



COMMONWEALTH CASINO COMMISSION
(A GOVERNMENTAL FUND OF THE COMMONWEALTH OF THE
NORTHERN MARIANA ISLANDS)

STATEMENTS OF REVENUES AND EXPENDITURES
AND
INDEPENDENT AUDITORS' REPORT

YEARS ENDED SEPTEMBER 30, 2019 AND 2018

INDEPENDENT AUDITORS' REPORT

Mr. Andrew Yeom
Executive Director
Commonwealth Casino Commission

Report on the Statement of Revenues and Expenditures

We have audited the accompanying statements of revenues and expenditures of the Commonwealth Casino Commission (CCC), a governmental fund of the Commonwealth of the Northern Mariana Islands (CNMI), for the years ended September 30, 2019 and 2018, and the related notes to the statements of revenues and expenditures.

Management's Responsibility for the Statements of Revenues and Expenditures

Management is responsible for the preparation and fair presentation of these statements of revenues and expenditures 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 statements of revenues and expenditures that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these statements of revenues and expenditures based on our audits. We conducted our audits 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 audits to obtain reasonable assurance about whether the statements of revenues and expenditures are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the statements of revenues and expenditures. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the statements of revenues and expenditures, 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 statements of revenues and expenditures 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 statements of revenues and expenditures.

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

Opinion

In our opinion, the statements of revenues and expenditures referred to above present fairly, in all material respects, the results of operations of the Commonwealth Casino Commission for the years ended September 30, 2019 and 2018 in accordance with accounting principles generally accepted in the United States of America.

Emphasis-of-Matters

As discussed in Note 2, the statements of revenues and expenditures present only the results of operations of CCC. They are not intended to present the results of operations of the CNMI in conformity with accounting principles generally accepted in the United States of America.

In addition, economic uncertainties related to a significant customer resulting from the COVID-19 coronavirus pandemic may negatively impact CCC's future financial results as described in notes 6 and 7 to the financial statements.

Additionally, subsequent events have indicated that CCC's primary source of revenue may no longer be available and management's plans in regard to this matter are described in note 7 to the financial statements.

Our opinion is not modified with respect to these matters.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated July 23, 2021 on our consideration of CCC's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of CCC's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering CCC's internal control over financial reporting and compliance.

Deloitte & Touche LLC

July 23, 2021

COMMONWEALTH CASINO COMMISSION
(A Governmental Fund of the Commonwealth of the Northern Mariana Islands)

Statements of Revenues and Expenditures
Years Ended September 30, 2019 and 2018

| | <u>2019</u> | <u>2018</u> |
|--------------------------------------|-------------------|---------------------|
| Revenues: | | |
| Regulatory fee | \$ 3,000,000 | \$ 3,136,875 |
| Interest | 4,641 | 3,760 |
| Other fees | 93,720 | 874,433 |
| Total revenues | <u>3,098,361</u> | <u>4,015,068</u> |
| Expenditures: | | |
| Salaries and wages | 1,607,193 | 1,636,424 |
| Employee benefits | 401,664 | 373,330 |
| Board compensation | 325,000 | 313,773 |
| Travel | 147,584 | 322,356 |
| Rent | 70,600 | 85,956 |
| Professional services | 33,950 | - |
| Communications | 31,121 | 19,461 |
| Utilities | 24,899 | 24,471 |
| Supplies | 21,871 | 23,466 |
| Licenses and fees | 10,548 | - |
| Insurance | 8,374 | 1,419 |
| Machinery and equipment | 7,312 | 6,489 |
| Printing | 6,191 | 6,743 |
| Fuel and lubrication | 6,110 | 2,745 |
| Computer system | 4,855 | 112,663 |
| Repairs and maintenance | 3,076 | 1,382 |
| Dues and subscriptions | 2,845 | 1,852 |
| Food items | 2,730 | 4,151 |
| Furniture and fixtures | 2,400 | 19,831 |
| Advertising | 1,790 | 3,805 |
| Miscellaneous | 524 | 11,660 |
| Total expenditures | <u>2,720,637</u> | <u>2,971,977</u> |
| Excess of revenues over expenditures | <u>\$ 377,724</u> | <u>\$ 1,043,091</u> |

See accompanying notes to statements of revenues and expenditures.

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Notes to Statements of Revenues and Expenditures
Years Ended September 30, 2019 and 2018

(1) Organization and Purpose

The Commonwealth Casino Commission (CCC) is a governmental fund of the Commonwealth of the Northern Mariana Islands (CNMI). On March 21, 2014, Public Law (PL) 18-38, which was further amended by PLs 18-43, 18-56 and 19-24, was enacted to create CCC within the Executive Branch of the CNMI Government. CCC is responsible to regulate casino gaming by the exclusive casino licensee and is governed by a five-member Board of Commissioners, three of which are appointed by the Governor of the CNMI, and the remaining two are appointed by the Mayors of Rota and Tinian and Aguiguan. CCC is headed by an Executive Director who is responsible for the overall administration of CCC and the supervision of the casino licensee and others.

