

---

**NORTHERN MARIANA ISLANDS RETIREMENT FUND  
CNMI WORKERS' COMPENSATION COMMISSION  
CNMI GROUP HEALTH AND LIFE INSURANCE TRUST FUND**

**(Component Units of the CNMI Government)**

---

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

---

**Years Ended September 30, 2010 and 2009**

**NORTHERN MARIANA ISLANDS RETIREMENT FUND  
 CNMI WORKERS' COMPENSATION COMMISSION  
 CNMI GROUP HEALTH & LIFE INSURANCE TRUST FUND  
 (Component Units of the CNMI Government)**

**TABLE OF CONTENTS  
 September 30, 2010**

	<u>Page(s)</u>
<b>I. NORTHERN MARIANA ISLANDS RETIREMENT FUND</b>	
Independent Auditor's Report on Financial Statements	1-2
Management's Discussion and Analysis	3-10
Financial Statements	
Statements of Plan Net Assets Available for Benefits	11
Statements of Excess Accumulated Plan Benefits over Plan Net Assets Available for Benefits	12
Statements of Changes in Plan Net Assets Available for Benefits	13
Notes to Financial Statements	14-51
Required Supplementary Information	
Schedule of Funding Progress – Defined Benefit Plan	52
Schedule of Employer Contribution - Defined Benefit Plan	53
Notes to Required Supplementary Information	54
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	55-56
Schedule of Findings	57-61
Status of Prior Year Findings	62
<b>II. CNMI WORKERS' COMPENSATION COMMISSION</b>	
Independent Auditor's Report on Financial Statements	63-64
Management's Discussion and Analysis	65-70
Financial Statements	
Statements of Fiduciary Net Assets	71
Statements of Changes in Fiduciary Net Assets	72
Notes to Financial Statements	73-80
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	81-82
Schedule of Findings	83
Status of Prior Year Findings	83

**NORTHERN MARIANA ISLANDS**  
**RETIREMENT FUND**  
**WORKERS' COMPENSATION COMMISSION**  
**GROUP HEALTH & LIFE INSURANCE TRUST FUND**  
 (Component Units of the CNMI Government)

**TABLE OF CONTENTS**  
**September 30, 2010**

	<u>Page(s)</u>
III. CNMI GROUP HEALTH AND LIFE INSURANCE TRUST FUND	
Independent Auditor's Report on Financial Statements	84-85
Management's Discussion and Analysis	86-91
Financial Statements	
Statements of Fiduciary Deficit Fund Balances	92
Statements of Changes in Fiduciary Deficit Fund Balances	93
Notes to Financial Statements	94-99
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	100-101
Schedule of Findings	102
IV. STATISTICAL SECTION	103-110

---

**NORTHERN MARIANA ISLANDS RETIREMENT FUND**  
**(A Component Unit of the CNMI Government)**

---

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

---

**Years Ended September 30, 2010 and 2009**



CERTIFIED PUBLIC ACCOUNTANT

**SAIPAN**

Family Building, Suite 201  
PMB 297 Box 10000  
Saipan, MP 96950  
Tel Nos. (670) 233-1837/0456  
Fax No. (670) 233-8214

**GUAM**

Reflection Center, Suite 204  
P.O. Box 12734  
Tamuning, GU 96931  
Tel Nos. (671) 472-2680/2687  
Fax No. (671) 472-2686

**PALAU**

PIDC Apartment No. 11  
P.O. Box 1266  
Koror, PW 96940  
Tel No. (680) 488-8615  
Fax No. (680) 488-8616

**INDEPENDENT AUDITOR'S REPORT**

The Board of Trustees  
Northern Mariana Islands Retirement Fund

I have audited the accompanying statements of plan net assets available for benefits of the Northern Mariana Islands Retirement Fund (NMIRF or the Fund), a component unit of the Commonwealth of the Northern Mariana Islands, as of September 30, 2010 and 2009 and the related statements of excess accumulated plan benefits over plan net assets available for benefits and statements of changes in plan net assets available for benefits 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 statement presentation. I believe that my audits provide a reasonable basis for my opinion.

In my opinion, the basic financial statements referred to above present fairly, in all material respects, the statements of plan net assets available for benefits, as of September 30, 2010 and 2009, and the related statements of excess accumulated plan benefits over plan net assets available for benefits and statements of changes in plan net assets available for benefits 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 May 20, 2011 on my consideration of the Northern Mariana Islands Retirement 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 audits.

The management's discussion and analysis on pages 3 through 10 is not a required part of the basic financial statements and is the responsibility of the Fund's management but are supplementary information required by accounting principles generally accepted in the United States of America. This supplementary information is the responsibility of NMIRF's management. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.

My audits were conducted for the purpose of forming opinion on the financial statements that collectively comprise the Fund's basic financial statements. The statistical tables supplementary information are presented for purposes of additional analysis, are not a required part of the basic financial statements and are the responsibility of NMIRF's management. The statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, I express no opinion on them.



Saipan, Commonwealth of the Northern Mariana Islands  
May 20, 2011

**NORTHERN MARIANA ISLANDS RETIREMENT FUND**  
(A Component Unit of the CNMI Government)

Management's Discussion and Analysis  
September 30, 2010 and 2009

This section presents Management's Discussion and Analysis (MD&A) of the financial activities of the Northern Mariana Islands Retirement Fund (NMIRF or the Fund) as a narrative overview for the years ended September 30, 2010 and 2009. Readers are encouraged to consider the information presented in conjunction with the letter of transmittal and financial statements.

**FINANCIAL HIGHLIGHTS (DEFINED BENEFIT PLAN)**

- Net assets held in trust for pension benefits as of September 30, 2010 and 2009 were \$337,990,950 and \$353,475,412, respectively, a decrease of \$15,484,462 or 4.4% from fiscal year 2009.
- Total Additions, as reflected in the Statements of Changes in Plan Net Assets Available for Benefits, were \$69,549,430 and \$44,339,462 for the years ended September 30, 2010 and 2009, respectively. Total additions increased by \$25,209,968 or 56.8% compared to 2009, due primarily to the \$24,448,589 net investment income this fiscal year.
- Value of investments at market value declined from \$332,308,037 in 2009 to \$312,326,477, a decrease of \$19,981,560 or 6.0% despite the \$24,448,589 net investment income due to drawdowns of \$40,855,000 to cover shortfalls in funding payout obligations.
- Total deductions, as reflected in the Statements of Changes in Plan Net Assets Available for Benefits, were \$85,033,892 and \$94,069,062 for the years ended September 30, 2010 and 2009, respectively. This is a decrease of \$9,035,170 or 9.6%, largely due to a lower provision for uncollectible contributions in 2010 offset to a smaller extent by the increase in benefits payouts.
- The funded ratios (the ratio of net assets held in trust for pension benefits versus total actuarial present value of accrued liability) based on the May 2011 Actuarial Valuation Report were 38.8% at October 1, 2009, and 44.8% at October 1, 2008, respectively. This deterioration in funding level was due to a combination of a) the decline in value of net assets held in trust for pension benefits; and b) the increase in total actuarial present value of the accrued liability.
- Actuarial present value of accumulated plan benefits as of October 1, 2009 and 2008 were \$911,188,782 and \$899,440,600, respectively, and of these liabilities, \$59,365,592 and \$60,057,174, respectively, are the present value of non-vested benefits.

**NORTHERN MARIANA ISLANDS RETIREMENT FUND**  
(A Component Unit of the CNMI Government)

Management's Discussion and Analysis  
September 30, 2010 and 2009

OVERVIEW OF FINANCIAL STATEMENTS

This section of the MD&A serves as an introduction to the basic financial statements. The NMIRF has three basic financial statements, the notes to financial statements, and three required supplementary schedules of historical trend information and actuarial assumptions. 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 modified accrual basis of accounting.

The first basic financial statement is the **Statement of Plan Net Assets Available for Benefits**. This is a snapshot of account balances at fiscal year end. This Statement reflects assets available for future payments to retirees and their beneficiaries and liabilities owed as of fiscal year end. The net assets, which are the assets less the liabilities, reflect the funds available for future use.

The second basic financial statement is the **Statement of Excess Accumulated Plan Benefits over Plan Net Assets Available for Benefits**. This Statement reflects whether the plan net assets are sufficient or insufficient to pay the present value of the accumulated plan benefits. Unlike private pension plans, the NMIRF, as a public fund, is not required to present this information but the Fund's management believe that due to its funding status, it is relevant to reflect how much NMIRF has in excess accumulated plan benefits over plan net assets available for benefits.

The third basic financial statement is the **Statement of Changes in Plan Net Assets Available for Benefits**. This Statement reflects all the activities that occurred during the year and shows the impact of those activities as additions or deductions to the Plan. The trend of additions versus deductions to the Plan will indicate whether NMIRF'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.

In addition to the financial statements and accompanying notes, **Required Supplementary Information** is presented concerning NMIRF's progress in funding its obligation to provide benefits to system members. The Schedule of Funding Progress includes historical trend information about the actuarially-funded status of the Plan and the progress made in accumulating sufficient assets to pay benefits when due. The Schedule of Employer Contributions presents historical trend information about the annual required contribution from the employers and the actual contributions made. The significant actuarial assumptions include the actuarial cost, amortization, and asset valuation methods, remaining amortization period, and assumptions regarding the investment rate of return, projected salary increase, wage inflation, and assumed post-retirement benefit increases. These schedules provide information to help promote understanding of the changes in the funded status of the Plan over time.

**NORTHERN MARIANA ISLANDS RETIREMENT FUND**  
(A Component Unit of the CNMI Government)

Management's Discussion and Analysis  
September 30, 2010 and 2009

FINANCIAL ANALYSIS (DEFINED BENEFIT PLAN)

Assets and Funded Ratio

As of September 30, 2010, 2009 and 2008, Defined Benefit Plan (DB Plan) net assets available for pension benefits payouts were \$337,990,950, \$353,475,412 and \$403,205,012, respectively. Net assets represent resources available for future payments. However, unlike private pension funds, public pension funds are not required to disclose the future liability of obligations owed to retirees.

	2010	2009	2008
Cash	\$ 4,581,328	\$ 3,022,070	\$ 1,823,049
Receivable from employers, net	48,247,719	45,494,633	42,266,032
Other receivables	34,210,931	33,289,843	36,004,915
Investments	312,326,477	332,308,037	380,251,947
Capital assets, net	3,229,829	3,336,062	3,379,569
Other assets	822,163	822,163	822,163
Prepaid expenses	5,540	5,540	5,636
Total assets	<u>403,423,987</u>	<u>418,278,348</u>	<u>464,553,311</u>
Deferred revenues	64,414,654	61,887,075	58,714,384
Refunds payable	-	1,088,960	62,689
Other liabilities	1,018,383	1,826,901	2,571,226
Total liabilities	<u>65,433,037</u>	<u>64,802,936</u>	<u>61,348,299</u>
<b>Net Assets</b>	<u><u>\$ 337,990,950</u></u>	<u><u>\$ 353,475,412</u></u>	<u><u>\$ 403,205,012</u></u>

NMIRF's independent actuary, Buck Consultants, an ACS company, performed an actuarial valuation as of October 1, 2009. That report indicated a funded ratio of 38.8% as of October 1, 2009 and 44.8% as of October 1, 2008. This translates to a 13% deterioration in funded ratio mostly due to a decrease in market value of assets, and to a smaller extent an increase in the present value of accrued benefits.

An actuarial valuation is similar to an inventory process. On the valuation date, the assets available for the payment of retirement benefits are appraised. These assets are compared with the actuarial liabilities, which are the actuarial present value of all future benefits expected to be paid with respect to each member.

The purpose of the valuation is to determine what future contribution by the members and the membership employers is needed to pay all expected future benefits. The 38.8% funded ratio means that as of October 1, 2009 NMIRF has approximately 39 cents available for each dollar of anticipated future liability.

**NORTHERN MARIANA ISLANDS RETIREMENT FUND**  
(A Component Unit of the CNMI Government)

Management's Discussion and Analysis  
September 30, 2010 and 2009

FINANCIAL ANALYSIS (DEFINED BENEFIT PLAN), Continued

Changes in Net Assets

The following table presents the changes in the DB Plan net assets for the years ended September 30, 2010, 2009, and 2008.

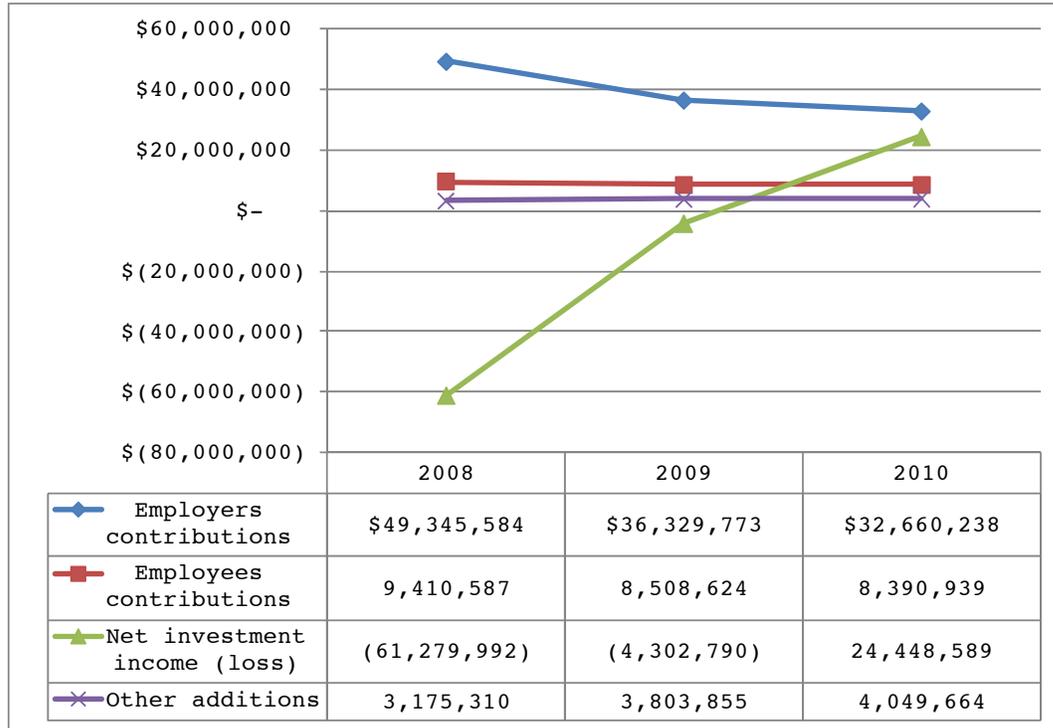
	2010	2009	2008
<b>Additions:</b>			
Employer contributions	\$ 32,660,238	\$ 36,329,773	\$ 49,345,584
Employee contributions	8,390,939	8,508,624	9,410,587
Net investment income (loss)	24,448,589	(4,302,790)	(61,279,992)
Other additions	4,049,664	3,803,855	3,175,310
Total additions	69,549,430	44,339,462	651,489
<b>Deductions:</b>			
Retirement benefits	53,131,463	52,097,805	54,522,953
Provision for uncollectible contributions, net of recoveries	12,105,394	24,526,498	33,229,877
Survivor benefits	6,388,873	5,738,051	5,283,650
Health and life insurance premium	6,282,312	3,103,476	-
Refunds	3,363,055	4,841,691	5,554,957
Administrative expenses	2,091,260	1,693,049	1,962,329
Disability benefits	1,577,470	1,710,488	1,819,812
Death lump-sum distributions	86,828	62,291	55,827
Transfers and rollovers	7,237	295,713	5,215,048
Total deductions	85,033,892	94,069,062	107,644,453
Net decrease	(15,484,462)	(49,729,600)	(106,992,964)
Net assets held in trust for pension benefits, beginning of the year	353,475,412	403,205,012	510,197,976
Net assets held in trust for pension benefits, end of the year	\$ 337,990,950	\$ 353,475,412	\$ 403,205,012

**NORTHERN MARIANA ISLANDS RETIREMENT FUND**  
(A Component Unit of the CNMI Government)

Management's Discussion and Analysis  
September 30, 2010 and 2009

FINANCIAL ANALYSIS (DEFINED BENEFIT PLAN), Continued

Additions to Plan Net Assets



The revenue sources that finance the cost of administering the pension benefits and retirement benefits include contributions from employer and employee, investment income, CNMI appropriation, debt service collection (interest and principal), 25% penalty income, and rental income.

Fiscal year 2010 employer contributions of \$32,660,238 declined by \$3,669,535, or 10%, from the contributions of \$36,329,773 in fiscal year 2009. The 10% decline is attributable to: 1) The Legislature did not pass the FY2010 budget until several days into the fiscal year, resulting in the shutdown of non-essential government operations. Lower government payroll equates to lower contributions to the fund; and 2) A significant increase in the number of employees resigned from the government and refunded their contributions.

Fiscal year 2010 employee contributions showed a slight decline of 1.4% to \$8,390,939 from \$8,508,624 in fiscal year 2009. The decline was a direct result of the brief shutdown of the government operations as well as the separation from government service of those employees who refunded their contributions.

The NMIRF routinely informs the CNMI Central Government and autonomous agencies of the status of their unpaid employer contributions.

**NORTHERN MARIANA ISLANDS RETIREMENT FUND**  
(A Component Unit of the CNMI Government)

Management's Discussion and Analysis  
September 30, 2010 and 2009

FINANCIAL ANALYSIS (DEFINED BENEFIT PLAN), Continued

*Investments*

Investment performance showed a net gain of \$24,448,589 in 2010 compared to a loss of \$4,546,650 in 2009. However, despite the gains in market values; the carrying values of NMIRF's investments declined from \$332,308,037 in fiscal year 2009 to \$312,326,477 in fiscal year 2010, a decline of \$19,981,560. In fiscal year 2010, a total of \$40,755,000 was withdrawn from the investment to cover the shortfalls in pension payout because of the CNMI Government's failure to pay the employer contributions at the required actuarial employer contribution rate of 37.3909%.

