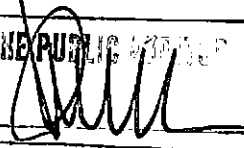


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**CNMI GROUP HEALTH AND LIFE INSURANCE TRUST FUND**

**(A Component Unit of the CNMI Government)**

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

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**Years Ended September 30, 2011 and 2010**

J. Scott Magliari  
& COMPANY

CERTIFIED PUBLIC ACCOUNTANT

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**INDEPENDENT AUDITOR'S REPORT**

The Board of Trustees  
CNMI Group Health and Life Insurance Trust Fund

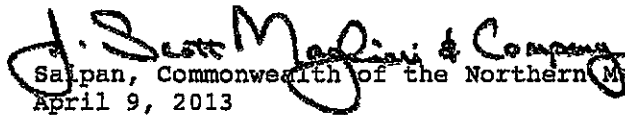
I have audited the accompanying statements of fiduciary fund deficit of the Commonwealth of the Northern Mariana Islands (CNMI) Group Health and Life Insurance Trust Fund (GHLI Trust Fund), a component unit of the CNMI Government, as of September 30, 2011 and 2010 and the related statements of changes in fiduciary fund deficit for the years then ended. These financial statements are the responsibility of the Fund'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 the Fund'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.

In my opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary deficit fund balances, as of September 30, 2011 and 2010, and the related statements of changes in fiduciary deficit fund balance 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 Commonwealth of the Northern Mariana Islands Group Health and Life Insurance Trust Fund'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 on pages 3 through 8 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 GROUP HEALTH AND LIFE INSURANCE TRUST FUND**  
(A Component Unit of the CNMI Government)

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 the Northern Mariana Islands Group Health and Life Insurance Trust Fund (GHLI Trust Fund) 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 financial statements.

FINANCIAL HIGHLIGHTS

- Fund deficit as of September 30, 2011, 2010 and 2009 were \$16,911,335, \$17,465,694 and \$17,936,766, respectively. Deficit decreased by \$554,359 or 3.2% and \$471,072 or 2.6%, respectively for the years ended September 30, 2011 and 2010.
- Total operating revenues, as reflected in the Statements of Changes in Fiduciary Deficit Fund Balance, were \$630,286, \$1,202,054 and \$595,607 for the years ended September 30, 2011, 2010 and 2009, respectively. GHLI Thrust Fund did not receive any appropriations from the CNMI Government in fiscal year 2011, hence total operating revenues decreased by \$571,768 or 47.6%. By comparison, total operating revenues increased by \$606,447 or 101.8% in 2010 compared to 2009 due to receipt of \$503,000 transfer in from the CNMI Government and the recognition of \$194,027 life insurance premiums while the GHLI Trust Fund was without a third party insurance carrier for its life insurance program.
- There were no significant cost of benefits paid in fiscal year 2011 since the GHLI Trust Fund's health and life insurance coverage is fully insured by third party providers. During fiscal year 2010, the GHLI Trust Fund paid \$688,609 in death benefits that was not covered by third party provider. The payments were funded by a \$503,000 transfer-in from the CNMI Government and \$194,027 of life insurance premiums collected during the period.
- Total operating expenses, as reflected in the Statements of Changes in Fiduciary Fund Deficit, were \$75,927, \$62,578 and \$112,555 for the years ended September 30, 2011, 2010 and 2009, respectively. This represented a increase of \$13,349 or 21.3% in 2011 and a decrease of \$49,977 or 44.4% in 2010.

**CNMI GROUP HEALTH AND LIFE INSURANCE TRUST FUND**  
(A Component Unit of the CNMI Government)

Management's Discussion and Analysis  
September 30, 2011

OVERVIEW OF FINANCIAL STATEMENTS

This MD&A serves as an introduction to the basic financial statements. The GHLI Trust Fund 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 Fund Deficit**. This is a snapshot of account balances at fiscal year end. This Statement reflects GHLI Trust Fund's excess liability over total assets. This amount is ultimately due from the CNMI Government.

The second basic financial statement is the **Statement of Changes in Fiduciary Fund Deficit**. 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 plan. The trend of additions versus deductions to the plan will indicate whether GHLI Trust Fund's financial position is improving or deteriorating over time.

