

NORTHERN MARIANA ISLANDS RETIREMENT FUND  
(A COMPONENT UNIT OF THE COMMONWEALTH OF  
NORTHERN MARIANA ISLANDS)

FINANCIAL STATEMENTS,  
ADDITIONAL INFORMATION AND  
INDEPENDENT AUDITORS' REPORT

YEAR ENDED SEPTEMBER 30, 2014

## INDEPENDENT AUDITORS' REPORT

Ms. Larrisa Larson  
Acting Administrator  
Northern Mariana Islands Retirement Fund:

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the Northern Mariana Islands Retirement Fund (NMIRF), a component unit of the Commonwealth of the Northern Mariana Islands, which comprise the statement of fiduciary net position as of September 30, 2014, and the related statement of changes in fiduciary net position for the year then ended and the related notes to the financial statements.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Northern Mariana Islands Retirement Fund as of September 30, 2014, and the changes in its fiduciary net position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Emphasis of Matters***

#### *GHLITF Liability and Correction of Errors*

As discussed in note 6 to the financial statements, the obligation for GHLITF's liabilities was transferred to the CNMI and other medical claims payable have been determined to be invalid. In addition, beginning net position of GHLITF and DCP has been restated for the correction of errors. As a result, NMIRF restated beginning net position held in trust as of September 30, 2013.

Our opinion is not modified with respect to these matters.

### ***Other Matters***

#### *Required Supplementary Information*

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America requires to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

#### *Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise NMIRF's basic financial statements. The Combining Statement of Fiduciary Net Position and the Combining Statement of Changes in Fiduciary Net Position as of and for the year ended September 30, 2014 (pages 16 and 17) are presented for purposes of additional analysis and are not a required part of the basic financial statements. The Combining Statement of Fiduciary Net Position and the Combining Statement of Changes in Fiduciary Net Position are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Combining Statement of Fiduciary Net Position and the Combining Statement of Changes in Fiduciary Net Position are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated February 4, 2016 on our consideration of NMIRF's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering NMIRF's internal control over financial reporting and compliance.

*DeWitt & Joseph LLC*

February 4, 2016

NORTHERN MARIANA ISLANDS RETIREMENT FUND

Statement of Fiduciary Net Position  
September 30, 2014

<u>ASSETS</u>		
Cash and cash equivalents		\$ 2,445,221
Receivables:		
Mortgage home loans, net of an allowance for doubtful accounts of \$792,898		3,361,820
Agency		423,208
Other		7,292
Total receivables, net		<u>3,792,320</u>
Due from autonomous agencies		<u>1,405,068</u>
Defined contribution plan investments		<u>22,550,223</u>
Foreclosed real estate		<u>174,095</u>
Total assets		<u>30,366,927</u>
<u>LIABILITIES</u>		
Accounts payable and accrued expenses		671,935
Life insurance payable		554,247
Due to Settlement Fund		1,117,974
Due to CNMI		345,731
Total liabilities		<u>2,689,887</u>
Net position:		
Held in trust for pension benefits		26,093,578
Held in trust for medical and life insurance benefits		1,583,462
Total net position		<u>\$ 27,677,040</u>

See accompanying notes to financial statements.

# NORTHERN MARIANA ISLANDS RETIREMENT FUND

## Statement of Changes in Fiduciary Net Position Year Ended September 30, 2014

Additions:	
Employee contributions	\$ 4,473,256
Employer contributions	1,400,969
	<u>5,874,225</u>
Investment income:	
Net appreciation in fair value of investments	1,721,692
Interest and dividend income	90,712
	<u>1,812,404</u>
Total investment income	1,812,404
Less management and custodial fees	<u>(244,791)</u>
Net investment income	<u>1,567,613</u>
Life and health insurance surcharge	516,446
Interest and fees on loans	467,869
Other	<u>67,004</u>
Total additions	<u>8,493,157</u>
Deductions:	
Benefits and refund payments:	
Withdrawal and refunds	16,304,193
Transfers and rollovers	(2,253,188)
Retirement benefits	181,586
Health and life insurance premiums	52,339
Survivor benefits	<u>10,971</u>
Total benefits and refund payments	<u>14,295,901</u>
Cost of medical claims	8,237
Bad debts	<u>2,346,569</u>
Administrative expenses:	
Salaries and wages	324,664
Professional fees	76,913
Employee benefits	44,625
Depreciation	6,902
Miscellaneous	<u>2,580</u>
Total administrative expenses	<u>455,684</u>
Total deductions	<u>17,106,391</u>
Nonoperating revenues (expenses):	
Loss on settlement	(126,574,361)
Recoveries	32,596
Gain on foreclosure	<u>7,351</u>
Total nonoperating revenues (expenses), net	<u>(126,534,414)</u>
Net decrease	(135,147,648)
Net position held in trust:	
Beginning of year, as restated	<u>162,824,688</u>
End of year	<u>\$ 27,677,040</u>