Investments continue to be diversified among several asset classes and different strategies within each class in accordance with the Investment Policy Statement. The two main asset classes in the strategic allocation are stocks and bonds with 63% of the portfolio in stocks, and 25% in fixed income. The remaining 12% is allocated to cash and equivalents, mutual funds, and real estate investment trust. The actual allocation varied throughout 2010 as the market values of investments changed daily but were maintained within the ranges allowed in the Investment Policy Statement through our draw down of funds. Strategies that were determined to be most over allocated were targeted as the source of funding for each drawdown in order to control risk by remaining close to the strategic allocation.

**NORTHERN MARIANA ISLANDS RETIREMENT FUND**  
(A Component Unit of the CNMI Government)

Management's Discussion and Analysis  
September 30, 2010 and 2009

FINANCIAL ANALYSIS (DEFINED BENEFIT PLAN), Continued

Deductions from Plan Net Assets

	2010		2009		2008	
	Amount	%	Amount	%	Amount	%
Deductions:						
Retirement benefits	\$ 53,131,463	62.5%	\$ 52,097,805	55.4%	\$ 54,522,953	50.7%
Provision for uncollectible contributions, net of recoveries	12,105,394	14.2%	24,526,498	26.1%	33,229,877	30.9%
Survivor benefit	6,388,873	7.5%	5,738,051	6.1%	5,283,650	4.9%
Health and life insurance premiums	6,282,312	7.4%	3,103,476	3.3%	-	0.0%
Refunds	3,363,055	4.0%	4,841,691	5.1%	5,554,957	5.2%
Administrative expenses	2,091,260	2.4%	1,693,049	1.8%	1,962,329	1.8%
Disability benefits	1,577,470	1.9%	1,710,488	1.8%	1,819,812	1.7%
Death lump-sum distributions	86,828	0.1%	62,291	0.1%	55,827	0.1%
Transfers and rollovers	7,237	0.0%	295,713	0.3%	5,215,048	4.7%
Total deductions	\$ 85,033,892	100.0%	\$ 94,069,062	100.0%	\$ 107,644,453	100.0%

The primary uses of NMIRF's assets include the payment of benefits to members and their beneficiaries, refund of contributions by those leaving government service, and the cost of administering the Plan. For the years ended September 30, 2010, 2009 and 2008, deductions were \$85,033,892, \$94,069,062 and \$107,644,453, respectively. This reflects a decrease of \$9,035,170 or 9.6% in 2010 and a decrease of \$13,575,391 or 12.6% in 2009. The significant decreases in 2010 and 2009 are attributable to the reduction of the provision for uncollectible contributions.

The NMIRF was able to maintain administrative expenses within budget.

**NORTHERN MARIANA ISLANDS RETIREMENT FUND**  
(A Component Unit of the CNMI Government)

Management's Discussion and Analysis  
September 30, 2010 and 2009

OVERALL ANALYSIS AND OTHER SIGNIFICANT INFORMATION

NMIRF's collection of revenue and principal for the year was \$30.4 million which was \$6.1 million higher than the estimate for revenue and principal of \$24.3 million. The \$6.1 million increase is a result of the increased employee rate of contribution, increase in contributions from the CNMI Government in accordance with the Court's order to increase payment amounts and tax remittance. Consequently, the NMIRF drew down less from investments to cover shortfalls in the retirement benefit payments. Overall, the results from the operation for the full 12 months were within approved budgets for fiscal year 2010.

The unpaid employer contributions, increasing health insurance premiums, refunds, and not using the actuarial rate of 37.3909% by the employers for the remittance of their employer contributions to the Fund, automatically increases the potential risk of losing NMIRF's ability to manage the investments in a prudent way. Therefore, it is critical and essential to remit both employer and employee contributions to the Fund to avoid the eventual collapse and depletion of the Fund.

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 NMIRF'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:

Mr. David Demapan  
Comptroller  
NMI Retirement Fund  
PO Box 501247 CK  
Saipan, MP 96950  
[www.nmiretirement.com](http://www.nmiretirement.com)

**NORTHERN MARIANA ISLANDS RETIREMENT FUND**  
(A Component Unit of the CNMI Government)

Statements of Plan Net Assets Available for Benefits  
September 30, 2010 and 2009

<u>ASSETS</u>	Defined Benefit Plan	Defined Contribution Plan	Total	
			2010	2009
Cash (Notes 4, 6 and 11)	\$ 4,581,328	\$ -	\$ 4,581,328	\$ 3,022,070
Receivables:				
Employers:				
Contributions (Notes 7 and 19)	203,305,052	-	203,305,052	190,049,516
Penalty on the unpaid contribution of the CNMI Government (Notes 8 and 22)	47,862,142	-	47,862,142	45,108,689
Early retirement bonus program (Notes 15 and 19)	3,631,090	-	3,631,090	3,631,090
Special annuity (Notes 9 and 22)	385,577	-	385,577	385,943
Prior service contribution (Notes 17 and 19)	780,733	-	780,733	780,733
Total receivable from employers	255,964,594	-	255,964,594	239,955,971
Less allowance for uncollectible receivables (Note 19)	207,716,875	-	207,716,875	194,461,338
Receivable from employers, net	48,247,719	-	48,247,719	45,494,633
CNMI appropriation (Notes 10 and 22)	15,112,799	-	15,112,799	15,026,333
Judicial building loan receivable (Notes 4 and 11)	6,094,644	-	6,094,644	6,950,565
Member Home Loan program notes receivable, net (Notes 12, 26 and 28)	4,843,796	-	4,843,796	5,251,735
Note receivable from CGECU (Notes 4 and 13)	1,572,224	-	1,572,224	1,624,225
Benefits receivable (Notes 4, 16 and 22)	1,002,670	-	1,002,670	1,318,444
Accrued investment income (Note 26)	877,194	-	877,194	879,309
Note receivable - CNMI for GHLI (Notes 4 and 14)	368,947	-	368,947	-
Loan receivable - GHLI Trust Fund (Notes 4 and 14)	568,368	-	568,368	881,272
Note receivable - Autonomous Agencies (Notes 4 and 7)	1,860,823	-	1,860,823	80,876
Other receivables (Notes 18 and 26)	1,909,466	-	1,909,466	1,277,084
Total receivables	82,458,650	-	82,458,650	78,784,476
Investments, at fair market value: (Notes 4, 6 and 26)				
Equity securities	197,659,077	-	197,659,077	191,550,022
United States Government securities	38,027,498	-	38,027,498	61,110,337
Corporate debt instruments	48,177,949	-	48,177,949	72,459,045
Mutual funds	27,310,839	17,566,846	44,877,685	17,681,921
Real estate investment trust	1,001,220	-	1,001,220	937,205
Cash equivalents	149,894	-	149,894	89,423
Others	-	-	-	110,356
Total investments	312,326,477	17,566,846	329,893,323	343,938,309
Capital assets, net (Notes 4 and 20)	3,229,829	-	3,229,829	3,336,062
Other assets (Notes 13 and 21)	822,163	-	822,163	822,163
Prepaid expenses	5,540	-	5,540	5,540
Total assets	403,423,987	17,566,846	420,990,833	429,908,620
<b><u>LIABILITIES AND NET ASSETS HELD IN TRUST FOR PENSION BENEFITS</u></b>				
Accounts payable	335,247	-	335,247	412,363
Refunds payable	-	-	-	1,088,960
Deferred revenue (Notes 4, 8 and 22)	64,414,654	-	64,414,654	61,887,075
Judicial Building Trust Fund (Note 11)	523	-	523	364,546
Compensated absences (Note 4)	52,173	-	52,173	66,089
Other payables	630,440	-	630,440	983,903
Total liabilities	65,433,037	-	65,433,037	64,802,936
Contingencies (Note 28)				
Net assets held in trust for pension benefits (Note 25)	\$ 337,990,950	\$ 17,566,846	\$ 355,557,796	\$ 365,105,684

See accompanying notes to financial statements.

**NORTHERN MARIANA ISLANDS RETIREMENT FUND**  
(A Component Unit of the CNMI Government)

Statements of Excess Accumulated Plan Benefits Over  
Plan Net Assets Available for Benefits  
September 30, 2010 and 2009

	Defined Benefit Plan	Defined Contribution Plan	2010	Total 2009
	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
Net assets held in trust for pension benefits	\$ 337,990,950	\$ 17,566,846	\$ 355,557,796	\$ 365,105,684
Actuarial Present Value of Accumulated Plan Benefits:				
Vested benefits:				
Participants currently receiving benefits	713,943,077	-	713,943,077	707,301,510
Active participants	130,889,068	17,566,846	148,455,914	135,458,378
Other participants	<u>6,991,045</u>	<u>-</u>	<u>6,991,045</u>	<u>8,253,810</u>
Total present value of vested benefits	851,823,190	17,566,846	869,390,036	851,013,698
Nonvested benefits	<u>59,365,592</u>	<u>-</u>	<u>59,365,592</u>	<u>60,057,174</u>
Total actuarial present value of accumulated plan benefits	<u>911,188,782</u>	<u>17,566,846</u>	<u>928,755,628</u>	<u>911,070,872</u>
Excess accumulated plan benefits over plan net assets available for benefits (Note 25)	<u>\$ (573,197,832)</u>	<u>\$ -</u>	<u>\$ (573,197,832)</u>	<u>\$ (545,965,188)</u>

See accompanying notes to financial statements.

**NORTHERN MARIANA ISLANDS RETIREMENT FUND**  
(A Component Unit of the CNMI Government)

Statements of Changes in Plan Net Assets Available for Benefits  
Years Ended September 30, 2010 and 2009

	Defined Benefit Plan	Defined Contribution Plan	2010	Total 2009
<b>Additions:</b>				
Contributions:				
Employer (Notes 2 and 3)	\$ 32,660,238	\$ 1,880,873	\$ 34,541,111	\$ 37,707,841
Employee (Notes 2 and 3)	8,390,939	4,714,642	13,105,581	11,951,915
Total contributions	<u>41,051,177</u>	<u>6,595,515</u>	<u>47,646,692</u>	<u>49,659,756</u>
Investment income:				
Interest and dividend income (Notes 12, 13 and 14)	7,863,840	104,927	7,968,767	10,242,332
Net realized and unrealized gains (losses) on investments (Note 6)	<u>18,323,822</u>	<u>1,210,160</u>	<u>19,533,982</u>	<u>(12,897,083)</u>
Total investment income (loss), net	26,187,662	1,315,087	27,502,749	(2,654,751)
Less management and custodial fees	<u>1,739,073</u>	<u>-</u>	<u>1,739,073</u>	<u>1,891,869</u>
Net investment income (loss)	<u>24,448,589</u>	<u>1,315,087</u>	<u>25,763,676</u>	<u>(4,546,620)</u>
Other additions:				
Penalty on unpaid contributions (Note 8)	1,775,838	-	1,775,838	1,593,245
CNMI appropriations (Notes 10 and 22)	806,508	-	806,508	883,715
Rental and other income	<u>1,467,318</u>	<u>-</u>	<u>1,467,318</u>	<u>1,326,895</u>
Total other additions	<u>4,049,664</u>	<u>-</u>	<u>4,049,664</u>	<u>3,803,855</u>
Total additions	<u>69,549,430</u>	<u>7,910,602</u>	<u>77,460,032</u>	<u>48,916,991</u>
<b>Deductions:</b>				
Benefit and refund payments:				
Retirement benefits	53,131,463	-	53,131,463	52,652,751
Withdrawals	-	1,961,224	1,961,224	-
Refunds	3,363,055	-	3,363,055	4,841,691
Survivor benefits	6,388,873	-	6,388,873	5,738,051
Disability benefits	1,577,470	-	1,577,470	1,710,488
Health and life insurance premiums	6,282,312	-	6,282,312	3,103,476
Transfers and rollovers	7,237	(122,584)	(115,347)	-
Death lump-sum distributions	<u>86,828</u>	<u>-</u>	<u>86,828</u>	<u>62,291</u>
Total benefit and refund payments	70,837,238	1,838,640	72,675,878	68,108,748
Provision for uncollectible contributions, net of recoveries	12,105,394	-	12,105,394	24,526,498
Administrative expenses (Notes 4 and 20)	<u>2,091,260</u>	<u>135,388</u>	<u>2,226,648</u>	<u>1,840,906</u>
Total deductions	<u>85,033,892</u>	<u>1,974,028</u>	<u>87,007,920</u>	<u>94,476,152</u>
Net increase (decrease)	(15,484,462)	5,936,574	(9,547,888)	(45,559,161)
Net assets held in trust for pension benefits, beginning	<u>353,475,412</u>	<u>11,630,272</u>	<u>365,105,684</u>	<u>410,664,845</u>
Net assets held in trust for pension benefits, ending	<u>\$ 337,990,950</u>	<u>\$ 17,566,846</u>	<u>\$ 355,557,796</u>	<u>\$ 365,105,684</u>

See accompanying notes to financial statements.

**NORTHERN MARIANA ISLANDS RETIREMENT FUND**  
(A Component Unit of the CNMI Government)

Notes to Financial Statements  
September 30, 2010 and 2009

(1) Retirement Plan Description

The following is a brief description of the Northern Mariana Islands Retirement Fund (NMIRF or the Fund) and Plan:

A. General

The Northern Mariana Islands Retirement Fund (NMIRF or the Fund) and Plan is a cost-sharing, multi-employer plan that is accounted for as a blended component unit, fiduciary fund type, pension trust fund of the Commonwealth of the Northern Mariana Islands (CNMI) Government. The Fund was initially established by the enactment of CNMI Public Law No. 1-43 on October 1, 1980, as amended by Public Law Nos. 2-18, 2-47, 3-99, 4-20 and Constitutional Amendment No. 19, to provide retirement, disability, death and other benefits to CNMI Government employees, their spouses and dependents, including its autonomous agencies, instrumentalities, public corporations and employees of the former Trust Territory of the Pacific Islands, who are U.S. citizens pursuant to the CNMI Constitution.

On May 7, 1989, Public Law No. 6-17, the Northern Mariana Islands Retirement Fund Act 1988, repealed the above mentioned laws and re-established the Fund as an autonomous agency and a public corporation of the CNMI. As such, the Fund is to provide retirement security and other benefits to government employees, their spouses and dependents, and to provide for an actuarially sound, locally funded pension system pursuant to the Agreement of the Special Representative on Future United States Financial Assistance for the Northern Mariana Islands. This is in accordance with the Constitutional provisions protecting the rights of government employees. This law is codified in Title 1, Division 8, Chapter 3 of the Commonwealth Code. Public Law No. 6-17 was subsequently amended by Public Law Nos. 6-41, 8-24, 8-30, 8-31, 8-39, 9-25, 9-45, 10-8, 10-19, 11-9, 11-95, 13-60, 15-14, 15-70, 15-126, 16-2 and 16-36.

On June 16, 2006, Public Law No. 15-13 was enacted to create portable individual retirement accounts for all new public employees who are hired on or after January 1, 2007.

(2) Description of the Defined Benefit Plan (DB Plan)

A. Membership

Membership in the DB Plan is mandatory for all employees of the central government, autonomous agencies, instrumentalities and public corporations, regardless of age, hired before January 1, 2007.

**NORTHERN MARIANA ISLANDS RETIREMENT FUND**  
(A Component Unit of the CNMI Government)

Notes to Financial Statements  
September 30, 2010 and 2009

(2) Description of the Defined Benefit Plan (DB Plan), Continued

A. Membership, Continued

As of September 30, 2010 and 2009, membership receiving benefits and entitled to benefits consisted of the following:

	<u>2010</u>	<u>2009</u>
Members currently receiving benefits:		
Retirees	2,841	2,152
Beneficiaries	1,439	525
Disabled	<u>154</u>	<u>85</u>
	4,434	2,762
Terminated employees entitled to benefits but not yet receiving them	<u>143</u>	<u>151</u>
	<u><u>4,577</u></u>	<u><u>2,913</u></u>

Active members contributing to the DB Plan as of September 30, 2010 and 2009 are as follows:

	<u>2010</u>	<u>2009</u>
Class I	2,852	3,204
Class II	<u>226</u>	<u>229</u>
	<u><u>3,078</u></u>	<u><u>3,433</u></u>

B. Contributions

Class I member contributions are required at 9.5% and 8.5% of base pay for fiscal year 2010 and 2009, respectively; and Class II member contributions are at 11% and 10% of base pay for fiscal year 2010 and 2009, respectively.

Based on the actuarial valuation as of October 1, 2009 issued in May 2011, the actuarially determined contribution rate for the fiscal year ended September 30, 2009 was 60.8686% of covered payroll.

The established statutory rate at September 30, 2010 and 2009 was 37.3909% of covered payroll.

Public Law No. 15-126, authorizes the CNMI Government to remit only 18.667% of covered payroll and accrue the balance as liability to the NMIRF. The employer contribution remittance was further reduced by Public Law No. 16-2 to 11% of covered payroll.

**NORTHERN MARIANA ISLANDS RETIREMENT FUND**  
(A Component Unit of the CNMI Government)

Notes to Financial Statements  
September 30, 2010 and 2009

(2) Description of the Defined Benefit Plan (DB Plan), Continued

C. Summary of the Principal Provisions of the DB Plan

Class I and Class II provisions are summarized below:

*Eligibility to Participate*

Class II members are all persons who were Fund members prior to May 7, 1989, the effective date of Public Law No. 6-17, and who did not elect to transfer membership to Class I. Employees who terminated employment after having completed three or more years of credited service in the Fund and were subsequently reemployed after May 7, 1989, provided that previous contributions to the Fund have not been refunded, are also classified under Class II membership.

All employees of the CNMI Government, public corporations, agencies and instrumentalities of the government hired on or after the effective date of Public Law No. 6-17 but before January 1, 2007, are Class I members. Class II members who later elected to transfer membership to Class I, or who terminated employment and received a refund of contributions but subsequently reemployed by the CNMI government on or after May 7, 1989, become Class I members.

*Service*

Vesting service credit is an optional credit granted to any member as a result of graduation from an accredited college with at least an associate degree (a maximum of two years for an associate's degree and four years for a bachelor's degree); service with the United States Armed Forces (a maximum of two years); and overtime and compensatory time certified and approved by the Board of Trustees. These optional credits are granted for the purpose of eligibility for the additional five years credit pursuant to Constitutional Amendment No. 19, and for eligibility to retire. Vesting service credit is not used or factored in computing retirement benefits.

