

OFFICE OF THE PUBLIC AUDITOR
5/16/13
SIGNATURE

CNMI WORKERS' COMPENSATION COMMISSION
(A Component Unit of the CNMI Government)

**REPORTS ON THE AUDIT OF FINANCIAL
STATEMENTS IN ACCORDANCE WITH GOVERNMENT
AUDITING STANDARDS**

Years Ended September 30, 2011 and 2010

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COMPANY

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INDEPENDENT AUDITOR'S REPORT

The Board of Trustees
CNMI Workers' Compensation Commission

I have audited the accompanying statements of fiduciary net assets of the Commonwealth of the Northern Mariana Islands (CNMI) Workers' Compensation Commission (WCC), a component unit of the CNMI Government, as of September 30, 2011 and 2010 and the related statements of changes in fiduciary net assets for the years then ended. These financial statements are the responsibility of WCC's management. My responsibility is to express an opinion on these financial statements based on my audits.


I conducted my audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of WCC's internal control over financial reporting. Accordingly, I express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statements presentation. I believe that my audits provide a reasonable basis for my opinion.

As discussed in Notes 3 and 9 to the financial statements, WCC has a limited period of experience in estimating loss reserves and paying workers' compensation and disability claims historical data upon which to base an estimate of the ultimate liability. As a result, the Board of Trustees is unable to establish a reserve for estimated workers' compensation and special disability claims. Accordingly, the financial statements do not include any adjustments that might result from the outcome of this uncertainty.

In my opinion, except for the effect of such adjustments, if any, as might have been determined to be necessary had the reserve been established, as discussed in the third paragraph, the basic financial statements referred to above present fairly, in all material respects, WCC's statements of fiduciary net assets, as of September 30, 2011 and 2010, and the related statements of changes in fiduciary net assets for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, I have also issued my report dated April 9, 2013 on my consideration of the CNMI Workers' Compensation Commission's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and other matters. The purpose of that report is to describe the scope of my testing, and not to provide an opinion on the internal control over financial reporting on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of my audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 9 and 20 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. I 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 my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I 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.


Saipan, Commonwealth of the Northern Mariana Islands
April 9, 2013

CNMI WORKERS' COMPENSATION COMMISSION
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Management's Discussion and Analysis
September 30, 2011

This section presents Management's Discussion and Analysis (MD&A) of the financial activities of the Commonwealth of Northern Mariana Islands (CNMI) Workers' Compensation Commission (WCC) as a narrative overview for the year ended September 30, 2011. Readers are encouraged to consider the information presented in conjunction with the letter of transmittal and the WCC financial statements.

FINANCIAL HIGHLIGHTS

- Fund net assets held in trust as of September 30, 2011 and 2010 were \$1,506,282 and \$1,403,256, respectively, an increase of \$103,026 or 7.34% from prior year.
- Total revenues, as reflected in the Statements of Changes in Fiduciary Net Assets, were \$283,792 and \$296,791 for the years ended September 30, 2011 and 2010, respectively. Total revenues decreased by \$12,999 or 4.38% for the year ended September 30, 2011. The decrease in revenue was the result of the delay in the remittance from Appropriation of approximately \$16,794 for the month of September 2011 and primarily from the loss in investment in FY 2011.
- Total expenditures, as reflected in the Statements of Changes in Fiduciary Net Assets, were \$180,766 and \$159,510 for the years ended September 30, 2011 and 2010, respectively, which translates into a \$21,256 or 13.33% increase in expenditures. The increase in expenditures relates to the share of WCC from the allocated cost of Salaries and Benefits of the NMIRF Officers in administering the Fund and for the imposition of additional \$150.00 monthly charges for administrative and maintenance cost by the fund.

OVERVIEW OF FINANCIAL STATEMENTS

This MD&A serves as an introduction to the basic financial statements. The WCC has two basic financial statements and the notes to financial statements. The basic financial statements and the required disclosures are in compliance with the accounting principles and reporting guidelines as set forth by the Governmental Accounting Standards Board utilizing the accrual basis of accounting.

The first basic financial statement is the *Statement of Fiduciary Net Assets*. This is a snapshot of account balances at fiscal year end. This statement reflects assets available for future payments of workers' compensation benefits and liabilities owed as of fiscal year end. The net assets, which are the assets less the liabilities, reflect the funds available for future use.

