

*Financial Statements, Required Supplementary
Information, and Supplementary Information*

Commonwealth of the Northern Mariana Islands

*Year ended September 30, 2023
with Report of Independent Auditors*



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Commonwealth of the Northern Mariana Islands

Financial Statements, Required Supplementary Information,
and Supplementary Information

Year ended September 30, 2023

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Report of Independent Auditors

Honorable David M. Apatang
Governor
Commonwealth of the Northern Mariana Islands:

Report on the Audit of the Financial Statements

Adverse and Disclaimer of Opinions

We have audited the financial statements of the aggregate discretely presented component units and the aggregate remaining fund information of the Commonwealth of the Northern Mariana Islands (CNMI) as of and for the year ended September 30, 2023, and the related notes to the financial statements. We were also engaged to audit the accompanying financial statements of the governmental activities and each of the remaining major funds. These financial statements collectively comprise the CNMI's basic financial statements as set forth in Section III of the foregoing table of contents.

Summary of Opinions

Opinion Unit	Type of Opinion
Governmental Activities	Disclaimer
Aggregate Discretely Presented Component Units	Adverse
General Fund	Disclaimer
Grants Assistance Governmental Fund	Disclaimer
American Rescue Plan Act (ARPA) Governmental Fund	Disclaimer
Aggregate Remaining Fund Information	Adverse

Adverse Opinions on Aggregate Discretely Presented Component Units, the Department of Public Lands Governmental Fund and Aggregate Remaining Fund Information

In our opinion, because of the significance of the matters discussed in the Basis for Adverse Opinions section of our report, the accompanying financial statements referred to above do not present fairly, in all material respects, the respective financial position of the Aggregate Discretely Presented Component Units, and the Aggregate Remaining Fund Information of the CNMI, as of September 30, 2023, or the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

We did not audit the financial statements of the Commonwealth Economic Development Authority (CEDA), the Commonwealth Utilities Corporation (CUC), the Marianas Visitors Authority (MVA), and the Northern Marianas College (NMC), which represent 35%, 33% and 52%, respectively, of the assets, net position, and program revenues of the CNMI's discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for CEDA, CUC, MVA and NMC, is based solely on the reports of the other auditors.

Disclaimer of Opinions on the Governmental Activities, General Fund, Grants Assistance Governmental Fund and ARPA Governmental Fund

We do not express an opinion on the accompanying financial statements of the Governmental Activities, General Fund, Grants Assistance Governmental Fund and ARPA Governmental Fund of the CNMI. Because of the significance of the matters described in the Basis for Disclaimer of Opinions section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the financial statements of the Governmental Activities, General Fund, Grants Assistance Governmental Fund and ARPA Governmental Fund.

Basis for Adverse Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards (Government Auditing Standards)*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the CNMI, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our adverse opinions.

Matter Giving Rise to Adverse Opinions on Aggregate Discretely Presented Component Units, and Aggregate Remaining Fund Information

The CNMI's component units' column does not include the financial statements of the Commonwealth Healthcare Corporation (CHCC) and the Northern Marianas Housing Corporation (NMHC). Accounting principles generally accepted in the United States of America require the financial statements of CHCC and NMHC be reported with the financial data of the CNMI's component units' column unless the CNMI also issues financial statements for the financial reporting entity that include the financial data for its component units. The CNMI has not issued such reporting entities' financial statements. The amount by which this departure would affect the assets and deferred outflows, liabilities and deferred inflows, net position, revenues, and expenses of the aggregately discretely presented component units has not been determined.

The CNMI's aggregate remaining fund information does not include the financial statements of the fiduciary component units. Accounting principles generally accepted in the United States of America require the financial statements of the fiduciary component units be reported with the financial data of the CNMI's aggregate remaining fund information. The amount by which this departure would affect the assets, deferred outflows of resources, liabilities, deferred inflows of resources, net position, additions and deductions of the fiduciary funds has not been determined.

Basis for Disclaimer of Opinions on Governmental Activities, General Fund, Grants Assistance Governmental Fund and ARPA Governmental Fund

Management has not adopted GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. As discussed in note 1 to the financial statements, the CNMI has not determined the liability associated with the payment of 25% of the class members full benefits that are considered to be substantively automatic. GASB Statement 73 requires the pension liability to include all benefits to be provided to current active and inactive employees through the pension plan in accordance with the benefit terms and any additional legal agreements to provide benefits that are in force at the measurement date. The amount of which the departure would affect the assets and deferred outflows of resources, liabilities and deferred inflows of resources, net position and expenses of the governmental activities has not been determined.

Further, the CNMI was unable to provide sufficient appropriate audit evidence for the balances and financial activities of unrestricted and restricted cash and cash equivalents, receivables, net, advances, due to/from component units and fiduciary funds, depreciable and nondepreciable capital assets, claims and judgments payable, accounts payable, tax and recovery rebates payable, health and life insurance payable, other liabilities and accruals, unearned revenues, compensated absences, landfill closure and post closure costs, net position/fund balances, revenues and expenditures/expenses of the governmental activities, the General Fund, the Grants Assistance Governmental Fund, and the ARPA Governmental Fund. The CNMI was unable to substantiate the general ledger transactions of these balances and activities due to inadequacies in accounting records and, as of the report date, was still in the process of determining the balances and financial activities of cash and cash equivalents, advances, receivables, net, due to/from component units and fiduciary funds, depreciable and nondepreciable capital assets, accounts payable, other liabilities and accruals, other revenues and expenditures/expenses. We were unable to satisfy ourselves through alternative auditing procedures concerning unrestricted and restricted cash and cash equivalents, receivables, net, advances, due to/from component units and fiduciary funds, depreciable and nondepreciable capital assets, claims and judgments payable, accounts payable, tax and recovery rebates payable, health and life insurance payable, other liabilities and accruals, unearned revenues, compensated absences, landfill closure and post closure costs, net position/fund balances, revenues and expenditures/expenses. As a result of these matters, we were unable to determine whether further audit adjustments may have been necessary in respect to the recorded or unrecorded cash and cash equivalents, advances, receivables, net, due to/from component units and fiduciary funds, depreciable and nondepreciable capital assets, accounts payable, other liabilities and accruals, net position/fund balances, revenues and expenditures/expenses.

The CNMI's Governmental Activities do not include the financial accounts of the Department of Public Lands Governmental Fund. Accounting principles generally accepted in the United States of America require the financial accounts of the major fund be reported with the financial data of the CNMI's Governmental Activities. The amount of which the departure would affect the assets and deferred outflows of resources, liabilities and deferred inflows of resources, net position and expenses of the governmental activities has not been determined.

Emphasis-of-Matters

Correction of Errors

As discussed in note 18 to the financial statements, the beginning net position of the aggregate discretely presented component units and of the government-wide financial statements have been restated.

Our opinions are not modified with respect to these matters.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the CNMI's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditors' Responsibilities for the Audit of Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we

- exercise professional judgment and maintain professional skepticism throughout the audit.
- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the CNMI's internal control. Accordingly, no such opinion is expressed.

- evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the CNMI's ability to continue as a going concern for a reasonable period of time.

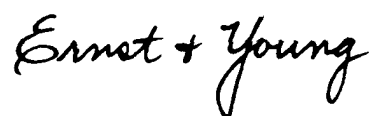
We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis as set forth in Section II of the foregoing table of contents and the Schedule of Revenues, Expenditures, and Changes in Deficit - Budget and Actual - General Fund and notes thereto, the Schedule of Proportionate Share of the Net Pension Liability and the Schedule of Pension Contributions, as set forth in Section IV of the foregoing table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Government Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated July 17, 2026 on our consideration of the CNMI's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the CNMI's internal control over financial reporting or on compliance. That report is an integral part of an engagement to perform an audit in accordance with *Government Auditing Standards* in considering the CNMI's internal control over financial reporting and compliance.

The logo for Ernst & Young, featuring the company name in a stylized, handwritten-style script.

July 17, 2026



Commonwealth of the Northern Mariana Islands

Department of Finance Office of the Secretary



P O Box 5234 CHRB Saipan MP 96950

TEL (670) 664-1100

INFO@DOF.GOV.MP

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Management's Discussion and Analysis (MD&A) Year ended September 30, 2023

Our discussion and analysis of the Commonwealth of the Northern Marianas Islands (CNMI) financial performance provides an overview of the CNMI's financial activities for the fiscal year ended September 30, 2023. Please read it in conjunction with the CNMI's financial statements, which follow this section. Fiscal year 2022 information has been included where appropriate for comparative purposes.

FINANCIAL HIGHLIGHTS

For the fiscal year ended September 30, 2023, the CNMI experienced a modest improvement in its financial position:

- The CNMI's net position improved by 17.3%, or approximately \$119.7 million, resulting in a deficit net position of \$460.3 million as of September 30, 2023.
- Governmental activities incurred total expenses of approximately \$559.0 million, inclusive of payments to autonomous agencies. These expenditures were partially offset by program revenues totaling \$447.6 million and general revenues amounting to \$211.7 million. The excess of total revenues (\$659.3 million) over total expenses (\$559.0 million) contributed to a \$100.3 million reduction in the CNMI's deficit net position. Furthermore, the beginning net position of the CNMI was restated to reflect the impact of the actuarial valuation report and the omission of the Department of Public Land Governmental Funds amounting to \$25.0 million and (\$5.6 million), respectively.
- As of September 30, 2023, the General Fund reported an unassigned fund deficit of \$275.7 million, representing a 2% increase from the prior year's deficit of \$271.1 million.
- For budgetary reporting purposes, General Fund revenues totaled \$161.6 million, falling below projections by 1%, or \$1.8 million. Actual expenditures were favorably below the final budget estimates by a fraction of a percent or \$3.4 thousand. These figures exclude interfund transfers and the receipt or use of long-term debt proceeds.



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OVERVIEW OF THE FINANCIAL STATEMENTS

The financial statements presented herein include all of the activities of the CNMI and its component units using the integrated approach as prescribed by GASB Statement No. 34. Included in this report are government-wide statements for the governmental activities of the CNMI, which includes the CNMI's discretely presented component units, also known as autonomous agencies. The government-wide financial statements present the complete financial picture of the CNMI from the economic resources measurement focus using the accrual basis of accounting. These statements include all assets of the CNMI (including infrastructure capital assets) as well as all liabilities (including all long-term debt).

Reporting the CNMI as a Whole

The Statement of Net Position and the Statement of Activities

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

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

As mentioned above in the Statement of Net Position and the Statement of Activities, we divide the CNMI into two kinds of activities:

Governmental Activities – Most of the CNMI's basic services are reported here, including public safety, general administration, streets, and parks. Income taxes, business gross receipt taxes, other taxes and fees, fines, and federal grants finance most of these activities.

Discretely presented component units – These account for activities of the CNMI's reporting entities that do not meet the criteria for blending within the CNMI's primary government. These discretely presented component units are often referred to as autonomous agencies.



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Reporting the CNMI's Most Significant Funds

Fund Financial Statements

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

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

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

A FINANCIAL ANALYSIS OF THE CNMI AS A WHOLE

Net Position

The CNMI's governmental activities deficit net position decreased from \$580.0 million to a deficit net position of \$460.3 million, a decrease of 17.3% between fiscal years 2022 and 2023.



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TEL (670) 664-1100

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A summary of net position (condensed) of fiscal year 2023 is presented below with comparable balances of fiscal year 2022:

Year Ended September 30	Government Activities		Change
	Audited 2023	Audited 2022	
ASSETS			
Current assets	\$ 316,503,684	\$ 455,755,669	\$ (139,251,985)
Capital assets, net	157,248,143	156,353,853	894,290
Other noncurrent assets	6,844,133	6,544,813	299,320
Deferred outflows from cost of refunding debt	3,097,259	3,406,986	(309,727)
Deferred outflows of resources from pension	63,960,928	51,744,577	12,216,351
TOTAL ASSETS AND DEFERRED OUTFLOWS	\$ 547,654,147	\$ 673,805,898	\$ (126,151,751)
LIABILITIES AND NET POSITION			
Liabilities			
Current liabilities	\$ 596,951,882	\$ 776,103,514	\$ (179,151,632)
Obligations under Settlement Agreement	298,734,191	360,867,220	(62,133,029)
Long-term debt outstanding	70,295,749	75,586,720	(5,290,971)
Deferred inflows of resources from leases	-	15,086,392	(15,086,392)
Other noncurrent liabilities	41,987,197	26,194,787	15,792,410
Total Liabilities	1,007,969,019	1,253,838,633	(245,869,614)
Net Position			
Net investment in capital assets	90,049,653	84,174,119	5,875,534
Restricted	2,577,380	2,577,380	-
Unrestricted	(552,941,905)	(666,784,234)	113,842,329
Total Net Position	(460,314,872)	(580,032,735)	119,717,863
TOTAL LIABILITIES AND NET POSITION	\$ 547,654,147	\$ 673,805,898	\$ (126,151,751)



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Changes in Net Position

For the year ended September 30, 2023, net position of the primary government changed as follows, with comparable amounts for fiscal year 2022:

Year Ended September 30	Government Activities		Change
	Audited 2023	Audited 2022	
REVENUE			
Program revenue	\$ 447,632,914	\$ 533,990,747	\$ (86,357,833)
Taxes and other general revenue	211,696,005	198,066,095	13,629,910
TOTAL REVENUE	659,328,919	732,056,842	(72,727,923)
EXPENSES			
Health	127,318,505	112,827,577	14,490,928
General government	91,931,024	148,420,424	(56,489,400)
Public safety and law enforcement	95,510,382	90,058,904	5,451,478
Economic development	70,884,484	114,273,671	(43,389,187)
Payments to autonomous agencies	42,580,743	88,989,930	(46,409,187)
Payment to Settlement Fund	36,057,903	38,000,000	(1,942,097)
Public welfare	28,689,873	76,854,167	(48,164,294)
Community and social services	13,469,402	14,900,532	(1,431,130)
Lands and natural resources	13,219,168	19,217,244	(5,998,076)
Education	10,993,896	3,459,571	7,534,325
Judicial branch	10,209,907	10,120,973	88,934
Legislative branch	8,479,838	9,176,628	(696,790)
Principal retirement	2,151,294	3,337,375	(1,186,081)
Interest and fiscal charges	6,068,680	985,869	5,082,811
Other elected officials	931,055	1,002,032	(70,977)
Pension expense	543,102	350,646	192,456
TOTAL EXPENSES	559,039,256	731,975,543	(172,936,287)
Change in Net Position	100,289,663	81,299	100,208,364
Net position - beginning of year as previously reported	(580,032,735)	(580,114,034)	81,299
Prior period adjustment	19,428,200	-	19,428,200
Net Position - Beginning of Year As Restated	(560,604,535)	(580,114,034)	19,509,499
Net Position - End of Year	\$ (460,314,872)	\$ (580,032,735)	\$ 119,717,863

The CNMI's primary governmental activities reported a decrease in the deficit net position to \$460.3 million, representing an improvement of \$119.7 million from the prior year. This change reflects a slight strengthening in the Commonwealth's overall financial condition during the fiscal year. Notable shifts in the Statement of Activities from 2022 include an \$86.4 million decrease in program revenues and significant reductions in expenditures across several sectors: economic development decreased by \$43.4 million, payments to autonomous agencies by \$46.4 million, and public welfare by \$48.2 million.



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Changes in Net Position, continued

These reductions were partially offset by increased spending in health, which rose by \$14.5 million, and increased spending in education, which increased by \$7.5 million. Collectively, these changes indicate a reallocation of resources and evolving priorities in governmental operations.

Statement of Governmental Activities

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

Of particular interest is the format that is significantly different than a typical Statement of Revenues, Expenditures, and Changes in Fund Balance. You will notice that expenses are listed in the first column with revenues from that particular program reported to the right. The result is a Net (Expense)/Revenue. The reason for this format is to highlight the relative financial burden of each of the functions on the CNMI's taxpayers. It also identifies how much each function draws from the general revenues or if it is self-financing through fees and grants or contributions. All other governmental revenues are reported as general. It is important to note that all taxes are classified as general revenue even if restricted for a specific purpose.

The following table illustrates the financial weight governmental activities affect the general sources after collecting for fees and charges on services:

Year Ended September 30	Government Activities		
	Audited 2023	Audited 2022	Change
Health	\$ (114,797,988)	\$ (107,602,588)	\$ (7,195,400)
General government	323,579,731	367,022,033	(43,442,302)
Public safety and law enforcement	(90,871,176)	(87,601,244)	(3,269,932)
Economic development	(60,255,132)	(106,012,493)	45,757,361
Payments to autonomous agencies	(42,580,743)	(88,989,930)	46,409,187
Payment to Settlement Fund	(36,057,903)	(38,000,000)	1,942,097
Public welfare	(28,348,654)	(76,838,810)	48,490,156
Community and social services	(12,813,910)	(14,838,570)	2,024,660
Lands and natural resources	(12,426,204)	(18,604,563)	6,178,359
Education	(10,993,896)	(3,459,571)	(7,534,325)
Judicial branch	(8,573,900)	(8,206,510)	(367,390)
Legislative branch	(8,479,838)	(9,176,628)	696,790
Principal retirement	(2,151,294)	(3,337,375)	1,186,081
Interest and fiscal charges	(6,068,680)	(985,869)	(5,082,811)
Other elected officials	(931,055)	(1,002,032)	70,977
Pension expense	(543,102)	(350,646)	(192,456)
Utilities	907,402	-	907,402
TOTAL	\$ (111,406,342)	\$ (197,984,796)	\$ 86,578,454

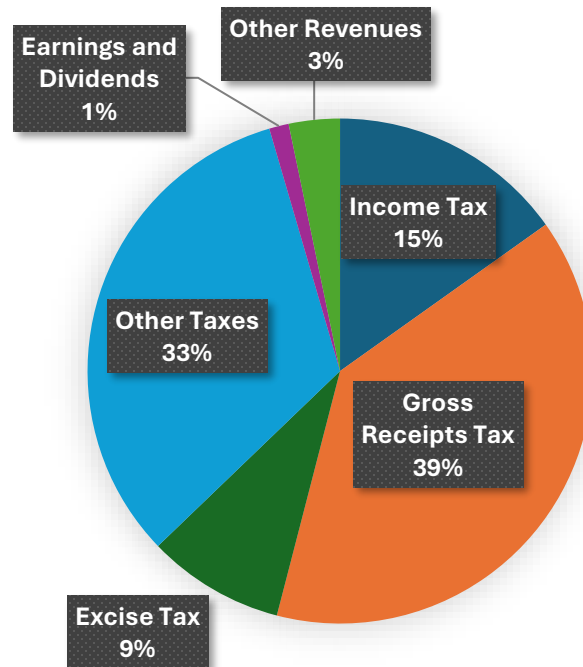


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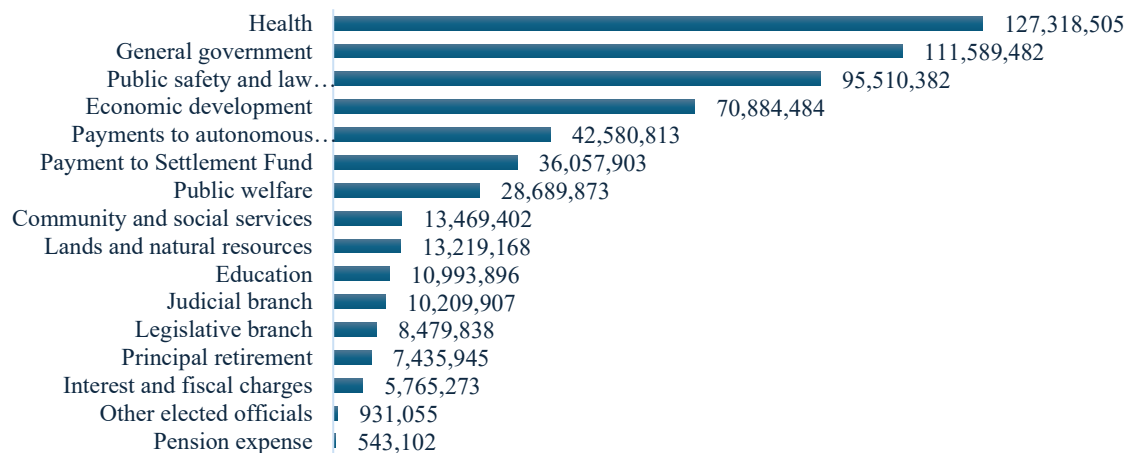


Statement of Governmental Activities, continued

For the year ended September 30, 2023, the CNMI's governmental activities were funded from general revenues of \$211.7 million. The following chart illustrates the areas of revenue sources:



For the year ended September 30, 2023, the CNMI's activities by function are as follows:



For the year ended September 30, 2023, total expenses for governmental activities amounted to \$559.0 million. Of these total expenses, taxpayers funded \$211.7 million from general revenues and \$447.6 million from grants and other contributions.



A FINANCIAL ANALYSIS OF THE CNMI'S FUNDS

In fiscal year 2023, the CNMI concluded with a combined fund deficit of \$256.9 million. Key highlights for individual funds include:

- The General Fund's total fund deficit increased by \$4.6 million, or 2%, to a deficit of \$270.3 million for the year ended September 30, 2023. The pace of growth of the deficit slowed in fiscal year 2023 due to operational efficiencies, reduced government expenditures, and an increased use of grant funding to offset public safety and administrative costs compared to the prior year.
- The Grants Assistance Fund saw a significant decrease in its deficit balance, dropping by \$21.6 million, or 22%, compared to the prior year, ending fiscal year 2023 with a deficit fund balance of \$75.5 million. This movement is primarily attributed to increased federal contributions along with the CNMI's improved efficiency in processing federal contributions and drawdowns to reimburse grant related expenditures.

These figures underscore the financial dynamics and outcomes across various funds within the CNMI during fiscal year 2023.

General Fund Budgetary Highlights

Final revenue estimates for the General Fund remained constant at \$163.4 million. Actual revenues did not meet projections, totaling \$161.6 million. General Fund expenditures amounted to \$162.5 million, remaining favorably under the appropriated level by approximately \$3.5 thousand.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of September 30, 2023, the CNMI had just over \$157.2 million invested in capital assets, net of accumulated depreciation where applicable, including land, infrastructure, vehicles and other machinery and equipment, buildings, and various projects under construction (see table below). Refer to note 7 of the financial statements for detailed information on the CNMI's capital assets and changes therein.



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CAPITAL ASSET AND DEBT ADMINISTRATION, CONTINUED

Capital Assets, continued

Year Ended September 30	Government Activities		Change
	Audited 2023	Audited 2022	
Infrastructure, net	\$ 51,786,773	\$ 51,786,773	\$ -
Buildings and improvements, net	50,733,697	50,727,097	6,600
Machinery and equipment, net	16,370,672	15,482,982	887,690
Land	30,667,698	30,667,698	-
Construction in progress	7,689,303	7,689,303	-
TOTAL	\$ 157,248,143	\$ 156,353,853	\$ 894,290

Long- Term Debt

At year end, the CNMI had \$70.3 million in long-term debt outstanding as reflected in the government-wide financial statements, which represents a net decrease of \$5.3 million, or 7%, from prior year which pertains to the debt service payments made in FY2023.

