

COMMONWEALTH OF THE  
NORTHERN MARIANA ISLANDS

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

YEAR ENDED SEPTEMBER 30, 2009

COMMONWEALTH OF THE  
NORTHERN MARIANA ISLANDS

FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITORS' REPORT

YEAR ENDED SEPTEMBER 30, 2009

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

FINANCIAL STATEMENTS

YEAR ENDED SEPTEMBER 30, 2009

TABLE OF CONTENTS

	<u>Page No.</u>
I. Independent Auditors' Report	1
II. Management's Discussion and Analysis	4
III. Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Assets	10
Statement of Activities	11
Governmental Fund Financial Statements:	
Balance Sheet	12
Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Assets	13
Statement of Revenues, Expenditures, and Changes in Fund Balances (Deficit)	14
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Deficit of Governmental Funds to the Statement of Activities	15
Fiduciary Fund Financial Statements:	
Statement of Fiduciary Net Assets	16
Statement of Changes in Fiduciary Net Assets	17
Discretely Presented Component Units:	
Statement of Net Assets	18
Statement of Revenues, Expenses, and Changes in Net Assets	19
Notes to the Financial Statements	20
IV. Required Supplementary Information:	75
Schedule of Revenues, Expenditures, and Changes in Deficit - Budget and Actual - General Fund	76
Notes to Required Supplementary Information - Budgetary Reporting	77
V. Other Supplementary Information:	81
Combining Schedule of Expenditures by Account	82
Major Governmental Fund - Grants Assistance Fund	83
Major Governmental Fund:	
Combining Balance Sheet - Grants Assistance Fund	84
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - Grants Assistance Funds	85

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

FINANCIAL STATEMENTS

YEAR ENDED SEPTEMBER 30, 2009

TABLE OF CONTENTS, CONTINUED

	<u>Page No.</u>
V. Other Supplementary Information, Continued:	
Nonmajor Governmental Funds - Special Revenue Funds	86
Nonmajor Governmental Funds - Capital Projects Funds	89
Nonmajor Governmental Funds - Debt Service Fund	90
Nonmajor Governmental Funds:	
Combining Balance Sheet - Special Revenue Funds	91
Combining Balance Sheet - Capital Projects Funds and Debt Service Fund	92
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances (Deficit) - Special Revenue Funds	93
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances (Deficit) - Capital Projects Funds and Debt Service Fund	94
Fiduciary Funds:	95
Combining Statement of Fiduciary Net Assets	97
Combining Statement of Changes in Fiduciary Net Assets	98

## INDEPENDENT AUDITORS' REPORT

Honorable Benigno R. Fitial  
Governor  
Commonwealth of the Northern Mariana Islands:

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, 2009, which collectively comprise the CNMI's basic financial statements as set forth in Section III of the foregoing table of contents. These financial statements are the responsibility of the CNMI's management. Our responsibility is to express an opinion on the respective financial statements based on our audit. We did not audit the financial statements of the Marianas Visitors Authority, which represents 1%, 0% and 2% of the assets, net assets and revenues, respectively, of the CNMI's aggregate discretely presented component units, or the financial statements of the Northern Mariana Islands Retirement Fund, the Northern Mariana Islands Government Health and Life Insurance Trust Fund and the CNMI Workers' Compensation Commission, which represent 93% and 66% of the assets and revenues, respectively, of the aggregate remaining fund information. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion expressed herein, insofar as it relates to the amounts included for the Marianas Visitors Authority, the Northern Mariana Islands Retirement Fund, the Northern Mariana Islands Government Health and Life Insurance Trust Fund and the CNMI Workers' Compensation Commission, is based solely on the reports of the other auditors.

Except as discussed in the following paragraph, 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the CNMI's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the respective financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

The financial statements of the Commonwealth Utilities Corporation and the Public School System have not been audited, and we were not engaged to audit the financial statements of the Commonwealth Utilities Corporation and the Public School System as part of our audit of the CNMI's basic financial statements. The financial activities of the Commonwealth Utilities Corporation and the Public School System are included in the CNMI's basic financial statements as discretely presented component units and represent 39%, 36% and 82% of the assets, net assets and revenues, respectively, of the CNMI's aggregate discretely presented component units.

In our opinion, based on our audit and the reports of other auditors, such financial statements, as set forth in Section III of the foregoing table of contents, present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Commonwealth of the Northern Mariana Islands as of September 30, 2009, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In addition, in our opinion, based on our audit and the reports of other auditors, except for the effects on the financial statements of such adjustments, if any, as might have been determined to be necessary had the financial statements of the Commonwealth Utilities Corporation and the Public School System been audited, as discussed in the third paragraph above, such financial statements, as set forth in Section III of the foregoing table of contents, present fairly, in all material respects, the financial position of the aggregate discretely presented component units of the CNMI as of September 30, 2009, and the changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in note 17 to the financial statements, the beginning net assets of the governmental activities and the beginning fund balance of the other governmental funds within the accompanying financial statements have been restated for the adoption of GASB Technical Bulletin No. 2004-1, Tobacco Settlement Recognition and Financial Reporting Entity Issues. In addition, the beginning net assets of the aggregate discretely presented component units has been restated for the correction of an error.

The CNMI's plans regarding its General Fund deficit position and the related governmental activities net deficiency position are described in note 14 to the financial statements.

The Management's Discussion and Analysis, on pages 4 through 9, as well as 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, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the management of the CNMI. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit such information and we do not express an opinion on it.

Our audit was conducted for the purpose of forming an opinion on the CNMI's respective financial statements that collectively comprise the CNMI's basic financial statements. The Other Supplementary Information, as set forth in Section V of the foregoing table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements of the CNMI. This supplementary information is the responsibility of the management of the CNMI. Such additional information has been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, in our opinion, based on our audit and the reports of other auditors, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 23, 2010, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

*Deloitte & Touche LLC*

June 23, 2010



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### Management's Discussion and Analysis Year Ended September 30, 2009

Our discussion and analysis of the Commonwealth of the Northern Mariana Islands ("CNMI") financial performance provides an overview of the CNMI's financial activities for the fiscal year ended September 30, 2009. Please read it in conjunction with the CNMI's financial statements, which follow this section. Fiscal year 2008 comparative information has been included where appropriate for comparative purposes.

#### FINANCIAL HIGHLIGHTS

- For the fiscal year ended September 30, 2009, the CNMI's total net deficiency increased by \$45.2 million to a net deficiency position of \$164.2 million, which represents an increase of approximately 38.0% from the net deficiency position at the beginning of the year, as restated.
- During the year, the CNMI's expenses for governmental activities were \$275.4 million, including expenses recorded for payments made or due to the autonomous agencies, and were funded in part by program revenues of \$117.4 million, further funded with taxes and other general revenues that totaled \$112.8 million. The difference between total revenues of \$230.2 million and total expenses of \$275.4 million is what resulted in the \$45.2 million increase in net deficiency.
- At September 30, 2009, the General Fund reported an unreserved fund deficit of \$300.8 million, which is an increase in the unreserved fund deficit of 17.4% from the prior year's reported unreserved fund deficit of \$256.3 million.
- For budgetary reporting purposes, General Fund actual revenues was lower than final estimates by \$18.4 million, or 11.8%, while reported actual expenditures exceeded final estimated appropriations by \$18.6 million, or 11.0%. These amounts do not include transfers to and from other funds, nor does it 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 Commonwealth of the Northern Mariana Islands ("CNMI") and its component units using the integrated approach as prescribed by GASB Statement No. 34. Included in this report are governmental-wide statements for the governmental activities of the CNMI, along with the CNMI's discretely-presented component units. The government-wide financial statements present the complete financial picture of the CNMI from the economic resources measurement focus using the accrual basis of accounting. These statements include all assets of the CNMI (including infrastructure capital assets) as well as all liabilities (including all long-term debt).

#### Reporting the CNMI as a Whole

##### The Statement of Net Assets 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 Assets and the Statement of Activities report information about the CNMI as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

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These two government-wide statements report the CNMI's net assets and changes in them from the prior year. You can think of the CNMI's net assets - 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 assets are one indicator 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 Assets 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, health care, 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.

### **Restatement**

The beginning net assets of the governmental activities have been restated for the adoption of GASB Technical Bulletin No. 2004-1. Additional information on this restatement can be found in note 17 to the financial statements.

### **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 money.

*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* - When 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 assets and a statement of changes in fiduciary net assets. We exclude these activities from the CNMI's government-wide financial statements because the CNMI cannot use these assets to finance operations.

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

#### **Net Deficiency**

The CNMI's governmental activities net deficiency increased from \$119.0 million, as restated, to a net deficiency of \$164.2 million, an increase in the deficit of 38.0%, between fiscal years 2008 and 2009.

A summary of net deficiency (condensed) is presented below, with comparable balances for fiscal year 2008.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
September 30, 2009

	Governmental Activities <u>2009</u>	(As Restated) Governmental Activities <u>2008</u>
Current assets	\$ 73,671,850	\$ 84,867,496
Capital assets, net	202,241,528	205,342,579
Other noncurrent assets	<u>4,171,303</u>	<u>4,243,968</u>
<b>Total assets</b>	<b><u>280,084,681</u></b>	<b><u>294,454,043</u></b>
Current liabilities	331,852,997	297,399,622
Noncurrent liabilities	<u>112,435,577</u>	<u>116,046,752</u>
<b>Total liabilities</b>	<b><u>444,288,574</u></b>	<b><u>413,446,374</u></b>
Net deficiency:		
Invested in capital assets, net of related debt	103,755,326	111,604,859
Restricted net assets	14,039,212	11,572,537
Unrestricted net assets	<u>(281,998,431)</u>	<u>(242,169,727)</u>
<b>Total net deficiency</b>	<b><u>\$ (164,203,893)</u></b>	<b><u>\$ (118,992,331)</u></b>

**Changes in Net Deficiency**

For the year ended September 30, 2009, net deficiency of the primary government changed as follows, with comparable amounts for fiscal year 2008:

	Governmental Activities <u>2009</u>	(As Restated) Governmental Activities <u>2008</u>
<b>Revenues:</b>		
Program revenues	\$ 117,388,634	\$ 111,211,166
Taxes and other general revenues	<u>112,792,636</u>	<u>169,993,736</u>
<b>Total revenues</b>	<b><u>230,181,270</u></b>	<b><u>281,204,902</u></b>
<b>Expenses:</b>		
Capital projects	3,903,155	10,899,986
Health	72,234,921	67,435,711
Public safety and law enforcement	38,316,996	41,884,373
General government	11,520,567	36,390,560
Community and social services	22,262,830	22,459,489
Other elected officials	11,005,409	12,908,331
Utilities	5,894,904	6,199,553
Public works	12,939,634	17,158,388
Lands and natural resources	18,113,526	18,290,559
Legislative branch	6,352,636	7,010,996
Judicial branch	4,693,945	4,894,508
Education	7,061,963	7,792,652
Unallocated interest	6,345,299	6,502,855
Economic development	2,209,762	4,335,985
Payments to autonomous agencies	<u>52,537,285</u>	<u>58,125,140</u>
<b>Total expenses</b>	<b><u>275,392,832</u></b>	<b><u>322,289,086</u></b>
<b>Increase in net deficiency</b>	<b><u>\$ (45,211,562)</u></b>	<b><u>\$ (41,084,184)</u></b>

The CNMI's governmental activities' increase in net deficiency of \$45.2 million represents a 38.0% increase from the prior year. The results indicate the CNMI's financial condition, as a whole, continued to decline in the current year.

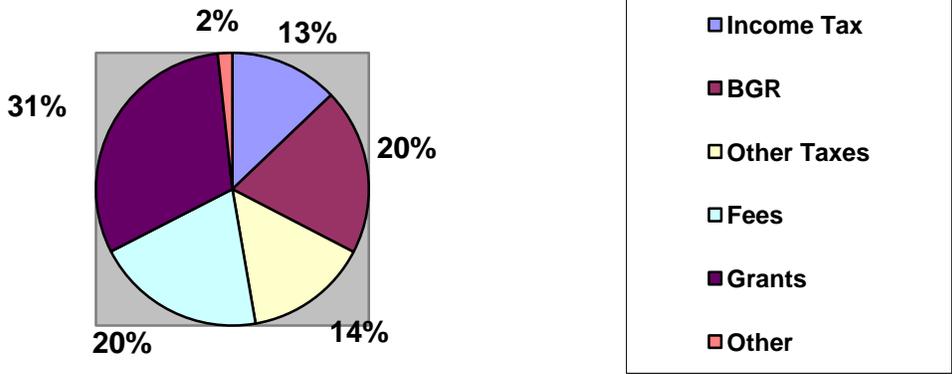
**Governmental Activities**

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

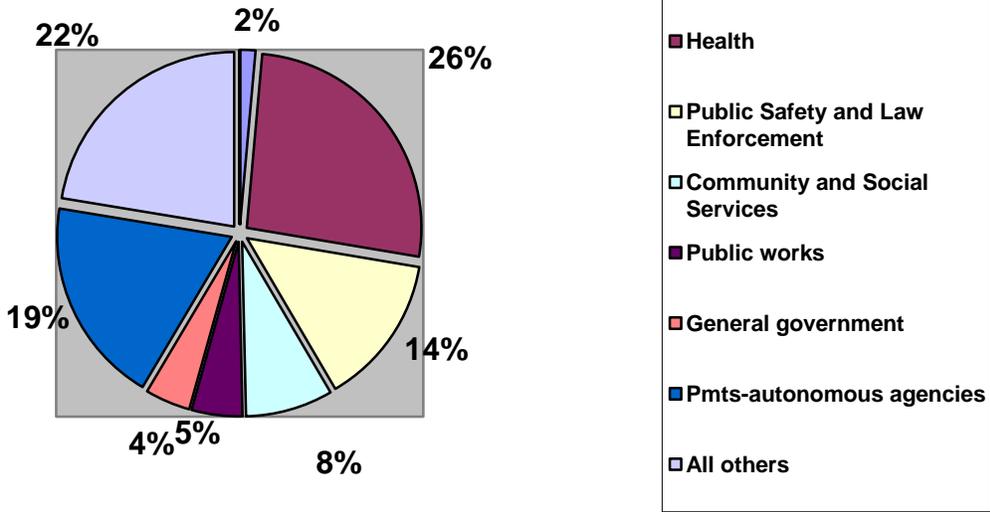
Of particular interest is the format that is significantly different than a typical Statement of Revenues, Expenses, and Changes in Fund Balance. You will notice that expenses are listed in the first column with revenues from that particular program reported to the right. The result is a Net (Expense)/Revenue.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

For the year ended September 30, 2009, the CNMI's governmental activities were funded as follows:

**Governmental Activities Sources**



**Governmental Activities Uses**



For the year ended September 30, 2009, total expenses for governmental activities amounted to \$275.4 million. Of these total expenses, taxpayers and other general revenues funded \$112.8 million, while those directly benefiting from the activities funded \$70.9 million from grants and other contributions and \$46.4 million from charges for services, with the remaining expenses in excess of revenues increasing the net deficiency.

**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>2009</u>	<u>2009</u>	<u>2008</u>	<u>2008</u>
Capital projects	\$ 3,903,155	\$ 2,384,158	\$ 10,899,986	\$ (1,680,323)
Health	72,234,921	(34,802,773)	67,435,711	(32,709,948)
Public safety and law enforcement	38,316,996	(16,733,052)	41,884,373	(22,815,003)
General government	11,520,567	2,736,449	36,390,560	(22,372,062)
Community and social services	22,262,830	(6,217,926)	22,459,489	(7,780,899)
Public works	12,939,634	(8,444,530)	17,158,388	(15,060,274)
Payments to autonomous agencies	52,537,285	(50,097,285)	58,125,140	(55,817,703)
All others	<u>61,677,444</u>	<u>(46,829,239)</u>	<u>67,935,439</u>	<u>(52,841,708)</u>
<b>Total</b>	<b>\$ <u>275,392,832</u></b>	<b>\$ <u>(158,004,198)</u></b>	<b>\$ <u>322,289,086</u></b>	<b>\$ <u>(211,077,920)</u></b>

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

As the CNMI completed its 2009 fiscal year, the governmental funds reported a combined fund deficit of \$247.3 million, when compared with the prior year fund deficit of \$199.9 million, as restated, is an increase in the deficit of \$47.4 million, or 23.7%. This increase in the deficit is due in large part to the continued decline of general revenues, without a sufficient, corresponding reduction in governmental expenditures.

Individual fund highlights include:

- For the year ended September 30, 2009, the General Fund's total fund deficit increased by \$36.7 million or 15.6%, to a total fund deficit of \$272.6 million, while the total unreserved fund deficit increased by \$44.6 million or 17.4%, for a total unreserved fund deficit of \$300.8 million.
- The Grants Assistance Fund's revenues and expenditures netted to approximately a \$7.0 million decrease in fund balance, leaving a remaining fund balance for grant expenditures of \$9.1 million.
- The Pension (and Other Employee Benefit) Trust Fund shows a decrease in net assets of the various funds of \$45.2 million or 11.5% for the year. This fund type includes the retirement fund, the group health and life insurance fund and the worker's compensation fund.

**General Fund Budgetary Highlights**

The General Fund's actual revenues of \$137.8 million were less than the final estimates by \$18.4 million, a variance of 11.8%, due to the continued decline in the local economy. The General Fund's actual expenditures of \$168.2 million exceeded appropriations by \$18.6 million, a variance of 11.0%, due mainly to unanticipated executive branch expenditures and unanticipated government utility expenditures.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital Assets**

At the end of September 30, 2009, the CNMI had \$202.2 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 \$3.1 million or 1.5% from last year.

	<u>2009</u>	<u>2008</u>
Infrastructure, net	\$ 26,408,979	\$ 26,485,275
Buildings and improvements, net	130,819,161	135,465,359
Machinery and equipment, net	9,227,185	9,025,304
Land	29,083,069	28,576,738
Construction in progress	<u>6,703,134</u>	<u>5,789,903</u>
<b>Total</b>	<b>\$ <u>202,241,528</u></b>	<b>\$ <u>205,342,579</u></b>

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 \$131.1 million in long-term debt outstanding, which represents a net decrease of \$2.6 million or 2.0% net decrease from the prior year. The CNMI's changes in long-term debt by type of debt are as follows:

	<u>2009</u>	<u>2008</u>
Accrued compensated absences	\$ 6,733,679	\$ 6,904,634
Bonds payable	97,117,871	100,233,199
Notes payable	6,950,565	7,787,405
Claims and judgments payable	17,624,190	16,507,281
Other	<u>2,672,158</u>	<u>2,290,421</u>
<b>Total</b>	<b>\$ <u>131,098,463</u></b>	<b>\$ <u>133,722,940</u></b>

See Note 10 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**

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, still slowed by the effects of a drop in tourism and the decline of the garment industry, has continued to follow a trend of decreasing revenues. The prospects for fiscal year 2010 appear similar, with not much recovery in sight.

**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. The Management's Discussion and Analysis for the year ended September 30, 2008 is set forth in the report on the audit of the CNMI's financial statements which is dated June 15, 2009. That Discussion and Analysis explains the major factors impacting the 2008 financial statements. 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 [bobschrack@yahoo.com](mailto:bobschrack@yahoo.com).