The second basic financial statement is the *Statement of Changes in Fiduciary Net Assets*. This Statement reflects all the activities that occurred during the year and shows the impact of those activities as revenues or additions and expenditures or deductions to the fund. The trend of additions versus deductions to the fund will indicate whether WCC's financial position is improving or deteriorating over time.

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The *Notes to Financial Statements* (Notes) are an integral part of the financial reports. The Notes provide additional information that is essential to a full understanding of the data provided in the financial statements.

FINANCIAL ANALYSIS

Net Assets

As of September 30, 2011, 2010 and 2009, net assets were \$1,506,282, \$1,403,256 and \$1,265,975, respectively. Total assets of \$1,915,248, \$2,249,876 and \$2,196,728 exceeded total liabilities of \$408,966, \$846,620, and \$930,753 as of September 30, 2011, 2010 and 2009, respectively. Net assets represent resources available for future payments, which means after all liabilities are paid off, WCC has at end of September 30, 2011, 2010 and 2009, \$1,506,282, \$1,403,256 and \$1,265,975, respectively, to pay for workers' compensation benefits.

Fiduciary Net Assets (in thousands)	2011	2010	Change	
			Amount	%
Cash and restricted deposits	\$ 842	\$ 756	\$ 86	11.4
Investments, at fair market value	727	721	6	0.8
Receivables	344	771	(427)	(55.4)
Capital assets, net	2	2	-	-
Total Assets	1,915	2,250	(335)	(14.9)
Accounts payable and accrued liabilities	71	103	(32)	(31.1)
Deferred revenue	338	744	(406)	(54.6)
Total Liabilities	409	847	(438)	(51.7)
Net Assets	\$ 1,506	\$ 1,403	\$ 103	7.3

Fiduciary Net Assets (in thousands)	2010	2009	Change	
			Amount	%
Cash and restricted deposits	\$ 756	\$ 727	\$ 29	4.0
Investments, at fair market value	721	663	58	8.7
Receivables	771	806	(35)	(4.3)
Capital assets, net	2	1	1	100.0
Total Assets	2,250	2,197	53	2.4
Accounts payable and accrued liabilities	103	131	(28)	(21.4)
Deferred revenue	744	800	(56)	(7.0)
Total Liabilities	847	931	(84)	(9.0)
Net Assets	\$ 1,403	\$ 1,266	\$ 137	10.8

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Changes in Net Assets

The following table presents the changes in fiduciary net assets for the years ended September 30, 2011, 2010, and 2009, respectively.

Changes in Fiduciary Net Assets (in thousands)			Change	
	2011	2010	Amount	%
Revenues	\$ 284	\$ 297	\$ (13)	(4.4)
Expenditures	181	160	21	13.1
Net increase	103	137	(34)	(24.8)
Fiduciary net assets, beginning	1,403	1,266	137	10.8
Fiduciary net assets, ending	\$ 1,506	\$ 1,403	\$ 103	7.3

Changes in Fiduciary Net Assets (in thousands)			Change	
	2010	2009	Amount	%
Revenues	\$ 297	\$ 259	\$ 49	18.9
Expenditures	160	220	23	10.5
Net increase	137	39	26	66.7
Fiduciary net assets, beginning	1,266	1,227	13	1.1
Fiduciary net assets, ending	\$ 1,403	\$ 1,266	\$ 39	3.1