See accompanying notes to financial statements.

# NORTHERN MARIANA ISLANDS RETIREMENT FUND

Notes to Financial Statements  
September 30, 2014

## (1) Organization

The Northern Mariana Islands Retirement Fund (NMIRF) is a blended component unit, fiduciary fund type, pension trust fund of the Commonwealth of the Northern Mariana Islands (CNMI). NMIRF is governed by a seven-member Board of Trustees who appoint an Administrator who administers NMIRF in a manner that furthers its purposes. NMIRF was initially established through CNMI Public Law (P.L.) 1-43, as amended by P.L. 6-17, to provide retirement security and other benefits to government employees, their spouses and dependents.

P.L. 17-82, as amended by P.L. 18-02, permitted defined benefit members of NMIRF to withdraw their employee contributions with interest and without penalty. On September 30, 2013, the United States District Court for the Northern Mariana Islands (District Court) approved a Settlement Agreement between retirees, the CNMI, the NMIRF and others for Civil Case No. 09-00023. The Settlement Agreement created a Settlement Fund and transferred all assets of NMIRF to the Settlement Fund except assets held exclusively for the Defined Contribution Plan (DCP), the CNMI Group Health and Life Insurance Trust Fund (GHLITF), notes receivable from the Commonwealth Government Employees' Credit Union (CGECU) and Member Home Loan Program receivables. The Board of Trustees has not been renewed by the Governor and NMIRF is administered by the CNMI Secretary of Finance who serves as the Acting Administrator.

NMIRF recorded transfers related to the Settlement Agreement as Loss on Settlement during the year ended September 30, 2014, which is comprised of the following:

• Transfer of building improvements to the CNMI, as the CNMI holds all real property interests in accordance with Section 8.0	\$ 2,435,154
• Transfer to the CNMI of \$46,051,656 of deficient employer contributions receivable from autonomous agencies, in accordance with Section 8.1, which were previously 100% reserved.	-
• Transfer to the CNMI of notes receivable from the Tinian Municipality	1,319,942
• Transfer of assets and liabilities to the Settlement Fund in accordance with Sections 8.0 and 8.2:	
Assets:	
Cash and cash equivalents	28,969,649
Investment securities	87,451,512
Capital assets, net	473,131
Due to/from agencies	813,762
Judicial Building receivable	5,163,710
Liabilities:	
Unearned revenues	<u>(52,499)</u>
Loss on Settlement	<u>\$ 126,574,361</u>

As of September 30, 2014, NMIRF has \$1,117,974 in obligations to the Settlement Fund related to the Settlement Agreement.

# NORTHERN MARIANA ISLANDS RETIREMENT FUND

Notes to Financial Statements  
September 30, 2014

## (1) Organization, Continued

In noncompliance with Section 8.1, NMIRF collected \$356,429 of deficient employer contributions receivable from autonomous agencies during the year ended September 30, 2014. This amount is included in due to CNMI in the accompanying financial statements. Additionally, \$5,510,330 of receivables from autonomous agencies related to penalties, interest and other items that were not transferred to the CNMI have been 100% reserved for.

### Defined Contribution Plan (DCP)

DCP was created by P.L. 15-13 to provide an individual account retirement system for any person employed by the CNMI or its autonomous agencies. Participating employers include the CNMI, NMIRF, CGECU, the Commonwealth Development Authority, the Commonwealth Healthcare Corporation, the Commonwealth Ports Authority, the Commonwealth Utilities Corporation, the Marianas Public Land Trust, the Marianas Visitors Authority, the Northern Marianas College, the Northern Marianas Housing Corporation and the CNMI Public School System. The NMIRF Acting Administrator is responsible for the general administration and operation of DCP. The DCP, by its nature, is fully funded on a current basis from employer and member contributions. DCP is a voluntary multi-employer pension plan and is the single retirement program for all new employees whose employment commenced on or after January 1, 2007. DCP has total participants of 2,481 as of September 30, 2014.