Year Ended September 30	Government Activities		Change
	Unaudited 2023	Audited 2022	
Bonds payable	\$ 70,295,749	\$ 75,586,720	\$ (5,290,971)

As of September 30, 2023, no rating information was provided from Fitch Ratings or Standard and Poor's Financial Services, LLC for the CNMI's General Obligation Bonds.

Article X, Section 4, of the CNMI Constitution limits public indebtedness, other than bonds or other obligations of the government payable solely from the revenues derived from a public improvement or undertaking, to no more than 10% of the aggregate assessed valuation of the real property within the CNMI. The CNMI aggregate assessed valuation has not been determined as of September 30, 2023. However, the CNMI has estimated the aggregate assessed valuation of real property to be \$1,648,195,043 based on the 2010 CNMI Census and other sources. See note 11 to the financial statements for more detailed information on the CNMI's long-term debt and changes therein.



Commonwealth of the Northern Mariana Islands

Department of Finance Office of the Secretary



P O Box 5234 CHRB Saipan MP 96950

TEL (670) 664-1100

INFO@DOF.GOV.MP

FINANCE.DOF.GOV.MP

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

In early fiscal year 2023, the Commonwealth of the Northern Mariana Islands (CNMI) faced significant fiscal pressures and implemented strict cost-containment actions, including workforce reductions, cancellation of non-essential contracts, and reduced work hours. These measures helped stabilize government operations, safeguard essential public services, and preserve the 25% retiree pension payments.

During fiscal year 2023, the CNMI government improved revenue performance through enhanced enforcement activities led by the Tax Collection Taskforce, bringing 226 taxpayers into compliance and generating approximately \$8 million in additional collections. These efforts are ongoing in fiscal year 2024 and are expected to continue strengthening general fund revenues.

Tourism indicators also point to recovery. The Marianas Visitors Authority projects a 36% increase in overall visitor arrivals in fiscal year 2024 compared to fiscal year 2023, including a 35% increase in arrivals from Korea and a 49% increase from Japan. Additional visitation is anticipated with the expected initiation of direct flights from Hong Kong in early fiscal year 2024.

Economic activity in fiscal year 2024 is further supported by federally funded capital projects under the Infrastructure Investment and Jobs Act and the Inflation Reduction Act, including major construction, road improvements, broadband expansion, and climate-resilience initiatives. A \$15 million revolving line of credit from the Marianas Public Lands Trust will facilitate implementation of these critical infrastructure projects. The Commonwealth also anticipates more than \$24 million in FEMA disaster-related reimbursements, which will assist in reducing the outstanding deficit and addressing vendor obligations.

Overall, while fiscal challenges remain, current indicators reflect improved revenue collections, a recovering tourism sector, and increased federally funded investment, all of which are expected to contribute to the Commonwealth's fiscal and economic stabilization in FY 2024.

CONTACTING THE CNMI'S FINANCIAL OFFICERS

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

Commonwealth of the Northern Mariana Islands

Statement of Net Position

September 30, 2023

	Primary Government	Component Units
Assets and deferred outflows		
Current assets:		
Cash and cash equivalents	\$ 59,277,254	\$ 175,186,981
Time certificates of deposit	---	10,794,852
Receivables, net of allowance for uncollectibles	186,225,607	46,867,129
Due from primary government	---	17,152,959
Due from component units	323,519	---
Due from fiduciary funds	2,482,929	---
Inventories	804,343	24,810,426
Advances	7,040,593	---
Other current assets	---	3,655,286
Lease receivable, current portion	---	1,497,818
Restricted assets:		
Restricted cash and cash equivalents	58,407,594	26,229,236
Time certificates of deposit	---	8,768,769
Restricted investments	1,941,845	---
Total current assets	<u>316,503,684</u>	<u>314,963,456</u>
Noncurrent assets:		
Other assets	2,500,000	---
Investments	---	121,070,042
Receivables:		
Loans, net of allowance for uncollectibles	---	7,048,264
Foreclosed notes, net of allowance for uncollectibles	---	11,223,344
Right-of-use assets, net	4,344,133	1,188,104
Lease receivable, net of current portion	---	27,217,973
Foreclosed real estate	---	1,479,943
Nondepreciable capital assets	38,357,001	97,235,012
Depreciable capital assets, net of accumulated depreciation	118,891,142	284,965,680
Total noncurrent assets	<u>164,092,276</u>	<u>551,428,362</u>
Deferred outflows from cost of refunding debt	<u>3,097,259</u>	<u>254,869</u>
Deferred outflows from unbilled fuel cost recovery	---	---
Deferred outflows of resources from pension	<u>63,960,928</u>	---
Total assets and deferred outflows	<u>\$ 547,654,147</u>	<u>\$ 866,646,687</u>

See accompanying notes.

Commonwealth of the Northern Mariana Islands

Statement of Net Position, continued

	Primary Government	Component Units
Liabilities and deferred inflows		
Current liabilities:		
Current portion of bonds payable	\$ 5,584,724	\$ 3,270,000
Current portion of notes payable	---	1,223,115
Claims and judgments payable	2,525,312	---
Current portion of compensated absences	---	4,114,488
Loan payable under Settlement Agreement	1,303,939	---
Accounts payable	89,315,151	38,786,215
Tax rebates payable	58,365,648	---
Recovery rebates payable	1,628,107	---
Health and life insurance payable	5,353,890	---
Other liabilities and accruals	144,887,138	18,678,230
Due to NMI Settlement Fund	25,336,979	---
Due to component units	45,225,421	---
Due to primary government	---	19,098,095
Lease liability, current portion	1,096,225	390,934
Unearned revenues, current portion	221,914,072	789,805
Total current liabilities	602,536,606	86,350,882
Noncurrent liabilities:		
Net pension liability	298,734,191	---
Bonds payable, net of current portion	64,711,025	16,708,302
Notes payable, net of current portion	---	868,361
Dividends payable	---	720,000
Compensated absences, net of current portion	22,816,245	3,428,782
Due to fiduciary funds	---	3,231,607
Accrued interest payable	1,361,391	9,750,000
Obligations under estimated environmental remediation costs, non-current portion	---	312,500
Obligations under lease, non-current portion	2,628,581	836,948
Unearned revenues, noncurrent portion	---	14,613,477
Landfill closure and post closure costs	15,180,980	---
Total noncurrent liabilities	405,432,413	50,469,977
Deferred inflows of resources - leases	---	52,104,117
Total liabilities and deferred inflows of resources	1,007,969,019	188,924,976
Commitments and contingencies		
Net position		
Net investment in capital assets	90,049,653	361,815,789
Restricted for:		
Expendable:		
Capital projects	2,577,380	---
Other purposes	---	265,913,788
Unrestricted	(552,941,905)	49,992,134
Total net position	\$(460,314,872)	\$ 677,721,711

See accompanying notes.

Commonwealth of the Northern Mariana Islands

Statement of Activities

Year ended September 30, 2023

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Position	
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government	Component Units
Primary government:						
Governmental activities:						
Health	\$ 127,318,505	\$ ---	\$ 12,520,517	\$ ---	\$(114,797,988)	\$ ---
Public safety and law enforcement	95,510,382	4,527,674	111,532	---	(90,871,176)	---
General government	91,931,024	25,844,046	389,666,709	---	323,579,731	---
Public welfare	28,689,873	---	341,219	---	(28,348,654)	---
Community and social services	13,469,402	57,871	597,621	---	(12,813,910)	---
Other elected officials	931,055	---	---	---	(931,055)	---
Utilities - Capital Projects	---	907,402	---	---	907,402	---
Lands and natural resources	13,219,168	773,614	19,350	---	(12,426,204)	---
Legislative branch	8,479,838	---	---	---	(8,479,838)	---
Judicial branch	10,209,907	1,636,007	---	---	(8,573,900)	---
Education	10,993,896	---	---	---	(10,993,896)	---
Interest and fiscal charges	6,068,680	---	---	---	(6,068,680)	---
Principal retirement	2,151,294	---	---	---	(2,151,294)	---
Economic development	70,884,484	6,309,608	4,319,744	---	(60,255,132)	---
Education:						
Payments to Public School System	30,634,121	---	---	---	(30,634,121)	---
Payments to Northern Marianas College	2,086,406	---	---	---	(2,086,406)	---
Payments to Marianas Visitors Authority	2,821,745	---	---	---	(2,821,745)	---
Payments to Commonwealth Healthcare Corporation	7,038,471	---	---	---	(7,038,471)	---
Payments to Settlement Fund	36,057,903	---	---	---	(36,057,903)	---
Pension expense	543,102	---	---	---	(543,102)	---
Total primary government	\$ 559,039,256	\$ 40,056,222	\$ 407,576,692	\$ ---	(111,406,342)	---
Component units:						
Commonwealth Economic Development Authority	\$ 1,680,832	\$ ---	\$ ---	\$ ---	---	(1,680,832)
Commonwealth Ports Authority	45,112,472	14,912,705	9,349,714	7,498,858	---	(13,351,195)
Commonwealth Utilities Corporation	122,575,381	101,296,283	---	14,350,739	---	(6,928,359)
Marianas Public Land Trust	4,056,759	4,120,258	---	---	---	63,499
Marianas Visitors Authority	14,317,110	48,778	11,758,080	---	---	(2,510,252)
Northern Marianas College	25,440,463	4,954,800	28,370,319	---	---	7,884,656
Public School System	137,394,359	2,546,326	111,287,920	---	---	(23,560,113)
Total component units	\$ 350,577,376	\$ 127,879,150	\$ 160,766,033	\$ 21,849,597	---	(40,082,596)
General revenues:						
Taxes:						
Income					32,026,426	---
Gross receipts					82,139,642	---
Excise					18,561,680	---
Other taxes					69,021,123	---
Unrestricted investment earnings and dividends					3,042,291	16,036,274
Contributions from primary government					---	33,774,630
Other revenues					6,904,843	4,644,564
Total general revenues					211,696,005	54,455,468
Change in net position					100,289,663	14,372,872
Net position at beginning of year, as previously reported					(580,032,735)	635,867,884
Prior period adjustment (note 18)					19,428,200	27,480,955
Net position at beginning of year, as restated					(560,604,535)	663,348,839
Net position at end of year					\$(460,314,872)	\$ 677,721,711

See accompanying notes.

Commonwealth of the Northern Mariana Islands

Balance Sheet Governmental Funds

September 30, 2023

	General Fund	Grants Assistance Fund	ARPA Fund	Other Governmental Funds	Total
Assets					
Cash and cash equivalents	\$ 59,128,557	\$ ---	\$ ---	\$ 148,697	\$ 59,277,254
Restricted cash and cash equivalents	56,522,568	1,245,856	310,519	328,651	58,407,594
Restricted investments	---	---	---	1,941,845	1,941,845
Receivables, net:					
Federal agencies	9,100,571	108,084,165	---	286,433	117,471,169
General	9,602,455	---	---	1,662,773	11,265,228
Taxes	5,234,864	---	---	---	5,234,864
Other	51,784,363	31,296	---	438,687	52,254,346
Due from other funds	443,653,416	447,607,282	109,926,378	178,367,030	1,179,554,106
Due from fiduciary funds	1,618,141	---	---	864,788	2,482,929
Due from component units	---	---	---	323,519	323,519
Advances	6,935,910	102,914	---	1,769	7,040,593
Inventories	232,387	571,956	---	---	804,343
Other assets	2,500,000	---	---	---	2,500,000
	<u>\$ 646,313,232</u>	<u>\$ 557,643,469</u>	<u>\$ 110,236,897</u>	<u>\$ 184,364,192</u>	<u>\$ 1,498,557,790</u>
Liabilities and Fund Balances (Deficit)					
Liabilities:					
Accounts payable	\$ 40,972,723	\$ 26,824,424	\$ 2,501,373	\$ 19,016,631	\$ 89,315,151
Health and life insurance payable	---	---	---	5,353,890	5,353,890
Tax rebates payable	58,365,648	---	---	---	58,365,648
Recovery rebates payable	1,628,107	---	---	---	1,628,107
Other liabilities and accruals	112,311,737	11,839,404	---	803,771	124,954,912
Claims and judgments payable	2,525,312	---	---	---	2,525,312
Loan payable under Settlement Agreement	1,303,939	---	---	---	1,303,939
Due to other funds	628,985,567	477,571,125	1,333,827	71,663,587	1,179,554,106
Due to fiduciary funds	25,336,979	---	---	---	25,336,979
Due to component units	45,225,421	---	---	---	45,225,421
Unearned revenues	---	116,877,309	104,674,213	362,550	221,914,072
Total liabilities	<u>916,655,433</u>	<u>633,112,262</u>	<u>108,509,413</u>	<u>97,200,429</u>	<u>1,755,477,537</u>
(Deficit) fund balances:					
Non-spendable	2,732,387	---	---	---	2,732,387
Restricted - debt service	2,577,380	---	---	---	2,577,380
Committed	---	---	1,727,484	12,060,110	13,787,594
Unassigned:					
General fund	(275,651,968)	---	---	91,771,620	(183,880,348)
Special revenue funds	---	(75,468,793)	---	(16,667,967)	(92,136,760)
Total (deficit) fund balances	<u>(270,342,201)</u>	<u>(75,468,793)</u>	<u>1,727,484</u>	<u>87,163,763</u>	<u>(256,919,747)</u>
	<u>\$ 646,313,232</u>	<u>\$ 557,643,469</u>	<u>\$ 110,236,897</u>	<u>\$ 184,364,192</u>	<u>\$ 1,498,557,790</u>

See accompanying notes.

Commonwealth of the Northern Mariana Islands

Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Position

September 30, 2023

Total fund balances - governmental funds \$(256,919,747)

Amounts reported for governmental activities in the statement
of net position are different because:

Deferred outflows of resources are charged to future periods
and are not reported in the funds. Those deferred outflows
consist of deferred loss on refunding 3,097,259

Capital assets and right-of-use assets used in governmental
activities are not financial resources and, therefore, are not
reported in the funds. Those assets consist of:

Land	30,667,698
Construction in progress	7,689,303
Depreciable capital assets and infrastructure, net of \$176,362,996 of accumulated depreciation	<u>118,891,142</u>
Capital assets, net of accumulated depreciation	157,248,143
Right-of-use assets, net of \$2,336,636 accumulated amortization	<u>4,344,133</u>

Total capital assets, net, and right-of-use assets, net 161,592,276

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:

Net pension liability	(298,734,191)
Bonds payable	(70,295,749)
Accrued interest payable	(1,361,391)
Other liabilities and accruals	(19,932,226)
Compensated absences payable	(22,816,245)
Lease liability	(3,724,806)
Landfill closure and post-closure costs	<u>(15,180,980)</u>

Long-term liabilities (432,045,588)

Deferred outflows of resources are charged to future periods
and are not reported in the funds. Those deferred outflows
consist of deferred outflows from pensions 63,960,928

Net position of governmental activities \$(460,314,872)

See accompanying notes.

Commonwealth of the Northern Mariana Islands

Statement of Revenues, Expenditures, and Changes in Fund Balances (Deficit) Governmental Funds

Year ended September 30, 2023

	General Fund	Grants Assistance Fund	ARPA Fund	Other Governmental Funds	Total
Revenues:					
Federal contributions	\$ ---	\$ 300,772,039	\$ 105,642,183	\$ 1,162,470	\$ 407,576,692
Taxes	132,287,190	---	---	69,461,680	201,748,870
Licenses and fees	18,511,944	---	---	12,544,862	31,056,806
Charges for sales and services	32,650	---	---	5,518,740	5,551,390
Interest and dividends	2,646,077	---	---	42,341	2,688,418
Other revenues	8,158,620	155,575	---	2,392,548	10,706,743
Total revenues	<u>161,636,481</u>	<u>300,927,614</u>	<u>105,642,183</u>	<u>91,122,641</u>	<u>659,328,919</u>
Expenditures:					
Current:					
Public safety and law enforcement	20,095,788	55,644,127	15,771,918	3,998,549	95,510,382
General government	22,263,336	18,614,361	63,046,119	8,666,348	112,590,164
Public welfare	98,914	28,459,763	101,649	29,547	28,689,873
Other elected officials	483,803	---	360,740	86,512	931,055
Legislative branch	6,753,111	5,484	1,159,854	561,389	8,479,838
Health	5,008,170	91,157,457	3,510,371	27,642,507	127,318,505
Judicial branch	6,309,708	184,662	1,997,899	1,717,638	10,209,907
Lands and natural resources	1,916,908	8,259,306	2,326,142	716,812	13,219,168
Community and social services	2,470,652	7,089,883	2,580,635	1,328,232	13,469,402
Education	192,064	9,633,385	736,435	432,012	10,993,896
Economic development	4,979,401	57,030,042	5,132,958	3,742,083	70,884,484
Payments to:					
Public School System	30,634,121	---	---	---	30,634,121
Marianas Visitors Authority	821,745	---	2,000,000	---	2,821,745
Commonwealth Healthcare Corporation	1,854,369	---	5,182,179	1,923	7,038,471
Northern Marianas College	3,082,668	457	3,281	---	3,086,406
NM Technical Institute	---	---	4,519	---	4,519
Settlement Fund	48,944,249	---	---	---	48,944,249
Debt service:					
Interest and fiscal charges	5,765,273	---	---	---	5,765,273
Principal repayments	7,435,945	---	---	---	7,435,945
Total expenditures	<u>169,110,225</u>	<u>276,078,927</u>	<u>103,914,699</u>	<u>48,923,552</u>	<u>598,027,403</u>
(Deficiency) excess of revenues over expenditures	(<u>7,473,744</u>)	<u>24,848,687</u>	<u>1,727,484</u>	<u>42,199,089</u>	<u>61,301,516</u>
Other financing sources (uses):					
Operating transfers in	3,204,460	---	---	281,969	3,486,429
Operating transfers out	(<u>281,969</u>)	(<u>3,204,460</u>)	---	---	(<u>3,486,429</u>)
Total other financing sources (uses), net	<u>2,922,491</u>	(<u>3,204,460</u>)	---	<u>281,969</u>	---
Net change in (deficit) fund balances	(<u>4,551,253</u>)	<u>21,644,227</u>	<u>1,727,484</u>	<u>42,481,058</u>	<u>61,301,516</u>
(Deficit) fund balances at beginning of year	(<u>265,790,948</u>)	(<u>97,113,020</u>)	---	<u>44,682,705</u>	(<u>318,221,263</u>)
(Deficit) fund balances at end of year	\$ (<u><u>270,342,201</u></u>)	\$ (<u><u>75,468,793</u></u>)	\$ <u><u>1,727,484</u></u>	\$ <u><u>87,163,763</u></u>	\$ (<u><u>256,919,747</u></u>)

See accompanying notes.

Commonwealth of the Northern Mariana Islands

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances (Deficit) of Governmental Funds to the Statement of Activities

Year ended September 30, 2023

Total net change in fund balances - governmental funds	\$61,301,516
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Amounts reported for governmental activities in the statement of net position are different because:

Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. For the current year, these amounts consist of:

Capital outlays	1,126,948	
Depreciation expense	(232,658)	
		894,290

Change in lease assets	299,320
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The incurrence of long-term debt (e.g., bonds and leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and deferred amounts on refundings when debt is issued, whereas these amounts are deferred and amortized in the statement of activities. For the current year, these amounts consist of:

Repayment of bonds	5,284,651	
Amortization of bond premiums	6,320	
Amortization of deferred amount on refunding	(309,727)	
		4,981,244

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. For the current year, these activities consist of:

Change in other liabilities and accruals	(894,290)	
Change in lease liability	671,447	
Change in compensated absences payable	(16,282,619)	
Net pension activity	<u>49,318,755</u>	
		<u>32,813,293</u>

Change in net position of governmental activities	<u>\$100,289,663</u>
---	----------------------

See accompanying notes.

Commonwealth of the Northern Mariana Islands

Statement of Net Position Component Units

September 30, 2023

	Commonwealth Economic Development Authority	Commonwealth Ports Authority	Commonwealth Utilities Corporation	Marianas Public Land Trust	Marianas Visitors Authority	Northern Marianas College	Public School System	Total
Assets and deferred outflows								
Current assets:								
Cash and cash equivalents	\$ 1,182,110	\$ 48,218,779	\$ 45,681,777	\$ 40,042,518	\$ ---	\$ 26,119,892	\$ 13,941,905	\$ 175,186,981
Time certificates of deposit	10,794,852	---	---	---	---	---	---	10,794,852
Receivables, net:								
Loans	620,399	---	---	---	---	---	---	620,399
Notes	46,956	---	125,016	2,311,143	---	---	---	2,483,115
Federal agencies	---	2,625,401	5,786,721	---	---	8,582,230	7,090,628	24,084,980
General	---	1,102,484	14,250,701	---	---	1,966,632	---	17,319,817
Interest and dividends	866,391	---	---	341,625	---	---	---	1,208,016
Other	128,262	14,213	---	969,899	38,428	---	---	1,150,802
Due from primary government	6,000,000	---	---	---	1,794,088	2,233,824	7,125,047	17,152,959
Inventories	---	---	24,492,606	---	---	317,820	---	24,810,426
Other assets	---	369,618	2,916,770	2,690	---	195,819	170,389	3,655,286
Lease receivable, current portion	46,943	1,450,875	---	---	---	---	---	1,497,818
Restricted assets:								
Restricted cash and cash equivalents	3,081,975	---	12,602,076	---	10,545,185	---	---	26,229,236
Time certificates of deposit	8,768,769	---	---	---	---	---	---	8,768,769
Total current assets	<u>31,536,657</u>	<u>53,781,370</u>	<u>105,855,667</u>	<u>43,667,875</u>	<u>12,377,701</u>	<u>39,416,217</u>	<u>28,327,969</u>	<u>314,963,456</u>
Noncurrent assets:								
Investments	---	43,511,708	---	66,974,693	---	10,583,641	---	121,070,042
Receivables:								
Loans	7,048,264	---	---	---	---	---	---	7,048,264
Foreclosed notes, net	530,499	---	---	10,692,845	---	---	---	11,223,344
Right-of-use assets, net	---	---	339,385	---	---	---	848,719	1,188,104
Lease receivable, net of current portion	1,100,484	26,117,489	---	---	---	---	---	27,217,973
Foreclosed real estate	1,479,943	---	---	---	---	---	---	1,479,943
Nondepreciable capital assets	184,348	26,785,526	31,860,302	309,000	---	1,113,376	36,982,460	97,235,012
Depreciable capital assets, net of accumulated depreciation	<u>564,195</u>	<u>139,501,953</u>	<u>92,436,126</u>	<u>64,350</u>	<u>72,328</u>	<u>8,866,405</u>	<u>43,460,323</u>	<u>284,965,680</u>
Total noncurrent assets	<u>10,907,733</u>	<u>235,916,676</u>	<u>124,635,813</u>	<u>78,040,888</u>	<u>72,328</u>	<u>20,563,422</u>	<u>81,291,502</u>	<u>551,428,362</u>
Deferred outflows of resources:								
Cost of refunding debt	---	254,869	---	---	---	---	---	254,869
Total assets and deferred outflows	<u>\$ 42,444,390</u>	<u>\$ 289,952,915</u>	<u>\$ 230,491,480</u>	<u>\$ 121,708,763</u>	<u>\$ 12,450,029</u>	<u>\$ 59,979,639</u>	<u>\$ 109,619,471</u>	<u>\$ 866,646,687</u>

See accompanying notes.