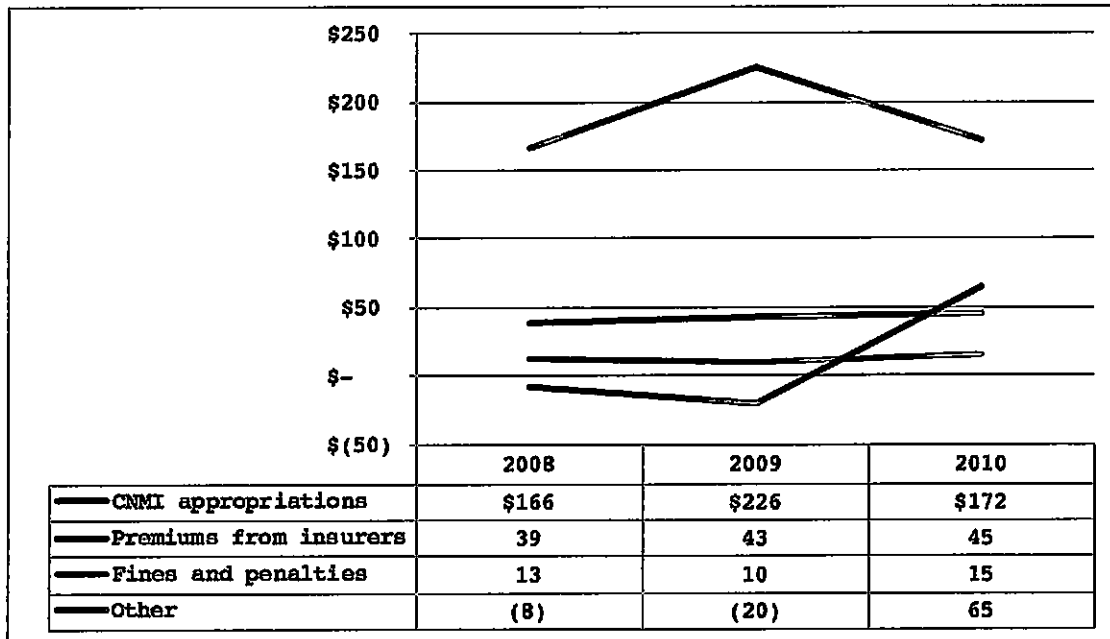
CNMI WORKERS' COMPENSATION COMMISSION
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Revenues

Revenues (in thousands)	2011	2010	2009
CNMI appropriations	\$ 210	\$ 172	\$ 226
Premiums from insurers	47	45	43
Fines and penalties	19	15	10
Other	8	65	(20)
Total	\$ 284	\$ 297	\$ 259

There have been no significant changes in WCC's revenues in the past three years. The CNMI appropriations remained the same over the past three years. The decrease in revenues collected in fiscal year 2011 over fiscal year 2010 is mainly attributable to unfavorable market performance from investments for FY 2011. Although the fiscal year 2011 indicated increased collection activity in the "Fines and penalties" as well as the "Premiums from insurers" category, the overall net effect was a decrease in revenues due to a lesser investment income and an unrealized loss on investment for fiscal year 2011 as compared to a higher investment income and a gain on investments in fiscal year 2010.



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Expenditures

Expenditures (in thousands)	2011		2010		2009	
	Amount	%	Amount	%	Amount	%
Salaries and wages	\$ 77	42.5%	\$ 62	34.3%	\$ 84	52.5%
Disability claims	6	3.3%	35	19.3%	47	29.4%
Employee benefits	41	22.7%	34	18.8%	43	26.9%
Other administrative expenses	57	31.5%	29	16.0%	46	28.8%
Total	\$ 181	100.0%	\$ 160	88.4%	\$ 220	137.5%

The primary uses of WCC's assets include the payment of benefits to members, salaries and benefits of its employees and the cost of administering the fund. For the years ended September 30, 2011, 2010 and 2009, expenditures were \$180,766 \$159,510, and \$220,280, respectively, reflecting an increase of \$21,256 or 12% in 2011, a decrease of \$60,770 or 28% in 2010, and increase of \$23,273 or 12% in 2009. The increase in expenditures in 2011 is due mainly to: 1) an increase in personnel costs with the addition of one personnel to handle administrative functions; 2) 54% increase in professional fees attributable to increase legal and administrative hearing officer's fees; 3) a significant cost in management fee with the imposition on WCC's share on allocated cost of salaries and benefits of NMIRF Officers in administering the fund; 4) an added monthly charges of \$150.00 by the fund for administrative and maintenance cost; and 5) a 44% increase in utility cost due to higher utility rates. While a substantial reduction in disability claims has been realized due to the decrease in the number of claims, the overall effect is a 12% increase in expenditures for FY 2011.