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

Deficit Fund Balance

As of September 30, 2011, 2010 and 2009, fund deficit were \$16,911,335, \$17,465,694 and \$17,936,766, respectively. Total liabilities of \$19,247,941, \$19,032,310 and \$18,834,191 exceeded total assets of \$2,336,606, \$1,566,616 and \$897,425 as of September 30, 2011, 2010 and 2009, respectively. Deficit fund balances represent liabilities in excess of assets available to pay for liabilities. Public Law 10-19 states that the CNMI Government is ultimately liable for the liabilities of the Trust Fund and not the Northern Mariana Island Retirement Fund (NMIRF).

**CNMI GROUP HEALTH AND LIFE INSURANCE TRUST FUND**  
(A Component Unit of the CNMI Government)

Management's Discussion and Analysis  
September 30, 2011

**FINANCIAL ANALYSIS, Continued**

**Deficit Fund Balance, Continued**

Fiduciary Deficit Fund Balance (in thousands)			Change	
	2011	2010	Amount	%
Cash and cash equivalents	\$ 1,954	\$ 1,553	\$ 401	25.8
Receivables	371	-	371	-
Capital assets, net	12	13	(1)	(7.7)
<b>Total assets</b>	<b>2,337</b>	<b>1,566</b>	<b>771</b>	<b>49.2</b>
Accounts payable and accrued expenses	16,377	16,535	(158)	(1.0)
Health insurance premiums payable	2,773	1,555	1,218	78.3
Life insurance premiums payable	98	374	(276)	(73.8)
Loan payable	-	568	(568)	(100.0)
<b>Total liabilities</b>	<b>19,248</b>	<b>19,032</b>	<b>216</b>	<b>1.1</b>
<b>Net Deficit</b>	<b>\$ (16,911)</b>	<b>\$ (17,466)</b>	<b>\$ 555</b>	<b>(3.2)</b>

Fiduciary Deficit Fund Balance (in thousands)			Change	
	2010	2009	Amount	%
Cash and cash equivalents	\$ 1,553	\$ 882	\$ 671	76.1
Capital assets, net	13	15	(2)	(13.3)
<b>Total assets</b>	<b>1,566</b>	<b>897</b>	<b>669</b>	<b>74.6</b>
Accounts payable and accrued expenses	16,535	16,540	(5)	-
Health insurance premiums payable	1,555	1,271	284	22.3
Life insurance premiums payable	374	150	224	149.3
Loan payable	568	873	(305)	(34.9)
<b>Total liabilities</b>	<b>19,032</b>	<b>18,834</b>	<b>198</b>	<b>1.1</b>
<b>Net Deficit</b>	<b>\$ (17,466)</b>	<b>\$ (17,937)</b>	<b>\$ 471</b>	<b>(2.6)</b>

Total assets in fiscal year 2011 increased by \$771 thousand or 49.2% from fiscal year 2010, primarily due to (1) an unexpended reserve for payment of health and life insurance premium (2) an increase on the 2% and 3.33% surcharge on health and life insurance premiums for FY 2011 and (3) for the deferment of paid health and life premiums but remains unremitted by employers.

Total liabilities increased by 1.1% or \$216 thousand in fiscal year 2011 compared with fiscal year 2010 as a result of the delayed settlement of health insurance premiums pending reconciliation of September 2011 billing, and where such liability was resolved after end of fiscal year.

