

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

FINANCIAL STATEMENTS,  
ADDITIONAL INFORMATION AND  
INDEPENDENT AUDITORS' REPORT

YEARS ENDED SEPTEMBER 30, 2015 AND 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 statements of fiduciary net position as of September 30, 2015 and 2014, and the related statements of changes in fiduciary net position for the years 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 audits. We conducted our 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 we plan and perform the audits 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 qualified audit opinion.

***Basis for Qualified Opinion***

Management has not adopted Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*, which was effective October 1, 2014. As discussed in note 2 to the financial statements, NMIRF has not recorded pension expense and related revenue for the year ended September 30, 2015. GASB Statement No. 68 requires an employer that has a special funding situation to recognize its proportionate share of the collective pension expense, as well as additional pension expense and revenue for the pension support of the CNMI primary government as a non-employer contributing entity. The effects of this departure from accounting principles generally accepted in the United States of America on the financial statements have not been determined.

***Qualified Opinion***

In our opinion, except for the effects of the matter described in the "Basis for Qualified Opinion" paragraph, 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, 2015 and 2014, and the changes in its fiduciary net position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

***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, 2015 (pages 15 and 16) 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 March 14, 2017 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.

*Deloitte & Touche LLC*

March 14, 2017

NORTHERN MARIANA ISLANDS RETIREMENT FUND

Statements of Fiduciary Net Position  
September 30, 2015 and 2014

<u>ASSETS</u>	<u>2015</u>	<u>2014</u>
Cash and cash equivalents	\$ 3,897,778	\$ 2,445,221
Receivables:		
Mortgage home loans, net of allowance for doubtful accounts of \$792,898 as of September 30, 2015 and 2014	3,015,971	3,361,820
Agency	594,167	423,208
Other	12,191	7,292
Total receivables, net	<u>3,622,329</u>	<u>3,792,320</u>
Due from CNMI	1,362,499	-
Due from autonomous agencies	631,058	1,405,068
Defined contribution plan investments	22,053,621	22,550,223
Foreclosed real estate	209,095	174,095
Total assets	<u>31,776,380</u>	<u>30,366,927</u>
<u>LIABILITIES AND FIDUCIARY NET POSITION</u>		
Accounts payable and accrued expenses	594,744	671,935
Health insurance payable	1,752,412	-
Life insurance payable	462,491	554,247
Due to Settlement Fund	1,176,175	1,117,974
Due to CNMI	465,731	345,731
Total liabilities	<u>4,451,553</u>	<u>2,689,887</u>
Fiduciary net position:		
Held in trust for pension benefits	25,776,306	26,093,578
Held in trust for medical and life insurance benefits	1,548,521	1,583,462
Total fiduciary net position	<u>\$ 27,324,827</u>	<u>\$ 27,677,040</u>

See accompanying notes to financial statements.

NORTHERN MARIANA ISLANDS RETIREMENT FUND

Statements of Changes in Fiduciary Net Position  
Years Ended September 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Additions:		
Employee contributions	\$ 4,622,286	\$ 4,473,256
Employer contributions	<u>1,738,879</u>	<u>1,400,969</u>
	<u>6,361,165</u>	<u>5,874,225</u>
Investment income:		
Net (depreciation) appreciation in fair value of investments	(1,515,771)	1,721,692
Interest and dividend income	<u>156,734</u>	<u>90,712</u>
Total investment (loss) income	(1,359,037)	1,812,404
Less management and custodial fees	<u>(218,439)</u>	<u>(244,791)</u>
Net investment (loss) income	<u>(1,577,476)</u>	<u>1,567,613</u>
Life and health insurance surcharge	<u>24,389</u>	<u>516,446</u>
Interest and fees on loans	<u>330,762</u>	<u>467,869</u>
Other	<u>4,266</u>	<u>67,004</u>
Total additions	<u>5,143,106</u>	<u>8,493,157</u>
Deductions:		
Benefits and refund payments:		
Withdrawal and refunds	5,018,437	16,304,193
Retirement benefits	234,715	181,586
Health and life insurance premiums	42,993	52,339
Transfers and rollovers	30,453	(2,253,188)
Survivor benefits	<u>8,712</u>	<u>10,971</u>
Total benefits and refund payments	<u>5,335,310</u>	<u>14,295,901</u>
Cost of medical claims	<u>1,574</u>	<u>8,237</u>
Bad debts	<u>-</u>	<u>2,346,569</u>
Administrative expenses:		
Salaries and wages	67,253	324,664
Employee benefits	15,798	44,625
Professional fees	9,798	76,913
Depreciation	-	6,902
Miscellaneous	<u>23,173</u>	<u>2,580</u>
Total administrative expenses	<u>116,022</u>	<u>455,684</u>
Total deductions	<u>5,452,906</u>	<u>17,106,391</u>
Nonoperating revenues (expenses):		
Loss on settlement	-	(126,574,361)
Gain on foreclosure	3,494	7,351
Other	<u>(45,907)</u>	<u>32,596</u>
Total nonoperating revenues (expenses), net	<u>(42,413)</u>	<u>(126,534,414)</u>
Net decrease	<u>(352,213)</u>	<u>(135,147,648)</u>
Fiduciary net position held in trust:		
Beginning of year	<u>27,677,040</u>	<u>162,824,688</u>
End of year	<u>\$ 27,324,827</u>	<u>\$ 27,677,040</u>

See accompanying notes to financial statements.