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BUDGETARY COMPARISON

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues:			
CNMI appropriations	\$ 250,709	\$ 209,729	\$ (40,980)
Expenditures:			
Personnel expenses	121,061	117,709	3,352
All others expenses	<u>129,648</u>	<u>57,252</u>	<u>72,396</u>
Total expenditures	<u>250,709</u>	<u>174,961</u>	<u>75,748</u>
Excess revenues over expenditures	<u>\$ -</u>	<u>\$ 34,768</u>	<u>\$ 34,768</u>

Reconciliation of GAAP Basis Revenues and Expenditures

The revenue reported for Budgetary Comparison includes appropriation from the CNMI Government.
The other revenues are for restricted purposes such as payments of claims and death benefit.

The expenditures reported for Budgetary Comparison excludes the \$5,805 disability claims paid in fiscal year 2011.

WCC's operating expenditures are within the 2011 budget. WCC continues to manage expenses with the appropriations received from the CNMI Government.

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OTHER SIGNIFICANT MATTERS

Continuing Risk Exposure

The imminent risk surrounding the government workers' compensation program is mainly due to under-funding. The CNMI is self-insured on its workers' compensation program covering over 4,763 employees.

Tracking only two major casualties involving government employees, since inception, WCC made pay-outs of over \$900,000 for medical expenses for these instances only. By way of example, should 10 employees be exposed to the same fatalities, WCC would need at least \$4.5 million in cash reserve.

The Board of Trustees and the Administrator has communicated this issue since 2008 to the CNMI Legislature in order to reduce the risk exposure of the CNMI Government.

Two options presented were: (1) earmark $\frac{1}{2}$ of 1% of the payroll budget every year to WCC; and (2) procurement of third-party workers compensation coverage for each agency including the Central Government.

REQUEST FOR INFORMATION

This financial report is designed to provide the Board of Trustees, our membership, taxpayers, and investment managers with a general overview of WCC's finances and to show accountability for the money it receives.

Questions about this report or request for additional financial information should be addressed to:

NMIRF Administrator
CNMI Workers' Compensation Commission
PO Box 501247 CK
Saipan, MP 96950
<http://www.nmiretirement.com>

CNMI WORKERS' COMPENSATION COMMISSION
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Statements of Fiduciary Net Assets
September 30, 2011 and 2010

<u>Assets</u>	Expendable Trust Fund	
	2011	2010
Cash and cash equivalents (Note 2)	\$ 166,711	\$ 146,752
Restricted cash - Special Disability Fund (Note 3)	542,216	475,711
Restricted certificate of deposit - Special Disability Fund (Note 3)	133,249	133,101
Investments (Notes 2 and 4)	727,057	721,309
Accounts receivable (Notes 6 and 7)	298,911	743,976
Appropriations receivable (Note 8)	38,862	20,008
Other receivables	6,153	6,596
Capital assets, net (Notes 2 and 5)	2,089	2,423
Total assets	1,915,248	2,249,876
<u>Liabilities</u>		
Accounts payable and accrued liabilities (Note 2)	71,193	102,644
Deferred revenue - Appropriation (Note 8)	38,862	-
Deferred revenue - Assessments (Note 7)	298,911	743,976
Total liabilities	408,966	846,620
Contingencies (Note 9)		
<u>Net Assets</u>		
Held in trust for workers' compensation benefits and other purposes	\$ 1,506,282	\$ 1,403,256

See accompanying notes to financial statements.

CNMI WORKERS' COMPENSATION COMMISSION
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Statements of Changes in Fiduciary Net Assets
Years ended September 30, 2011 and 2009

	2011	2010
Revenues:		
CNMI appropriations (Note 8)	\$ 209,729	\$ 172,274
Premiums from insurers	46,930	44,807
Assessments, fines and penalties (Note 6)	19,115	14,907
Investment income	17,281	20,863
Unrealized gains (loss) on investments	(11,031)	43,940
Miscellaneous income	1,768	-
Total revenues, net	283,792	296,791
Expenditures:		
Salaries and wages	76,756	61,977
Employee benefits	40,953	34,396
Management fee	21,427	-
Professional fees	9,885	4,500
Rent	8,450	10,140
Utilities	6,943	3,918
Disability claims	5,805	35,451
Office supplies	3,803	3,544
Communications	1,945	1,551
Depreciation (Note 5)	784	478
Travel and transportation	734	114
Management and custodial fees	354	307
Repairs and maintenance	301	954
Miscellaneous	2,626	2,180
Total expenditures	180,766	159,510
Net increase	103,026	137,281
Net assets, beginning of the year	1,403,256	1,265,975
Net assets, end of the year	\$ 1,506,282	\$ 1,403,256

See accompanying notes to financial statements.