**CNMI GROUP HEALTH AND LIFE INSURANCE TRUST FUND**  
(A Component Unit of the CNMI Government)

Management's Discussion and Analysis  
September 30, 2011

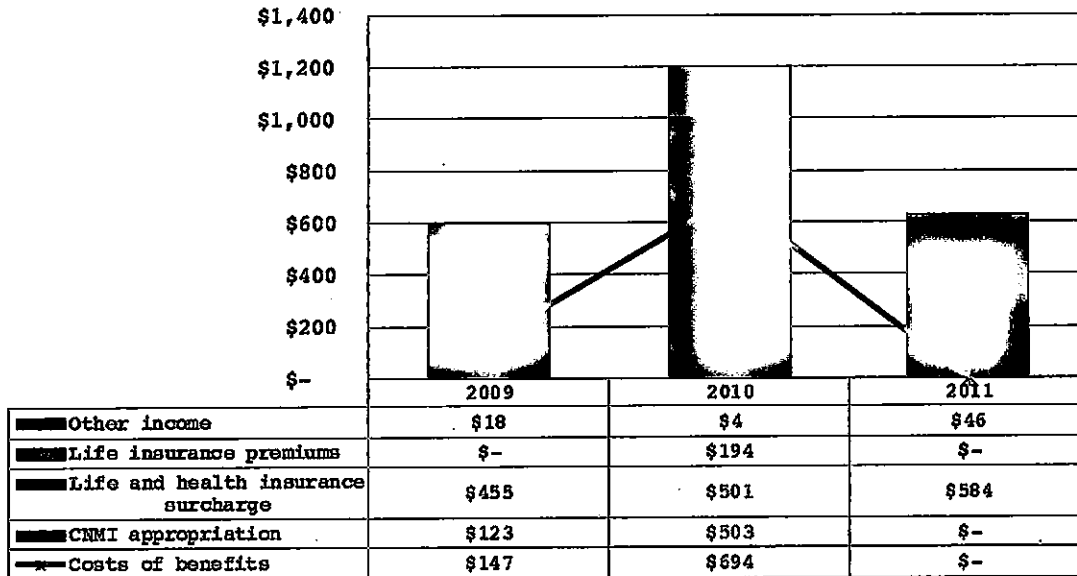
Changes in Fiduciary Deficit Fund Balance

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

<b>Changes in Fiduciary Fund Deficit (in thousands)</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>
Operating revenues	\$ 630	\$ 1,202	\$ 596
Cost of medical claims, net	-	694	147
Operating income (loss)	630	508	449
Expenditures	75	62	113
Net increase (decrease)	555	446	336
Reversal of accrued compensated absences	-	25	-
Fiduciary deficit, beginning of year	(17,466)	(17,937)	(18,273)
Fiduciary deficit, end of year	\$ (16,911)	\$ (17,466)	\$ (17,937)

Operating Income

**Revenues vs Cost of Benefits**



With the privatization of the Group Health Plan, the operating income and cost of benefit decreased to \$0 in 2011. The cost of medical claims incurred beginning November 1, 2007 (privatization) shall be the liability of the insurance provider. The GHLI Trust Fund is only liable for unpaid claims incurred before the privatization or "runoff claims". In fiscal years 2011, 2010 and 2009, the GHLI Trust Fund received appropriations of \$0, \$503,000, and \$122,630, respectively, from the CNMI Government to pay runoff claims.

**CNMI GROUP HEALTH AND LIFE INSURANCE TRUST FUND**  
(A Component Unit of the CNMI Government)

Management's Discussion and Analysis  
September 30, 2011

Expenditures

Expenditures (in thousands)	2011	2010	2009
Interest expense	\$ 31	\$ 55	\$ 64
Management fee - NMIRF	37	-	-
Salaries and wages	-	-	28
Employee benefits	-	-	12
Professional fees	4	4	5
Depreciation	-	-	2
Office supplies	2	2	1
Miscellaneous	1	1	1
	\$ 75	\$ 62	\$ 113

Prior to privatization, GHLI Trust Fund operating expenses were maintained within \$1.5 million. The operating expenses decreased significantly in fiscal years 2011, 2010 and 2009 and 2008 due to the privatization of the Group Health Plan. Management of the GHLI Trust Fund projects that the 2% and 3.33% surcharge on the health and life insurance premiums, respectively, would be sufficient to fund its operating expenses and payoff accrued medical expenses due to third parties from prior years.



**CNMI GROUP HEALTH AND LIFE INSURANCE TRUST FUND**  
(A Component Unit of the CNMI Government)

Management's Discussion and Analysis  
September 30, 2011

OVERALL ANALYSIS OTHER SIGNIFICANT MATTERS

The GHLI Trust Fund and the CNMI Government are faced with the challenge of funding the \$16.9 million deficit fund balance as of September 30, 2011. This deficit fund balance does not include unprocessed claims due mostly to the Commonwealth Health Center of approximately \$28.75 million. In addition, GHLI continue to request from the Legislature for an appropriation of \$3.1 million to secure funding for the Run-off Claims under Third Party Administrator (TPA) arrangement with Aetna, and Hawaii Pacific Medical Referral (HPMR).