NORTHERN MARIANA ISLANDS RETIREMENT FUND

Notes to Financial Statements  
September 30, 2015 and 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, 2015 and 2014, NMIRF has \$1,176,175 and \$1,117,974, respectively, in obligations to the Settlement Fund related to the Settlement Agreement.

## NORTHERN MARIANA ISLANDS RETIREMENT FUND

Notes to Financial Statements  
September 30, 2015 and 2014

### (1) Organization, Continued

In compliance with Section 8.1, NMIRF collected \$75,000 and \$356,429 of deficient employer contributions receivable from autonomous agencies during the years ended September 30, 2015 and 2014, respectively. 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 2,464 and 2,481 as of September 30, 2015 and 2014, respectively.

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.

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.

## NORTHERN MARIANA ISLANDS RETIREMENT FUND

Notes to Financial Statements  
September 30, 2015 and 2014

### (1) Organization, Continued

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

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 years ended September 30, 2015 and 2014 amounted to \$-0- and \$400,279, respectively, and is included in life and health insurance surcharge in the accompanying financial statements.

As of September 30, 2015 and 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 years ended September 30, 2015 and 2014 amounted to \$24,389 and \$116,167, respectively, and is included in life and health insurance surcharge in the accompanying financial statements. Life insurance premiums payable to insurance providers amounted \$462,491 and \$554,247 as of September 30, 2015 and 2014, respectively.

Effective October 1, 2014 and January 1, 2015, NMIRF ceased deducting surcharge on medical and life insurance premiums, respectively, paid by the CNMI and its autonomous agencies.

#### 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, 2015 and 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, 2015 and 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

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 statements of fiduciary net position, cash and cash equivalents is defined as cash held in demand deposits and savings. At September 30, 2015 and 2014, total cash and cash equivalents were \$3,897,778 and \$2,445,221, respectively, and the corresponding bank balances were \$3,902,191 and \$2,499,297, respectively, 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.

## NORTHERN MARIANA ISLANDS RETIREMENT FUND

Notes to Financial Statements  
September 30, 2015 and 2014

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

#### 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. Capital assets are fully depreciated as of September 30, 2015 and 2014.

#### 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.

A summary of the changes in foreclosed real estate as of September 30, 2015 and 2014 is as follows:

	<u>2015</u>	<u>2014</u>
Balance at beginning of year	\$ 174,095	\$ -
Additions	<u>35,000</u>	<u>174,095</u>
Balance at end of year	\$ <u>209,095</u>	\$ <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.

## NORTHERN MARIANA ISLANDS RETIREMENT FUND

Notes to Financial Statements  
September 30, 2015 and 2014

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

#### 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.

Non-operating revenues primarily result from gain on foreclosure.

#### Litigation Judgment

NMIRF has litigation judgment receivables approximating \$56,000 which it records on the cash basis based on collection uncertainties. NMIRF received \$12,000 and \$12,429 during the years ended September 30, 2015 and 2014, respectively, related to these receivables and continues to pursue remaining amounts.

#### 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, 2015 and 2014 was \$6,984 and \$41,411, respectively. 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.

#### Other Nonoperating Revenues (Expenses)

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.

Nonoperating expenses result from loss on discontinuance of deducting surcharge on medical and life insurance premiums.

## NORTHERN MARIANA ISLANDS RETIREMENT FUND

Notes to Financial Statements  
September 30, 2015 and 2014

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

#### New Accounting Standards

During fiscal year 2015, the following pronouncements were implemented:

- GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*, which revise and establish new financial reporting requirements for most governments that provide their employees with pension benefits through plans that are administered through trusts. Management has determined that the CNMI is legally responsible for making contributions to NMISF as a non-employer entity and that net pension obligations are allocated in total to the CNMI. Management acknowledges the requirement to recognize revenue in an amount equal to the non-employer contributing entities' (CNMI) total proportionate share of the collective pension expense that is associated with NMIRF. NMIRF has not recorded related revenues and pension expense for the year ended September 30, 2015 as amounts were not available.
- GASB 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 implementation of this statement did not have a material effect on the accompanying financial statements.