CNMI WORKERS' COMPENSATION COMMISSION
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Notes to Financial Statements
September 30, 2011 and 2010

(1) Organization

The CNMI Workers' Compensation Commission (WCC) was created pursuant to 4 CMC 9301, Public Law 6-33 signed on June 27, 1989, becoming effective on October 25, 1989. Public Law 6-33 empowers WCC to implement and enforce the provisions of the law for the effective administration of the program. The Administrator of the Northern Marianas Island Retirement Fund (NMIRF) oversees the administration and management of the program.

The primary purpose of the Worker's Compensation Law is to provide financial protection to both employers and employees for the catastrophic effects of work related injuries, illnesses or deaths. It is a social insurance plan that compensates employees for disabilities incurred from work related injuries regardless of fault. It is also a no-fault insurance program, solely paid for by the employer.

WCC ensures that private sector employers obtain and provide workers' compensation insurance coverage for their employees. WCC also administers the CNMI Government's workers' compensation self-insurance program.

Limits of Liability

The Worker's Compensation program offers "protection for employees and employers". This refers to the limitation of employer's liability and employee's benefits. It is a protection for employees in terms of the availability of compensation during periods of disability, compensation for dismemberment, benefit for medical expenses and deaths. If coverage is not secured through a private carrier, the employer is liable to pay for compensation.

(2) Summary of Significant Accounting Policies

Basis of Accounting

WCC is an expendable trust fund. The measurement focus of such a fund is the flow of current financial resources. The financial statements of WCC are presented on the modified accrual basis of accounting whereby revenues are recorded when they become measurable and available and expenses are recorded when the related liabilities are incurred.

Generally, an expendable trust fund's assets include those financial resources that are available to finance current expenditures of the fund. Items that will consume expendable financial resources during the fiscal period are classified as liabilities.

Budgetary Comparison

WCC is legally required to adopt a budget based on the CNMI Appropriation Act. Budgetary Comparison is presented as required supplementary schedule on page 82.

CNMI WORKERS' COMPENSATION COMMISSION
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Notes to Financial Statements
September 30, 2011 and 2010

(2) Summary of Significant Accounting Policies, Continued

Use of Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

For the purpose of reporting the Statements of Fiduciary Net Assets, WCC considers cash and cash equivalents to be cash on bank deposits, time certificates of deposits, money market accounts, and investment grade commercial paper that are readily convertible into cash and purchased with original maturities of three months or less.

Valuation of Investments

As part of WCC's cash management program, it maintains a portfolio of marketable investment securities, which are stated at fair market value. Fair market value is determined by quoted prices in active markets for equity securities, mutual fund investments and corporate debt instruments.

WCC is administered by the NMIRF Board of Trustees thus, follows the policies set forth in the rules and regulations promulgated by the NMIRF. The NMIRF's investment policies are defined in Public Law 6-17, subsequently amended by Public Law 6-41 and Public Law 17-46.

Investment of Funds

The fund reserves in excess of current operational requirements are invested under the authority of the Board of Trustees. In investing these reserves, the Board employs the services of investment professionals and consultants who are subject to the investment policy statement issued by the Board.

These professionals are registered with the U.S. Securities and Exchange Commission as investment advisors. The assets are primarily invested in stocks, bonds, and real estates traded in recognized stock markets such as the New York Stock Exchange.

Use of Restricted and Unrestricted Funds

The fund utilizes the restricted fund first when both restricted and unrestricted funds are available for expenditures where there are both restricted and unrestricted resources available.

CNMI WORKERS' COMPENSATION COMMISSION
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Notes to Financial Statements
September 30, 2011 and 2010

(2) Summary of Significant Accounting Policies, Continued

Capital Assets

Capital assets are recorded at cost. Acquisitions over \$500 are capitalized. Depreciation is provided over the estimated useful lives of the related assets using the straight-line method for financial statement purposes.

Income Taxes

WCC is a component unit of the CNMI Government. Accordingly, WCC is not subject to income taxes.

