



The Commonwealth of the Northern Marianas Islands

Fiscal Year 2020



A Financial Statement Analysis Using Indicators of the Financial Health and Success and a Status Report of Audit Findings, Timeliness and Exception Resolution (A.F.T.E.R.) of the Territory of The Commonwealth of the Northern Marianas Islands as of and for the Year Ended September 30, 2020



This presentation is available online at <http://www.pitiviti.org>

What Is The Performer®?

- An analysis that takes a government's financial statements and converts them into useful and understandable measures of financial performance
- Financial ratios and a copyrighted analysis methodology are used to arrive at an overall rating of 0-10
- The overall reading is a barometer of CNMI's financial health and performance
- Due to certain accounting principle changes that have occurred in the last few years, the scores from FY 2015 forward have been recalculated using additional ratio calculations and a revised weighting system

How to Use The Performer[®]

- Use the individual ratios to identify financial warning signals
- Use the overall rating as a collective benchmark of financial health and success of CNMI as a whole
- Use the comparisons to prior years to monitor trends in financial indicators

Limitations of the Performer®

- The Performer® should not be used as the only source of financial information to evaluate CNMI's performance and condition
- The analysis is an overall rating of CNMI as a whole and not of specific activities, funds or units
- The Performer® is based on Crawford & Associates' professional judgment and is limited as to its intended use

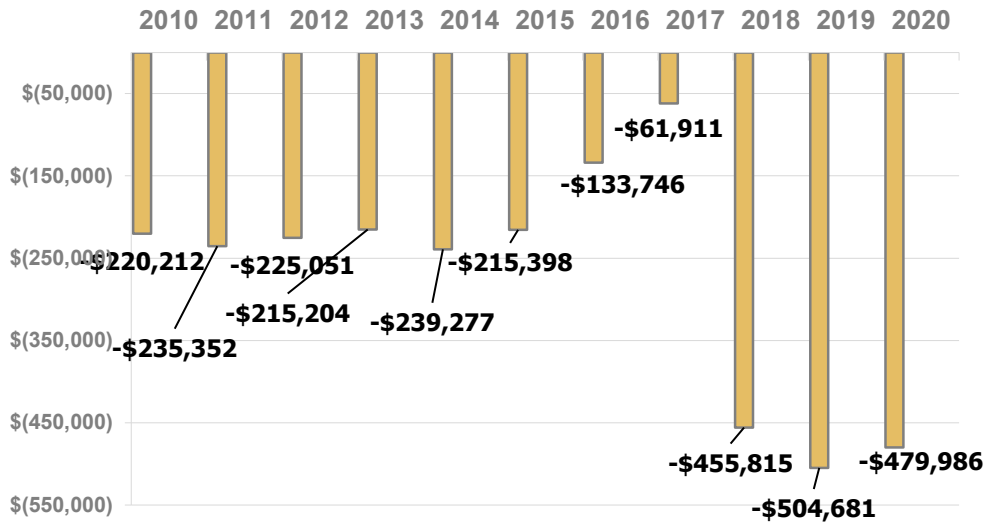
Change in Net Position

Did our overall financial condition improve, decline or remain steady over the past year?

Net position includes all assets, deferred outflows, liabilities and deferred inflows of the CNMI, except for fiduciary funds held for the benefit of others. It is measured as the difference between total assets, including capital assets, plus deferred outflows, and total liabilities, including long-term debt, plus deferred inflows.

For the year ended September 30, 2020, the CNMI's total net position (deficit) decreased, or improved, by approximately \$24 million or 4.9% from the prior year. The CNMI primary government's overall net position (deficit) now stands at a net deficit of \$480 million. This reduction of the deficit is due primarily to a \$58 million reduction in the net pension liability.

Net Position (Deficit) at Year End



* Notes a year in which beginning net position was restated

2011	2012 *	2013 *	2014	2015	2016 *	2017	2018	2019 *	2020
-6.9 %	+4.4 %	+4.2 %	-11.2 %	+10.0 %	+37.4 %	+53.7 %	+16.9 %	-10.7 %	4.9 %