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Statement of Net Assets  
September 30, 2009

	Primary Government	Component Units
<u>ASSETS</u>		
Current assets:		
Cash and cash equivalents	\$ 2,935,151	\$ 31,460,036
Time certificates of deposit	-	324,539
Receivables, net of allowance for uncollectibles	31,594,593	39,969,082
Due from primary government	-	9,033,672
Due from component units	4,649,437	-
Due from Pension (and Other Employee Benefit) Trust Fund	364,546	-
Inventories	2,180,439	9,285,135
Advances	676,679	-
Other assets	-	384,711
Deferred bond issue costs	72,665	-
Restricted assets:		
Cash and cash equivalents	27,005,042	13,645,808
Time certificates of deposit	4,193,298	8,325,255
Investments	-	61,112,114
Total current assets	<u>73,671,850</u>	<u>173,540,352</u>
Noncurrent assets:		
Investments	2,500,000	4,855,123
Receivables:		
Loans, net of allowance for uncollectibles	-	12,421,357
Notes, net of allowance for uncollectibles	-	7,607,922
Other	-	2,642,340
Deferred bond issue costs, net of current portion	1,671,303	1,394,362
Foreclosed real estate	-	2,592,885
Capital assets, net of accumulated depreciation	<u>202,241,528</u>	<u>388,160,630</u>
Total noncurrent assets	<u>206,412,831</u>	<u>419,674,619</u>
Total assets	<u>280,084,681</u>	<u>593,214,971</u>
<u>LIABILITIES</u>		
Current liabilities:		
Current portion of notes and bonds payable	2,981,129	4,927,365
Current obligations under capital lease	-	23,548
Accounts payable	12,622,010	18,602,509
Current portion of compensated absences	3,294,498	1,445,425
Tax rebates payable	39,034,721	-
Recovery rebate payable	724,116	-
Accrued interest payable	2,167,500	450,085
Other liabilities and accruals	10,234,108	18,112,913
Claims and judgments payable	12,387,259	-
Due to external parties	1,377,472	-
Due to component units	10,344,390	-
Due to primary government	-	10,633,518
Due to Pension (and Other Employee Benefit) Trust Fund	235,189,288	17,156,531
Deferred revenues	<u>1,496,506</u>	<u>4,020,974</u>
Total current liabilities	<u>331,852,997</u>	<u>75,372,868</u>
Noncurrent liabilities:		
Notes and bonds payable, net of current portion	101,087,307	60,243,552
Obligations under preferred stock agreement	-	11,309,651
Claims and judgments payable	5,236,931	-
Compensated absences, net of current portion	3,439,181	1,700,861
Deferred revenues, net of current portion	-	4,453,078
Other noncurrent liabilities	<u>2,672,158</u>	<u>-</u>
Total noncurrent liabilities	<u>112,435,577</u>	<u>77,707,142</u>
Total liabilities	<u>444,288,574</u>	<u>153,080,010</u>
Net assets:		
Invested in capital assets, net of related debt	103,755,326	320,314,322
Restricted for:		
Capital projects	5,151,898	-
Retirement of indebtedness	1,388	-
Other purposes	8,885,926	120,655,827
Unrestricted	<u>(281,998,431)</u>	<u>(835,188)</u>
Total net assets	<u>\$ (164,203,893)</u>	<u>\$ 440,134,961</u>

See accompanying notes to financial statements.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Statement of Activities  
For the Year Ended September 30, 2009

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Assets	
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government	Component Units
Primary government:						
Governmental activities:						
Health	\$ 72,234,921	\$ 15,901,434	\$ 20,338,860	\$ 1,191,854	\$ (34,802,773)	\$ -
Public safety and law enforcement	38,316,996	11,912,642	9,542,414	128,888	(16,733,052)	-
General government	11,520,567	11,925,437	2,146,762	184,817	2,736,449	-
Community and social services	22,262,830	134,904	15,838,025	71,975	(6,217,926)	-
Other elected officials	11,005,409	-	-	-	(11,005,409)	-
Utilities	5,894,904	-	-	-	(5,894,904)	-
Utilities - Capital Projects	3,903,155	-	-	6,287,313	2,384,158	-
Public works	12,939,634	395,054	317,223	3,782,827	(8,444,530)	-
Lands and natural resources	18,113,526	4,726,274	7,918,365	-	(5,468,887)	-
Legislative branch	6,352,636	-	-	-	(6,352,636)	-
Judicial branch	4,693,945	883,543	-	-	(3,810,402)	-
Education	7,061,963	2,326	113,018	94,671	(6,851,948)	-
Unallocated interest	6,345,299	-	-	-	(6,345,299)	-
Economic development	2,209,762	557,550	35,780	516,678	(1,099,754)	-
Education:						
Payments to Public School System	36,939,776	-	2,110,000	-	(34,829,776)	-
Payments to Northern Marianas College	5,955,448	-	330,000	-	(5,625,448)	-
Payments to Marianas Visitors Authority	6,610,831	-	-	-	(6,610,831)	-
Payments to Pension (and Other Employee Benefit) Trust Fund	1,331,230	-	-	-	(1,331,230)	-
Payments to Commonwealth Utilities Corporation	1,700,000	-	-	-	(1,700,000)	-
Total primary government	<u>\$ 275,392,832</u>	<u>\$ 46,439,164</u>	<u>\$ 58,690,447</u>	<u>\$ 12,259,023</u>	<u>(158,004,198)</u>	<u>-</u>
Component units:						
Commonwealth Ports Authority	\$ 27,407,612	\$ 17,391,786	\$ -	\$ 11,726,682	-	1,710,856
Commonwealth Development Authority	12,644,331	4,608,742	6,545,854	-	-	(1,489,735)
Commonwealth Utilities Corporation	101,329,742	78,701,852	-	7,306,070	-	(15,321,820)
Marianas Public Land Trust	3,063,551	-	-	-	-	(3,063,551)
Northern Marianas College	14,038,646	2,813,206	6,702,752	-	-	(4,522,688)
Public School System	71,904,194	1,368,328	28,706,673	43,740	-	(41,785,453)
Marianas Visitors Authority	7,603,697	109,256	358,860	-	-	(7,135,581)
Total component units	<u>\$ 237,991,773</u>	<u>\$ 104,993,170</u>	<u>\$ 42,314,139</u>	<u>\$ 19,076,492</u>	<u>-</u>	<u>(71,607,972)</u>
General revenues:						
Taxes:						
Income					29,616,081	-
Gross receipts					45,444,734	-
Excise					13,967,061	-
Hotel					5,078,161	-
Fuel					5,076,579	-
Cigarette					4,916,265	-
Other taxes					4,727,364	-
Unrestricted investment earnings and dividends					482,520	1,262,063
Contributions from primary government					-	48,569,613
Gain on debt-equity conversion					-	177,566,204
Other					3,483,871	9,005,908
Total general revenues					<u>112,792,636</u>	<u>236,403,788</u>
Change in net assets					(45,211,562)	164,795,816
Net assets - beginning, as restated (note 17)					<u>(118,992,331)</u>	<u>275,339,145</u>
Net assets - ending					<u>\$ (164,203,893)</u>	<u>\$ 440,134,961</u>

See accompanying notes to financial statements.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Balance Sheet  
Governmental Funds  
September 30, 2009

	General	Grants Assistance	Special Revenue NMTIT Rebate Trust	Other Governmental Funds	Total
<u>Assets</u>					
Cash and cash equivalents	\$ 689,297	\$ -	\$ -	\$ 2,245,854	\$ 2,935,151
Investments	2,500,000	-	-	-	2,500,000
Restricted cash and cash equivalents	17,672,578	4,842,017	-	4,490,447	27,005,042
Restricted time certificates of deposit	-	-	-	4,193,298	4,193,298
Receivables, net:					
Federal agencies	4,006,914	7,291,112	4,467,611	597,563	16,363,200
Taxes	12,546,046	-	47,154	-	12,593,200
General	437,420	-	-	-	437,420
Other	-	12,831	-	2,187,942	2,200,773
Due from component units	4,413,561	-	-	235,876	4,649,437
Due from other funds	5,667,969	5,155,090	34,519,956	13,564,794	58,907,809
Due from Pension (and Other Employee Benefit) Trust Fund	-	-	-	364,546	364,546
Advances	676,679	-	-	-	676,679
Inventories	1,413,239	767,200	-	-	2,180,439
	<u>\$ 50,023,703</u>	<u>\$ 18,068,250</u>	<u>\$ 39,034,721</u>	<u>\$ 27,880,320</u>	<u>\$ 135,006,994</u>
<u>Liabilities and Fund Balances (Deficit)</u>					
Liabilities:					
Accounts payable	\$ 7,743,544	\$ 3,654,460	\$ -	\$ 1,225,644	\$ 12,623,648
Tax rebates payable	-	-	39,034,721	-	39,034,721
Recovery rebates payable	724,116	-	-	-	724,116
Other liabilities and accruals	5,737,591	902,776	-	3,592,103	10,232,470
Claims and judgments payable	9,697,239	-	-	2,690,020	12,387,259
Due to other funds	53,787,138	3,666,614	-	2,831,529	60,285,281
Due to component units	10,144,061	-	-	200,329	10,344,390
Due to Pension (and Other Employee Benefit) Trust Fund	234,772,993	-	-	416,295	235,189,288
Deferred revenues	-	767,200	-	729,306	1,496,506
Total liabilities	<u>322,606,682</u>	<u>8,991,050</u>	<u>39,034,721</u>	<u>11,685,226</u>	<u>382,317,679</u>
Fund balances (deficit):					
Reserved for:					
Supplies inventory	1,413,239	-	-	-	1,413,239
Related assets	19,473,978	4,842,017	-	5,289,133	29,605,128
Land claims	1,922	-	-	-	1,922
Debt service	-	-	-	1,526,950	1,526,950
Encumbrances	6,733,658	11,822,682	-	14,215,672	32,772,012
Continuing appropriations	634,909	-	-	705,493	1,340,402
Other	-	-	-	2,672,158	2,672,158
Unreserved (deficits) reported in:					
General fund	(300,840,685)	-	-	-	(300,840,685)
Special revenue funds	-	(5,476,164)	-	5,365,308	(110,856)
Capital projects funds	-	(2,111,335)	-	(13,579,620)	(15,690,955)
Total equity (deficit) and other credits	<u>(272,582,979)</u>	<u>9,077,200</u>	<u>-</u>	<u>16,195,094</u>	<u>(247,310,685)</u>
	<u>\$ 50,023,703</u>	<u>\$ 18,068,250</u>	<u>\$ 39,034,721</u>	<u>\$ 27,880,320</u>	<u>\$ 135,006,994</u>

See accompanying notes to financial statements.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Assets  
September 30, 2009

Total fund deficit - governmental funds		\$ (247,310,685)
Amounts reported for governmental activities in the statement of net assets 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 assets.		
		1,743,968
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. Those assets consist of:		
Land	\$ 29,292,543	
Construction in progress	6,493,660	
Depreciable capital assets and infrastructure, net of \$163,303,444 of accumulated depreciation	<u>166,455,325</u>	
Capital assets, net of accumulated depreciation		202,241,528
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:		
Bonds payable	(97,117,871)	
Accrued interest payable	(2,167,500)	
NMIRF loan payable	(6,950,565)	
Compensated absences payable	(6,733,679)	
Claims and judgments payable	(5,236,931)	
Landfill closure and postclosure costs	<u>(2,672,158)</u>	
Long-term liabilities		<u>(120,878,704)</u>
Net assets of governmental activities		<u>\$ (164,203,893)</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, 2009

	General	Grants Assistance	Special Revenue NMTIT Rebate Trust	Other Governmental Funds	Total
<b>Revenues:</b>					
Taxes	\$ 105,316,061	\$ -	\$ -	\$ 3,510,184	\$ 108,826,245
Federal contributions	-	62,443,423	-	1,915,707	64,359,130
Charges for sales and services	16,564,678	-	-	3,776,306	20,340,984
Licenses and fees	9,979,659	183,611	-	11,719,355	21,882,625
Interest and dividends	386,441	19,788	-	76,291	482,520
Contributions from component units	2,024,863	44,150	-	704,050	2,773,063
Other	3,483,871	3,820,080	-	4,212,752	11,516,703
<b>Total revenues</b>	<b>137,755,573</b>	<b>66,511,052</b>	<b>-</b>	<b>25,914,645</b>	<b>230,181,270</b>
<b>Expenditures:</b>					
<b>Current:</b>					
Health	45,293,807	26,482,766	-	909,089	72,685,662
Public safety and law enforcement	28,303,642	8,211,547	-	618,507	37,133,696
General government	13,023,647	121,899	-	405,370	13,550,916
Community and social services	4,794,650	15,815,352	-	1,216,040	21,826,042
Other elected officials	10,856,124	-	-	149,285	11,005,409
Utilities	5,894,904	305,143	-	-	6,200,047
Lands and natural resources	5,104,607	8,250,274	-	4,663,629	18,018,510
Legislative branch	6,325,273	-	-	27,363	6,352,636
Judicial branch	4,402,671	-	-	-	4,402,671
Education	3,098,476	214,208	-	3,749,279	7,061,963
Economic development	1,217,356	930,971	-	61,435	2,209,762
<b>Payments to:</b>					
Public School System	34,829,776	2,110,000	-	-	36,939,776
Northern Marianas College	4,592,416	330,000	-	1,033,032	5,955,448
Marianas Visitors Authority	6,610,831	-	-	-	6,610,831
Commonwealth Utilities Corporation	1,700,000	-	-	-	1,700,000
Pension (and Other Employee Benefit) Trust Fund	1,331,230	-	-	-	1,331,230
<b>Debt service:</b>					
Principal retirement	-	1,665,000	-	2,591,840	4,256,840
Interest and fiscal charges	-	192,488	-	5,849,955	6,042,443
<b>Capital outlay:</b>					
Utilities - Capital Projects	-	3,598,012	-	-	3,598,012
Public works	5,294,853	1,205,516	-	4,205,685	10,706,054
Other	-	-	-	(1,224)	(1,224)
<b>Total expenditures</b>	<b>182,674,263</b>	<b>69,433,176</b>	<b>-</b>	<b>25,479,285</b>	<b>277,586,724</b>
Excess (deficiency) of revenues over (under) expenditures	(44,918,690)	(2,922,124)	-	435,360	(47,405,454)
<b>Other financing sources (uses):</b>					
Operating transfers in	23,611,306	8,590,935	-	7,133,300	39,335,541
Operating transfers out	(15,403,528)	(12,648,379)	-	(11,283,634)	(39,335,541)
<b>Total other financing sources (uses), net</b>	<b>8,207,778</b>	<b>(4,057,444)</b>	<b>-</b>	<b>(4,150,334)</b>	<b>-</b>
<b>Net change in fund balances (deficit)</b>	<b>(36,710,912)</b>	<b>(6,979,568)</b>	<b>-</b>	<b>(3,714,974)</b>	<b>(47,405,454)</b>
Fund balances (deficit) at beginning of year, as restated (note 17)	(235,872,067)	16,056,768	-	19,910,068	(199,905,231)
<b>Fund balances (deficit) at end of year</b>	<b>\$ (272,582,979)</b>	<b>\$ 9,077,200</b>	<b>\$ -</b>	<b>\$ 16,195,094</b>	<b>\$ (247,310,685)</b>

See accompanying notes to financial statements.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Deficit  
of Governmental Funds to the Statement of Activities  
September 30, 2009

Net change in fund deficit - total governmental funds	\$ (47,405,454)
Add:	
Capital assets purchased that were capitalized	7,594,825
Principal payments on long-term debt	4,256,840
Claims and judgments	1,551,741
Net change in accrued interest payable	74,481
Net change in compensated absences	170,955
Less:	
Amortization of bond premium and deferred costs of bond refunding	(304,672)
Depreciation expense	(10,695,876)
Amortization of bond discount and issuance costs	(72,665)
Provision for landfill closure costs	<u>(381,737)</u>
Change in net assets of governmental activities	<u>\$ (45,211,562)</u>

See accompanying notes to financial statements.

## COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Statement of Fiduciary Net Assets  
Fiduciary Funds  
September 30, 2009

<u>Assets</u>	Pension (and Other Employee Benefit) Trust Fund	Agency Funds
Cash and cash equivalents	\$ 4,087,516	\$ 2,078,661
Receivables:		
Loans	6,950,565	-
Notes	6,875,960	-
Benefits	2,118,451	-
Interest and dividends	887,334	-
Other	1,363,943	-
	<u>18,196,253</u>	<u>-</u>
Due from General Fund	229,765,494	1,377,472
Less allowance for uncollectible receivables	(169,244,528)	-
	<u>60,520,966</u>	<u>1,377,472</u>
Due from Miscellaneous Special Revenue Funds	416,295	-
Prepaid items	5,540	-
Investments, at fair market value:		
Equity securities	191,550,022	-
Corporate debt securities	72,459,045	-
U.S. Government securities	61,110,337	-
Mutual funds	18,314,238	-
Real estate investment trust	937,205	-
Cash equivalents	89,423	-
Money market placements	110,356	-
Others	30,781	-
	<u>344,601,407</u>	<u>-</u>
Restricted assets	126,816	2,509,528
Capital assets	4,174,733	-
Total assets	<u>432,129,526</u>	<u>\$ 5,965,661</u>
<u>Liabilities and Other Credits</u>		
Accounts payable	18,504,053	-
Claims and judgments payable	-	1,377,472
Deposits payable	-	4,588,189
Other liabilities and accruals	2,138,952	-
Due to Judicial Building Fund	364,546	-
Deferred revenue	62,687,082	-
Total liabilities and other credits	<u>83,694,633</u>	<u>\$ 5,965,661</u>
Net assets:		
Held in trust for pension benefits	365,105,684	
Held in trust for medical and life insurance benefits	(17,936,766)	
Held in trust for workers' compensation benefits and other purposes	1,265,975	
Total net assets	<u>\$ 348,434,893</u>	

See accompanying notes to financial statements.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Statement of Changes in Fiduciary Net Assets  
Fiduciary Funds  
Year Ended September 30, 2009

	<u>Pension (and Other Employee Benefit) Trust Fund</u>
<u>Additions</u>	
Contributions:	
Employer	\$ 37,707,841
Employee	11,951,915
Revenues:	
Premiums	42,609
Rent income and other	3,402,982
Total contributions and revenues	<u>53,105,347</u>
Net investment loss:	
Net depreciation in fair value	(12,916,731)
Interest	10,178,585
Total investment loss	<u>(2,738,146)</u>
Less: investment expense	<u>1,891,869</u>
Net investment loss	<u>(4,630,015)</u>
Other financing sources:	
Transfers in	<u>1,232,927</u>
Total additions	<u>49,708,259</u>
<u>Deductions</u>	
Benefits	63,267,057
General and administrative	2,063,441
Bad debts	24,526,498
Refunds	4,841,691
Medical claims	193,722
Total deductions	<u>94,892,409</u>
Change in net assets	<u>(45,184,150)</u>
Net assets at beginning of year	<u>393,619,043</u>
Net assets at end of year	<u>\$ 348,434,893</u>

See accompanying notes to financial statements.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Statement of Net Assets  
Component Units  
September 30, 2009

	Commonwealth Ports Authority	Commonwealth Development Authority	Commonwealth Utilities Corporation	Marianas Public Land Trust	Northern Marianas College	Public School System	Marianas Visitors Authority	Total
<u>Assets</u>								
Current assets:								
Cash and cash equivalents	\$ 3,323,417	\$ 2,216,725	\$ 1,293,159	\$ 20,541,540	\$ 2,863,224	\$ 1,184,881	\$ 37,090	\$ 31,460,036
Time certificates of deposit	-	-	-	-	324,539	-	-	324,539
Receivables, net of allowance for uncollectibles:								
Loans	-	2,644,196	-	-	-	-	-	2,644,196
Notes	-	-	-	356,343	-	-	-	356,343
Federal agencies	3,059,226	-	95,338	-	1,025,823	3,651,389	-	7,831,776
General	3,939,412	89,142	19,621,863	-	1,261,365	-	-	24,911,782
Interest and dividends	-	482,925	-	250,135	-	-	-	733,060
Other	1,571,789	145,241	1,231,517	206,447	-	312,902	24,029	3,491,925
Due from primary government	-	-	-	-	502,605	5,456,635	3,074,432	9,033,672
Inventories	-	-	8,886,715	-	398,420	-	-	9,285,135
Other assets	85,312	23,165	-	24,593	5,514	240,178	5,949	384,711
Restricted assets:								
Cash and cash equivalents	-	5,497,222	8,148,586	-	-	-	-	13,645,808
Time certificates of deposit	-	8,325,255	-	-	-	-	-	8,325,255
Investments	16,006,012	-	-	45,106,102	-	-	-	61,112,114
Total current assets	27,985,168	19,423,871	39,277,178	66,485,160	6,381,490	10,845,985	3,141,500	173,540,352
Noncurrent assets:								
Investments	-	-	-	-	4,855,123	-	-	4,855,123
Receivables:								
Loans, net	-	12,421,357	-	-	-	-	-	12,421,357
Notes	-	-	-	7,607,922	-	-	-	7,607,922
Other	2,642,340	-	-	-	-	-	-	2,642,340
Deferred bond issue costs	1,394,362	-	-	-	-	-	-	1,394,362
Capital assets (net of accumulated depreciation)	191,454,993	11,715,618	89,906,131	333,931	6,299,601	88,403,356	47,000	388,160,630
Foreclosed real estate	-	2,592,885	-	-	-	-	-	2,592,885
Total noncurrent assets	195,491,695	26,729,860	89,906,131	7,941,853	11,154,724	88,403,356	47,000	419,674,619
Total assets	223,476,863	46,153,731	129,183,309	74,427,013	17,536,214	99,249,341	3,188,500	593,214,971
<u>Liabilities and Net Assets</u>								
Current liabilities:								
Accounts payable	3,590,740	977,932	10,561,310	33,173	633,485	577,010	2,228,859	18,602,509
Compensated absences	279,092	-	280,623	-	377,971	500,000	7,739	1,445,425
Due to primary government	1,597,855	387,488	4,217,785	4,430,390	-	-	-	10,633,518
Other liabilities and accruals	2,289,296	1,601,907	11,086,309	239,196	311,147	1,955,378	629,680	18,112,913
Due to Pension (and Other Employee Benefit) Trust Fund	286,706	-	2,740,055	-	-	14,129,770	-	17,156,531
Current portion of notes and bonds payable	1,395,000	122,100	3,367,738	-	42,527	-	-	4,927,365
Current obligations under capital lease	-	-	23,548	-	-	-	-	23,548
Accrued interest payable	450,085	-	-	-	-	-	-	450,085
Deferred revenues	-	794,797	-	-	1,065,184	2,160,993	-	4,020,974
Total current liabilities	9,888,774	3,884,224	32,277,368	4,702,759	2,430,314	19,323,151	2,866,278	75,372,868
Noncurrent liabilities:								
Notes and bonds payable, net of current portion	53,291,700	1,252,143	5,699,709	-	-	-	-	60,243,552
Obligations under preferred stock agreement	-	-	11,309,651	-	-	-	-	11,309,651
Compensated absences, net of current portion	233,796	-	431,886	-	226,693	672,223	136,263	1,700,861
Deferred revenue, net of current portion	-	4,453,078	-	-	-	-	-	4,453,078
Total noncurrent liabilities	53,525,496	5,705,221	17,441,246	-	226,693	672,223	136,263	77,707,142
Total liabilities	63,414,270	9,589,445	49,718,614	4,702,759	2,657,007	19,995,374	3,002,541	153,080,010
Net assets:								
Invested in capital assets, net of related debt	138,162,655	14,308,503	72,759,276	333,931	6,299,601	88,403,356	47,000	320,314,322
Restricted	16,006,012	22,255,783	8,148,586	69,390,323	4,855,123	-	-	120,655,827
Unrestricted	5,893,926	-	(1,443,167)	-	3,724,483	(9,149,389)	138,959	(835,188)
Total net assets	\$ 160,062,593	\$ 36,564,286	\$ 79,464,695	\$ 69,724,254	\$ 14,879,207	\$ 79,253,967	\$ 185,959	\$ 440,134,961

See accompanying notes to financial statements.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Statement of Revenues, Expenses, and Changes in Net Assets  
Components Units  
Year Ended September 30, 2009

	Commonwealth Ports Authority	Commonwealth Development Authority	Commonwealth Utilities Corporation	Marianas Public Land Trust	Northern Marianas College	Public School System	Marianas Visitors Authority	Total
Operating revenues:								
Charges for services and fees	\$ 10,922,391	\$ 3,887,077	\$ 79,996,418	\$ -	\$ 1,629,829	\$ 1,368,328	\$ 62,735	\$ 97,866,778
Grants and contributions	-	6,545,854	-	-	6,702,752	28,706,673	358,860	42,314,139
Other	6,469,395	721,665	-	6,643,905	1,265,224	-	46,521	15,146,710
	17,391,786	11,154,596	79,996,418	6,643,905	9,597,805	30,075,001	468,116	155,327,627
Provision for uncollectible receivables	(14,291)	(1,205,618)	(1,294,566)	-	(81,847)	-	-	(2,596,322)
Total operating revenues	17,377,495	9,948,978	78,701,852	6,643,905	9,515,958	30,075,001	468,116	152,731,305
Operating expenses:								
Cost of services	5,569,953	4,987,493	76,654,308	-	9,389,005	51,095,674	5,627,577	153,324,010
Depreciation and amortization	11,479,589	406,602	8,316,344	18,262	502,264	1,849,869	27,465	22,600,395
Administration	6,814,597	4,718,512	13,917,878	811,958	4,147,377	18,958,651	1,948,655	51,317,628
Total operating expenses	23,864,139	10,112,607	98,888,530	830,220	14,038,646	71,904,194	7,603,697	227,242,033
Operating income (loss)	(6,486,644)	(163,629)	(20,186,678)	5,813,685	(4,522,688)	(41,829,193)	(7,135,581)	(74,510,728)
Nonoperating revenues (expenses):								
Contributions from the primary government	-	-	1,700,000	-	5,657,018	34,601,764	6,610,831	48,569,613
Contributions to the primary government	-	(860,972)	(694,759)	(2,233,331)	-	-	-	(3,789,062)
Gain on debt forgiveness	-	-	177,566,204	-	-	-	-	177,566,204
Unrestricted investment earnings	558,214	14,989	688,860	-	-	-	-	1,262,063
Interest expense	(3,462,247)	(93,440)	(957,723)	-	-	-	-	(4,513,410)
Amortization of bond issue cost	(66,935)	-	-	-	-	-	-	(66,935)
Other expenses	-	(371,694)	(788,730)	-	-	-	-	(1,160,424)
Other revenues	1,742,877	212,900	-	-	406,226	-	-	2,362,003
Nonoperating revenues (expenses), net	(1,228,091)	(1,098,217)	177,513,852	(2,233,331)	6,063,244	34,601,764	6,610,831	220,230,052
Income (loss) before capital contributions	(7,714,735)	(1,261,846)	157,327,174	3,580,354	1,540,556	(7,227,429)	(524,750)	145,719,324
Capital contributions	11,726,682	-	7,306,070	-	-	43,740	-	19,076,492
Change in net assets	4,011,947	(1,261,846)	164,633,244	3,580,354	1,540,556	(7,183,689)	(524,750)	164,795,816
Net assets - beginning, as restated	156,050,646	37,826,132	(85,168,549)	66,143,900	13,338,651	86,437,656	710,709	275,339,145
Net assets - ending	\$ 160,062,593	\$ 36,564,286	\$ 79,464,695	\$ 69,724,254	\$ 14,879,207	\$ 79,253,967	\$ 185,959	\$ 440,134,961

See accompanying notes to financial statements.

# COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2009

## (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 financial statements to be misleading or incomplete. The net assets and results of operations of the following legally separate entities are presented as part of the CNMI's operations:

#### 1. Blended Component Units

Blended component units are entities that are legally separate from the CNMI, but are so related to the CNMI that they are, in substance, the same as the CNMI or entities providing services entirely or almost entirely to the CNMI.

- (a) The Northern Mariana Islands Retirement Fund (NMIRF), a Fiduciary Fund Type - Pension (and Other Employee Benefit) Trust Fund, exists to provide retirement security and other benefits to government employees, their spouses and dependents, former Governors and Lieutenant Governors, and to provide for an actuarially sound, locally funded pension system within the CNMI. NMIRF is governed by a seven-member Board of Trustees appointed by the Governor.
- (b) The Northern Mariana Islands Government Health and Life Insurance Trust Fund (GHLITF), a Fiduciary Fund Type - Pension (and Other Employee Benefit) Trust Fund, is responsible for administering the life and health insurance programs for CNMI government employees. The Board of Trustees of the Northern Mariana Islands Retirement Fund administers GHLITF. The GHLITF health benefit administration was privatized on November 1, 2007.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2009

(1) Summary of Significant Accounting Policies, Continued

A. Reporting Entity, Continued

1. Blended Component Units, Continued

- (c) The CNMI Workers' Compensation Commission (WCC), a Fiduciary Fund Type - Pension (and Other Employee Benefit) Trust Fund, is responsible for the payment of compensation to workers who are not adequately covered under their employer's insurance policy. The Board of Trustees of the Northern Mariana Islands Retirement Fund administers WCC.

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

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

Northern Mariana Islands Government Health  
and Life Insurance Trust Fund  
P.O. Box 501247  
Saipan, MP 96950-1247

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

2. Discretely Presented Component Units

Discretely presented component units are entities which are legally separate from the CNMI, but are financially accountable to the CNMI, or whose relationships with the CNMI are such that exclusion would cause the CNMI's financial statements to be misleading or incomplete. The Component Units' column of the basic financial statements includes the financial data of the following entities:

- (a) 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.
- (b) 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 six-member Board of Directors appointed by the Governor.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2009

(1) Summary of Significant Accounting Policies, Continued

A. Reporting Entity, Continued

2. Discretely Presented Component Units, Continued

- (c) The Commonwealth Utilities Corporation (CUC) is responsible for supervising the construction, maintenance operations and regulation of all utility services within the CNMI. CUC is governed by a six-member Board of Directors appointed by the Governor.
- (d) The Marianas Public Land Trust (MPLT) manages all monies received by it from the CNMI Division 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.
- (e) The Northern Marianas College (NMC) serves as the state education 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.
- (f) The Public School System (PSS) is responsible for supervising preschool, elementary and secondary education programs in the CNMI. PSS is governed by a five-member Board of Education elected at large.
- (g) The Marianas Visitors Authority (MVA) is responsible for the promotion and development of the tourism industry in the CNMI. It is governed by a fourteen-member Board of Directors, nine of which are appointed by the Governor with the remaining five coming from specified industry groups within the CNMI.

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2009

(1) Summary of Significant Accounting Policies, Continued

A. Reporting Entity, Continued

2. Discretely Presented Component Units, Continued

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

Each blended and discretely presented component unit has a September 30 year end.

3. Omitted Component Unit

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

4. 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 Assets 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.

# COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2009

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

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

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

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

The government-wide Statement of Net Assets reports \$14,039,212 of restricted net assets, of which \$8,885,926 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.

# COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2009

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

### D. Measurement Focus and Basis of Accounting

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.

*Governmental Funds* - 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 60 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 12 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.

The CNMI reports the following fund types:

#### 1. Governmental Fund Types

##### i. General Fund

This fund is the CNMI's primary operating fund. It accounts for all financial transactions not accounted for in any other fund.

##### ii. Special Revenue Funds

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2009

(1) Summary of Significant Accounting Policies, Continued

D. Measurement Focus and Basis of Accounting, Continued

1. Governmental Fund Types, Continued

iii. Capital Projects Funds

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.

iv. Debt Service Funds

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

2. Fiduciary Funds Types

i. Pension (and Other Employee Benefit) Trust Fund

These funds are used to account for assets held by the CNMI as trustee. The Pension (and Other Employee Benefit) Trust Fund are accounted for on the accrual basis of accounting. This fund combines the NMIRF, GHLITF and WCC and is detailed in the combining statement.

ii. Agency Fund

These funds are normally used to account for assets held by a government as an agent for individuals, private organizations, or other governments and/or other funds. Agency funds are purely custodial (assets equal liabilities) and thus do not involve measurement of results of operations.

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

- Grants Assistance Fund, a Governmental Fund Type - Capital Projects Fund/Special Revenue Fund. This fund accounts for all financial transactions related to grants received from various U.S. departments. This fund combines the DOI Capital Projects Fund, a Governmental Fund Type - Capital Projects Fund and Federal Grants Fund, a Governmental Fund Type - Special Revenue Fund and is detailed in the combining statements.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2009

(1) Summary of Significant Accounting Policies, Continued

D. Measurement Focus and Basis of Accounting, Continued

- NMTIT Rebate Trust, a Governmental Fund Type - Special Revenue Fund. This fund was established to account for at least 75% of amounts paid to the CNMI with respect to taxes. Amounts may be withdrawn from the trust fund only for the purpose of making rebates, payments into the general fund (but only after a final determination that the amount in question is not validly subject to rebate), or payments into the general fund of interest derived from the trust accounts. Although the fund does not record revenues and expenditures, the CNMI has taken the position that tax payments received constitute revenue sources and the fund meets the definition of a special revenue fund.

GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, requires that proprietary activities apply all applicable GASB pronouncements as well as Statements and Interpretations issued by the Financial Accounting Standards Board (FASB), Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedures issued on or before November 30, 1989. For all discretely presented component units, the CNMI applies GASB Statement No. 20, unless FASB pronouncements conflict with or contradict GASB pronouncements, and has elected not to apply FASB Statements and Interpretations issued after November 30, 1989.

E. Program and Other Revenue Recognition

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.

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.

F. 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, 2009, 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, 2009

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

### G. 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 assets/balance sheet.

### H. 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".

### I. 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.

### J. 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 assets. Interfund receivables and payables have been eliminated from the statement of net assets.

### K. 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, 2009

(1) Summary of Significant Accounting Policies, Continued

L. Inventories

Inventories are stated at the lower of cost or market using the first-in/first-out (FIFO) method. Inventories of the Commonwealth Health Center in the General Fund are offset by a fund balance reserve for supplies inventory, totaling \$1,413,239, as they do not represent resources available for appropriation.

Food stamp balances held at year end are recorded as inventories based on face value. Inventories reported in the Grants Assistance Fund of \$767,200 are offset by deferred revenues.

M. Capital Assets and Depreciation

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

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

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

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

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

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

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

N. Net Assets

The CNMI reports net assets 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, 2009

(1) Summary of Significant Accounting Policies, Continued

N. Net Assets, Continued

Net Assets have 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.

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

O. 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, 2009. However, the CNMI has estimated the aggregate assessed valuation of real property to be \$1,596,236,822 as of September 30, 2009. This estimation was based on the 1995 CNMI Mid-Decade Census.

P. 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 assets with amounts to be paid during the next fiscal year reported as current. The liability as of September 30, 2009, is \$6,733,679.

Annual leave accumulates at the rate of thirteen working days for each year of service for up to three years of service, 19.5 working days for each year of service for three to six years of service, and 26 working days for each year of service for more than six years of service. Accrued annual leave is limited to 45 working days, with any amounts over 45 days transferred to sick leave.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2009

(1) Summary of Significant Accounting Policies, Continued

Q. Deferred Revenues

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

R. Bond Premiums, Discounts and Issuance Costs

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

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

S. 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 in the Rebate Trust Fund and as a 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.

Movements in income taxes and wage and salary taxes for the year ended September 30, 2009, are as follows:

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2009

(1) Summary of Significant Accounting Policies, Continued

S. Income Taxes and Wage and Salary Taxes, Continued

Total income tax and wage and salary tax collections	\$ 51,330,082
Transfers to Rebate Trust Fund	<u>21,714,001</u>
Income taxes and wage and salary taxes per the statement of activities	\$ <u>29,616,081</u>

T. Fund Equity

Reserves represent those portions of fund equity not appropriable for expenditure or which are legally segregated for a specific future use or not expected to be realized in cash during the ensuing year. The unreserved fund balances for governmental funds represent the amount available for budgeting future operations.

The reserve for related assets as of September 30, 2009, is represented by the following assets:

	<u>General</u>	<u>Grant Assistance</u>	<u>Other Governmental</u>	<u>Total</u>
Restricted cash and cash equivalents	\$ 16,973,978	\$ 4,842,017	\$ 3,328,043	\$ 25,144,038
Restricted time certificate of deposits	-	-	1,961,090	1,961,090
Investments	<u>2,500,000</u>	-	-	<u>2,500,000</u>
	\$ <u>19,473,978</u>	\$ <u>4,842,017</u>	\$ <u>5,289,133</u>	\$ <u>29,605,128</u>

At September 30, 2009, a reserve for land claims of \$1,922 was recorded in the General Fund representing the undistributed proceeds of land settlement claims administered by the Department of Public Lands.

At September 30, 2009, other reserve of \$2,672,158 was recorded in the Other Governmental Funds for estimated landfill closure and postclosure costs for the Marpi landfill.

U. Interfund Transactions

Quasi-external transactions are accounted for as revenues, expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund, are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed. All other interfund transactions, except quasi-external transactions and reimbursements, are reported as transfers. Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

V. New Accounting Standards

During fiscal year 2009, the CNMI implemented the following pronouncements:

- GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, which provides guidance and consistency under which a governmental entity would be required to report a liability related to pollution remediation.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2009

(1) Summary of Significant Accounting Policies, Continued

V. New Accounting Standards, Continued

- GASB Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*, which improves the quality of financial reporting by requiring endowments to report their land and other real estate investments at fair value, creating consistency in reporting among similar entities that exist to invest resources for the purpose of generating income.
- GASB Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, which improves financial reporting by contributing to the GASB's efforts to codify all GAAP for state and local governments so that they derive from a single source.
- GASB Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards*, which incorporates accounting and financial reporting guidance previously only contained in the American Institute of Certified Public Accountants (AICPA) auditing literature into the GASB's accounting and financial reporting literature for state and local governments, and addresses three issues from the AICPA's literature - related party transactions, going concern considerations, and subsequent events.

The implementation of these pronouncements did not have a material effect on the accompanying financial statements.

In June 2007, GASB issued statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, which addresses whether and when intangible assets should be considered capital assets for financial reporting purposes. The provisions of this statement are effective for periods beginning after June 15, 2009. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the CNMI.

In June 2008, GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, which is intended to improve how state and local governments report information about derivative instruments - financial arrangements used by governments to manage specific risks or make investments - in their financial statements. The provisions of this statement are effective for periods beginning after June 15, 2009. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the CNMI.

In December 2008, GASB issued Technical Bulletin No. 2008-1, *Determining the Annual Required Contribution Adjustment for Postemployment Benefits*, which clarifies the requirements of GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, for calculating the annual required contribution (ARC) adjustment. The provisions of this statement are effective for periods beginning after December 15, 2008. 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, 2009

(1) Summary of Significant Accounting Policies, Continued

V. New Accounting Standards, Continued

In March 2009, GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. The provisions of this statement are effective for periods beginning after June 15, 2010. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the CNMI.

W. 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 tax rebate 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 any disputes or claims.

X. Landfill

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 \$2,672,158 liability reported as landfill closure and postclosure costs at September 30, 2009 within the accompanying financial statements, represents the cumulative amount reported based on capacity used. This amount is based on what it would cost to perform all closure and post closure care in 2009. Actual cost may be higher due to inflation, changes in technology or changes in regulations.

Y. 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, 2008 from which summarized information was derived.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2009

(2) Deposits and Investments

GASB Statement No. 40 addresses common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk and foreign currency risk. As an element of interest rate risk, disclosure is required of investments that have fair values that are highly sensitive to changes in interest rates. GASB Statement No. 40 also requires disclosure of formal policies related to deposit and investment risks.

Cash and Cash Equivalents and Time Certificates of Deposit

GASB Statement No. 3 previously required government entities to present deposit risks in terms of whether the deposits fell into the following categories:

- Category 1 Deposits that are federally insured or collateralized with securities held by the CNMI or its agent in the CNMI's name;
- Category 2 Deposits that are uninsured but fully collateralized with securities held by the pledging financial institution's trust department or agent in the CNMI's name; or
- Category 3 Deposits that are collateralized with securities held by the pledging financial institution's trust department or agent but not in the CNMI's name and non-collateralized deposits.

GASB Statement No. 40 amended GASB Statement No. 3 to in effect eliminate disclosure for deposits falling into categories 1 and 2 but retained disclosures for deposits falling under category 3. Category 3 deposits are those deposits that have exposure to custodial credit risk. Custodial credit risk is the risk that in the event of a bank failure, the CNMI's deposits may not be returned to it. Such deposits are not covered by depository insurance and are either uncollateralized or collateralized with securities held by the pledging financial institution or held by the pledging financial institution but not in the depositor-government's name. The CNMI does not have a deposit policy for custodial credit risk.

As of September 30, 2009, the carrying amount of the primary government's total cash and cash equivalents and time certificates of deposit were \$34,133,491 and the corresponding bank balances were \$34,820,661. Of the bank balance amounts, \$25,916,243 is maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. The remaining amount of \$5,747,430 represents short-term investments held and administered by the CNMI's trustees in accordance with various trust agreements and bond indentures and \$3,156,988 represents amounts maintained in a non-FDIC insured bank. 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, 2009. As of September 30, 2009, bank deposits in the amount of \$750,000 were FDIC insured. Public Law No. 12-61, the Government Deposit Safety Act of 1994, as amended, governs the general deposit policies of the CNMI and requires that all deposits of public funds made by the CNMI are to be collateralized by U.S. Government obligations at the rate of 100% of the corresponding bank deposit. Compliance with Public Law No. 12-61 as of September 30, 2009, is presently not determinable. Accordingly, these deposits are exposed to custodial credit risk.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2009

(2) Deposits and Investments, Continued

Cash and Cash Equivalents and Time Certificates of Deposit, Continued

Restricted cash and cash equivalents and time certificates of deposit as of September 30, 2009 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, 2009 amounted to \$31,198,340.

As of September 30, 2009, the carrying amount of the Fiduciary Fund's total cash and cash equivalents were \$6,166,177 and the corresponding bank balances were \$6,183,333, which are maintained in financial institutions subject to FDIC insurance. As of September 30, 2009, bank deposits in the amount of \$683,416 were FDIC insured. The Northern Mariana Islands Retirement Fund (NMIRF) has a legal requirement to collateralize amounts in excess of insurable limits. At September 30, 2009, approximately \$2,772,070 of NMIRF's cash and cash equivalents are collateralized with their bank's securities.

As of September 30, 2009, the carrying amount of the discretely presented component units' total cash and cash equivalents and time certificates of deposit were \$53,755,638 and the corresponding bank balances were \$54,995,704. Of the bank balance amounts, \$34,674,906 is maintained in financial institutions subject to FDIC insurance and \$18,292 represents amounts maintained in a non-FDIC insured bank. The remaining amount of \$20,302,506 represents amount held and administered by the discretely presented components units' investment manager subject to Securities Investor Protection Corporation Insurance. As of September 30, 2009, bank deposits in the amount of \$2,947,346 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

GASB Statement No. 3 previously required government entities to present investment risks in terms of whether the investments fell into the following categories:

- |            |  |
|------------|--|
| Category 1 | Investments that are insured or registered, or securities held by the CNMI or its agent in the CNMI's name;  |
| Category 2 | Investments that are uninsured and unregistered for which the securities are held by the counterparty's trust department or agent in the CNMI's name; or   |
| Category 3 | Investments that are uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the CNMI's name. |

# COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

## Notes to the Financial Statements September 30, 2009

### (2) Deposits and Investments, Continued

#### Investments, Continued

GASB Statement No. 40 amended GASB Statement No. 3 to in effect eliminate disclosure for investments falling into categories 1 and 2, and provided for disclosure requirements addressing other common risks of investments such as credit risk, interest rate risk, concentration of credit risk, and foreign currency risk. GASB Statement No. 40 did retain and expand the element of custodial credit risk in GASB Statement No. 3.

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

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

Custodial credit risk for investments is the risk that in the event of the failure of the counterparty to the transaction, the CNMI will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The CNMI's investments are held and administered by trustees in accordance with various bond indentures for the purpose of funding various capital projects, land settlement claims and future debt service requirements. Based on negotiated trust and custody contracts, all of these investments were held in the CNMI's name by the CNMI's custodial financial institutions at September 30, 2009.

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, 2009, the General Fund holds 17% and 11% of the shares of the Pacific Islands Development Bank and the United Micronesia Development Association, Inc. in the amount of \$1,000,000 and \$1,500,000, respectively. As the fair market value of these investments is not readily available, such have been recorded at cost.

#### B. Fiduciary Funds

Northern Mariana Islands Retirement Fund (NMIRF):

NMIRF's investments are held by a bank-administered trust company. Investments that represent 5% or more of NMIRF's assets at September 30, 2009 are equity securities of \$191,550,022, U.S. government securities of \$61,110,337 and corporate debt instruments of \$72,459,045.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2009

(2) Deposits and Investments, Continued

Investments, Continued

B. Fiduciary Funds, Continued

Northern Mariana Islands Retirement Fund (NMIRF), Continued:

As of September 30, 2009, NMIRF's investment breakdown is as follows:

<u>Investment Type</u>	<u>Carrying Value</u>		<u>Total</u>
	<u>DB Plan</u>	<u>DC Plan</u>	
Investments categorized:			
U.S. Treasury STRIPS	\$ 35,336,322	\$ -	\$ 35,336,322
U.S. Treasuries	3,679,306	-	3,679,306
U.S. Government Agencies	417,287	-	417,287
Mortgage pass throughs	21,677,422	-	21,677,422
Collateralized mortgage obligations	3,690,676	-	3,690,676
Domestic corporate bonds	22,055,667	-	22,055,667
Foreign corporate bonds	46,712,702	-	46,712,702
Domestic stocks (common, preferred, ADRs)	126,899,760	-	126,899,760
Foreign stocks	<u>64,650,262</u>	<u>-</u>	<u>64,650,262</u>
Total categorized	<u>325,119,404</u>	<u>-</u>	<u>325,119,404</u>
Investments not categorized:			
Money market funds	6,051,649	-	6,051,649
Mutual bond funds	-	11,630,272	11,630,272
Real estate investment trust	937,205	-	937,205
Cash equivalents	89,423	-	89,423
Others	<u>110,356</u>	<u>-</u>	<u>110,356</u>
Total not categorized	<u>7,188,633</u>	<u>11,630,272</u>	<u>18,818,905</u>
Total investments held outside the State Treasury	<u>\$ 332,308,037</u>	<u>\$ 11,630,272</u>	<u>\$ 343,938,309</u>

Credit Risk

NMIRF utilizes external investment managers to manage its portfolios. NMIRF's investment policy for its DB Plan specifies the following regarding fixed income investments held in its portfolio:

- All fixed income securities shall have a Moody's, Standard and Poor's and/or Fitch credit quality rating of no less than BBB.
- The exposure of the portfolio to any one company, other than securities of the U.S. government, shall not exceed 5% of the market value of the portfolio under management by each investment manager.
- Each fixed income portfolio of each investment manager shall be suitably diversified as to any single issuer or class of issuer so that an adversity affecting a particular issuer or sector will not impact a substantial share of the total portfolio.
- NMIRF's portfolios per investment managers are regularly reviewed to ensure compliance to abovementioned requirements.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2009

(2) Deposits and Investments, Continued

Investments, Continued

B. Fiduciary Funds, Continued

Northern Mariana Islands Retirement Fund (NMIRF), Continued:

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates that will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that NMIRF manages its exposure to interest rate risk is by purchasing a combination of shorter-term and longer-term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

Summarized below are NMIRF's fixed income investments and their maturities:

Investment Type	Fair Value	Investment Maturities (In Years)				Credit Rating
		Less Than 1	1 - 5	6 - 10	More Than 10	
U.S. Treasury STRIPS	\$ 35,336,322	\$ 825,580	\$ 14,044,358	\$ 8,590,888	\$ 11,875,496	AAA
U.S. Treasuries	3,679,306	-	-	2,344,808	1,334,498	AAA
Mortgage pass through Collateralized mortgage obligations	21,677,422 3,690,676	- -	375,591	192,964	3,122,121	Aaa/AAA
Domestic corporate bonds	22,055,667	1,207,657	10,347,847	5,050,293	5,449,870	Aa/AA/A/Baa/BBB
U.S. Agencies	417,287	-	221,021	-	196,266	Aaa/AAA
	<u>\$ 86,856,680</u>	<u>\$ 2,033,237</u>	<u>\$ 24,988,817</u>	<u>\$ 19,578,180</u>	<u>\$ 40,256,446</u>	

Figures were from NMIRF's fixed income portfolio managed by external investment managers.