Each member of DCP is required to contribute to the member's individual account an amount equal to 10% of the member's compensation. Employers shall contribute to each member's individual account an amount equal to 4% of the member's compensation. A participating member is immediately and fully vested in that member's contributions and related earnings. Member's contributions include any rollover contributions made by the member. A member is fully vested in the employer contributions made on that member's behalf, and related earnings, after five (5) years of service. A member is partially vested in the employer contributions made on that member's behalf, and the related earnings, in the ratio of:

- (1) 25 percent with two years of service;
- (2) 50 percent with three years of service; or
- (3) 75 percent with four years of service.

### CNMI Group Health and Life Insurance Trust Fund (GHLITF)

Membership to GHLITF is optional to active employees of the CNMI 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 insurance 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.

# NORTHERN MARIANA ISLANDS RETIREMENT FUND

Notes to Financial Statements  
September 30, 2014

## (1) Organization, Continued

### CNMI Group Health and Life Insurance Trust Fund (GHLITF), Continued

GHLITF is open to active employees who work at least 20 hours per week and is 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 are provided by third-party providers. GHLITF acts in a trustee capacity for payments to the providers. Contributions from employees and employers are based on rates agreed to by the Acting Administrator and the third-party providers.

Medical insurance premiums paid by the CNMI and its autonomous agencies are remitted to GHLITF which then remits all contributions to the third-party insurance providers after deducting a 2% surcharge. Medical premium surcharge for the year ended September 30, 2014 amounted to \$400,279, and is included in life and health insurance surcharge in the accompanying financial statements.

As of September 30, 2014, 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 and its autonomous agencies are remitted to GHLITF which then remits all contributions to third-party insurance providers after deducting a 3.33% surcharge. Life premium surcharge for the year ended September 30, 2014 amounted to \$116,167 and is included in life and health insurance surcharge in the accompanying financial statements. Life insurance premiums payable to insurance providers amounted \$554,247 as of September 30, 2014.

### Notes Receivable from Commonwealth Government Employees' Credit Union (CGECU)

NMIRF has a note receivable from CGECU, an affiliated entity and a component unit of the CNMI, in the amount of \$1,524,406 as of September 30, 2014. The note bears interest at 8% per annum and is due on March 15, 2026. The note is nonperforming and has been 100% allowed for. The note is collateralized by the full faith and credit of the CNMI, a first mortgage on real property (owned by the CNMI) in Navy Hill, Saipan, a security interest in the CNMI's accounts receivable, and deeds to real property on the islands of Rota and Tinian. NMIRF has elected not to pursue the collateral. NMIRF capitalized costs of architectural and engineering services related to the deeded property on the islands of Rota and Tinian totaling \$822,163. Full impairment of these costs was recorded during the year ended September 30, 2014 as no future construction is expected.

# NORTHERN MARIANA ISLANDS RETIREMENT FUND

Notes to Financial Statements  
September 30, 2014

## (1) Organization, Continued

### Member Home Loan Program (MHLP)

MHLP was created through Public Law No. 6-17 (effective April 1, 1991) and is available to all vested members of NMIRF with at least 36 months of contributing service. Borrowings are restricted to the construction, purchase, and improvement of principal residence or refinancing of existing mortgages on a member's home. NMIRF can lend amounts ranging from \$5,000 to \$150,000 with the current interest rates at 8.5% to 9% per annum with term ranging from 15 to 30 years.

## (2) Summary of Significant Accounting Policies

### Basis of Accounting

The accounting policies of NMIRF conform to accounting principles generally accepted in the United States of America, as applicable to governmental entities. NMIRF utilizes the flow of economic resources measurement focus and accrual basis of accounting. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

### Budgets

In accordance with Public Law 3-68, the Planning and Budgeting Act of 1983, NMIRF submits an annual budget to the CNMI Office of the Governor.