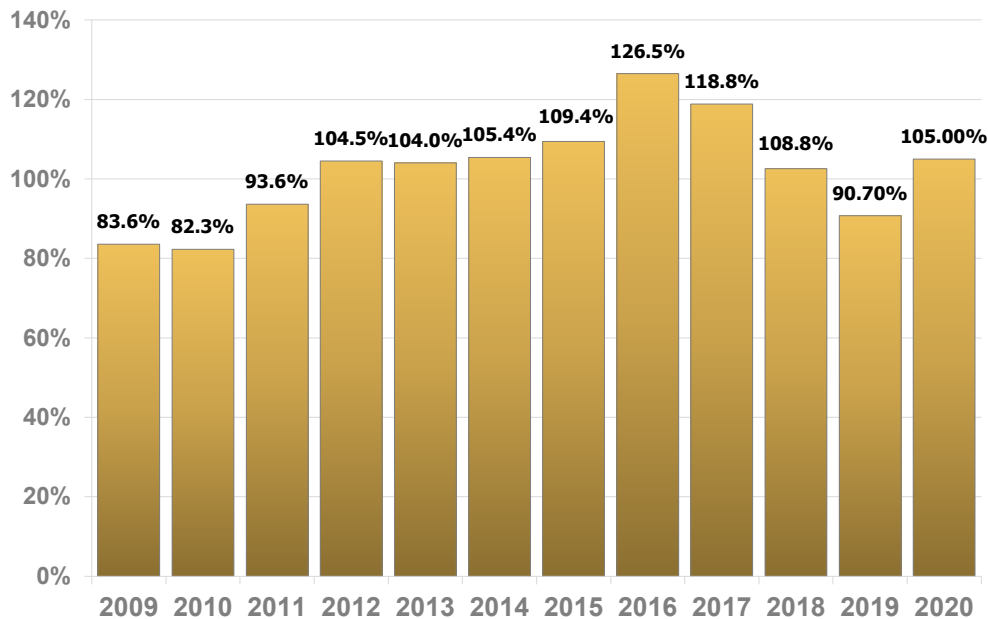
Performer[®]
Rating

7.4

Intergenerational Equity

Who is paying for today's costs of services?

Revenues as a % of Annual Expenses



A measure of whether the government lived within its means in the measurement year, or was required to use prior year resources to fund a portion of current year costs, or shifted the funding of some of the current year costs to future periods.

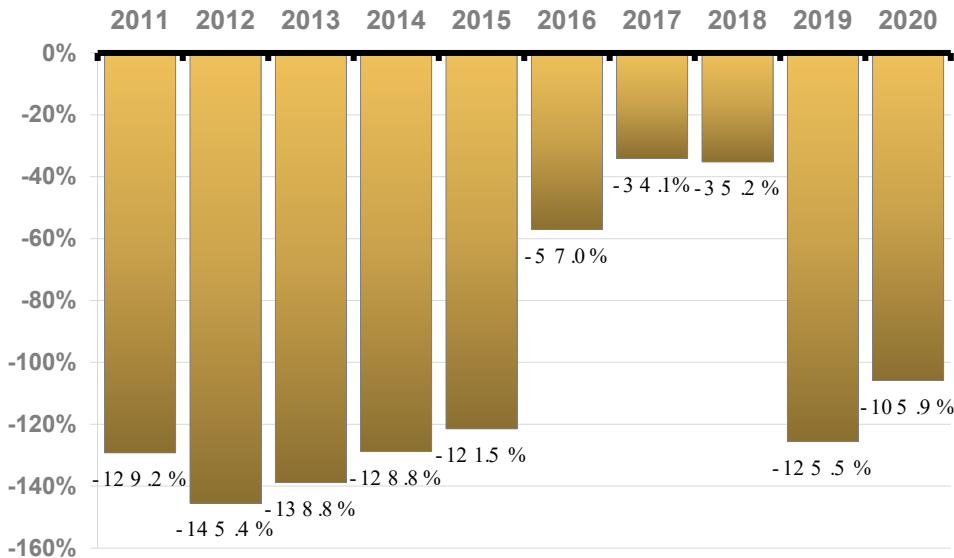
For the year ended September 30, 2020, the CNMI funded 105% of their expenses with current year revenues, which is considered an excellent ratio. It is also a significant increase in the ratio from the prior year, again due primarily to a \$58 million reduction of the net pension liability.

2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Performer® Rating
93.6%	104.5%	104.0%	105.4%	109.4%	126.5%	118.8%	102.6%	90.7%	105%	10

Level of Unrestricted Net Position

How do our total rainy day funds look?

Unrestricted Net Position (Deficit) as a % of Annual Revenues



The level of total unrestricted net position is an indication of the amount of unexpended and available resources CNMI has at a point in time to fund emergencies, shortfalls or unexpected needs.

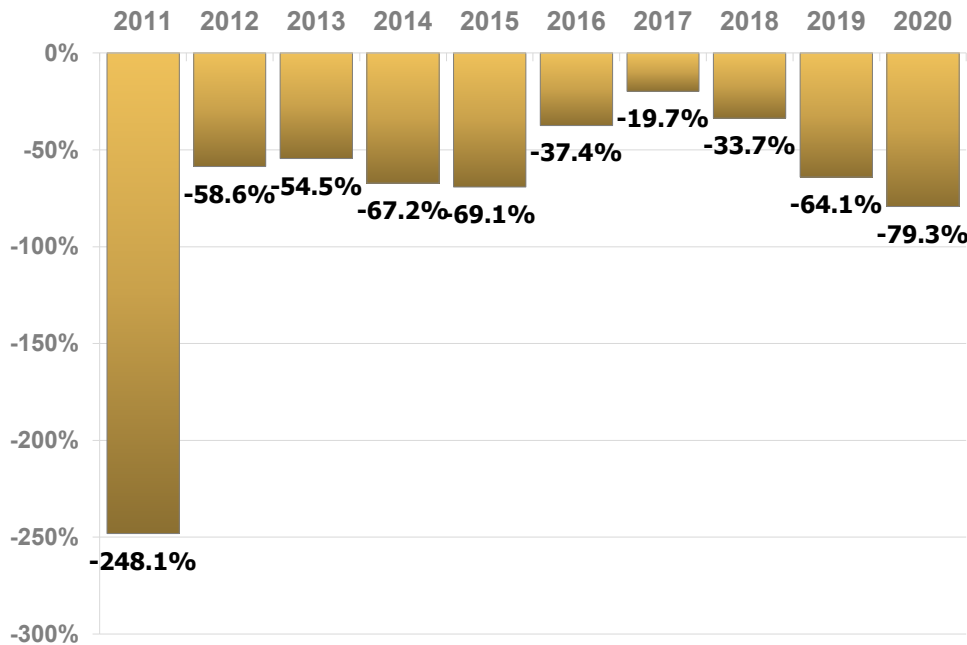
For the year ended September 30, 2020, the CNMI's total unrestricted net position was in a deficit position that approximated 105.9% of annual total revenues, which amounts to \$553 million. This represents an improvement in the ratio when compared to the ratio of the prior year.

