaries and wages	\$ 40,338,512	\$ 9,655,524	\$ 93,448	\$ 2,673,204	\$ 52,760,688
Professional services	6,229,797	37,000,301	513,708	2,656,323	46,400,129
Food items	669,889	9,378,412	-	37,430	10,085,731
Employee benefits	12,897,887	1,235,224	14,377,632	414,914	28,925,657
Capital outlay:					
Road improvements	-	-	-	3,283,041	3,283,041
Vehicles	1,000	933,885	-	217,550	1,152,435
Machinery and equipment	61,252	938,637	993	124,468	1,125,350
Office equipment	119,707	810,784	-	-	930,491
Furniture and fixtures	52,886	214,865	-	8,944	276,695
Building improvements	102,381	112,783	-	-	215,164
Construction in progress	-	503,640	-	238,826	742,466
Other	137,890	419,834	-	65,748	623,472
Utilities	8,676,882	530,457	-	184,013	9,391,352
Scholarships/grants	950,689	267,075	-	1,725,691	2,943,455
Contributions/donations	961,716	705,540	14,183	1,549,833	3,231,272
Interest	4,041,040	-	-	-	4,041,040
Travel	2,020,441	1,524,463	-	445,614	3,990,518
Principal repayment	8,892,581	-	-	-	8,892,581
Education:					
Payments to Public School System	32,862,720	220,004	-	-	33,082,724
Payments to Northern Marianas College	4,621,452	86,762	-	-	4,708,214
Payments to Commonwealth Healthcare Corporation	1,208,675	653,075	-	-	1,861,750
Payments to Marianas Visitors Authority	8,894,440	-	-	-	8,894,440
Payments to Settlement Fund	25,000,000	-	11,930,796	-	36,930,796
Claims and judgments	2,493,072	-	25,000	10,000	2,528,072
Rentals	1,902,968	528,035	2,960	486,574	2,920,537
Supplies	723,239	1,652,626	14	311,746	2,687,625
Repairs and maintenance	935,464	877,174	1,200	455,266	2,269,104
Fuel and lubrication	1,208,872	396,296	9,043	186,130	1,800,341
Communications	1,083,417	493,704	2,222	109,965	1,689,308
Indirect costs	-	334,177	-	-	334,177
Advertising	20,434	396,499	-	30,385	447,318
Printing	113,838	213,911	-	12,851	340,600
Insurance	32,001	297,224	-	14,295	343,520
Miscellaneous services	103,075	109,987	-	19,990	233,052
Dues and subscriptions	310,029	53,885	-	5,247	369,161
Freight	55,291	48,182	-	2,030	105,503
Books and library materials	52,508	48,562	-	9,531	110,601
Official representation	124,757	-	-	3,582	128,339
Licenses and fees	12,354	11,685	-	-	24,039
Recovery	-	-	-	-	-
Other	716,140	713,795	-	708,856	2,138,791
	<u>\$ 168,629,296</u>	<u>\$ 71,367,007</u>	<u>\$ 26,971,199</u>	<u>\$ 15,992,047</u>	<u>\$ 282,959,549</u>

See Accompanying Independent Auditors' Report.

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

September 30, 2014

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

NMTIT Rebate Trust

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

Commonwealth Museum Fund

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

Human Resources Development Trust Fund

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

Micronesian Garment Manufacturing Fund

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

Debt Service Fund

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

Judicial Building Fund

This fund was created by Public Law No. 7-25 to account for financing restricted to the construction and furnishing of the CNMI Supreme Court and Superior Court building. At September 30, 2014, the project was completed. Revenues generated by the court will be used to finance the debt service on the loan with NMISF.

Miscellaneous General Fund

The miscellaneous general fund combines the following:

- San Antonio Park Fund
- Smiling Cove Operations and Maintenance Fund
- Law Revision Commission Revolving Fund
- CRM Publication Fund
- Tinian Municipal School Fund
- Department of Corrections Revolving Fund
- Miscellaneous Expendable Trust Fund
- Agriculture Revolving Fund
- Public Utilities Commission Fund
- Soil and Water Conservation Fund
- Governor's Education Initiative Fund

See Accompanying Independent Auditors' Report.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Combining Schedule of Balance Sheet Accounts  
General Fund  
September 30, 2014