### Cash and Cash Equivalents

GASB Statement No. 3 previously required government entities to present deposit risks in terms of whether the deposits fell into the following categories:

- Category 1 Deposits that are federally insured or collateralized with securities held by NMIRF or its agent in NMIRF's name;
- Category 2 Deposits that are uninsured but fully collateralized with securities held by the pledging financial institution's trust department or agent in NMIRF's name; or
- Category 3 Deposits that are collateralized with securities held by the pledging financial institution's trust department or agent but not in NMIRF's name and non-collateralized deposits.

# NORTHERN MARIANA ISLANDS RETIREMENT FUND

Notes to Financial Statements  
September 30, 2014

## (2) Summary of Significant Accounting Policies, Continued

### Cash and Cash Equivalents, Continued

GASB Statement No. 40 amended GASB Statement No. 3 to in effect eliminate disclosure for deposits falling into categories 1 and 2 but retained disclosures for deposits falling under category 3. Category 3 deposits are those deposits that have exposure to custodial credit risk. Custodial credit risk is the risk that in the event of a bank failure, NMIRF's deposits may not be returned to it. Such deposits are not covered by depository insurance and are either uncollateralized or collateralized with securities held by the pledging financial institution or held by the pledging financial institution but not in the depositor-government's name. NMIRF does not have a deposit policy for custodial credit risk.

For purposes of the statement of fiduciary net position, cash and cash equivalents is defined as cash held in demand deposits and savings. At September 30, 2014, total cash and cash equivalents was \$2,445,221 and the corresponding bank balance was \$2,499,297, which are maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC). CNMI law does not require component units to collateralize their bank accounts and thus NMIRF's deposits in excess of FDIC insurance are uncollateralized. Accordingly, the deposits are exposed to custodial credit risk.

### Investments

Contributions to the defined contribution plan are invested under the authority of the plan members. In investing these contributions, NMIRF employs the services of a professional investment company to assist in the investment program. The investment company provides plan members with investment options to make investment decisions. The contributions are usually invested in stocks, bonds, and real estate traded in recognized stock markets.

### Valuation of Investments

Investments are reported at fair value. Fair value is defined as the amount that a plan can reasonably expect to receive for an investment in a current sale between a willing buyer and a willing seller. Due to the nature of investments, it is reasonable that changes in the value of investments will occur in the near future and changes could materially affect the amounts reported. Equity securities traded on a national or international exchange are reported at current quoted market values.

### Capital Assets

Capital assets are recorded at cost. Depreciation is provided using the straight-line method over the estimated useful lives of the related assets. Estimated lives used range from 3 to 7 years for all assets.

### Foreclosed Real Estate

Real estate properties acquired through, or in lieu of, loan foreclosure are to be sold and are initially recorded at fair value at the date of foreclosure less estimated selling costs establishing a new cost basis.

# NORTHERN MARIANA ISLANDS RETIREMENT FUND

Notes to Financial Statements  
September 30, 2014

## (2) Summary of Significant Accounting Policies, Continued

### Foreclosed Real Estate, Continued

A summary of the changes in foreclosed real estate as of September 30, 2014 is as follows:

Balance at beginning of year	\$ -
Additions	<u>174,095</u>
Balance at end of year	<u>\$ 174,095</u>

### Loans Receivable, Interest Receivable and Allowance for Loan Losses

Loans and interest receivable are stated at the amount of unpaid principal and interest, reduced by an allowance for loan losses. Interest on loans is calculated by using the simple interest method on daily balances of the principal amount outstanding. The allowance for loan losses is established through a provision for doubtful accounts charged to expense. Loans are charged against the allowance for loan losses when management believes that the collection of the principal is unlikely. The allowance is an amount that management believes will be adequate to absorb possible losses on existing loans that may be uncollectible, based on evaluations of the collectability of loans and prior loan loss experience. The evaluations take into consideration such factors as changes in the nature and volume of the loan portfolio, overall portfolio quality, review of specific problem loans and current economic conditions that may affect the borrowers' ability to pay.

### Agency Receivables

Agency receivables are stated at the amount of unpaid contributions to DCP.

### Revenue Recognition

Operating revenues include all direct revenues such as interest and fees on loans and a surcharge on health-life insurance premiums.