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 GHLI Trust Fund'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 Group Health Life Insurance Trust Fund  
PO Box 501247 CK  
Saipan, MP 96950  
<http://www.nmiretirement.com>

**CNMI GROUP HEALTH AND LIFE INSURANCE TRUST FUND**  
(A Component Unit of the CNMI Government)

Statements of Fiduciary Fund Deficit  
September 30, 2011 and 2010

<u>Assets</u>	<u>2011</u>	<u>Expendable Trust Fund 2010</u>
Current assets:		
Cash and cash equivalents (Note 2)	\$ 1,954,353	\$ 1,553,165
Receivable from employers	370,719	-
Other receivable	<u>-</u>	<u>50</u>
Total current assets	2,325,072	1,553,215
Capital assets, net (Notes 2 and 4)	<u>11,534</u>	<u>13,401</u>
Total assets	<u>2,336,606</u>	<u>1,566,616</u>
 <u>Liabilities</u>		
Current liabilities:		
Current portion of loan payable (Note 9)	-	327,838
Accounts payable and accrued expenses (Note 2)	60,237	190,929
Health insurance premiums payable (Note 5)	2,773,250	1,554,688
Life insurance premiums payable (Note 6)	97,706	374,382
Medical claims payable (Note 7)	<u>16,316,748</u>	<u>16,343,943</u>
Total current liabilities	19,247,941	18,791,780
Loan payable - net of current portion (Note 9)	<u>-</u>	<u>240,530</u>
Total liabilities	<u>19,247,941</u>	<u>19,032,310</u>
 <u>Fund Deficit</u>		
Held in trust for medical and life insurance benefits (Note 11)	<u>\$ (16,911,335)</u>	<u>\$ (17,465,694)</u>

See accompanying notes to financial statements.

**CNMI GROUP HEALTH AND LIFE INSURANCE TRUST FUND**  
(A Component Unit of the CNMI Government)

Statements of Changes in Fiduciary Fund Deficit  
Years Ended September 30, 2011 and 2010

	Expendable Trust Fund	
	2011	2010
Operating revenues:		
CNMI appropriation (Note 6)	\$ -	\$ 503,000
Life and health insurance surcharge (Notes 5 and 6)	584,368	500,683
Life insurance premiums (Note 6)	-	194,027
Other income	45,918	4,344
Total operating revenues	630,286	1,202,054
Cost of life insurance claims (Note 6)	-	688,609
Cost of medical claims (Note 7)	-	5,049
Cost of benefits	-	693,658
Operating income	630,286	508,396
Operating expenses:		
Interest expense (Note 9)	31,452	55,121
Management fee	37,196	-
Professional fees	4,500	4,500
Depreciation (Note 4)	1,867	1,944
Office supplies	-	75
Salaries and wages	-	-
Employee benefits	-	-
Printing and subscriptions	-	-
Miscellaneous	912	938
Total operating expenses	75,927	62,578
Excess of receipts over expenses	554,359	445,818
Reversal of accrued compensated absences	-	25,254
Change in fund deficit	554,359	471,072
Fund deficit, beginning of the year	(17,465,694)	(17,936,766)
Fund deficit , end of the year	\$ (16,911,335)	\$ (17,465,694)

See accompanying notes to financial statements.

**CNMI GROUP HEALTH AND LIFE INSURANCE TRUST FUND**  
(A Component Unit of the CNMI Government)

Notes to Financial Statements  
September 30, 2011 and 2010

(1) Description of the Fund

On June 21, 1996, Public Law No. 10-19 was enacted to transfer the administration of the Group Health and Life Insurance Programs to the Northern Marianas Islands Retirement Fund (NMIRF). The passage of this law eventually created the Commonwealth of the Northern Mariana Islands Group Health and Life Insurance Trust Fund (GHLI Trust Fund) to be held in trust and administered in accordance with policies set forth in the rules and regulations promulgated by the NMIRF.