2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Performer® Rating
-129.2%	-145.4%	-138.8%	-128.8%	-121.5%	-57.0%	-34.1%	-35.2%	-125.5%	-105.9%	0

Level of Unassigned Fund Balance

How does our carryover look?

Unassigned Fund Balance (DEFICIT) as a Percentage of Annual Revenues



The level of budgetary unassigned fund balance is an indication of the amount of unexpended, unencumbered and available resources the CNMI has at a point in time to carryover into the next fiscal year to fund budgetary emergencies, shortfalls or other unexpected needs.

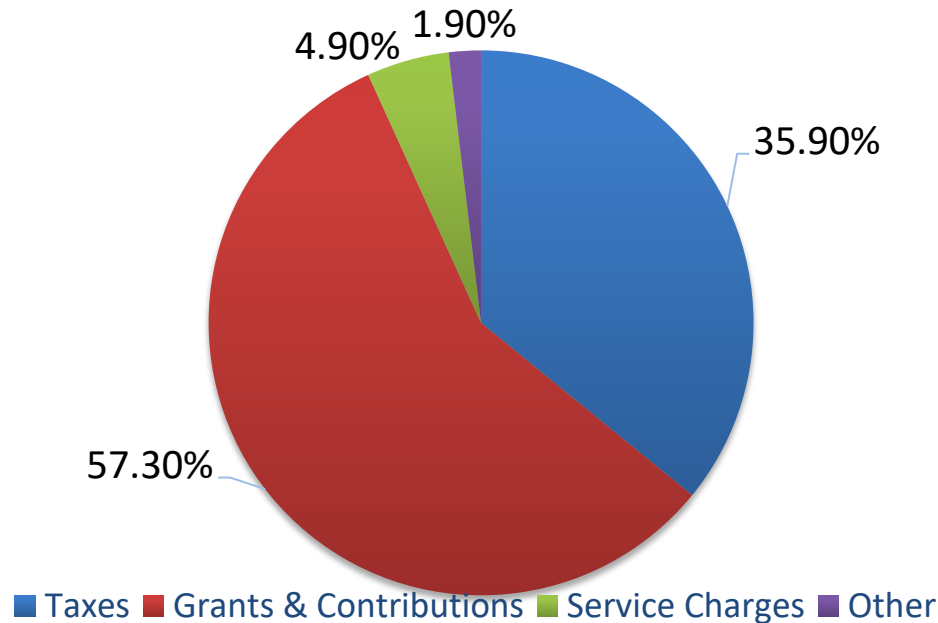
For the year ended September 30, 2020, the CNMI's unassigned fund balance (deficit) of the General Fund (plus any unassigned fund balance of other governmental funds that have an unassigned fund balance deficit) was a deficit of \$145.6 million, or the equivalent of 79.3% of General Fund revenues, which represents an increase in the size of the deficit-to-revenue ratio from the prior year.

2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Performer [®] Rating
-248.1%	-58.6%	-54.5%	-67.2%	-69.1%	-37.4%	-19.7%	-33.7%	-64.1%	-79.3%	0

Revenue Dispersion

How heavily are we relying on revenue sources we can't directly control?

2020 REVENUE PERCENTAGES BY SOURCE



The percentage dispersion of revenue by source indicates how dependent the CNMI is on certain types of revenue. The more dependent the CNMI is on revenue sources beyond its direct control, such as grants, the less favorable the dispersion.

For the year ended September 30, 2020, the CNMI had direct control over 40.8% of its revenues (taxes and charges for services). This ratio indicates the CNMI has some limited exposure, as do most insular governments, to financial difficulties due to reliance on non-controlled revenue (59.2%).

2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
54.9%	58.5%	62.1%	72%	68.4%	70.5%	73.2%	73.3%	50.4%	40.8%

