EXECUTIVE SUMMARY

Northern Mariana Islands Retirement Fund
Single Audit Report as of September 30, 2005

Single Audit Summary No. 06-008, October 31, 2006

The Northern Mariana Islands Retirement Fund contracted the independent auditing firm J. Scott Magliari & Company to conduct a financial audit for the fiscal year ended September 30, 2005. This summary presents the Office of the Public Auditor's (OPA) review of the *Report on the Audit of Financial Statements in Accordance with OMB Circular A-133* for the fiscal year ended September 30, 2005. This summary is provided solely for informational purposes. No audit opinion on the related data is expressed nor inferred by OPA.

The Opinion, Financial Statements, and Notes to the Financial Statements are the three primary components which, taken together, give an informed reader an overview of the financial condition of the audited entity. The NMIRF received an unqualified opinion or "clean" opinion, indicating that the data contained in the report can be relied upon. Additionally, NMIRF management prepared a *Management Discussion and Analysis* (MD&A) which provides, in common language, a summary of its financial activities. The MD&A is presented on pages 3 through 9 of the audit report.

Background

Established in 1980, the Fund is a defined benefit, cost-sharing multi-employer plan which is a component unit of the CNMI Government, providing retirement security and other benefits to government employees, their spouses and dependents. The Fund is administered by a seven member Board of Directors which also oversees the administration and management of the Government Health and Life Insurance Trust Fund and the Workers' Compensation Commission. All employees of the central government, autonomous agencies, instrumentalities or public corporations, except for the Governor and Lieutenant Governor are required to be members of the Fund.

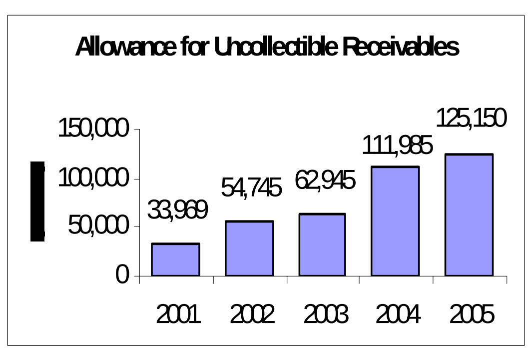
The CNMI Legislature passed Public Law 15-13 on June 15, 2006, to create a Defined Contribution Plan for new public employees effective January 1, 2007. This new retirement fund aims to reduce the government's costs under the present system and to offer benefits that reflect current trends.

Total Plan Net Assets Increased by $60M

In FY 05, plan net assets available for benefits, which measures the amount available to pay future benefits to retirees and their beneficiaries, rose by $60M or 15% from $399.8M in FY 04 to $460M in FY 05. Significant upturns in investments of equity and government securities contributed significantly to the net assets increase which gained 21% and 31.6%, respectively, from the prior year. Overall investments also increased from $373M to $433M or 16.2%.

Total liabilities improved as well in FY 05. Liabilities decreased from $7.7M in FY 04 to $6.5M in FY 05, a $1.2M decline or 16% reduction. Reductions in payables and on the Judicial Building Trust Fund loan both aided in this positive change.

Allowance for Uncollectible Receivables Continue to Mount



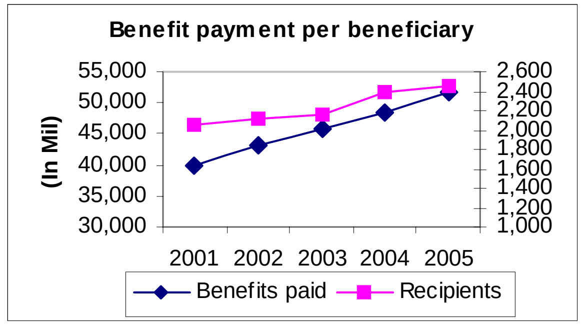
The allowance for uncollectible receivables measures the allowance for bad debts based on management evaluations and collection experience. They are a possible loss of revenues due to bad debts not expected to be collected. These receivables include employer contributions from the various CNMI government agencies, CNMI appropriations, benefits receivable, and member home loan program, to name a few. Since FY 04, the Fund imposed a penalty at a rate of 10% per

➤

month with a maximum of 25% for any employer who failed to remit the required contributions; this amount is also among the allowances listed. As the chart indicates, the allowance for uncollectible receivables has continually risen each successive year, ballooning to $125M by the end of FY 05. The bulk of the increase is attributed to non collection of employer contributions and associated penalties.

Members Receiving Benefits Steadily Rises

The number of members receiving benefits has steadily grown each year. There were 2,046 recipients receiving benefits in FY 01 compared to 2,461 in FY 05, a 20% increase over 5 years. In FY 05, this group received $51.7 million in paid benefits or about $21,000 per person for the year. This is an increase of 3.7% from the prior year. In FY 04, $48.4M was paid out in benefits, roughly $20,000 per person. The benefits paid over the five year period increased steadily. Conversely, the ratio of total contributing membership of the plan to total number of pensioners has declined over the years. In FY 01, the ratio was 2.60 workers for every beneficiary; in FY 05 it was down to 2.24.



Total Unfunded Pension Liability Escalates to $552M

Total unfunded pension liability is an actuarially accrued future liability of the fund. The unfunded liability is based on estimates and assumptions calculated of future funding needs. Because these figures are only estimates, there will be fluctuations in amounts of the liability. Several factors used in the calculations include the longevity of members, future earnings potential of the fund, future inflation factors, average retirement age of members, future administrative costs, future survivors of members, and future turnover of non-vested government employees.

As of FY 05, the unfunded pension liability was $552M, up 6.8% from the prior year of $516M. When the required amounts of contributions by the General Fund are not timely remitted in full to cover pension contributions, the unfunded liability increases twofold. First, potential earnings is severely impacted by the inability to place those contributions in long-term investments. This causes a potential loss in revenues for the Fund, and therefore increases liability. Secondly, cash flows are strained in order to meet the Fund's current obligations. When cash is tight, the Fund resorts to drawing upon its principal investments to finance shortfalls, causing a financial burden which in turn decreases net assets, and therefore increases liability. In FY 05, the Fund drew down $4.035M from its local investments and $4.5M from its ultra-short fund investments to offset the year's shortfall. With the passage of Public Law 15-15, the Fund will further exacerbate the Fund's cash needs as required employer contributions were suspended until October 2007. Moreover, reductions in government payroll resulting from cutbacks in work hours will adversely impact the Fund's ability to meet its pension obligations.

Audit Findings

Audit findings are reportable items considered material by the auditors. Findings document situations where established policy, procedures or standards have not been followed which may lead to losses for the CNMI or misstatements in its financial reports. Findings can ultimately lead to qualifications in the Opinion of the auditors. For 2005, there were no reported findings contained in the audit; however, certain matters were reported to management in a separate letter.

A copy of the full financial statements may be obtained from OPA or the NMI Retirement Fund

Michael S. Sablan, CPA
Public Auditor
Commonwealth of the Northern Mariana Islands
Web Site: www.opacnmi.com

P.O. Box 501399
Saipan, MP 96950
Tel. No. (670) 322-6481
Fax No. (670) 322-7812