Credited service – A year of credited service is earned for a year of actual compensated government employment, with one-twelfth (1/12) year earned for each month. Credited service includes accumulated sick leave. An additional five (5) years of service is granted when a member accumulates twenty (20) years of vesting service.

**NORTHERN MARIANA ISLANDS RETIREMENT FUND**  
(A Component Unit of the CNMI Government)

Notes to Financial Statements  
September 30, 2010 and 2009

(2) Description of the Defined Benefit Plan (DB Plan), Continued

C. Summary of the Principal Provisions of the DB Plan, Continued

*Benefit Formulas (to calculate annual benefits)*

Class I Formula: The sum of (i) and (ii) below, but not less than \$6,000 nor greater than 85% of average annual salary.

- (i) The sum of 2.5% of average annual salary for each of the first 25 years of service with a maximum of 50% of average annual salary; plus
- (ii) 2.5% of average annual salary for each year of service in excess of 25 years.

Class II Formula: The sum of (i) and (ii) below, but not less than \$6,000 nor greater than 85% of average annual salary.

- (i) The sum of 2% of average annual salary for each of the first 10 years of service and 2.5% of average annual salary for each year of service in excess of 10 years; plus
- (ii) Twenty dollars (\$20) for each year of service reduced by 1/100th of 1% for each dollar that average annual salary exceeds \$6,000.

Average annual salary is the average of the three highest annual salaries, but not less than \$6,000.

*Normal Retirement*

Eligibility – Class I: Age 62 and ten years of contributing membership service after May 7, 1989. Class II: Age 60 or 25 years of vesting service.

Amount of benefit – The annual retirement benefit is the benefit using the Class I formula for Class I members and the greater of the Class I or the Class II formula for Class II members.

Time and form of payment – Payment will be in the form of a life annuity with a cost of living increase each year for the first \$30,000 of benefits equal to that which is used by the United States of America Social Security System commencing on January 1 of each year subsequent to the anniversary of retirement after attainment of age 55.

**NORTHERN MARIANA ISLANDS RETIREMENT FUND**  
(A Component Unit of the CNMI Government)

Notes to Financial Statements  
September 30, 2010 and 2009

(2) Description of the Defined Benefit Plan (DB Plan), Continued

C. Summary of the Principal Provisions of the DB Plan, Continued

*Early Retirement*

Eligibility – Age 52 and 10 years of vesting service or 25 years of vesting service for a Class I member. At least 10 years of credited service must be earned after May 7, 1989. Class II members are not eligible.

Amount of benefit – Same as for normal retirement, but not less than \$6,000; provided that the member pay a contribution set by the Fund, but no more than the contribution required of Class II Members.

Time and form of payment – Same as the normal retirement benefit.

*Retirement Bonus*

If a participant hired on or prior to December 15, 1999 retires with at least 20 years of vesting service, he or she will receive from the participant's hiring authority, a retirement bonus equal to 30% of annual salary. The participant's normal retirement benefit is recomputed to reflect the bonus. No retirement bonus shall be paid to a member electing to retire after December 31, 2005.

*Termination*

Eligibility – Class I members with 10 years of contributing membership service. Class II members who accumulate at least 3 years of vesting service.

Amount of benefit – Same as the normal retirement benefit.

Time and form of payment – Same as the normal retirement benefit, except that the annuity commences at age 62 for Class I members and at age 60 for Class II members.

**NORTHERN MARIANA ISLANDS RETIREMENT FUND**  
(A Component Unit of the CNMI Government)

Notes to Financial Statements  
September 30, 2010 and 2009

(2) Description of the Defined Benefit Plan (DB Plan), Continued

C. Summary of the Principal Provisions of the DB Plan, Continued

*Disability Retirement*

Eligibility – Members who are less than age 62, who are totally and permanently disabled, and, in the case of non-occupational causes, who accumulate at least 5 years of membership service.

Amount of benefit – 50% of the member's salary in effect as of the date of disability, less any special compensation allowances or reductions due to subsequent earnings. At age 62 the member will receive a normal retirement benefit calculated assuming service had continued to age 62 at the same salary received at the time of disability and the Class I formula is used. Disability benefits will be reduced by the U.S. Social Security System, Workers' Compensation or other disability insurance payments.

Time and form of payment – Same as the normal retirement benefit.

*Survivor's Benefits*

Eligibility – Members who were active employees with at least 18 months of service for Class I and at least 3 years of service for Class II, or members who were receiving retirement or disability benefits.

Amount of benefit – A surviving spouse will receive 50% of the member's normal retirement benefit, or benefit being paid at death, but not less than \$6,000 per year. Each surviving minor child (with a maximum of three children) will receive the greater of \$1,080 and 16-2/3% of the member's normal retirement benefit or the benefit being paid at death.

Time and form of payment – The surviving spouse's benefit commences immediately if there are minor children, otherwise at the spouse's attainment of age 35, and continues until remarriage or death. Payment will be in the form of a life annuity with a cost of living increase each year equal to that which is used by the U. S. Social Security System, but not less than 2%, commencing January 1 subsequent to the anniversary of the spouse's annuity date after attainment of age 55.

The children's benefit commences immediately and continues until the respective child's attainment of age 18 (age 22 if a full-time student) unless the child is disabled.

**NORTHERN MARIANA ISLANDS RETIREMENT FUND**  
(A Component Unit of the CNMI Government)

Notes to Financial Statements  
September 30, 2010 and 2009

(2) Description of the Defined Benefit Plan (DB Plan), Continued

C. Summary of the Principal Provisions of the DB Plan, Continued

*Lump-sum Death Benefit*

Eligibility – Members who were active employees or members who were receiving retirement or disability benefits.

Amount of benefit – A lump-sum payment of \$1,000 plus, if there is no surviving spouse or children, a refund reduced by pension payments already received of 1/3 of the accumulated employee contributions with interest.

*Contributions*

Class I members who are active employees contribute 7.5% of salary for fiscal year 2008 and will increase their rate of contribution by 1.0% per year until it reaches 10.5% (Fiscal year 2009 rate is at 9.5%). Refunds are made upon termination with less than 10 years of service. Class II members who are active employees contribute 10% of salary for fiscal year 2008 and will increase their rate of contribution by 1.0% per year until it reaches 11.0% (Fiscal year 2009 rate is at 11%). Members who terminate with less than 3 years of service will receive a refund of their accumulated contribution with interest. The Class I and Class II refunds stated above are subject to an early withdrawal penalty of 10% of the total contributions, excluding interest. Class II members who terminate with 3 years but less than 20 years of service may request a refund of their accumulated contributions with interest in-lieu of termination benefits. If a member or survivor dies before receiving annuity payments which equal or exceed 1/3 the member's accumulated contributions with interest, the balance will be paid to the beneficiary.

*Life and Health Insurance*

Annuitants may elect to continue their CNMI Government life and health insurance coverage under the same terms and conditions in-force at the time of retirement. Half of the life insurance premium will be paid by the Fund. The Fund will pay the same portion of the health insurance premium as paid for active employees by the government.

**NORTHERN MARIANA ISLANDS RETIREMENT FUND**  
(A Component Unit of the CNMI Government)

Notes to Financial Statements  
September 30, 2010 and 2009

(2) Description of the Defined Benefit Plan (DB Plan), Continued

D. Present Value of Vested and Non-Vested Accrued Benefits

The present value of vested and non-vested accrued benefits provide a measure of the value of future plan benefit payments resulting from service earned to October 1, 2009. It is intended that when these measures are compared to plan assets, they will be useful in assessing the progress being made towards funding such benefits. These amounts meet the actuarial understanding of the reporting requirements of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 960, *Plan Accounting - Defined Benefit Pension Plan*.

The total present value of accrued benefits measures the value of that part of all expected future plan benefit payments to current participants (active and inactive) which may be considered to result from service rendered and compensation earned prior to the valuation date. (Probable future service is, however, considered in determining eligibility for, and the anticipated dates of, retirement, disability, or death.)

The present value of vested accrued benefits measures the value of only some of the benefits considered in determining the total present value of accrued benefits. The benefits for which a value is calculated under this measure are only those to which a participant has a right that is based solely on service rendered prior to the valuation date, and that is not contingent on continuation of employment.

The present value of non-vested accrued benefits is the excess of the total present value of accrued benefits over the present value of vested accrued benefits.

Following are the Actuarial Cost Method and Assumptions:

Actuarial Cost Method:	Entry age normal
Valuation of Assets:	Market value, including accrued but unpaid contributions.
Investment Income:	7.5% per year
Salary Increase:	3% per year for each covered person. Covered pay of the overall population is assumed to remain constant.
Expenses:	1.1% of payroll
Mortality:	The 1971 Group Annuity Mortality Table for Males, using rates for ages three years older for males.

**NORTHERN MARIANA ISLANDS RETIREMENT FUND**  
(A Component Unit of the CNMI Government)

Notes to Financial Statements  
September 30, 2010 and 2009

(2) Description of the Defined Benefit Plan (DB Plan), Continued

D. Present Value of Vested and Non-Vested Accrued Benefits, Continued

Retirement Age: For active participants, earlier of age 62, if eligible, and 25 years of vesting service; and

For inactive participants, age 62 for Class I and age 60 for Class II.

Pre-Retirement Spouse  
Benefit:

94% of participants are assumed to be married and males are assumed to be five years older than their female spouses.

Married participants are assumed to have two minor children aged 13 on benefit commencement date.

Turnover: In accordance with a table of which the following are sample annual rates:

<u>Age</u>	<u>Rate of Turnover</u>
20	.1303
25	.1078
30	.0858
35	.0683
40	.0508
45	.0333
50	.0158
55 and over	.0000

Disability: In accordance with a table of which the following are sample annual rates:

<u>Age</u>	<u>Males</u>	<u>Females</u>
25	.00020	.00021
30	.00023	.00036
35	.00035	.00061
40	.00060	.00093
45	.00112	.00135
50	.00310	.00185
55	.00334	.00261
60	.00441	.00352

75% of disabilities occurring in the first 5 years of employment are assumed to be occupational disabilities.

**NORTHERN MARIANA ISLANDS RETIREMENT FUND**  
(A Component Unit of the CNMI Government)

Notes to Financial Statements  
September 30, 2010 and 2009

(2) Description of the Defined Benefit Plan (DB Plan), Continued

D. Present Value of Vested and Non-Vested Accrued Benefits, Continued

Choice of Membership Class: All Class II active members are assumed to choose to remain as Class II members.

Retirement Bonus: Bonus is assumed to be paid by the employer, not NMIRF.

Cost of Living Adjustment: 2% compound interest

Post-retirement Life

Insurance Coverage: All future retirees elect coverage of 2 times their annual salary.

Post-retirement Health

Insurance Coverage: Value an annual benefit equal to the Government premium for Family High Option coverage. Assume 5.5% annual increase. 75% of active participants are expected to continue medical coverage.

(3) Description of the Defined Contribution Plan (DC Plan)

A. Purpose

The Defined Contribution Plan was created by Public Law No. 15-13 to provide an individual account retirement system for any person employed by the CNMI Government. The NMIRF Administrator is responsible for the general administration and operation of the DC Plan. The NMIRF Board of Trustees serve in an advisory capacity to the DC Plan. The DC Plan, by its nature, is fully funded on a current basis from employer and member contributions.

B. Membership

The DC Plan is a multi-employer pension plan and is the single retirement program for all new employees whose employment commences on or after January 1, 2007.

Existing Class I members of the DB Plan with less than 10 years of service credit may, upon written election, voluntarily and irrevocably elect membership in the DC Plan. This option shall expire 12 months after enactment of legislation.

	2010	2009
Active members	2,236	1,787
Terminated member with balance	-	-
Total	2,236	1,787

**NORTHERN MARIANA ISLANDS RETIREMENT FUND**  
(A Component Unit of the CNMI Government)

Notes to Financial Statements  
September 30, 2010 and 2009

(3) Description of the Defined Contribution Plan (DC Plan), Continued

C. Contribution

Each member of the DC Plan 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.

D. Vesting

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.

(4) Summary of Significant Accounting Policies

The following are the significant accounting policies followed by the Northern Mariana Islands Retirement Fund.

*Reporting Entity*

The NMIRF is a component unit of the primary government of the CNMI and is included in the government's comprehensive annual financial report as the administrator of the retirement fund.

The Governmental Accounting Standards Board has developed criteria relating to elements of financial accountability to be used to determine the reporting entity. Financial accountability is manifested when the primary government appoints a voting majority of an organization's governing body and is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to or impose specific financial burdens on the primary government.

**NORTHERN MARIANA ISLANDS RETIREMENT FUND**  
(A Component Unit of the CNMI Government)

Notes to Financial Statements  
September 30, 2010 and 2009

(4) Summary of Significant Accounting Policies, Continued

The Retirement Fund Board of Trustees is the governing authority of the Fund who administers the provisions of the Retirement Fund Act. It consists of seven members appointed by the Governor of the CNMI with the advice and consent of the CNMI Legislature. The Board's composition is three representatives from Saipan, one each from Tinian and Rota, one from the Carolinian Community, and one representing the Women's interest. The Board has independence in the operation and management of the Fund and appoints an Administrator to act as the principal administrative officer of the Fund. The CNMI Legislature has significant ability to influence funding, approve the Fund's budget and pass laws governing the Fund.

*Basis of Presentation*

The financial statements of the Fund are prepared using the economic resources measurement focus and accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America and in accordance with Governmental Accounting Standards Board Statement No. 25, *Financial Reporting for Defined Benefit Pension Plan*. The Governmental Accounting Standards Board (GASB) is the accepted standards setting body for established governmental accounting and financial reporting principles. GASB Statement No. 25 has been implemented for the defined benefit pension plans.

In June of 1999, the GASB issued Statement No. 34 (the "Statement") *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. The Statement establishes new financial reporting requirements for state and local governments throughout the United States by setting forth the required components of the basic financial statements and required supplementary information.

GASB No. 34 has no impact on NMIRF's net assets but does require certain changes to the presentation of the financial statements and additional disclosures. With these financial statements, NMIRF has implemented these changes, and accordingly, has included Management's Discussion and Analysis as required by the Statement.

The financial statements include certain prior-year summarized comparative information in total but not by plan. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the organization's financial statements for the year ended September 30, 2009, from which the summarized information was derived.

**NORTHERN MARIANA ISLANDS RETIREMENT FUND**  
(A Component Unit of the CNMI Government)

Notes to Financial Statements  
September 30, 2010 and 2009

(4) Summary of Significant Accounting Policies, Continued

*Basis of Accounting*

The Fund prepares its financial statements using the accrual basis of accounting with an economic resources measurement focus. An economic resource focus concentrates on a fund's net assets. All transactions and events that affect the total economic resources (net assets) during the period are reported. Member and employer contributions are recognized when due pursuant to formal commitments, as well as statutory requirements. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Expenses are recorded when the corresponding liabilities are incurred, regardless of when payment is made. Investment purchases and sales are recorded on the trade date.

Due to the deficit fund balance of the CNMI Government, the Fund opted to record revenues from the CNMI Government, aside from contributions, when measurable and available. Thus, receivables due from the CNMI Government for appropriations and penalties are recorded with a corresponding credit to deferred revenue. Actual revenues are only recorded when such are collectible within the current period or soon enough thereafter to pay liabilities of the current period.

*New Accounting Standards*

In February 2009, GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This Statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. The provisions of this Statement are effective for periods beginning after June 15, 2010. Management believes that the implementation of this Statement will not have a material effect on the financial statements of the Fund.

In March 2009, GASB issued Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. This Statement is to improve financial reporting by contributing to the GASB efforts to codify all generally accepted accounting principles (GAAP) for State and Local governments so that they derive from a single source. This Statement is effective upon issuance. The management of the Fund believes that implementation of this Statement does not materially affect its financial statements.

In March 2009, GASB issued Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards*. This Statement incorporates accounting and financial reporting guidance previously contained only in the American Institute of Certified Public Accountants (AICPA) auditing literature into the GASB's accounting and financial reporting literature for State and Local governments, and addresses three issues from the AICPA's literature - related party transactions, going concern considerations and subsequent events. This Statement is effective upon issuance. The management of the Fund believes that implementation of this statement does not materially affect its financial statements.

**NORTHERN MARIANA ISLANDS RETIREMENT FUND**  
(A Component Unit of the CNMI Government)

Notes to Financial Statements  
September 30, 2010 and 2009

(4) Summary of Significant Accounting Policies, Continued

*New Accounting Standards, Continued*

In December 2009, GASB issued Statement No. 58, *Accounting and Financial Reporting for Chapter 9 Bankruptcies*, which provides accounting and financial reporting guidance for governments that have petitioned for protection from creditors under Chapter 9 of the United States Bankruptcy Code. This Statement is effective beginning after June 15, 2010, with retroactive application for all periods presented during which the government was in bankruptcy. The application of this Statement does not affect the presented financial statements of the Fund.

In June 2010, GASB issued Statement No. 59, *Financial Instruments Omnibus*. The Statement updates and improves existing standards regarding financial reporting of certain financial instruments and external investment pools. The Statement is effective for financial statements prepared by state and local governments for periods beginning after June 15, 2010, with earlier application encouraged. The effect of the implementation of this Statement on the financial statements of the Fund has not been determined.

In November 2010, GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus—an amendment of GASB Statements No. 14 and No. 34*. The objective of this Statement is to improve financial reporting for a governmental financial reporting entity. The requirements of Statement No. 14, *The Financial Reporting Entity*, and the related financial reporting requirements of Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, were amended to better meet user needs and to address reporting entity issues that have arisen since the issuance of those Statements. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2012. Earlier application is encouraged.

In December 2010, GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The objective of this Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements:

1. Financial Accounting Standards Board (FASB) Statements and Interpretations
2. Accounting Principles Board Opinions
3. Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure.

Hereinafter, these pronouncements collectively are referred to as the "FASB and AICPA pronouncements."

**NORTHERN MARIANA ISLANDS RETIREMENT FUND**  
(A Component Unit of the CNMI Government)

Notes to Financial Statements  
September 30, 2010 and 2009

(4) Summary of Significant Accounting Policies, Continued

*New Accounting Standards, Continued*

This Statement also supersedes GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, thereby eliminating the election provided in paragraph 7 of that Statement for enterprise funds and business-type activities to apply post-November 30, 1989 FASB Statements and Interpretations that do not conflict with or contradict GASB pronouncements. However, those entities can continue to apply, as other accounting literature, post-November 30, 1989 FASB pronouncements that do not conflict with or contradict GASB pronouncements, including this Statement. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2011. Earlier application is encouraged. The provisions of this Statement generally are required to be applied retroactively for all periods presented.