The GHLI Trust Fund was established to ensure that CNMI Government employees are provided medical and life insurance benefits, and that funds collected and disbursed for these purposes are administered in a fiscally sound and professionally accountable manner.

Public Law No. 10-19 created a segregated fund to hold employee and employer contributions made to the programs. All employer and employee contributions to the GHLI programs shall be collected and held in the GHLI Trust Fund. The monies in the GHLI Trust Fund may be expended only for the payment of insurance premiums, claims, reasonable costs of administration and related expenses.

Public Law No. 10-19 specifies that liabilities of the Government Life and Health Insurance Programs will be liabilities of the CNMI Government and not liabilities of the NMIRF. The CNMI Government is therefore self-insured for the payment of medical claims in excess of the GHLI Trust Fund's available fund balance.

The GHLI Trust Fund health benefit administration was privatized on November 1, 2007.

(2) Summary of Significant Accounting Policies

*Basis of Accounting*

The GHLI Trust Fund is an expendable trust fund. The measurement focus of such a fund is the flow of current financial resources. The financial statements of the GHLI Trust Fund 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.

*Budget*

Under Government Accounting Standards Board Statement (GASBS) No. 34, budgetary comparison is required to be presented for each fund with a legally adopted budget. The GHLI Trust Fund is not legally required to adopt a budget. Therefore, the budget comparison information is not included in the GHLI Trust Fund's financial statements.

**CNMI GROUP HEALTH AND LIFE INSURANCE TRUST FUND**  
(A Component Unit of the CNMI Government)

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 conformity 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 the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

*Membership*

Membership to the GHLI Trust Fund is optional to active employees of the CNMI Government and its autonomous agencies while annuitants are provided with an option, to be exercised within six months of date of retirement, to continue their government health coverage under the same group terms and conditions as the government coverage. Any person who declines to exercise the health insurance option within six months of the date of retirement, or who exercises the option and subsequently cancels health insurance coverage for more than six months, shall not be entitled to reapply for coverage.

*Cash and Cash Equivalents*

For purposes of reporting the statements of fiduciary net assets, cash and cash equivalents are defined as amounts in demand deposits as well as highly liquid investments maturing within three months from the date acquired.

At September 30, 2011 and 2010, the bank balances were \$1,553,165 and \$2,152,976, respectively, placed in non-interest bearing accounts which are fully insured by the Federal Deposit Insurance Corporation's (FDIC) in 2011 and 2010.

*Capital Assets*

Capital assets are recorded at cost. Depreciation is provided over the estimated useful lives of the related assets using the straight-line method for financial statement purposes. The GHLI Trust fund does not have a formal capitalization policy.

*Income Taxes*

The GHLI Trust Fund is a component unit of the CNMI Government. Accordingly, the GHLI Trust Fund is not subject to income taxes.

**CNMI GROUP HEALTH AND LIFE INSURANCE TRUST FUND**  
(A Component Unit of the CNMI Government)

Notes to Financial Statements  
September 30, 2011 and 2010

(3) Eligibility and Contributions

The Group Health and Life Insurance Program is open to active employees who work at least 20 hours per week and available to retired CNMI Government employees who retire as a result of length of service, disability or age, as well as their dependents.

Health and life insurance coverage is to be provided by a private carrier. Contributions from employees and employers are based on rates as agreed by the Board of Trustees and the private insurance provider.

(4) Capital Assets

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

	<u>Lives</u>	<u>2010</u>	<u>Additions</u>	<u>Disposals</u>	<u>2011</u>
Office equipment	5 years	\$ 63,050	\$ -	\$ -	\$ 63,050
Vehicles	5 years	14,595	-	-	14,595
Furniture and fixtures	7 years	<u>9,120</u>	<u>-</u>	<u>-</u>	<u>9,120</u>
At cost		86,765	-	-	86,765
Accumulated depreciation		<u>(73,364)</u>	<u>(1,867)</u>	<u>-</u>	<u>(75,231)</u>
		<u>\$ 13,401</u>	<u>\$ (1,867)</u>	<u>\$ -</u>	<u>\$ 11,534</u>