In February 2015, GASB issued Statement No. 72, *Fair Value Measurement and Application*, which addresses accounting and financial reporting issues related to fair value measurements and requires entities to expand their fair value disclosures by determining major categories of debt and equity securities within the fair value hierarchy on the basis of the nature and risk of the investment. The provisions in Statement No. 72 are effective for fiscal years beginning after June 15, 2015. Management believes that the implementation of this statement only requires additional disclosures to be made about fair value measurements, the level of fair value hierarchy, and valuation techniques and will not have a material effect on the financial statements.

In June 2015, GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statements No. 67 and No. 68*, which aligns the reporting requirements for pensions and pension plans not covered in GASB Statements No. 67 and No. 68 with the reporting requirements in Statement No. 68. The provisions in Statement No. 73 are effective for fiscal years beginning after June 15, 2015, with the exception of the provisions that address employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement No. 68, which are effective for fiscal years beginning after June 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

## NORTHERN MARIANA ISLANDS RETIREMENT FUND

Notes to Financial Statements  
September 30, 2015 and 2014

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

#### New Accounting Standards, Continued

In June 2015, GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, and addresses financial reporting requirements for governments whose employees are provided with postemployment benefits other than pensions (other postemployment benefits or OPEB). The provisions in Statement No. 74 are effective for fiscal years beginning after June 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, and provides guidance on reporting by governments that provide OPEB to their employees and for governments that finance OPEB for employees of other governments. The provisions in Statement No. 75 are effective for fiscal years beginning after June 15, 2017. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In June 2015, GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, which eliminates two of the four categories of authoritative GAAP that exist under the existing hierarchy prescribed by Statement No. 55. The two categories that will remain under the new standard are (1) GASB Statements and (2) GASB technical bulletins and implementation guides in addition to AICPA guidance that the GASB clears. The provisions in Statement No. 76 are effective for fiscal years beginning after June 15, 2015. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In August 2015, GASB issued Statement No. 77, *Tax Abatement Disclosures*, which requires governments that enter into tax abatement agreements to disclose certain information about the agreements. The provisions in Statement No. 77 are effective for fiscal years beginning after December 15, 2015. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

#### 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.

NORTHERN MARIANA ISLANDS RETIREMENT FUND

Notes to Financial Statements  
September 30, 2015 and 2014

(3) Member Home Loan Program (MHLP)

As of September 30, 2015 and 2014, member home loan program receivables are as follows:

	<u>2015</u>	<u>2014</u>
Notes receivable	\$ 3,808,869	\$ 4,154,718
Allowance for doubtful accounts	<u>792,898</u>	<u>792,898</u>
	<u>\$ 3,015,971</u>	<u>\$ 3,361,820</u>

Interest income earned on the MHLP was \$330,762 and \$467,869 for the years ended September 30, 2015 and 2014, respectively.

Maturities of the above principal balances subsequent to September 30, 2015 and 2014 will be as follows:

	<u>2015</u>	<u>2014</u>
Fully matured and others	\$ 565,455	\$ 466,705
1 - 6 months	94,635	99,336
7 - 18 months	188,352	198,312
19 months - 3 years	281,887	294,677
After 3 years	<u>2,678,540</u>	<u>3,095,688</u>
	<u>\$ 3,808,869</u>	<u>\$ 4,154,718</u>

(4) 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 has elected to purchase commercial insurance from independent third parties for the risks of loss to which it is exposed. NMIRF is self-insured for workers' compensation claims. There are no claims from these risks for the past three fiscal years.

NORTHERN MARIANA ISLANDS RETIREMENT FUND

Combining Statement of Fiduciary Net Position  
September 30, 2015

<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	\$ 2,842,063	\$ 1,055,715	\$ -	\$ -	\$ 3,897,778
Receivables:					
Mortgage home loans, net of allowance for doubtful accounts of \$792,898	3,015,971	-	-	-	3,015,971
Agency	-	-	594,167	-	594,167
Other	12,135	56	-	-	12,191
Total receivables, net	<u>3,028,106</u>	<u>56</u>	<u>594,167</u>	<u>-</u>	<u>3,622,329</u>
Due from retirement fund	-	736,713	-	(736,713)	-
Due from CNMI	-	1,362,499	-	-	1,362,499
Due from autonomous agencies	-	631,058	-	-	631,058
Defined contribution plan investments	-	-	22,053,621	-	22,053,621
Foreclosed real estate	209,095	-	-	-	209,095
Total assets	<u>6,079,264</u>	<u>3,786,041</u>	<u>22,647,788</u>	<u>(736,713)</u>	<u>31,776,380</u>
<u>LIABILITIES AND FIDUCIARY NET POSITION</u>					
Accounts payable and accrued expenses	572,127	22,617	-	-	594,744
Health insurance payable	-	1,752,412	-	-	1,752,412
Life insurance payable	-	462,491	-	-	462,491
Due to Settlement Fund	1,176,175	-	-	-	1,176,175
Due to Trust Fund	736,713	-	-	(736,713)	-
Due to CNMI	465,731	-	-	-	465,731
Total liabilities	<u>2,950,746</u>	<u>2,237,520</u>	<u>-</u>	<u>(736,713)</u>	<u>4,451,553</u>
Fiduciary net position:					
Held in trust for pension benefits	3,128,518	-	22,647,788	-	25,776,306
Held in trust for medical and life insurance benefits	-	1,548,521	-	-	1,548,521
Total fiduciary net position	<u>\$ 3,128,518</u>	<u>\$ 1,548,521</u>	<u>\$ 22,647,788</u>	<u>\$ -</u>	<u>\$ 27,324,827</u>