Interest on loans is calculated by using the simple interest method on daily balances of the principal amount outstanding. Interest on loans is credited to income based on the principal amount outstanding for performing loans.

Medical and life insurance premium surcharges are calculated based on 2% and 3.33% rates deducted from premiums paid by the CNMI and the subscribers, respectively.

Non-operating revenues primarily result from recoveries on a loan related litigation judgment.

### Litigation Judgment

NMIRF has litigation judgment receivables approximating \$56,000 which it records on the cash basis based on collection uncertainties. NMIRF received \$12,429 during the year ended September 30, 2014 related to these receivables and continues to pursue remaining amounts.

# NORTHERN MARIANA ISLANDS RETIREMENT FUND

Notes to Financial Statements  
September 30, 2014

## (2) Summary of Significant Accounting Policies, Continued

### Compensated Absences

Vested or accumulated vacation leave is recorded as benefits accrue to employees. 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 annual leave credit is limited to 360 hours. Liabilities for unpaid annual leave rate accrued at the end of each accounting period utilizing current salary rates. Unused leave is payable to employees upon resignation or termination of employment if the employee has completed one year or more of service. Accrued annual leave as of September 30, 2014 was \$41,411. Employees are credited with sick leave at the rate of 4 hours per pay period. Unused sick leave hours may be accumulated without limit but cannot be converted to cash upon termination of employments.

### Recovery

Public Law 9-66 requires public corporations or other autonomous agencies to pay to the Commonwealth Treasurer an amount not less than one percent of total operation budgets, and such funds will be deposited into a special account of the CNMI general fund to be solely used for the operations and activities of the Office of the Public Auditor (OPA). On June 28, 2015, OPA and NMIRF agreed to exempt NMIRF from paying the 1% OPA fee as a result of the settlement agreement and, therefore, are not subject to Public Law 9-66. NMIRF recognized a recovery of \$20,167 during the year ended September 30, 2014 pursuant to this matter.

### New Accounting Standards

During the year ended September 30, 2014, NMIRF implemented the following pronouncements:

- GASB Statement No. 66, *Technical Corrections - 2012*, which enhances the usefulness of financial reports by resolving conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting. The implementation of this statement did not have a material effect on the accompanying financial statements.
- GASB Statement No. 67, *Financial Reporting for Pension Plans*, which revises existing guidance for the financial reports of most pension plans. The implementation of this statement did not have a material effect on the accompanying financial statements.
- GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, which requires a state or local government guarantor that offers a nonexchange financial guarantee to another organization or government to recognize a liability on its financial statements when it is more likely than not that the guarantor will be required to make a payment to the obligation holders under the agreement. The implementation of this statement did not have a material effect on the accompanying financial statements.

# NORTHERN MARIANA ISLANDS RETIREMENT FUND

Notes to Financial Statements  
September 30, 2014

## (2) Summary of Significant Accounting Policies, Continued

### New Accounting Standards, Continued

In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*, which revises and establishes new financial reporting requirements for most governments that provide their employees with pension benefits. The provisions in Statement 68 are effective for fiscal years beginning after June 15, 2014. Management does not believe that the implementation of this statement will have a material effect on the financial statements of NMIRF.

In January 2013, GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations*, which improves accounting and financial reporting for state and local governments' combinations and disposals of government operations. Government combinations include mergers, acquisitions, and transfers of operations. A disposal of government operations can occur through a transfer to another government or a sale. The provisions in Statement 69 are effective for fiscal years beginning after December 15, 2013. Management has not yet determined the effect of implementation of these statements on the financial statements of NMIRF.

In November 2013, GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*, which addresses an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. The provisions in Statement 71 are effective for fiscal years beginning after June 15, 2014. Management does not believe that the implementation of this statement will have a material effect on the financial statements of NMIRF.

### 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.

## (3) Member Home Loan Program

As of September 30, 2014, the member home loan program receivables are as follows:

Notes receivable	\$ 4,154,718
Allowance for doubtful accounts	<u>792,898</u>
	\$ <u>3,361,820</u>

Interest income earned on the MHLF was \$467,869 for the year ended September 30, 2014.