*Cash and Cash Equivalents*

For purposes of reporting the statement of plan net assets available for benefits, cash and cash equivalents include cash on hand, in banks and certificates of deposit with original maturities of three months or less.

*Deposits and Investments*

The reserves of the DB Plan in excess of current operational requirements are invested under the authority of the Board of Trustees. In investing these reserves, the Board employs the services of investment professionals and consultants to assist NMIRF in its investment program. These professionals are all registered with the U.S. Securities and Exchange Commission as investment advisors. The assets are usually invested in stocks, bonds, and real estate traded in recognized stock markets such as the New York Stock Exchange. The Board is required to diversify its investments in accordance with prudent investment standards. Investment guidelines, issued by the Board of Trustees, contain limits and goals for each type of investment portfolio and specify prohibited transactions.

*Valuation of Investments*

Marketable securities held for investment purposes are stated at fair market value in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Fair market value is determined by quoted prices in active markets for equity securities, mutual fund investments and corporate debt instruments. The Fund's investment policies are defined in Public Law No. 6-17, subsequently amended by Public Law No. 6-41.

**NORTHERN MARIANA ISLANDS RETIREMENT FUND**  
(A Component Unit of the CNMI Government)

Notes to Financial Statements  
September 30, 2010 and 2009

(4) Summary of Significant Accounting Policies, Continued

*Capital Assets*

Capital assets consist of property and equipment used for administering the Fund and are carried at historical cost. Depreciation is provided over the estimated useful lives of the related assets using the straight-line method for financial statement purposes. Estimated lives used range from 3 to 15 years for all assets except for a building, which is being depreciated over 39 years.

*Fair Value of Financial Instruments*

The following methods and assumptions were used to estimate the fair value of each class of financial instrument:

Cash and cash equivalents – Fair value approximates carrying value due to the initial maturities of the instruments being three months or less.

Prior service and buy-back service receivables – Fair value approximates carrying value, as the interest rates on the obligations are fixed and are the same rates that would be charged to new participants for similar agreements.

Loans and notes receivable – Fair value approximates carrying value, as the interest rates on the obligations are fixed and are the same rates that would be charged for similar agreements.

Deferred revenue – Fair value approximates carrying value, since the related receivable is based on a fixed interest rate, which would be the same rate charged to a new participant for a similar agreement.

**NORTHERN MARIANA ISLANDS RETIREMENT FUND**  
(A Component Unit of the CNMI Government)

Notes to Financial Statements  
September 30, 2010 and 2009

(4) Summary of Significant Accounting Policies, Continued

*Compensated Absences*

Vested or accumulated annual leave is recorded as an expense and liability as the benefits accrue to employees. In accordance with the provisions of Governmental Accounting Standards Board Statement No. 16, *Accounting for Compensated Absences*, no liability is recorded for nonvesting accumulating rights to receive sick pay benefits. Employees are credited with annual leave at rates ranging from 4 to 8 hours per pay period depending on their length of service. Accumulation of such annual leave credit is limited to 480 hours, which is equivalent to 60 days. Liabilities for unpaid annual leave are accrued at the end of each accounting period utilizing current salary rates.

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 was \$52,173 and \$66,089 at September 30, 2010 and 2009, respectively.

*Sick Leave*

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 employment.

*Administrative expenses*

A budget for the administrative expenses of NMIRF is prepared and approved by the Board of Trustees. Administrative expenses are paid from investment earnings.

*Use of Estimates*

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

**NORTHERN MARIANA ISLANDS RETIREMENT FUND**  
(A Component Unit of the CNMI Government)

Notes to Financial Statements  
September 30, 2010 and 2009

(5) Description of Non-Retirement Funds

The following is a brief description of the non-retirement funds administered by NMIRF.

*Workers' Compensation Commission*

The Workers' Compensation Commission (WCC) is a component unit of the CNMI Government, and follows the accounting and reporting requirements specified by accounting principles generally accepted in the United States of America applicable to pension and other employee and benefit plans. Condensed financial information regarding the WCC is as follows:

	2010	2009
Total assets	<u>\$ 2,249,876</u>	<u>\$ 2,196,728</u>
Total liabilities	\$ 846,620	\$ 930,753
Fund balance reserved for payment of special disability claims	<u>1,403,256</u>	<u>1,265,975</u>
Total liabilities and fund equity	<u>\$ 2,249,876</u>	<u>\$ 2,196,728</u>
Total revenues	\$ 296,791	\$ 259,408
Total expenditures	<u>159,510</u>	<u>220,280</u>
Excess of revenues over expenditures	<u>\$ 137,281</u>	<u>\$ 39,128</u>

The WCC was created with the passage of CNMI Public Law No. 6-33 in June 1989. The Board of Trustees of the Fund administers WCC.

**NORTHERN MARIANA ISLANDS RETIREMENT FUND**  
(A Component Unit of the CNMI Government)

Notes to Financial Statements  
September 30, 2010 and 2009

(5) Description of Non-Retirement Funds, Continued

*Northern Mariana Islands Government Health and Life Insurance Trust Fund*

Prior to Public Law No. 10-19, the CNMI Government administered the Government Life and Health Insurance Programs for CNMI Government employees. Public Law No. 10-19 transferred administration of this program to the NMIRF and created the Northern Mariana Islands Government Health and Life Insurance Trust Fund (GHLI Trust Fund).

The GHLI Trust Fund is considered a component unit of the CNMI, and follows the accounting and reporting requirements specified by accounting principles generally accepted in the United States of America applicable to pension and other employee benefit plans.

Condensed financial information regarding the GHLI Trust Fund is as follows:

	2010	2009
Total assets	\$ 1,566,616	\$ 897,425
Total liabilities	\$19,032,310	\$18,834,191
Fund deficit	(17,465,694)	(17,936,766)
Total liabilities and fund deficit	\$ 1,566,616	\$ 897,425
Total revenues	\$ 1,202,054	\$ 595,607
Total medical and death claims costs	(693,658)	(147,169)
Total expenditures	(62,578)	(112,555)
Reversal of accrued compensated absences	25,254	-
Excess of revenues over expenditures	\$ 471,072	\$ 335,883

(6) Deposits and Investments Risk

*Deposits*

At September 30, 2010 and 2009, the Fund's cash balances were deposited in various checking accounts. The Federal Deposit Insurance Corporation (FDIC) insures accounts up to \$250,000. From the total bank balance of \$5,160,883 in 2010 and \$3,521,156 in 2009, only \$250,000 in each year is subject to coverage by the FDIC with the remaining balance exceeding insurable limits. Amounts in excess of insurable limits are, however, collateralized with the bank's securities. Such collateralization is in accordance with the legal requirement of NMIRF for the bank to secure the Fund's deposits as of September 30, 2010 and 2009.

**NORTHERN MARIANA ISLANDS RETIREMENT FUND**  
(A Component Unit of the CNMI Government)

Notes to Financial Statements  
September 30, 2010 and 2009

(6) Deposits and Investments Risk, Continued

*Investments*

Governmental accounting standards require that the investments reported as of the balance sheet date be categorized according to level of credit risk associated with the Fund's custodial arrangements at that time. The level of credit risk is defined as follows:

Category 1 - insured and registered for which the securities are held by the Fund or its agent in the Fund's name;

Category 2 - uninsured and registered for which the securities are held by the broker's or dealer's trust department or agent in the Fund's name; and

Category 3 - uninsured and unregistered for which the securities are held by the broker or dealer or by its trust department or agent but not in the Fund's name.

At September 30, 2010 and 2009, all of the Fund's investments are classified in Category 1. Carrying values of the NMIRF investments as of September 30, 2010 and 2009 are as follows:

Defined Benefit Plan	Carrying Value	
	2010	2009
Investments Categorized:		
Domestic Stocks (Common, Preferred, ADRs)	\$ 194,394,682	\$ 126,899,760
U.S. Treasury TIPS	35,546,898	35,336,322
U.S. Agencies	-	417,287
Mortgage Pass-Throughs	17,549,367	21,677,422
Domestic Corporate Bonds	27,521,721	22,055,667
Foreign Stocks	3,264,395	111,362,964
Collateralized Mortgage Obligations	3,106,861	3,690,676
U.S. Treasuries	2,480,600	3,679,306
Total Categorized	283,864,524	325,119,404
Investments Not Categorized:		
Money Market Funds	5,748,349	6,051,649
Stock Mutual Funds	21,562,490	-
Real Estate Investment Trusts	1,001,220	937,205
Cash equivalents	149,894	89,423
Others	-	110,356
Total Not Categorized	28,461,953	7,188,633
Total Investments	\$ 312,326,477	\$ 332,308,037

**NORTHERN MARIANA ISLANDS RETIREMENT FUND**  
(A Component Unit of the CNMI Government)

Notes to Financial Statements  
September 30, 2010 and 2009

(6) Deposits and Investments Risk, Continued

*Credit Risk*

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

NMIRF's investment policy for its DB Plan specifies the following regarding fixed income investments held in its portfolio:

- All fixed income securities shall have a Moody's, Standard and Poor's and/or Fitch credit quality rating of no less than BBB.
- The exposure of the portfolio to any one company, other than securities of the US government, shall not exceed 5% of the market value of the portfolio under management by each investment manager.
- Each fixed income portfolio of each investment manager shall be suitably diversified as to any single issuer or class of issuer so that an adversity affecting a particular issuer or sector will not impact a substantial share of the total portfolio.
- NMIRF's portfolio per investment managers are regularly reviewed to ensure compliance to abovementioned requirements.

Summarized below are the ratings of NMIRF DB Plan fixed income investments as of September 30, 2010 and 2009:

Moody's/S&P/Fitch Credit Rating	September 30, 2010 Carrying Value				
	U.S. Agencies	Mortgage Pass Throughs	Collateralized Mortgage Obligations	Money Market and Mutual Bond Funds	Domestic Corporate Bonds
Aaa/AAA	\$ -	\$ 17,549,367	\$ 3,106,861	\$ -	\$ -
Aa/AA	-	-	-	-	3,812,107
A	-	-	-	-	17,496,296
Baa/BBB	-	-	-	-	5,300,952
Unrated	-	-	-	5,748,349	912,366
<b>TOTAL</b>	<u>\$ -</u>	<u>\$ 17,549,367</u>	<u>\$ 3,106,861</u>	<u>\$ 5,748,349</u>	<u>\$ 27,521,721</u>

**NORTHERN MARIANA ISLANDS RETIREMENT FUND**  
(A Component Unit of the CNMI Government)

Notes to Financial Statements  
September 30, 2010 and 2009

(6) Deposits and Investments Risk, Continued

Moody's/S&P/Fitch Credit Rating	September 30, 2009 Carrying Value				
	U.S. Agencies	Mortgage Pass Throughs	Collateralized Mortgage Obligations	Money Market and Mutual Bond Funds	Domestic Corporate Bonds
Aaa/AAA	\$ 417,287	\$ 21,677,422	\$ 3,690,676	\$ -	\$ -
Aa/AA	-	-	-	-	1,101,275
A	-	-	-	-	17,496,459
Baa/BBB	-	-	-	-	3,457,933
Unrated	-	-	-	6,051,649	-
<b>TOTAL</b>	<u>\$ 417,287</u>	<u>\$ 21,677,422</u>	<u>\$ 3,690,676</u>	<u>\$ 6,051,649</u>	<u>\$ 22,055,667</u>

*Interest Rate Risk*

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

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

September 30, 2010:

Investment Type	Carrying Value	Investment Maturities (in Years)			
		Less Than 1	1 to 5	6 to 10	More Than 10
<b>Investments Subject to Interest Rate Risk:</b>					
U.S. Treasury TIPS	\$ 35,546,898	\$ 460,300	\$ 14,694,510	\$ 7,249,217	\$ 13,142,871
Mortgage Pass-Throughs	17,549,367	-	1,820,686	1,409,478	14,319,203
Domestic Corporate Bonds	27,521,721	2,267,366	13,828,397	6,337,955	5,088,003
Collateralized Mortgage Obligations	3,106,861	-	240,204	-	2,866,657
U.S. Treasuries	2,480,600	-	-	-	2,480,600
<b>Total Investment Subject to Interest Rate Risk</b>	<u>86,205,447</u>	<u>\$ 2,727,666</u>	<u>\$ 30,583,797</u>	<u>\$ 14,996,650</u>	<u>\$ 37,897,334</u>
<b>Investments Not Subject to Interest Rate Risk:</b>					
Domestic Stocks	194,394,682				
Foreign Stocks	3,264,395				
Money Market Funds	5,748,349				
Stock Mutual Funds	21,562,490				
Real Estate Investment Trusts	1,001,220				
Cash equivalents	149,894				
<b>Total Investments Not Subject to Interest Rate Risk</b>	<u>226,121,030</u>				
<b>Total Investments</b>	<u>\$ 312,326,477</u>				

**NORTHERN MARIANA ISLANDS RETIREMENT FUND**  
(A Component Unit of the CNMI Government)

Notes to Financial Statements  
September 30, 2010 and 2009

(6) Deposits and Investments Risk, Continued

September 30, 2009:

Investment Type	Carrying Value	Investment Maturities (in Years)			
		Less Than 1	1 to 5	6 to 10	More Than 10
<b>Investments Subject to Interest Rate Risk:</b>					
U.S. Treasury STRIPS	\$ 35,336,322	\$ 825,580	\$ 14,044,358	\$ 8,590,888	\$ 11,875,496
Mortgage Pass-Throughs	21,677,422	-	-	3,399,227	18,278,195
Domestic Corporate Bonds	22,055,667	1,207,657	10,347,847	5,050,293	5,449,870
Collateralized Mortgage Obligations	3,690,676	-	375,591	192,964	3,122,121
U.S. Treasuries	3,679,306	-	-	2,344,808	1,334,498
U.S. Agencies	417,287	-	221,021	-	196,266
<b>Total Investment Subject to Interest Rate Risk</b>	<b>86,856,680</b>	<b>\$ 2,033,237</b>	<b>\$ 24,988,817</b>	<b>\$ 19,578,180</b>	<b>\$ 40,256,446</b>
<b>Investments Not Subject to Interest Rate Risk:</b>					
Cash equivalents	89,423				
Domestic Stocks	126,899,760				
Foreign Stocks	111,362,964				
Money Market Funds	6,051,649				
Real Estate Investment Trusts	937,205				
Others	110,356				
<b>Total Investments Not Subject to Interest Rate Risk</b>	<b>245,451,357</b>				
<b>Total Investments</b>	<b>\$ 332,308,037</b>				

*Concentration of Credit Risk*

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. As of September 30, 2010 and 2009, the NMIRF had no single issuer that exceeds 5% of total investments. Investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools, and other pooled investments are excluded.

*Custodial Credit Risk*

Custodial credit risk is the risk that in the event a financial institution or counterparty fails, the Fund would not be able to recover the value of its deposits, investments, or securities. As of September 30, 2010 and 2009, 100% of the Fund's investments were held in the NMIRF's name, and the Fund is not exposed to custodial credit risk related to these investments.

**NORTHERN MARIANA ISLANDS RETIREMENT FUND**  
(A Component Unit of the CNMI Government)

Notes to Financial Statements  
September 30, 2010 and 2009

(6) Deposits and Investments Risk, Continued

*Foreign Currency Risk*

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit.

NMIRF investment in foreign currency is comprised of international investment proceeds and income to be repatriated into U.S. dollars and funds available to purchase international securities. Foreign currency is not held as a form of investment. Foreign currency is held for less than 30 days in foreign accounts until it can be repatriated or expended.

*Securities Lending*

CNMI statutes permit the Fund to participate in securities lending transactions, and the Fund has, pursuant to a Securities Lending Authorization Agreement, authorized an Agent in lending the Fund's securities to broker-dealers and banks pursuant to a form of loan agreement. During the years ended September 30, 2010 and 2009, the Agent loaned, on behalf of the Fund, securities, including U.S. government obligations, domestic corporate bonds, and domestic and international equities, held by Agent as custodian and received, as collateral, United States and foreign currency cash, securities issued or guaranteed by the United States government, sovereign debt of foreign countries and irrevocable bank letters of credit. The Agent does not have the ability to pledge or sell collateral securities absent borrower default. Borrowers delivered collateral for each loan equal to 125% of the fair value of the loaned securities. In accordance with GASB Statement No. 28 *Accounting and Financial Reporting for Securities Lending Transactions*, securities lending collateral reported in the Statement of Plan Net Assets Available for Benefits represented only cash collateral invested in the lending agent's cash collateral investment pool.

*Securities Lending Collateral Interest Rate Risk*

Cash collaterals from loans of securities are reinvested by the investment manager. A duration mismatch between loan and reinvestment is limited to a conservative maximum of 15 days.

Securities loaned are covered by a contractual indemnification against broker default, that is, if a broker fails to return loaned securities when required, the investment manager will, within two business days, and at its expense, either replace the loaned securities or credit the NMIRF for the market value of the unreturned loaned securities determined as of the close of business on the date the securities should have been returned.

**NORTHERN MARIANA ISLANDS RETIREMENT FUND**  
(A Component Unit of the CNMI Government)

Notes to Financial Statements  
September 30, 2010 and 2009

(6) Deposits and Investments Risk, Continued

*Derivatives*

The NMIRF's investment policy allows investment managers to use derivative instruments for certain purposes and within certain parameters. Such instruments include currency contracts, including futures and forward contracts, to hedge foreign currency exposure into US dollars. Leverage may not be used and an investment manager may not hedge more than 25% of the value of the non US assets managed by such investment manager.

(7) Employer Contributions

Public Law No. 6-17, codified at 1 CMC §8312 and §8314, created the NMIRF, an autonomous agency and public corporation of the CNMI Government. This law establishes the Fund providing for bi-weekly contributions to be made by the CNMI Government employees or members through a fixed percentage of earnings, as well as bi-weekly contributions made by the CNMI Government as the employer and plan sponsor, on an actuarially funded basis.