	General	NMTIT Rebate Trust	Commonwealth Museum	Human Resources Development Trust	Micronesia Garment Manufacturing	Debt Service	Judicial Building	Miscellaneous	Eliminations	Total
<b>Assets</b>										
Cash and cash equivalents	\$ 3,761,849	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,761,849
Time certificates of deposit	92,195	-	-	-	-	-	-	-	-	92,195
Investments	2,500,000	-	-	-	-	-	-	-	-	2,500,000
Restricted cash and cash equivalents	24,600,407	-	-	-	-	2,298,222	-	-	-	26,898,629
Receivables, net:										
Federal agencies	-	6,461,422	-	-	-	-	-	-	-	6,461,422
Taxes	7,215,662	-	-	-	-	-	-	-	-	7,215,662
General	1,037,711	-	-	-	-	-	-	-	-	1,037,711
Due from other funds	-	-	-	-	-	-	-	-	3,058,169	3,058,169
Due to/from General Funds	(32,155,605)	36,586,931	(279,947)	(109,003)	456,655	-	(4,758,904)	259,873	-	-
Advances	489,318	-	-	-	-	-	-	-	-	489,318
Inventories	232,387	-	-	-	-	-	-	-	-	232,387
	<u>\$ 7,773,924</u>	<u>\$ 43,048,353</u>	<u>\$ (279,947)</u>	<u>\$ (109,003)</u>	<u>\$ 456,655</u>	<u>\$ 2,298,222</u>	<u>\$ (4,758,904)</u>	<u>\$ 259,873</u>	<u>\$ 3,058,169</u>	<u>\$ 51,747,342</u>
<b>Liabilities and Fund Balances (Deficit)</b>										
<b>Liabilities:</b>										
Accounts payable	\$ 4,286,400	\$ -	\$ 1,296	\$ -	\$ -	\$ -	\$ -	\$ 3,397	\$ -	\$ 4,291,093
Tax rebates payable	-	43,048,353	-	-	-	-	-	-	-	43,048,353
Recovery rebates payable	398,688	-	-	-	-	-	-	-	-	398,688
Other liabilities and accruals	5,611,414	-	6,168	59,425	-	-	-	-	-	5,677,007
Claims and judgments payable	35,882,326	-	-	-	-	-	-	-	-	35,882,326
Notes payable	4,814,903	-	-	-	-	-	-	-	-	4,814,903
Due to Pension (and Other Employee Benefit) Trust Fund	19,229	-	-	-	-	-	-	-	-	19,229
Due to other funds	25,207,282	-	-	-	-	-	-	373,520	1,667,035	27,247,837
Due to external parties	-	-	-	-	-	-	-	-	1,391,134	1,391,134
Due to component units	10,428,022	-	-	-	-	-	-	-	-	10,428,022
Total liabilities	<u>86,648,264</u>	<u>43,048,353</u>	<u>7,464</u>	<u>59,425</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>376,917</u>	<u>3,058,169</u>	<u>133,198,592</u>
<b>Fund balances (deficit):</b>										
Non-spendable	2,732,387	-	-	-	-	-	-	-	-	2,732,387
Restricted	24,600,407	-	-	-	-	2,298,222	-	-	-	26,898,629
Unassigned	(106,207,134)	-	(287,411)	(168,428)	456,655	-	(4,758,904)	(117,044)	-	(111,082,266)
Total fund balances (deficit)	<u>(78,874,340)</u>	<u>-</u>	<u>(287,411)</u>	<u>(168,428)</u>	<u>456,655</u>	<u>2,298,222</u>	<u>(4,758,904)</u>	<u>(117,044)</u>	<u>-</u>	<u>(81,451,250)</u>
	<u>\$ 7,773,924</u>	<u>\$ 43,048,353</u>	<u>\$ (279,947)</u>	<u>\$ (109,003)</u>	<u>\$ 456,655</u>	<u>\$ 2,298,222</u>	<u>\$ (4,758,904)</u>	<u>\$ 259,873</u>	<u>\$ 3,058,169</u>	<u>\$ 51,747,342</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, 2014