NORTHERN MARIANA ISLANDS RETIREMENT FUND

Notes to Financial Statements  
September 30, 2014

(3) Member Home Loan Program, Continued

Maturities of the above principal balances subsequent to September 30, 2014 will be as follows:

Fully matured and others	\$ 466,705
1 - 6 months	99,336
7 - 18 months	198,312
19 months - 3 years	294,677
After 3 years	<u>3,095,688</u>
	<u>\$ 4,154,718</u>

Allowance for Loan Losses

An analysis of the change in the allowance for loan losses is as follows:

Balance - beginning of year	\$ 792,898
Provision for loan losses	<u>-</u>
Balance - end of year	<u>\$ 792,898</u>

(4) Capital Assets

Capital assets consist of the following at September 30, 2014:

	Estimated Useful Lives	Balance at October 1, 2013	Additions	Deletions	Balance at September 30, 2014
Office equipment	5 years	\$ 63,050	\$ -	\$ -	\$ 63,050
Vehicles	5 years	13,695	-	-	13,695
Furniture and fixtures	7 years	<u>9,120</u>	<u>-</u>	<u>-</u>	<u>9,120</u>
		85,865	-	-	85,865
Less accumulated depreciation		<u>(78,963)</u>	<u>(6,902)</u>	<u>-</u>	<u>(85,865)</u>
		<u>\$ 6,902</u>	<u>\$ (6,902)</u>	<u>\$ -</u>	<u>\$ -</u>

(5) Risk Management

NMIRF is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions, injuries to employees; and natural disasters. NMIRF protects itself against property and liability risks in part by purchasing insurance from private companies. NMIRF is self-insured for workers' compensation claims.

# NORTHERN MARIANA ISLANDS RETIREMENT FUND

Notes to Financial Statements  
September 30, 2014

## (6) Restatements

P.L. 10-19 transferred certain obligations of GHLITF to the CNMI. As of September 30, 2013, NMIRF recorded \$16,458,389 of medical claims payable to certain healthcare providers. Of this amount, \$14,597,165 payable to the Commonwealth Healthcare Corporation, the Rota Health Center and the Tinian Health Center should have been transferred to the CNMI in accordance with P.L. 10-19. The remaining balance of \$1,861,224 has been determined by management to be invalid. Medical claims payable has been subsequently restated from the amount previously recorded.

GHLITF audited net position as of September 30, 2013 did not agree to NMIRF balances by \$599,317. DCP audited investment balances as of September 30, 2013 did not agree to trustee investment statements by \$(20,057). DCP determined previously unrecorded contribution receivables of \$412,561 as of September 30, 2013. NMIRF disputes the audited balances and has restated amounts previously reported.

NMIRF has restated beginning net position held in trust as of September 30, 2013, as follows:

	<u>As Previously Reported</u>	<u>As Restated</u>
Beginning net position held in trust	\$ <u>145,374,478</u>	\$ <u>162,824,688</u>

NORTHERN MARIANA ISLANDS RETIREMENT FUND

Combining Statement of Fiduciary Net Position  
September 30, 2014

<u>ASSETS</u>	Northern Mariana Islands Retirement Fund	CNMI Group Health and Life Insurance Trust Fund	Defined Contribution Plan	Elimination	Total
Cash and cash equivalents	\$ 2,224,844	\$ 220,377	\$ -	\$ -	\$ 2,445,221
Receivables:					
Mortgage home loans, net of allowance for doubtful accounts of \$792,898	3,361,820	-	-	-	3,361,820
Agency	-	-	423,208	-	423,208
Other	7,236	56	-	-	7,292
Total receivables, net	3,369,056	56	423,208	-	3,792,320
Due from retirement fund	-	518,611	-	(518,611)	-
Due from autonomous agencies	-	1,405,068	-	-	1,405,068
Defined contribution plan investments	-	-	22,550,223	-	22,550,223
Foreclosed real estate	174,095	-	-	-	174,095
Total assets	5,767,995	2,144,112	22,973,431	(518,611)	30,366,927
<u>LIABILITIES</u>					
Accounts payable and accrued expenses	665,532	6,403	-	-	671,935
Life insurance payable	-	554,247	-	-	554,247
Due to Settlement Fund	1,117,974	-	-	-	1,117,974
Due to Trust Fund	518,611	-	-	(518,611)	-
Due to CNMI	345,731	-	-	-	345,731
Total liabilities	2,647,848	560,650	-	(518,611)	2,689,887
Net position:					
Held in trust for pension benefits	3,120,147	-	22,973,431	-	26,093,578
Held in trust for medical and life insurance benefits	-	1,583,462	-	-	1,583,462
Total net position	\$ 3,120,147	\$ 1,583,462	\$ 22,973,431	\$ -	\$ 27,677,040

See Accompanying Independent Auditors' Report.