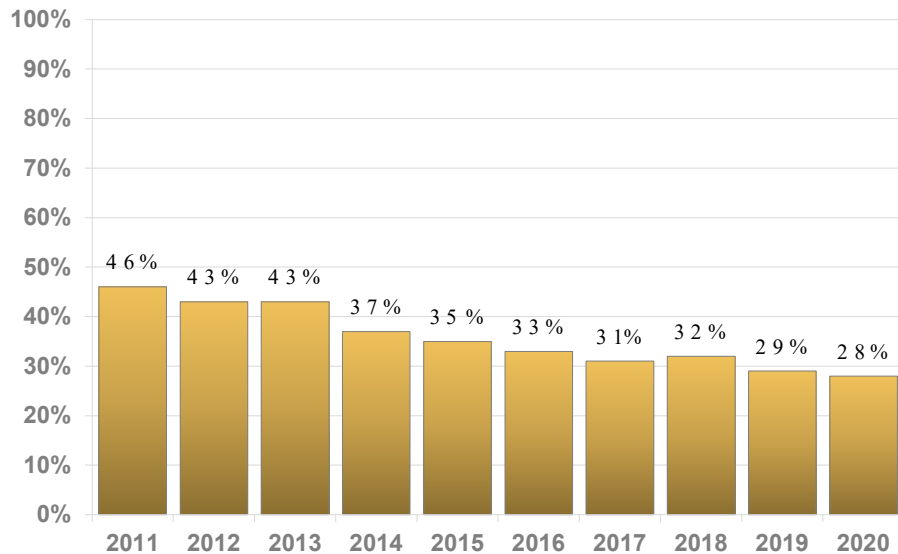
Performer®
Rating

3.9

Capital Asset Condition

How much useful life do we have left in our capital assets?

Percentage of Capital Assets' Useful Life Remaining - 2020



The capital asset condition ratio compares capital assets cost to accumulated depreciation to determine the overall percentage of useful life remaining. A low percentage could indicate an upcoming need to replace significant capital assets.

At September 30, 2020, the CNMI's depreciable capital assets amounted to \$362 million while accumulated depreciation totaled \$262 million. This indicates that, on average, the CNMI's capital assets have 28% of their useful lives remaining. This is considered a below satisfactory financial indicator, and it also represents a decline from the ratio of prior period.

2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
46%	43%	43%	37%	35%	33%	31%	32%	29%	28%

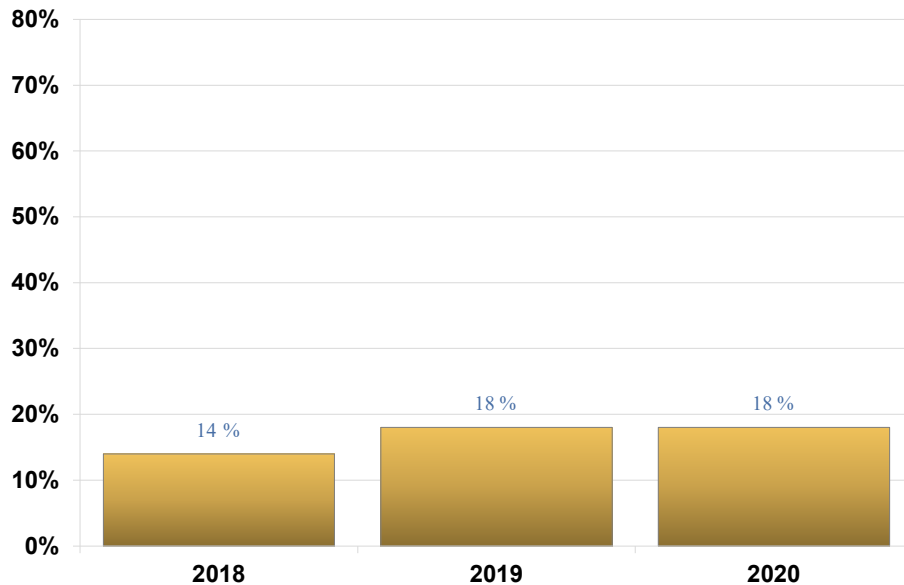
Performer®
Rating

0.5

Pension Plan Funding Ratio

Will we be able to pay our employees when they retire?

Plan Net Position as a Percentage of Net Pension Liability



The pension funding ratio compares the Pension Trust Fund’s Net Position to the Total Pension Liability for pension benefits. A percentage less than 100% indicates the plan is under-funded at the valuation date.

At September 30, 2020 (based upon the most recent actuarial information in FY 2018), the CNMI pension plan net position was 18% of the total pension liability, indicating the plan increased its funded ratio from the prior valuation done in FY 2018 (which is based on data from FY 2017). The CNMI implemented GASB 68 and 71 pension-related standards for the first time in FY 2019, producing 2 years of comparative data. No actuarial was performed in FY 20.

Performer[®]
Rating

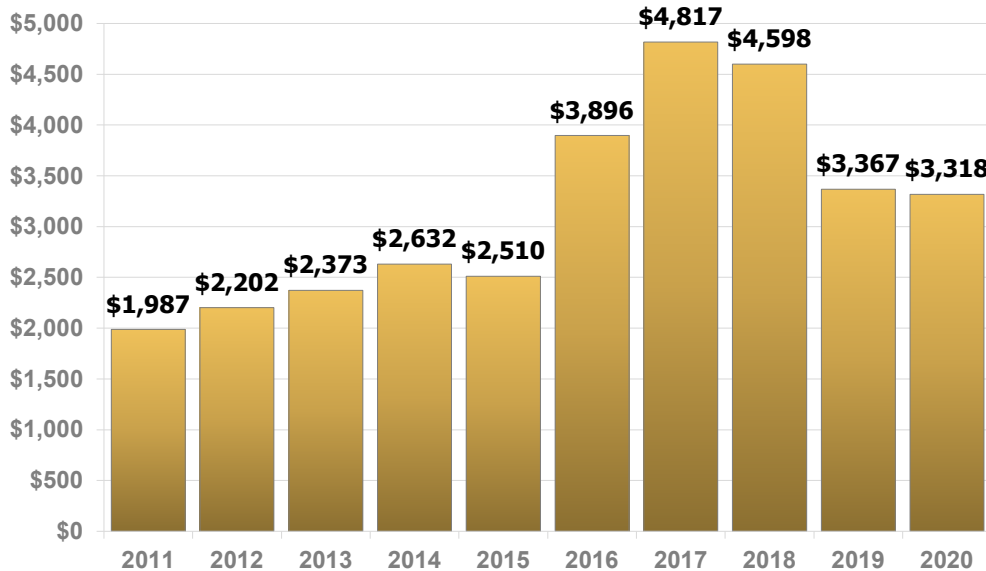
0

2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
N/A	N/A	N/A	N/A	N/A	N/A	N/A	14%	18%	18%