	General	NMTIT Rebate Trust	Commonwealth Museum	Human Resources Development Trust	Micronesian Garment Manufacturing	Debt Service	Judicial Building	Miscellaneous	Eliminations	Total
<b>Revenues:</b>										
Taxes	\$ 150,181,692	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 150,181,692
Licenses and fees	8,238,180	-	-	-	-	-	402,197	-	-	8,640,377
Contributions from component units	653,737	-	-	-	-	-	-	-	-	653,737
Charges for sales and services	1,546,652	-	-	-	-	-	-	11,007	-	1,557,659
Interest and dividends	265,569	-	-	-	-	47	15	469	-	266,100
Other	2,543,345	-	5,700	-	-	-	359,586	68,564	-	2,977,195
	163,429,175	-	5,700	-	-	47	761,798	80,040	-	164,276,760
Recoveries	1,068,393	-	-	-	-	-	-	-	-	1,068,393
<b>Total revenues</b>	<b>164,497,568</b>	<b>-</b>	<b>5,700</b>	<b>-</b>	<b>-</b>	<b>47</b>	<b>761,798</b>	<b>80,040</b>	<b>-</b>	<b>165,345,153</b>
<b>Expenditures:</b>										
<b>Current:</b>										
Public safety and law enforcement	20,671,148	-	-	-	-	-	-	-	-	20,671,148
General government	11,495,042	-	-	-	-	-	-	-	-	11,495,042
Utilities	3,310,875	-	-	-	-	-	-	-	-	3,310,875
Other elected officials	8,713,985	-	-	-	-	-	-	-	-	8,713,985
Legislative branch	5,315,617	-	-	-	-	-	-	-	-	5,315,617
Health	7,635,203	-	-	-	-	-	-	-	-	7,635,203
Judicial branch	4,292,121	-	-	-	-	-	-	-	-	4,292,121
Lands and natural resources	3,328,440	-	-	-	-	-	-	24,280	-	3,352,720
Community and social services	3,187,713	-	98,774	113,359	-	-	-	-	-	3,399,846
Education	1,714,134	-	-	-	-	-	-	-	-	1,714,134
Economic development	812,252	-	-	-	-	-	-	-	-	812,252
Payments to:										
Public School System	32,362,720	-	-	-	-	-	-	-	-	32,362,720
Marianas Visitors Authority	8,894,439	-	-	-	-	-	-	-	-	8,894,439
Commonwealth Healthcare Corporation	1,208,675	-	-	-	-	-	-	-	-	1,208,675
Northern Marianas College	5,121,453	-	-	-	-	-	-	-	-	5,121,453
Pension (and Other Employee Benefit) Trust Fund	7,596,351	-	-	-	-	-	-	-	-	7,596,351
Settlement Fund	25,000,000	-	-	-	-	-	-	-	-	25,000,000
Debt service:										
Interest and fiscal charges	7,550	-	-	-	-	3,570,278	484,040	-	-	4,061,868
Principal retirement	-	-	-	-	-	3,915,000	4,977,581	-	-	8,892,581
Capital outlay:										
Public works	4,778,266	-	-	-	-	-	-	-	-	4,778,266
<b>Total expenditures</b>	<b>155,445,984</b>	<b>-</b>	<b>98,774</b>	<b>113,359</b>	<b>-</b>	<b>7,485,278</b>	<b>5,461,621</b>	<b>24,280</b>	<b>-</b>	<b>168,629,296</b>
Excess (deficiency) of revenues over (under) expenditures	9,051,584	-	(93,074)	(113,359)	-	(7,485,231)	(4,699,823)	55,760	-	(3,284,143)
<b>Other financing sources (uses):</b>										
Operating transfers in	4,170,641	-	-	-	-	8,513,028	-	-	(8,513,028)	4,170,641
Operating transfers out	(16,689,650)	-	-	-	-	-	-	-	8,513,028	(8,176,622)
<b>Total other financing sources (uses), net</b>	<b>(12,519,009)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>8,513,028</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(4,005,981)</b>
Net change in fund balances (deficit)	(3,467,425)	-	(93,074)	(113,359)	-	1,027,797	(4,699,823)	55,760	-	(7,290,124)
Fund balances (deficit) at beginning of year	(75,406,915)	-	(194,337)	(55,069)	456,655	1,270,425	(59,081)	(172,804)	-	(74,161,126)
Fund balances (deficit) at end of year	\$ (78,874,340)	\$ -	\$ (287,411)	\$ (168,428)	\$ 456,655	\$ 2,298,222	\$ (4,758,904)	\$ (117,044)	\$ -	\$ (81,451,250)

See Accompanying Independent Auditors' Report.

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

September 30, 2014

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, 2014

	<u>Federal Grants</u>	<u>DOI Capital Projects</u>	<u>Total</u>
<u>Assets</u>			
Restricted cash and cash equivalents	\$ -	\$ 2,295,045	\$ 2,295,045
Receivables, net of allowance for uncollectibles:			
Federal agencies	2,872,730	22,948	2,895,678
Other	-	12,831	12,831
Due from other funds	4,273,399	2,105,444	6,378,843
Inventories	1,001,000	-	1,001,000
	<u>\$ 8,147,129</u>	<u>\$ 4,436,268</u>	<u>\$ 12,583,397</u>
<u>Liabilities and Fund Balances (Deficit)</u>			
Liabilities:			
Accounts payable	\$ 4,560,750	\$ 469,465	\$ 5,030,215
Other liabilities and accruals	177,975	-	177,975
Due to other funds	1,119,191	-	1,119,191
Unearned revenues	1,001,000	-	1,001,000
Total liabilities	6,858,916	469,465	7,328,381
Fund balances (deficit):			
Restricted	1,288,213	3,966,803	5,255,016
	<u>\$ 8,147,129</u>	<u>\$ 4,436,268</u>	<u>\$ 12,583,397</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, 2014

	Federal Grants	DOI Capital Projects	Total
Revenues:			
Federal contributions	\$ 60,847,028	\$ 7,317,700	\$ 68,164,728
Licenses and fees	187,762	-	187,762
Interest and dividends	-	231	231
Other	271,643	-	271,643
Total revenues	<u>61,306,433</u>	<u>7,317,931</u>	<u>68,624,364</u>
Expenditures:			
Current:			
Health	30,221,055	321,520	30,542,575
Community and social services	16,885,548	-	16,885,548
General government	630,447	309,632	940,079
Lands and natural resources	6,678,871	-	6,678,871
Public safety and law enforcement	8,095,735	-	8,095,735
Utilities	-	405,733	405,733
Education	119,723	-	119,723
Economic development	20,580	1,532,225	1,552,805
Payments to:			
Public School System	220,004	-	220,004
Northern Marianas College	87,319	-	87,319
Capital outlay:			
Public works	1,090,025	2,305,837	3,395,862
Utilities - Capital Projects	-	2,442,753	2,442,753
Total expenditures	<u>64,049,307</u>	<u>7,317,700</u>	<u>71,367,007</u>
(Deficiency) excess of revenues (under) over expenditures	<u>(2,742,874)</u>	<u>231</u>	<u>(2,742,643)</u>
Other financing sources (uses):			
Operating transfers in	6,457,638	-	6,457,638
Operating transfers out	(890,641)	(23,331)	(913,972)
Total other financing sources (uses), net	<u>5,566,997</u>	<u>(23,331)</u>	<u>5,543,666</u>
Net change in fund balances (deficit)	2,824,123	(23,100)	2,801,023
Fund balances (deficit) at beginning of year	<u>(1,535,910)</u>	<u>3,989,903</u>	<u>2,453,993</u>
Fund balances (deficit) at end of year	<u>\$ 1,288,213</u>	<u>\$ 3,966,803</u>	<u>\$ 5,255,016</u>

See Accompanying Independent Auditors' Report.