Annual Leave

Employees are credited with annual leave at rates ranging from 4 to 8 hours per pay-period depending on their length of service. Accumulation of such annual leave credit is limited to 480 hours, which is equivalent to 60 days. Liabilities for unpaid annual leave are accrued at the end of each accounting period utilizing current salary rates. At September 30, 2011 and 2010, accrued annual leave was \$3,806 and \$6,081, respectively, included in the accompanying statements of fiduciary net assets as component of accounts payable and accrued liabilities.

(3) Special Disability Fund

The Special Disability Fund (SDF) is a special fund restricted for the purpose of making compensation for injury increasing disability in accordance with of Title 4 Division 9 Section 9308 (f) of the Commonwealth Code. The funding sources for this fund come from the following: (1) Two percent of the premium received for workers' compensation coverage levied against all insurers (carriers) licensed to do business in the CNMI. This charge is remitted quarterly from the total premium collected during the preceding calendar quarters. (2) A \$10,000 contribution from the employer/carrier each time the Administrator determines that there is no eligible person to receive the survivor's benefit from a work related incident resulting in the death of the employee; and (3) all amounts collected as fines and penalties pursuant to the law.

As of September 30, 2011 and 2010, the total restricted cash, certificate of deposit and investments are as follows:

	<u>2011</u>	<u>2010</u>
Cash	\$ 542,216	\$ 475,711
Certificate of deposit	133,249	133,101
Investments	<u>727,057</u>	<u>721,309</u>
	<u>\$1,402,522</u>	<u>\$1,330,121</u>

CNMI WORKERS' COMPENSATION COMMISSION
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Notes to Financial Statements
September 30, 2011 and 2010

(3) Special Disability Fund, Continued

The cash and certificate of time deposit are held-in trust by the Treasurer of the CNMI, and are not money or property of the CNMI Government. The restricted accounts are within FDIC insured limits as of September 30, 2011 and 2010.

The Employees of WCC and NMIRF do not have signature authority over these accounts. The SDF was established to accommodate special disability claims as discussed in the following paragraph.

For any employee working in the CNMI, the SDF will be used to pay for the difference between the compensation for permanent total disability and when an employee receives an injury which of itself would cause only partial disability but when combined with a previous disability, results in total disability. The maximum workers' compensation benefit is the lesser of \$140 per week or two thirds of the employee's wages, with a maximum amount for one occurrence of \$40,000. WCC's share of the \$40,000 maximum is the amount not covered by insurance provided by the injured employer.

Further, if an employee dies from a work-related injury without a beneficiary entitled to receive the death benefit, the carrier (on behalf of the employer) shall contribute \$10,000 to the SDF. Under Section 9353(e) of Public Law 6-33, neither the CNMI Government nor WCC shall be liable for disability benefits in excess of the amount accumulated in the SDF. If the obligations of the SDF exceed the balance in the SDF, WCC must immediately inform the CNMI Legislature of the deficiency.

(4) Investments

Governmental Accounting Standards require that the investments reported as of the balance sheet date be categorized according to level of credit risk associated with the Fund's custodial arrangements at that time. The level of credit risk is defined as follows: Category (1) - insured and registered for which the securities are held by WCC or its agent in WCC's name; Category (2) - uninsured and registered for which the securities are held by the broker's or dealer's trust department or agent in WCC's name; Category (3) - uninsured and unregistered for which the securities are held by the broker or dealer or by its trust department or agent but not in WCC's name. At September 30, 2011 and 2010, all of WCC's investments are classified in Category (1).

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Notes to Financial Statements
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(4) Investments, Continued

WCC's investments are held by a bank-administered trust company. Carrying values of investments at September 30, 2011 and 2010 are as follows:

	2011	2010
Stock mutual funds	\$ 473,267	\$ 453,757
Mutual bond funds	191,958	178,560
Money market placements	61,832	30,781
Total	\$ 727,057	\$ 721,309

Custodial Credit Risk

Custodial credit risk is the risk that in the event a financial institution or counterparty fails, WCC would not be able to recover the value of its deposits, investments, or securities. As of September 30, 2011 and 2010, 100% of WCC's investments were held in WCC's name by its investment managers. WCC is exposed to custodial credit risk related to these investments.