Commonwealth of the Northern Mariana Islands

Statement of Net Position, continued Component Units

September 30, 2023

	Commonwealth Economic Development Authority	Commonwealth Ports Authority	Commonwealth Utilities Corporation	Marianas Public Land Trust	Marianas Visitors Authority	Northern Marianas College	Public School System	Total
Liabilities and deferred inflows								
Current liabilities:								
Current portion of bonds payable	\$ ---	\$ 3,270,000	\$ ---	\$ ---	\$ ---	\$ ---	---	\$ 3,270,000
Current portion of notes payable	1,109,765	---	---	---	---	---	113,350	1,223,115
Current portion of compensated absences	---	302,396	1,374,632	---	25,038	526,216	1,886,206	4,114,488
Accounts payable	1,406,192	4,912,894	11,774,526	573,916	3,713,407	3,017,936	13,387,344	38,786,215
Other liabilities and accruals	---	3,763,865	12,977,076	4,182	191,429	1,741,678	---	18,678,230
Due to primary government	---	590,146	18,507,949	---	---	---	---	19,098,095
Lease liability, current portion	---	---	1,808	---	---	4,840	384,286	390,934
Unearned revenues	15,094	---	---	---	---	774,711	---	789,805
Total current liabilities	2,531,051	12,839,301	44,635,991	578,098	3,929,874	6,065,381	15,771,186	86,350,882
Noncurrent liabilities:								
Bonds payable, net of current portion	---	16,708,302	---	---	---	---	---	16,708,302
Notes payable, net of current portion	---	---	---	---	---	---	868,361	868,361
Dividends payable	---	---	720,000	---	---	---	---	720,000
Compensated absences, net of current portion	---	362,986	---	---	100,151	170,282	2,795,363	3,428,782
Due to fiduciary funds	---	---	3,231,607	---	---	---	---	3,231,607
Long-Term liability under Settlement Agreement	---	9,750,000	---	---	---	---	---	9,750,000
Obligations under estimated environmental remediation costs	---	---	312,500	---	---	---	---	312,500
Obligations under lease, noncurrent portion	---	---	353,371	---	---	---	483,577	836,948
Unearned revenues, net of current portion	545,370	---	14,068,107	---	---	---	---	14,613,477
Total noncurrent liabilities	545,370	26,821,288	18,685,585	---	100,151	170,282	4,147,301	50,469,977
Deferred inflows of resources:								
Leases	1,183,447	46,472,277	---	---	---	---	---	47,655,724
Grant receipts	---	---	---	---	357,119	1,130,653	---	1,487,772
Unbilled fuel cost recovery	---	---	2,960,621	---	---	---	---	2,960,621
Total liabilities and deferred inflows of resources	4,259,868	86,132,866	66,282,197	578,098	4,387,144	7,366,316	19,918,487	188,924,976
Net position								
Net investment in capital assets	748,543	146,564,046	124,635,813	373,350	72,328	9,979,781	79,441,928	361,815,789
Restricted	37,435,979	43,511,708	45,000,000	120,757,315	7,990,557	10,583,641	634,588	265,913,788
Unrestricted	---	13,744,295	(5,426,530)	---	---	32,049,901	9,624,468	49,992,134
Total net position	\$ 38,184,522	\$ 203,820,049	\$ 164,209,283	\$ 121,130,665	\$ 8,062,885	\$ 52,613,323	\$ 89,700,984	\$ 677,721,711

See accompanying notes.

Commonwealth of the Northern Mariana Islands

Statement of Revenues, Expenses, and Changes in Net Position

Component Units

Year ended September 30, 2023

	Commonwealth Economic Development Authority	Commonwealth Ports Authority	Commonwealth Utilities Corporation	Marianas Public Land Trust	Marianas Visitors Authority	Northern Marianas College	Public School System	Total
Expenses	\$ <u>1,680,832</u>	\$ <u>45,112,472</u>	\$ <u>122,575,381</u>	\$ <u>4,056,759</u>	\$ <u>14,317,110</u>	\$ <u>25,440,463</u>	\$ <u>137,394,359</u>	\$ <u>350,577,376</u>
Program revenues:								
Charges for services	---	14,912,705	101,296,283	4,120,258	48,778	4,954,800	2,546,326	127,879,150
Operating grants and contributions	---	9,349,714	---	---	11,758,080	28,370,319	111,287,920	160,766,033
Capital grants and contributions	---	<u>7,498,858</u>	<u>14,350,739</u>	---	---	---	---	<u>21,849,597</u>
	---	31,761,277	115,647,022	4,120,258	11,806,858	33,325,119	113,834,246	310,494,780
Recovery of (provision for) uncollectible receivables	---	---	---	---	---	---	---	---
Total program revenues	---	<u>31,761,277</u>	<u>115,647,022</u>	<u>4,120,258</u>	<u>11,806,858</u>	<u>33,325,119</u>	<u>113,834,246</u>	<u>310,494,780</u>
Net program (expenses) revenues	(<u>1,680,832</u>)	(<u>13,351,195</u>)	(<u>6,928,359</u>)	<u>63,499</u>	(<u>2,510,252</u>)	<u>7,884,656</u>	(<u>23,560,113</u>)	(<u>40,082,596</u>)
General revenues:								
Contributions from the primary government	---	---	---	---	---	4,027,930	29,746,700	33,774,630
Dividend income	900,000	---	---	---	---	---	---	900,000
Unrestricted investment earnings	616,641	2,799,694	2,398,313	9,118,771	---	1,102,855	---	16,036,274
Other revenues, net	<u>953,613</u>	<u>453,492</u>	<u>508,777</u>	---	<u>1,554,404</u>	---	<u>274,278</u>	<u>3,744,564</u>
Net general revenues	<u>2,470,254</u>	<u>3,253,186</u>	<u>2,907,090</u>	<u>9,118,771</u>	<u>1,554,404</u>	<u>5,130,785</u>	<u>30,020,978</u>	<u>54,455,468</u>
Change in net position	<u>789,422</u>	(<u>10,098,009</u>)	(<u>4,021,269</u>)	<u>9,182,270</u>	(<u>955,848</u>)	<u>13,015,441</u>	<u>6,460,865</u>	<u>14,372,872</u>
Net position at beginning of year, as previously reported	---	213,918,058	178,144,697	111,948,395	9,018,733	39,597,882	83,240,119	635,867,884
Prior period adjustment (note 18)	<u>37,395,100</u>	---	(<u>9,914,145</u>)	---	---	---	---	<u>27,480,955</u>
Net position at beginning of year, as restated	<u>37,395,100</u>	<u>213,918,058</u>	<u>168,230,552</u>	<u>111,948,395</u>	<u>9,018,733</u>	<u>39,597,882</u>	<u>83,240,119</u>	<u>663,348,839</u>
Net position at end of year	\$ <u><u>38,184,522</u></u>	\$ <u><u>203,820,049</u></u>	\$ <u><u>164,209,283</u></u>	\$ <u><u>121,130,665</u></u>	\$ <u><u>8,062,885</u></u>	\$ <u><u>52,613,323</u></u>	\$ <u><u>89,700,984</u></u>	\$ <u><u>677,721,711</u></u>

See accompanying notes.

Commonwealth of the Northern Mariana Islands

Notes to Financial Statements

Year ended September 30, 2023

1. Summary of Significant Accounting Policies

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

A. Reporting Entity

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

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

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

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

Commonwealth of the Northern Mariana Islands

Notes to Financial Statements, continued

1. Summary of Significant Accounting Policies, continued

A. Reporting Entity, continued

The component units' column of the basic financial statements includes the financial data of the following discretely presented component units:

- The Commonwealth Economic Development Authority (CEDA) 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 projects undertaken by the CNMI and its autonomous public agencies. CEDA is governed by a seven-member Board of Directors appointed by the Governor. The CNMI has the ability to impose its will on CEDA.
- The Commonwealth Ports Authority (CPA) is responsible for the operations, maintenance and improvement of all airports and seaports within the CNMI. CPA is governed by a seven-member Board of Directors appointed by the Governor. The CNMI has the ability to impose its will on CPA.
- The Commonwealth Utilities Corporation (CUC) is responsible for supervising the construction, maintenance, operations, and regulation of electric, water and sewage services, provided however, that whenever feasible, CUC shall contract with private businesses to assume its duties with respect to one or more of these divisions. CUC was also designated the responsibility to establish rates, meter, bill and collect fees in a fair and rational manner from all customers of utility services in order for CUC to become financially independent of appropriations by the CNMI Legislature. CUC is governed by a board of directors appointed for terms of four years by the Governor of the CNMI with the advice and consent of the Senate. The CNMI has the ability to impose its will on CUC.
- The Marianas Public Land Trust (MPLT) manages all monies received by it from the CNMI Department of Public Lands (DPL) for the use of public lands and distributes net income to the general fund of the CNMI. Additionally, MPLT is responsible for maintaining a separate trust fund for the development and maintenance of American Memorial Park. MPLT is governed by a five-member Board of Trustees appointed by the Governor. The CNMI has the ability to impose its will on MPLT.
- The Marianas Visitors Authority (MVA) is responsible for the promotion and development of the tourism industry in the CNMI. MVA is governed by a nine-member Board of Directors, five of which are appointed by the Governor with the remaining four chosen by the members of MVA. The CNMI provides financial support to MVA through legislative appropriations.

Commonwealth of the Northern Mariana Islands

Notes to Financial Statements, continued

1. Summary of Significant Accounting Policies, continued

A. Reporting Entity, continued

- The Northern Marianas College (NMC) serves as the state agency for higher education and adult education programs within the CNMI. NMC is governed by a seven-member Board of Regents appointed by the Governor. The CNMI provides financial support to NMC through legislative appropriations.
- The Public School System (PSS) is the state educational agency responsible for pre-school, elementary and secondary education programs in the CNMI. PSS is governed by a five-member Board of Education elected at-large. The CNMI provides financial support to PSS through legislative appropriations.

Complete financial statements for each of the above mentioned discretely presented component units may be obtained at the units' administrative offices.

Commonwealth Economic Development Authority
P.O. Box 502149
Saipan, MP 96950-2149

Commonwealth Ports Authority
P.O. Box 501055
Saipan, MP 96950-1055

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

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

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

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

Commonwealth of the Northern Mariana Islands

Notes to Financial Statements, continued

1. Summary of Significant Accounting Policies, continued

A. Reporting Entity, continued

Public School System
P.O. Box 501370
Saipan, MP 96950-1250

Omitted Discretely Presented Component Units

The CNMI has omitted the Commonwealth Healthcare Corporation (CHCC) from the basic financial statements due to the lack of available financial information. CHCC is responsible for providing healthcare services in the CNMI. CHCC is governed by a Chief Executive Officer (CEO) who governs the operations of CHCC in a manner that furthers its purposes. A seven-member Board of Trustees, three of which are ex officio voting members consisting of the CEO, the Director of Medical Affairs and a U.S. citizen selected from CHCC's non-physician healthcare professionals and the remaining four appointed by the Governor with the advice and consent of the Senate, acts in an advisory role to the CEO. The CNMI provides financial support to CHCC through legislative appropriations. The omission of the above component unit is considered material to the discretely presented component units' reporting column.

The CNMI has omitted the Northern Marianas Housing Corporation (NMHC) from the basic financial statements due to the lack of available financial information. NMHC is responsible for assisting in the development and administration of low-cost residential housing in the Northern Mariana Islands. NMHC is governed by a Corporate Director who governs the operations of NMHC in a manner that furthers its purposes. A five-member Board of Directors are appointed by the Governor with the advice and consent of the Senate, acts in an advisory role to the Corporate Director. The CNMI provides financial support to NMHC through legislative appropriations. The omission of the above component unit is considered material to the discretely presented component units' reporting column.

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

Commonwealth of the Northern Mariana Islands

Notes to Financial Statements, continued

1. Summary of Significant Accounting Policies, continued

A. Reporting Entity, continued

Omitted Fiduciary Component Units

The CNMI has omitted the following Pension Trust Funds (fiduciary component units) from the basic financial statements due to the lack of available financial information:

- The Northern Mariana Islands Retirement Fund (NMIRF), a Fiduciary Fund Type - Pension (and Other Employee Benefit) Trust Fund, exists to provide retirement security and other benefits to government employees, their spouses and dependents, former Governors and Lieutenant Governors, and to provide for an actuarially sound, locally funded pension system within the CNMI.

NMIRF was governed by a seven-member Board of Trustees who appointed an Administrator who administered NMIRF in a manner that furthered its purposes. The Board of Trustees has not been renewed by the Governor as a result of Civil Case No. 09-00023 and NMIRF is administered by the CNMI Secretary of Finance who serves as the Acting Administrator. The omission of this component unit is considered material to the aggregate remaining fund information.

- The Defined Contribution Plan (DCP) was created by Public Law 15-13 to provide an individual account retirement system for any person employed by the CNMI or its autonomous agencies. Participating employers include the CNMI, NMIRF, CEDA, CPA, CUC, MPLT, MVA, NMC, PSS, CHCC, NMHC and the Commonwealth Government Employees Credit Union (CGECU). The NMIRF Acting Administrator is responsible for the general administration and operation of DCP. DCP, by its nature, is fully funded on a current basis from employer and member contributions. DCP is a voluntary single-employer pension plan and is the single retirement program for all new employees whose employment commenced on or after January 1, 2007.

B. Government-Wide Financial Statements

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

Commonwealth of the Northern Mariana Islands

Notes to Financial Statements, continued

1. Summary of Significant Accounting Policies, continued

B. Government-Wide Financial Statements, continued

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

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

The government-wide Statement of Net Position reports \$2,577,380 of restricted net position which is restricted by an 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.

Program and Other Revenue Recognition

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

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. 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.

Commonwealth of the Northern Mariana Islands

Notes to Financial Statements, continued

1. Summary of Significant Accounting Policies, continued

C. Fund Financial Statements, continued

The CNMI reports its financial position and results of operations in funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures/expenses. Transactions between funds within a fund type, if any, have not been eliminated.

D. Measurement Focus and Basis of Accounting

Government-Wide Financial Statements:

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Amounts reported as program revenue include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. General revenue is derived from taxation, investment income and other fees that are not allocated to specific programs.

Governmental Funds Financial Statements

Governmental funds financial statements account for the general governmental activities of the CNMI and are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as they become susceptible to accrual; generally, when they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the CNMI considers revenues to be available if they are collected within ninety days of the end of the current fiscal period. Federal grants and assistance awards made on the basis of entitlement periods are recorded as revenue when available and entitlement occurs, which is generally within twelve months of the current fiscal period.

Commonwealth of the Northern Mariana Islands

Notes to Financial Statements, continued

1. Summary of Significant Accounting Policies, continued

D. Measurement Focus and Basis of Accounting

Governmental Funds Financial Statements, continued

Significant revenues susceptible to accrual include income, gross receipts, corporation and other taxes, federal grants, federal reimbursements and other reimbursements for use of materials and services. Therefore, tax-related receivables are essentially reserved for or have been historically deferred. Miscellaneous revenues from other financing sources are recognized when received because they are generally not measurable until actually received. Investment earnings are recorded as earned since they are both measurable and available. Expenditures generally are recorded in the period in which the related fund liability is incurred as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Fiduciary Funds and Component Units Financial Statements:

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. The CNMI reports the following major funds:

- General Fund. This fund is the primary operating fund of the CNMI. It is used to account for all governmental transactions, except those required to be accounted for in another fund.
- Grants Assistance Fund, a Governmental Fund Type - Capital Projects Fund/Special Revenue Fund. This fund accounts for all financial transactions related to grants received from various U.S. departments including all activities of U.S. unemployment programs created under the Coronavirus Aid, Relief, and Economic Security (CARES) Act. 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.
- ARPA Fund, a Governmental Fund Type - Special Revenue Fund. This fund accounts for certain activities of U.S. federal assistance grants created under the American Rescue Plan Act (ARPA) of 2021.
- DPL, a Governmental Fund Type - Special Revenue Fund. This fund accounts for all financial transactions related to those lands defined as public lands.

For all discretely presented component units, the CNMI utilizes the flow of economic resources measurement focus. GASB is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

Commonwealth of the Northern Mariana Islands

Notes to Financial Statements, continued

1. Summary of Significant Accounting Policies, continued

E. Concentrations of Credit Risk

Financial instruments, which potentially subject the CNMI to concentrations of credit risk, consist principally of cash demand deposits and investments. At September 30, 2023, the CNMI has cash deposits and investments in bank accounts that exceed federal depository insurance limits. The CNMI has not experienced any losses on such accounts.

F. Cash and Cash Equivalents and Time Certificates of Deposit

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

G. Receivables

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

H. Interfund/Intrafund Transactions

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

Commonwealth of the Northern Mariana Islands

Notes to Financial Statements, continued

1. Summary of Significant Accounting Policies, continued

I. Interfund Receivables and Payables

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

J. Advances

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

K. Inventories

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

Food stamp balances held at year end are recorded as inventories based on face value. Inventories reported in the Grants Assistance Fund of \$571,956 are offset by amounts due to grantor agencies.

L. Capital Assets and Depreciation

Capital assets, which include property, plant, equipment and infrastructure (e.g. roads, bridges, ramps and other similar items), are reported in the governmental activities column of the government-wide financial statements. Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

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

Commonwealth of the Northern Mariana Islands

Notes to Financial Statements, continued

1. Summary of Significant Accounting Policies, continued

L. Capital Assets and Depreciation, continued

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

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

Buildings and other improvements	10 - 50 years
Infrastructure	20 years
Machinery and equipment	5 - 25 years

M. Fund Equity/Net Position

The CNMI reports net position as restricted where legally segregated for a specific future use by enabling legislation. Otherwise, these balances are considered unrestricted.

Net position has been restricted as follows:

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

“Restricted for retirement of indebtedness” - identifies amounts held to fund future debt service obligations.

“Restricted for federal programs and projects” - identifies amounts held for various externally imposed restrictions by federal grantor agencies.

“Restricted for other purposes” - identifies amounts held for various externally imposed restrictions either by creditors, grantors or laws and regulations of other governments. It also includes various restrictions put forth by the CNMI enabling statutes.

Commonwealth of the Northern Mariana Islands

Notes to Financial Statements, continued

1. Summary of Significant Accounting Policies, continued

M. Fund Equity/Net Position, continued

Fund balance classifications are based on the extent to which the CNMI is bound to honor constraints on the specific purposes for which amounts in those funds can be spent and are reported under the following fund balance classifications:

- Non-spendable - includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.
- Restricted - includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.
- Committed - includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the CNMI Legislature, the CNMI's highest level of decision-making authority, and does not lapse at year-end. Formal action of the CNMI Legislature is required to remove the limitations of committed fund balances.
- Unassigned - includes negative fund balances in other governmental funds.

The CNMI has a general policy to first use restricted resources for expenditures incurred for which both restricted and unrestricted (committed and unassigned) resources are available. When expenditures are incurred for which only unrestricted resources are available, the general policy of the CNMI is to use committed resources first, followed by unassigned. The use of restricted resources may be deferred based on a review of the specific transaction. A formal minimum fund balance policy has not been adopted.

N. Long-Term Obligations

Article X, Section 4, of the CNMI Constitution limits public indebtedness, other than bonds or other obligations of the government payable solely from the revenues derived from a public improvement or undertaking, to no more than 10% of the aggregate assessed valuation of the real property within the CNMI. The CNMI aggregate assessed valuation has not been determined as of September 30, 2023.

Commonwealth of the Northern Mariana Islands

Notes to Financial Statements, continued

1. Summary of Significant Accounting Policies, continued

O. Compensated Absences

Vested or accumulated vacation leave that is expected to be liquidated with expendable available financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay it. Compensated absences are recorded as a long-term liability in the statement of net position with amounts to be paid during the next fiscal year reported as current. The liability as of September 30, 2023 is \$22,816,245.

Annual leave accumulates at the rate of thirteen working days for each year of service for up to three years of service, nineteen and a half working days for each year of service for three to six years of service, and twenty-six working days for each year of service for more than six years of service. Accrued annual leave is limited to forty-five working days, with any amounts over forty-five days transferred to sick leave.

P. Unearned Revenues

Amounts received in advance from federal agencies relating to expenditure-driven grants are reported as “unearned revenues” in the statement of net position and the governmental funds balance sheet. Revenues are recognized when all applicable program eligibility requirements associated with the federal grant are met by the CNMI as the recipient.

Q. Casino License and Application Fees

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

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

Commonwealth of the Northern Mariana Islands

Notes to Financial Statements, continued

1. Summary of Significant Accounting Policies, continued

Q. Casino License and Application Fees, continued

On August 12, 2014, a casino license agreement between the Commission and Imperial Pacific International (CNMI), LLC (the Licensee) was approved. The casino license agreement is valid for a consecutive period of twenty-five years with an option to extend the initial license term for an additional consecutive period of fifteen years. The annual casino license fee is \$15,000,000 and must be paid every year to the CNMI Treasurer on the date of the issuance of the license and on every subsequent anniversary.

On April 22, 2021, the Commission suspended the casino license due to the Licensee's failure to make required payments and for violations of several other conditions of its license. As of the date of the auditor's report, the casino license remains suspended.

R. Bond Premiums, Discounts and Issuance Costs

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

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

S. Deferred Outflows/Inflows of Resources

The statement of net position reports separate sections for deferred outflows and deferred inflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (deduction of net position) until then. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (additions to net position) until then.

T. Income Taxes and Wage and Salary Taxes

The *Covenant to Establish the Commonwealth of the Northern Mariana Islands in Political Union with the United States of America* (the Covenant) adopted the Internal Revenue Code of the United States of America as the local income tax. Percentages of income tax due to the CNMI from CNMI source income are rebated at 90%, 70% or 50%, based on specified tax brackets for corporate and individual income taxes paid.

Commonwealth of the Northern Mariana Islands

Notes to Financial Statements, continued

1. Summary of Significant Accounting Policies, continued

T. Income Taxes and Wage and Salary Taxes, continued

During the calendar year, the CNMI collects individual and corporate income taxes through withholdings and payments from taxpayers. At September 30, the CNMI estimates the amount owed to taxpayers for overpayments and rebates. These estimated amounts and the actual tax rebates claimed for prior years but not paid at year end are recorded as tax rebates payable with a corresponding reduction of tax revenue in the General Fund. The estimated tax rebate liability is evaluated on a regular basis by the CNMI and is based upon the CNMI's periodic review of tax returns in light of historical experience and the nature and volume of tax returns submitted. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available. Accordingly, changes to estimates are accounted for on a prospective basis.

U. Interfund Transactions

Quasi-external transactions are accounted for as revenues, expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund, are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed.

All other interfund transactions, except quasi-external transactions and reimbursements, are reported as transfers. Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

V. GASB Statement No. 68

In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*, which revised and established new financial reporting requirements for most governments that provided their employees with pension benefits through plans that are administered through trusts. The provisions in Statement No. 68 were effective for fiscal years beginning after June 15, 2014. Management acknowledges the requirement to recognize within the government-wide financial statements net pension liability, deferred outflows of resources, deferred inflows of resources and pension expense measured as of a date no earlier than the end of the CNMI's prior fiscal year, consistently applied from period to period.