See Accompanying Independent Auditors' Report.

## NORTHERN MARIANA ISLANDS RETIREMENT FUND

### Combining Statement of Changes in Fiduciary Net Position Year Ended September 30, 2015

	Northern Mariana Islands Retirement Fund	CNMI Group Health and Life Insurance Trust Fund	Defined Contribution Plan	Total
<b>Additions:</b>				
Employee contributions	\$ 15,261	\$ -	\$ 4,607,025	\$ 4,622,286
Employer contributions	<u>45,181</u>	<u>-</u>	<u>1,693,698</u>	<u>1,738,879</u>
	<u>60,442</u>	<u>-</u>	<u>6,300,723</u>	<u>6,361,165</u>
<b>Investment income:</b>				
Net depreciation in the fair value of investments	-	-	(1,515,771)	(1,515,771)
Interest and dividend income	<u>-</u>	<u>-</u>	<u>156,734</u>	<u>156,734</u>
Total investment loss	-	-	(1,359,037)	(1,359,037)
Less management and custodial fees	<u>-</u>	<u>-</u>	<u>(218,439)</u>	<u>(218,439)</u>
Net investment loss	<u>-</u>	<u>-</u>	<u>(1,577,476)</u>	<u>(1,577,476)</u>
Life and health insurance surcharge	<u>-</u>	<u>24,389</u>	<u>-</u>	<u>24,389</u>
Interest and fees on loans	<u>330,762</u>	<u>-</u>	<u>-</u>	<u>330,762</u>
Other	<u>1,048</u>	<u>3,218</u>	<u>-</u>	<u>4,266</u>
Total additions	<u>392,252</u>	<u>27,607</u>	<u>4,723,247</u>	<u>5,143,106</u>
<b>Deductions:</b>				
<b>Benefits and refund payments:</b>				
Withdrawal and refunds	-	-	5,018,437	5,018,437
Retirement benefits	234,715	-	-	234,715
Health and life insurance premiums	42,993	-	-	42,993
Transfers and rollovers	-	-	30,453	30,453
Survivor benefits	<u>8,712</u>	<u>-</u>	<u>-</u>	<u>8,712</u>
Total benefits and refund payments	<u>286,420</u>	<u>-</u>	<u>5,048,890</u>	<u>5,335,310</u>
Cost of medical claims	<u>-</u>	<u>1,574</u>	<u>-</u>	<u>1,574</u>
<b>Administrative expenses:</b>				
Salaries and wages	67,253	-	-	67,253
Employee benefits	15,798	-	-	15,798
Professional fees	7,350	2,448	-	9,798
Miscellaneous	<u>22,554</u>	<u>619</u>	<u>-</u>	<u>23,173</u>
Total administrative expenses	<u>112,955</u>	<u>3,067</u>	<u>-</u>	<u>116,022</u>
Total deductions	<u>399,375</u>	<u>4,641</u>	<u>5,048,890</u>	<u>5,452,906</u>
<b>Nonoperating revenues (expenses):</b>				
Gain on foreclosure	3,494	-	-	3,494
Other	<u>12,000</u>	<u>(57,907)</u>	<u>-</u>	<u>(45,907)</u>
Total nonoperating revenues (expenses), net	<u>15,494</u>	<u>(57,907)</u>	<u>-</u>	<u>(42,413)</u>
Net decrease	8,371	(34,941)	(325,643)	(352,213)
<b>Fiduciary net position held in trust:</b>				
Beginning of year	<u>3,120,147</u>	<u>1,583,462</u>	<u>22,973,431</u>	<u>27,677,040</u>
End of year	<u>\$ 3,128,518</u>	<u>\$ 1,548,521</u>	<u>\$ 22,647,788</u>	<u>\$ 27,324,827</u>

See Accompanying Independent Auditors' Report.