Financing Margin - Taxes

Will our citizens be willing to pay increased taxes for operations or capital improvements, if needed?

Total Taxes Per Capita



The financial ratio of taxes per capita is an indication of the CNMI's tax burden on its citizens and other taxpayers. The ratio includes business gross receipts and most taxes (hotel taxes are excluded).

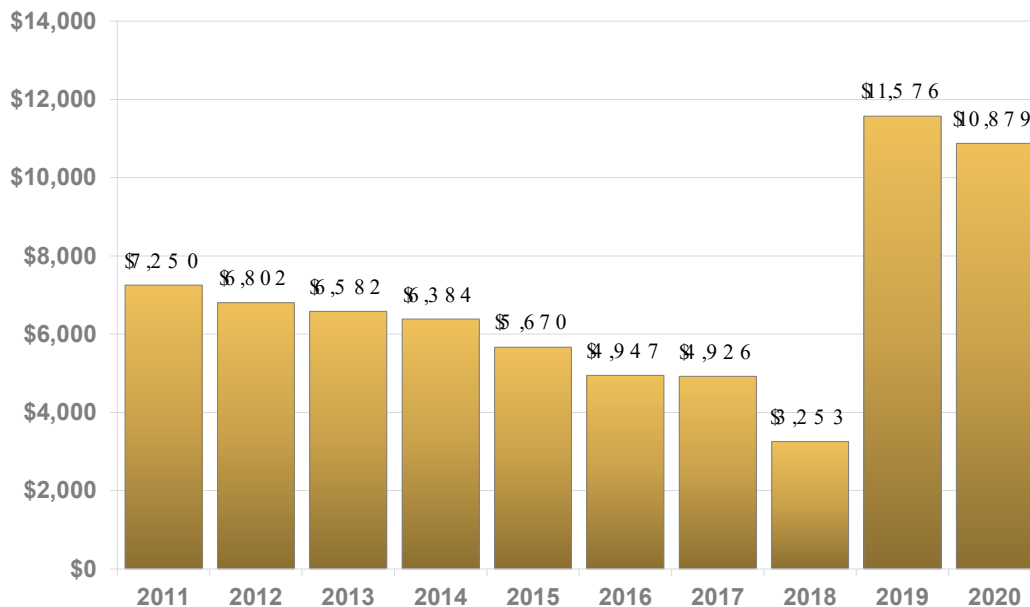
For the year ended September 30, 2020, total taxes referred to above amounted to \$179 million or \$3,318 per capita. This indicates a relatively high tax burden when compared to other insular governments, but represents a slight decrease when compared to the ratio of the prior period.

2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Performer® Rating
\$1,987	\$2,202	\$2,373	\$2,632	\$2,510	\$3,896	\$4,817	\$4,598	\$3,367	\$3,318	2.1

Financing Margin - Debt

Will we be able to issue more debt, if needed?

Debt Per Capita



The financial ratio of debt per capita is an indication of the CNMI's debt burden on its citizens and other taxpayers.

For the year ended September 30, 2020, the CNMI had \$586 million of long-term debt, or \$10,879 per capita which is a significant debt burden on its citizens when compared to other insular governments, and represents a decrease in the ratio of debt per capita from the prior year. This amount includes \$470 million of net pension liabilities.

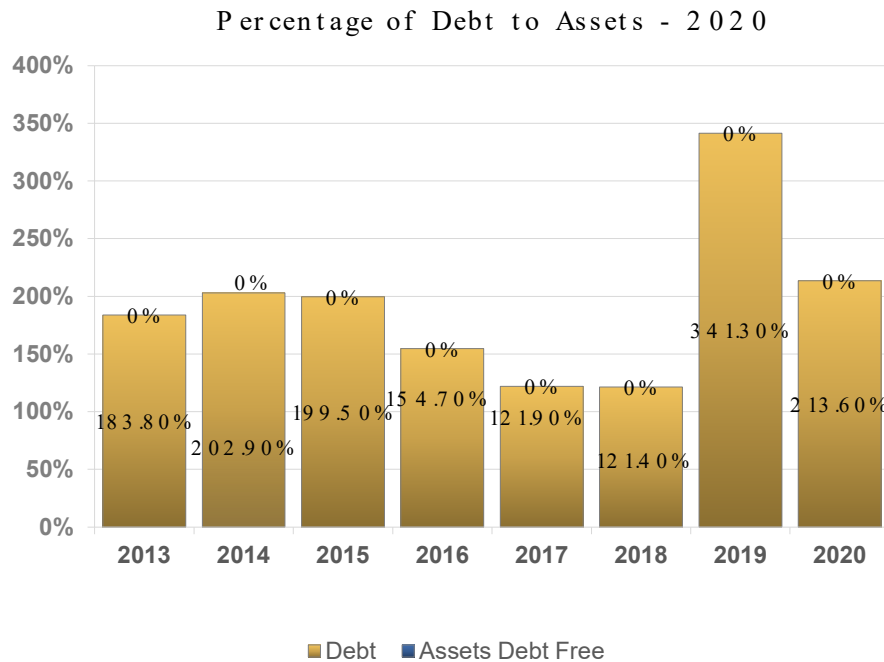
2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Performer [®] Rating
\$7,250	\$6,802	\$5,582	\$3,384	\$5,670	\$4,947	\$4,926	\$2,253	\$15,776	\$10,879	0