Commonwealth of the Northern Mariana Islands

Notes to Financial Statements, continued

1. Summary of Significant Accounting Policies, continued

W. GASB Statement No. 73

In June 2015, GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, which aligns the reporting requirements for pension and pension plans not covered in GASB 67 and 68 with the reporting requirements in Statement 68. As discussed in note 17 to the financial statements, the CNMI agrees to make minimum annual payments to the Northern Mariana Islands Settlement Fund (NMISF). The NMISF was created as a result of a settlement agreement (the Settlement Agreement), approved by the U.S. District Court on September 30, 2013. The Settlement Agreement required the Northern Mariana Islands Retirement Fund (NMIRF) to transfer certain net assets of the NMIRF's Defined Benefit Plan to the Settlement Fund. The primary purpose of the Settlement Agreement is to allow for the payment of 75% of Class Members' full benefits annually during NMISF's expected life as part of the Settlement Agreement.

In addition, 25% of the full benefits of the class members full benefits has historically been paid consistently by the CNMI. During 2023, the CNMI made 25% payment of the class members full benefits to NMISF of \$12,886,345. Management acknowledges the requirement to recognize within the government-wide financial statements a liability associated with the 25% payment of the class members full benefits. However, the CNMI did not record the effects of GASB 73 as of and for the year ended September 30, 2023 as the amounts are not available.

Further, On May 27, 2026, the CNMI informed the NMISF that it will no longer fund the 25% benefit payment beyond the July 31, 2026 pay period. The NMISF is not required to pay this amount under the Consent Decree in *Johnson v. Inos*, Civil Case No. 09-00023 in the U.S. District Court of the Northern Mariana Islands. After July 31, 2026, the NMISF class members will no longer receive the 25% benefit payments.

X. New Accounting Standards

In May 2019, GASB issued Statement No. 91, *Conduit Debt Obligations*. The primary objectives of this statement are to provide a single method reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This statement achieves those objectives by clarifying the existing definition of a conduit obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures. The adoption of this statement did not have a material effect on the financial statements.

Commonwealth of the Northern Mariana Islands

Notes to Financial Statements, continued

1. Summary of Significant Accounting Policies, continued

X. New Accounting Standards, continued

In March 2020, GASB issued Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. The primary objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements. This statement also provides guidance for accounting and financial reporting for availability payment arrangements. The adoption of this statement did not have a material effect on the financial statements.

In May 2020, GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements*. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. The adoption of this statement did not have a material effect on the financial statements.

In April 2022, GASB issued Statement No. 99, *Omnibus 2022*. The requirements of this Statement will enhance comparability in the application of accounting and financial reporting requirements and will improve the consistency of authoritative literature. Consistent authoritative literature enables governments and other stakeholders to locate and apply the correct accounting and financial reporting provisions, which improves the consistency with which such provisions are applied more easily. The comparability of financial statements also will improve as a result of this Statement. Better consistency and comparability improve the usefulness of information for users of local government financial statements. The adoption of this statement did not have a material effect on the financial statements.

In June 2022, GASB issues Statement No. 100, *Accounting Changes and Error Corrections – An Amendment of GASB Statement No. 62*. The primary objective of this Statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent and comparable information for making decisions or assessing accountability. The requirements of this Statement will improve the clarity of the accounting and financial reporting requirements for accounting changes and error corrections, which will result in greater consistency in application in practice. In turn, more understandable, reliable, relevant, consistent, and comparable information will be provided to financial statement users for making decisions or assessing accountability. In addition, the display and note disclosure requirements will result in more consistent, decision useful, understandable, and comprehensive information for users about accounting changes and error corrections. GASB Statement No. 100 will be effective for fiscal year ending September 30, 2024.

Commonwealth of the Northern Mariana Islands

Notes to Financial Statements, continued

1. Summary of Significant Accounting Policies, continued

X. New Accounting Standards, continued

In June 2022, GASB issued Statement No. 101, *Compensated Absences*. The objective of this Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures.

The unified recognition and measurement model in this Statement will result in a liability for compensated absences that more appropriately reflects when a government incurs an obligation. In addition, the model can be applied consistently to any type of compensated absence and will eliminate potential comparability issues between governments that offer different types of leave. The model also will result in a more robust estimate of the amount of compensated absences that a government will pay or settle, which will enhance the relevance and reliability of information about the liability for compensated absences. GASB Statement No. 101 will be effective for fiscal year ending September 30, 2025.

In December 2023, GASB issued Statement No. 102, *Certain Risk Disclosures*. The objective of this Statement is to provide users of government financial statements with essential information about risks related to a government's vulnerabilities due to certain concentrations or constraints. This Statement requires a government to assess whether a concentration or constraint makes the primary government reporting unit or other reporting units that report a liability for revenue debt vulnerable to the risk of a substantial impact. Additionally, this Statement requires a government to assess whether an event or events associated with a concentration or constraint that could cause the substantial impact have occurred, have begun to occur, or are more likely than not to begin to occur within 12 months of the date the financial statements are issued. GASB Statement No. 102 will be effective for fiscal year ending September 30, 2025.

In April 2024, GASB issued Statement No. 103, *Financial Reporting Model Improvements*. The objective of this Statement is to improve key components of the financial reporting model to enhance the effectiveness of the financial reporting model in providing information that is essential for decision making and assessing a government's accountability and address certain application issues identified through pre-agenda research conducted by the GASB. This Statement establishes new accounting and financial reporting requirements or modifies existing requirements related to management's discussion and analysis (MD&A), unusual or infrequent items, presentation of the proprietary fund statement of revenues, expenses, and changes in fund net position, information about major component units in basic financial statements, budgetary comparison information and financial trends information in the statistical section. GASB Statement No. 103 will be effective for fiscal years ending September 30, 2026.

Commonwealth of the Northern Mariana Islands

Notes to Financial Statements, continued

1. Summary of Significant Accounting Policies, continued

X. New Accounting Standards, continued

In September 2024, GASB issued Statement No. 104, *Disclosure of Certain Capital Assets*. The objective of this Statement is to provide users of government financial statements with essential information about certain types of capital assets. This Statement requires certain types of capital assets to be disclosed separately in the capital assets note disclosures required by Statement 34.

Lease assets recognized in accordance with Statement No. 87, *Leases*, and intangible right-to-use assets recognized in accordance with Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, should be disclosed separately by major class of underlying asset in the capital assets note disclosures. Subscription assets recognized in accordance with Statement No. 96, *Subscription-Based Information Technology Arrangements*, also should be separately disclosed. In addition, this Statement requires intangible assets other than those three types to be disclosed separately by major class. This Statement requires that capital assets held for sale be evaluated each reporting period. Governments should disclose (1) the ending balance of capital assets held for sale, with separate disclosure for historical cost and accumulated depreciation by major class of asset, and (2) the carrying amount of debt for which the capital assets held for sale are pledged as collateral for each major class of asset. GASB Statement No. 104 will be effective for fiscal year ending September 30, 2026.

In December 2025, GASB issued Statement No. 105, *Subsequent Events*. The objective of this statement is to provide guidance designed to improve the financial reporting requirements and enhance consistency in the application of those requirements for subsequent events. The statement defines subsequent events as transactions or other events that occur after the date of the financial reporting statements but before the date the financial statements are available to be issued. The definition of subsequent events in the statement modifies the subsequent events time frame throughout GASB literature. Statement No. 105 also clarifies types of subsequent events, when note disclosures are required, and information that should be included in those disclosures. GASB Statement No. 105 will be effective for fiscal year ending September 30, 2027.

The CNMI is currently evaluating the effects the above upcoming accounting pronouncements might have on its financial statements.

Commonwealth of the Northern Mariana Islands

Notes to Financial Statements, continued

1. Summary of Significant Accounting Policies, continued

X. Estimates

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

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

Y. Encumbrances

The CNMI utilizes encumbrance accounting to identify fund obligations. Encumbrances represent commitments related to unperformed contracts for goods. At September 30, 2023, the CNMI has significant encumbrances summarized as follows:

General <u>Fund</u>	Grants Assistance <u>Fund</u>	ARPA <u>Fund</u>	Other Governmental <u>Funds</u>	<u>Total</u>
\$13,993,233	\$8,022,491	\$---	\$601,957	\$22,617,681

AA. 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, 2023 from which summarized information was derived.

2. Deposits and Investments

Deposit and Investment Policy

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

Commonwealth of the Northern Mariana Islands

Notes to Financial Statements, continued

2. Deposits and Investments, continued

Deposits

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, 2023, the carrying amount of the primary government's total unrestricted cash and cash equivalents were \$59,277,254 and the corresponding bank balances were \$69,382,921, which are maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. Restricted cash and cash equivalents for the primary government represent amounts held and administered by the CNMI in accordance with legal mandates and certain capital projects. Restricted cash and cash equivalents at September 30, 2023 amounted to \$58,407,594 and the corresponding bank balances were \$98,825,432. Of the bank balance amounts, \$165,630,978 is maintained in financial institutions subject to FDIC insurance. The remaining amount of \$2,577,375 represents short-term investments held and administered by the CNMI's trustees in accordance with various trust agreements and bond indentures. Based on negotiated trust and custody contracts, all of the investments were held in the CNMI's name by the CNMI's custodial financial institutions at September 30, 2023. As of September 30, 2023, 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, 2023, is presently not determinable. Accordingly, these deposits are exposed to custodial credit risk.

As of September 30, 2023, the carrying amount of the discretely presented component units' restricted and unrestricted cash and cash equivalents and time certificates of deposit were \$220,979,838 and the corresponding bank balances were \$219,594,407. Of the bank balance amounts, \$179,056,991 is maintained in financial institutions subject to FDIC insurance and \$1,414,839 represents amounts maintained in a non-FDIC insured bank. The remaining amount of \$39,122,577 represents amount held and administered by the discretely presented components units' investment manager subject to Securities Investor Protection Corporation (SIPC) insurance up to \$250,000 with coverage in excess of SIPC provided by a supplemental insurance policy through certain underwriters with a per client aggregate limit of \$1.9 million. As of September 30, 2023, bank deposits in the amount of \$500,000 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.

Commonwealth of the Northern Mariana Islands

Notes to Financial Statements, continued

2. Deposits and Investments, continued

Investments

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

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

Custodial credit risk for investments is the risk that in the event of the failure of the counterparty to the transaction, the CNMI will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The CNMI's investments are held and administered by trustees in accordance with various bond indentures for the purpose of funding various capital projects, land settlement claims and future debt service requirements. Based on negotiated trust and custody contracts, all of these investments were held in the CNMI's name by the CNMI's custodial financial institutions at September 30, 2023.

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.

Fair Value Measurement of Investments:

Investments and related investment earnings are reported at fair value using quoted market prices. Fair value is the price that would be received to sell an asset or paid to transfer a liability (i.e., the exit price) in an orderly transaction between market participants at the date as of which the fair value of an asset or liability is determined.

The CNMI categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs. In certain instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy is based on the lowest level of input that is significant to the fair measurement. Investments not categorized under the fair value hierarchy are shown at either Net Asset Value (NAV) or amortized cost.

Commonwealth of the Northern Mariana Islands

Notes to Financial Statements, continued

2. Deposits and Investments, continued

Investments, continued

Fair Value Measurement of Investments, continued:

A. Primary Government

Investments held by a bank administered trust company as of September 30, 2023, are as follows:

Stock mutual funds	\$1,563,473
Mutual bond funds	<u>378,372</u>
	<u>\$1,941,845</u>

Stock mutual funds are categorized as Level 1, mutual bond funds are measured at net asset value (NAV) and money market placements are recorded at amortized cost.

The following is a listing of fixed income securities of Other Governmental Funds at September 30, 2023:

<u>Investment Type</u>	<u>NAV</u>	<u>Investment Maturities (In Years)</u>				<u>Credit Rating</u>
		<u>Less Than 1</u>	<u>1-5</u>	<u>6-10</u>	<u>More Than 10</u>	
Mutual bond funds	<u>\$378,372</u>	<u>\$378,372</u>	<u>\$ ---</u>	<u>\$ ---</u>	<u>\$ ---</u>	N/A

B. Discretely Presented Component Units

CEDA:

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

On May 7, 2009, CUC and CEDA 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-transferable preferred stock of \$45,000,000 to CEDA and yielding annual dividends of two percent. The Commonwealth Public Utilities Commission approved the Agreement on September 3, 2009.

The Agreement provides CUC the right to purchase from CEDA 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, CEDA shall not transfer any of its rights, title, or interest to such preferred stock.

Commonwealth of the Northern Mariana Islands

Notes to Financial Statements, continued

2. Deposits and Investments, continued

Investments, continued

Fair Value Measurement of Investments, continued:

B. Discretely Presented Component Units, continued

CEDA, continued:

Further, the Agreement provides for deferral of the dividend payments for the first three years after issuance, with such deferred dividend payments being amortized, interest free, over a fifteen-year period. Dividends were to be paid to CEDA beginning October 1, 2012 but were not received. The Agreement cancels and discharges the indebtedness of CUC to CEDA of \$61,568,750 in principal and \$138,670,797 in accrued interest, including related late charges and any other charges owed by CUC on the capital development loans.

CUC issued to CEDA forty-five shares of preferred stock with a par value of \$1,000,000 per share for a total aggregate value of \$45,000,000 dated September 28, 2009. The preferred stock yields guaranteed dividends at two percent per annum payable quarterly in advance. The dividends of the preferred stock are cumulative from and after October 1, 2009 and bear no interest. CEDA has taken the position that the value of the preferred stock represents the net present value of the future stream of dividend payments required by CUC and not the face value of the stock itself. At September 30, 2023, CEDA has recorded an investment of \$11,309,651, with a corresponding 100% valuation allowance, based on the discounted cash flows of the future dividend payments at 6.27% per annum.

Minimum receipts (which do not factor in CUC's right to purchase up to \$16,200,000 of preferred stock through offset against CUC's future, internally funded capital improvement projects) under the original agreement are as follows:

<u>Year ending September 30,</u>	<u>Principal Amount</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 875,589	\$ 204,411	\$ 1,080,000
2014	822,775	257,225	1,080,000
2015	773,147	306,853	1,080,000
2016	726,512	353,488	1,080,000
2017	682,691	397,309	1,080,000
2018 - 2022	2,843,258	2,556,742	5,400,000
2023 - 2027	2,083,152	3,316,848	5,400,000
2028 - 2032	1,271,875	3,228,125	4,500,000
2033 - 2037	931,857	3,568,143	4,500,000
2038 - 2039	<u>298,795</u>	<u>1,501,205</u>	<u>1,800,000</u>
	<u>\$11,309,651</u>	<u>\$15,690,349</u>	<u>\$27,000,000</u>

Commonwealth of the Northern Mariana Islands

Notes to Financial Statements, continued

2. Deposits and Investments, continued

Investments, continued

Fair Value Measurement of Investments, continued:

B. Discretely Presented Component Units, continued

CEDA, continued:

On August 17, 2016, CEDA entered into an agreement with CUC for the total amount of unpaid dividend payments owed by CUC to CEDA and agreed to a dividend of \$4,320,000 for the year ended September 30, 2016. The agreement states that CUC will make quarterly dividend payments beginning October 1, 2016, as required by the preferred stock agreement, with a payment to CEDA of \$270,000 which represents the full amount of the quarterly dividend due. In 2015, CEDA has determined that, prospectively, dividend income will be recognized upon collection; however, changes in circumstances in CUC's cash flows resulted in collections of dividends receivable as of September 30, 2021. At September 30, 2021, CEDA recorded dividends receivable of \$1,080,000 for deferred dividends earned for the first three years after issuance of the preferred stock which is being amortized over a fifteen-year period. As of September 30, 2023, CEDA recorded dividends receivable amounting to \$720,000 as a component of interest and dividends in the statement of net position of the component units.

CPA:

CPA's investments are held and administered by trustees in accordance with negotiated trust and custody agreements. Based on those agreements, all of those deposits were held in CPA's name by CPA's custodial financial institutions at September 30, 2023. As of September 30, 2023, investments at fair value consist of investments in U.S. Government money market placements and mutual funds amounting to \$43,511,708. All CPA investments are categorized as Level 1.

MPLT:

MPLT's investments are held and administered by trustees in accordance with negotiated trust and custody agreements. Based on these agreements, all these investments are held in MPLT's name by MPLT's custodial financial institutions at September 30, 2023.

Commonwealth of the Northern Mariana Islands

Notes to Financial Statements, continued

2. Deposits and Investments, continued

Investments, continued

Fair Value Measurement of Investments, continued:

B. Discretely Presented Component Units, continued

MPLT, continued:

As of September 30, 2023, investments at fair value are as follows:

Investments by fair value level	<u>Total</u>	<u>Fair Value Measurement Using</u>		
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Debt securities:				
Corporate bonds	\$15,080,984	\$15,080,984	\$ ---	\$ ---
Domestic convertible corporate bonds	<u>158,290</u>	<u>158,290</u>	<u>---</u>	<u>---</u>
Total debt securities	<u>15,239,274</u>	<u>15,239,274</u>	<u>---</u>	<u>---</u>
Equity securities:				
Domestic common stock	3,122,341	3,122,341	---	---
Preferred stock	22,265	22,265	---	---
International common stock	705,616	584,314	121,302	---
Exchange traded funds	42,131,562	42,131,562	---	---
Mutual funds	95,519	95,519	---	---
Real estate investment trusts	1,113,733	1,113,733	---	---
Private equity	<u>4,544,383</u>	<u>---</u>	<u>4,544,383</u>	<u>---</u>
Total equity securities	<u>51,735,419</u>	<u>47,069,734</u>	<u>4,665,685</u>	<u>---</u>
Total investments by fair value level	<u>\$66,974,693</u>	<u>\$62,309,008</u>	<u>\$4,665,685</u>	<u>\$ ---</u>

The following is a listing of MPLT's fixed income securities at September 30, 2023:

Investment Type	<u>Fair Value</u>	<u>Investment Maturities (In Years)</u>				<u>Credit Rating</u>
		<u>Less Than 1</u>	<u>1-5</u>	<u>6-10</u>	<u>More Than 10</u>	
Corporate bonds	\$ 114,542	\$ ---	\$ 114,542	\$ ---	\$ ---	BBB+
Corporate bonds	256,268	---	256,268	---	---	BBB-
Corporate bonds	112,788	---	112,788	---	---	BBB
Corporate bonds	793,603	---	---	793,603	---	BB-
Corporate bonds	1,034,056	---	---	1,034,056	---	B+
Corporate bonds	3,594,278	---	1,576,009	2,018,269	---	B-
Corporate bonds	4,477,175	---	2,612,484	1,864,691	---	B
Corporate bonds	1,563,914	---	790,080	773,834	---	CCC+
Corporate bonds	1,353,943	---	1,079,732	274,211	---	CCC
Corporate bonds	1,780,419	51,678	930,800	561,817	236,124	NA
Domestic convertible corporate bonds	82,427	---	82,427	---	---	B-
Domestic convertible corporate bonds	<u>75,861</u>	<u>---</u>	<u>75,861</u>	<u>---</u>	<u>---</u>	NA
	<u>\$15,239,274</u>	<u>\$51,678</u>	<u>\$7,630,991</u>	<u>\$7,320,481</u>	<u>\$236,124</u>	

Commonwealth of the Northern Mariana Islands

Notes to Financial Statements, continued

2. Deposits and Investments, continued

Investments, continued

Fair Value Measurement of Investments, continued:

B. Discretely Presented Component Units, continued

NMC:

NMC's investments are held and administered by trustees in accordance with negotiated trust and custody agreements. Based on these agreements, all of these investments were held in NMC's name by NMC's custodial financial institutions at September 30, 2023.

As of September 30, 2023, investments at fair value are as follows:

Investments by fair value level	<u>Total</u>	Fair Value Measurement Using		
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Debt securities:				
Real estate and tangibles	\$ 532,525	\$ ---	\$ ---	\$ 532,525
Cash and cash equivalents	712,461	---	---	712,461
Alternative investments	440,526			440,526
Asset-backed, mortgaged-backed, collateralized mortgage obligation	1,016,779	---	1,016,779	---
Certificates of deposit	434,099	---	434,099	---
U.S. Treasury	1,160,097	---	1,160,097	---
Corporate bonds	864,334	---	864,334	---
Equity securities:				
Domestic equity	3,470,003	3,470,003	---	---
International equity	<u>1,952,817</u>	<u>1,952,817</u>	<u>---</u>	<u>---</u>
Total investments by fair value level	<u>\$10,583,641</u>	<u>\$5,422,820</u>	<u>\$3,475,309</u>	<u>\$1,685,512</u>

The following is a listing of NMC's fixed income securities at September 30, 2023:

<u>Investment Type</u>	<u>Fair Value</u>	Investment Maturities (In Years)				<u>Credit Rating</u>
		<u>Less Than 1</u>	<u>1-5</u>	<u>6-10</u>	<u>More Than 10</u>	
Government and GSE bonds	\$1,160,097	\$ ---	\$188,566	\$ 591,980	\$ 379,551	AAA
Corporate bonds	12,787	---	---	---	12,787	AAA
Corporate bonds	46,436	---	16,691	29,745	---	A+
Corporate bonds	212,748	---	---	199,733	13,015	A-
Corporate bonds	203,690	---	52,091	135,966	15,633	BBB+
Corporate bonds	99,989	---	34,338	65,651	---	BBB
Corporate bonds	<u>1,739,562</u>	<u>722,783</u>	<u>---</u>	<u>---</u>	<u>1,016,779</u>	No rating
	<u>\$3,475,309</u>	<u>\$722,783</u>	<u>\$291,686</u>	<u>\$1,023,075</u>	<u>\$1,437,765</u>	

Commonwealth of the Northern Mariana Islands

Notes to Financial Statements, continued

3. Receivables and Tax Abatements

A. Receivables

Primary Government

Receivables as of September 30, 2023, for the primary government's individual major governmental funds and nonmajor governmental funds in the aggregate, including allowances for uncollectible accounts, are as follows:

	<u>General</u>	<u>Grants Assistance</u>	<u>ARPA Relief</u>	<u>Other Governmental Funds</u>	<u>Total</u>
Receivables:					
Federal agencies	\$ 9,100,571	\$118,061,036	\$ ---	\$ 286,433	\$127,448,040
General	11,245,784	---	---	1,662,773	12,908,557
Taxes	5,234,864	---	---	---	5,234,864
Other	<u>51,885,432</u>	<u>31,296</u>	<u>---</u>	<u>438,687</u>	<u>52,355,415</u>
Gross receivables	77,466,651	118,092,332	---	2,387,893	197,946,876
Less allowance for uncollectibles	<u>1,744,398</u>	<u>9,976,871</u>	<u>---</u>	<u>---</u>	<u>11,721,269</u>
Net receivables	<u>\$75,722,253</u>	<u>\$108,115,461</u>	<u>\$ ---</u>	<u>\$2,387,893</u>	<u>\$186,225,607</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.