Interest Rate Risk

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

Information about the interest rate sensitivity of the fair values of WCC's investments (including investments held by bond trustee) to market interest rate fluctuations is provided by the following table that shows the distribution of the investments by maturity:

September 30, 2011

Investment Type	Carrying Value	Investment Maturities (in Years)	
		Less Than 1	6 to 10
Investments subject to interest rate risk:			
Mutual bond funds	\$ 191,958	\$ -	\$ 191,958
Total investments subject to interest rate risks	191,958	\$ -	\$ 191,958
Investments not subject to interest rate risk	535,099		
Total investments	\$ 727,057		

Note: The maturity of the mutual bond fund is based on the weighted average maturity of all the debt investment maturities in the fund's portfolio.

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Notes to Financial Statements
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(4) Investments, Continued

Interest Rate Risk, Continued

September 30, 2010

<u>Investment Type</u>	<u>Carrying Value</u>	<u>Investment Maturities (in Years)</u>	
		<u>Less Than 1</u>	<u>6 to 10</u>
Investments subject to interest rate risk:			
Mutual bond funds	\$ 187,023	\$ -	\$ 187,023
Total investments subject to interest rate risks	187,023	\$ -	\$ 187,023
Investments not subject to interest rate risk	<u>534,286</u>		
Total investments	<u>\$ 721,309</u>		

Credit Risk

Credit risk is the risk that an issuer or other counter-party to a debt instrument will not fulfill its obligations. This is measured by the assignment of ratings by nationally recognized statistical rating organizations.

The credit rating of the \$191,958 and \$187,023 investment in mutual funds as of September 30, 2011 and 2010, respectively is Aa/AA.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. As of September 30, 2011 and 2010, WCC had no single issuer that exceeded 5% of total investments.

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. WCC does not maintain investments held in foreign currencies.

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Notes to Financial Statements
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(5) Capital Assets

A schedule of capital assets at September 30, 2011 and 2010 is as follows:

	Estimated Useful Lives	2010	Additions	Disposals	2011
Office equipment	5 years	\$ 20,066	\$ 450	\$ -	\$ 20,516
Vehicles	5 years	19,595	-	-	19,595
Furniture and fixtures	7 years	1,646	-	-	1,646
At cost		41,307	450	-	41,757
Accumulated depreciation		(38,884)	(784)	-	(39,668)
		<u>\$ 2,423</u>	<u>\$ (334)</u>	<u>\$ -</u>	<u>\$ 2,089</u>

	Estimated Useful Lives	2009	Additions	Disposals	2010
Office equipment	5 years	\$ 18,328	\$ 1,738	\$ -	\$ 20,066
Vehicles	5 years	19,595	-	-	19,595
Furniture and fixtures	7 years	1,646	-	-	1,646
At cost		39,569	1,738	-	41,307
Accumulated depreciation		(38,406)	(478)	-	(38,884)
		<u>\$ 1,163</u>	<u>\$ 1,260</u>	<u>\$ -</u>	<u>\$ 2,423</u>

Depreciation expense for the years ended September 30, 2011 and 2010 are \$784 and \$478, respectively.

(6) Fines and Penalties

WCC may assess penalties of up to \$100 per day against employers who fail to obtain worker's compensation insurance coverage for their employees. Uncollected fines and penalties assessed (net of waived amounts) as of the years ended September 30, 2011 and 2010 totaled \$298,911 and \$743,976, respectively.

The accounts receivable from employers' fines and penalties reported in the accompanying statements of fiduciary net assets is based on a maximum assessment of \$1,500 per year per employer. The actual amount collected may be less, as WCC officials have discretion to waive a portion of the assessments.

CNMI WORKERS' COMPENSATION COMMISSION
(A Component Unit of the CNMI Government)

Notes to Financial Statements
September 30, 2011 and 2010

(7) Deferred Revenue -- Assessments

Revenues from fines and penalties are deferred until collected. At September 30, 2011 and 2010, deferred revenues amounted to \$298,911 and \$743,976, respectively.