# NORTHERN MARIANA ISLANDS RETIREMENT FUND

## Combining Statement of Changes in Fiduciary Net Position Year Ended September 30, 2014

	Northern Mariana Islands Retirement Fund	CNMI Group Health and Life Insurance Trust Fund	Defined Contribution Plan	Elimination	Total
<b>Additions:</b>					
Employee contributions	\$ 17,896	\$ -	\$ 4,455,360	\$ -	\$ 4,473,256
Employer contributions	63,060	-	1,337,909	-	1,400,969
	<u>80,956</u>	<u>-</u>	<u>5,793,269</u>	<u>-</u>	<u>5,874,225</u>
<b>Investment income:</b>					
Net appreciation in fair value of investments	-	-	1,721,692	-	1,721,692
Interest and dividend income	-	-	90,712	-	90,712
Total investment income	-	-	1,812,404	-	1,812,404
Less management and custodial fees	-	-	(244,791)	-	(244,791)
Net investment income	<u>-</u>	<u>-</u>	<u>1,567,613</u>	<u>-</u>	<u>1,567,613</u>
Life and health insurance surcharge	-	516,446	-	-	516,446
Interest and fees on loans	467,869	-	-	-	467,869
Other	109,752	1,245	-	(43,993)	67,004
Total additions	<u>658,577</u>	<u>517,691</u>	<u>7,360,882</u>	<u>(43,993)</u>	<u>8,493,157</u>
<b>Deductions:</b>					
<b>Benefits and refund payments:</b>					
Withdrawal and refunds	272,636	-	16,031,557	-	16,304,193
Transfers and rollovers	-	-	(2,253,188)	-	(2,253,188)
Retirement benefits	181,586	-	-	-	181,586
Health and life insurance premiums	52,339	-	-	-	52,339
Survivor benefits	10,971	-	-	-	10,971
Total benefits and refund payments	<u>517,532</u>	<u>-</u>	<u>13,778,369</u>	<u>-</u>	<u>14,295,901</u>
Cost of medical claims	-	8,237	-	-	8,237
Bad debts	2,346,569	-	-	-	2,346,569
<b>Administrative expenses:</b>					
Salaries and wages	324,664	-	-	-	324,664
Professional fees	69,963	6,950	-	-	76,913
Employee benefits	44,625	-	-	-	44,625
Depreciation	-	6,902	-	-	6,902
Management fees	-	43,993	-	(43,993)	-
Miscellaneous	-	2,580	-	-	2,580
Total administrative expenses	<u>439,252</u>	<u>60,425</u>	<u>-</u>	<u>(43,993)</u>	<u>455,684</u>
Total deductions	<u>3,303,353</u>	<u>68,662</u>	<u>13,778,369</u>	<u>(43,993)</u>	<u>17,106,391</u>
<b>Nonoperating revenues (expenses):</b>					
Loss on settlement	(126,574,361)	-	-	-	(126,574,361)
Recovery	32,596	-	-	-	32,596
Gain on foreclosure	7,351	-	-	-	7,351
Total nonoperating revenues (expenses), net	<u>(126,534,414)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(126,534,414)</u>
Net (decrease) increase	<u>(129,179,190)</u>	<u>449,029</u>	<u>(6,417,487)</u>	<u>-</u>	<u>(135,147,648)</u>
<b>Net position held in trust:</b>					
Beginning of year, as restated	<u>132,299,337</u>	<u>1,134,433</u>	<u>29,390,918</u>	<u>-</u>	<u>162,824,688</u>
End of year	<u>\$ 3,120,147</u>	<u>\$ 1,583,462</u>	<u>\$ 22,973,431</u>	<u>\$ -</u>	<u>\$ 27,677,040</u>

See Accompanying Independent Auditors' Report.