Employer retirement contributions receivable were \$203,305,052 and \$190,049,516 as of September 30, 2010 and 2009, respectively. Of these employer contributions receivable, \$171,790,170 and \$164,832,706 were due from the CNMI Central Government as of September 30, 2010 and 2009, respectively. The CNMI Government and its autonomous agencies are in arrears in its employer contributions to the Fund.

The CNMI Government, through the Department of Finance, pledged to make regular bi-weekly payments to the Fund in the amount of \$1,100,000 to be applied to the balance in arrears for employer contributions beginning December 3, 2004. In June 2006, the CNMI governor signed Public Law No. 15-15 suspending employer contributions for the remainder of fiscal year 2006 and thereafter. On April 15, 2009, the CNMI governor signed Public Law 16-36 to mandate the CNMI government to prioritize the payment of employer contribution of government employees who are eligible to retire.

Management asserts the need to make a 100% allowance on this account. (See Note 19).

The NMIRF entered into a Memorandum of Understanding with two autonomous agencies to convert the past due employer contributions to notes receivable bearing 9% interest. Notes receivable from autonomous agencies as of September 30, 2010 and 2009 are as follows:

	2010	2009
Municipality of Tinian, payable in monthly installments of \$15,000 until January 1, 2021	\$ 1,860,823	\$ -
Commonwealth Ports Authority, fully paid as of September, 30, 2010	-	80,876
	\$ 1,860,823	\$ 80,876

**NORTHERN MARIANA ISLANDS RETIREMENT FUND**  
(A Component Unit of the CNMI Government)

Notes to Financial Statements  
September 30, 2010 and 2009

(8) Penalty on the Unpaid Contributions Due from CNMI Government

Pursuant to Public Law No. 6-41, codified in 1 CMC §8362, any employer who fails to pay or remit contributions as required by this section shall pay a penalty of 10% per month or part thereof for which the contribution remains unpaid, up to a maximum penalty of 25% of the unpaid contributions.

Assessed penalties on unpaid CNMI Government employer contributions amounted to \$47,862,142 and \$45,108,689 as of September 30, 2010 and 2009, respectively. The assessments were recorded as a receivable due from the CNMI Government. However, due to the uncertainty of the Government's ability to pay, the recognition of related revenue was deferred until payments are actually collected. See Note 22 for further discussion.

(9) Special Annuity

The Fund pays special annuities to certain government officials. The liability for these annuities is the responsibility of the CNMI Government.

Summary of changes in the receivable for special annuity as of September 30, 2010 and 2009 are as follows:

	<u>2010</u>	<u>2009</u>
Beginning balance	\$ 385,943	\$ 417,814
Annuity payments made	118,908	237,885
Appropriations received	<u>(119,274)</u>	<u>(269,756)</u>
Ending balance	<u>\$ 385,577</u>	<u>\$ 385,943</u>

As discussed in Note 4, appropriations receivable are recorded with a credit to deferred revenue. Actual revenues are only recorded when such are collectible within the current period or soon enough thereafter to pay liabilities of the current period. See Notes 10 and 22 for further discussion.

**NORTHERN MARIANA ISLANDS RETIREMENT FUND**  
(A Component Unit of the CNMI Government)

Notes to Financial Statements  
September 30, 2010 and 2009

(10) CNMI Appropriations

Public Law No. 11-41 earmarked 90% of poker machine licensing fees for the Fund. The fees were considered as part of the required employer contributions. However, during the fiscal year 2002, the CNMI Government suspended this law, leaving NMIRF with a receivable balance of \$8,494,020, which is still outstanding as of September 30, 2010 and 2009.

Public Law No. 8-31 earmarked the Fund with an amount of \$2,000,000 for fiscal years 2004 to 2006. The receivable from the CNMI Government from Public Law 8-31 appropriations was \$6,532,313 at September 30, 2010 and 2009.

Appropriations receivable are recorded with a credit to deferred revenue. Actual revenues are only recorded when such are collectible within the current period or soon enough thereafter to pay liabilities of the current period. See Note 22 for further disclosure.

(11) CNMI Judicial Building Loan Receivable

On February 28, 1995, the Board of Trustees approved a loan amount totaling \$13,528,331 to the CNMI for the construction of a judicial complex in Saipan. The loan bears an interest rate of 7.5% per annum, payable for a period of fifteen years. As of September 30, 1998, the NMIRF had paid or accrued all the construction progress billings on this project. The CNMI provided NMIRF adequate security for this loan in the form of a first mortgage on the real property on which the Judicial Complex was constructed and assignment of all its revenues. Accordingly, pursuant to Public Law No. 7-25, a Judicial Building Fund (JBF) was created. The JBF was established for the purpose of liquidating the cost of constructing the Judicial Complex and that all revenues collected by the Courts are directly deposited into this JBF. As of September 30, 2010 and 2009, the JBF has cash balance \$523 and \$364,562, respectively, reported as component of NMIRF's cash and Judicial Building Trust Fund payable.

The CNMI judicial building loan receivable balance at September 30, 2010 and 2009 was \$6,094,644 and \$6,950,565, respectively.

**NORTHERN MARIANA ISLANDS RETIREMENT FUND**  
(A Component Unit of the CNMI Government)

Notes to Financial Statements  
September 30, 2010 and 2009

(12) Member Home Loan Program

The Member Home Loan Program (MHLP) was created through Public Law No. 6-17 (effective April 1, 1991) and made available to all vested members of the Fund with at least 36 months of contributing service. This public law authorized up to 40% of Fund assets to be made available to MHLP. Borrowings are restricted to the construction, purchase, and improvement of principal residence or refinancing of existing mortgages on a member's home. The Fund 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.

As of September 30, 2010 and 2009, the member home loan program receivable amounts are as follows:

	2010	2009
Notes receivable	\$ 5,636,694	\$ 5,920,999
Allowance for doubtful accounts	(792,898)	(669,264)
Notes receivable, net	\$ 4,843,796	\$ 5,251,735

Interest income earned on the MHLP was \$501,895 and \$660,664 for the years ended September 30, 2010 and 2009, presented as component of interest and dividend income in the Statements of Changes in Plan Net Assets Available for Benefits.

(13) Notes Receivable from Commonwealth Government Employees' Credit Union

Public Law No. 9-52 became effective on September 18, 1995. This law authorized the NMIRF to loan the Commonwealth Government Employees' Credit Union (CGECU) up to \$2 million for a period of up to 30 years, with interest thereon at a rate that is at least equal to the actuarially assumed rate of return on plan assets which is 7.5% at October 1, 2009 and 2008.

On October 12, 1995, the NMIRF Board of Trustees approved a 30-year loan of \$1.2 million to the CGECU. On October 31, 1995, the loan amount was increased to \$2 million. The loan bears interest at an initial rate of 8% per annum and is to be repaid from the operating income of the CGECU. The loan is collateralized by real property and is secured by the full faith and credit of the CNMI Government. Carrying value of this note receivable as of September 30, 2010 and 2009 is \$1,572,224 and \$1,624,225, respectively. Interest income earned on this loan was \$128,020 and \$132,026 for the years ended September 30, 2010 and 2009, respectively, presented as component of interest and dividend income in the Statements of Changes in Plan Net Assets Available for Benefits.

As an inducement to enter into this loan agreement, the CNMI Government deeded two parcels of real property to the NMIRF. Each parcel is approximately 3,000 square meters. One property is on the island of Tinian and the other is on the island of Rota. These parcels have been included in the Statement of Plan Net Assets Available for Benefits as part of other assets at appraised value of \$546,650 as of May 12, 1997. See Note 21 for additional disclosures. Additionally, a first mortgage on real property located in Navy Hill, Saipan, CNMI was also used as collateral for this loan.

**NORTHERN MARIANA ISLANDS RETIREMENT FUND**  
(A Component Unit of the CNMI Government)

Notes to Financial Statements  
September 30, 2010 and 2009

(14) Loan Receivable Group Health Life Insurance Trust Fund (GHLI Trust Fund)

On February 1, 2008, the NMIRF Board of Trustees authorized a 3- year loan of \$1,200,000 to the GHLI Trust Fund. 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. Carrying value of this note receivable as of September 30, 2010 and 2009 is \$568,368 and \$881,272, respectively. Interest income earned on this loan was \$55,121 and \$71,772 for the years ended September 30, 2010 and 2009, respectively.

On March 10, 2010, the Fund entered into a Memorandum of Understanding with the CNMI Government, wherein the Fund agreed to provide a \$503,000 loan to the GHLI Trust Fund with a 9% rate of return. The CNMI Government agreed to make monthly payments of \$29,998 commencing on April 1, 2010 and continuing thereafter until the loan is paid in full on or before October 1, 2011. Carrying value of this note receivable as of September 30, 2010 is \$368,947. Interest income earned on this loan was \$15,835 for the year ended September 30, 2010, presented as component of interest and dividend income in the Statements of Changes in Plan Net Assets Available for Benefits.

(15) Early Retirement Bonus Program

On October 1, 1993, Public Law No. 8-30 established the Early Retirement Bonus Program. This public law provides for an early retirement bonus of 30% of a member's annual salary for members with at least 20 years of vesting service.

The early retirement bonus is included in the pension benefit calculation. Funding for the bonus is the responsibility of the employing agency. If the employing agency certifies that no funds are available, the Fund shall pay the bonus subject to appropriation by the CNMI Legislature. At September 30, 2010 and 2009, the Fund recognizes as receivable from CNMI Government \$3,631,090 for early retirement benefits.

For the fiscal year 2010 and 2009, the CNMI Department of Finance was not able to confirm the receivable balance because the CNMI Legislature has not budgeted nor appropriated funds for it. Consequently, due to the uncertainty of its collectibility, an allowance for uncollectible receivables of \$3,631,090 was presented at September 30, 2010 and 2009, respectively. See Note 19 for further disclosures on the allowance for uncollectible receivables.

**NORTHERN MARIANA ISLANDS RETIREMENT FUND**  
(A Component Unit of the CNMI Government)

Notes to Financial Statements  
September 30, 2010 and 2009

(16) Benefits Receivable

Benefits receivable consists of the following at September 30, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Buyback receivable	\$ 402,209	\$ 487,915
Underpayment of contributions	319,570	471,390
Benefits overpayment	<u>280,891</u>	<u>359,139</u>
Total	<u>\$1,002,670</u>	<u>\$1,318,444</u>

Following the modified accrual basis of recording revenue, which is also a generally accepted accounting principle in the United States of America for government entities, deferred revenue was credited when these receivables were recognized. Earned revenues will only be recognized when such receivables are actually collected. See Note 22 for further discussion on deferred revenues.

(17) Trust Territory Prior Service Receivables

Members of the NMIRF may enter into agreements with the NMIRF to purchase credit for services rendered (without making contributions) from October 1980 to the present. The agreements are for periods of up to seven years and bear interest at rates ranging from the actuarially assumed rate of return on plan assets (7.5% at October 1, 2001) to the average of the most recent 5-year rate of return on plan assets (7.5% at October 1, 2009). The balance due for such credits was \$780,733 at September 30, 2010 and 2009.

Individuals who were employed by the government of the Trust Territory of the Pacific Islands (TTPI) are entitled to purchase credit for services rendered to the TTPI.

Initially, the individuals were required to pay both the employer's and the employee's shares. Public Law 9-25 granted these individuals relief from paying in the employers' share and required that any employer contributions already paid-in be refunded and reported to the CNMI Legislature.

For the fiscal year 2010 and 2009, the CNMI Department of Finance was not able to confirm the receivable balance because the CNMI Legislature has not budgeted nor appropriated funds for it. Consequently, due to the uncertainty of its collectibility, an allowance for uncollectible receivables of \$780,733 was presented at September 30, 2010 and 2009. See Note 19 for further disclosures on the allowance for uncollectible receivables.

**NORTHERN MARIANA ISLANDS RETIREMENT FUND**  
(A Component Unit of the CNMI Government)

Notes to Financial Statements  
September 30, 2010 and 2009

(18) Other Receivables

At September 30, 2010 and 2009, other receivables of the DB Plan included in the Statement of Plan Net Assets Available for Benefits consist of the following:

	2010	2009
Receivable from broker	\$ 1,489,212	\$ 970,968
Others	420,254	306,116
	\$ 1,909,466	\$ 1,277,084

(19) Allowance for Uncollectible Receivables from Employers

The allowance for uncollectible receivables is stated at an amount which management believes will be adequate to absorb possible losses on receivables that may become uncollectible based on their evaluations and collections experience. The allowance is established through a provision for uncollectible receivables charged to expense.

As of September 30, 2010 and 2009, the allowance for uncollectible receivables from employers, consist of the following:

	2010	2009
<b>CNMI Primary Government:</b>		
Employer contributions (Note 7)	\$171,790,171	\$164,832,706
Early retirement bonus program (Note 15)	3,631,090	3,631,090
Prior service contribution (Note 17)	780,733	780,733
Total CNMI Primary Government	176,201,994	169,244,529
<b>CNMI Autonomous Agencies:</b>		
Employer contributions (Note 7)	31,514,881	25,216,809
	\$207,716,875	\$194,461,338

**NORTHERN MARIANA ISLANDS RETIREMENT FUND**  
(A Component Unit of the CNMI Government)

Notes to Financial Statements  
September 30, 2010 and 2009

(20) Capital Assets

The following is a summary of capital assets as of September 30, 2010 and 2009:

	2010	2009
Building improvements	\$3,785,118	\$3,706,447
Software	584,219	584,219
Office equipment and furniture	529,875	518,411
Mechanical equipment	367,850	361,000
Electrical equipment	208,698	208,698
Vehicles	74,890	74,890
	5,550,650	5,453,665
Accumulated depreciation	(2,320,821)	(2,196,274)
Depreciable assets, net	3,229,829	3,257,391
Construction in progress	-	78,671
Total	\$3,229,829	\$3,336,062

Depreciation expense for the years ended September 30, 2010 and 2009 are \$124,547 and \$127,957, respectively, presented as component of administrative expenses in the Statements of Changes in Plan Net Assets Available for Benefits.

(21) Other Assets

As of September 30, 2010 and 2009, the Fund classified as other assets, certain parcels of land deeded by CGECU to NMIRF valued at cost of \$546,650 and incurred \$275,513 of architectural and engineering services for the design of its office buildings on Rota and Tinian, which totals \$822,163 as of September 30, 2010 and 2009.

The project in Rota and Tinian started on May 27, 1998 but its completion was subsequently deferred until further funding is made available from the CNMI Government. The cost of architectural and engineering services may already be subject to impairment; however, the accompanying financial statements have not been adjusted to reflect any impairment.

**NORTHERN MARIANA ISLANDS RETIREMENT FUND**  
(A Component Unit of the CNMI Government)

Notes to Financial Statements  
September 30, 2010 and 2009

(22) Deferred Revenue

Revenues from the CNMI Government, except contributions which is governed by GASB 25, were deferred. This is following the concept of modified accrual basis and the current financial resources measurement focus wherein earned revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period.

As of September 30, 2010 and 2009, deferred revenue consists of the following:

	<u>2010</u>	<u>2009</u>
Penalty for unpaid contributions (Note 8)	\$ 47,862,142	\$ 45,108,689
CNMI appropriations (Note 10)	15,112,799	15,026,333
Benefits receivable (Note 16)	1,002,670	1,314,644
Special annuity (Note 9)	385,577	385,943
Prior service trust fund	<u>51,466</u>	<u>51,466</u>
	<u>\$ 64,414,654</u>	<u>\$ 61,887,075</u>

**NORTHERN MARIANA ISLANDS RETIREMENT FUND**  
(A Component Unit of the CNMI Government)

Notes to Financial Statements  
September 30, 2010 and 2009

(23) Funding Policy, Status and Progress

As a condition of participation, Class I members are required to contribute 9.5% of their annual salary and Class II members are required to contribute 11% of their annual salary to the Fund. The Government and its agencies are required to contribute, each year, an amount equal to that year's obligations for annuities, benefits and administration. The Fund's Board of Trustees makes such a determination and reports the needed funding to the CNMI Legislature. In addition, Public Law 5-3 earmarked 90% of the revenues derived from poker machine licensing fees to the Fund. The Board also advises the CNMI Legislature of the actuarially determined percentage of payroll necessary to fund the retirement program. The CNMI Legislature is required to meet the actuarial funding requirement.

Based on the most recent actuarial valuation report (as of October 1, 2009), the actuarially computed funding requirement is 60.8686% of covered payroll.

The pension benefit obligation, which is the actuarial present value of credited projected benefits, is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employment service to date. The measure is intended to assist users to evaluate the Fund's funding status on a going-concern basis, and to evaluate progress made in accumulating adequate assets to pay benefits when due.

This measure is independent of the actuarial funding method as discussed in Note 24 to the financial statements. Information regarding the Fund's historical trend of accumulating assets to pay benefits is included in the financial statements as supplementary information.

The pension benefit obligation was determined as part of the actuarial valuation at October 1, 2009. Significant actuarial assumptions are similar to those used in arriving at the actuarial present value of accumulated plan benefits.

**NORTHERN MARIANA ISLANDS RETIREMENT FUND**  
(A Component Unit of the CNMI Government)

Notes to Financial Statements  
September 30, 2010 and 2009

(23) Funding Policy, Status and Progress, Continued

As of October 1, 2009, the unfunded pension benefit obligation was as follows (obtained from page 12 of the May 2011 Actuarial Report:

	<u>Class II</u>	<u>Class I</u>	<u>Total</u>
Present value of vested accrued benefits:			
Active participants	\$ 29,661,480	\$101,227,588	\$ 130,889,068
Terminated with vested benefits	2,181,915	4,809,130	6,991,045
Retired and beneficiaries	<u>589,339,790</u>	<u>124,603,287</u>	<u>713,943,077</u>
	621,183,185	230,640,005	851,823,190
Non-vested accrued benefits	<u>13,325,090</u>	<u>46,040,502</u>	<u>59,365,592</u>
Total present value of accrued benefits	634,508,275	276,680,507	911,188,782
Net assets available for benefits, at market value	<u>(126,654,620)</u>	<u>(226,820,792)</u>	<u>(353,475,412)</u>
Unfunded benefit obligation (Excess market value over accrued benefits)	<u>\$507,853,655</u>	<u>\$ 49,859,715</u>	<u>\$557,713,370</u>

The October 1, 2009 actuarial valuation include 1) an update of actuarial assumptions for cost of living adjustment increases and retirement age; 2) the effect of Public Law 15-70 increasing the member contribution rates to 10.5% and 11% for class I and II members, respectively; and 3) capping the COLA to the first \$30,000 of benefits.