Securities Lending

CNMI statutes permit NMIRF to participate in securities lending transactions, and NMIRF has, pursuant to a Securities Lending Authorization Agreement, authorized an agent in lending NMIRF's securities to broker-dealers and banks pursuant to a form of loan agreement. During the year ended September 30, 2009, the agent loaned, on behalf of NMIRF, securities, including U.S. government obligations, domestic corporate bonds, and domestic and international equities, held by agent as custodian and received, as collateral, United States and foreign currency cash, securities issued or guaranteed by the United States government, sovereign debt of foreign countries and irrevocable bank letters of credit. The agent does not have the ability to pledge or sell collateral securities absent borrower default. Borrowers delivered collateral for each loan equal to 125% of the fair value of the loaned securities. In accordance with GASB Statement No. 28, securities lending collateral reported in the statement of plan net assets represented only cash collateral invested in the lending agent's cash collateral investment pool.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2009

(2) Deposits and Investments, Continued

Investments, Continued

B. Fiduciary Funds, Continued

Northern Mariana Islands Retirement Fund (NMIRF), Continued:

Securities Lending Collateral Interest Rate Risk

Cash collaterals from loans of securities are reinvested by the investment manager. A duration mismatch between loan and reinvestment is limited to a conservative maximum of fifteen days.

Securities loaned are covered by a contractual indemnification against broker default, that is, if a broker fails to return loaned securities when required, the investment manager will, within two business days, and at its expense, either replace the loaned securities or credit NMIRF for the market value of the unreturned loaned securities determined as of the close of business on the date the securities should have been returned.

Concentration of Credit

As of September 30, 2009, NMIRF had no single issuer that exceeds 5% of total investments. Investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools, and other pooled investments are excluded.

Custodial Credit Risk

As of September 30, 2009, 100% of NMIRF's investments were held in NMIRF's name, and NMIRF is not exposed to custodial credit risk related to these investments.

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit.

NMIRF's investments in foreign currency is comprised of international investment proceeds and income to be repatriated into U.S. dollars and funds available to purchase international securities. Foreign currency is not held as a form of investment. Foreign currency is held for less than thirty days in foreign accounts until it can be repatriated or expended.

Derivatives

NMIRF's investment policy allows investment managers to use derivative instruments for certain purposes and within certain parameters. Such instruments include currency contracts, including futures and forward contracts, to hedge foreign currency exposure into U.S. dollars. Leverage may not be used and an investment manager may not hedge more than 25% of the value of the non US assets managed by such investment manager.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2009

(2) Deposits and Investments, Continued

Investments, Continued

B. Fiduciary Funds, Continued

Workmen's Compensation Commission (WCC):

WCC's investments are held by a bank administered trust company. Investments that represent 30% of WCC's total assets at September 30, 2009 are as follows:

Stock mutual fund	\$ 453,757
Mutual bond funds	178,560
Money market placements	<u>30,781</u>
	<u>\$ 663,098</u>

The following is a listing of WCC's fixed income securities at September 30, 2009:

Investment Type	Fair Value	Investment Maturities (In Years)				Credit Rating
		Less Than 1	1 - 5	6 - 10	More Than 10	
Mutual bond funds	\$ <u>178,560</u>	\$ <u>-</u>	\$ <u>178,560</u>	\$ <u>-</u>	\$ <u>-</u>	Unrated

C. Discretely Presented Component Units

Commonwealth Ports Authority (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, 2009. As of September 30, 2009, investments at fair value consist of investments in U.S. Government money market placements amounting to \$16,006,012.

Marianas Public Land Trust (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, 2009.

As of September 30, 2009, investments at fair value are as follows:

Fixed income securities:	
Domestic fixed income	\$ 25,280,616
Other investments:	
Domestic equities	<u>19,825,486</u>
	<u>\$ 45,106,102</u>

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2009

(2) Deposits and Investments, Continued

Investments, Continued

C. Discretely Presented Component Units, Continued

Marianas Public Land Trust (MPLT), Continued:

The following is a listing of MPLT's fixed income securities at September 30, 2009:

Investment Type	Fair Value	Investment Maturities (In Years)				Credit Rating
		Less Than 1	1 - 5	6 - 10	More Than 10	
Mortgage and asset backed securities	\$ 2,579,341	\$ -	\$ 1,344,575	\$ -	\$ 1,234,766	AAA
Mortgaged and asset backed securities	8,530,314	-	2,705	668,023	7,859,586	No rating
Government and Government Sponsored Entity (GSE) Bonds	1,722,508	-	213,498	1,016,903	492,107	AAA
Corporate bonds	123,985	-	-	123,985	-	AAA
Corporate bonds	410,467	-	5,801	27,299	377,367	AA
Corporate bonds	457,779	-	457,779	-	-	AA+
Corporate bonds	284,672	-	-	10,810	273,862	AA-
Corporate bonds	4,326,421	-	2,010,349	1,576,990	739,082	A
Corporate bonds	1,793,433	-	978,783	340,744	473,906	A+
Corporate bonds	3,323,085	-	1,559,729	1,501,437	261,919	A-
Corporate bonds	524,387	-	323,657	86,788	113,942	BBB
Corporate bonds	927,852	-	344,512	280,312	303,028	BBB+
Corporate bonds	<u>276,372</u>	<u>-</u>	<u>276,372</u>	<u>-</u>	<u>-</u>	BBB-
	\$ <u>25,280,616</u>	\$ <u>-</u>	\$ <u>7,517,760</u>	\$ <u>5,633,291</u>	\$ <u>12,129,565</u>	

Northern Marianas College (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, 2009.

As of September 30, 2009, investments at fair value are as follows:

Fixed income securities:	
Domestic fixed income	\$ 2,086,311
International fixed income	<u>137,316</u>
	<u>2,223,627</u>
Other investments:	
Domestic equities	2,074,165
Other	<u>557,331</u>
	<u>2,631,496</u>
	\$ <u>4,855,123</u>

The following is a listing of NMC's fixed income securities at September 30, 2009:

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2009

(2) Deposits and Investments, Continued

Investments, Continued

C. Discretely Presented Component Units, Continued

Northern Marianas College (NMC), Continued:

Investment Type	Fair Value	Investment Maturities (In Years)				Credit Rating
		Less Than 1	1 - 5	6 - 10	More Than 10	
Mortgage and asset backed securities	\$ 408,071	\$ -	\$ 20,707	\$ -	\$ 387,364	AAA
International bonds	28,239	-	-	-	28,239	AA-
International bonds	81,100	-	54,280	-	26,820	A-
International bonds	27,977	-	-	27,977	-	BBB+
Corporate bonds	25,318	-	25,318	-	-	AA+
Corporate bonds	82,368	-	27,026	-	55,342	AA
Corporate bonds	27,680	-	27,680	-	-	AA-
Corporate bonds	80,268	-	55,014	25,254	-	A+
Corporate bonds	145,478	-	52,999	92,479	-	A
Corporate bonds	29,115	-	-	-	29,115	A-
Corporate bonds	164,903	-	26,431	54,388	84,084	BBB+
Corporate bonds	64,483	-	64,483	-	-	BBB
Corporate bonds	84,408	-	-	33,821	50,587	BBB-
Government and GSE bonds	<u>974,219</u>	<u>123,595</u>	<u>358,217</u>	<u>388,890</u>	<u>103,517</u>	AAA
	\$ <u>2,223,627</u>	\$ <u>123,595</u>	\$ <u>712,155</u>	\$ <u>622,809</u>	\$ <u>765,068</u>	

(3) Receivables

Governmental Funds

Receivables as of September 30, 2009, for the primary government's individual major governmental funds and nonmajor governmental funds in the aggregate, including allowances for uncollectible accounts, are as follows:

	General	Grants Assistance	NMTIT Rebate Trust	Other Governmental Funds	Totals
Receivables:					
Federal agencies	\$ 4,006,914	\$ 18,085,634	\$ 4,467,611	\$ 1,332,561	\$ 27,892,720
Other agencies	133,292,722	-	-	-	133,292,722
Taxes	12,546,046	-	47,154	-	12,593,200
General	1,934,625	12,831	-	15,501,064	17,448,520
Other	-	-	-	1,313,010	1,313,010
Gross receivables	151,780,307	18,098,465	4,514,765	18,146,635	192,540,172
Less allowance for uncollectibles	(134,789,927)	(10,794,522)	-	(15,361,130)	(160,945,579)
Net receivables	\$ <u>16,990,380</u>	\$ <u>7,303,943</u>	\$ <u>4,514,765</u>	\$ <u>2,785,505</u>	\$ <u>31,594,593</u>

Receivables are primarily due from businesses and individuals residing in the CNMI. The allowance for uncollectibles primarily represents estimated uncollectible amounts that are determined based upon past collection experience and aging of the accounts.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2009

(3) Receivables, Continued

Fiduciary Funds

Receivables as of September 30, 2009, for individual major fiduciary funds, including allowances for uncollectible accounts, are as follows:

	<u>NMIRF</u>	<u>GHLIFE</u>	<u>WCC</u>	<u>Totals</u>
Receivables:				
Contributions	\$ 25,216,810	\$ -	\$ -	\$ 25,216,810
Loans	6,950,565	-	-	6,950,565
Notes	6,875,960	-	-	6,875,960
Benefits	1,318,444	-	800,007	2,118,451
Interest and dividends	879,309	-	-	879,309
Other	<u>1,365,985</u>	<u>50</u>	<u>5,933</u>	<u>1,371,968</u>
Gross receivables	42,607,073	50	805,940	43,413,063
Less allowance for uncollectibles	<u>(25,216,810)</u>	<u>-</u>	<u>-</u>	<u>(25,216,810)</u>
Net receivables	\$ <u>17,390,263</u>	\$ <u>50</u>	\$ <u>805,940</u>	\$ <u>18,196,253</u>

Contributions receivable of \$25,216,810 recorded by the NMIRF represent amounts owed to the NMIRF for employer contributions from various CNMI autonomous agencies. At September 30, 2009, a corresponding allowance for uncollectible contribution receivables of \$25,216,810 is recorded by the NMIRF.

The loans receivable of \$6,950,565 recorded by the NMIRF represent receivables from the CNMI pursuant to a loan agreement entered into in February 28, 1995. The loan is for a period of twenty years, with interest rate at 7.75% and payable in monthly installments of \$120,000.

The notes receivable recorded by the NMIRF includes \$5,251,735 loan receivables under the NMIRF's Member Home Loan Program (MHLP). The MHLP was created through Public Law 6-17 which authorized up to 40% of NMIRF's assets to be made available to the program. Borrowings are restricted to the construction, purchase, and improvement of principal residence or refinancing of existing mortgages on a member's home. NMIRF can lend amounts ranging \$5,000 to \$150,000 at interest rates of 8.5% to 9% per annum. The remaining notes receivable of \$1,624,225 represents receivables from the Commonwealth Government Employees' Credit Union (CGECU). The note is for a period of thirty years beginning October 12, 1995 and bears interest at an initial rate of 8% per annum and adjusted at a rate that is at least equal to the actuarially assumed rate of return on NMIRF's plan assets. For the fiscal year ended September 30, 2009, the interest rate is at 7.5%.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2009

(3) Receivables, Continued

Discretely Presented Component Units

Receivables as of September 30, 2009 for individual major discretely presented component units, including allowances for uncollectible accounts are as follows:

	CPA	CDA	CUC	MPLT	NMC	PSS	MVA	Totals
Receivables:								
Loans	\$ -	\$ 51,258,944	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 51,258,944
Notes	-	-	-	12,279,421	-	-	-	12,279,421
Federal agencies	3,059,226	-	95,338	-	1,025,823	3,651,389	-	7,831,776
General	5,205,576	89,142	35,146,787	-	3,370,868	-	-	43,812,373
Interest and dividends	-	25,171,402	-	250,135	-	-	-	25,421,537
Other	4,214,129	145,241	1,231,517	206,447	-	312,902	24,029	6,134,265
Gross receivables	12,478,931	76,664,729	36,473,642	12,736,003	4,396,691	3,964,291	24,029	146,738,316
Less allowance for uncollectibles	(1,266,164)	(60,881,868)	(15,524,924)	(4,315,156)	(2,109,503)	-	-	(84,097,615)
Net receivables	\$ <u>11,212,767</u>	\$ <u>15,782,861</u>	\$ <u>20,948,718</u>	\$ <u>8,420,847</u>	\$ <u>2,287,188</u>	\$ <u>3,964,291</u>	\$ <u>24,029</u>	\$ <u>62,640,701</u>

Commonwealth Development Authority

The loans receivable recorded by CDA consists of the following:

DCD economic development loans for commercial purposes. Loans are 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%, marine and agriculture loans bear interest at 4.5%, commercial development loans bear interest at 7% to 9%, and microloans bear interest at 7% to 12%. In October 2007, CDA initiated a "Debt Relief Program" which provides for reduction of interest to two percent and extension of term for an additional thirty years with a mandated three year callable provision where warranted and justified. \$ 36,681,855

NMHC housing loans. NMHC makes 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%. 8,773,479

DBD loans 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 are used for the Saipan Harbor Project. Beginning January 2008, principal and interest payments have been deferred for five years and two years, respectively. 5,803,610

\$ 51,258,944

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2009

(3) Receivables, Continued

Discretely Presented Component Units, Continued

Marianas Public Land Trust

The notes receivable recorded by MPLT consists of the following:

Note receivable (Home Loan Program) from various individuals obtained through a settlement agreement with NMHC dated December 31, 2007, bearing interest from 5.5% to 8.5% (2% beginning January 1, 2009) and terms from ten to thirty years.	\$ 8,962,022
Note receivable from Adelantun Publickun Luta Enteramente, Incorporated (APLE 501, Inc.), bearing 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.	143,156
Note receivable from CUC, bearing interest at 7%, due in full on August 4, 2011. Public Law 16-7 was enacted in July 2008 which earmarks future MPLT revenues as security on the note. Interest is due in equal monthly installments.	1,800,000
Note receivable from CDA, bearing 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.	<u>1,374,243</u>
	<u>\$ 12,279,421</u>

(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, 2009 are summarized as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Nonmajor governmental	\$ 2,001,355
Grants Assistance	General	5,155,090
General	Grants Assistance	3,666,614
NMTIT Rebate Trust	General	34,519,956
Nonmajor governmental	General	12,734,620
Agency	General	1,377,472
Nonmajor governmental	Nonmajor governmental	<u>830,174</u>
		<u>\$ 60,285,281</u>

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2009

(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, 2009 are summarized as follows:

<u>Due From</u>	<u>Due To</u>	<u>Amount</u>
General	Marianas Public Land Trust	\$ 4,413,561
Nonmajor governmental	Marianas Public Land Trust	16,829
Nonmajor governmental	Commonwealth Development Authority	<u>219,047</u>
		\$ <u>4,649,437</u>
Public School System (PSS)	General	\$ 3,932,187
Northern Marianas College	General	427,244
Marianas Visitors Authority	General	3,074,432
Commonwealth Utilities Corporation	General	2,710,198
Northern Marianas College (NMC)	Nonmajor governmental funds	<u>200,329</u>
		\$ <u>10,344,390</u>

The amount recorded as due from component units of the primary government of \$4,649,437 does not equal the corresponding due to primary government of the discretely presented component units of \$10,633,518 due to CPA and CUC recording 1% public auditor fee of \$1,597,855 and \$4,217,785, respectively, for which the primary government recorded a corresponding allowance and due to \$168,441 timing differences with CDA.

The amount recorded as due from primary government of the discretely presented component units of \$9,033,672 does not equal the corresponding due to component units of the primary government of \$10,344,390 by \$1,310,718. The difference of \$1,524,448 with PSS is due to \$2,000,000 fiscal year 2006 additional appropriations recorded by PSS but was disputed by the CNMI and \$475,552 unreconciled differences. The difference of \$2,710,198 with CUC is due to \$2,710,198 recorded as general receivables by CUC. The difference of \$124,968 with NMC is due to timing differences.

As of September 30, 2009, the due to Pension (and Other Employee Benefit) Trust Fund consists of the following:

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2009

(4) Interfund Receivables and Payables, Continued

	<u>NMIRF</u>	<u>GHLITF</u>	<u>WCC</u>	<u>Totals</u>
Employer contributions	\$ 164,832,706	\$ -	\$ -	\$ 164,832,706
Penalty on unpaid contributions	45,108,689	-	-	45,108,689
Deficiency in NMC's retirement contributions	5,007,499	-	-	5,007,499
Appropriations in prior years not transferred	15,026,333	-	-	15,026,333
Early retirement bonus program	3,631,090	-	-	3,631,090
Prior service contributions	780,733	-	-	780,733
Other	<u>385,943</u>	<u>-</u>	<u>416,295</u>	<u>802,238</u>
	<u>\$ 234,772,993</u>	<u>\$ -</u>	<u>\$ 416,295</u>	<u>\$ 235,189,288</u>

On January 24, 2008, Public Law 15-126 was enacted to reduce the employer retirement contribution rate to 18% for employees funded by the CNMI General Fund, effective October 1, 2007. Further, Section 2(b) of the law states that any difference between the 36.7727% rate and the sum remitted by the employer shall accrue as a liability of the CNMI government. On May 3, 2008, Public Law 16-2 was enacted suspending Public Law 15-126 for fiscal year 2008 except for Section 2(b). Further, Section 7(b) of Public Law 16-2 mandates the CNMI government to accrue NMC's deficient retirement contribution as its liability. Public Law 16-2 also sets a rate of 11% beginning October 1, 2007. On June 24, 2008, the Office of the Governor confirmed that the CNMI government will be responsible for NMC's deficient retirement contribution beginning October 1, 2005 and subsequent years. NMC's deficient retirement contribution including penalties and interest amounted to \$5,007,499 as of September 30, 2009.

The amount recorded as due to Pension (and Other Employee Benefit) Trust Fund of \$235,189,288 does not equal the corresponding due from the general fund and due from miscellaneous special revenue funds of the Fiduciary Funds of \$230,181,789 due to \$5,007,499 in NMC's deficient retirement contributions recorded by the primary government as a liability and recorded by the Pension (and Other Employee Benefit) Trust Fund as part of receivables from autonomous agencies.

Of the amount due from the General Fund of \$229,765,494, the Pension (and Other Employee Benefit) Trust Fund recorded allowance for uncollectible receivables of \$169,244,528 as of September 30, 2009. The remaining due from the General Fund of \$60,520,966 has been offset by deferred revenue in the same amount.

(5) Restricted Assets

Governmental Funds

Restricted assets of \$17,672,578 recorded in the General Fund represents cash and cash equivalents of \$5,226,172 for capital projects, \$6,806,885 for tax rebate payments, \$698,600 for recovery rebate payments, \$1,735,044 for federal programs and projects, and \$3,205,877 for various purposes.

Restricted assets of \$4,842,017 recorded in the Grants Assistance Fund represents \$4,453,036 cash and cash equivalents restricted for capital projects, and \$388,981 for federal programs and projects.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2009

(5) Restricted Assets, Continued

Governmental Funds, Continued

Restricted assets of \$8,683,745 recorded in the Other Governmental Funds represents cash and cash equivalents of \$129,965 for capital projects, \$1,162,404 for future debt service requirements, \$3,117,678 DPL bank deposits in which DPL has been restricted from full access, and \$4,273,698 for other purposes.

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

CNMI's Workers' Compensation Commission

Restricted assets of \$126,816 represents time certificates of deposit established for the purpose of making compensation for injury increasing disability in accordance with Subsection (f) of Section 9308 of Public Law 10-19.

Fiduciary Fund Type - Agency Fund

Restricted assets of \$2,509,528 as of September 30, 2009 represent deposits of foreign investors required by law to operate a business in the CNMI.