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

September 30, 2014

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

See Accompanying Independent Auditors' Report.

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

September 30, 2014

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

Department of Public Lands

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.

Private Grants Fund

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

Commonwealth Arts Council Fund

This fund was established through Executive Order No. 26 pursuant to Section 15 Article III of the Constitution. The fund accounts for financial transactions of the Commonwealth Arts Council related to the receipt of donations and gifts and the use of those funds.

Oil Overcharge Fund

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

Commonwealth Nonresident Workers' Fee Fund

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

See Accompanying Independent Auditors' Report.

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

September 30, 2014

Commonwealth Alien Deportation Fund

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

Local Revenue Fund

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

Saipan Trust Fund

This fund accounts for funds from the United States Government to develop the Saipan Marine and Fishing Complex.

Tobacco Settlement Trust Fund

This fund was created by Public Law No. 13-37 to account for all monies received from the Master Settlement Agreement. The monies 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 created by Public Law 11-64 to account for revenues collected from commercial carriers who charge a fee to transport nonresident passengers to Managaha Island. Such fees are to be deposited into the Fund and will be expended exclusively on projects and for the construction, maintenance and operation of the Saipan Cultural and Performing Arts Center, the Saipan Youth Program, the Division of Public Lands, the Commonwealth Museum, and for the cultural heritage activities of the Indigenous and Carolinian Affairs Offices, in accordance with appropriations made by the Saipan and Northern Islands Legislative Delegation.

Qualifying Certificate Reserve Fund

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

See Accompanying Independent Auditors' Report.

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

September 30, 2014

MVA Trust Fund

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

CNMI Scholarship Fund

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

CNMI Workers' Compensation Commission (WCC)

This fund was created by Public Law No. 6-33 which provides financial protection to both employers and employees for the catastrophic effects of work related injuries, illnesses or deaths. It is a social insurance plan that compensates employees for disabilities incurred from work related injuries regardless of fault. It is also a no-fault insurance program, solely paid for by the employer. The WCC ensures that private sector employers obtain and provide workers' compensation insurance coverage for their employees. The WCC also administers the CNMI government's workers' compensation self-insurance program. On November 9, 2012, Public Law 17-88 transferred administrative function of WCC from NMIRF to the CNMI Department of Commerce.

Miscellaneous Special Revenue Funds

The miscellaneous special revenue fund combines the following:

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

See Accompanying Independent Auditors' Report.

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

September 30, 2014

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, 2014

	Special Revenue Funds						
	Department of Public Lands	Private Grants	Commonwealth Arts Council	Oil Overcharge	Commonwealth Nonresident Workers' Fee	Commonwealth Alien Deportation	Local Revenue
<u>Assets</u>							
Cash and cash equivalents	\$ 6,217,709	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Time certificates of deposit	2,665,823	-	-	-	-	-	-
Restricted cash and cash equivalents	-	-	-	-	-	-	-
Restricted time certificates of deposit	-	-	-	-	-	-	-
Restricted investments	-	-	-	-	-	-	-
Receivables, net of allowance for uncollectibles:							
Federal	-	284,562	-	-	-	-	-
General	447,217	-	-	-	-	-	-
Other	-	-	-	-	-	-	-
Due from other funds	-	3,731,205	14,838	48,003	-	-	5,335,067
Due from component units	-	-	-	-	-	-	-
	<u>\$ 9,330,749</u>	<u>\$ 4,015,767</u>	<u>\$ 14,838</u>	<u>\$ 48,003</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,335,067</u>
<u>Liabilities and Fund Balances (Deficit)</u>							
Liabilities:							
Accounts payable	\$ 219,518	\$ 110,378	\$ 9,789	\$ -	\$ -	\$ 9,268	\$ 56,523
Other liabilities and accruals	655,587	-	-	-	-	61	-
Due to other funds	1,825,839	-	-	-	-	-	-
Due to component units	1,155,594	-	-	-	-	-	-
Unearned revenues	654,682	3,905,389	-	47,498	-	-	-
Total liabilities	<u>4,511,220</u>	<u>4,015,767</u>	<u>9,789</u>	<u>47,498</u>	<u>-</u>	<u>9,329</u>	<u>56,523</u>
Commitments and contingencies							
Fund balances (deficit):							
Restricted	4,819,529	-	5,049	505	-	-	5,278,544
Unassigned	-	-	-	-	-	(9,329)	-
Total fund balances (deficit)	<u>4,819,529</u>	<u>-</u>	<u>5,049</u>	<u>505</u>	<u>-</u>	<u>(9,329)</u>	<u>5,278,544</u>
	<u>\$ 9,330,749</u>	<u>\$ 4,015,767</u>	<u>\$ 14,838</u>	<u>\$ 48,003</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,335,067</u>

See Accompanying Independent Auditors' Report.



COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Combining Balance Sheet, Continued  
 Nonmajor Governmental Funds  
 September 30, 2014

Special Revenue Funds										
Saipan Trust	Tobacco Settlement Trust	Tobacco Control	Solid Waste Revolving	Managaha Landing Fee	Qualifying Certificate Reserve	MVA Trust	CNMI Scholarship	CNMI Workers' Compensation Commission	Miscellaneous	Total Special Revenue Funds
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 6,217,709
-	-	-	-	-	-	-	-	-	-	2,665,823
6,939	-	-	-	-	-	-	-	174,616	-	181,555
-	-	-	-	-	-	-	-	133,528	-	133,528
-	-	-	-	-	-	-	-	1,090,777	-	1,090,777
-	-	-	-	-	-	-	-	-	-	284,562
-	-	-	-	-	-	-	-	-	-	447,217
16,526	1,209,829	-	2,778,094	39,580	49,548	107,686	211,008	706,137	953,696	12,099,829
-	161,793	-	-	-	-	-	-	-	-	14,153,181
-	-	-	-	-	-	-	-	-	-	-
<u>\$ 23,465</u>	<u>\$ 1,371,622</u>	<u>\$ -</u>	<u>\$ 2,778,094</u>	<u>\$ 39,580</u>	<u>\$ 49,548</u>	<u>\$ 107,686</u>	<u>\$ 211,008</u>	<u>\$ 2,105,058</u>	<u>\$ 953,696</u>	<u>\$ 26,384,181</u>
\$ -	\$ -	\$ 5,620	\$ 57,619	\$ -	\$ -	\$ 31,895	\$ -	\$ -	\$ 18,859	\$ 519,469
19,338	-	-	58,000	-	-	-	-	-	402	733,388
-	-	112,491	-	-	-	-	-	-	-	1,938,330
-	-	-	-	-	-	-	-	-	-	1,155,594
-	-	-	-	-	-	-	-	-	-	4,607,569
<u>19,338</u>	<u>-</u>	<u>118,111</u>	<u>115,619</u>	<u>-</u>	<u>-</u>	<u>31,895</u>	<u>-</u>	<u>-</u>	<u>19,261</u>	<u>8,954,350</u>
4,127	1,371,622	-	2,662,475	39,580	49,548	75,791	211,008	2,105,058	934,435	17,557,271
-	-	(118,111)	-	-	-	-	-	-	-	(127,440)
<u>4,127</u>	<u>1,371,622</u>	<u>(118,111)</u>	<u>2,662,475</u>	<u>39,580</u>	<u>49,548</u>	<u>75,791</u>	<u>211,008</u>	<u>2,105,058</u>	<u>934,435</u>	<u>17,429,831</u>
<u>\$ 23,465</u>	<u>\$ 1,371,622</u>	<u>\$ -</u>	<u>\$ 2,778,094</u>	<u>\$ 39,580</u>	<u>\$ 49,548</u>	<u>\$ 107,686</u>	<u>\$ 211,008</u>	<u>\$ 2,105,058</u>	<u>\$ 953,696</u>	<u>\$ 26,384,181</u>

See Accompanying Independent Auditors' Report.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Combining Balance Sheet, Continued  
 Nonmajor Governmental Funds  
 September 30, 2014

	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>								
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 6,217,709
Time certificates of deposit	-	-	-	-	-	-	-	2,665,823
Restricted cash and cash equivalents	-	-	-	-	-	-	-	181,555
Restricted time certificates of deposit	-	-	-	-	-	-	-	133,528
Restricted investments	-	-	-	-	-	-	-	1,090,777
Receivables, net of allowance for uncollectibles:								
Federal	-	-	-	-	-	-	-	284,562
General	-	-	-	-	-	-	-	447,217
Other	-	-	-	-	-	-	-	1,209,829
Due from other funds	52,405	58,836	682,551	6,869	648	405,092	1,206,401	15,359,582
	<u>\$ 52,405</u>	<u>\$ 58,836</u>	<u>\$ 682,551</u>	<u>\$ 6,869</u>	<u>\$ 648</u>	<u>\$ 405,092</u>	<u>\$ 1,206,401</u>	<u>\$ 27,590,582</u>
<u>Liabilities and Fund Balances (Deficit)</u>								
Liabilities:								
Accounts payable	\$ -	\$ 58,836	\$ 288,349	\$ -	\$ -	\$ 31,573	\$ 378,758	\$ 898,227
Other liabilities and accruals	-	-	56,993	6,869	-	-	63,862	797,250
Due to other funds	-	-	-	-	648	-	648	1,938,978
Due to component units	-	-	-	-	-	-	-	1,155,594
Unearned revenues	52,569	-	-	-	-	-	52,569	4,660,138
Total liabilities	<u>52,569</u>	<u>58,836</u>	<u>345,342</u>	<u>6,869</u>	<u>648</u>	<u>31,573</u>	<u>495,837</u>	<u>9,450,187</u>
Fund balances (deficit):								
Restricted	-	-	337,209	-	-	373,519	710,728	18,267,999
Unassigned	(164)	-	-	-	-	-	(164)	(127,604)
Total fund balances (deficit)	<u>(164)</u>	<u>-</u>	<u>337,209</u>	<u>-</u>	<u>-</u>	<u>373,519</u>	<u>710,564</u>	<u>18,140,395</u>
	<u>\$ 52,405</u>	<u>\$ 58,836</u>	<u>\$ 682,551</u>	<u>\$ 6,869</u>	<u>\$ 648</u>	<u>\$ 405,092</u>	<u>\$ 1,206,401</u>	<u>\$ 27,590,582</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, 2014