The present values of vested and non-vested accrued benefits provide a measure of the value of future plan benefit payments resulting from services earned to the valuation date. It is intended that when these measures are compared to plan assets, they will be used in assessing the progress being made towards funding such benefits. These amounts meet the reporting requirements of FASB ASC Topic 960, *Plan Accounting - Defined Benefit Pension Plan*.

**NORTHERN MARIANA ISLANDS RETIREMENT FUND**  
(A Component Unit of the CNMI Government)

Notes to Financial Statements  
September 30, 2010 and 2009

(24) Contributions Required and Contributions Made

An independent actuary determines the funding requirement. It is computed as that percentage of total payroll that is necessary to accumulate sufficient assets to pay benefits when due. Level percentage of payroll contribution rates was determined using the Entry Age normal cost method. The Fund also uses the level percentage of payroll method to amortize the unfunded liability over a period not to exceed 40 years from October 2006.

Significant actuarial assumptions used to compute contribution requirements are the same as those used to compute the actuarial present value of accumulated plan benefits and the pension benefit obligation as mentioned in Notes 2 and 23 respectively, to the accompanying financial statements.

As of the most recent actuarial valuation report (October 1, 2009), the computed funding requirements for Class I members are 13.2369% and 9.5% for employers and employees, respectively, and for Class II members the requirements are 726.6393% and 11% for employers and employees, respectively, of covered payroll.

(25) Excess Accumulated Plan Benefits over Plan Net Assets Available for Benefits

Based on the latest actuarial valuation of the DB Plan dated October 1, 2009, the present value of accrued benefits amounts to \$928,755,628. As of September 30, 2010 plan net assets available for benefits was \$355,557,796.

This Statement shows that should the plan terminate at September 30, 2010, the Fund's plan net assets available for benefits is not enough to pay for its accrued benefits. Present value of accrued benefits in excess of the plan net assets available for benefit was \$573,197,832.

**NORTHERN MARIANA ISLANDS RETIREMENT FUND**  
(A Component Unit of the CNMI Government)

Notes to Financial Statements  
September 30, 2010 and 2009

(26) Concentration of Risk

The NMIRF is a public employees' retirement system open to employees of the CNMI Government. All active participants live and work in the CNMI. Retirees live primarily in the CNMI; however, some retirees live in the Continental United States of America, Guam and other countries.

The NMIRF has investment policies that prohibit concentration of its risk in investment portfolio. All loans receivable at September 30, 2010 and 2009 are to individuals or entities located in the CNMI. The NMIRF's policy is to require sufficient collateral to secure loans made, usually in the form of a real estate mortgage. The NMIRF has immediate access to such collateral, and maintains mortgage documents in its files.

Should all borrowers default on their loan agreements and the value of any collateral is determined to be worthless, the accounting loss the NMIRF would incur would be equal to the balance of loans receivable as shown in the accompanying financial statements.

(27) Risk Management

The NMIRF is subject to various risks in the normal course of business. The NMIRF protects itself against property and liability risks in part by purchasing insurance from private companies. The NMIRF is self-insured for workers' compensation claims.

(28) Contingencies

For the purpose of increasing its available funding, NMIRF ("Seller") executed a loan purchase agreement with the Guam Savings and Loan Association, now known as Bank Pacific ("Buyer") for certain loans under the Member Home Loan Program amounting to \$3,024,914. Such loans were sold with full recourse. Under the terms of this agreement, Seller shall repurchase the loan in default from the Buyer at an amount equal to the unpaid principal balance, all accrued and unpaid interest, and all costs and fees incurred by Buyer to the date of repurchase. As of September 30, 2010 and 2009, no qualified loans were delinquent, and although some uncertainty exist, NMIRF believes that the borrowers can pay the remaining balance and that ultimately, no liability would arise from this agreement.

**NORTHERN MARIANA ISLANDS RETIREMENT FUND**  
(A Component Unit of the CNMI Government)

Notes to Financial Statements  
September 30, 2010 and 2009

(29) Other Matters

Prior to fiscal year 2010 the Fund has not remitted nor provided for the fees for the Office of the Public Auditor. 1 CMC Division 7 Chapter 3 § 7831, states that "the Executive Director for all corporations or other autonomous agencies of the CNMI which are not funded primarily by legislative appropriations shall pay to the CNMI Treasurer an amount not less than the greater of one percent (1%) of its total operations budget from sources other than legislative appropriations or pursuant to any other formula upon which the Public Auditor and the agency may agree". The fund is negotiating with the Public Auditor for a lesser fee, since the Fund does not have any other source of income aside from contributions and investment income which the Fund only holds in fiduciary capacity for its members. The accompanying financial statements do not include any estimated liability that may arise in relation with this statute.

(30) Subsequent Events

NMIRF evaluated subsequent events from September 30, 2010 through May 20, 2011, the date the financial statements were available to be issued. The Fund did not note any material subsequent events requiring disclosure or adjustment.

(31) Reclassification

Certain account balances for the year ended September 30, 2009, were reclassified to conform with the September 30, 2010 financial statements presentation.

**NORTHERN MARIANA ISLANDS RETIREMENT FUND**  
(A Component Unit of the CNMI Government)

Required Supplementary Information  
Schedule of Funding Progress – Defined Benefit Plan

September 30, 2010

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Funded Ratio (a/b)
Oct. 1, 2000	\$ 453,519,324	\$ 809,397,124	56.0%
Oct. 1, 2001	\$ 375,089,058	\$ 863,782,365	43.4%
Oct. 1, 2002	\$ 335,285,391	\$ 909,298,181	36.9%
Oct. 1, 2003	\$ 385,672,027	\$ 902,640,147	42.7%
Oct. 1, 2004	\$ 399,806,956	\$ 951,849,098	42.0%
Oct. 1, 2005	\$ 460,131,501	\$ 1,007,330,985	45.7%
Oct. 1, 2006	\$ 472,688,490	\$ 987,148,939	45.9%
Oct. 1, 2007	\$ 510,197,976	\$ 879,262,269	58.0%
Oct. 1, 2008	\$ 403,205,012	\$ 933,062,839	43.2%
Oct. 1, 2009	\$ 353,475,412	\$ 945,250,477	37.4%

Actuarial Valuation Date	Unfunded AAL (UAAL) (b-a)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
Oct. 1, 2000	\$ 355,877,800	\$ 144,720,672	245.91%
Oct. 1, 2001	\$ 488,693,307	\$ 151,695,905	322.15%
Oct. 1, 2002	\$ 574,012,790	\$ 147,433,030	389.34%
Oct. 1, 2003	\$ 516,968,120	\$ 150,272,175	344.02%
Oct. 1, 2004	\$ 552,042,142	\$ 150,265,226	367.38%
Oct. 1, 2005	\$ 547,199,484	\$ 147,584,792	370.77%
Oct. 1, 2006	\$ 514,460,449	\$ 137,098,513	375.25%
Oct. 1, 2007	\$ 369,064,293	\$ 117,820,440	313.24%
Oct. 1, 2008	\$ 529,857,827	\$ 91,053,703	581.90%
Oct. 1, 2009	\$ 591,775,065	\$ 80,775,065	736.40%

See accompanying notes to required supplementary information.

**NORTHERN MARIANA ISLANDS RETIREMENT FUND**  
(A Component Unit of the CNMI Government)

Required Supplementary Information  
Schedule of Employer Contribution – Defined Benefit Plan

September 30, 2010

<u>Years Ended</u> <u>September 30</u>	<u>Annual</u> <u>Required</u> <u>Employer</u> <u>Contributions</u>	<u>Actual</u> <u>Employer</u> <u>Contributions</u> <u>Received</u>	<u>Percentage</u> <u>Contributed</u>
2001	\$ 41,172,999	\$ 16,972,137	41.22%
2002	\$ 38,297,318	\$ 25,506,419	66.60%
2003	\$ 41,968,946	\$ 25,142,680	59.91%
2004	\$ 40,614,528	\$ 34,312,705	84.48%
2005	\$ 40,284,859	\$ 33,947,623	84.47%
2006	\$ 40,747,619	\$ 25,336,594	62.18%
2007	\$ 58,127,114	\$ 18,439,692	31.72%
2008	\$ 49,135,385	\$ 21,344,895	43.44%
2009	\$ 36,329,772	\$ 11,611,068	32.96%
2010	\$ 32,660,238	\$ 19,404,702	54.41%

See accompanying notes to required supplementary information.

**NORTHERN MARIANA ISLANDS RETIREMENT FUND**  
(A Component Unit of the CNMI Government)

Notes to Required Supplementary Information  
September 30, 2010

(1) Schedule of Funding Progress

The actuarial accrued liability is a measure intended to help assess each of the plan's funding status on a going-concern basis and assess progress being made in accumulating sufficient assets to pay benefits when due. The actuarial value of assets is determined on a market-related basis that recognizes 20% of the current year's unrecognized and unanticipated gains and loss (both realized and unrealized). Allocation of the actuarial present value of projected benefits between past and future service is based on service using the entry age actuarial cost method. Assumptions, including projected pay increases, are the same as used to determine the plan's annual required contribution between entry age and assumed exit age. Entry age is established by subtracting credited service from current age on the valuation date. For additional information refer to Note 23 to the accompanying financial statements, Funding Policy Status and Progress.

(2) Actuarial Assumptions

The information presented in the required supplementary information was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows:

Valuation date	October 1, 2009
Actuarial cost method	Entry age
Amortization method	level percent – period is open
Remaining amortization period	37 years (commencing October 1, 2009)
Asset valuation method	Market value, including accrued contributions
Actuarial assumptions:	
Investment rate of return	7.5%
Projected salary increases	3.0%

---

**NORTHERN MARIANA ISLANDS RETIREMENT FUND  
(A Component Unit of the CNMI Government)**

---

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

---

**Year Ended September 30, 2010**

**SAIPAN**

Family Building, Suite 201  
PMB 297 Box 10000  
Saipan, MP 96950  
Tel Nos. (670) 233-1837/0456  
Fax No. (670) 233-8214

**GUAM**

Reflection Center, Suite 204  
P.O. Box 12734  
Tamuning, GU 96931  
Tel Nos. (671) 472-2680/2687  
Fax No. (671) 472-2686

**PALAU**

PIDC Apartment No. 11  
P.O. Box 1266  
Koror, PW 96940  
Tel No. (680) 488-8615  
Fax No. (680) 488-8616

**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  
Northern Mariana Islands Retirement Fund

I have audited the financial statements of Northern Mariana Islands Retirement Fund (NMIRF) as of and for the year ended September 30, 2010, and have issued my report thereon dated May 20, 2011. 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 NMIRF's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of NMIRF's internal control over financial reporting.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether NMIRF'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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings as finding nos. 2010-01 and 2010-02.

NMIRF's responses to the findings identified in my audit are described in the accompanying Schedule of Findings. I did not audit NMIRF's responses and accordingly, I express no opinion on it.

I noted certain matters that I reported to management of NMIRF in a separate letter dated May 20, 2011.

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

  
Saipan, Commonwealth of the Northern Mariana Islands  
May 20, 2011

**NORTHERN MARIANA ISLANDS RETIREMENT FUND**  
 (A Component Unit of the CNMI Government)

Schedule of Findings  
 September 30, 2010

**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 – INDEX TO FINANCIAL STATEMENTS FINDINGS**

<u>Reference Number</u>	<u>Findings</u>	<u>Reference Page Number</u>
2010-01	Timely posting and reconciliation of member contributions to individual member ledgers.	58
2010-02	Timely distribution of 1099R (Distribution From Pensions, Annuities, Retirement or Profit Sharing Plans, IRAs, Insurance Contract, etc.)	60

**NORTHERN MARIANA ISLANDS RETIREMENT FUND**  
(A Component Unit of the CNMI Government)

Schedule of Findings  
September 30, 2010

**SECTION II – FINANCIAL STATEMENTS FINDINGS**

**Finding No. 2010-01 Timely posting and reconciliation of Member contributions to individual Member ledgers**

**Criteria:**

Pursuant to the NMIRF Rules and Regulations, the Fund should provide its active members on or before March 30<sup>th</sup> of each year, a statement of contributions made and interest earned.

**Context:**

Audit of member contributions revenue.

**Condition:**

The NMIRF Records Section was not able to timely reconcile the member ledgers with the remittance from the CNMI autonomous agencies, thus it was not able to update the individual member ledgers in a timely manner.

**Cause:**

The NMIRF Records Section, due to software complications and staff turnover, was not able to timely upload the member contributions to the member ledgers.

**Effect:**

NMIRF is not in compliance with its Rules and Regulations regarding the distribution of member contribution statements.

**Recommendation:**

NMIRF should document the Records Section's policies and procedures in an operation manual. In the event of employee turnover, new employees can access the applicable operational policies and procedures and obtain understanding of the day-to-day operations for the required task. This will reduce the time NMIRF invests in training new employees and facilitate the continuity and efficiency of its operations.

NMIRF should also review the uploading procedures and the attributes of the upload files received from the various CNMI autonomous agencies and ensure that its database software can perform certain verification tests on that data to limit the manual reconciliations and adjustments.

**NORTHERN MARIANA ISLANDS RETIREMENT FUND**  
(A Component Unit of the CNMI Government)

Schedule of Findings  
September 30, 2010

**SECTION II – FINANCIAL STATEMENTS FINDINGS**

**Finding No. 2010-01 Timely posting and reconciliation of Member contributions to individual Member ledgers, Continued**

**Auditee Response:**

NMIRF agrees with the finding. NMIRF experienced significant turnover of employees during fiscal year 2010. The Records and Statistics Manager accelerated her retirement from the original date leaving very little time for transitioning staff and hiring additional employees needed for Member Services. Although the Fund filled the required positions, the learning curve along with the current pension system created a back log of work, particularly in records maintenance, since the Member Services were inundated with an increase in the volume of retirement applications.

The Fund has addressed the staff shortage in Member Services. Currently there are four staff (Benefits Analyst, Benefits Technician I and II, and Benefits Specialist) under the direction of a relatively new Member Services Manager. The workload has been re-distributed and the posting of individual contributions has been prioritized. In addition Member Services has worked closer with the CNMI Central Government to reconcile the data transmitted to the Fund so as to make the process more efficient.

**NORTHERN MARIANA ISLANDS RETIREMENT FUND**  
(A Component Unit of the CNMI Government)

Schedule of Findings  
September 30, 2010

**SECTION II – FINANCIAL STATEMENTS FINDINGS**

**Finding No. 2010-02 Distribution of the Form 1099R**

**Criteria:**

Pursuant to the Internal Revenue Service (IRS) regulations, mirrored by the Northern Mariana Island Territorial Income Tax, any person, including a corporation, partnership, individual, estate, and trust, who make reportable transactions during the calendar year must file Information Returns to report those transactions to the IRS. Persons required to file Information Returns to the IRS must also furnish statements to the recipients of the income. Filers who have 250 or more individual distributions made, must file these returns electronically.

The NMIRF, being a retirement fund with more than 250 beneficiaries, is required to issue 1099-R *Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.* to its recipients on or before January 31<sup>st</sup> and must electronically file with CNMI Division of Revenue and Taxation on or before March 31<sup>st</sup>.

**Context:**

Audit of compliance with tax rules and regulations.

**Condition:**

The NMIRF was not able to distribute Form 1099 to its recipients before the January 31<sup>st</sup> deadline. Furthermore the database for the electronic filing did not include recipients who retired in fiscal year 2010.

**Cause:**

The condition is due to software complication and staff turnover in the Records Section.

**Effect:**

The NMIRF is not in compliance with Revenue and Taxation regulations. The Taxation Authorities may sanction penalties related to this failure to file timely.

**NORTHERN MARIANA ISLANDS RETIREMENT FUND**  
(A Component Unit of the CNMI Government)

Schedule of Findings  
September 30, 2010

**SECTION II – FINANCIAL STATEMENTS FINDINGS**

**Finding No. 2010-02 Distribution of the Form 1099R, Continued**

**Recommendation:**

The Database software should be modified or updated in order to run validation checks to ensure completeness of information reported.

As recommended in Finding 2010-01, NMIRF should document the Records Section's policies and procedures in an operation manual. In the event of employee turnover, new employees can access the applicable operational policies and procedures and obtain understanding of the day-to-day operations for the required task. This will reduce the time NMIRF invests in training new employees and facilitate the continuity and efficiency of its operations.

**Auditee Response:**

NMIRF agrees with the finding. As previously discussed the accelerated retirement of the Records and Statistics Manager in 2009 did not allow proper transitioning of responsibilities and training to the staff. One of the key tasks of generating the 1099R, particularly for new retirees, affected the Fund's ability to generate the 1099R for some retirees – those who retired in late 2009 forward. The late distribution of the 1099R only affected those retirees. The problem had been identified and the Fund was able to eventually issue the 1099R to those affected retirees.

**NORTHERN MARIANA ISLANDS RETIREMENT FUND**  
(A Component Unit of the CNMI Government)

Schedule of Findings  
September 30, 2010

**SECTION III – STATUS OF PRIOR YEAR FINDINGS**

<u>Reference Number</u>	<u>Findings</u>	<u>Status</u>
2009-01	Reconciliation of Employers Contributions Receivable	Resolved.
2009-02	Reconciliation of Subsidiary Ledgers to General Ledger Balances	Partially resolved. Reconciliations were prepared, however actual adjustments to the ledgers were not posted. This matter is reported in the management letter.
2009-03	Overpayment of Refund	Unresolved. There were no documentations in fiscal year 2010 showing subsequent collection or communication with the former member who was overpaid.
2009-04	Review of Contract with Third-party Systems Developer	Unresolved. The new database software is still not fully utilized. The NMIRF is still exploring options on how to recover from the vendor.