Discretely Presented Component Units

Commonwealth Ports Authority (CPA):

Restricted assets 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 Revenues Bonds</u>	<u>Total</u>
Bond Reserve Fund	\$ 1,561,455	\$ 3,480,131	\$ 5,041,586
Supplemental Reserve Fund	-	8,037,480	8,037,480
Construction Fund	-	540,204	540,204
Reimbursement Fund	-	5,806	5,806
Bond Fund	301,639	648,748	950,387
Maintenance and Operation	659,972	756,957	1,416,929
Optional Redemption Fund	12,087	-	12,087
Revenue Fund	<u>723</u>	<u>810</u>	<u>1,533</u>
	<u>\$ 2,535,876</u>	<u>\$ 13,470,136</u>	<u>\$ 16,006,012</u>

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2009

(5) Restricted Assets, Continued

Discretely Presented Component Units, Continued

Commonwealth Development Authority (CDA):

Restricted assets of CDA are comprised of the following:

	Development Banking Division	Development Corporation Division	Northern Marianas Housing Corporation	Total
Cash and cash equivalents	\$ 404,720	\$ 1,701,896	\$ 3,390,606	\$ 5,497,222
Time certificates of deposit	<u>7,684,205</u>	<u>641,050</u>	<u>-</u>	<u>8,325,255</u>
	<u>\$ 8,088,925</u>	<u>\$ 2,342,946</u>	<u>\$ 3,390,606</u>	<u>\$ 13,822,477</u>

Restricted assets of the Development Banking Division represent the proceeds of Covenant funding and liquidated revenue bonds derived from pledged Covenant funding to be used for capital development purposes.

Restricted assets of the Development Corporation Division represent cash and cash equivalents and time certificates of deposit maintained at a non-FDIC insured bank as guarantee against loans issued by the bank.

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

Escrow account maintained as a guarantee for any deficiency in foreclosure proceeds related to USDA Rural Development Loans	\$ 2,163,848
Savings account restricted for Koblerville Section 8 project repairs and maintenance expenses, per contract with the U.S. Department of Housing and Urban Development	197,214
Savings account maintained as a guarantee of housing loans made by a savings and loan in the CNMI	26,430
Checking account maintained for Section 8 Housing Choice Vouchers Program expenses	832,543
Other depository accounts reserved for various purposes	<u>170,571</u>
	<u>\$ 3,390,606</u>

Commonwealth Utilities Corporation:

Cash and cash equivalents of \$8,148,586 as of September 30, 2009 represent customer deposits segregated pursuant to CUC policy. Of the \$8,148,586, \$7,500,000 is held as security pursuant to a letter of credit obtained from a financial institution to secure a \$7,500,000 credit limit for fuel purchases.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2009

(5) Restricted Assets, Continued

Discretely Presented Component Units, Continued

Marianas Public Land Trust:

Restricted assets of \$45,106,102 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 assets activities of the primary government for the year ended September 30, 2009, are as follows:

	Balance October 1, 2008	Additions	Retirements	Reclassifications	Balance September 30, 2009
Historical cost:					
Assets not being depreciated:					
Land	\$ 28,576,738	\$ 506,331	\$ -	\$ -	\$ 29,083,069
Construction in progress	<u>5,789,903</u>	<u>4,791,316</u>	<u>-</u>	<u>(3,878,085)</u>	<u>6,703,134</u>
Subtotal assets not being depreciated	<u>34,366,641</u>	<u>5,297,647</u>	<u>-</u>	<u>(3,878,085)</u>	<u>35,786,203</u>
Depreciable assets:					
Buildings and other improvements	178,103,460	-	-	1,091,733	179,195,193
Machinery and equipment	17,996,477	2,297,178	-	-	20,293,655
Infrastructure	<u>127,483,569</u>	<u>-</u>	<u>-</u>	<u>2,786,352</u>	<u>130,269,921</u>
Subtotal depreciable assets	<u>323,583,506</u>	<u>2,297,178</u>	<u>-</u>	<u>3,878,085</u>	<u>329,758,769</u>
Total capital assets at cost	<u>357,950,147</u>	<u>7,594,825</u>	<u>-</u>	<u>-</u>	<u>365,544,972</u>
Accumulated depreciation:					
Buildings and other improvements	(42,638,101)	(5,737,931)	-	-	(48,376,032)
Machinery and equipment	(8,971,173)	(2,095,297)	-	-	(11,066,470)
Infrastructure	<u>(100,998,294)</u>	<u>(2,862,648)</u>	<u>-</u>	<u>-</u>	<u>(103,860,942)</u>
Total accumulated depreciation	<u>(152,607,568)</u>	<u>(10,695,876)</u>	<u>-</u>	<u>-</u>	<u>(163,303,444)</u>
Capital assets, net	\$ <u>205,342,579</u>	\$ <u>(3,101,051)</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>202,241,528</u>

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

Community and Social Services	\$ 1,167,760
General Government	887,425
Health	1,810,738
Public Works	4,595,894
Judicial Branch	291,274
Public Safety and Law Enforcement	1,847,769
Lands and Natural Resources	<u>95,016</u>
Total depreciation expense - governmental activities	\$ <u>10,695,876</u>

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2009

(7) Tax Rebates Payable

The CNMI makes significant estimates in determining tax rebates payable as recorded in the Rebate Trust Fund, a major governmental fund. Although the Rebate Trust Fund does not record revenues and expenditures, the CNMI has taken the position that tax payments received constitute revenue sources and thus the fund meets the definition of a special revenue fund.

The 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. 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. Tax rebate liabilities amounted to \$39,034,721 as of September 30, 2009. 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 \$724,116 recorded in the General Fund represents the remaining undisbursed funds as of September 30, 2009.

(9) Deferred Revenues

As of September 30, 2009, deferred revenues for individual major fiduciary funds are as follows:

	<u>NMIRF</u>	<u>GHLITF</u>	<u>WCC</u>	<u>Totals</u>
Penalty on unpaid contributions	\$ 45,108,689	\$ -	\$ -	\$ 45,108,689
CNMI appropriations	15,026,333	-	-	15,026,333
Benefits receivable	1,314,644	-	-	1,314,644
Fines and other penalties	-	-	800,007	800,007
Special annuity	385,943	-	-	385,943
Prior service trust fund	<u>51,466</u>	<u>-</u>	<u>-</u>	<u>51,466</u>
	<u>\$ 61,887,075</u>	<u>\$ -</u>	<u>\$ 800,007</u>	<u>\$ 62,687,082</u>

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2009

(9) Deferred Revenues, Continued

Pursuant to Public Law No. 6-41, codified in 1CMC§ 8362, any employer who fails to pay or remit contributions as required by this section shall pay a penalty of 10% per month or part thereof for which the contribution remains unpaid, up to a maximum penalty of 25% of the unpaid contribution. At September 30, 2009, the \$45,108,689 penalty on unpaid contributions represents assessed penalties on unpaid CNMI Government employer contributions.

The \$15,026,333 deferred revenue recorded by the NMIRF represents remaining uncollected appropriations from the CNMI Government of \$8,494,020 pursuant to Public Law No. 11-41, which earmarked 90% of poker machine licensing fees for the NMIRF, and \$6,532,313 pursuant to Public Law No. 8-31, which earmarked the NMIRF with \$2,000,000 for fiscal years 2004, 2005 and 2006.

(10) Long-Term Debt Obligations

NMIRF Loan

On February 28, 1995, the CNMI entered into a loan agreement with the Northern Mariana Islands Retirement Fund (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, 2009, cash balances held by NMIRF for the retirement of debt totaled \$364,546. The loan is for a period of fifteen years, is due February 28, 2010 with interest at 7.5%, 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 rate to 7.75%. Pursuant to the amendment, principal and interest are payable in monthly installments of \$120,000. As of September 30, 2009, amount outstanding and payable is \$6,950,565.

\$15,685,000 Bond Issue

On May 1, 1999, the CNMI issued \$15,685,000 in 1999 Series A general obligation bonds with an average interest rate of 4.76%. The bonds were authorized by a joint resolution adopted by the CNMI Legislature. The bond proceeds were used to finance the local match for grants received from the U.S. federal government financing various capital improvement projects of the Public School System.

Installments are paid to the Bond Trustee annually on every October 1 through 2008. These funds are held in a Bond Fund Account from which the Bond Trustee makes semiannual payments every April 1 and October 1. The term of the bond issue is for approximately nine years and matures on October 1, 2008. As of September 30, 2009, the debt is fully paid.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2009

(10) Long-Term Debt Obligations, Continued

\$60,000,000 Bond Issue

On November 18, 2000, the Commonwealth Development Authority (CDA), acting for and on behalf of the CNMI, issued \$60,000,000 in 2000 Series A general obligation bonds, with interest rates varying between 4.875% beginning June 1, 2004 and 7.375% on June 1, 2030. The bonds were authorized by Public Law Nos. 11-3 and 11-102. Bond proceeds, net of bond issuance costs of \$3,210,104, were used to fund certain capital improvement projects and to retire certain interim financing.

Installments of principal are paid to the Bond Trustee annually commencing June 1, 2004 through June 1, 2030. Interest is payable annually, commencing June 1, 2001 through June 1, 2030.

The 2000 Series A general obligation bonds are subject to redemption prior to their respective maturities (on or after June 1, 2011), at the option of the CNMI, from any source of available funds, on any date on or after June 1, 2010, as a whole or in part by such maturity or maturities as may be specified by request of the CNMI (and by lot within a maturity as selected by the Trustee) at a redemption price of 100% of the principal amount thereof plus accrued interest thereon to the date fixed for redemption.

The Bonds maturing on June 1, 2014, June 1, 2020 and June 1, 2030 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 the Indenture Agreement dated November 15, 2000, on each June 1, from and after June 1, 2011, June 1, 2015 and June 1, 2021, respectively, at the principal amount thereof plus accrued interest thereon, if any, to the date of redemption (without premium).

Mandatory sinking fund payments due June 1 are as follows:

<u>Year</u>	<u>Amount</u>	<u>Year</u>	<u>Amount</u>	<u>Year</u>	<u>Amount</u>	<u>Year</u>	<u>Amount</u>
2011	\$ 1,850,000	2016	\$ 2,470,000	2021	\$ 1,775,000	2026	\$ 2,535,000
2012	\$ 1,965,000	2017	\$ 2,620,000	2022	\$ 1,910,000	2027	\$ 2,725,000
2013	\$ 2,085,000	2018	\$ 2,780,000	2023	\$ 2,050,000	2028	\$ 2,925,000
2014	\$ 2,210,000 *	2019	\$ 2,945,000	2024	\$ 2,200,000	2029	\$ 3,140,000
2015	\$ 2,330,000	2020	\$ 3,125,000 *	2025	\$ 2,365,000	2030	\$ 3,375,000 *

\* The Paying Agent shall apply moneys transferred by the Trustee from the Principal Account to the redemption of Bonds maturing on June 14, 2014, June 1, 2020 and June 1, 2030, in the principal amounts and on the mandatory sinking fund payment dates.

As of September 30, 2009, amount outstanding and payable is \$1,755,000.

\$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.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2009

(10) Long-Term Debt Obligations, Continued

\$40,000,000 Bond Issue, Continued

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).
- (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, 2009, amount outstanding and payable is \$2,600,000 less unamortized discount on bond issuance of \$30,369.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2009

(10) Long-Term Debt Obligations, Continued

Refunding of Debt

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

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

Although the advance refunding resulted in the recognition of an accounting loss of \$8.2 million for the year ended September 30, 2009, 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, 2009, Series 2000A bonds outstanding of \$49,380,000 and Series 2003A bonds outstanding of \$37,400,000, for a total of \$86,780,000 are considered defeased.

\$57,800,000 Bond Issue

In April 2007, the CDA, acting for and on behalf of the CNMI, issued general obligations 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, 2009, consist of the following:

Series 2007A general obligations refunding bonds	\$ 57,385,000
Unamortized premium on bond issuance	89,989
Deferred costs on bond refunding	<u>(2,670,504)</u>
	\$ <u>54,804,485</u>

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2009

(10) Long-Term Debt Obligations, Continued

\$42,690,000 Bond Issue

In April 2007, the 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, 2009, consist of the following:

Series 2007B general obligations refunding bonds	\$ 42,690,000
Unamortized premium on bond issuance	61,688
Deferred costs on bond refunding	<u>(4,762,933)</u>
	<u>\$ 37,988,755</u>

Changes in long-term liabilities for the year ended September 30, 2009, are as follows:

	<u>Balance October 1, 2008</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance September 30, 2009</u>	<u>Due Within One Year</u>
Loans and bonds payable:					
NMIRF loan	\$ 7,787,405	\$ -	\$ (836,840)	\$ 6,950,565	\$ 1,095,801
1999 Series A Bonds	1,340,000	-	(1,340,000)	-	-
2000 Series A Bonds	3,420,000	-	(1,665,000)	1,755,000	1,755,000
2003 Series A Bonds	2,600,000	-	-	2,600,000	-
2007 Series A Bonds	57,800,000	-	(415,000)	57,385,000	435,000
2007 Series B Bonds	<u>42,690,000</u>	<u>-</u>	<u>-</u>	<u>42,690,000</u>	<u>-</u>
	115,637,405	-	(4,256,840)	111,380,565	3,285,801
Deferred amounts:					
Deferred costs of bond refunding	(7,743,164)	-	309,727	(7,433,437)	(309,727)
Unamortized discount on bonds issued	(31,634)	-	1,265	(30,369)	(1,265)
Unamortized premium on bonds issued	<u>157,997</u>	<u>-</u>	<u>(6,320)</u>	<u>151,677</u>	<u>6,320</u>
	<u>108,020,604</u>	<u>-</u>	<u>(3,952,168)</u>	<u>104,068,436</u>	<u>2,981,129</u>
Other:					
Compensated absences	6,904,634	6,279,446	(6,450,401)	6,733,679	3,294,498
Claims and judgments payable	15,968,124	2,114,380	(458,314)	17,624,190	12,387,259
Landfill closure	<u>2,290,421</u>	<u>381,737</u>	<u>-</u>	<u>2,672,158</u>	<u>-</u>
	<u>25,163,179</u>	<u>8,775,563</u>	<u>(6,908,715)</u>	<u>27,030,027</u>	<u>15,681,757</u>
	<u>\$ 133,183,783</u>	<u>\$ 8,775,563</u>	<u>\$ (10,860,883)</u>	<u>\$ 131,098,463</u>	<u>\$ 18,662,886</u>

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2009

(10) Long-Term Debt Obligations, Continued

The annual requirement to amortize all debt of the governmental activities outstanding as of September 30, 2009 is as follows:

<u>Year ending</u> <u>September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 3,285,801	\$ 5,780,539	\$ 9,066,340
2011	3,521,172	5,574,576	9,095,748
2012	4,527,976	5,339,524	9,867,500
2013	4,858,411	5,061,589	9,920,000
2014	5,200,229	4,763,396	9,963,625
2015 - 2019	23,711,976	19,922,435	43,634,411
2020 - 2024	22,060,000	14,541,125	36,601,125
2025 - 2029	26,305,000	7,812,375	34,117,375
2030 - 2034	<u>17,910,000</u>	<u>2,045,500</u>	<u>19,955,500</u>
	\$ <u>111,380,565</u>	\$ <u>70,841,059</u>	\$ <u>182,221,624</u>

Discretely Presented Component Units

Commonwealth Ports Authority

Note payable to the Commonwealth Development Authority (CDA), due November 16, 2014, interest at 2.5%, principal and interest are payable in quarterly installments of \$204,113. Beginning January 2008, principal and interest payments have been deferred for five years and two years, respectively.

\$ 5,803,610

Commonwealth Development Authority

Development Banking Division:

Note payable to Marianas Public Land Trust (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.

1,374,243

Commonwealth Utilities Corporation

Loan payable to CPA. Principal of \$3,385,131, interest at 6.25% 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.

3,146,504

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2009

(10) Long-Term Debt Obligations, Continued

Discretely Presented Component Units, Continued

Commonwealth Utilities Corporation, Continued

Loan payable to CPA. Principal of \$4,829,895, interest at 6.25% per annum, with a maturity date of October 31, 2012. Principal and interest payments are due in monthly installments of \$93,938 beginning October 31, 2007. 4,120,943

Note payable to MPLT, bearing interest at 7%, due in full on August 4, 2011. Interest is due in equal monthly installments. 1,800,000

Northern Marianas College

Loan payable to a local bank, bearing interest at 5.80% per annum, with a maturity date of June 3, 2010. Principal and interest payments are due in monthly installments. 42,527

\$ 16,287,827

\$20,050,000 Bond Issue

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

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

Revenue bonds payable as of September 30, 2009, consist of the following:

1998 Senior Series A tax-exempt airport revenue bonds	\$ 15,375,000
Deferred costs of debt refunding	<u>-</u>
	<u>\$ 15,375,000</u>

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.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2009

(10) Long-Term Debt Obligations, Continued

Discretely Presented Component Units, Continued

\$20,050,000 Bond Issue, Continued

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%

\$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 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 \$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, 2009, consist of the following:

1998 Senior Series A tax-exempt seaport revenue bonds	\$ 27,685,000
Deferred costs of debt refunding	<u>(991,758)</u>
	<u>\$ 26,693,242</u>

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, 2009, total deposits in the Seaport supplemental reserve fund amounted to \$8,037,480.

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.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2009

(10) Long-Term Debt Obligations, Continued

Discretely Presented Component Units, Continued

\$33,775,000 Bond Issue, Continued

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.

\$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, 2009, consist of the following:

2005 Senior Series A tax-exempt seaport revenue bonds	\$ 6,920,000
Discount on bonds	<u>(105,152)</u>
	<u>\$ 6,814,848</u>

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, 2009, except for the collection of gross revenues requirement related to the Airport and Seaport bond indenture. Section 6.11 (A) of the Airport and Seaport Bond Indenture Agreement (Indenture) states that CPA shall impose, levy, enforce and collect such fees/dockage, entry and wharfage fees, tariffs, lease rentals, licensing fees and other fees and charges in aggregate amount with respect to each fiscal year to produce gross revenues to comply with subsections (A)(1), (A)(2), (A)(3) and (A)(4) of Section 6.11. CPA failed to comply with this requirement for the Airport Division for the year ended September 30, 2009.

Section 6.11(B) of the Indenture states that if the financial statements prepared pursuant to Section 6.06(B) of the Indenture reflect that at the end of a fiscal year, net revenues are less than the amount required by Section 6.11(A) for such fiscal year or if the revenues are less than the aggregate amount of all transfers required by Section 5.02(a) through (e) for such fiscal year, CPA shall not be in default under Section 7.01 if within sixty days after the date of such financial statements or the end of the fiscal year, CPA shall employ an independent consultant to make recommendations as to a revision of the rates, fees and charges or the methods of operation of the airports and seaports. If such recommendations fail to meet the requirements of Section 6.11(a), such deficiency will constitute an event of default under Section 7.01.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2009

(10) Long-Term Debt Obligations, Continued

Discretely Presented Component Units, Continued

The annual requirements to amortize all debt of the Discretely Presented Component Units outstanding as of September 30, 2009, including interest payments, for those audit entities whose audit reports include such, are as follows:

<u>Year ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 4,927,365	\$ 4,216,773	\$ 9,144,138
2011	4,481,064	3,498,831	7,979,895
2012	2,845,278	3,295,076	6,140,354
2013	7,578,235	3,081,091	10,659,326
2014	3,355,840	2,901,631	6,257,471
2015 - 2019	11,755,045	12,017,097	23,772,142
2020 - 2024	14,545,000	7,706,858	22,251,858
2025 - 2029	15,755,000	2,420,247	18,175,247
2030 - 2033	<u>1,025,000</u>	<u>57,062</u>	<u>1,082,062</u>
	\$ <u>66,267,827</u>	\$ <u>39,194,666</u>	\$ <u>105,462,493</u>

Obligations Under Capital Lease

On June 10, 1997, the Commonwealth Utilities Corporation (CUC) entered into an agreement with a contractor for the construction, maintenance and operation, and transfer of ownership of a 10 Megawatt Power Plant on the island of Tinian. The agreement is for a guaranteed price of \$9,959,000 plus interest and fees of \$11,641,000 payable over ten years in equal monthly installments of \$180,000. During this period, the contractor will maintain and operate the power plant and be paid operation, production and maintenance fees of \$50,000 per month in addition to the guaranteed price. Additionally, CUC will pay a production fee of two cents (\$0.02) per plant-produced kilowatt hour for as long as the operations and maintenance portion of the contract is in effect. The power plant will be turned over to CUC at the end of the ten year period from the date of substantial completion. On December 13, 1998, CUC executed a change order to expand the 10 Megawatt Power Plant to 30 Megawatts. Such expansion is to be fulfilled within the ten year period as stated in the original agreement. On May 10, 2001, CUC executed another change order (Expanded Agreement) to extend the term of the original agreement to be effective upon the execution of the expanded agreement until the later of March 31, 2020 or the completion of the term as mutually agreed upon. The expanded agreement provides for CUC to pay a base loan rate of \$0.03 plus applicable price adjustments per kilowatt-hour CUC uses each month effective March 1, 2009 until March 31, 2020. Additionally, the contractor will operate and maintain the existing distribution system of CUC for the duration of the expanded agreement at no cost to CUC. During the term of the expanded agreement, CUC is not allowed to purchase electric energy from any other producer other than the contractor for the island of Tinian. CUC and the contractor executed another change order to create a specific limited exception for the allowance of certain liens to be placed on the power plant as designed and built in accordance with the terms and conditions of the original agreement and previous change orders.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2009

(10) Long-Term Debt Obligations, Continued

Discretely Presented Component Units, Continued

Obligations Under Capital Lease, Continued

In 2000, CUC implemented accounting guidance of Emerging Issues Task Force (EITF) Issue No. 01-8, which provides guidance in determining when purchase agreements may be subject to lease accounting. CUC has determined that the agreement to purchase electricity is in fact a capital lease to acquire the plant and that the capacity payments made under the agreement are lease payments. The operation, production and maintenance payments and production fees under the agreement are reflected as energy conversion costs under other production expense.

The adoption of EITF Issue No. 01-8 increased electric plant by and obligation under lease by \$15,434,147. The capital lease obligation has a stated interest rate of 18%. However, to reflect the time value of money, the liability and corresponding capital assets recorded in the financial statements reflect future payments discounted at an imputed interest of 7.10%, which was CUC's long-term borrowing rate at March 1999. The total obligation under capital lease at September 30, 2009 was \$23,548.