	Special Revenue Funds						
	Department of Public Lands	Private Grants	Commonwealth Arts Council	Oil Overcharge	Commonwealth Nonresident Workers' Fee	Commonwealth Alien Deportation	Local Revenue
Revenues:							
Federal contributions	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Taxes	-	-	-	-	-	-	-
Licenses and fees	313,678	-	-	-	250	-	4,143,888
Interest and dividends	12,684	-	-	58	-	-	-
Charges for sales and services	4,059,166	-	-	-	-	-	-
Other	258,081	1,200,847	30,570	-	-	-	19,898
	<u>4,643,609</u>	<u>1,200,847</u>	<u>30,570</u>	<u>58</u>	<u>250</u>	<u>-</u>	<u>4,163,786</u>
Bad debts	(616,441)	-	-	-	-	-	-
Total revenues	<u>4,027,168</u>	<u>1,200,847</u>	<u>30,570</u>	<u>58</u>	<u>250</u>	<u>-</u>	<u>4,163,786</u>
Expenditures by account:							
Current:							
Education	-	-	-	-	-	-	1,939,908
Economic development	-	492,375	-	-	-	-	-
Public safety and law enforcement	-	513,314	-	-	142,952	-	-
Community and social services	-	269,377	28,161	-	-	-	223,209
Health	-	38,587	-	-	-	-	170,490
Lands and natural resources	4,449,685	10,385	-	-	-	-	-
General government	-	-	-	-	-	-	27,949
Other elected officials	-	-	-	-	-	-	24,148
Payment to Marianas Visitors Authority	-	-	-	-	-	-	-
Debt service:							
Interest and fiscal charges	-	-	-	-	-	-	-
Principal retirement	-	-	-	-	-	-	-
Capital outlay:							
Public works	-	-	-	-	-	-	110,501
Total expenditures	<u>4,449,685</u>	<u>1,324,038</u>	<u>28,161</u>	<u>-</u>	<u>142,952</u>	<u>-</u>	<u>2,496,205</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(422,517)</u>	<u>(123,191)</u>	<u>2,409</u>	<u>58</u>	<u>(142,702)</u>	<u>-</u>	<u>1,667,581</u>
Other financing sources (uses):							
Operating transfers in	-	508,771	-	-	152,533	-	-
Operating transfers out	-	-	-	-	-	-	(10,000)
Total other financing sources (uses), net	<u>-</u>	<u>508,771</u>	<u>-</u>	<u>-</u>	<u>152,533</u>	<u>-</u>	<u>(10,000)</u>
Net change in fund balances (deficit)	<u>(422,517)</u>	<u>385,580</u>	<u>2,409</u>	<u>58</u>	<u>9,831</u>	<u>-</u>	<u>1,657,581</u>
Fund balances (deficit) at beginning of year, as previously reported	5,242,046	(385,580)	2,640	447	(9,831)	(9,329)	3,620,963
Prior period adjustment	-	-	-	-	-	-	-
Fund balances (deficit) at beginning of year, as restated	<u>5,242,046</u>	<u>(385,580)</u>	<u>2,640</u>	<u>447</u>	<u>(9,831)</u>	<u>(9,329)</u>	<u>3,620,963</u>
Fund balances (deficit) at end of year	<u>\$ 4,819,529</u>	<u>\$ -</u>	<u>\$ 5,049</u>	<u>\$ 505</u>	<u>\$ -</u>	<u>\$ (9,329)</u>	<u>\$ 5,278,544</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, 2014