	<u>Estimated Useful Lives</u>	<u>2009</u>	<u>Additions</u>	<u>Disposals</u>	<u>2010</u>
Office equipment	5 years	\$ 63,050	\$ -	\$ -	\$ 63,050
Vehicles	5 years	14,595	-	-	14,595
Furniture and fixtures	7 years	<u>9,120</u>	<u>-</u>	<u>-</u>	<u>9,120</u>
At cost		86,765	-	-	86,765
Accumulated depreciation		<u>(71,420)</u>	<u>(1,944)</u>	<u>-</u>	<u>(73,364)</u>
		<u>\$ 15,345</u>	<u>\$ (1,944)</u>	<u>\$ -</u>	<u>\$ 13,401</u>

Depreciation expense for the years ended September 30, 2011 and 2010 are \$1,867 and \$1,944, respectively.

**CNMI GROUP HEALTH AND LIFE INSURANCE TRUST FUND**  
(A Component Unit of the CNMI Government)

Notes to Financial Statements  
September 30, 2011 and 2010

(5) Medical Insurance Premiums

The group health care insurance plan was privatized on November 1, 2007. Premiums paid by government and the subscribers are remitted to the GHLI Trust Fund which then remits all contributions to the third-party insurance provider after deducting a 2% surcharge. Medical premium surcharge recognized as revenue for the years ended September 30, 2011 and 2010 amounted to \$411,745 and \$245,472, respectively, and is included in the accompanying Statements of Changes in Fiduciary Fund Deficit as component of life and health insurance surcharge.

Medical insurance premiums paid to the third-party insurance provider for the years ended September 30, 2011 and 2010 were \$19,991,085 and \$17,481,920, respectively. Payable to medical insurance provider amounted to \$2,773,250 and \$1,554,688 as of September 30, 2011 and 2010, respectively and are recorded as health insurance premiums payable in the accompanying Statements of Fiduciary Fund Deficit.

(6) Life Insurance Premiums

On July 1, 2008, GHLI Trust Fund, entered into an agreement with Netcare Life & Health Insurance (Netcare) to provide group life insurance for the Government of the CNMI employees, dependents of employees and retirees. The term of the policy is for a period of three (3) years commencing July 1, 2008. The rates for basic life insurance are as follows: (1) \$0.40 per \$1,000 per bi-weekly pay period for active and retired individuals term life insurance including accidental death and dismemberment, extended insurance (waiver of premium) and living benefit coverage for active members, and including extended insurance (waiver of premium) and living benefit coverage for retired members. Members have the option to include dependent coverage for additional premium. Netcare or GHLI Trust Fund may negotiate the third year's policy rate based upon the experience ending four months prior to the end of the second year.

The agreement with Netcare was terminated in December 2009 and Individual Assurance Company (IAC) was selected in January 2010 as the new third-party life insurance provider. During the period that there was no third-party provider, the GHLI Trust fund received life insurance premiums totaling \$194,027, which were recognized as revenue in 2010. GHLI Trust Fund paid \$688,609 in death benefit claims during this same period. Payments of these claims were funded by the premiums collected and \$503,000 appropriation received from the CNMI Government.

**CNMI GROUP HEALTH AND LIFE INSURANCE TRUST FUND**  
(A Component Unit of the CNMI Government)

Notes to Financial Statements  
September 30, 2011 and 2010

(6) Life Insurance Premiums, Continued

As of September 30, 2011 and 2010, the rates for basic life insurance are as follows: (1) \$0.60 per \$1,000 per bi-weekly pay period for active; and (2) \$0.65 per \$1,000 per semi-monthly pay period for retired individuals for the term life insurance including accidental death and dismemberment, extended insurance (waiver of premium) and living benefit coverage for active members, and including extended insurance (waiver of premium) and living benefit coverage for retired members. Members have the option to include dependent coverage for an additional premium.

Premiums paid by the CNMI Government and the subscribers are remitted to the GHLI Trust Fund which then remits all contributions to the third-party insurance provider after deducting a 3.33% surcharge in 2011 and 5% in 2010. Life premium surcharge recognized as revenue for the year ended September 30, 2011 and 2010 amounted to \$172,623 and \$255,211, respectively, and are included in the accompanying Statements of Changes in Fiduciary Fund Deficit as component of life and health insurance surcharge.