Discretely Presented Component Units

Receivables as of September 30, 2023, for the discretely presented component units, including allowances for uncollectible accounts are as follows:

	<u>CEDA</u>	<u>CPA</u>	<u>CUC</u>	<u>MPLT</u>	<u>MVA</u>	<u>NMC</u>	<u>PSS</u>	<u>Total</u>
Receivables:								
Loans	\$ 30,762,991	\$ ---	\$ ---	\$ ---	\$ ---	\$ ---	\$ ---	\$ 30,762,991
Notes	577,455	---	125,016	14,111,742	---	---	---	14,814,213
Federal agencies	---	3,914,064	5,786,721	---	---	8,582,230	7,090,628	25,373,643
General	---	8,163,228	75,791,015	---	---	3,918,338	---	87,872,581
Interest and dividends	720,000	---	---	341,625	---	---	---	1,061,625
Other	<u>274,653</u>	<u>14,213</u>	<u>---</u>	<u>969,899</u>	<u>38,428</u>	<u>---</u>	<u>---</u>	<u>1,297,193</u>
Gross receivables	32,335,099	12,091,505	81,702,752	15,423,266	38,428	12,500,568	7,090,628	161,182,246
Less allowance for uncollectibles	<u>23,094,328</u>	<u>8,349,407</u>	<u>61,540,314</u>	<u>1,107,754</u>	<u>---</u>	<u>1,951,706</u>	<u>---</u>	<u>96,043,509</u>
Net receivables	<u>\$ 9,240,771</u>	<u>\$ 3,742,098</u>	<u>\$ 20,162,438</u>	<u>\$ 14,315,512</u>	<u>\$ 38,428</u>	<u>\$ 10,548,862</u>	<u>\$ 7,090,628</u>	<u>\$ 65,138,737</u>

Commonwealth of the Northern Mariana Islands

Notes to Financial Statements, continued

3. Receivables and Tax Abatements, continued

A. Receivables, continued

Discretely Presented Component Units, continued

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

CEDA:

Economic development loans for commercial purposes due within various periods not to exceed thirty (30) years. The interest rates charged are based on the economic purpose of the loan. Production development loans bear interest at 7% to 9% per annum, marine and agriculture loans bear interest at 4.5% per annum, commercial development loans bear interest at 7% to 9% per annum, and microloans bear interest at 7% to 12% per annum. In October 2007, CEDA initiated a "Debt Relief Program", which provides for reduction of interest to two percent and extension of term up to thirty years with a mandated three-year callable provision where warranted and justified

\$ 7,668.663

CUC:

CUC allows customers to settle their outstanding utilities through issuance of promissory notes with terms ranging from six months to ten years at an interest rate of 12% per annum

\$ 125,016

Commonwealth of the Northern Mariana Islands

Notes to Financial Statements, continued

3. Receivables and Tax Abatements, continued

A. Receivables, continued

Discretely Presented Component Units, continued

MPLT:

Note receivable from the CNMI Government, interest at 7% per annum, due on September 1, 2024 \$ 8,931,943

Notes receivable (Home Loan Program) from various individuals obtained through a settlement agreement with the Northern Marianas Housing Corporation (NMHC) dated December 31, 2007, interest at 2% (5.5% to 8.5% prior to January 1, 2009) and terms from ten to thirty years 3,806,457

Note receivable from the Commonwealth Healthcare Corporation (CHCC), with interest at 5% per annum, due on October 31, 2023. Collateralized by CHCC's real properties for operational and bridge capital pursuant to CNMI Public Law 17-76 53,560

Note receivable from Adelantun Publickun Luta Enteramente, Incorporated (APLE 501, Inc.), interest at 5% per annum, due on October 18, 2017, with monthly principal and interest payments in the amount of \$1,225, collateralized by a loan portfolio. Proceeds were used to fund an independently administered individual or parent-student loan program. MPLT has ceased future loan commitments and disbursements to APLE 501, Inc. 33,220

10-year note receivable from Tinian Shipping Services, Inc. (TSSI), interest at 5% per annum, due on September 1, 2032, with monthly principal and interest payments in the amount of \$14,831. Secured by TSSI's real properties by a mortgage agreement and commercial loan agreement 1,286,562

Less allowance for loan losses 14,111,742
(1,107,754)

\$13,003,988

Commonwealth of the Northern Mariana Islands

Notes to Financial Statements, continued

3. Receivables and Tax Abatements, continued

B. Tax Abatements

As of September 30, 2023, the CNMI provided tax abatements through the following program:

Qualifying Certificate (QC) Program

The QC Program was created under Public Law 12-32 and amended under Public Law 12-50 and Public Law 12-80 as an economic incentive tool to encourage investment in activities that would strengthen the island economy, enrich its growth, and enhance the quality of life in the CNMI. Qualified individuals and companies may be granted the following tax abatements:

- Up to 100% abatement of taxes of whatever nature, except taxes under NMTIT, paid or to be paid to the Government of the CNMI for a period of twenty-five (25) years; and
- Up to 100% rebate of taxes of whatever nature, paid to the Government of the CNMI for a period of twenty-five (25) years.

During the year ended September 30, 2023, information relevant to the disclosure of the QC program includes total estimated gross receipts tax revenue reduced by \$-0-.

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, 2023, are summarized as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Other Governmental	\$ 71,663,587
General Fund	Grants Assistance	370,656,002
General Fund	ARPA	1,333,827
Grants Assistance	General Fund	447,607,282
ARPA	Grants Assistance	109,926,378
Other Governmental	General Fund	<u>178,367,030</u>
		<u>\$1,179,554,106</u>

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

Commonwealth of the Northern Mariana Islands

Notes to Financial Statements, continued

4. Interfund Receivables and Payables, continued

Balances reflected as due from fiduciary funds of the primary government as of September 30, 2023, are summarized as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	NMIRF	\$1,618,141
Other governmental	NMIRF	<u>864,788</u>
		<u>\$2,482,929</u>

Balances reflected as due to NMI Settlement Fund of the primary government as of September 30, 2023, are summarized as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
NMISF	General	<u>\$25,336,979</u>

The amount recorded as due from the component units of the primary government of \$323,519 does not equal to the corresponding due to primary government of the discretely presented component units of \$19,098,095 resulting from CPA and CUC recording of public auditor fee of \$432,069 and \$18,507,949, respectively, for which the primary government recorded a corresponding allowance. The remaining amount of \$158,077 pertains to CPA's outstanding balance of the grant money received from the primary government as of September 30, 2023.

Balances reflected as due to component units of the primary government as of September 30, 2023, are summarized as follows:

<u>Due From</u>	<u>Due To</u>	<u>Amount</u>
MPLT	General	\$11,396,623
CHCC	General	11,925,338
CUC	General	5,578,317
MVA	General	6,595,120
CEDA	General	6,013,000
NMC	General	185,235
PSS	General	6,907
DPL Fund	General	<u>3,524,881</u>
		<u>\$45,225,421</u>

Commonwealth of the Northern Mariana Islands

Notes to Financial Statements, continued

4. Interfund Receivables and Payables, continued

The amount recorded as due from primary government of the discretely presented component units of \$17,152,959 does not equal the corresponding due to component units of the primary government of \$45,225,421 by \$28,072,462. The difference of \$11,396,623 with MPLT consists of the amount recorded as notes receivable by MPLT for \$8,913,943 and of the \$2,383,680 reconciliation difference due to lack of financial information. The difference of \$5,578,317 with CUC is due to amounts record as general receivables by CUC. The remaining differences of \$11,925,338, \$4,801,032, \$13,000, \$(2,048,589), \$(7,118,140) and \$3,524,881 are due to lack of financial information and reconciliation for the accounts with CHCC, MVA, CEDA, NMC, PSS and the DPL Governmental Fund, respectively.

5. Other Assets

As of September 30, 2023, the CNMI holds 11% of the shares of the Pacific Islands Development Bank (PIDB) and the United Micronesia Development Association, Inc. (UMDA) both in the amount of \$1,000,000. Other assets have been recorded at cost. These equity interests do not meet the definition of investments as the assets are held primarily for economic development and are presented as other assets in the accompanying financial statements.

6. Restricted Assets

Primary Government

Restricted assets of \$56,522,568 recorded in the General Fund represents cash and cash equivalents of \$1,087,929 for the purpose of compensating for injury increasing disability in accordance with §(f) of Section 9308 of Public Law 10-19; \$9,212,048 restricted for various Federal programs and projects; \$1,331,724 for the purpose of funding ongoing vocational educational curricula and program development by the CNMI and is funded by the U.S. Department of Homeland Security; \$2,577,375 restricted for future debt service requirements and \$42,313,492 restricted for group health and life insurance payments.

Restricted assets of \$1,245,856 recorded in the Grants Assistance Fund represents cash and cash equivalents restricted for capital projects.

Restricted assets of \$310,519 recorded in the ARPA Fund represents cash and cash equivalents restricted for Tinian Municipality.

Restricted assets of \$2,270,496 recorded in the Other Governmental Funds represent cash and cash equivalents of \$328,651 for other purposes and investments of \$1,941,845 for the purpose of compensating for injury increasing disability in accordance with §(f) of Section 9308 of Public Law 10-19.

Commonwealth of the Northern Mariana Islands

Notes to Financial Statements, continued

6. Restricted Assets, continued

Discretely Presented Component Units

CEDA:

Development Banking Division

Restricted cash and cash equivalents and time certificates of deposit represent the proceeds of Covenant funding and liquidated revenue bonds derived from pledged Covenant funding, and are restricted for capital development purposes. Proceeds are deposited with commercial lending institutions and the securities are held in the name of CEDA. At September 30, 2023, restricted cash and cash equivalents and time certificates of deposit amounting to \$10,861,421 consist of amounts held in demand deposit accounts.

Development Corporation Division

Restricted cash and cash equivalents represent funds for the State Small Business Credit Initiative (SSBI) loan program maintained by CEDA as the disbursing agent deposited with commercial lending institutions held in the name of CEDA. At September 30, 2023, restricted cash and cash equivalents for the SSBCI loan program were \$989,323.

CPA:

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

<u>Fund</u>	<u>Airport Revenue Bonds</u>	<u>Seaport Revenue Bonds</u>	<u>Total</u>
Bond Reserve Fund	\$ 1,765,388	\$ 3,485,988	\$ 5,251,376
Supplemental Reserve Fund	---	7,879,032	7,879,032
Construction Fund	---	7,803	7,803
Reimbursement Fund	---	6,313	6,313
Bond Fund	703,328	1,728,194	2,431,522
Maintenance and Operation	135,382	4,265,279	4,400,661
Optional Redemption Fund	13,154	---	13,154
Revenue Fund	787	882	1,669
Insurance and Condemnation Proceeds Fund - Yutu	21,732,452	---	21,732,452
Insurance and Condemnation Proceeds Fund - Mangkhut	<u>1,787,726</u>	<u>---</u>	<u>1,787,726</u>
	<u>\$26,138,217</u>	<u>\$17,373,491</u>	<u>\$43,511,708</u>

CUC:

Restricted assets of \$12,602,076 recorded in CUC pertain to customer deposits.

Commonwealth of the Northern Mariana Islands

Notes to Financial Statements, continued

7. Capital Assets and Depreciation

Capital asset activities for the year ended September 30, 2023, are as follows:

Primary Government

	Balance October <u>1, 2022</u>	<u>Additions</u>	<u>Reclassifications</u>	Balance September <u>30, 2023</u>
Assets not being depreciated:				
Land	\$ 30,667,698	\$ ---	\$ ---	\$ 30,667,698
Construction in progress	<u>7,689,303</u>	<u>---</u>	<u>---</u>	<u>7,689,303</u>
	<u>38,357,001</u>	<u>---</u>	<u>---</u>	<u>38,357,001</u>
Depreciable assets:				
Buildings and other improvements	134,576,456	6,600	---	134,583,056
Machinery and equipment	63,976,509	1,120,348	---	65,096,857
Infrastructure	<u>95,574,225</u>	<u>---</u>	<u>---</u>	<u>95,574,225</u>
	<u>294,127,190</u>	<u>1,126,948</u>	<u>---</u>	<u>295,254,138</u>
Accumulated depreciation:				
Buildings and other improvements	(83,849,359)	---	---	(83,849,359)
Machinery and equipment	(48,493,527)	(232,658)	---	(48,726,185)
Infrastructure	<u>(43,787,452)</u>	<u>---</u>	<u>---</u>	<u>(43,787,452)</u>
Total accumulated depreciation	<u>(176,130,338)</u>	<u>(232,658)</u>	<u>---</u>	<u>(176,362,996)</u>
Depreciable assets, net	<u>117,996,852</u>	<u>894,290</u>	<u>---</u>	<u>118,891,142</u>
	<u>\$156,353,853</u>	<u>\$ 894,290</u>	<u>\$ ---</u>	<u>\$157,248,143</u>

Management was unable to determine the allocation of depreciation expense by functions/programs of the primary government's governmental activities.

Commonwealth of the Northern Mariana Islands

Notes to Financial Statements, continued

7. Capital Assets and Depreciation, continued

Discretely Presented Component Units

	Estimated Useful Lives	Balance October 1, 2022 (Restated)	Additions	Retirements	Reclassifications	Balance September 30, 2023
Assets not being depreciated:						
Land		\$ 38,608,003	\$ 111,000	\$ ---	\$ ---	\$ 38,719,003
Construction in progress		<u>45,202,801</u>	<u>18,963,922</u>	<u>---</u>	<u>(5,650,714)</u>	<u>58,516,009</u>
		<u>83,810,804</u>	<u>19,074,922</u>	<u>---</u>	<u>(5,650,714)</u>	<u>97,235,012</u>
Depreciable assets:						
Electric plant	25 years	180,221,550	894,930	(284,842)	---	180,831,638
Runway and improvements	20 years	155,842,264	---	---	---	155,842,264
Terminal facilities	20 years	114,584,635	---	(106,577)	4,998,404	119,476,462
Water plant	25 years	88,768,733	2,947,382	(17,250)	---	91,698,865
Buildings	5 - 50 years	78,650,847	3,986,362	---	239,000	82,876,209
Harbor facilities	20 years	64,373,203	---	---	---	64,373,203
Sewer plant	25 years	58,452,086	530,632	(9,999)	---	58,972,719
Fire and rescue equipment	2 - 8 years	35,040,666	---	---	---	35,040,666
General transportation	3 - 5 years	15,311,384	508,552	(4,903,544)	---	10,916,392
Terminal equipment	2 - 10 years	7,079,405	9,500	(56,751)	---	7,032,154
Office furniture and fixtures	2 - 10 years	5,692,354	1,508,000	(664,305)	290,543	6,826,592
Grounds maintenance and shop equipment	2 - 5 years	1,556,928	571,067	(1,479)	---	2,126,516
Other improvements	3 - 20 years	26,364,505	---	(169,316)	---	26,195,189
Other equipment	3 - 5 years	<u>11,210,139</u>	<u>2,301,240</u>	<u>(1,580,441)</u>	<u>319,300</u>	<u>12,250,238</u>
		843,148,699	13,257,665	(7,794,504)	5,847,247	854,459,107
Less accumulated depreciation		<u>(549,293,840)</u>	<u>(27,797,115)</u>	<u>7,794,061</u>	<u>(196,533)</u>	<u>(569,493,427)</u>
Depreciable assets, net		<u>293,854,859</u>	<u>(14,539,450)</u>	<u>(443)</u>	<u>5,650,714</u>	<u>284,965,680</u>
		<u>\$377,665,663</u>	<u>\$ 4,535,472</u>	<u>\$ (443)</u>	<u>\$ ---</u>	<u>\$382,200,692</u>

8. Tax Rebates Payable

The CNMI makes significant estimates in determining tax rebates payable. A Rebate Trust Fund was established to account for amounts paid to the CNMI, with respect to taxes imposed, which are rebateable to taxpayers. P.L. 9-22, enacted in January 1995, repealed and re-enacted the CNMI tax code and removed the requirement of a Rebate Trust Fund. P.L. 9-57, enacted in October 1995, reestablished the Rebate Trust Fund. The reestablishment was not retroactive, and thus tax year liabilities are paid from subsequent year collections of the General Fund.

The rebate percentage is either 90%, 70% or 50%, based on the specified tax brackets for taxes paid. Tax rebate liabilities amounted to \$58,365,648 as of September 30, 2023. Cash to fund this liability is to be provided by the General Fund. Any changes in the estimate will be accounted for in a prospective manner.

Commonwealth of the Northern Mariana Islands

Notes to Financial Statements, continued

9. Recovery Rebates Payable

The Congress of the United States passed the Economic Stimulus Act of 2008, which was approved and became law on February 13, 2008 as U.S. Public Law 110-185 (the Act). Among other things, the Act provides economic stimulus through recovery rebates to individuals meeting certain criteria. The Act provides that the U.S. Department of Treasury will make payment to the CNMI in an amount equal to the aggregate amount of the credits allowable by reason of the provision to the CNMI's residents against their CNMI income tax to cover advance and final payments. In 2008, the CNMI received total funds of \$16,100,000 pursuant to the Act. The recovery rebates payable of \$393,837 recorded in the General Fund represents the remaining undisbursed funds as of September 30, 2023.

The Congress of the United States passed the CARES Act, which was approved and became law on March 27, 2020 as U.S. Public Law 116-136. The CARES Act provided Economic Impact Payments (EIP) of up to \$1,200 per adult for eligible individuals and \$500 per qualifying child under age 17. The payments were reduced for individuals with adjusted gross income (AGI) greater than \$75,000 (\$150,000 for married couples filing a joint return). For a family of four, these EIP provided up to \$3,400 of direct financial relief. In 2020, the CNMI received total funds of \$52,252,900 pursuant to the CARES Act. The CNMI recorded economic stimulus payments payable of \$1,234,270 in the General Fund representing the remaining undisbursed EIP funds as of September 30, 2023.

10. General Obligation Bonds Payable

Primary Government

Refunding of Debt

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

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

Commonwealth of the Northern Mariana Islands

Notes to Financial Statements, continued

10. General Obligation Bonds Payable, continued

Primary Government

Refunding of Debt

Although the advance refunding resulted in the recognition of an accounting loss of \$8.2 million for the year ended September 30, 2007, the CNMI in effect reduced its aggregate debt service payments by \$7.8 million over the next twenty-six years and obtained an economic gain (difference between the present values of the old and new debt service payments) of \$7.475 million. The excess of the reacquisition price over the net carrying amount of the old debt of \$8,181,944 was recorded as deferred outflow from cost of refunding debt and is being amortized over the remaining life of the debt or twenty-six years. At September 30, 2023, deferred outflows from cost of refunding debt amounted to \$3,097,259.

\$57,800,000 Bond Issue

In April 2007, CEDA, acting for and on behalf of the CNMI, issued general obligation refunding bonds, Series 2007A in the aggregate principal amount of \$57,800,000 with interest rate at 5% per annum to refund \$52,435,000 of the 2000 Series A general obligation bonds. Installments of principal are to be paid to the Bond Trustee annually commencing June 1, 2009 through June 1, 2030. Interest is payable semi-annually beginning December 1, 2007 through June 1, 2030.

Amount outstanding and payable as of September 30, 2023, consist of the following:

Series 2007A general obligations refunding bonds	\$20,940,000
Unamortized premium on bond issuance	<u>37,495</u>
	<u>\$20,977,495</u>

\$42,690,000 Bond Issue

In April 2007, CEDA, 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, 2023, consist of the following:

Series 2007B general obligations refunding bonds	\$27,770,000
Unamortized premium on bond issuance	<u>25,702</u>
	<u>\$27,795,702</u>

Commonwealth of the Northern Mariana Islands

Notes to Financial Statements, continued

10. General Obligation Bonds Payable, continued

Primary Government

Pension Obligation Bond

Article X Section 10 of the CNMI Constitution by Public Law 18-12 as amended by Public Law 18-45 and by Public Law 21-4, issued pursuant to Commonwealth Code Division 10, Chapter 4, Article 2, authorized to issue Pension Obligation Bonds in the original aggregate principal amount not to exceed \$300,000,000. The primary purpose of the bond was to fund the Commonwealth's actuarially determined unfunded accrued liability to the retirement fund.

\$24,348,440 First Interim Pension Obligation Bond Issue

The CNMI and CEDA obtained financing on an interim basis for the purposes for which the Bonds have been authorized. On August 18, 2020, the CNMI, through CEDA acting on behalf of the CNMI, entered into a Pension Obligation Credit Agreement with a financial institution. The financial institution extended a maximum loan amount of \$25,000,000 with interest rate at 8% per annum, which is evidenced and to be paid in accordance with the Pension Obligation Bond Series 2020A issued by the CNMI. Payment amount is based on a fifteen (15) year amortization of principal and interest. Installments of principal and interest are to be paid to the financial institution monthly commencing September 18, 2020, with a balloon payment of the remaining obligation on September 18, 2025. Amount outstanding and payable as of September 30, 2023 amounted to \$21,530,552. As discussed in footnote 19, the CNMI paid off the remaining balance of the Bond Series 2020A, including all accrued and unpaid interest, as of November 12, 2024, through a Second Pension Obligation Bond Series 2024A issued by the CNMI.

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

<u>Year ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2024	\$ 5,578,404	\$ 4,190,571	\$ 9,768,975
2025	5,894,918	3,862,182	9,757,100
2026	6,325,305	3,516,545	9,841,850
2027	6,665,064	3,148,036	9,813,100
2028	7,011,132	2,820,968	9,832,100
2029 - 2033	30,520,769	7,576,856	38,097,625
2034 - 2035	<u>8,236,960</u>	<u>524,440</u>	<u>8,761,400</u>
	<u>\$70,232,552</u>	<u>\$25,639,598</u>	<u>\$95,872,150</u>

Commonwealth of the Northern Mariana Islands

Notes to Financial Statements, continued

10. General Obligation Bonds Payable, continued

Primary Government

Changes in general obligation bonds payable of the primary government for the year ended September 30, 2023 are as follows:

	Balance October 1, 2022	Additions	Reductions	Balance September 30, 2023	Due Within One Year
Loans and bonds payable:					
2007 Series A Bonds	\$23,390,000	\$ ---	\$(2,450,000)	\$20,940,000	\$2,570,000
2007 Series B Bonds	29,605,000	---	(1,835,000)	27,770,000	1,925,000
2020 Series A Interim Pension Bond	<u>22,522,203</u>	<u>---</u>	<u>(999,651)</u>	<u>21,522,552</u>	<u>1,083,404</u>
	75,517,203	---	(5,284,651)	70,232,552	5,578,404
Deferred amounts:					
Unamortized premium on bonds issued	<u>69,517</u>	<u>---</u>	<u>(6,320)</u>	<u>63,197</u>	<u>6,320</u>
	<u>\$75,586,720</u>	<u>\$ ---</u>	<u>\$(5,290,971)</u>	<u>\$70,295,749</u>	<u>\$5,584,724</u>

Events of Default and Remedies of Bondholders

The outstanding refunding of debt general obligation bonds payable contains a provision that defines events of default as:

- (a) Default of the CNMI in the due and punctual payment of the principal of any Bond when and as the same shall become due and payable, whether at maturity as therein expressed, by declaration or otherwise;
- (b) Default of the CNMI in the due and punctual payment of the interest on any Bond when and as the same become due and payable; or
- (c) Default of the CNMI in the observance of any of the other agreements, conditions or covenants on its part in this Indenture or in the Bonds contained, and such default shall have continued for a period of thirty (30) days after the CNMI shall have been given notice in writing of such default by the Trustee; provided that such default shall not constitute an event of default hereunder if the CNMI shall commence to cure such default within said 30-day period and thereafter diligently and in good faith proceed to cure such default within a reasonable period of time.