(8) CNMI Appropriations

WCC receives appropriations from the CNMI Government for its operating costs. Appropriations received within 90 days from fiscal year end are recognized as current year revenues while those uncollected are deferred until actually remitted by the CNMI Government. The schedule of appropriations receivable and related revenue and deferred revenue accounts at September 30, 2011 and 2010 are as follows:

	2011	2010
Receivable, beginning of year	\$ 20,008	\$ -
Appropriation	250,709	174,216
Allotments		
For prior period	(20,008)	-
For current period	(209,729)	(152,266)
For Office of the Public Auditor	(2,118)	(1,942)
Receivable, end of year	\$ 38,862	\$ 20,008
Receivable subsequently collected within 90 days	\$ -	\$ 20,008
Revenue recognized in current year	\$ 209,729	\$ 172,274
Deferred revenue	\$ 38,862	\$ -

(9) Contingencies

WCC assumed responsibility for administering and paying disability claims for CNMI Government employees on October 25, 1989. Effective September 1, 1990, WCC contracted an insurance carrier to provide coverage for CNMI Government employees. The contractual agreement with the insurance carrier was terminated effective May 31, 1991. The CNMI Government is self-insured for disability claims for the periods covering from October 25, 1989 to September 1, 1990 and from June 1, 1991 through September 30, 2010. No reserve for such claims has been provided for in the accompanying financial statements at September 30, 2011 and 2010.

(10) Subsequent Events

On November 9, 2012, Public Law 17-88 came into effect. This law transfers the Workers Compensation Commission from the Fund to the CNMI Department of Commerce.

CNMI WORKERS' COMPENSATION COMMISSION
(a component unit of the CNMI Government)

Supplementary Schedule - Budgetary Comparison
Year ended September 30, 2011

	<u>Original</u>	<u>Revisions</u>	<u>Final</u>	<u>2011</u>	<u>Variance</u>
Revenues:					
CNMI appropriations	\$ 490,532	(239,823)	\$ 250,709	\$ 209,729	\$ (40,980)
Expenditures:					
Personnel expenses	328,564	(207,503)	121,061	117,709	3,352
All others expenses	<u>161,968</u>	<u>(32,320)</u>	<u>129,648</u>	<u>57,252</u>	<u>72,396</u>
Total expenditures	<u>490,532</u>	<u>(239,823)</u>	<u>250,709</u>	<u>174,961</u>	<u>75,748</u>
Excess revenues over expenditures	\$ -	\$ -	\$ -	\$ 34,768	\$ 34,768

Reconciliation of GAAP Basis Revenues and Expenditures

The revenue reported for Budgetary Comparison includes appropriation from the CNMI Government. The other revenues are for restricted purposes such as payments of claims and death benefit.

The expenditures reported for Budgetary Comparison excludes the \$5,805 disability claims paid in fiscal year 2011.

Actual Excess revenues over expenditures for Budgetary Comparison	\$ 34,768
Premiums from insurers	46,930
Assessments, fines and penalties	19,115
Investment income	17,281
Unrealized gains (loss) on investments	(11,031)
Miscellaneous income	1,768
Disability claims	<u>(5,805)</u>
Actual Excess revenues over expenditures - GAAP	<u>\$ 103,026</u>

CNMI WORKERS' COMPENSATION COMMISSION
(A Component Unit of the CNMI Government)

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Year Ended September 30, 2011

J. Scott Magliari
& COMPANY

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE and OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

The Board of Trustees
CNMI Worker's Compensation Commission

I have audited the financial statements of Commonwealth of the Northern Mariana Islands (CNMI) Workers' Compensation Commission (WCC) as of and for the year ended September 30, 2011, and have issued my report thereon dated April 9, 2013. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered WCC's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of WCC's internal control over financial reporting.

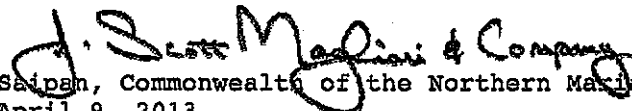
A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

My consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. I did not identify any deficiencies in internal control over financial reporting that I consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether WCC's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the management of WCC, the Board of Trustees, the Office of the Public Auditor and the cognizant audit and is not intended to be and should not be used by anyone other than these specified parties. However, this report is also a matter of public record.


Saipan, Commonwealth of the Northern Mariana Islands
April 9, 2013