CUC may, without penalty, discharge the entire outstanding balance of the guaranteed price by paying a discounted amount equal to the adjusted guaranteed price as follows:

<u>Period</u>	<u>Amount</u>
End of year 4	\$ 25,000,000
End of year 5	\$ 21,000,000
End of year 6	\$ 17,250,000
End of year 7	\$ 14,000,000
End of year 8	\$ 11,000,000

Obligations Under Preferred Stock Agreement

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2009

(10) Long-Term Debt Obligations, Continued

Discretely Presented Component Units, Continued

Obligations Under Preferred Stock Agreement, Continued

On May 7, 2009, CUC and CDA, entered into a Preferred Stock Agreement (the Agreement) to effectuate the terms and conditions of the MOA by requiring CUC to issue shares of cumulative, non-convertible and non-transferrable preferred stock to CDA amounting to \$45,000,000 and yielding annual dividends of two percent per annum. 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 amounting to \$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 annual 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.

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 of \$11,309,651 based on the discounted cash flows of the future dividend payments at 6.27% per annum. The extinguishment of the former notes and interest payable, amounting to \$177,566,204 for the year ended September 30, 2009, represents debt forgiveness. At September 30, 2009, CUC has a recorded an obligation to CDA of \$11,309,651 and gain on debt forgiveness of \$177,566,204 and CDA has recorded an investment of \$11,309,651, with a corresponding 100% valuation allowance.

Future receipts (which do not factor in CUC's right to purchase up to \$16,200,000 of preferred stock through offset against CUC's future, internally-funded capital improvement projects) for subsequent fiscal years are as follows:

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2009

(10) Long-Term Debt Obligations, Continued

Discretely Presented Component Units, Continued

<u>Year ending September 30,</u>	<u>Principal Balance</u>
2010	\$ -
2011	-
2012	-
2013	900,000
2014	900,000
2015 - 2039	<u>22,500,000</u>
	<u>\$ 24,300,000</u>

Changes in long-term liabilities of the discretely presented component units for the year ended September 30, 2009, are as follows:

	<u>Balance October 1, 2008</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance September 30, 2009</u>	<u>Due Within One Year</u>
Notes and bonds payable:					
CPA	\$ 58,113,610	\$ -	\$ (2,330,000)	\$ 55,783,610	\$ 1,395,000
CUC	72,944,833	-	(63,877,386)	9,067,447	3,367,738
CDA	1,494,243	-	(120,000)	1,374,243	122,100
NMC	<u>169,293</u>	<u>-</u>	<u>(126,766)</u>	<u>42,527</u>	<u>42,527</u>
	132,721,979	-	(66,454,152)	66,267,827	4,927,365
Deferred amounts:					
CPA:					
Deferred costs of debt refunding	(1,030,410)	-	38,652	(991,758)	-
Discount	<u>(109,932)</u>	<u>-</u>	<u>4,780</u>	<u>(105,152)</u>	<u>-</u>
	131,581,637	-	(66,410,720)	65,170,917	4,927,365
Other liabilities:					
Obligations under preferred stock agreement	-	11,309,651	-	11,309,651	-
Obligations under capital lease	860,695	-	(837,147)	23,548	23,548
Compensated absences	4,795,242	995,046	(2,644,002)	3,146,286	1,445,425
Deferred revenues	<u>7,320,463</u>	<u>3,778,226</u>	<u>(2,624,637)</u>	<u>8,474,052</u>	<u>4,020,974</u>
	<u>\$ 144,558,037</u>	<u>\$ 16,082,923</u>	<u>\$ (72,516,506)</u>	<u>\$ 88,124,454</u>	<u>\$ 10,417,312</u>

(11) Reserve for Continuing Appropriations

The CNMI's fund balance reserved for continuing appropriations represents those portions of fund balance legally segregated for a specific future use.

Continuing appropriations as of September 30, 2009, consist of the following:

	<u>Authorizing Legislation</u>	<u>Outstanding Balance</u>
General Fund:		
Homeland Security	Public Law No. 14-63	\$ 307,599
Board of Nurse Examiners	Public Law No. 14-62	145,589
PSS Bond Interest	Public Law No. 14-3	32,665
Environmental Health and Sanitation	Public Law No. 12-48	89,908
Other programs	Various	<u>59,148</u>
		<u>\$ 634,909</u>

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2009

(11) Reserve for Continuing Appropriations, Continued

	<u>Authorizing Legislation</u>	<u>Outstanding Balance</u>
Local Capital Projects Fund:		
CUC Emergency Power Plant	House Joint Resolution No. 14-36	\$ 315,985
Rota Hemodialysis Facility	Public Law Nos. 14-20 and 13-56	273,873
Gualo Rai Sewer System	Public Law No. 12-21	28,631
Sadog Tasi/Chalan Kiya Road Paving	Saipan Local Law Nos. 12-20 and 12-23	36,570
Other programs	Various	<u>50,434</u>
		<u>\$ 705,493</u>

(12) 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, 2009, are as follows:

<u>Source/Recipient</u>	<u>Transfer Out</u>	<u>Transfer In</u>
<u>General Fund</u>		
From General Fund to:		
Grants Assistance Fund	\$ 8,478,435	\$ -
Nonmajor governmental funds	6,925,093	-
To General Fund from:		
Nonmajor governmental funds	-	11,171,134
Grants Assistance Fund	-	<u>12,440,172</u>
	<u>15,403,528</u>	<u>23,611,306</u>
<u>Grants Assistance Fund</u>		
From Grants Assistance Fund to:		
General Fund	12,440,172	-
Nonmajor governmental funds	208,207	-
To Grants Assistance Fund from:		
General Fund	-	8,478,435
Nonmajor governmental funds	-	<u>112,500</u>
	<u>12,648,379</u>	<u>8,590,935</u>
<u>Nonmajor governmental funds</u>		
From nonmajor governmental funds to:		
General Fund	11,171,134	-
Grants Assistance Fund	112,500	-
To nonmajor governmental funds from:		
Grants Assistance Fund	-	208,207
General Fund	-	<u>6,925,093</u>
	<u>11,283,634</u>	<u>7,133,300</u>
	<u>\$ 39,335,541</u>	<u>\$ 39,335,541</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.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2009

(12) Transfers In/Out, Continued

The amount recorded as payments to component units from the primary government of \$51,206,055 does not equal the corresponding contributions from the primary government of \$48,569,613 by \$2,636,442. The difference of \$298,930 with NMC is due to \$330,000 compact impact funds recorded by NMC as grants and contribution revenues while the CNMI recorded the amount as payments to NMC, \$56,570 1% Public Auditor fees recorded by the CNMI as reductions to the payments to NMC and \$25,000 other appropriations recorded by NMC as other revenues while the CNMI recorded as payments to NMC. The difference of \$2,338,012 is due to \$2,204,733 remaining funds from the PSS CIP GO Bonds transferred to PSS recorded by the CNMI as payments to PSS while PSS recorded the amount as deferred revenues and \$133,279 unreconciled differences.

The amount recorded as contributions from component units of the primary government of \$2,773,063 does not equal the corresponding contributions to the primary government of the component units of \$3,789,062 due to \$219,768 recorded as contributions to the primary government by MPLT relating to the repayment of MPLT's loans receivable from CDA, \$694,759 recorded as contributions to the primary government by CUC relating to the 1% OPA fees which have not been paid by CUC and \$101,472 with CDA due to timing difference in recording payments.

(13) 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 \$15,000,000 NMIRF loan payable pursuant to a loan agreement entered into with the NMIRF in February 1995. Total principal and interest remaining on this loan is approximately \$8,673,211 payable through September 2015. For the year ended September 30, 2009, principal and interest paid were \$836,840 and \$582,100, respectively, and total Judicial Building Fund revenues were \$893,158.

Discretely Presented Component Units

CPA has pledged future gross revenues to repay \$20,050,000 and \$33,775,000 in 1998 Senior Series A and \$7,225,000 of 2005 Senior Series A tax-exempt special revenue bonds. Proceeds from the bonds provided financing for capital assets. The bonds are payable from pledged gross revenues. The bonds are payable through fiscal years 2028, 2028 and 2031, respectively. The total principal and interest payable for the remainder of the life of these bonds is \$86,512,601 at September 30, 2009. Pledged gross revenues received during the year ended September 30, 2009 were \$17,391,786. Debt service payments during the year ended September 30, 2009 amounted to \$5,603,212 representing 32% of pledged gross revenues.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2009

(13) Commitments, Continued

Operating Lease

On August 18, 2003, NMC entered into an assignment of lease with a corporation (Assignor), whereby the Assignor assigns leases and leasehold estate and other rights on the La Fiesta property to NMC for a total payment of \$4,000,000 payable in annual installments of \$200,000 beginning October 29, 2004. On September 15, 2004, NMC and the CNMI entered into a Memorandum of Agreement for the transfer of the lease assignment. On January 7, 2005, NMC and the CNMI executed an Assignment of Contract Rights whereby NMC assigns and transfers to the CNMI all right, titles and interest to the assignment of leases dated August 18, 2003. Rental expense for this lease for the fiscal year ended September 30, 2009 is \$200,000.

CNMI's future rentals under the lease as of September 30, 2009 are as follows:

<u>September 30,</u>	
2010	\$ 200,000
2011	200,000
2012	200,000
2013	200,000
2014	200,000
2015 - 2019	1,000,000
2020 - 2024	1,000,000
2025	<u>200,000</u>
	\$ <u>3,200,000</u>

(14) 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. The future costs associated with closing this disposal site is presently not determinable.

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 \$19,231,826 have been set forth in the CNMI's Single Audit Report for the year ended September 30, 2009. 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.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2009

(14) Contingencies, Continued

Insurance Coverage

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

Unfunded Pension Liability

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

The unfunded pension liability is the amount of contributions that the CNMI should have paid to the NMIRF for the retirement benefits of an undetermined number of individuals employed before October 1, 1980, the date the Fund was established, who collected money from the Fund based on their years of service but were not required to pay their share of contribution as mandated by this law. Based on the latest actuarial valuation report, dated October 1, 2008, the actual unfunded pension liability is \$529,857,827.

General Fund Financial Position

The CNMI's General Fund has sustained recurring operating deficits and has an unreserved fund deficit of \$300,840,685 at September 30, 2009. In addition, at September 30, 2009, the primary government's current liabilities exceed current assets by \$258,181,147, and total liabilities exceed total assets by \$164,203,893.

Management has taken the following actions and measures to address the CNMI's General Fund deficit position:

1. The deficit in the CNMI General Fund is in large part the result of underfunding of employer retirement contributions and related penalties totaling \$234.8 million as of September 30, 2009. On June 16, 2006, the CNMI passed three laws related to public employee pensions (Public Law Nos. 15-13, 15-14 and 15-15).

# COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2009

## (14) Contingencies, Continued

### General Fund Financial Position, Continued

Public Law No. 15-13 established a Defined Contribution Retirement Plan (DCP) for all new public employees hired after January 1, 2007 (eligible employees hired prior to this date participate in the Retirement Fund which is a defined benefit plan) and defined the conditions under which certain members of the defined benefit Retirement Fund could transfer benefits to the DCP. Since the DCP has a 4% employer contribution rate versus 24% for the defined benefit plan, increasing annual savings will result as government employment includes more and more DCP participants. The defined benefit plan will have a fixed or declining number of members which will stabilize required contributions.

Public Law No. 15-14 extended the date by which the defined benefit plan must be fully funded from the year 2020 to 2045. This will reduce the annual amount required to liquidate the unfunded liability and reduce the annual required employer contribution.

Public Law No. 15-70 was passed on June 14, 2007 increasing employee contributions to the defined benefit plan by 1% per year beginning in fiscal year 2008 until reaching 10.5% for Class I members and 11% for Class II members. This will decrease the required employer contribution by a similar amount.

An actuarial study was completed in May 2010, as of October 1, 2008, incorporating the above plan changes and related assumptions, showed the actuarial accrued liability (AAL) declined from \$1,007.3 billion at October 1, 2005 to \$899.4 million and the unfunded AAL declined from \$547.2 million to \$529.9 million despite an investment portfolio loss of \$72.5 million from the 2008 market decline.

In May 2010, the Retirement Fund and Executive Branch agreed to a plan that would define a corpus to be maintained, include a portion of earnings to be used for payment of pensions, proposed an initiative to be placed on the ballot for voters to approve issuance of pension obligation bonds to pay the outstanding liability and amend the required employer contribution to a dollar amount rather than a rate as the number of contributing members continues to decline. This plan was presented to the Legislature along with proposed legislation to implement retirement plan changes that would reduce future government retirement liabilities such as paying cost of living increases as annual bonuses rather than additions to the base annuity.

2. Various laws and other austerity measures, including reduced work hours, hiring freeze, stringent review of non personnel expenditures and reduced budget allotments are being implemented to reduce expenditures. Public Law 16-32 authorized \$3.5 million in General Fund expenses to be transferred to other funds. On the revenue side, Public Law No. 15-48 reinstated payment of Marianas Public Land Trust interest to the General Fund and Public Law No. 16-2 increased various government fees by 100%. Additionally, the ARRA State Stabilization grant authorized reimbursement of \$4 million in General Fund medical referral expenses as pre-award costs.
3. Subsequent to the end of fiscal year 2009, Public Law 17-6 authorized the Governor to reprogram available resources and transfer General Fund expenses to other funds up to \$10 million and the ARRA State Stabilization grant reimbursed \$3 million in General Fund expenditures.

# COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

## Notes to the Financial Statements September 30, 2009

### (14) Contingencies, Continued

#### General Fund Financial Position, Continued

Management believes that actions presently being taken to revise the CNMI's operating requirements, as outlined above, provide the opportunity for the CNMI to commence the process of reducing the abovementioned General Fund deficit position. The General Fund unreserved fund deficit increased by \$44.6 million in fiscal year 2009 following increases of \$38.1 million in fiscal year 2008 and \$30.1 million in fiscal year 2007.

#### Other

The CNMI records expenditures for sick leave when the leave is actually taken. Sick leave is compensated absence during working hours arising from employee illness or injury. Sick leave accumulates at the rate of thirteen working days for each year of service, without limit. No liability is recorded for nonvesting accumulating rights to receive sick pay benefits. The accumulated estimated amount of unused sick leave as of September 30, 2009, is \$38,100,879.

As of September 30, 2009, the Northern Mariana Islands Government Health and Insurance Trust Fund (GHLITF) has a net deficit of \$17,936,766. In addition, GHLITF submitted unprocessed claims from service providers with service dates as of September 30, 2009 and earlier that totaled \$38.9 million. These claims include claims from the Commonwealth Health Center (CHC), Rota Health Center (RHC) and Tinian Health Center which are part of the General Fund. The ultimate liability that will result from these claims has not been determined by GHLITF; as such these claims have not been recorded as of September 30, 2009. Under Public Law No. 10-19, liabilities of the GHLITF shall be liabilities of the primary government, and unless GHLITF becomes profitable, the General Fund could be liable for the amount in excess of the claims from the CHC, RHC and THC. The related CHC, RHC and THC receivables from the GHLITF recorded by the General Fund are fully reserved for as of September 30, 2009. The outcome of this matter is presently not determinable; therefore, no provision has been made in the accompanying financial statements. With the privatization of the health benefit plan in November 1, 2007, the CNMI will not be liable for medical claims accruing after privatization. The CNMI is only liable for its share in medical premiums.

### (15) 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 \$458,314, \$584,315 and \$650,030 for the years ended September 30, 2009, 2008 and 2007, respectively. Changes in the balance of claims liabilities during the past year are as follows:

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2009

(15) Risk Management, Continued

	Year ended <u>September 30,</u>
Unpaid claims at beginning of year	\$ 15,968,124
Incurred claims	2,114,380
Claim payments	<u>(458,314)</u>
Unpaid claims at end of year	\$ <u>17,624,190</u>

(16) Pension and Other Postemployment Benefits Trust Fund

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

The Plan provides retirement, disability, security and other benefits to employees, and their spouses and dependents, of the CNMI Government and CNMI agencies, instrumentalities and public corporations. 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 and 11-9.

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

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements  
September 30, 2009

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

Defined Benefit Plan (DB Plan)

DB Plan members are required to contribute 8.5% and 11% of their annual covered salary for fiscal year 2009 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 CNMI is required to contribute at an actuarially determined rate. The actuarially determined contribution rate for the fiscal year ended September 30, 2009 is 51.0578% of covered payroll based on an actuarial valuation as of October 1, 2008 issued in May 2010. The established statutory rate at September 30, 2009 is 37.3909% 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 2008. The employer contribution remittance was further reduced by Public Law No. 16-2 to 11% of covered payroll.

The CNMI's contribution to the DB Plan for fiscal years 2009, 2008 and 2007 were \$7,168,476, \$8,240,468 and \$1,794,486, respectively.

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 DC Plan by its nature is fully funded on a current basis from employer and member contributions.

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

The CNMI's contribution to the DC Plan for fiscal years 2009, 2008 and 2007 were \$781,941, \$348,068 and \$28,675, respectively.

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

Pursuant to Public Law No. 6-41, codified in 1CMC § 8362, any employer who fails to pay or remit contributions as required by this section shall pay a penalty of 10% per month or part thereof for which the contribution remains unpaid, up to a maximum penalty of 25% of the unpaid contribution. At September 30, 2009, NMIRF assessed accumulated penalties of \$45,108,689. The CNMI has recorded a liability of \$45,108,689 at September 30, 2009.

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, 2009

(17) Restatement of Government-Wide Net Assets

	<u>Other Governmental Funds</u>	<u>Government- Wide Level</u>
<u>Primary Government</u>		
Net assets (deficit), as previously reported September 30, 2008	\$ 18,597,058	\$ (120,305,341)
Understatement of receivables previously reported resulting from the adoption of GASB Technical Bulletin No. 2004-1	<u>1,313,010</u>	<u>1,313,010</u>
Net assets (deficit), as restated September 30, 2009	\$ <u>19,910,068</u>	\$ <u>(118,992,331)</u>
<u>Discretely Presented Component Units</u>		
Net assets, as previously reported September 30, 2008		\$ 278,437,715
Understatement of net assets reported in 2008:		
Commonwealth Ports Authority		453,017
Commonwealth Utilities Corporation		6,555,723
Overstatement of net assets reported in 2008:		
Commonwealth Development Authority		(5,992,310)
Marianas Public Land Trust		(4,100,000)
Northern Marianas College		<u>(15,000)</u>
Net assets, as restated September 30, 2008		\$ <u>275,339,145</u>

COMMONWEALTH OF THE  
NORTHERN MARIANA ISLANDS

REQUIRED SUPPLEMENTARY INFORMATION  
- BUDGETARY REPORTING

YEAR ENDED SEPTEMBER 30, 2009

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Revenues, Expenditures, and Changes in Deficit  
- Budget and Actual - General Fund  
Year Ended September 30, 2009

	Budgeted Amounts		Actual -	Variance
	Original	Final	Budgetary Basis (Budgetary)	
Revenues:				
Taxes	\$ 116,311,000	\$ 116,311,000	\$ 105,316,061	\$ (10,994,939)
Charges for sales and services	19,425,000	19,425,000	16,564,678	(2,860,322)
Licenses and fees	11,035,000	11,035,000	9,979,659	(1,055,341)
Contributions from component units	6,800,000	6,800,000	2,024,863	(4,775,137)
Other	2,600,000	2,600,000	3,870,312	1,270,312
Total revenues	<u>156,171,000</u>	<u>156,171,000</u>	<u>137,755,573</u>	<u>(18,415,427)</u>
Expenditures - budgetary basis by function:				
Executive branch	69,882,504	69,815,058	81,963,512	(12,148,454)
Second Senatorial District - Tinian	8,318,069	8,318,066	8,506,002	(187,936)
First Senatorial District - Rota	8,320,241	8,292,474	8,306,659	(14,185)
Government utilities	994,535	994,535	5,894,904	(4,900,369)
Legislative branch	6,125,200	6,125,204	5,762,533	362,671
Judicial branch	3,534,647	3,534,645	3,924,613	(389,968)
Independent programs	1,011,528	909,936	613,131	296,805
Third Senatorial District - Saipan	1,800,607	1,800,606	1,820,230	(19,624)
Office of the Public Auditor	1,095,406	1,095,079	1,374,695	(279,616)
Resident Representative to the United States	302,924	283,124	293,845	(10,721)
Boards and commissions	541,323	610,623	668,443	(57,820)
Education (payment to Public School System, Northern Marianas College and Board of Education)	38,180,991	38,092,212	37,152,127	940,085
Tourism (payment to Marianas Visitors Authority)	6,610,833	6,610,833	6,610,831	2
Employee benefits (payment to Pension (and Other Employee Benefit) Trust Fund)	1,001,544	1,030,432	1,208,600	(178,168)
Public Law 16-7 (Marianas Public Land Trust funds diverted to Commonwealth Utilities Corporation)	1,700,000	1,700,000	1,700,000	-
Judgments	363,648	363,649	327,211	36,438
Disaster expenditures	-	-	42,876	(42,876)
Miscellaneous/continuing appropriations	-	-	693,793	(693,793)
Unallocated	-	-	1,332,276	(1,332,276)
Total expenditures	<u>149,784,000</u>	<u>149,576,476</u>	<u>168,196,281</u>	<u>(18,619,805)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>6,387,000</u>	<u>6,594,524</u>	<u>(30,440,708)</u>	<u>(37,035,232)</u>
Other financing sources (uses):				
Operating transfers in	4,550,000	4,550,000	17,579,392	13,029,392
Operating transfers out	(10,937,000)	(11,144,524)	(8,843,141)	2,301,383
Total other financing sources (uses), net	<u>(6,387,000)</u>	<u>(6,594,524)</u>	<u>8,736,251</u>	<u>15,330,775</u>
(Deficiency) excess of revenues and other financing sources under expenditures and other financing uses	-	-	(21,704,457)	(21,704,457)
Other changes in unreserved deficit:				
Decrease in reserve for supplies	-	-	(10,327)	(10,327)
Increase in reserve for related assets	-	-	(7,727,139)	(7,727,139)
Increase in reserve for continuing appropriations	-	-	(181,433)	(181,433)
Deficit at beginning of year	-	-	(152,429,297)	(152,429,297)
Deficit at end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (182,052,653)</u>	<u>* \$ (182,052,653)</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, 2009

### (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 unreserved deficit of the Governmental Fund Balance Sheet within the other changes in unreserved 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 reappropriated and honored during the subsequent fiscal year.