Life insurance premiums paid to third-party insurance provider for the years ended September 30, 2011 and 2010 were \$6,435,584 and \$5,203,064, respectively. Payable to life insurance provider amounted \$82,789 and \$374,382 September 30, 2011 and 2010, respectively and are recorded as life insurance premiums payable in the accompanying Statements of Fiduciary Fund Deficit.

(7) Cost of Medical Claims

Cost of medical claims were \$0 and \$5,049 for the years ended September 30, 2011 and 2010, respectively.

Unpaid processed medical claims, prior to medical insurance privatization, included in the accompanying Statements of Fiduciary Fund Deficit amounted to \$16,316,748 and \$16,343,943 of September 30, 2011 and 2010, respectively.

(8) Unprocessed Medical Claims

As disclosed in Note 1, Public Law No. 10-19 stated that the CNMI Government and not the NMIRF would be ultimately liable for the liabilities of the Trust Fund. In relation to this, GHLI Trust Fund has submitted unprocessed claims from the Commonwealth Health Center and Hawaii Pacific Medical Referral with service dates as of September 30, 2006 and earlier that totaled \$35.3 million. The ultimate liability that will result from these claims has not been determined. Consequently, these claims have not been recorded, and the amounts due from the CNMI Government for these claims have also not been disclosed.

With the privatization of the Group Health Plan in November 1, 2007, the CNMI Government will not be liable for medical claims accruing after privatization. The CNMI Government is only liable for its share in medical premiums.



**CNMI GROUP HEALTH AND LIFE INSURANCE TRUST FUND**  
(A Component Unit of the CNMI Government)

Notes to Financial Statements  
September 30, 2011 and 2010

(9) Loan Payable

On February 1, 2008, GHLI received a \$1,200,000 loan from the NMIRF. This loan bears interest of 7.5% per annum with initial repayment of \$158,000 on November 1, 2008 and monthly amortization of \$30,000 including interest commencing on November 10, 2008 until the loan is fully paid. The loan was fully paid in 2011.

Interest expense for the years ended September 30, 2011 and 2010 were \$31,452 and \$55,121, respectively.

(10) Risk Management

The GHLI Trust Fund is subject to various risks in the normal course of operations. The GHLI Trust Fund protects itself against these risks by purchasing liability insurance, as needed, from private companies.

(11) Fund Deficit

As of September 30, 2011 and 2010, GHLI Trust Fund's fund deficit amount to \$16,911,335 and \$17,465,694, respectively. As disclosed in Notes 1 and 8, Public Law No. 10-19 stated that the CNMI Government and not the NMIRF is ultimately liable for the liabilities of the Trust Fund.

**CNMI GROUP HEALTH AND LIFE INSURANCE TRUST FUND  
(A Component Unit of the CNMI Government)**

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**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**

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**Year Ended September 30, 2011**

J. Scott Magliari  
COMPANY

CERTIFIED PUBLIC ACCOUNTANT

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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 Group Health and Life Insurance Trust Fund

I have audited the financial statements of Commonwealth of the Northern Mariana Islands (CNMI) Group Health and Life Insurance Trust Fund (GHLI Trust Fund) as of and for the year ended September 30, 2011, and have issued my report thereon dated August 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 GHLI Trust Fund's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the GHLI Trust Fund's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the GHLI Trust Fund'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 would not necessarily identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. I did not identify any deficiency in internal control over financial reporting that I consider to be material weakness, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether GHLI Trust Fund'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 GHLI Trust Fund, 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.

*J. Scott Maglioni & Company*  
Saipan, Commonwealth of the Northern Mariana Islands  
April 9, 2013

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS  
GROUP HEALTH AND LIFE INSURANCE TRUST FUND  
(A Component Unit of the CNMI Government)

Schedule of Findings  
September 30, 2011

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued:

Unqualified

Internal control over financial reporting:

- Material weakness(es) identified?                          yes              x  no
- Significant deficiency(ies) identified  
that are not considered to be material  
weaknesses?          yes              x  none reported

Noncompliance material to financial statements  
noted?

      yes              x  no

SECTION II - FINANCIAL STATEMENTS FINDING

There are no current year findings.

SECTION III - STATUS OF PRIOR YEAR FINDING

There are no outstanding prior year findings.