Debt to Assets

Who really owns the CNMI?

The debt to assets ratio measures the extent to which the CNMI had funded its assets with debt. The lower the debt percentage, the more equity the CNMI has in its assets.

At September 30, 2020, approximately 214% of the CNMI's \$369 million of total assets were funded with debt or other obligations. This is an unsatisfactory financial indicator and shows no assets of the CNMI that are debt-free. For example, for every \$1.00 of assets the CNMI owns, it owes approximately \$2.14 to others. This ratio did improve from the debt-to-assets ratio of the prior period.

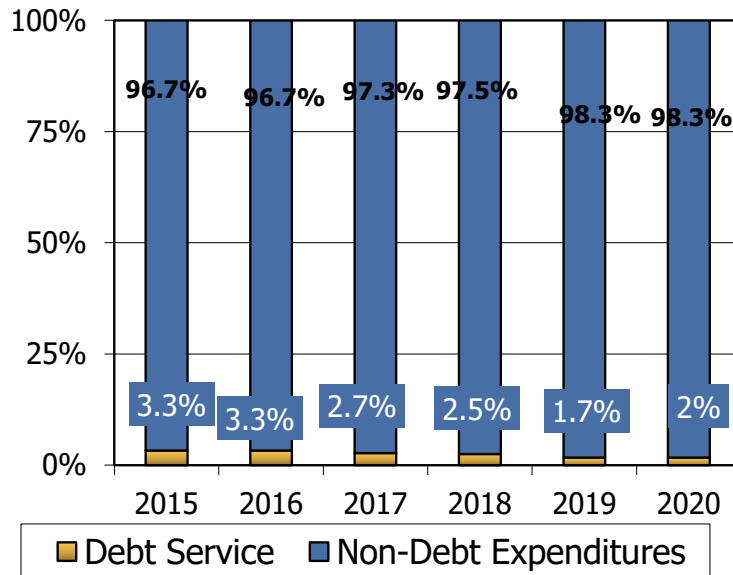


2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Performer® Rating
190.7%	185.6%	183.8%	202.9%	199.5%	154.7%	121.9%	121.4%	341.3%	213.6%	0

Debt Service Load

How much of our annual non-capital budget is loaded with disbursements to pay off long-term debt

Percentage of Debt Service to Non-Debt Expenditures



The debt service load ratio measures the extent to which the CNMI's non-capital expenditures were comprised of debt service payments on long-term debt.

For the year ended September 30, 2020, the CNMI's total non-capital expenditures amounted to \$538.7 million, of which \$8.9 million (or 1.7%), were payments for principal and interest on long-term debt. In our model, this is considered an ratio and indicates that for every dollar the CNMI spent on non-capital items, 1.7 cents of that dollar was used for debt service.

2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
n/a	n/a	n/a	n/a	3.3%	3.3%	2.7%	2.4%	1.7%	1.7%

Performer®
Rating

10

15

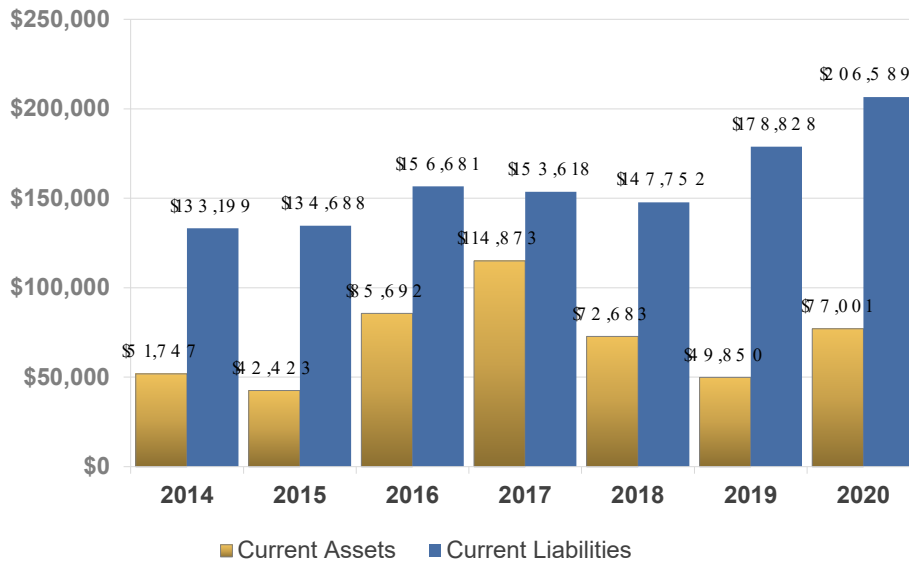
Current Ratio

Will our vendors and employees be pleased with our ability to pay them on time?