In each and every such case during the continuance of such Event of Default, the Trustee may, and upon the written requests of the Bondholders of not less than twenty-five percent (25%) in aggregate amount of Bonds Outstanding, shall, by notice in writing to the CNMI, declare the principal of all of the Bonds then Outstanding, and the interest accrued thereon, to be due and payable immediately, and upon any such declaration the same shall become immediately due and payable, anything in this Indenture or in the Bonds contained to the contrary notwithstanding.

Commonwealth of the Northern Mariana Islands

Notes to Financial Statements, continued

10. General Obligation Bonds Payable, continued

Primary Government

Events of Default and Remedies of Bondholders, continued

If, at any time after the principal of the Bonds shall have been so declared due and payable, and before any judgment or decree for the payment of the money due shall have been obtained or entered, the CNMI shall deposit with the Trustee a sum sufficient to pay all principal on the Bonds matured prior to such declaration and all matured installments of interest (if any) upon all the Bonds, and the reasonable fees and expenses of the Trustee and the Paying Agent, and any and all other defaults known to the Trustee (other than in the payment of principal of and interest on the Bonds due and payable solely by reason of such declaration) shall have been made good or cured to the satisfaction of the Trustee or provision deemed by the Trustee to be adequate shall have been made therefor, then, and in every such case, the Bondholders of at least twenty-five percent (25%) in aggregate amount of Bonds Outstanding, by written notice to the CNMI and to the Trustee may, on behalf of the Bondholders, rescind and annul such declaration and its consequences. No such rescission and annulment shall extend to or shall affect any subsequent default, or shall impair or exhaust any right or power consequent thereon.

The outstanding interim pension obligation bonds payable contains a provision that defines events of default as:

- (a) Default of the CNMI in the due and punctual payment as and when the same shall become due and payable of the principal or interest upon the Loan, or upon the Interim Bond;
- (b) Default of the CNMI in the observance of any of the covenants, or conditions and warranties contained in this Agreement, the Interim Bond; or the Pledge, other than the payment of money, if such default shall have continued for a period of sixty (60) days after written notice thereof, specifying such default and requiring the same to be remedied, shall have been given to the CNMI; or
- (c) Acceleration by the Lender in the event the Lender sue the CNMI for payment of principal of and interest on the Interim Bond.

In the event of default, then the Holder shall be entitled to declare the principal of the Loan, and the interest accrued thereon, to be due and payable immediately and upon any such declaration, such principal and interest shall become and be immediately due and payable.

Management acknowledges the requirement to observe any of the covenants, or conditions and warranties contained in the Agreement.

Commonwealth of the Northern Mariana Islands

Notes to Financial Statements, continued

10. General Obligation Bonds Payable, continued

Primary Government

Events of Default and Remedies of Bondholders, continued

Per Section 9 of the Interim Pension Obligation Bond Credit Agreement, the CNMI shall maintain the special trust account as defined in the Pledge of Business Gross Revenue Taxes agreement, and that it shall always maintain or cause to be maintained in such special trust account an amount not less than the required reserve. Accordingly, as of September 30, 2023 the CNMI has established a special trust account to comply with Section 9 of the Credit Agreement with a balance of \$1,147,648 and is recorded under unrestricted cash and cash equivalents in the accompanying Statement of Net Position.

Discretely Presented Component Units

CPA \$20,050,000 Bond Issue

On March 26, 1998, CPA issued \$20,050,000 of tax-exempt airport revenue bonds which in part were used for a current refunding of \$8,250,000 of 1987 Series B tax-exempt airport revenue bonds. The refunding was undertaken to consolidate existing bonds with new bonds issued for the purpose of financing various airport projects and to reduce total future debt service payments. The reacquisition price exceeded the net carrying amount of the old debt by \$503,906 and was fully 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. Interest on the bonds is payable semi-annually at 6.25% on March 15 and September 15 of each year.

Revenue bonds payable as of September 30, 2023 consist of the following:

Special Revenue Bonds, tax exempt, 1998 Senior Series
A: interest and annual installments payable to the Bond
Trustee between 2022 and 2028 are listed
below.

\$5,880,000

Less current portion

1,035,000

Long-term portion

\$4,845,000

Principal installments payable by CPA to the Bond Trustee through the life of the 1998 Series A, Airport Revenue Bonds, are due on March 15.

Commonwealth of the Northern Mariana Islands

Notes to Financial Statements, continued

10. General Obligation Bonds Payable, continued

Discretely Presented Component Units, continued

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

Principal and interest payments for subsequent years ending September 30, are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2024	\$1,035,000	\$335,156	\$1,370,156
2025	1,105,000	268,281	1,373,281
2026	1,170,000	197,188	1,367,188
2027	1,245,000	121,719	1,366,719
2028	<u>1,325,000</u>	<u>41,406</u>	<u>1,366,406</u>
	<u>\$5,880,000</u>	<u>\$963,750</u>	<u>\$6,843,750</u>

CPA \$33,775,000 Bond Issue

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

At September 30, 2023, deferred outflows from cost of refunding debt amounted to \$254,869. The transaction also resulted in an economic gain of \$688,630 and a decrease of \$7,616,151 in future debt service payments. Interest on the bonds is payable semi-annually at 6.6% on March 15 and September 15 of each year.

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.

Commonwealth of the Northern Mariana Islands

Notes to Financial Statements, continued

10. General Obligation Bonds Payable, continued

Discretely Presented Component Units, continued

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

Revenue bonds payable as of September 30, 2023, consist of the following:

Special Revenue Bonds, tax-exempt, 1998 Senior Series A: interest and annual installments payable to the Bond Trustee between 2022 and 2028 are listed below.	\$10,660,000
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Special Revenue Bonds, tax-exempt, 2005 Senior Series A: interest and annual installments payable to the Bond Trustee between 2022 and 2031 are listed below.	3,510,000
---	-----------

Discount on 2005 Senior Series A bonds	(71,698)
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	14,098,302
Less current portion	<u>2,235,000</u>

Long-term portion	<u>\$11,863,302</u>
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Principal installments payable by CPA to the Bond Trustee through the life of the 1998 Senior Series A and the 2005 Senior Series A, Special Revenue Bonds, are due on March 15.

Principal and interest payments for subsequent years ending September 30 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2024	\$ 2,235,000	\$ 824,835	\$ 3,059,835
2025	2,375,000	676,775	3,051,775
2026	2,525,000	519,365	3,044,365
2027	2,685,000	351,973	3,036,973
2028	2,850,000	174,103	3,024,103
2029 - 2030	<u>1,428,302</u>	<u>126,500</u>	<u>1,554,802</u>
	<u>\$14,098,302</u>	<u>\$2,673,551</u>	<u>\$16,771,853</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, 2023, total deposits in the Seaport Supplemental Reserve Fund amounted to \$7,879,032 and have been reported as a component of restricted investments in the accompanying statement of net position.

Commonwealth of the Northern Mariana Islands

Notes to Financial Statements, continued

10. General Obligation Bonds Payable, continued

Discretely Presented Component Units, continued

CPA Bond Redemption

In accordance with the Airport and Seaport Bond Indenture Agreements, Section 4.01, terms of redemption of the 1998 Senior Series A Bonds are as follows:

- a) Optional redemption - The 1998 Senior Bonds for the airport 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, 2015 and thereafter	100%

The option may only be exercised by depositing with the Trustee, prior to giving notice of such redemption in accordance with Section 4.03, moneys or Investment Securities sufficient in amount and maturing in a timely manner to provide for such redemption including moneys or Investment Securities sufficient to pay the premium upon such optional redemption if any. CPA shall notify the Trustee in writing at least 60 days prior to the date to be fixed for redemption of its intention to exercise its redemption option and specifying the amount and the maturities of the bonds to be redeemed and, if appropriate, the Mandatory Sinking Accounts Payments to which the bonds redeemed are to be allocated.

The 1998 Senior Bonds for the seaport are not subject to optional redemption prior to their stated maturity.

- b) Mandatory redemption - The 1998 Senior Bonds for the airport and seaport are subject to mandatory redemption, in part on the earliest Interest Payment Date for which notice can be given after completion of the Project or after three years from the date of issuance of the 1998 Senior Bonds, from moneys transferred from the 1998 Series A Account within the Construction Fund to the Optional Redemption Fund in accordance with Section 3.03, at a redemption price equal to 100% of the principal amount of such 1998 Senior Bonds to be redeemed plus accrued interest, if any, to the date fixed for redemption, without premium.

Commonwealth of the Northern Mariana Islands

Notes to Financial Statements, continued

10. General Obligation Bonds Payable, continued

Discretely Presented Component Units, continued

CPA Bond Redemption, continued

- c) Insurance or condemnation award - At the option of CPA, prior to their stated maturity as a whole or in part by lot, the 1998 Senior Bonds for the airport and seaport are subject to redemption from the proceeds of any insurance or condemnation awards received by CPA due to a casualty loss or governmental taking of CPA's airport and seaport facilities, if such proceeds are not used to repair or replace such facilities under the circumstances and upon the conditions prescribed in Section 6.17 at the principal amount thereof and interest accrued thereon to the date fixed for redemption, without premium.
- d) Mandatory sinking account - The 1998 Senior Bonds for the airport and seaport are also subject to redemption prior to their stated maturity in part, by lot, from Mandatory Sinking Account Payments established for such maturity upon payment of the principal amount thereof and accrued interest thereon to the date fixed for redemption, without premium.

On August 14, 2024, CPA fully redeemed the remaining balance of the 1998 Senior Series A airport revenue bonds, including all accrued and unpaid interest as of the redemption date.

In accordance with the Second Supplemental Indenture of the Seaport Bond Indenture Agreement, Section 15.03, terms of redemption of the 2005 Senior Series A Bonds are as follows:

- a) Optional redemption - The 2005 Senior Series A Bonds maturing on or after March 15, 2016 are subject to redemption prior to their respective stated maturities, at the option of CPA, from lawfully available funds deposited in the Optional Redemption Fund, as a whole or in part on any date on or after March 15, 2015, at the following respective redemption prices (expressed as percentages of the principal amount of the 2005 Bonds to be redeemed) plus accrued interest thereon to the date fixed for redemption:

Redemption Dates

Redemption Prices

March 15, 2017 and thereafter

100%

- b) Mandatory redemption - The 2005 Senior Series A Bonds are subject to mandatory redemption upon notice of completion of the 2005 Project (purchase, acquisition, construction/ reconstruction, repair, renovation, improvement, certain capital improvements or expansion of CPA's seaports) or after three years from the date of issuance of the 2005 Senior Series A Bonds from moneys transferred from the Construction Fund to the Optional Redemption Fund in accordance with Section 3.03, at a redemption price equal to the principal amount thereof, without premium, together with accrued interest to the date fixed for redemption.

Commonwealth of the Northern Mariana Islands

Notes to Financial Statements, continued

10. General Obligation Bonds Payable, continued

Discretely Presented Component Units, continued

CPA Bond Redemption, continued

- c) Insurance or condemnation award - At the option of CPA and prior to their stated maturity, the 2005 Senior Series A Bonds are subject to redemption from proceeds of any insurance or condemnation awards received by CPA due to a casualty loss or governmental taking of CPA's seaport facilities, if such proceeds are not used to repair or replace such facilities, under the circumstances and upon the conditions prescribed in Section 6.17 of the bond indenture, at a redemption price equal to the principal amount thereof, without premium, together with accrued interest to the date fixed for redemption.
- d) Mandatory sinking account - The 2005 Senior Series A Bonds maturing are also subject to redemption prior to their stated maturity in part, by lot, from Mandatory Sinking Account Payments established, at a redemption price equal to the principal amount thereof, without premium, together with accrued interest to the date fixed for redemption.

CPA Pledge of Future Revenues

CPA has pledged future gross revenues to repay \$20,050,000 and \$33,775,000 in 1998 Senior Series A and \$7,225,000 of 2005 Senior Series A tax-exempt special revenue bonds. Proceeds from the bonds provided financing for capital assets. The bonds are payable from pledged gross revenues. The bonds are payable through fiscal years 2028, 2028 and 2031, respectively. The total principal and interest payable for the remainder of the life of these bonds are \$23,615,603 at September 30, 2023. Pledged gross revenues received during the year ended September 30, 2023 were \$27,234,280. Debt service payments during the year ended September 30, 2023 amounted to \$4,448,349 representing 16% of pledged gross revenues.

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, 2023. Section 6.11 of the Airport and Seaport Bond Indenture Agreements (Indenture) states that CPA shall impose, levy, enforce and collect such dockage, entry and wharfage fees, tariffs, lease rentals, licensing fees and other fees and charges in an aggregate amount with respect to each fiscal year to produce gross revenues of 125% of debt service requirements.

Management of CPA has determined that gross revenues consist of total operating revenues, other grant revenue and contributions, interest income, passenger facility charges (PFCs) and insurance proceeds to meet the indenture requirements. For fiscal year 2023, management of CPA determined that 100% of PFCs are considered as gross revenues for these purposes.

Commonwealth of the Northern Mariana Islands

Notes to Financial Statements, continued

11. General Obligation Bonds Payable, continued

Discretely Presented Component Units, continued

Changes in CPA's long-term liabilities for the years ended September 30, 2023 are as follows:

	Balance October <u>1, 2022</u>	<u>Additions</u>	<u>Reductions</u>	Balance September <u>30, 2023</u>	<u>Current</u>	<u>Noncurrent</u>
Bonds payable:						
Airport 1998 Senior Series A	\$ 6,855,000	\$ ---	\$(975,000)	\$ 5,880,000	\$1,035,000	\$ 4,845,000
Seaport 1998 Senior Series A	12,425,000	---	(1,765,000)	10,660,000	1,875,000	8,785,000
Seaport 2005 Senior Series A	3,850,000	---	(340,000)	3,510,000	360,000	3,150,000
Deferred amounts:						
Discount on bonds	(71,698)	---	---	(71,698)	---	(71,698)
	23,058,302	---	(3,080,000)	19,978,302	3,270,000	16,708,302
Other:						
Compensated absences	691,854	529,506	(555,978)	665,382	302,396	362,986
	<u>\$23,750,156</u>	<u>\$529,506</u>	<u>\$(3,635,978)</u>	<u>\$20,643,684</u>	<u>\$3,572,396</u>	<u>\$17,071,288</u>

CPA Events of Default and Remedies of Bondholders

The outstanding revenue bonds related to government-type activities contains a provision that defines events of default as:

- a. default of by CPA in the due and punctual payment of the principal or Redemption Price of any Bond when and as the same shall become due and payable, whether at maturity as therein expressed, by proceeding for redemption, by declaration of otherwise; default by CPA in the redemption from any Mandatory Sinking Account of any Term Bonds in the amounts at time provided therefore; or default by CPA in the due and punctual payment of any installment of interest on any Bond when and as such interest installment shall become due and payable;
- b. default by CPA in the observance of any of the covenants, agreement or conditions on its part in this Indenture or in the Bonds contained, if such default shall have continued for a period of sixty (60) days after written notice thereof, specifying such default and requiring the same to be remedied, shall have been given to CPA by the Trustee, or to CPA and the Trustee by any Credit Provider or by the Owners of not less than twenty-five percent (25%) in aggregate principal amount of the Bonds at the time Outstanding; except that, if such default can be remedied but not within such sixty (60) day period and if CPA has taken all action reasonably possible to remedy such default within such sixty (60) day period, such default shall not become an Event of Default hereunder for so long as CPA shall diligently proceed to remedy same in accordance with and subject to any directions established by the Trustee; or

Commonwealth of the Northern Mariana Islands

Notes to Financial Statements, continued

10. General Obligation Bonds Payable, continued

Discretely Presented Component Units, continued

CPA Events of Default and Remedies of Bondholders, continued

- c. an event of bankruptcy. Upon the occurrence of an event of default, the Trustee may, and upon the written request of the owners of not less than a majority in aggregate principal amount of Bonds then outstanding shall, declare the principal of all Bonds then outstanding and the interest accrued thereon due and payable on a date specified in such declaration (not less than five nor more than nine days after such declaration), and such principal and interest shall thereupon become and be immediately due and payable on such specified date, and interest shall cease to accrue on the Bonds from and after such date. The entire principal amount of the Bonds and such accrued interest shall become due and payable on the date of acceleration set forth in such notice of declaration, and interest shall cease to accrue on the Bonds from and after such date, provided moneys are held by the Trustee as of such date sufficient to pay such principal and accrued interest to such date. If an event of default shall occur and be continuing, all revenues, gross revenue and any other funds then held or thereafter received by the Trustee or the Depository under any of the provisions of the indenture shall be under the control of and apply by the Trustee as dictated by the Indenture.

11. Other Long-Term Liabilities

Primary Government

Claims and Judgments

CNMI is subject to various claims, litigations and other legal proceedings inherent to its operations. CNMI consults their legal counsel whenever there is a potential or asserted claim and relies on the advice of counsel for direction and for establishing reserves for potential unfavorable outcomes.

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

1. The CNMI must deposit \$5,000,000 no later than December 31, 2014, into the Court Registry (the Registry) established by the District Court for the CNMI.

Commonwealth of the Northern Mariana Islands

Notes to Financial Statements, continued

11. Other Long-Term Liabilities, continued

Primary Government

Claims and Judgments, continued

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

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

On March 8, 2016, US DOI awarded the CNMI additional funding of \$382,225 to its original ATP to provide EEMC support for oil spill prevention, preparedness and response and to comply with the SO2. On March 17, 2016, US DOI awarded the CNMI additional funding of \$730,614 to its original ATP for the "Tank 103 Cleanout, Inspect and Repair" project. The additional ATPs would satisfy the CNMI's 2016 SO2 obligation.

On March 17, 2017, US DOI awarded \$777,000 to the CNMI for an ATP (Funding No. CNMI-CIP-2017-3 D17AP00016) for the development of a Facility Waste Management Plan for power plants 1 and 2 on Saipan, an SO2 project. On March 27, 2017, US DOI awarded the CNMI additional funding of \$4,019,000 to its original ATP for the repairs of "Tank 103" and its secondary containment as required by the SO2. On March 29, 2017, US DOI awarded the CNMI additional funding of \$204,000 to its original ATP to provide EEMC support for construction management and administration of the SO2 projects. The additional ATPs would satisfy the CNMI's 2017 SO2 obligation. On March 5, 2018, USDOI awarded \$5,000,000 to the CNMI for an ATP (Funding No. CNMI-CIP-2018-3 D18AP00026) for the EEMC, CUC pipeline smart pigging, waste management and facility drainage projects. Accordingly, this ATP would satisfy the CNMI's 2018 SO2 obligation. As of September 30, 2023, the CNMI's claims and judgment liability related to SO2 amounted to \$-0-.

Commonwealth of the Northern Mariana Islands

Notes to Financial Statements, continued

11. Other Long-Term Liabilities, continued

Primary Government

Due to Component Units

On July 26, 2019, Public Law 21-3 was enacted to authorize a loan between the CNMI and MPLT and to appropriate future MPLT interest distributions for funding the CNMI's emergency disaster relief and recovery expenses due to the impact of Super Typhoon Yutu. Public Law 21-3 authorized MPLT to loan \$15,000,000 to the CNMI at an interest rate of 7.5% per annum. Public Law 21-3 authorized MPLT to withhold future investment income that would be remitted to the CNMI pursuant to Article XI § 6(d) of the Constitution beginning fiscal year 2019 and future fiscal years thereafter until the loan plus annual interest is fully paid.

On September 13 and 20, 2019, MPLT transferred \$7,500,000 and \$2,500,000, respectively, to the CNMI and entered into a \$15 million loan agreement to effectuate the requirements of Public Law 21-3, and as amended by Public Law 21-6. Additional drawdown of \$5,000,000 was made by the CNMI on April 17, 2020. The CNMI's future annual payments on the loan could not be determined. Accordingly, the loan was recorded as due to component units in the accompanying financial statements. The CNMI's total principal and interest payments for the year ended September 30, 2023 amounted to \$1,330,285 and \$906,265, respectively.

Changes in other long-term liabilities of the primary government for the year ended September 30, 2023, are as follows:

	Balance October <u>1, 2022</u>	<u>Additions</u>	<u>Reductions</u>	Balance September <u>30, 2023</u>	Due Within <u>One Year</u>
Claims and judgments	\$ 2,525,311	\$ ---	\$ ---	\$ 2,525,311	\$ 2,525,311
Compensated absences	6,533,626	53,553,221	(37,270,602)	22,816,245	---
Due to component units	43,198,320	4,121,345	(2,094,244)	45,225,421	45,225,421
Landfill closure	<u>15,180,980</u>	<u>---</u>	<u>---</u>	<u>15,180,980</u>	<u>---</u>
	<u>\$67,438,237</u>	<u>\$57,674,566</u>	<u>\$(39,364,846)</u>	<u>\$85,747,957</u>	<u>\$47,750,732</u>

Commonwealth of the Northern Mariana Islands

Notes to Financial Statements, continued

11. Other Long-Term Liabilities, continued

Discretely Presented Component Units

CUC Environmental Remediation Liability

On March 10, 2011, CUC received an order from the U.S. Environmental Protection Agency (EPA) requiring CUC to perform cleanup activities of Power Plants 1 and 2 pursuant to the National Oil and Hazardous Substances Pollution Contingency Plan, which appears in Title 40, CFR Part 300 and paragraphs 12 and 14 of SO2 for Preliminary Injunctive Relief.

On October 27, 2011, EPA contacted CUC regarding release or threatened release of hazardous substance connected with the Rota Power Plant located in Songsong Village, Rota (the Site). As a current owner and operator of the Rota Power Plant, EPA believes that CUC may be liable pursuant to Section 107(a) of the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA), as amended, 42 U.S.C. 9607(a), for response costs incurred to address environmental contamination at the Site. By letter dated November 3, 2011, CUC indicated that it lacked the financial ability to perform an immediate cleanup of hazardous substances and requested EPA's assistance in performing such a cleanup. EPA has incurred at least \$2,131,697 in costs related to the Site as of January 31, 2016.

A settlement agreement was also entered between CUC and the U.S. EPA pursuant to CERCLA section 122(h)(1) for recovery of past response costs of \$315,000 plus 3% interest. CUC is required to make payments in 48 installments starting August 15, 2021.

On April 26, 2017, CUC received an assessment to reimburse the United States Coast Guard (USCG) for the costs incurred for oil discharge pollution removal at CUC Power Plants 1 and 2 totaling \$7,809,537. In fiscal year 2020, CUC and USCG agreed to enter into a settlement agreement pursuant to Section 1015 of the Oil Pollution Act of 1990. CUC agreed to pay USCG the principal sum of \$1,185,000 in forty-eight monthly installments of \$24,688 plus 3% annual interest.