(2) Summary of Significant Accounting Policies

The accounting policies of CCC conform to accounting principles generally accepted in the United States of America. The Governmental Accounting Standards Board (GASB) is the recognized standard-setting body for establishing governmental accounting and financial reporting principles. CCC's significant accounting policies are described below:

Measurement Focus and Basis of Accounting

The accompanying statements of revenues and expenditures 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, revenues are considered available if they are collected within ninety days of the end of the current fiscal period. The accompanying statements of revenues and expenditures relate solely to the operations of CCC and does not extend to the results of operations of the CNMI.

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. CCC is required to contribute to each member's individual account an amount equal to 4% of the member's compensation. CCC's recorded DC contributions for the years ended September 30, 2019 and 2018 were \$25,851 and \$28,064, respectively, which are equal to the required contributions for the 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.

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Notes to Statements of Revenues and Expenditures
Years Ended September 30, 2019 and 2018

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards

During the year ended September 30, 2019, CCC implemented the following pronouncements:

- GASB Statement No. 83, *Certain Asset Retirement Obligations*, which addresses accounting and financial reporting for certain asset retirement obligations (AROs) associated with the retirement of a tangible capital asset.
- GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, which improves the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements.

The implementation of these statements did not have a material effect on CCC's financial statements.

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

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

In June 2018, GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, which requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. The provisions in Statement No. 89 are effective for fiscal years beginning after December 15, 2019. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In August 2018, GASB issued Statement No. 90, *Majority Equity Interests - an Amendment of GASB Statements No. 14 and No. 61*, which improves the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and the relevance of financial statement information for certain component units. The provisions in Statement No. 90 are effective for fiscal years beginning after December 15, 2018. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

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Notes to Statements of Revenues and Expenditures
Years Ended September 30, 2019 and 2018

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In May 2019, GASB issued Statement No. 91, *Conduit Debt Obligations*, which clarifies the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures. The provisions in Statement No. 91 are effective for fiscal years beginning after December 15, 2020. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In May 2020, GASB issued Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, which postpones the effective dates of GASB Statement No. 84, 89, 90 and 91 by one year and GASB Statement No. 87 by 18 months; however, earlier application of the provisions addressed in GASB Statement No. 95 is encouraged and is permitted to the extent specified in each pronouncement as originally issued. Management has yet to ascertain whether implementation of these statements will be postponed as provided in GASB Statement No. 95.

(3) Commitment

CCC leases office space in Saipan. The lease provides for monthly rental of \$8,000 from February 1, 2018 until March 31, 2019. On April 1, 2019, a new lease was executed which provides for monthly rental of \$10,000 until March 31, 2021. Total future minimum lease payments under this lease for subsequent years ending September 30 are as follows:

| <u>Year ending September 30,</u> | |
|----------------------------------|-------------------|
| 2020 | \$ 120,000 |
| 2021 | <u>60,000</u> |
| | \$ <u>180,000</u> |

(4) Risk Management

CCC 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. CCC has elected to purchase commercial insurance from independent third parties for the risks of losses to which it is exposed. Settled claims from these risks have not exceeded commercial insurance coverage.

(5) Related Party Transaction

The spouse of a CCC Board member entered into a lease agreement for a warehouse with the exclusive casino licensee.

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Years Ended September 30, 2019 and 2018

(6) Significant Customer

During the years ended September 30, 2019 and 2018, the exclusive casino licensee accounted for 100% and 96%, respectively, of total CCC regulatory fees. Financial statements of the exclusive casino licensee have disclosed various contingencies, which cast doubt on its ability to continue as a going concern. Such matters could adversely affect the financial statements of CCC.

(7) Subsequent Events

Public Law No. 21-38

On December 10, 2020, Public Law No. 21-38 was enacted which defines CCC as an autonomous agency and allows CCC to handle its own finances and procurement.

COVID-19

Economic uncertainties have arisen as a result of the COVID-19 coronavirus pandemic. CCC expects this matter to negatively impact its future financial results; however, the related financial impact cannot be reasonably estimated at this time. Other financial impacts could occur though such potential impact is unknown.

Going Concern

Continuation of operations is dependent on collection of regulatory and annual casino license fees from the exclusive licensee; however, given the current position of the licensee, it is not possible to predict that this revenue source will be available in future periods and it is uncertain if additional revenue sources to maintain the entity as a going concern may transpire. At the present time, CCC has funding for the remaining 40 percent of its staff until the end of August 2022, with a portion of the remaining budget covering more scaled-down operations. As such, CCC is faced with many questions in locating and identifying dependable sources of funding beyond August 2022 and into fiscal year 2023.

CCC management has taken the following actions and measures to address losses and negative cash flows from operations:

- Approach the CNMI Government for meaningful local funds;
- Work with the CNMI Legislature to amend the law to open the gaming industry to several casino licenses, if in case the exclusive license is revoked or the exclusivity is amicably waived; and
- The exclusive license may be revoked if complaints/orders are not resolved and more enforcement actions/complaints are filed for revocation.