Special Revenue Funds										
Saipan Trust	Tobacco Settlement Trust	Tobacco Control	Solid Waste Revolving	Managaha Landing Fee	Qualifying Certificate Reserve	MVA Trust	CNMI Scholarship	CNMI Workers' Compensation Commission	Miscellaneous	Total Special Revenue Funds
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	1,834,005	2,581,229	-	-	115,889	-	-	-	4,531,123
-	-	-	377,905	-	-	-	-	-	65,412	4,901,133
-	75	-	-	-	-	-	-	23,173	-	35,990
-	-	-	-	-	-	-	-	-	188,383	4,247,549
-	1,684,766	-	-	-	-	-	211,008	160,316	9,973	3,575,459
-	1,684,841	1,834,005	2,959,134	-	-	115,889	211,008	183,489	263,768	17,291,254
-	-	-	-	-	-	-	-	-	-	(616,441)
-	1,684,841	1,834,005	2,959,134	-	-	115,889	211,008	183,489	263,768	16,674,813
-	-	-	-	-	-	-	-	-	-	1,939,908
-	-	-	-	-	-	-	-	-	-	492,375
-	-	-	-	-	-	-	-	7,640	61,419	725,325
-	-	3,721	-	-	-	-	-	-	38,060	562,528
-	-	-	-	-	-	-	-	-	-	209,077
-	-	-	-	-	-	-	-	-	254,684	4,714,754
-	-	-	-	-	-	-	-	-	-	27,949
-	-	-	-	-	-	-	-	-	-	24,148
-	-	-	-	-	-	40,098	-	-	-	40,098
-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-
-	-	-	1,582,713	-	-	-	-	-	-	1,693,214
-	-	3,721	1,582,713	-	-	40,098	-	7,640	354,163	10,429,376
-	1,684,841	1,830,284	1,376,421	-	-	75,791	211,008	175,849	(90,395)	6,245,437
-	-	-	-	-	-	-	-	-	-	661,304
-	(1,622,207)	(1,657,793)	-	-	-	-	-	-	-	(3,290,000)
-	(1,622,207)	(1,657,793)	-	-	-	-	-	-	-	(2,628,696)
-	62,634	172,491	1,376,421	-	-	75,791	211,008	175,849	(90,395)	3,616,741
4,127	1,308,988	(290,602)	1,286,054	39,580	49,548	-	-	-	1,024,830	11,883,881
-	-	-	-	-	-	-	-	1,929,209	-	1,929,209
4,127	1,308,988	(290,602)	1,286,054	39,580	49,548	-	-	1,929,209	1,024,830	13,813,090
\$ 4,127	\$ 1,371,622	\$ (118,111)	\$ 2,662,475	\$ 39,580	\$ 49,548	\$ 75,791	\$ 211,008	\$ 2,105,058	\$ 934,435	\$ 17,429,831

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, 2014

	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	\$ -	\$ -	\$ 5,015,080	\$ -	\$ -	\$ -	\$ 5,015,080	\$ 5,015,080
Taxes	-	119,014	-	-	-	-	119,014	4,650,137
Licenses and fees	-	16,173	-	-	-	-	16,173	4,917,306
Interest and dividends	-	87	-	-	-	-	87	36,077
Charges for sales and services	-	-	-	-	-	-	-	4,247,549
Other	-	10,732	-	-	-	-	10,732	3,586,191
	-	146,006	5,015,080	-	-	-	5,161,086	22,452,340
Bad debts	-	-	-	-	-	-	-	(616,441)
Total revenues	-	146,006	5,015,080	-	-	-	5,161,086	21,835,899
Expenditures by account:								
Current:								
Education	-	62,783	-	-	-	-	62,783	2,002,691
Economic development	-	-	-	-	23,331	-	23,331	515,706
Public safety and law enforcement	-	22,635	-	-	129,965	-	152,600	877,925
Community and social services	-	46,183	-	-	-	-	46,183	608,711
Health	-	-	-	-	-	-	-	209,077
Lands and natural resources	-	-	-	-	-	-	-	4,714,754
General government	-	-	-	-	-	-	-	27,949
Other elected officials	-	-	-	-	-	-	-	24,148
Payment to Marianas Visitors Authority	-	-	-	-	-	-	-	40,098
Debt service:								
Interest and fiscal charges	-	-	-	-	-	-	-	-
Principal retirement	-	-	-	-	-	-	-	-
Capital outlay:								
Public works	-	48,994	5,015,080	-	213,700	-	5,277,774	6,970,988
Total expenditures	-	180,595	5,015,080	-	366,996	-	5,562,671	15,992,047
Excess (deficiency) of revenues over (under) expenditures	-	(34,589)	-	-	(366,996)	-	(401,585)	5,843,852
Other financing sources (uses):								
Operating transfers in	-	681,059	-	-	409,952	-	1,091,011	1,752,315
Operating transfers out	-	-	-	-	-	-	-	(3,290,000)
Total other financing sources (uses), net	-	681,059	-	-	409,952	-	1,091,011	(1,537,685)
Net change in fund balances (deficit)	-	646,470	-	-	42,956	-	689,426	4,306,167
Fund balances (deficit) at beginning of year, as previously reported	(164)	(646,470)	337,209	-	(42,956)	373,519	21,138	11,905,019
Prior period adjustment	-	-	-	-	-	-	-	1,929,209
Fund balances (deficit) at beginning of year, as restated	(164)	(646,470)	337,209	-	(42,956)	373,519	21,138	13,834,228
Fund balances (deficit) at end of year	\$ (164)	\$ -	\$ 337,209	\$ -	\$ -	\$ 373,519	\$ 710,564	\$ 18,140,395

See Accompanying Independent Auditors' Report.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS  
FIDUCIARY FUNDS

September 30, 2014

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 Settlement Fund (NMISF)

On September 30, 2013, the Settlement Agreement for Civil Case No. 09-00023 was approved by District Court. Accordingly, the Settlement Agreement created the NMISF to accept the transfer of NMIRF assets, receive annual contributions and payments from the CNMI and to effectuate the terms of the Settlement Agreement. NMISF is governed by a Trustee appointed by District Court. As of September 30, 2014, NMISF was not included in the Pension Trust Fund due to the lack of available financial information.

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, 11-9, 11-95, 13-60, 15-14, 15-70, 15-126, 16-2, 16-36, 17-79, 17-82 and 18-02. NMIRF is governed by the CNMI.