On March 11, 2009, the CNMI passed Public Law 16-32 as the Appropriations and Budget Authority Act for 2009.

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, 2009, expenditures of the General Fund exceeded budget at the program area level (i.e., the legal level of budgetary control) as follows:

<u>Program Area</u>	<u>Excess</u>
Executive Branch:	
Attorney General	\$ 327,705
Community & Cultural Affairs	\$ 152,536
Commerce	\$ 132,955
Corrections	\$ 93,998
Finance	\$ 483,656
Office of the Governor	\$ 361,319
Public Health	\$ 9,308,497
Public Safety	\$ 2,204,131

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to Required Supplementary Information - Budgetary Reporting  
September 30, 2009

(1) Budgetary Information, Continued

<u>Program Area</u>	<u>Excess</u>
Second Senatorial District - Tinian:	
Dental Services	\$ 24,639
DPS Police	\$ 51,927
Environmental Health	\$ 2,969
Fish and Wildlife	\$ 16,138
Historic Preservation	\$ 7,992
Parks and Recreation	\$ 13,021
Procurement and Supply	\$ 6,156
Revenue and Taxation	\$ 5,966
Tinian Health Center	\$ 209,723
First Senatorial District - Rota:	
Agriculture	\$ 12,907
Customs Service	\$ 45,611
DPS Port and Prop	\$ 52,301
Historic Preservation	\$ 8,348
Labor	\$ 2,950
Land Registration	\$ 19,588
Office of the Mayor Contingency	\$ 5,530
Municipal Council	\$ 38,945
Operations and Maintenance	\$ 45,749
Parks and Recreation	\$ 11,791
Procurement and Supply	\$ 5,885
Revenue and Taxation	\$ 38,985
Rota Health Center	\$ 213,961
Soil and Water Conservation	\$ 3,113
Sports and Recreation	\$ 34,833
Government Utilities	\$ 4,900,369
Independent Programs:	
Flame Tree Festival	\$ 14,200
National Governor's Association	\$ 5,255
Judicial Branch:	
CNMI Superior Court	\$ 263,156
CNMI Supreme Court	\$ 23,071
Administrative	\$ 108,166
Office of the Public Auditor	\$ 279,616
Third Senatorial District - Saipan:	
Mayor Contingency Saipan	\$ 17,894
Mayor Saipan	\$ 6,598
Mayor Northern Islands	\$ 10,291
Resident Representative to the United States	\$ 10,721
Boards and Commissions:	
Civil Service Commission	\$ 32,278
CNMI Election Commission	\$ 22,697
Board/Professional Licensing	\$ 2,845
Education (payment to Public School System):	
Payments to Public School System	\$ 67,947

## COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

### Notes to Required Supplementary Information - Budgetary Reporting September 30, 2009

#### (2) Explanation of Differences

CNMI Public Law 15-15 authorized the suspension of government obligations owing to the Northern Mariana Islands Retirement Fund (NMIRF) for parts of fiscal year 2006 and all of fiscal year 2007. The CNMI budgeted for this deferred retirement contribution on the cash basis rather than the modified accrual basis. At September 30, 2009, the accumulated deferred retirement contribution is \$47,035,810.

During the fiscal year ended September 30, 2009, the established statutory rate for employer retirement contributions for employees under the defined benefit plan is 37.3909% of covered payroll. Public Laws 16-32 and 16-2 authorized the CNMI Government to remit employer retirement contributions at 11% of covered payroll and accrue the remaining as liability to NMIRF. The CNMI budgeted for employer retirement contributions on the cash basis rather than the modified accrual basis. The accumulated difference between the statutory rate and 11% contribution rate amounted to \$28,330,655. Of this amount, \$12,439,396 relates to fiscal year 2009.

Pursuant to Public Law 6-41, any employer who fails to pay or remit contributions shall pay a penalty of 10% per month or part thereof for which the contributions remains unpaid, up to a maximum penalty of 25% of the unpaid contributions. As of September 30, 2009, the accumulated penalty in retirement contributions amounted to \$24,007,740. Of this amount, \$3,260,471 relates to fiscal year 2009.

On June 24, 2008, the Office of the Governor confirmed that the CNMI will be responsible for the Northern Marianas College's (NMC) deficient retirement contributions from October 1, 2005 through September 30, 2007 totaling \$2,514,213. This amount was not budgeted under Public Law 15-28, as amended by Public Law 15-71.

Further, Public Laws 16-32 and 16-2 mandated the CNMI Government to accrue as liability the difference of \$1,052,217 for fiscal year 2009 and \$1,441,069 for fiscal year 2008 between the statutory rate and contribution rate of 11% in employer retirement contribution, including statutory penalties, of the NMC.

Public Law 16-10 appropriated funds from the PSS CIP GO Bond and any fund balance available at the closure of the indenture trust agreement to fund major classroom repairs and renovations projects at the public schools. For the fiscal year ended September 30, 2009, the CNMI transferred to PSS remaining funds from the PSS CIP GO Bonds amounting to \$2,204,733. Funding to these payments was derived from bond issuances obtained in prior years, which had been reserved against unreserved deficit. As related budgetary basis revenues were not reflected for the year ended September 30, 2009, the CNMI had netted payments of \$2,204,733 with the decrease in the reserve for related assets of \$1,708,269 and transfers in of \$496,464 in the schedule of revenues, expenditures and changes in deficit-budget and actual-general fund.

As of September 30, 2009, the accumulated land compensation payments made by the CNMI amounted to \$109,076. Funding to these payments was derived from bond issuances obtained in prior years, which had been reserved within unreserved deficit. As related budgetary basis revenues were not reflected for the year ended September 30, 2009, the CNMI had netted payments with the decrease in the reserve for land claims in the schedule of revenues, expenditures and changes in deficit-budget and actual-general fund.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to Required Supplementary Information - Budgetary Reporting  
September 30, 2009

(2) Explanation of Differences, Continued

The CNMI recognizes bad debts expense (recovery) based on identification of receivables. The CNMI budget does not reflect bad debts on the modified accrual basis. As of September 30, 2009, the accumulated bad debts expense amounted to \$4,212,625. Of this amount, \$2,838,651 relates to fiscal year 2009 bad debts recovery.

The CNMI recognizes claims and judgment expense 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 expense on the modified accrual basis. As of September 30, 2009, the accumulated claims and judgments expense accrued is \$9,697,239. Of this amount, \$517,787 relates to fiscal year 2009.

The amount reported as operating transfers in of \$23,611,306 under GAAP basis does not equal the amount reported as operating transfer in of \$17,579,392 under budgetary basis by \$6,031,914 due to (a) \$2,731,914 in compact impact funds and \$3,300,000 of funds from non general fund sources reported as operating transfers in the governmental fund financial statements but were reported as reduction of expenditures for budgetary purposes.

The amount reported as operating transfers out of \$15,403,528 under GAAP basis does not equal the amount reported as operating transfers out of \$8,843,141 under budgetary basis due to \$6,560,387 in federal grants local match reported as transfers out in the governmental fund financial statements but were reported as expenditures for budgetary purposes.

The following reconciles budget to GAAP differences:

	October 1, <u>2008</u>	September 30, <u>2009</u>
Deficit, budgetary basis	\$ 152,429,297	\$ 182,052,653
Deferred retirement contributions per Public Law 15-15	47,035,810	47,035,810
Deficiency in retirement contributions per Public Law 16-2	15,891,259	15,891,259
Deficiency in retirement contributions per Public Law 16-32	-	12,439,396
Penalty in retirement contributions per Public Law 6-41	20,747,269	24,007,740
NMC Retirement Contributions	3,955,282	5,007,499
Payments to PSS, offset against decrease in reserve for related assets	-	1,708,269
Reserve for related assets	-	(1,708,269)
Payments to PSS, offset against operating transfers in	-	496,464
Payments to DPL, offset against decrease in reserve for land claims	109,076	109,076
Reserve for land claims	(109,076)	(109,076)
Accumulated bad debts expense	7,051,276	4,212,625
Claims and judgments expense	<u>9,179,452</u>	<u>9,697,239</u>
Deficit, GAAP basis	<u>\$ 256,289,645</u>	<u>\$ 300,840,685</u>

The amount reported as “deficit” on the budgetary basis of accounting derives from the basis of accounting used in preparing the CNMI’s budget. This amount differs from the deficit reported in the balance sheet-governmental funds and the statement of revenues, expenditures and changes in deficit because of the effect of the above transaction.

COMMONWEALTH OF THE  
NORTHERN MARIANA ISLANDS

OTHER SUPPLEMENTARY INFORMATION

YEAR ENDED SEPTEMBER 30, 2009

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Combining Schedule of Expenditures by Account  
 Governmental Funds  
 Year Ended September 30, 2009

	Major Governmental Funds			Other Governmental Funds	Total
	General	NMTIT Rebate Trust	Grants Assistance		
Salaries and wages	\$ 63,116,466	\$ -	\$ 10,334,398	\$ 2,127,704	\$ 75,578,568
Employee benefits	27,243,395	-	2,905,944	759,180	30,908,519
Construction in progress	-	-	3,020,986	966,799	3,987,785
Professional services	4,925,772	-	18,832,252	1,699,335	25,457,359
Capital outlay:					
Office equipment	215,972	-	789,232	9,357	1,014,561
Vehicles	5,261	-	738,436	336,767	1,080,464
Machinery and equipment	117,002	-	1,288,807	22,614	1,428,423
Furniture and fixtures	46,216	-	302,496	180,323	529,035
Road improvements	-	-	428,702	1,257,939	1,686,641
Building improvements	3,875	-	1,073,792	10,555	1,088,222
Other	295,780	-	1,032,430	265,452	1,593,662
Utilities	8,852,100	-	220,616	2,000	9,074,716
Supplies	8,867,595	-	2,103,238	241,031	11,211,864
Food items	998,035	-	11,462,713	22,567	12,483,315
Scholarships/grants	3,507,014	-	717,270	3,932,933	8,157,217
Interest	-	-	192,488	5,816,438	6,008,926
Travel	2,387,506	-	2,137,036	377,743	4,902,285
Rentals	2,036,016	-	537,368	1,006,637	3,580,021
Communications	1,118,258	-	627,148	104,262	1,849,668
Repairs and maintenance	1,795,879	-	749,951	271,934	2,817,764
Bad debts (recovery)	(2,552,192)	-	-	-	(2,552,192)
Indirect costs	21,531	-	2,419,099	-	2,440,630
Principal repayment	-	-	1,665,000	2,591,840	4,256,840
Education:					
Payments to Public School System	34,792,030	-	2,110,000	-	36,902,030
Payments to Northern Marianas College	4,592,416	-	330,000	1,136,407	6,058,823
Payments to Marianas Visitors Authority	6,610,830	-	-	-	6,610,830
Payments to Pension (and Other Employee Benefit) Trust Fund	1,331,231	-	-	-	1,331,231
Payments to Commonwealth Utilities Corporation	1,700,000	-	-	-	1,700,000
Miscellaneous services	944,198	-	76,964	27,482	1,048,644
Fuel and lubrication	1,410,765	-	253,906	129,423	1,794,094
Claims and judgments	874,994	-	-	1,889,522	2,764,516
Printing	189,270	-	252,768	21,072	463,110
Official representation	188,617	-	-	9,879	198,496
Advertising	55,371	-	458,588	31,750	545,709
Dues and subscriptions	142,290	-	54,869	11,332	208,491
Freight	94,407	-	107,542	7,610	209,559
Insurance	29,862	-	497,146	8,558	535,566
Books and library materials	36,843	-	129,749	7,623	174,215
Licenses and fees	26,608	-	5,382	2,770	34,760
Penalty on retirement contributions	3,260,471	-	-	-	3,260,471
NMC retirement contributions	1,052,217	-	-	-	1,052,217
Other	2,340,362	-	1,576,860	192,447	4,109,669
	<u>\$ 182,674,263</u>	<u>\$ -</u>	<u>\$ 69,433,176</u>	<u>\$ 25,479,285</u>	<u>\$ 277,586,724</u>

See Accompanying Independent Auditors' Report.

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

September 30, 2009

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, 2009

	Federal Grants	DOI Capital Projects	Total
<u>Assets</u>			
Restricted cash and cash equivalents	\$ 388,981	\$ 4,453,036	\$ 4,842,017
Receivables, net of allowance for uncollectibles:			
Federal agencies	6,394,678	896,434	7,291,112
Other	-	12,831	12,831
Due from other funds	-	5,155,090	5,155,090
Inventories	767,200	-	767,200
	<u>\$ 7,550,859</u>	<u>\$ 10,517,391</u>	<u>\$ 18,068,250</u>
<u>Liabilities and Fund Balances</u>			
Liabilities:			
Accounts payable	\$ 2,343,859	\$ 1,310,601	\$ 3,654,460
Other liabilities and accruals	902,776	-	902,776
Due to other funds	3,537,024	129,590	3,666,614
Deferred revenues	767,200	-	767,200
Total liabilities	<u>7,550,859</u>	<u>1,440,191</u>	<u>8,991,050</u>
Fund balances:			
Reserved for:			
Related assets	388,981	4,453,036	4,842,017
Encumbrances	5,087,183	6,735,499	11,822,682
Unreserved deficits reported in:			
Special revenue funds	(5,476,164)	-	(5,476,164)
Undesignated	-	(2,111,335)	(2,111,335)
Total equity and other credits	<u>-</u>	<u>9,077,200</u>	<u>9,077,200</u>
	<u>\$ 7,550,859</u>	<u>\$ 10,517,391</u>	<u>\$ 18,068,250</u>

See Accompanying Independent Auditors' Report.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances  
 Grants Assistance Fund  
 For the Year Ended September 30, 2009

	Federal Grants	DOI Capital Projects	Total
<b>Revenues:</b>			
Federal contributions	\$ 56,579,638	\$ 5,863,785	\$ 62,443,423
Licenses and fees	183,611	-	183,611
Interest and dividends	-	19,788	19,788
Contributions from component units	-	44,150	44,150
Other	187,620	3,632,460	3,820,080
<b>Total revenues</b>	<b>56,950,869</b>	<b>9,560,183</b>	<b>66,511,052</b>
<b>Expenditures:</b>			
<b>Current:</b>			
Health	25,774,247	708,519	26,482,766
Public safety and law enforcement	8,055,500	156,047	8,211,547
General government	121,899	-	121,899
Community and social services	15,671,401	143,951	15,815,352
Utilities	-	305,143	305,143
Lands and natural resources	8,250,274	-	8,250,274
Education	113,018	101,190	214,208
Economic development	35,780	895,191	930,971
<b>Payments to:</b>			
Public School System	2,110,000	-	2,110,000
Northern Marianas College	330,000	-	330,000
<b>Debt service:</b>			
Principal retirement	-	1,665,000	1,665,000
Interest and fiscal charges	-	192,488	192,488
<b>Capital outlay:</b>			
Utilities - Capital Projects	-	3,598,012	3,598,012
Public works	317,223	888,293	1,205,516
<b>Total expenditures</b>	<b>60,779,342</b>	<b>8,653,834</b>	<b>69,433,176</b>
Deficiency of revenues under expenditures	(3,828,473)	906,349	(2,922,124)
<b>Other financing sources (uses):</b>			
Operating transfers in	6,560,387	2,030,548	8,590,935
Operating transfers out	(2,731,914)	(9,916,465)	(12,648,379)
<b>Total other financing sources (uses), net</b>	<b>3,828,473</b>	<b>(7,885,917)</b>	<b>(4,057,444)</b>
Net change in fund balances	-	(6,979,568)	(6,979,568)
Fund balances at beginning of year	-	16,056,768	16,056,768
Fund balances at end of year	<u>\$ -</u>	<u>\$ 9,077,200</u>	<u>\$ 9,077,200</u>

See Accompanying Independent Auditors' Report.

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

September 30, 2009

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.

Commonwealth Arts Council Fund

The Commonwealth Arts Council 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.

Human Resources Development Trust Fund

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

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.

See Accompanying Independent Auditors' Report.

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

September 30, 2009

Commonwealth Nonresident Workers' Fee Fund

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

Commonwealth Alien Deportation Fund

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

Commonwealth Museum Fund

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

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, 2009, the project was completed. Revenues generated by the court will be used to finance the debt service on the loan with NMIRF.

Local Revenue Fund

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

Saipan Trust Fund

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

Tobacco Settlement Trust Fund

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

Micronesian Garment Manufacturing Fund

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

See Accompanying Independent Auditors' Report.

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

September 30, 2009

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.

Governor's Education Initiative Fund

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

Managaha Landing Fee Fund

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

La Fiesta Revolving Fund

This fund was established to account for the financial transactions of the La Fiesta property.

Miscellaneous Special Revenue Funds

The miscellaneous special revenue 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
- Zoning Board Revolving Fund
- Joeten-Kiyu Library Revolving Fund
- Department of Corrections Revolving Fund
- Animal Health Revolving Fund
- Fish and Game Revolving Fund
- Tobacco License Fee Fund
- Miscellaneous Expendable Trust Fund
- Probation Services Fund
- Agriculture Revolving Fund
- Public Utilities Commission Fund
- Soil and Water Conservation Fund
- Outer Cover Marina Fund
- Special Disabilities Fund

See Accompanying Independent Auditors' Report.

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

September 30, 2009

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  
NONMAJOR GOVERNMENTAL FUNDS - DEBT SERVICE FUND

September 30, 2009

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

See Accompanying Independent Auditors' Report.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Combining Balance Sheet  
Nonmajor Governmental Funds  
September 30, 2009

	Special Revenue Funds								
	Department of Public Lands	Private Grants	Commonwealth Arts Council	Human Resources Development Trust	Oil Overcharge	Commonwealth Nonresident Workers' Fee	Commonwealth Alien Deportation	Commonwealth Museum	Judicial Building
<u>Assets</u>									
Cash and cash equivalents	\$ 2,245,854	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Restricted cash and cash equivalents	3,117,678	-	-	-	-	-	-	-	-
Restricted time certificates of deposit	4,193,298	-	-	-	-	-	-	-	-
Receivables, net of allowance for uncollectibles:									
Other	855,303	-	-	-	-	-	-	-	-
Due from other funds	-	12,854	2,257	321,092	47,499	222,829	294,438	18,364	433,449
Due from component unit	-	-	-	-	-	-	-	-	-
Due from Pension (and Other Employee Benefit) Trust Fund	-	-	-	-	-	-	-	-	364,546
	<u>\$ 10,412,133</u>	<u>\$ 12,854</u>	<u>\$ 2,257</u>	<u>\$ 321,092</u>	<u>\$ 47,499</u>	<u>\$ 222,829</u>	<u>\$ 294,438</u>	<u>\$ 18,364</u>	<u>\$ 797,995</u>
<u>Liabilities and Fund Balances (Deficit)</u>									
Liabilities:									
Accounts payable	\$ 157,812	\$ 12,854	\$ 2,257	\$ -	\$ -	\$ -	\$ 12,760	\$ 11,309	\$ -
Other liabilities and accruals	2,754,922	-	-	11,985	-	22,500	61	7,055	-
Claims and judgment payable	2,690,020	-	-	-	-	-	-	-	-
Due to other funds	1,900,666	-	-	-	-	-	-	-	-
Due to component units	-	-	-	-	-	200,329	-	-	-
Due to Pension (and Other Employee Benefit) Trust Fund	-	-	-	-	-	-	-	-	-
Deferred revenues	629,238	-	-	-	47,499	-	-	-	-
	<u>8,132,658</u>	<u>12,854</u>	<u>2,257</u>	<u>11,985</u>	<u>47,499</u>	<u>222,829</u>	<u>12,821</u>	<u>18,364</u>	<u>-</u>
Total liabilities									
Commitments and contingencies									
Fund balances (deficit):									
Reserved for:									
Debt service	-	-	-	-	-	-	-	-	364,546
Related asset	5,078,768	-	-	-	-	-	-	-	-
Encumbrances	50,971	68,850	420	1,668	-	-	41,332	3,558	-
Continuing appropriations	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-
Unreserved:									
Undesignated	(2,850,264)	(68,850)	(420)	307,439	-	-	240,285	(3,558)	433,449
	<u>2,279,475</u>	<u>-</u>	<u>-</u>	<u>309,107</u>	<u>-</u>	<u>-</u>	<u>281,617</u>	<u>-</u>	<u>797,995</u>
	<u>\$ 10,412,133</u>	<u>\$ 12,854</u>	<u>\$ 2,257</u>	<u>\$ 321,092</u>	<u>\$ 47,499</u>	<u>\$ 222,829</u>	<u>\$ 294,438</u>	<u>\$ 18,364</u>	<u>\$ 797,995</u>

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Combining Balance Sheet  
Nonmajor Governmental Funds  
September 30, 2009