Future principal payments for the environmental remediation liability are as follows:

Year ending September 30,	
2024	\$375,000
2025	<u>312,500</u>
	<u>\$687,500</u>

Commonwealth of the Northern Mariana Islands

Notes to Financial Statements, continued

11. Other Long-Term Liabilities, continued

Discretely Presented Component Units, continued

Changes in other long-term liabilities of the discretely presented component units for the year ended September 30, 2023, are as follows:

	Balance October <u>1, 2022</u>	<u>Additions</u>	<u>Reductions</u>	Balance September <u>30, 2023</u>	Due Within <u>One Year</u>
Compensated absences	\$ 7,888,947	\$ 1,207,882	\$(1,553,559)	\$ 7,543,270	\$4,114,488
Dividends payable	900,000	---	(180,000)	720,000	---
Due to fiduciary funds	3,481,607	---	(250,000)	3,231,607	---
Obligations under estimated environmental remediation costs	522,500	---	(210,000)	312,500	---
Unearned revenues	<u>25,937,082</u>	<u>10,635,879</u>	<u>(21,169,679)</u>	<u>15,403,282</u>	<u>789,805</u>
	<u>\$38,730,136</u>	<u>\$11,843,761</u>	<u>\$(23,363,238)</u>	<u>\$27,210,659</u>	<u>\$4,904,293</u>

12. Fund Balances

Classifications of fund balances comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The following table enumerates the fund balance classifications:

	<u>General</u>	<u>Grants Assistance</u>	<u>ARPA</u>	<u>Other Governmental Funds</u>	<u>Total</u>
Non-spendable:					
Inventories	\$ 232,387	\$ ---	\$ ---	\$ ---	\$ 232,387
UMDA	1,500,000	---	---	---	1,500,000
PIDB	1,000,000	---	---	---	1,000,000
Restricted for:					
Debt service reserve	2,577,380	---	---	---	2,577,380
Committed to:					
Various purposes	---	---	1,727,484	12,060,110	13,787,594
Unassigned	<u>(275,651,968)</u>	<u>(75,468,793)</u>	<u>---</u>	<u>75,103,653</u>	<u>(286,670,184)</u>
	<u>\$(270,342,201)</u>	<u>\$(75,468,793)</u>	<u>\$1,727,484</u>	<u>\$87,163,763</u>	<u>\$(267,572,823)</u>

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.

Commonwealth of the Northern Mariana Islands

Notes to Financial Statements, continued

13. Commitments, continued

Discretely Presented Component Units

CPA has pledged future gross revenues to repay \$20,050,000 and \$33,775,000 in 1998 Senior Series A and \$7,225,000 of 2005 Senior Series A tax-exempt special revenue bonds. Proceeds from the bonds provided financing for capital assets. The bonds are payable from pledged gross revenues. The bonds are payable through fiscal years 2028, 2028 and 2031, respectively. The total principal and interest payable for the remainder of the life of these bonds are \$23,615,603 at September 30, 2023. Pledged gross revenues received during the year ended September 30, 2023 were \$27,234,280. Debt service payments during the year ended September 30, 2023 amounted to \$4,448,349 representing 16% of pledged gross revenues.

CEDA leases certain foreclosed real estate properties for periods ranging from one to fifty-five years. CEDA also leases commercial space in its building for one-to-two-year periods with monthly leases of \$100 to \$600 per unit. Total lease income for the year ended September 30, 2023 amounted to \$223,812. Minimum future lease income for all leases is as follows:

Year ending September 30,

2024	\$ 94,109
2025	90,945
2026	90,313
2027	90,313
2028	90,313
Thereafter	<u>2,568,759</u>
	<u>\$3,024,752</u>

14. Leases

Discretely Presented Component Units

CPA as Lessor:

CPA leases certain assets to various third parties. The assets leased include building facilities, land, office space, terminal space for concessions, rental car facilities, and others. Majority of the lease agreements are a fixed monthly fee and may contain annual or periodic escalation clauses. For some leases, the monthly fee is a percentage of gross revenue, which may vary each month. Lease terms vary from month-to-month to over 20 years. Majority of the leases have a term of less than five (5) years.

Commonwealth of the Northern Mariana Islands

Notes to Financial Statements, continued

14. Leases, continued

Discretely Presented Component Units, continued

CPA as Lessor, continued:

CPA's Airport Division leases rental car concession booths, office space and other ground space. The Seaport Division leases land and warehouse space. Lease terms range from one to forty years and in most instances contain provisions for percentage rent. Concession and lease income for the year ended September 30, 2023 amounted to \$4,635,061 recorded as part of the program revenues.

CPA has recorded \$24,055,639 deferred inflows of resources on October 1, 2021 arising from the adoption of GASB 87. During the fiscal year ended September 30, 2023, additional deferred inflow of resources was recorded amounting to \$1,117,260 for the new lease agreements which took effect on September 1, 2024. As of September 30, 2023, the related deferred inflows of resources amounting to \$26,934,356 has been recorded as a component of deferred inflows of resources - leases in the accompanying statement of net position of the component units.

Additionally, CPA has recorded deferred inflows of resources related to \$21,900,000 received from the U.S. Department of Defense on May 9, 2019 for a 40-year lease of the Tinian divert airfield. CPA has elected to recognize lease revenue over the term of the lease and recorded \$547,500 for the year ended September 30, 2023. The related deferred inflows amounting to \$19,537,921 as of September 30, 2023 has been recorded as a component of deferred inflows of resources - leases in the accompanying statement of net position of the component units.

Future minimum payments that are included in the measurement of the lease receivable as of September 30, 2023 are as follows:

<u>Year ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2024	\$ 1,450,875	\$ 444,739	\$ 1,895,614
2025	1,034,473	429,676	1,464,149
2026	1,077,554	413,979	1,491,533
2027	1,037,274	397,840	1,435,114
2028	1,078,902	405,770	1,484,672
2029 - 2033	5,569,384	1,646,330	7,215,714
2034 - 2038	4,821,186	1,205,908	6,027,094
2039 - 2043	3,619,847	878,799	4,498,646
2044 - 2048	2,156,722	604,255	2,760,977
2049 - 2053	1,967,338	437,542	2,404,880
2054 - 2058	2,371,632	241,204	2,612,836
2059 - 2062	<u>1,383,177</u>	<u>34,224</u>	<u>1,417,401</u>
	<u>\$27,568,364</u>	<u>\$7,140,266</u>	<u>\$34,708,630</u>

Commonwealth of the Northern Mariana Islands

Notes to Financial Statements, continued

14. Leases, continued

Discretely Presented Component Units, continued

CPA as Lessor, continued:

Regulated Leases

In accordance with GASB 87, CPA does not recognize a lease receivable and deferred inflows of resources for regulated leases. Regulated leases are certain leases that are subject to external laws, regulations, or legal rulings. CPA's regulated leases include the Letters of Authorization (LOAs) issued to the airlines which authorize the air carriers to utilize spaces within the passenger terminal building of the airport. Total revenue recognized for these regulated leases amounted to \$1,593,268 for the year ended September 30, 2023 and is recorded under other revenues, net in the accompanying statement of revenues, expenses and changes in net position of the component units.

CUC as Lessee:

CUC has a ground lease agreement that began in June 2021 with a payment scheme of:

- \$1,438 per month for the first 8 years
- \$1,546 per month for the next 8 years
- \$1,654 per month for the next 8 years
- \$1,761 per month for the next 8 years
- \$1,869 per month for the last 8 years

There was no impute rate in the lease agreement. A discount rate of 4.36% was used based on a 10-year treasury bond rate in April 2024.

Future minimum payments that are included in the measurement of the lease liability as of September 30, 2023 are as follows:

<u>Year ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2024	\$ 1,808	\$ 15,450	\$ 17,258
2025	1,888	15,370	17,258
2026	1,972	15,286	17,258
2027	2,060	15,198	17,258
2028 - 2032	16,387	74,210	90,597
2033 - 2037	23,381	69,801	93,182
2038 - 2042	35,837	63,375	99,212
2043 - 2047	47,717	54,510	102,227
2048 - 2052	62,180	41,731	103,911
2053 - 2057	86,079	26,956	113,035
2058 - 2062	<u>75,870</u>	<u>6,362</u>	<u>82,232</u>
	<u>\$355,179</u>	<u>\$398,249</u>	<u>\$753,428</u>

Commonwealth of the Northern Mariana Islands

Notes to Financial Statements, continued

14. Leases, continued

Discretely Presented Component Units, continued

CUC as Lessee, continued:

CUC has several lease contracts in which CUC has unilateral power to cancel the lease at any time of their choosing with an advance written notice. CUC has expressed that they are in the process of terminating the contract as soon as a suitable replacement is attained. These leases were not considered to be part of the GASB 87 computation. There were no short-term leases, excluding leases with one month or less lease terms, for the year ended September 30, 2023.

PSS as Lessee:

PSS has a lease agreement for the use of 43 multifunctional network printers for use at public and private schools. The lease commenced on January 27, 2021 and has a term of three years, with an option to renew for two full one-year extensions.

As of September 30, 2023, the measurement of right-of-use assets, net of \$773,260 accumulated depreciation, totals \$848,719.

A summary of future lease payments is as follows:

<u>Year ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2024	\$384,286	\$4,110	\$388,396
2025	386,575	1,821	388,396
2026	<u>97,002</u>	<u>97</u>	<u>97,099</u>
	<u>\$867,863</u>	<u>\$6,028</u>	<u>\$873,891</u>

15. Contingencies

Primary Government

Landfill Closure Costs

The CNMI operates a solid waste disposal site in Puerto Rico, Saipan, which is under administrative order from the U.S. EPA to close in the near future. The disposal site was officially closed in 2003. The related costs will be funded through grant awards from the U.S. Department of the Interior.

Commonwealth of the Northern Mariana Islands

Notes to Financial Statements, continued

15. Contingencies, continued

Primary Government

Landfill Closure Costs

State and federal laws and regulations require the CNMI to place a final cover on its landfill sites when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for 30 years after closure. Although landfill closure and post closure 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 post closure costs as an expense in each period based on landfill capacity used as of each balance sheet date. The \$15,180,980 liability reported as landfill closure and post closure costs at September 30, 2023 within the accompanying financial statements, represents the cumulative amount reported based on capacity used.

The Marpi landfill has an estimated lifespan of eighteen years. The CNMI will recognize the remaining estimated cost of closure and post closure care of \$775,671 as the remaining estimated capacity is filled. These amounts are based on what it would cost to perform all closure and post closure care in 2028. Actual costs may be higher due to inflation, changes in technology or changes in regulations.

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 \$349,957,441 have been set forth in the CNMI's Single Audit Report for the year ended September 30, 2023. The ultimate disposition of these questioned costs can be determined only by final action of the respective grantor agencies. Therefore, no provision for any liability that may result upon resolution of this matter has been made in the accompanying financial statements.

Insurance Coverage

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

Tax Returns

The CNMI is unable to estimate unfiled or unprocessed tax returns related to tax years 2018 and prior. Therefore, no provision for any liability that may result upon resolution of this matter has been made in the accompanying financial statements. CNMI management does not believe that this will have a material impact on the financial statements.

Commonwealth of the Northern Mariana Islands

Notes to Financial Statements, continued

15. Contingencies, continued

Primary Government

General Fund Financial Position

The CNMI's General Fund has an unassigned fund deficit of \$275,651,968 at September 30, 2023. In addition, at September 30, 2023, the primary government's current liabilities exceed current assets by \$296,685,998, and total liabilities and deferred inflows of resources exceed total assets and deferred outflows of resources by \$470,967,948. On September 30, 2013, the District Court approved a Settlement Agreement between a retiree (individually and on behalf of similarly-situated persons) and the CNMI, NMIRF and others. The Settlement Agreement includes the creation of NMISF to accept the transfer of NMIRF assets, receive annual contributions and payments by the CNMI and to carry out the consent judgment entered by the District Court. As part of the Settlement Agreement, the CNMI agrees to make minimum annual payments to NMISF to allow for the payment of 75% of Class Members' full benefits annually during NMISF's expected life and as determined by an actuary appointed by a Trustee and approved by the District Court.

Sick Leave

The CNMI records expenditures for sick leave when the leave is actually taken. Sick leave is compensated absence during working hours arising from employee illness or injury. Sick leave accumulates at the rate of thirteen working days for each year of service, without limit. No liability is recorded for nonvesting accumulating rights to receive sick pay benefits. The accumulated estimated amount of unused sick leave as of September 30, 2023 is \$39,382,048.

Budgetary Compliance

For the year ended September 30, 2023, expenditures of the General Fund exceeded budget at the program area level (i.e., the legal level of budgetary control) as follows:

Program Area	Excess
Executive branch:	
Department of Commerce	\$ 595
Department of Community and Cultural Affairs	\$ 2,135
Department of Corrections	\$ 449,754
Department of Fire	\$ 30,561
Department of Finance	\$ 216,509
Department of Labor	\$ 70
Department of Lands and Natural Resources	\$ 888
Department of Public Safety	\$ 207,849
Other Programs (transfers to agencies)	\$ 826,702

Commonwealth of the Northern Mariana Islands

Notes to Financial Statements, continued

15. Contingencies, continued

Discretely Presented Component Units

CHCC:

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

CUC:

Stipulated Orders

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

Stipulated Order One (SO1) is intended to ensure that CUC’s wastewater and drinking water systems achieve compliance with the SDWA and the FWPCA. The major components of SO1 are:

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

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

Stipulated Order Two (SO2) is intended to ensure that CUC’s power plant facilities achieve compliance with the Clean Water Act (CWA). These requirements include requiring CUC to eliminate oil spills, implement appropriate spill prevention measures, implement effective inspection procedures for its oil storage facilities, provide containment for oil storage facilities and prepare appropriate operating plans.

The SO2 projects continue under the direction of CUC Technical Manager for Oil, with oversight from US EPA designated contact, pursuant to the provisions of the Stipulated Order entered on September 26, 2014. Large infrastructure projects outlined in the SO have been completed, in cooperation with the Court’s appointed EEMC – Gilbane Federal. There are continuing obligations to fund the TMO accounts as a maintenance reserve for SO2 funded improvements to include berm construction, integrity testing, BECQ permit renewals, spill response training, spill response equipment, etc.

Commonwealth of the Northern Mariana Islands

Notes to Financial Statements, continued

16. Risk Management

The CNMI is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. It is the policy of the primary government not to purchase commercial insurance for the risks of loss to which it is exposed. Instead, CNMI management believes it is more economical to manage its risks internally. In the event of claim settlements and judgments, the CNMI reports all of its risk management activities in its General Fund. Claims expenditures and liabilities are reported when it is probable that a loss has occurred, and the amount of that loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported. As of September 30, 2023, the CNMI recorded \$2,525,312 of claims and judgments payable.

As part of the U.S. Military's lease of Tinian, the CNMI Government, the former Marianas Public Land Corporation and the U.S. Government, setup an escrow fund pending the obtaining of all the private land holdings on Tinian within the leased area. Subsequently, the escrow was jointly terminated wherein it was mutually agreed the funds could be used by the CNMI to acquire the private land holdings through direct acquisition or legal condemnation proceedings. This fund represents the net amount available after the costs of land acquisitions. Land condemnation proceedings are still in process. At September 30, 2023, the CNMI recorded a liability of \$1,401,144 related to land condemnation proceedings, which is reported as a component of the claims and judgments payable in the accompanying statement of net position.

17. Pension and Other Postemployment Benefits Trust Fund

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

GASB Statement No. 75 requires employers to record other postemployment benefits (OPEB) expense for their contractually required contributions to the OPEB plan. The CNMI has complied with GASB 75 by recording OPEB expense based on the statutorily determined contribution rate of NMISF. The CNMI's OPEB liability is incorporated into the Due to Pension (and Other Employee Benefit) Trust Fund liability amount. It is the understanding of the management of the CNMI that the statutorily determined contribution rate of NMISF incorporates both the pension liability and the OPEB liability. GASB 75 also requires detailed disclosure of information related to the OPEB plan and CNMI management was unable to obtain this information from NMIRF and NMISF's financial reports. CNMI management is unable to obtain the required disclosures and is of the opinion that such information must be obtained from NMIRF and NMISF. It is the position of the management of the CNMI that NMIRF and NMISF are solely responsible for disclosure of OPEB information.

Commonwealth of the Northern Mariana Islands

Notes to Financial Statements, continued

17. Pension and Other Postemployment Benefits Trust Fund, continued

Defined Benefit Plan (DB Plan)

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

Plan Membership. As of October 1, 2022, the latest valuation date, number of participants consisted of the following:

Class I members	48
Class II members	<u>3</u>
	51
Terminated vested	48
In Pay Status (Retirees, Survivors, Minor Children)	<u>2,593</u>
Total members	<u>2,692</u>

Class II members are all persons who were plan members prior to effective date of Public Law 6-17 and who did not choose to become Class I members.

Pension Benefits: Membership service is earned for actual compensated government employment after becoming a plan member. 1/12 year of service is earned for each month of employment.

Benefit for Class I members is equal to the sum of the following, but not less than \$6,000 nor greater than 85% of average annual salary.

- The sum of 2.5% of average annual salary for each of the first 25 years of service with a maximum of 50% of average annual salary.
- 2.5% of average annual salary for each year of service in excess of 25 years.

Benefit for Class II members is equal to the sum of the following, but not less than \$6,000 nor the greater than 85% of average annual salary.

- The sum of 2% of average annual salary for each of the first 10 years of service and 2.5% of average annual salary for each year of service in excess of 10 years.
- Twenty dollars for each year of service reduced by 1/100th of 1% for each dollar that average annual salary exceeds \$6,000.

Commonwealth of the Northern Mariana Islands

Notes to Financial Statements, continued

17. Pension and Other Postemployment Benefits Trust Fund, continued

Defined Benefit Plan (DB Plan), continued

Pension Benefits, continued

The minimum amount of service retirement annuity payable by the plan is \$6,000 per year. The maximum retirement annuity is 85% of average annual salary, which is average of the three highest annual salaries.

Class II members receive the greater of the benefit determined using the Class II formula or the benefit determined using the Class I formula as if all service had been rendered as a Class I member.

Normal retirement eligibility for Class I benefit is age 62 and 10 years of contributing membership after May 7, 1989. Eligibility for Class II benefit is age 60 or 25 years of membership service. Payment is in the form of life annuity.

Early retirement eligibility for Class I early retirement is age 52 and 10 years of membership service or 25 years of membership service. At least 10 years of membership service must be earned after May 7, 1989. Class II members are not eligible for early retirement. Amount of benefit is the same as normal retirement benefit, except reduced by an actuarially determined amount of 3% for each month the member is under 62 years of age.

Termination eligibility for Class I termination benefit is 10 years of contributing membership service. Eligibility for Class II termination benefit is 3 years of vesting service. Amount of benefit is the same as normal retirement benefit, except the annuity commences at age 62 for Class I members and age 60 for Class II members.

Disability retirement eligibility includes members who are less than age 62, who are totally and permanently disabled and, in the case of non-occupational causes, who accumulate at least 5 years of member service. Amount of benefit is equal to 50% of the member's salary in effect as of the date of disability or 66.67% of member's salary in effect if individual became a member prior to December 5, 2003. At age 62, the member will receive a normal retirement benefit calculated assuming service had continued to age 62 at the same salary received at the time of disability and the Class I formula is used. Disability benefits will be reduced by the U.S. Social Security System, Workers' Compensation or other disability insurance payments.

Survivor's benefits eligibility includes members who were active employees with at least 18 months of service for Class I and at least 3 years of service for Class II, or members who were receiving retirement or disability benefits. The following shall be payable:

- A surviving spouse will receive 50% of the member's normal retirement benefit, or benefit being paid at death, but not less than \$6,000 per year.

Commonwealth of the Northern Mariana Islands

Notes to Financial Statements, continued

17. Pension and Other Postemployment Benefits Trust Fund, continued

Defined Benefit Plan (DB Plan), continued

Pension Benefits, continued

- Each surviving minor child (with a maximum of three children) will receive the greater of \$1,080 and 16.67% of the member's normal retirement benefit or the benefit being paid at death.

The surviving spouse benefit will commence immediately if there are minor children, otherwise at the spouse's attainment of age 35, and continues until remarriage or death. Payment will be in the form of a life annuity. The children's benefit commences immediately and continues until the respective child's attainment of age 18 (age 22 if a full-time student) unless the child is disabled.

Lump sum death benefit eligibility includes members who were active employees or members who were receiving retirement or disability benefits. A lump sum of \$1,000 plus, if there is no surviving spouse or children, a refund, reduced by pension payments already received, of one-third of the accumulated employee contributions with interest.

Contributions: DB Plan members are required to contribute 6.5% and 9% of their annual covered salary for Class I and Class II members, respectively. On June 14, 2007, Public Law No. 15-70 was enacted to amend the NMIRF Act to improve the DB Plan's fiscal solvency. Public Law No. 15-70 provides for increasing employee contributions to the DB Plan by 1% per year beginning in fiscal year 2008 until reaching 10.5% for Class I members and 11% for Class II members. The actuarial contribution rate for fiscal year ended September 30, 2023 has yet to be determined. The actuarially determined contribution rate for the fiscal year ended September 30, 2010 is 72.7215% of covered payroll based on an actuarial valuation as of October 1, 2010 issued in October 2012. The established statutory rate at September 30, 2023 is 72.7215% of covered payroll. Public Law No. 15-126, authorizes the CNMI Government to remit only 18% of covered payroll and accrue the remaining as liability to NMIRF for fiscal year 2009. The employer contribution remittance was further reduced by Public Law No. 16-2 to 11% of covered payroll. On June 29, 2009, the CNMI was ordered to pay employer contribution of 16% beginning August 2009. Effective November 2009, the employer contribution was increased to 20%. On November 10, 2010, the CNMI was ordered to remit the employer contribution rate of 30% effective October 1, 2010.

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

Commonwealth of the Northern Mariana Islands

Notes to Financial Statements, continued

17. Pension and Other Postemployment Benefits Trust Fund, continued

Defined Benefit Plan (DB Plan), continued

Contributions, continued

On September 11, 2012, Public Law 17-82 *CNMI Pension Reform Recovery Act of 2012* was enacted. Unless specifically exempted or authorized by federal law, Public Law 17-82 provides for mandatory membership of CNMI Government employees and elected officials in the U.S. Social Security system and authorizes employees, who elect, to buy quarters of service in the U.S. Social Security system from contributions made to the DB plan. In addition, Public Law 17-82 provides active and inactive DB Plan members the option to voluntarily terminate membership in the DB Plan, withdraw or roll over contributions to the DC Plan and to participate in the U.S. Social Security system without termination of employment or penalty. Further, Public Law 17-82 allows the CNMI Government to continue remitting its 4% employer contribution to the DC Plan unless the employee ceases to contribute the employee share.

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

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

As part of the Settlement, the CNMI agrees to make minimum annual payments to NMISF to allow for the payment of 75% of Class Members' full benefits annually during the NMISF's expected Trustee and approved by the District Court.