CNMI Group Health and Life Insurance Trust Fund (GHLITF)

GHLITF was created by Public Law No. 10-19 to ensure that CNMI Government employees are provided with medical and life insurance benefits, and that funds collected and disbursed for these purposes are administered in a fiscally sound and professionally accountable manner. GHLITF is governed by the CNMI. GHLITF health benefit administration was privatized on November 1, 2007.

See Accompanying Independent Auditors' Report.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Combining Statement of Fiduciary Net Position  
Fiduciary Funds  
September 30, 2014

	Pension (and Other Employee Benefit) Trust Fund		
	Northern Mariana Islands Retirement Fund	CNMI Group Health and Life Insurance Trust	Total
<u>Assets</u>			
Cash and cash equivalents	\$ 2,224,844	\$ 220,377	\$ 2,445,221
Receivables:			
Loans	3,361,820	-	3,361,820
Notes	904,235	-	904,235
Other	7,236	-	7,236
	<u>4,273,291</u>	<u>-</u>	<u>4,273,291</u>
Due from component units	<u>-</u>	<u>1,923,735</u>	<u>1,923,735</u>
	<u>-</u>	<u>1,923,735</u>	<u>1,923,735</u>
Investments, at fair market value:			
Mutual funds	<u>22,550,222</u>	<u>-</u>	<u>22,550,222</u>
	<u>22,550,222</u>	<u>-</u>	<u>22,550,222</u>
Capital assets	<u>2,414,567</u>	<u>-</u>	<u>2,414,567</u>
Total assets	<u>31,462,924</u>	<u>2,144,112</u>	<u>33,607,036</u>
<u>Liabilities and Other Credits</u>			
Accounts payable	2,583,914	6,403	2,590,317
Other liabilities and accruals	155,657	2,415,471	2,571,128
Unearned revenue	893,468	-	893,468
Total liabilities and other credits	<u>3,633,039</u>	<u>2,421,874</u>	<u>6,054,913</u>
Net position:			
Held in trust for pension benefits	27,829,885	-	27,829,885
Held in trust for medical and life insurance benefits	<u>-</u>	<u>(277,762)</u>	<u>(277,762)</u>
Total net position	<u>\$ 27,829,885</u>	<u>\$ (277,762)</u>	<u>\$ 27,552,123</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, 2014

	<u>Pension (and Other Employee Benefit) Trust Fund</u>		
	<u>Northern Mariana Islands Retirement Fund</u>	<u>CNMI Group Health and Life Insurance Trust</u>	<u>Total</u>
	<u>Additions</u>		
Contributions:			
Employer	\$ 1,292,033	\$ -	\$ 1,292,033
Employee	4,490,587	-	4,490,587
Revenues:			
Premiums	-	508,209	508,209
Rent income and other	617,565	1,245	618,810
Total contributions and revenues	<u>6,400,185</u>	<u>509,454</u>	<u>6,909,639</u>
Net investment earnings:			
Net change in fair value	1,476,909	-	1,476,909
Interest	90,711	-	90,711
Net investment earnings	<u>1,567,620</u>	<u>-</u>	<u>1,567,620</u>
Total additions	<u>7,967,805</u>	<u>509,454</u>	<u>8,477,259</u>
	<u>Deductions</u>		
Benefits	192,557	-	192,557
General and administrative	2,980,538	60,424	3,040,962
Loss on settlement	124,139,208	-	124,139,208
Refunds and withdrawals	14,103,348	-	14,103,348
Total deductions	<u>141,415,651</u>	<u>60,424</u>	<u>141,476,075</u>
Change in net position	<u>(133,447,846)</u>	<u>449,030</u>	<u>(132,998,816)</u>
Net position at beginning of year	159,676,473	(15,923,273)	143,753,200
Prior period adjustment (note 16)	1,601,258	15,196,481	16,797,739
Net position at beginning of year, as restated	<u>161,277,731</u>	<u>(726,792)</u>	<u>160,550,939</u>
Net position at end of year	<u>\$ 27,829,885</u>	<u>\$ (277,762)</u>	<u>\$ 27,552,123</u>

See Accompanying Independent Auditors' Report.



COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS  
FIDUCIARY FUNDS - AGENCY

September 30, 2014

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 Assets and Liabilities  
 Fiduciary Funds - Agency  
 September 30, 2014

	<u>Tinian Land Condemnation</u>	<u>Security Deposit</u>	<u>Total</u>
<u>Assets</u>			
Cash and cash equivalents	\$ -	\$ 1,643,840	\$ 1,643,840
Due from General Fund	1,391,134	-	1,391,134
Restricted assets	<u>-</u>	<u>1,575,245</u>	<u>1,575,245</u>
Total assets	<u>\$ 1,391,134</u>	<u>\$ 3,219,085</u>	<u>\$ 4,610,219</u>
<u>Liabilities</u>			
Claims and judgments payable	\$ 1,391,134	\$ -	\$ 1,391,134
Deposits payable	<u>-</u>	<u>3,219,085</u>	<u>3,219,085</u>
Total liabilities	<u>\$ 1,391,134</u>	<u>\$ 3,219,085</u>	<u>\$ 4,610,219</u>

See Accompanying Independent Auditors' Report.