---

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

---

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

---

**Years Ended September 30, 2010 and 2009**



CERTIFIED PUBLIC ACCOUNTANT

**SAIPAN**

Family Building, Suite 201  
PMB 297 Box 10000  
Saipan, MP 96950  
Tel Nos. (670) 233-1837/0456  
Fax No. (670) 233-8214

**GUAM**

Reflection Center, Suite 204  
P.O. Box 12734  
Tamuning, GU 96931  
Tel Nos. (671) 472-2680/2687  
Fax No. (671) 472-2686

**PALAU**

PIDC Apartment No. 11  
P.O. Box 1266  
Koror, PW 96940  
Tel No. (680) 488-8615  
Fax No. (680) 488-8616

**INDEPENDENT AUDITOR'S REPORT**

The Board of Trustees  
CNMI Workers' Compensation Commission

I have audited the accompanying statements of fiduciary net assets of the Commonwealth of the Northern Mariana Islands (CNMI) Workers' Compensation Commission (WCC), a component unit of the CNMI Government, as of September 30, 2010 and 2009 and the related statements of changes in fiduciary net assets for the years then ended. These financial statements are the responsibility of WCC's management. My responsibility is to express an opinion on these financial statements based on my audits.

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

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

In my opinion, except for the effect of such adjustments, if any, as might have been determined to be necessary had the reserve been established, as discussed in the third paragraph, the basic financial statements referred to above present fairly, in all material respects, WCC's statements of fiduciary net assets, as of September 30, 2010 and 2009, and the related statements of changes in fiduciary net assets for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, I have also issued my report dated May 20, 2011 on my consideration of the CNMI Workers' Compensation Commission's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and other matters. The purpose of that report is to describe the scope of my testing, and not to provide an opinion on the internal control over financial reporting on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of my audit.

The management's discussion and analysis on pages 65 through 70 is not a required part of the basic financial statements and is the responsibility of WCC's management but are supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.

My audits were conducted for the purpose of forming opinion on the financial statements that collectively comprise WCC's basic financial statements. The statistical tables are presented for purposes of additional analysis, are not a required part of the basic financial statements and are the responsibility of WCC's management. The statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, I express no opinion on them.

  
Saipan, Commonwealth of the Northern Mariana Islands  
May 20, 2011

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

Management's Discussion and Analysis  
September 30, 2010 and 2009

This section presents Management's Discussion and Analysis (MD&A) of the financial activities of the Commonwealth of Northern Mariana Islands (CNMI) Workers' Compensation Commission (WCC) as a narrative overview for the years ended September 30, 2010 and 2009. Readers are encouraged to consider the information presented in conjunction with the letter of transmittal and the WCC financial statements.

**FINANCIAL HIGHLIGHTS**

- Fund net assets held in trust as of September 30, 2010 and 2009 were \$1,403,256 and \$1,265,975, respectively, an increase of \$137,281 or 10.8% from prior year.
- Total revenues, as reflected in the Statements of Changes in Fiduciary Net Assets, were \$296,791 and \$259,408 for the years ended September 30, 2010 and 2009, respectively. Total revenues increased by \$37,383 or 14.4% for the year ended September 30, 2010. The primary reason for the increase in revenue is the positive turnaround of the investment portfolio.
- Total expenditures, as reflected in the Statements of Changes in Fiduciary Net Assets, were \$159,510 and \$220,280 for the years ended September 30, 2010 and 2009, respectively, which translates into a \$60,770 or 27.6% reduction in expenditures. During fiscal year 2010, the monthly allotments from the CNMI Government were reduced by 7.25% from March through September 2010. Consequently, WCC reduced its operational costs to stay within the reduced budgetary allocation.

**OVERVIEW OF FINANCIAL STATEMENTS**

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

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

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

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

Management's Discussion and Analysis  
September 30, 2010 and 2009

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

**FINANCIAL ANALYSIS**

**Net Assets**

As of September 30, 2010, 2009 and 2008, net assets were \$1,403,256, \$1,265,975 and \$1,226,847, respectively. Total assets of \$2,249,876, \$2,196,728 and \$2,114,253 exceeded total liabilities of \$846,620, \$930,753 and \$887,406 as of September 30, 2010, 2009 and 2008, respectively. Net assets represent resources available for future payments, which means after all liabilities are paid off, WCC has at end of September 30, 2010, 2009 and 2008, \$1,403,256, \$1,265,975 and \$1,226,847, respectively, to pay for workers' compensation benefits.

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

<b>Fiduciary Net Assets</b> (in thousands)	<b>2009</b>	<b>2008</b>	<b>Change</b>	
			<b>Amount</b>	<b>%</b>
Cash and restricted deposits	\$ 727	\$ 608	\$ 119	19.6
Investments, at fair market value	663	683	(20)	(2.9)
Receivables	806	822	(16)	(1.9)
Capital assets, net	1	1	-	-
<b>Total Assets</b>	<b>2,197</b>	<b>2,114</b>	<b>83</b>	<b>3.9</b>
Accounts payable and accrued liabilities	131	67	64	95.5
Deferred revenue	800	820	(20)	(2.4)
<b>Total Liabilities</b>	<b>931</b>	<b>887</b>	<b>44</b>	<b>5.0</b>
<b>Net Assets</b>	<b>\$ 1,266</b>	<b>\$ 1,227</b>	<b>\$ 39</b>	<b>3.2</b>

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

Management's Discussion and Analysis  
September 30, 2010 and 2009

Changes in Net Assets

The following table presents the changes in fiduciary net assets for the years ended September 30, 2010, 2009, and 2008, respectively.

Changes in Fiduciary Net Assets (in thousands)			Change	
	2010	2009	Amount	%
Revenues	\$ 297	\$ 259	\$ 38	14.7
Expenditures	160	220	(60)	(27.3)
Net increase	137	39	98	251.3
Fiduciary net assets, beginning	1,266	1,227	39	3.2
Fiduciary net assets, ending	\$ 1,403	\$ 1,266	\$ 137	10.8

Changes in Fiduciary Net Assets (in thousands)			Change	
	2009	2008	Amount	%
Revenues	\$ 259	\$ 210	\$ 49	23.3
Expenditures	220	197	23	11.7
Net increase	39	13	26	200.0
Fiduciary net assets, beginning	1,227	1,214	13	1.1
Fiduciary net assets, ending	\$ 1,266	\$ 1,227	\$ 39	3.2

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

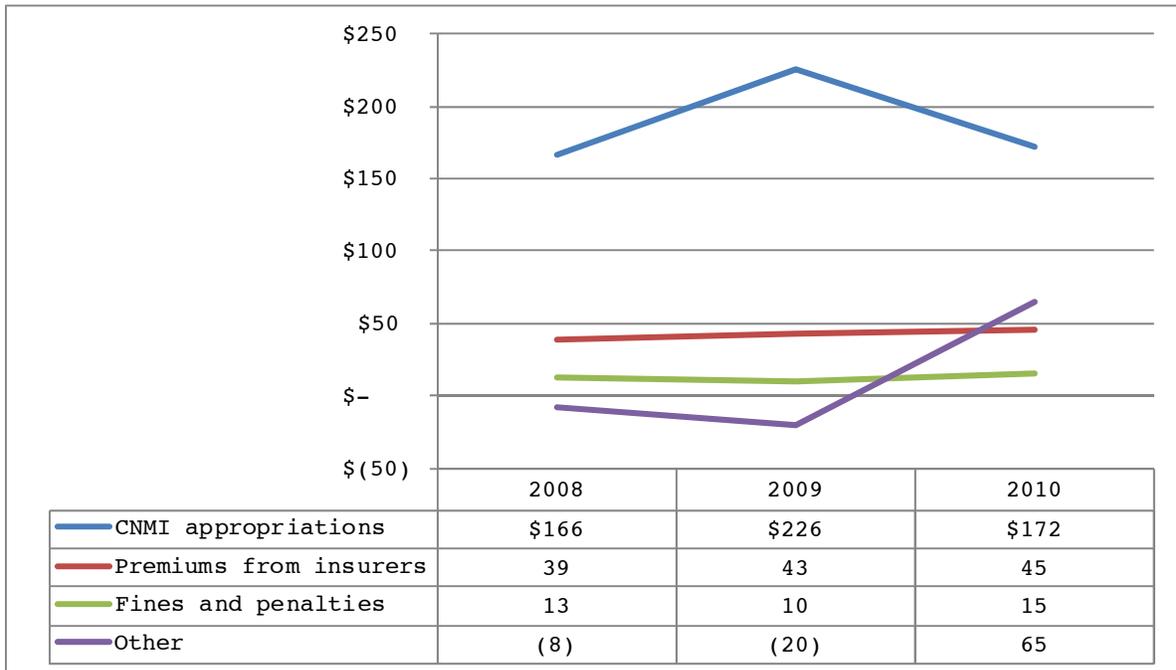
Management's Discussion and Analysis  
September 30, 2010 and 2009

Revenues

<b>Revenues</b> (in thousands)	<b>2010</b>	<b>2009</b>	<b>2008</b>
CNMI appropriations	\$ 172	\$ 226	\$ 166
Premiums from insurers	45	43	39
Fines and penalties	15	10	13
Other	65	(20)	(8)
<b>Total</b>	<b>\$ 297</b>	<b>\$ 259</b>	<b>\$ 210</b>

There have been no significant changes in WCC's revenues in the past three years. The CNMI appropriations remained the same over the past three years. However, the increase in revenues collected in fiscal year 2010 over fiscal year 2009 is mainly attributable to favorable market performance from investments, as shown in the \$65 thousand in the "Other" category, compared to loss from investments of \$20 thousand in fiscal year 2009. Although the increase in revenues from fiscal year 2008 to fiscal year 2009 was greater than from fiscal year 2009 to fiscal year 2010, 23% versus 15% respectively, that was due to fiscal year 2008 appropriations that WCC received in fiscal year 2009. The fiscal year 2010 increase also indicated increased collection activity in the "Fines and penalties" category as well as the "Premiums from insurers" category.

WCC has revenue potential if collection efforts are exerted on outstanding claims assessments valued at \$743,976, \$800,007 and \$820,046 as of September 30, 2010, 2009, and 2008, respectively.



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

Management's Discussion and Analysis  
September 30, 2010 and 2009

Expenditures

Expenditures (in thousands)	2010		2009		2008	
	Amount	%	Amount	%	Amount	%
Salaries and wages	\$ 62	38.8%	\$ 84	38.2%	\$ 83	42.1%
Disability claims	35	21.9%	47	21.4%	21	10.7%
Employee benefits	34	21.3%	43	19.5%	40	20.3%
Other administrative expenses	29	18.1%	46	20.9%	53	26.9%
<b>Total</b>	<b>\$ 160</b>	<b>100.0%</b>	<b>\$ 220</b>	<b>100.0%</b>	<b>\$ 197</b>	<b>100.0%</b>

The primary uses of WCC's assets include the payment of benefits to members, salaries and benefits of its employees and the cost of administering the fund. For the years ended September 30, 2010, 2009 and 2008, expenditures were \$159,510, \$220,280 and \$197,007, respectively, reflecting a decrease of \$60,770 or 27.6% in 2010 and an increase of \$23,273 or 11.8% in 2009. The significant decrease in 2010 is due mainly to: 1) 25% cut in personnel costs resulting from the transfer of personnel from WCC account to NMIRF pursuant to recommendations from an independent desk audit performed; 2) 24% reduction in disability claims due to the decrease in the number of claims filed in fiscal year 2010; 3) 69% reduction in professional fees attributable to reduced legal fees; 4) 28% reduction in rental fees stemming from the monthly rental decreasing from \$966.25 to \$845.00; 5) 45% reduction in utility charges attributable to the relocation of the WCC office from a larger office space on the second floor to the smaller space on the first floor; 6) 69% reduction on repairs and maintenances and 7) 34% reduction in communications costs. In March of fiscal year 2009, WCC incurred a significant cost in communications from the relocation of the telephone lines from the second floor to the first floor which contributed to the 34% decrease in communication costs from fiscal year 2009 to 2010.

OVERALL ANALYSIS

Overall, as of September 30, 2010, 2009 and 2008 and for the years then ended, WCC's financial position and results of operations have increased over each prior year. For the years ended September 30, 2010, 2009 and 2008, net assets increased \$137,282 or 10.8%, \$39,128 or 3.2% and \$12,928 or 1.1%, respectively, over the prior years. The appropriations received from the CNMI Government are just enough to cover administration of the fund and provide for current claims and does not provide for premiums to increase reserve to fund future claims. WCC have not commissioned an actuarial valuation of future death and medical benefits.

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

Management's Discussion and Analysis  
September 30, 2010 and 2009

OTHER SIGNIFICANT MATTERS

Continuing Risk Exposure

The imminent risk surrounding the government workers' compensation program is mainly due to under-funding. The CNMI is self-insured on its workers' compensation program covering over 5,700 employees.

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

The Board of Trustees has communicated this issue twice to the CNMI Legislature in order to reduce the risk exposure of the CNMI Government.

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

REQUEST FOR INFORMATION

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

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

Mr. David Demapan  
Comptroller  
CNMI Workers' Compensation Commission  
PO Box 501247 CK  
Saipan, MP 96950  
<http://www.nmiretirement.com>

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

Statements of Fiduciary Net Assets  
September 30, 2010 and 2009

<u>Assets</u>	Expendable Trust Fund	
	2010	2009
Cash and cash equivalents (Note 2)	\$ 146,752	\$ 183,416
Restricted cash - Special Disability Fund (Note 3)	475,711	416,295
Restricted certificate of deposit - Special Disability Fund (Note 3)	133,101	126,816
Investments (Notes 2 and 4)	721,309	663,098
Accounts receivable (Notes 6 and 7)	743,976	800,007
Appropriations receivable (Note 8)	20,008	-
Other receivables	6,596	5,933
Capital assets, net (Notes 2 and 5)	2,423	1,163
Total assets	2,249,876	2,196,728
<u>Liabilities</u>		
Accounts payable and accrued liabilities (Note 2)	102,644	130,746
Deferred revenue (Note 7)	743,976	800,007
Total liabilities	846,620	930,753
Contingencies (Note 9)		
<u>Net Assets</u>		
Held in trust for workers' compensation benefits and other purposes	\$ 1,403,256	\$ 1,265,975

See accompanying notes to financial statements.

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

Statements of Changes in Fiduciary Net Assets  
Years ended September 30, 2010 and 2009

	2010	2009
<b>Revenues:</b>		
CNMI appropriations (Note 8)	\$ 172,274	\$ 226,582
Premiums from insurers	44,807	42,609
Assessments, fines and penalties (Note 6)	14,907	9,865
Investment income	20,863	16,443
Unrealized gains (loss) on investments	43,940	(36,091)
Total revenues, net	296,791	259,408
<b>Expenditures:</b>		
Salaries and wages	61,977	84,326
Disability claims	35,451	46,553
Employee benefits	34,396	43,538
Rent	10,140	14,013
Professional fees	4,500	14,502
Utilities	3,918	7,121
Office supplies	3,544	2,270
Communications	1,551	2,344
Repairs and maintenance	954	3,031
Depreciation (Note 5)	478	841
Management and custodial fees	307	262
Miscellaneous	2,294	1,479
Total expenditures	159,510	220,280
Net increase	137,281	39,128
Net assets, beginning of the year	1,265,975	1,226,847
Net assets, end of the year	\$ 1,403,256	\$ 1,265,975

See accompanying notes to financial statements.

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

Notes to Financial Statements  
September 30, 2010 and 2009

(1) Organization

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

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

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

*Limits of Liability*

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

(2) Summary of Significant Accounting Policies

*Basis of Accounting*

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

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

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

Notes to Financial Statements  
September 30, 2010 and 2009

(2) Summary of Significant Accounting Policies, Continued

*Use of Estimates*

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

*Cash and Cash Equivalents*

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

At September 30, 2010 and 2009, the bank balances were \$163,836 and \$183,416, respectively, placed in non-interest bearing accounts which are fully insured by the Federal Deposit Insurance Corporation's (FDIC) in 2010 and insured up to \$250,000 in 2009.

*Valuation of Investments*

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

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

*Investment of Funds*

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

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

*Use of Restricted and Unrestricted Funds*

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

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

Notes to Financial Statements  
September 30, 2010 and 2009

(2) Summary of Significant Accounting Policies, Continued

*Capital Assets*

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

*Income Taxes*

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

*Annual Leave*

Employees are credited with annual leave at rates ranging from 4 to 8 hours per pay-period depending on their length of service. Accumulation of such annual leave credit is limited to 480 hours, which is equivalent to 60 days. Liabilities for unpaid annual leave are accrued at the end of each accounting period utilizing current salary rates. At September 30, 2010 and 2009, accrued annual leave was \$6,081 and \$9,674, respectively, included in the accompanying statements of fiduciary net assets as component of accounts payable and accrued liabilities.

(3) Special Disability Fund

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

As of September 30, 2010 and 2009, the total restricted cash, certificate of deposit and investments are as follows:

	<u>2010</u>	<u>2009</u>
Cash	\$ 475,711	\$ 416,295
Certificate of deposit	133,101	126,816
Investments	<u>721,309</u>	<u>663,098</u>
	<u>\$1,330,121</u>	<u>\$1,206,209</u>

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

Notes to Financial Statements  
September 30, 2010 and 2009

(3) Special Disability Fund, Continued

The cash and certificate of time deposit are held-in trust by the Treasurer of the CNMI, and are not money or property of the CNMI Government. The restricted accounts exceed FDIC insured limits by \$0 and \$293,111 as of September 30, 2010 and 2009, respectively.

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

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

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

(4) Investments

Governmental Accounting Standards require that the investments reported as of the balance sheet date be categorized according to level of credit risk associated with the Fund's custodial arrangements at that time. The level of credit risk is defined as follows: Category (1) - insured and registered for which the securities are held by WCC or its agent in WCC's name; Category (2) - uninsured and registered for which the securities are held by the broker's or dealer's trust department or agent in WCC's name; Category (3) - uninsured and unregistered for which the securities are held by the broker or dealer or by its trust department or agent but not in WCC's name. At September 30, 2010 and 2009, all of WCC's investments are classified in Category (1).

WCC implemented Governmental Accounting Standards Board (GASB) Statement No. 40, *Deposit and Investment Risk Disclosures*, an amendment of GASB Statement No. 3 as of September 30, 2005. GASB 40 modifies previous custodial credit risk disclosure requirements and establishes more comprehensive risk disclosure requirements relating to other common risks of investments, such as credit risk, concentration of credit risk, interest rate risk and foreign currency risk.