The Parties project that the minimum annual payments necessary to enable the Settlement Fund to pay 75% of Class Members' Full Benefits each year will likely be at least:

2024	\$34,000,000
2025	\$32,000,000
2026	\$30,000,000
2027	\$28,000,000
2028	\$26,000,000

Commonwealth of the Northern Mariana Islands

Notes to Financial Statements, continued

17. Pension and Other Postemployment Benefits Trust Fund, continued

Defined Benefit Plan (DB Plan), continued

Contributions, continued

For the years ended September 30, 2023, 2022 and 2021, the CNMI recorded payments to NMISF of \$36,000,000 and \$12,886,345, \$38,000,000 and \$13,244,259, and \$40,000,000 and \$13,566,456, respectively, which relates to the fiscal year 2023 annual payment pursuant to Section 4 of the Settlement and payment of 25% of the class members full benefits, respectively.

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

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

Section 4.2 of the Settlement requires that if 17% of the CNMI's total annual revenue, as agreed by the Settlement Fund Trustee, Counsel, and the CNMI or as determined by the District Court, is greater than the minimum annual payments, the CNMI must pay the difference to the Settlement Fund within 60 days. As of September 30, 2023, the CNMI and NMISF have yet to determine the amount of excess, if any, for fiscal years 2018, 2019, 2020, 2021, 2022 and 2023.

In addition, Section 5 of the Settlement requires class members who are employed by the CNMI or an autonomous agency and who did not terminate from the DB Plan pursuant to Public Law 17-82, as amended by Public Law 18-02, to continue to pay employee contributions as required by the laws of the CNMI existing as of August 6, 2013.

On May 27, 2026, the CNMI informed the NMISF that it will no longer fund the 25% benefit payment beyond the July 31, 2026 pay period. The 25% benefit payments have been subsidized by the CNMI. The NMISF is not required to pay this amount under the Consent Decree in *Johnson v. Inos*, Civil Case No. 09-00023 in the U.S. District Court of the Northern Mariana Islands. After July 31, 2026, the NMISF class members will no longer receive the 25% benefit payments.

As of the auditor's report date, House Bill 24-84 is pending with the CNMI Legislature, which proposes \$2.1 million in funding to continue the 25% benefit payments to class members.

Commonwealth of the Northern Mariana Islands

Notes to Financial Statements, continued

17. Pension and Other Postemployment Benefits Trust Fund, continued

Defined Benefit Plan (DB Plan), continued

Contributions, continued

Required contributions are remitted to NMISF and the CNMI and autonomous agencies make supplemental payments to NMISF in the amount of the employer contributions at the same contribution rates they were paying as of June 26, 2013. Accordingly, NMIRF has no obligations or duties to pay retirement benefits to class members. For the year ended September 30, 2023, the CNMI recorded contributions to NMISF of \$501,986.

Section 8.1 of the Settlement assigns the CNMI the rights to collect deficient employer contributions and related costs as of August 6, 2013 from autonomous agencies. At September 30, 2023, the CNMI has not determined the amount of receivables from autonomous agencies.

During the fiscal year 2023, actuarial determination for the amount of liability was made for measurement date of September 30, 2022 by actuarial valuation as of October 1, 2022. The components of the net pension liability of the plan as of September 30, 2023 is as follows:

Total pension liability year	\$419,844,203
Fiduciary net position	<u>(121,110,012)</u>
Net pension liability	<u>\$298,734,191</u>
Fiduciary net position as a percentage of the total pension liability	(28.85%)

Actuarial Assumptions

The total pension liability was determined for measurement date of September 30, 2022 by an actuarial valuation as of October 1, 2022, using the following actuarial assumptions:

Actuarial Cost Method:	Entry Age Normal as a percentage of salary
Long Term Investment Rate of Return:	5.75% for all future years
Discount Rate:	5.28%
20-Year Bond Rate:	4.02%
Salary Increase:	No future salary increases

Commonwealth of the Northern Mariana Islands

Notes to Financial Statements, continued

17. Pension and Other Postemployment Benefits Trust Fund, continued

Defined Benefit Plan (DB Plan), continued

Actuarial Assumptions, continued

Mortality: Pub-2010 set forward 5 years for Males and Females, using 130% of the rates for ages 60 to 75, and 50% of the MP-2020 projection scale from 2020 onward

Turnover Rates:	<u>Age</u>	<u>Rate</u>
	20	13.03%
	35	10.78%
	30	8.58%
	35	6.83%
	40	5.08%
	45	3.33%
	50	1.58%
	55+	0.00%

Disability:	<u>Age</u>	<u>Male</u>	<u>Female</u>
	25	0.020%	0.021%
	30	0.023%	0.036%
	35	0.035%	0.061%
	40	0.060%	0.093%
	45	0.112%	0.135%
	50	0.310%	0.185%
	55	0.334%	0.261%
	60	0.441%	0.352%

Retirement Age: Earlier of age 62, if eligible, or 25 years of vesting service.

Marital Status: 75% of participants are assumed to be married.

Spouse Age: Male members are assumed to be 5 years older than female spouses. Female members are assumed to be 5 years younger than male spouses.

Survivor Benefit - Minor Child: Married participants are assumed to have two minor children aged 13 on benefit commencement date.

Cost of Living Adjustment: None

Commonwealth of the Northern Mariana Islands

Notes to Financial Statements, continued

17. Pension and Other Postemployment Benefits Trust Fund, continued

Defined Benefit Plan (DB Plan), continued

Actuarial Assumptions, continued

Long-Term Expected Rate of Return

The long-term expected rate of return on the Fund's investments of 5.75% was determined using investment expectations provided by the investment consultant for the NMISF.

Discount Rate

The discount rate used to measure the total pension liability was 5.28% at the current and prior measurement date. The discount rate was determined using the current assumed long-term rate of return to the extent that the plan assets along with expected future investments and expected future contributions are insufficient to finance all payments. The plan is projected to be depleted in about 20 years, after that the plan sponsor (the CNMI) is expected to pay the benefits on a pay-as-you-go basis. For years on or after 20 years, the discount rate is based on 20-year tax-exempt AA or higher Municipal Bonds.

Sensitivity of Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the Fund as of September 30, 2022, calculated using a discount rate of 5.28%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1.00% lower (4.28%) or 1.00% higher (6.28%) from the current rate of 5.28%.

	1% Decrease (4.28%)	Current Discount Rate Assumption (5.28%)	1% Increase (6.28%)
Total pension liability	\$ 456,610,358	\$ 419,844,203	\$ 388,202,236
Fiduciary net position	<u>121,110,012</u>	<u>121,110,012</u>	<u>121,110,012</u>
Net pension liability	<u>\$ 335,500,346</u>	<u>\$ 298,734,191</u>	<u>\$ 267,092,224</u>

Commonwealth of the Northern Mariana Islands

Notes to Financial Statements, continued

17. Pension and Other Postemployment Benefits Trust Fund, continued

Defined Benefit Plan (DB Plan), continued

Schedule of Changes in Net Pension Liability

Based on the September 30, 2022 measurement date, the changes in net pension liability were as follows:

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balance at 10/1/2022	\$ 523,311,476	\$ 141,200,366	\$ 382,111,110
Changes for the year:			
Service cost	145,528	---	145,528
Interest on the total pension liability	18,103,106	---	18,103,106
Difference between expected and actual experience	9,098,531	---	9,098,531
Changes of assumptions	(78,104,486)	---	(78,104,486)
Contributions from employers	---	52,691,750	(52,691,750)
Contributions from employees	---	(459,858)	459,858
Net investment income	---	(18,933,298)	18,933,298
Benefit payments	(52,709,952)	(52,709,952)	---
Administrative expense	---	1,598,712	1,598,712
Net changes	(103,467,273)	(20,090,354)	(83,376,919)
Balance at 10/1/2023	\$ 419,844,203	\$ 121,110,012	\$ 298,734,191

Pension Liability. At September 30, 2023, the CNMI reported a liability of \$298,734,191 for its full share of the net pension liability.

Deferred Outflows and Inflows of Resources. At September 30, 2023, the CNMI reported total deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on pension plan investments	\$15,462,020	\$ ---
Contributions during fiscal year 2023	48,498,908	---
	\$63,960,928	\$ ---

Commonwealth of the Northern Mariana Islands

Notes to Financial Statements, continued

17. Pension and Other Postemployment Benefits Trust Fund, continued

Defined Benefit Plan (DB Plan), continued

Schedule of Changes in Net Pension Liability, continued

Deferred outflows resulting from contributions subsequent to measurement date will be recognized as a reduction of the net pension liability in the following year. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions at September 30, 2023 will be recognized in pension expense as follows:

Year ending September 30,

2024	\$ 3,144,851
2025	3,507,003
2026	3,794,420
2027	<u>5,015,746</u>
	<u>\$15,462,020</u>

Defined Contribution Plan (DC Plan)

On June 16, 2006, Public Law No. 15-13 was enacted which created the DC Plan, a single-employer pension plan and is the single retirement program for all employees whose first time CNMI government employment commences on or after January 1, 2007. Each member of the DC Plan is required to contribute to the member's individual account an amount equal to 10% of the member's compensation. Public Law 17-82 requires the CNMI to contribute to each member's individual account an amount equal to 4% unless the employee ceases to contribute its employee share. The CNMI's recorded DC contributions for the years ended September 30, 2023, 2022 and 2021 were \$1,010,161, \$1,073,222 and \$854,518, respectively, equal to the required contributions for each year.

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

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

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

Commonwealth of the Northern Mariana Islands

Notes to Financial Statements, continued

18. Restatement

Primary Government

The financial statements of the DPL Governmental Fund for FY2023 are not yet available as of the date of the auditor's report of the CNMI's basic financial statements. Accordingly, the \$5,602,425 beginning net position of the DPL Governmental Fund is presented as a restatement to the net position of the Primary Government's column of the CNMI's Statement of Net Position.

During FY2023, actuarial determination for the amount of liability was made for measurement date of September 30, 2022 by actuarial valuation as of October 1, 2022. Adjustments were recorded by the CNMI to account for the changes in the net pension liability, which affected the beginning net position amounting to \$25,030,625.

The effects of correcting these items are as follows:

	<u>Net Position</u>	<u>Net Pension Liability</u>
Balance at beginning of year, as previously reported	\$(580,032,735)	\$360,867,220
Omission of the DPL Governmental Fund	(5,602,425)	---
Net impact of the FY2023 actuarial determination on the beginning net pension liability	<u>25,030,625</u>	<u>(25,030,625)</u>
Balance at beginning of year, as restated	<u>\$(560,604,535)</u>	<u>\$335,836,595</u>

Discretely Presented Component Unit

The FY2022 financial statements of CEDA were omitted from the CNMI's FY2022 component units' column which resulted in an adverse opinion on the discretely presented component units. For FY2023, the financial statements of CEDA were available to be included in the CNMI's FY2023 component units' column. Accordingly, there is a restatement in the CNMI's net position for the beginning net position of CEDA amounting to \$37,395,100.

Subsequent to the issuance of FY2022 financial statements, the CNMI determined that certain account balances of CUC were overstated by \$9,914,145. Accordingly, account balances of the discretely presented component units have been restated from amounts previously reported.

Commonwealth of the Northern Mariana Islands

Notes to Financial Statements, continued

19. Subsequent Events

Primary Government

NMISF Funding

On May 27, 2026, the CNMI Government notified the NMISF that funding for the 25% pension benefit is only sufficient through July 31, 2026 based on the available funding sources. Additional appropriations would be required to continue the benefit beyond that date.

On January 1, 2026, the CNMI entered into to a \$29-million loan agreement with MPLT to fund the FY2026 Minimum Annual Payment to the NMISF.

Super Typhoon Sinlaku and Super Typhoon Bavi

On April 11, 2026, Super Typhoon Sinlaku struck the CNMI causing widespread damage to properties throughout the islands, including the CNMI's facilities. Management has determined that the damaged properties are repairable and that a significant portion of the related repair costs is expected to be covered by Federal financial assistance.

The typhoon also resulted in a temporary interruption of the CNMI's operations. Normal operations resumed on May 11, 2026.

Subsequently, on July 6, 2026, Super Typhoon Bavi impacted the CNMI, causing additional widespread damage to public infrastructure, utility systems, government facilities, and private property, particularly on the islands of Rota, Saipan, and Tinian. Recovery efforts are ongoing, and preliminary assessments indicate significant damage to buildings, power distribution systems, and other public assets.

This typhoon also resulted in a temporary suspension of the CNMI's operations. Normal operations are expected to resume on July 13, 2026.

As of the date of the auditor's report, management is still in the process of evaluating the full extent of the financial and operational impacts of Super Typhoon Sinlaku and Super Typhoon Bavi, including the ultimate cost of repairs, insurance recoveries, Federal disaster assistance, and other available sources of funding. Accordingly, the ultimate financial impact of these events cannot be reasonably estimated at this time.

Commonwealth of the Northern Mariana Islands

Notes to Financial Statements, continued

19. Subsequent Events, continued

Primary Government, continued

Second Pension Obligation Credit Agreement

On November 12, 2024, the CNMI, through CEDA acting on behalf of the CNMI, entered into a Second Pension Obligation Credit Agreement with a financial institution. The financial institution extended to the CNMI a maximum amount of \$51,000,000 with interest rate at 8% per annum, which is evidenced and to be paid in accordance with the Pension Obligation Bonds Series 2024A issued by the CNMI through CEDA. The loan was extended to provide financing to the CNMI for the purposes for which the Bonds have been authorized and to pay off the remaining balance of the First Interim Pension Obligation Bond Series 2020A amounting to \$20,631,885 as of November 12, 2024. The loan payments, which shall be made in 120 equal monthly installments of principal and interest of \$491,000, shall be made on the first day of each of the 120 months beginning on December 15, 2024. The monthly payment amount is based on a fifteen (15) year amortization of principal and interest. The loan shall mature and all principal and interest shall be due and payable on November 15, 2034.

Discretely Presented Component Unit

The American Rescue Plan Act of 2021 amended the Small Business Jobs Act of 2010, as codified at 12 U.S.C. § 5701 et seq., to reauthorize the State Small Business Credit Initiative (SSBCI) and appropriate \$10 billion to participating jurisdictions in response to the economic effects of the COVID-19 pandemic. On July 16, 2024, CNMI was approved for a potential allocation of \$57,057,763 from the U.S. Department of the Treasury under the SSBCI program, which is being administered by CEDA. As of the date of the audit report, CEDA had received \$18,734,528 under the program, and as of September 30, 2025, had segregated and allocated a total of \$877,135 for loan guarantees, cash collateral supports, and loan participations.

REQUIRED SUPPLEMENTARY INFORMATION

Commonwealth of the Northern Mariana Islands

Schedule of Revenues, Expenditures, and Changes in Deficit Budget and Actual – General Fund

Year ended September 30, 2023

	Budgeted Amounts		Actual	
	Original	Final	Amounts	Variance
Revenues:				
Taxes	\$ 148,642,892	\$ 148,642,892	\$ 132,287,190	\$(16,355,702)
Services and fees	13,419,402	13,419,402	21,837,044	8,417,642
Other	<u>1,353,018</u>	<u>1,353,018</u>	<u>7,512,247</u>	<u>6,159,229</u>
Total revenues	<u>163,415,312</u>	<u>163,415,312</u>	<u>161,636,481</u>	<u>(1,778,831)</u>
Expenditures - budgetary basis by function:				
Executive branch:				
Office of the Governor	801,690	823,554	677,607	145,947
Office of the Lt. Governor	607,352	624,135	487,968	136,167
Other Offices of the Governor & Lt. Governor	4,910,148	7,333,247	7,265,743	67,504
Department Of Commerce	1,490,671	851,997	852,592	(595)
Department of Community & Cultural Affairs	1,544,162	863,990	866,125	(2,135)
Department of Corrections	4,166,919	2,829,016	3,278,771	(449,755)
Department of Fire	5,006,816	3,523,387	3,553,948	(30,561)
Department of Finance	6,010,088	4,593,084	4,809,593	(216,509)
Department of Labor	715,012	400,748	400,818	(70)
Department of Lands & Natural Resources	2,219,558	903,248	904,136	(888)
Department of Public Safety	6,622,598	4,539,454	4,747,303	(207,849)
Department of Public Works	2,770,015	1,748,714	1,744,556	4,158
First Senatorial District - Rota	7,425,985	7,435,843	7,244,315	191,528
Second Senatorial District - Tinian & Aguigan	7,367,654	7,393,445	6,900,544	492,901
Third Senatorial District - Saipan & Northern Islands	1,325,575	1,405,101	1,383,278	21,823
Boards & Commissions	1,583,270	1,911,236	1,664,457	246,779
Independent programs	12,405,376	31,840,960	30,267,574	1,573,386
Other programs (transfers to agencies)	35,566,200	35,566,200	36,392,902	(826,702)
Judicial Branch	6,492,148	6,632,485	6,309,708	322,777
Legislative Branch	7,162,560	7,242,505	6,753,111	489,394
Debt service	<u>45,819,600</u>	<u>45,819,600</u>	<u>42,605,176</u>	<u>3,214,424</u>
Total expenditures	<u>162,013,397</u>	<u>174,281,949</u>	<u>169,110,225</u>	<u>5,171,724</u>
Excess of revenues over expenditures	1,401,915	(10,866,637)	(7,473,744)	3,392,893
Other financing sources (uses):				
Operating transfers in	---	---	3,204,460	3,204,460
Operating transfers out	<u>---</u>	<u>---</u>	<u>(281,969)</u>	<u>(281,969)</u>
Total other financing sources, net	---	---	2,922,491	2,922,491
Other changes:				
Encumbrances	<u>---</u>	<u>---</u>	<u>(1,088,653)</u>	<u>(1,088,653)</u>
Net change in deficit	<u>\$ 1,401,915</u>	<u>\$(10,866,637)</u>	<u>\$(5,639,906)</u>	<u>\$ 5,226,731</u>

See accompanying notes to required supplementary information - budgetary reporting and report of independent auditors

Commonwealth of the Northern Mariana Islands

Notes to Required Supplementary Information - Budgetary Reporting

Year ended September 30, 2023

1. Budgetary Information

Under Public Law No. 3-68, as amended by Public Law No. 3-93, the Governor submits a proposed budget to the CNMI Legislature by April 1 for the fiscal year commencing the following October 1. By July 1, the CNMI Legislature sets limits on expenditures by House Concurrent Resolution (a resolution originating in the House of Representatives which is passed by both the House and Senate). By September 1, the budget is legally enacted by the CNMI Legislature through passage of Annual Appropriation Acts. If a balanced budget is not approved before the first day of the fiscal year, appropriations for government operations and obligations shall be at the same level for the previous fiscal year. Budgetary control is maintained at the department level. To the extent not expended or encumbered, General Fund appropriations generally lapse at the end of the fiscal year for which appropriations were made.

Accounting principles used in developing data on a budgetary basis differ from those used in preparing the basic financial statements in conformity with GAAP. Amounts included on the Statement of Revenues, Expenditures and Changes in Deficit - Budget and Actual - General Fund (which are presented on a non-GAAP budgetary basis) are reconciled to unassigned deficit of the Governmental Fund Balance Sheet within the other changes in unassigned deficit section of that statement.

Encumbrance accounting is employed in governmental funds. For budgetary purposes, encumbrances (i.e., purchase orders, contracts) are considered expenditures when incurred. For GAAP reporting purposes, encumbrances outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be re-appropriated and honored during the subsequent fiscal year.

On September 30, 2021, the CNMI passed Public Law 22-08 as the Appropriations and Budget Authority Act of 2022 (the Act). The Act allocates local funds for the operations and activities of the Government of the CNMI, its agencies, its instrumentalities, independent agencies and political subdivisions and provides authority for government corporations for Fiscal Year 2022 commencing October 1, 2021 and ending September 30, 2022. Subsequently on April 28, 2022, the CNMI passed Public Law 22-17 to amend the Act for the operations and activities of the government of the CNMI, its agencies, instrumentalities, and independent programs, and to provide budget authority for government corporations.

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.

Notes to Required Supplementary Information - Budgetary Reporting, continued

2. Explanation of Differences

FY2023 represents the second year of implementation of the Commonwealth's new financial management system. While significant progress has been made in adopting standardized processes, the transition period continues to present operational challenges as departments and users further familiarize themselves with system functions and controls.

During the first quarter of FY2023, budgetary controls within the system were not yet activated. As a result, certain transactions were processed without automated budget checks, leading to inconsistencies in how budget activity was recorded. Beginning in the second quarter, budget controls were fully enabled, improving the accuracy and consistency of budget monitoring and reporting.

The variances observed between budgeted and actual amounts for FY2023 are primarily attributable to the absence of budget control during the first quarter and the ongoing learning curve associated with the system's second year of use. While efforts were made to reconcile and present reliable financial information, some discrepancies remain due to these transitional factors.

This note is provided to ensure transparency and to give context to the budget variances reflected in the financial statements.

Commonwealth of the Northern Mariana Islands

Schedule of Proportional Share of the Net Pension Liability
Last 10 Fiscal Years*

	<u>2022</u> <u>Valuation</u>	<u>2021</u> <u>Valuation</u>	<u>2020</u> <u>Valuation</u>	<u>2019</u> <u>Valuation</u>	<u>2018</u> <u>Valuation</u>	<u>2017</u> <u>Valuation</u>
NMISF (Plan) total net pension liability	\$ 298,734,191	\$ 382,111,110	\$ 440,792,218	\$ 417,886,537	\$ 529,283,156	\$ 574,761,225
The CNMI's proportionate share of the net pension liability	\$ 298,734,191	\$ 382,111,110	\$ 440,792,218	\$ 417,886,537	\$ 529,283,156	\$ 574,761,225
The CNMI's proportion of the net pension liability	100%	100%	100%	100%	100%	100%
The CNMI's covered payroll	**	**	**	**	\$ 3,602,480	\$ 3,270,686
The CNMI's proportionate share of the net pension liability as a percentage of its covered payroll	**	**	**	**	14692.19%	17573.11%
Plan fiduciary net position as a percentage of the total pension liability	28.85%	26.98%	22.88%	23.02%	18.04%	14.14%

* This data is presented for those years for which information is available.

** Covered-employee payroll data for these valuation dates are not available.

Commonwealth of the Northern Mariana Islands

Schedule of Pension Contributions
Last 10 Fiscal Years*

	2022 <u>Valuation</u>	2021 <u>Valuation</u>	2020 <u>Valuation</u>	2019 <u>Valuation</u>	2018 <u>Valuation</u>	2017 <u>Valuation</u>
Actuarially determined contribution	\$ 38,000,000	\$ 40,000,000	\$ 42,000,000	\$ 44,000,000	\$ 45,000,000	\$ 33,000,000
Contribution in relation to the actuarially determined contribution	<u>52,691,750</u>	<u>54,982,391</u>	<u>57,559,538</u>	<u>59,895,340</u>	<u>78,953,755</u>	<u>68,303,052</u>
Contribution excess	\$(<u>14,691,750</u>)	\$(<u>14,982,391</u>)	\$(<u>15,559,538</u>)	\$(<u>15,895,340</u>)	\$(<u>33,953,755</u>)	\$(<u>35,303,052</u>)
The CNMI's covered payroll	**	**	**	**	\$ 3,602,480	\$ 3,270,686
Contribution as a percentage of covered- payroll	**	**	**	**	2191.65%	2088.34%

* This data is presented for those years for which information is available.

** Covered-employee payroll data for these valuation dates are not available.