Special Revenue Funds										
Local Revenue	Saipan Trust	Tobacco Settlement Trust	Micronesian Garment Manufacturing	Tobacco Control	Solid Waste Revolving	Governor's Education Initiative	Managaha Landing Fee	La Fiesta Revolving Fund	Miscellaneous	Total Special Revenue Funds
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,245,854
-	80,400	-	-	-	-	-	-	-	-	3,198,078
-	-	-	-	-	-	-	-	-	-	4,193,298
-	-	1,313,010	-	-	-	-	-	-	-	2,168,313
2,902,989	-	692,975	456,655	1,414,690	3,985,257	17	39,580	-	1,387,963	12,232,908
-	16,829	-	-	-	-	-	-	-	-	16,829
-	-	-	-	-	-	-	-	-	-	364,546
<u>\$ 2,902,989</u>	<u>\$ 97,229</u>	<u>\$ 2,005,985</u>	<u>\$ 456,655</u>	<u>\$ 1,414,690</u>	<u>\$ 3,985,257</u>	<u>\$ 17</u>	<u>\$ 39,580</u>	<u>\$ -</u>	<u>\$ 1,387,963</u>	<u>\$ 24,419,826</u>
\$ 107,117	\$ -	\$ -	\$ -	\$ 9,569	\$ 83,081	\$ -	\$ -	\$ -	\$ 27,618	\$ 424,377
-	-	-	-	-	-	-	-	-	114	2,796,637
-	76,420	-	-	-	-	-	-	-	841,682	2,690,020
-	-	-	-	-	-	-	-	-	-	2,818,768
-	-	-	-	-	-	-	-	-	-	200,329
-	-	-	-	-	-	-	-	-	416,295	416,295
-	-	-	-	-	-	-	-	-	-	676,737
<u>107,117</u>	<u>76,420</u>	<u>-</u>	<u>-</u>	<u>9,569</u>	<u>83,081</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,285,709</u>	<u>10,023,163</u>
-	-	-	-	-	-	-	-	-	-	364,546
274,802	80,400	990	-	16,835	332,608	-	-	-	43,449	5,159,168
-	-	-	-	-	-	-	-	-	-	835,483
-	-	-	-	-	2,672,158	-	-	-	-	2,672,158
<u>2,521,070</u>	<u>(59,591)</u>	<u>2,004,995</u>	<u>456,655</u>	<u>1,388,286</u>	<u>897,410</u>	<u>17</u>	<u>39,580</u>	<u>-</u>	<u>58,805</u>	<u>5,365,308</u>
<u>2,795,872</u>	<u>20,809</u>	<u>2,005,985</u>	<u>456,655</u>	<u>1,405,121</u>	<u>3,902,176</u>	<u>17</u>	<u>39,580</u>	<u>-</u>	<u>102,254</u>	<u>14,396,663</u>
<u>\$ 2,902,989</u>	<u>\$ 97,229</u>	<u>\$ 2,005,985</u>	<u>\$ 456,655</u>	<u>\$ 1,414,690</u>	<u>\$ 3,985,257</u>	<u>\$ 17</u>	<u>\$ 39,580</u>	<u>\$ -</u>	<u>\$ 1,387,963</u>	<u>\$ 24,419,826</u>

See Accompanying Independent Auditors' Report.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Combining Balance Sheet, Continued  
Nonmajor Governmental Funds  
September 30, 2009

	Capital Projects Funds							Debt Service Fund	Total Non-Major Governmental Funds
	Commonwealth Development Authority	Infrastructure Tax	Public Works Grants	American Memorial Park	Local Capital Projects	Private Capital Grants	Total Capital Projects Funds		
<u>Assets</u>									
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,245,854
Restricted cash and cash equivalents	-	-	-	-	129,965	-	129,965	1,162,404	4,490,447
Restricted time certificates of deposit	-	-	-	-	-	-	-	-	4,193,298
Receivables, net of allowance for uncollectibles:									
Federal	-	-	597,563	-	-	-	597,563	-	597,563
Other	-	-	-	19,629	-	-	19,629	-	2,187,942
Due from other funds	292,678	172,214	461,251	-	650	405,093	1,331,886	-	13,564,794
Due from component unit	42,990	-	-	-	176,057	-	219,047	-	235,876
Due from Pension (and Other Employee Benefit) Trust Fund	-	-	-	-	-	-	-	-	364,546
	<u>\$ 335,668</u>	<u>\$ 172,214</u>	<u>\$ 1,058,814</u>	<u>\$ 19,629</u>	<u>\$ 306,672</u>	<u>\$ 405,093</u>	<u>\$ 2,298,090</u>	<u>\$ 1,162,404</u>	<u>\$ 27,880,320</u>
<u>Liabilities and Fund Balances (Deficit)</u>									
Liabilities:									
Accounts payable	\$ 240,109	\$ 29,298	\$ 489,263	\$ -	\$ 11,023	\$ 31,574	\$ 801,267	\$ -	\$ 1,225,644
Other liabilities and accruals	42,990	-	569,551	6,868	176,057	-	795,466	-	3,592,103
Claims and judgment payable	-	-	-	-	-	-	-	-	2,690,020
Due to other funds	-	-	-	12,761	-	-	12,761	-	2,831,529
Due to component units	-	-	-	-	-	-	-	-	200,329
Due to Pension (and Other Employee Benefit) Trust Fund	-	-	-	-	-	-	-	-	416,295
Deferred revenues	52,569	-	-	-	-	-	52,569	-	729,306
Total liabilities	<u>335,668</u>	<u>29,298</u>	<u>1,058,814</u>	<u>19,629</u>	<u>187,080</u>	<u>31,574</u>	<u>1,662,063</u>	<u>-</u>	<u>11,685,226</u>
Fund balances (deficit):									
Reserved for:									
Debt service	-	-	-	-	-	-	-	1,162,404	1,526,950
Related asset	-	-	-	-	129,965	-	129,965	-	5,289,133
Encumbrances	10,435	116,768	12,503,273	53,037	672,287	24,389	13,380,189	-	14,215,672
Continuing appropriations	-	-	-	-	705,493	-	705,493	-	705,493
Other	-	-	-	-	-	-	-	-	2,672,158
Unreserved:									
Undesignated	(10,435)	26,148	(12,503,273)	(53,037)	(1,388,153)	349,130	(13,579,620)	-	(8,214,312)
Total fund balances (deficit)	<u>-</u>	<u>142,916</u>	<u>-</u>	<u>-</u>	<u>119,592</u>	<u>373,519</u>	<u>636,027</u>	<u>1,162,404</u>	<u>16,195,094</u>
	<u>\$ 335,668</u>	<u>\$ 172,214</u>	<u>\$ 1,058,814</u>	<u>\$ 19,629</u>	<u>\$ 306,672</u>	<u>\$ 405,093</u>	<u>\$ 2,298,090</u>	<u>\$ 1,162,404</u>	<u>\$ 27,880,320</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, 2009

	Special Revenue Funds								
	Department of Public Lands	Private Grants	Commonwealth Arts Council	Human Resources Development Trust	Oil Overcharge	Commonwealth Nonresident Workers' Fee	Commonwealth Alien Deportation	Commonwealth Museum	Judicial Building
Revenues:									
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Federal contributions	-	85,946	-	-	-	-	-	-	-
Charges for sales and services	3,676,866	-	-	-	-	-	-	4,680	-
Licenses and fees	317,496	-	-	-	-	5,572,663	453,626	3,946	883,543
Interest and dividends	56,787	-	-	-	-	-	-	96	9,615
Other	103,441	1,832,886	27,679	-	-	-	-	2,400	-
Total revenues	4,154,590	1,918,832	27,679	-	-	5,572,663	453,626	11,122	893,158
Expenditures:									
Current:									
Health	-	52,940	-	-	-	-	-	-	-
Public safety and law enforcement	-	3,494	-	-	-	360,146	19,138	-	-
General government	-	-	-	-	-	-	-	-	-
Community and social services	-	255,747	22,617	207,607	-	-	-	212,238	-
Other elected officials	-	-	-	-	-	-	-	-	-
Lands and natural resources	4,493,903	2,331	-	-	-	-	-	-	-
Legislative branch	-	-	-	-	-	-	-	-	-
Education	-	-	-	-	-	-	-	-	-
Economic development	-	-	-	-	-	-	-	-	-
Payments to:									
Northern Marianas College	-	-	-	-	-	1,008,032	-	-	-
Debt service:									
Principal retirement	-	-	-	-	-	-	-	-	836,840
Interest and fiscal charges	-	-	-	-	-	-	-	-	582,100
Capital outlay:									
Public works	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-
Total expenditures	4,493,903	314,512	22,617	207,607	-	1,368,178	19,138	212,238	1,418,940
Excess (deficiency) of revenues over (under) expenditures	(339,313)	1,604,320	5,062	(207,607)	-	4,204,485	434,488	(201,116)	(525,782)
Other financing sources (uses):									
Operating transfers in	-	-	4,208	245,378	-	-	-	233,802	-
Operating transfers out	(112,500)	(1,718,251)	-	-	-	(3,937,032)	-	-	-
Total other financing sources (uses), net	(112,500)	(1,718,251)	4,208	245,378	-	(3,937,032)	-	233,802	-
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	(451,813)	(113,931)	9,270	37,771	-	267,453	434,488	32,686	(525,782)
Fund balances (deficit) at beginning of year	2,731,288	113,931	(9,270)	271,336	-	(267,453)	(152,871)	(32,686)	1,323,777
Fund balances (deficit) at end of year	\$ 2,279,475	\$ -	\$ -	\$ 309,107	\$ -	\$ -	\$ 281,617	\$ -	\$ 797,995

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, 2009

Special Revenue Funds										
Local Revenue	Saipan Trust	Tobacco Settlement Trust	Micronesian Garment Manufacturing	Tobacco Control	Solid Waste Revolving	Governor's Education Initiative	Managaha Landing Fee	La Fiesta Revolving Fund	Miscellaneous	Total Special Revenue Funds
\$ -	\$ -	\$ -	\$ -	\$ 1,413,951	\$ 1,692,979	\$ -	\$ -	\$ -	\$ -	\$ 3,106,930
-	-	-	-	-	-	-	-	-	-	85,946
-	-	-	-	-	-	-	-	-	94,760	3,776,306
3,947,197	-	-	-	-	395,054	-	-	-	145,830	11,719,355
-	3,379	-	-	-	-	-	-	-	591	70,468
2,476	-	2,040,386	-	-	-	-	-	-	18,667	4,027,935
<u>3,949,673</u>	<u>3,379</u>	<u>2,040,386</u>	<u>-</u>	<u>1,413,951</u>	<u>2,088,033</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>259,848</u>	<u>22,786,940</u>
94,407	-	-	-	201,709	-	-	-	-	-	349,056
3,000	-	-	-	-	-	-	-	-	65,894	451,672
353,269	-	-	-	-	-	-	-	-	52,101	405,370
455,882	-	-	-	47,008	-	-	-	-	14,941	1,216,040
149,285	-	-	-	-	-	-	-	-	-	149,285
4,500	-	-	-	-	-	-	-	-	162,895	4,663,629
27,363	-	-	-	-	-	-	-	-	-	27,363
3,512,499	-	-	-	1,292	-	-	-	-	-	3,513,791
61,435	-	-	-	-	-	-	-	-	-	61,435
25,000	-	-	-	-	-	-	-	-	-	1,033,032
-	-	-	-	-	-	-	-	-	-	836,840
-	-	-	-	-	-	-	-	-	-	582,100
789,641	-	-	-	-	1,300,224	-	-	-	-	2,089,865
(1,224)	-	-	-	-	-	-	-	-	-	(1,224)
<u>5,475,057</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>250,009</u>	<u>1,300,224</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>295,831</u>	<u>15,378,254</u>
(1,525,384)	3,379	2,040,386	-	1,163,942	787,809	-	-	-	(35,983)	7,408,686
-	-	-	-	-	-	-	-	97,697	51,316	632,401
-	-	(3,300,000)	-	-	-	-	-	-	(260,808)	(9,328,591)
-	-	(3,300,000)	-	-	-	-	-	97,697	(209,492)	(8,696,190)
(1,525,384)	3,379	(1,259,614)	-	1,163,942	787,809	-	-	97,697	(245,475)	(1,287,504)
4,321,256	17,430	3,265,599	456,655	241,179	3,114,367	17	39,580	(97,697)	347,729	15,684,167
<u>\$ 2,795,872</u>	<u>\$ 20,809</u>	<u>\$ 2,005,985</u>	<u>\$ 456,655</u>	<u>\$ 1,405,121</u>	<u>\$ 3,902,176</u>	<u>\$ 17</u>	<u>\$ 39,580</u>	<u>\$ -</u>	<u>\$ 102,254</u>	<u>\$ 14,396,663</u>

See Accompanying Independent Auditors' Report.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Combining Statement of Revenues, Expenditures and Changes in Fund Balances, Continued  
 Non-Major Governmental Funds  
 For the Year Ended September 30, 2009

	Capital Projects Funds						Total Capital Projects Funds	Debt Service Fund	Total Non-Major Governmental Funds
	Commonwealth Development Authority	Infrastructure Tax	Public Works Grants	American Memorial Park	Local Capital Projects	Private Capital Grants			
Revenues:									
Taxes	\$ -	\$ 403,254	\$ -	\$ -	\$ -	\$ -	\$ 403,254	\$ -	\$ 3,510,184
Federal contributions	-	-	1,829,761	-	-	-	1,829,761	-	1,915,707
Charges for sales and services	-	-	-	-	-	-	-	-	3,776,306
Licenses and fees	-	-	-	-	-	-	-	-	11,719,355
Interest and dividends	-	286	-	-	1,159	-	1,445	4,378	76,291
Contributions from component units	134,121	-	-	-	569,929	-	704,050	-	704,050
Other	-	184,817	-	-	-	-	184,817	-	4,212,752
<b>Total revenues</b>	<b>134,121</b>	<b>588,357</b>	<b>1,829,761</b>	<b>-</b>	<b>571,088</b>	<b>-</b>	<b>3,123,327</b>	<b>4,378</b>	<b>25,914,645</b>
Expenditures by account:									
Current:									
Health	-	-	-	-	560,033	-	560,033	-	909,089
Public safety and law enforcement	-	46,403	-	-	120,432	-	166,835	-	618,507
General government	-	-	-	-	-	-	-	-	405,370
Community and social services	-	-	-	-	-	-	-	-	1,216,040
Other elected officials	-	-	-	-	-	-	-	-	149,285
Lands and natural resources	-	-	-	-	-	-	-	-	4,663,629
Legislative branch	-	-	-	-	-	-	-	-	27,363
Education	-	235,488	-	-	-	-	235,488	-	3,749,279
Economic development	-	-	-	-	-	-	-	-	61,435
Payments to:									
Northern Marianas College	-	-	-	-	-	-	-	-	1,033,032
Debt service:									
Principal retirement	-	-	-	-	-	-	-	1,755,000	2,591,840
Interest and fiscal charges	-	-	-	-	-	-	-	5,267,855	5,849,955
Capital outlay:									
Public works	134,121	151,938	1,829,761	-	-	-	2,115,820	-	4,205,685
Other	-	-	-	-	-	-	-	-	(1,224)
<b>Total expenditures</b>	<b>134,121</b>	<b>433,829</b>	<b>1,829,761</b>	<b>-</b>	<b>680,465</b>	<b>-</b>	<b>3,078,176</b>	<b>7,022,855</b>	<b>25,479,285</b>
Excess (deficiency) of revenues over (under) expenditures	-	154,528	-	-	(109,377)	-	45,151	(7,018,477)	435,360
Other financing sources (uses):									
Operating transfers in	-	-	-	139,733	746,166	-	885,899	5,615,000	7,133,300
Operating transfers out	-	(848,563)	-	-	-	(610,016)	(1,458,579)	(496,464)	(11,283,634)
<b>Total other financing sources (uses), net</b>	<b>-</b>	<b>(848,563)</b>	<b>-</b>	<b>139,733</b>	<b>746,166</b>	<b>(610,016)</b>	<b>(572,680)</b>	<b>5,118,536</b>	<b>(4,150,334)</b>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	-	(694,035)	-	139,733	636,789	(610,016)	(527,529)	(1,899,941)	(3,714,974)
Fund balances (deficit) at beginning of year	-	836,951	-	(139,733)	(517,197)	983,535	1,163,556	3,062,345	19,910,068
Fund balances (deficit) at end of year	\$ -	\$ 142,916	\$ -	\$ -	\$ 119,592	\$ 373,519	\$ 636,027	\$ 1,162,404	\$ 16,195,094

See Accompanying Independent Auditors' Report.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS  
FIDUCIARY FUNDS

September 30, 2009

Pension and Other Employee Benefits Trust Funds

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

Northern Mariana Islands Retirement Fund (NMIRF)

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

CNMI Workers' Compensation Commission

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

Northern Mariana Islands (NMI) Government Health and Life Insurance Trust Fund

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

See Accompanying Independent Auditors' Report.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS  
FIDUCIARY FUNDS

September 30, 2009

Tinian Land Condemnation Fund

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

Security Deposit Fund

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

See Accompanying Independent Auditors' Report.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Combining Statement of Fiduciary Net Assets  
Fiduciary Funds  
September 30, 2009

	Pension (and Other Employee Benefit) Trust Fund					Agency Funds		
	Northern Mariana Islands Retirement Fund	CNMI Government Health and Life Insurance Trust	CNMI Workers' Compensation Commission	Eliminations	Total	Tinian Land Condemnation Fund	Security Deposit Fund	Total
<b>Assets</b>								
Cash and cash equivalents	\$ 3,022,070	\$ 882,030	\$ 183,416	\$ -	\$ 4,087,516	\$ -	\$ 2,078,661	\$ 2,078,661
Receivables:								
Loans	6,950,565	-	-	-	6,950,565	-	-	-
Notes	6,875,960	-	-	-	6,875,960	-	-	-
Benefits	1,318,444	-	800,007	-	2,118,451	-	-	-
Interest and dividends	887,334	-	-	-	887,334	-	-	-
Other	1,357,960	50	5,933	-	1,363,943	-	-	-
	17,390,263	50	805,940	-	18,196,253	-	-	-
Due from General Fund	229,765,494	-	-	-	229,765,494	1,377,472	-	1,377,472
Less allowance for uncollectible receivables	(169,244,528)	-	-	-	(169,244,528)	-	-	-
	60,520,966	-	-	-	60,520,966	1,377,472	-	1,377,472
Due from Miscellaneous Special Revenue Funds	-	-	416,295	-	416,295	-	-	-
Due from other funds	873,247	-	-	(873,247)	-	-	-	-
Prepaid items	5,540	-	-	-	5,540	-	-	-
Investments, at fair market value:								
Equity securities	191,550,022	-	-	-	191,550,022	-	-	-
Corporate debt securities	72,459,045	-	-	-	72,459,045	-	-	-
U.S. Government securities	61,110,337	-	-	-	61,110,337	-	-	-
Mutual funds	17,681,921	-	632,317	-	18,314,238	-	-	-
Real estate investment trust	937,205	-	-	-	937,205	-	-	-
Cash equivalents	89,423	-	-	-	89,423	-	-	-
Money market placements	-	-	30,781	-	30,781	-	-	-
Others	110,356	-	-	-	110,356	-	-	-
	343,938,309	-	663,098	-	344,601,407	-	-	-
Restricted assets	-	-	126,816	-	126,816	-	2,509,528	2,509,528
Capital assets	4,158,225	15,345	1,163	-	4,174,733	-	-	-
Total assets	429,908,620	897,425	2,196,728	(873,247)	432,129,526	1,377,472	4,588,189	5,965,661
<b>Liabilities and Other Credits</b>								
Accounts payable	412,363	17,960,944	130,746	-	18,504,053	-	-	-
Claims and judgments payable	-	-	-	-	-	1,377,472	-	1,377,472
Deposits payable	-	-	-	-	-	-	4,588,189	4,588,189
Other liabilities and accruals	2,138,952	-	-	-	2,138,952	-	-	-
Due to Judicial Building Fund	364,546	-	-	-	364,546	-	-	-
Due to other funds	-	873,247	-	(873,247)	-	-	-	-
Deferred revenue	61,887,075	-	800,007	-	62,687,082	-	-	-
Total liabilities and other credits	64,802,936	18,834,191	930,753	(873,247)	83,694,633	\$ 1,377,472	\$ 4,588,189	\$ 5,965,661
Net assets:								
Held in trust for pension benefits	365,105,684	-	-	-	365,105,684			
Held in trust for medical and life insurance benefits	-	(17,936,766)	-	-	(17,936,766)			
Held in trust for workers' compensation benefits and other purposes	-	-	1,265,975	-	1,265,975			
Total net assets	\$ 365,105,684	\$ (17,936,766)	\$ 1,265,975	\$ -	\$ 348,434,893			

See Accompanying Independent Auditors' Report.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Combining Statement of Changes in Fiduciary Net Assets  
Fiduciary Funds  
Year Ended September 30, 2009

	Pension (and Other Employee Benefit) Trust Fund				Total
	Northern Mariana Islands Retirement Fund	CNMI Government Health and Life Insurance Trust	CNMI Workers' Compensation Commission	Eliminations	
<u>Additions</u>					
Contributions:					
Employer	\$ 37,707,841	\$ -	\$ -	\$ -	\$ 37,707,841
Employee	11,951,915	-	-	-	11,951,915
Revenues:					
Premiums	-	-	42,609	-	42,609
Rent income and other	2,920,140	472,977	9,865	-	3,402,982
Total contributions and revenues	<u>52,579,896</u>	<u>472,977</u>	<u>52,474</u>	<u>-</u>	<u>53,105,347</u>
Net investment loss:					
Net depreciation in fair value	(12,897,083)	-	(19,648)	-	(12,916,731)
Interest	10,242,332	-	-	(63,747)	10,178,585
Total investment loss	<u>(2,654,751)</u>	<u>-</u>	<u>(19,648)</u>	<u>(63,747)</u>	<u>(2,738,146)</u>
Less: investment expense	<u>1,891,869</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,891,869</u>
Net investment loss	<u>(4,546,620)</u>	<u>-</u>	<u>(19,648)</u>	<u>(63,747)</u>	<u>(4,630,015)</u>
Other financing sources:					
Transfer in	<u>883,715</u>	<u>122,630</u>	<u>226,582</u>	<u>-</u>	<u>1,232,927</u>
Total additions	<u>48,916,991</u>	<u>595,607</u>	<u>259,408</u>	<u>(63,747)</u>	<u>49,708,259</u>
<u>Deductions</u>					
Benefits	63,267,057	-	-	-	63,267,057
General and administrative	1,840,906	112,555	173,727	(63,747)	2,063,441
Bad debts	24,526,498	-	-	-	24,526,498
Refunds	4,841,691	-	-	-	4,841,691
Medical claims	-	147,169	46,553	-	193,722
Total deductions	<u>94,476,152</u>	<u>259,724</u>	<u>220,280</u>	<u>(63,747)</u>	<u>94,892,409</u>
Change in net assets	(45,559,161)	335,883	39,128	-	(45,184,150)
Net assets at beginning of year	<u>410,664,845</u>	<u>(18,272,649)</u>	<u>1,226,847</u>	<u>-</u>	<u>393,619,043</u>
Net assets at end of year	<u>\$ 365,105,684</u>	<u>\$ (17,936,766)</u>	<u>\$ 1,265,975</u>	<u>\$ -</u>	<u>\$ 348,434,893</u>

See Accompanying Independent Auditors' Report.