The current ratio is one measure of the CNMI's ability to pay its short-term obligations. The current ratio compares total current assets and liabilities. A current ratio of 2.00 to 1 indicates good current liquidity and an ability to meet the short-term obligations. This ratio includes only the General Fund (CNMI's primary operating fund).

At September 30, 2020, the CNMI had a General Fund ratio of current assets to current liabilities of \$0.37 to 1. This indicates that the CNMI General Fund has, for each dollar of current liabilities, 37 cents of current assets to fund them. This ratio represents an increase when compared to the ratio of the most recent past period, but is still considered unfavorable.

Current Assets Compared to Current Liabilities



2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
0.33	0.35	0.35	0.39	0.31	0.55	0.75	0.49	0.28	0.37

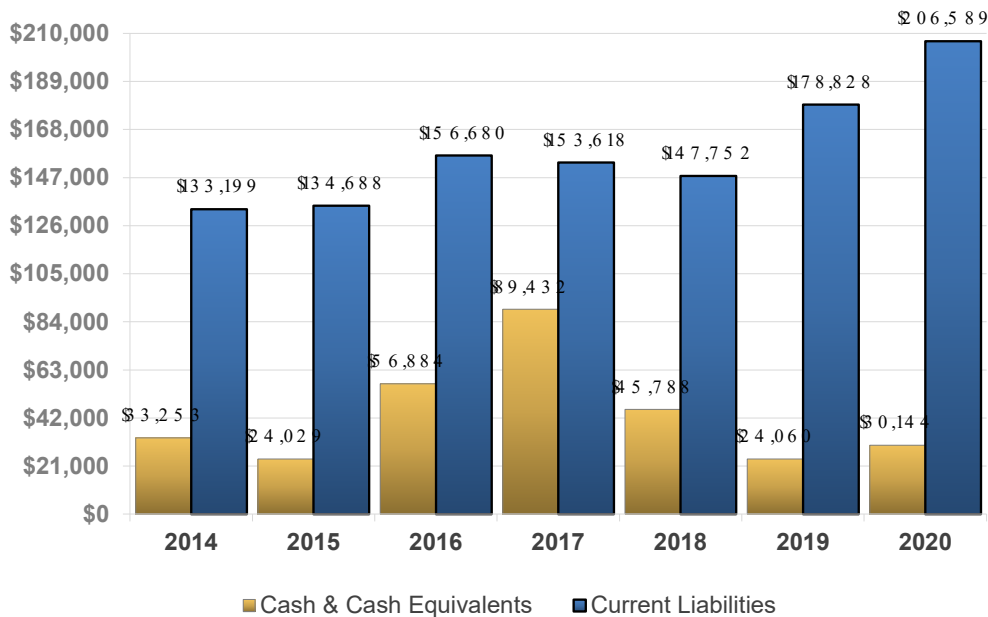
Performer®
Rating

0

Quick Ratio

How is our short-term cash position?

Cash and Cash Equivalents Compared to Current Liabilities - 2020



The quick ratio is another, more conservative, measure of the CNMI's ability to pay its short-term obligations. The quick ratio compares total cash and short-term investments to current liabilities, less deferred revenue. A quick ratio of 1.00 to 1 indicates adequate current liquidity and an ability to meet the short-term obligations with cash. This measure looks only at the CNMI General Fund, the main operating fund of the CNMI.

At September 30, 2020, the CNMI had a ratio of cash and cash equivalents to current liabilities of \$0.15 to 1. This indicates that the CNMI General Fund had, for every one dollar of current liabilities, 15 cents of cash and cash equivalents to fund them. This ratio represents a decline when compared with the ratio of the immediate past period.

2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
0.16	0.17	0.21	0.25	0.18	0.36	0.58	0.31	0.13	0.15

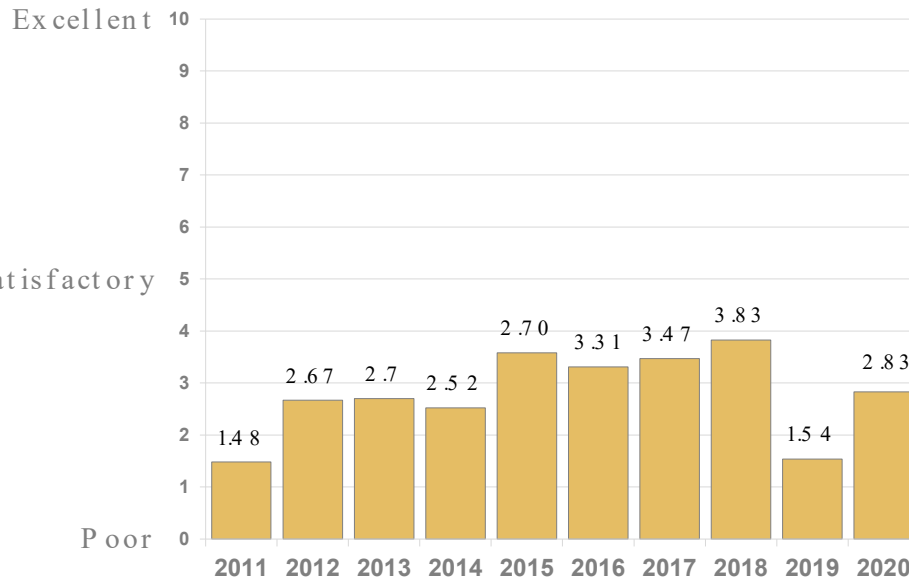
Performer[®]
Rating

.7

Performer® Reading

How Was Our Overall Financial Performance?

Overall Reading



For the 2020 fiscal year, the readings by ratio category were as follows:

Financial Position	0.1
Financial Performance	8.5
Financial Capability	3.2

The 2020 reading of 2.83 indicates the evaluator’s opinion that the Commonwealth of the Northern Marianas Islands Government’s overall financial performance improved when compared to the prior period, due primarily to a \$58 million reduction of the net pension liability, which allowed the CNMI to post a positive reduction of their prior year net position deficit of \$24 million. Without this net pension liability reduction, the CNMI net position deficit would have instead grown by \$24 million.

FY 20 Overall Performer® Reading: **2.83**

Performer®
Rating
2.83

Ratio	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
Change in Net Position	10%	37.4%	53.7%	16.9%	-10.7%	4.9%
Intergenerational Equity	109.4%	126.5%	118.8%	102.6%	90.7%	105%
Level of Unrestricted Net Position	-12.15%	-57.0%	-34.1%	-35.2%	-125.5%	-105.9%
Level of Unassigned Fund Balance	-69.1%	-37.4%	-19.7%	-33.7%	-64.1%	-79.3%
Revenue Dispersion	68.4%	70.5%	73.2%	73.2%	50.4%	40.8%
Capital Asset Condition	35%	33%	31%	32%	29%	28%
Financing Margin – Taxes	\$,510	\$,896	\$,817	\$,598	\$,367	\$,318
Financing Margin – Debt	\$,670	\$,947	\$,926	\$,253	\$1,576	\$10,879
Debt to Assets	199.5%	154.7%	121.9%	121.4%	336.3%	213.6%
Debt Service Load	3.3%	3.3%	2.7%	2.4%	1.6%	1.7%
Current Ratio	0.31	0.55	0.75	0.49	0.28	0.37
Quick Ratio	0.18	0.36	0.58	0.31	0.13	0.15
Performer Reading	3.58*	3.31*	3.47*	3.83	1.54*	2.83

*Notes years that the overall score has been restated for comparison purposes

Performer Individual Ratios - Summary and Comparison to Prior Years

What is the A.F.T.E.R. Analysis?

- The A.F.T.E.R. Analysis is very simply an analysis of the status of audit findings, the timeliness of the submission of the audit and the resolution of certain audit exceptions, this analysis can be used to track a government's progress towards eliminating its most significant findings and exceptions, along with tracking the timeliness of submission to the Federal Clearinghouse.

	2012	2013	2014	2015	2016	2017	2018	2019	2020
Number of F.S. Opinion Qualifications/Exceptions	3	7	2	5	5	5	3	4	5
Number of Major Federal Program Qualifications/Exceptions	8	7	8	8	6	6	6	4	4
Number of F.S. Findings									
A. Internal Control and Compliance	2	2	2	1	0	0	0	0	1
B. Internal Control Only	18	11	13	12	12	14	14	14	21
C. Compliance Only	0	0	0	0	1	1	0	0	0
TOTAL	20	13	15	13	13	15	14	14	22
Percentage of Findings Repeated	72.7%	100%	60%	85%	92%	80%	93%	93%	64%
Number of Single Audit Findings									
A. Internal Control and Compliance	28	0	2	22	18	9	10	11	14
B. Internal Control Only	0	29	36	0	0	0	0	0	26
C. Compliance Only	0	1	0	5	0	0	0	0	0
TOTAL	28	30	38	27	18	9	10	11	40
Percentage of S.A. Findings Repeated	56%	50%	39.5%	59%	61%	56%	55%	55%	20%
Number of months after Y/E the F.S. were Released	17	9	9	?	10	9	8	19	28
Number of Qualifications/Exceptions Related to C.U.	2	7	2	4	4	4	2	2	2
\$ of Questioned Costs-Current Year	\$6,620,692	\$10,288,891	\$3,754,204	\$3,200,953	\$16,067,272	\$1,393,892	\$369	\$3,739,720	\$47,874,171
\$ of Questioned Costs- Cumulative	\$35,559,217	\$45,848,108	\$26,187,584	\$17,114,454*	\$31,568,469	\$21,722,238	\$20,317,045	\$24,056,765	\$69,822,065
\$ of Questioned Costs Resolved – Current Year	\$0	\$0	\$23,414,727	\$55,526	\$1,613,257	\$11,240,123	\$1,405,562	\$0	\$2,108,871

Thank You!

- We would like to commend and thank the CNMI's management, the U.S. Department of the Interior and the Graduate School USA for allowing us to present this financial analysis. We hope it serves as a useful and understandable compliment to the CNMI's annual financial report.
- This report is available online at <http://www.pitiviti.org>.
- Visit our website at <http://www.crawfordcpas.com> for other useful tools for governments.