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

Notes to Financial Statements  
September 30, 2010 and 2009

(4) Investments, Continued

WCC's investments are held by a bank-administered trust company. Carrying values of investments at September 30, 2010 and 2009 are as follows:

	2010	2009
Stock mutual funds	\$ 489,234	\$ 453,757
Mutual bond funds	187,023	178,560
Money market placements	45,052	30,781
Total	\$ 721,309	\$ 663,098

*Custodial Credit Risk*

Custodial credit risk is the risk that in the event a financial institution or counterparty fails, WCC would not be able to recover the value of its deposits, investments, or securities. As of September 30, 2010 and 2009, 100% of WCC's investments were held in WCC's name by its investment managers. WCC is exposed to custodial credit risk related to these investments.

*Interest Rate Risk*

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

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

September 30, 2010

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

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

Notes to Financial Statements  
September 30, 2010 and 2009

(4) Investments, Continued

*Interest Rate Risk, Continued*

September 30, 2009

Investment Type	Carrying Value	Investment Maturities (in Years)	
		Less Than 1	1 to 5
Investments subject to interest rate risk:			
Mutual bond funds	\$ 178,560	\$ -	\$ 178,560
Total investments subject to interest rate risks	178,560	\$ -	\$ 178,560
Investments not subject to interest rate risk	484,538		
Total investments	\$ 663,098		

*Credit Risk*

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

The credit rating of the \$187,023 investment in mutual funds fiscal year 2010 is Aa/AA while the 2009 fixed income investments are unrated.

*Concentration of Credit Risk*

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. As of September 30, 2010 and 2009, WCC had no single issuer that exceeded 5% of total investments.

*Foreign Currency Risk*

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

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

Notes to Financial Statements  
September 30, 2010 and 2009

(5) Capital Assets

A schedule of capital assets at September 30, 2010 and 2009 is as follows:

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

Depreciation expense for the years ended September 30, 2010 and 2009 are \$478 and \$841, respectively.

(6) Fines and Penalties

WCC may assess penalties of up to \$100 per day against employers who fail to obtain worker's compensation insurance coverage for their employees. Uncollected fines and penalties assessed (net of waived amounts) as of the years ended September 30, 2010 and 2009 totaled \$743,976 and \$800,007, respectively.

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

(7) Deferred Revenue

Revenues earned from fines and penalties are deferred until collected. At September 30, 2010 and 2009, deferred revenues were \$743,976 and \$800,007, respectively.

(8) CNMI Appropriations

WCC received \$172,274 and \$226,582 CNMI Government appropriations in fiscal years 2010 and 2009, respectively, to cover a portion of its operating costs. These amounts are recognized as revenue in the accompanying financial statements. Receivable from CNMI appropriations was \$20,008 and \$0 as of September 30, 2010 and 2009, respectively.

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

Notes to Financial Statements  
September 30, 2010 and 2009

(9) Contingencies

WCC assumed responsibility for administering and paying disability claims for CNMI Government employees on October 25, 1989. Effective September 1, 1990, WCC contracted an insurance carrier to provide coverage for CNMI Government employees. The contractual agreement with the insurance carrier was terminated effective May 31, 1991. The CNMI Government is self-insured for disability claims for the periods covering from October 25, 1989 to September 1, 1990 and from June 1, 1991 through September 30, 2010. No reserve for such claims has been provided for in the accompanying financial statements at September 30, 2010 and 2009.

WCC is subject to various risks in the normal course of operations. WCC protects itself against these risks by purchasing property and liability insurance from private insurance companies. WCC is self-insured for workers' compensation claims. Management has not established a reserve for workers' compensation claims.

(10) Subsequent Events

WCC evaluated subsequent events from September 30, 2010 through May 20, 2011, the date the financial statements were available to be issued. WCC did not note any material subsequent events requiring disclosure or adjustment.

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

---

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

---

**Year Ended September 30, 2010**



CERTIFIED PUBLIC ACCOUNTANT

**SAIPAN**

Family Building, Suite 201  
PMB 297 Box 10000  
Saipan, MP 96950  
Tel Nos. (670) 233-1837/0456  
Fax No. (670) 233-8214

**GUAM**

Reflection Center, Suite 204  
P.O. Box 12734  
Tamuning, GU 96931  
Tel Nos. (671) 472-2680/2687  
Fax No. (671) 472-2686

**PALAU**

PIDC Apartment No. 11  
P.O. Box 1266  
Koror, PW 96940  
Tel No. (680) 488-8615  
Fax No. (680) 488-8616

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

The Board of Trustees  
CNMI Worker's Compensation Commission

I have audited the financial statements of Commonwealth of the Northern Mariana Islands (CNMI) Workers' Compensation Commission (WCC) as of and for the year ended September 30, 2010, and have issued my report thereon dated May 20, 2011. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

I noted certain matters that I reported to management of WCC in a separate letter dated May 20, 2011.

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

  
Saipan, Commonwealth of the Northern Mariana Islands  
May 20, 2011

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

Schedule of Findings  
September 30, 2010

**SECTION I – SUMMARY OF AUDITOR'S RESULTS**

**Financial Statements**

Type of auditor's report issued: Qualified

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 – INDEX TO FINANCIAL STATEMENTS FINDING**

<u>Reference Number</u>	<u>Finding</u>	<u>Reference Page Number</u>
-------------------------	----------------	------------------------------

There are no current year findings.

**SECTION III – STATUS OF PRIOR YEAR FINDING**

<u>Reference Number</u>	<u>Finding</u>	<u>Status</u>
2009-01	Collection of Outstanding Notice of Assessments	Unresolved. Reported in Management letter.
2008-01	Collection of Outstanding Notice of Assessments	Unresolved. Reported in Management letter.

---

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

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

---

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

---

**Years Ended September 30, 2010 and 2009**



CERTIFIED PUBLIC ACCOUNTANT

**SAIPAN**

Family Building, Suite 201  
PMB 297 Box 10000  
Saipan, MP 96950  
Tel Nos. (670) 233-1837/0456  
Fax No. (670) 233-8214

**GUAM**

Reflection Center, Suite 204  
P.O. Box 12734  
Tamuning, GU 96931  
Tel Nos. (671) 472-2680/2687  
Fax No. (671) 472-2686

**PALAU**

PIDC Apartment No. 11  
P.O. Box 1266  
Koror, PW 96940  
Tel No. (680) 488-8615  
Fax No. (680) 488-8616

**INDEPENDENT AUDITOR'S REPORT**

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

I have audited the accompanying statements of fiduciary deficit fund balances 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, 2010 and 2009 and the related statements of changes in fiduciary deficit fund balance 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, 2010 and 2009, 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 May 20, 2011, 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 grants. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of my audit.

The management's discussion and analysis on pages 86 through 91 is not a required part of the basic financial statements and is the responsibility of GHLI Trust Fund's management but are supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.

My audits were conducted for the purpose of forming opinion on the financial statements that collectively comprise GHLI Trust Fund's basic financial statements. The statistical tables are presented for purposes of additional analysis, are not a required part of the basic financial statements and are the responsibility of GHLI Trust Fund's management. The statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, I express no opinion on them.

  
Saipan, Commonwealth of the Northern Mariana Islands  
May 20, 2011

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

Management's Discussion and Analysis  
September 30, 2010 and 2009

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 years ended September 30, 2010 and 2009. Readers are encouraged to consider the information presented in conjunction with the letter of transmittal and financial statements.

**FINANCIAL HIGHLIGHTS**

- Deficit fund balance as of September 30, 2010, 2009 and 2008 were \$17,465,694, \$17,936,766 and \$18,272,649, respectively. Deficit decreased by \$471,072 or 2.6% and \$335,883 or 1.8%, respectively for the years ended September 30, 2010 and 2009.
- Total operating revenues, as reflected in the Statements of Changes in Fiduciary Deficit Fund Balance, were \$1,202,054, \$595,607 and \$1,861,607 for the years ended September 30, 2010, 2009 and 2008, respectively. 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. By comparison, fiscal year 2009's revenue base dropped by 68.0% or \$1.3 million that was mainly attributable to the decrease in the CNMI appropriations from \$1.2 million in fiscal year 2008 to \$123 thousand in fiscal year 2009.
- Cost of medical claims, as reflected in the Statements of Changes in Fiduciary Deficit Fund Balance, as of September 30, 2010, 2009 and 2008 were \$5,049, \$147,169 and \$2,510,795, respectively. Cost of medical claims decreased by \$142,120 or 96.6% and \$2,363,626 or 94.1% for the years ended September 30, 2010 and 2009, respectively, due to the privatization of the health insurance coverage.
- 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 Deficit Fund Balance, were \$62,578, \$112,555 and \$368,941 for the years ended September 30, 2010, 2009 and 2008, respectively. This represented a decrease of \$49,977 or 44.4% and \$256,386 or 69.5% from prior year mainly due to the privatization of the Group Health Plan.

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

Management's Discussion and Analysis  
September 30, 2010 and 2009

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 Deficit Fund Balance**. 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 Deficit Fund Balance**. 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, 2010, 2009 and 2008, deficit fund balances were \$17,465,694, \$17,936,766 and \$18,272,649, respectively. Total liabilities of \$19,032,310, \$18,834,191 and \$19,177,008 exceeded total assets of \$1,566,616, \$897,425 and \$904,359 as of September 30, 2010, 2009 and 2008, 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, 2010 and 2009

FINANCIAL ANALYSIS, Continued

Deficit Fund Balance, Continued

<b>Fiduciary Deficit Fund Balance</b> (in thousands)	<b>2010</b>	<b>2009</b>	<b>Change</b>	
			<b>Amount</b>	<b>%</b>
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>

<b>Fiduciary Deficit Fund Balance</b> (in thousands)	<b>2009</b>	<b>2008</b>	<b>Change</b>	
			<b>Amount</b>	<b>%</b>
Cash and cash equivalents	\$ 882	\$ 887	\$ (5)	(0.6)
Capital assets, net	15	17	(2)	(11.8)
<b>Total assets</b>	<b>897</b>	<b>904</b>	<b>(7)</b>	<b>(0.8)</b>
Accounts payable and accrued expenses	16,540	16,625	(85)	(0.5)
Health insurance premiums payable	1,271	1,199	72	6.0
Life insurance premiums payable	150	153	(3)	(2.0)
Loan payable	873	1,200	(327)	(27.3)
<b>Total liabilities</b>	<b>18,834</b>	<b>19,177</b>	<b>(343)</b>	<b>(1.8)</b>
<b>Net Deficit</b>	<b>\$ (17,937)</b>	<b>\$ (18,273)</b>	<b>\$ 336</b>	<b>(1.8)</b>

Total assets in fiscal year 2010 increased by \$669 thousand or 74.6% from fiscal year 2009, primarily due to increase in cash with the increase in premium rate for health insurance effective November 8, 2009, which resulted to higher surcharge revenues retained by the GHLI.

Total liabilities increased by 1.1% or \$198 thousand in fiscal year 2010 compared with fiscal year 2009 as a result of the increased premiums by both AETNA and Individual Assurance Company. Payments of the loan payable offset the increase in liabilities.

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

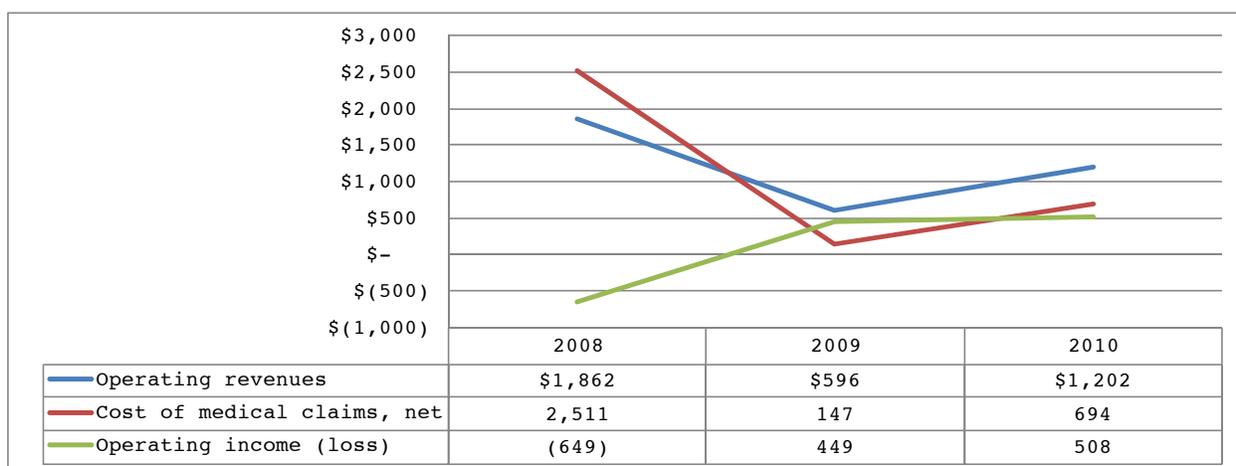
Management's Discussion and Analysis  
September 30, 2010 and 2009

Changes in Fiduciary Deficit Fund Balance

The following table presents the changes in fiduciary deficit fund balance for the years ended September 30, 2010, 2009 and 2008, respectively.

<b>Changes in Fiduciary Deficit Fund Balance</b> (in thousands)	<b>2010</b>	<b>2009</b>	<b>2008</b>
Operating revenues	\$ 1,202	\$ 596	\$ 1,862
Cost of medical claims, net	694	147	2,511
Operating income (loss)	508	449	(649)
Expenditures	62	113	370
Net increase (decrease)	446	336	(1,019)
Reversal of accrued compensated absences	25	-	-
Fiduciary deficit, beginning of year	(17,937)	(18,273)	(17,254)
Fiduciary deficit, end of year	\$ (17,466)	\$ (17,937)	\$ (18,273)

Operating Income (Loss)



With the privatization of the Group Health Plan, the operating income and cost of medical claims decreased. The cost of medical claims incurred beginning November 1, 2007 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 2010, 2009 and 2008, the GHLI Trust Fund received appropriations of \$503,000, \$122,630 and \$1,200,000, respectively, from the CNMI Government to pay runoff claims in 2009 and 2008 and death benefits in 2010.

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

Management's Discussion and Analysis  
September 30, 2010 and 2009

Expenditures

<b>Expenditures</b> (in thousands)	<b>2010</b>	<b>2009</b>	<b>2008</b>
Interest expense	\$ 55	\$ 64	\$ 68
Salaries and wages	-	28	102
Employee benefits	-	12	46
Professional fees	4	5	111
Depreciation	-	2	3
Office supplies	2	1	1
Rent	-	-	19
Utilities	-	-	12
Travel	-	-	3
Communications	-	-	2
Printing and subscriptions	-	-	2
Miscellaneous	1	1	1
	<u>\$ 62</u>	<u>\$ 113</u>	<u>\$ 370</u>

Prior to privatization, GHLI Trust Fund operating expenses were maintained within \$1.5 million. The operating expenses decreased significantly in fiscal years 2010, 2009 and 2008 due to the privatization of the Group Health Plan. Management of the GHLI Trust Fund projects that the 2% and 5% 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, 2010 and 2009

OVERALL ANALYSIS OTHER SIGNIFICANT MATTERS

Overall financial position as of September 30, 2010 improved by \$471,072 or 2.6% compared to September 30, 2009.

The GHLI Trust Fund and the CNMI Government are faced with the challenge of funding the \$17.4 million deficit fund balance as of September 30, 2010. 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:

Mr. David Demapan  
Comptroller  
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 Deficit Fund Balance  
September 30, 2010 and 2009

<b><u>Assets</u></b>	Expendable Trust Fund	
	2010	2009
Current assets:		
Cash and cash equivalents (Note 2)	\$ 1,553,165	\$ 882,030
Other receivable	50	50
Total current assets	1,553,215	882,080
Capital assets, net (Notes 2 and 4)	13,401	15,345
Total assets	1,566,616	897,425
 <b><u>Liabilities</u></b>		
Current liabilities:		
Current portion of loan payable (Note 9)	327,838	304,302
Accounts payable and accrued expenses (Note 2)	190,929	216,488
Health insurance premiums payable (Note 5)	1,554,688	1,271,108
Life insurance premiums payable (Note 6)	374,382	150,426
Medical claims payable (Note 7)	16,343,943	16,322,922
Total current liabilities	18,791,780	18,265,246
Loan payable - net of current portion (Note 9)	240,530	568,945
Total liabilities	19,032,310	18,834,191
 <b><u>Deficit Fund Balance</u></b>		
Held in trust for medical and life insurance benefits (Note 11)	\$ (17,465,694)	\$ (17,936,766)

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 Deficit Fund Balance  
Years Ended September 30, 2010 and 2009

	Expendable Trust Fund	
	<u>2010</u>	<u>2009</u>
Operating revenues:		
CNMI appropriation (Note 6)	\$ 503,000	\$ 122,630
Life and health insurance surcharge (Notes 5 and 6)	500,683	454,708
Life insurance premiums (Note 6)	194,027	-
Other income	<u>4,344</u>	<u>18,269</u>
Total operating revenues	<u>1,202,054</u>	<u>595,607</u>
Cost of life insurance claims (Note 6)	688,609	-
Cost of medical claims (Note 7)	<u>5,049</u>	<u>147,169</u>
Cost of benefits	<u>693,658</u>	<u>147,169</u>
Operating income	<u>508,396</u>	<u>448,438</u>
Operating expenses:		
Interest expense (Note 9)	55,121	63,747
Professional fees	4,500	4,500
Depreciation (Note 4)	1,944	2,233
Office supplies	75	534
Salaries and wages	-	28,458
Employee benefits	-	12,088
Printing and subscriptions	-	88
Miscellaneous	<u>938</u>	<u>907</u>
Total operating expenses	<u>62,578</u>	<u>112,555</u>
Excess of receipts over expenses	445,818	335,883
Reversal of accrued compensated absences	<u>25,254</u>	<u>-</u>
Change in net assets	471,072	335,883
Deficit fund balance, beginning of the year	<u>(17,936,766)</u>	<u>(18,272,649)</u>
Deficit fund balance, end of the year	<u>\$ (17,465,694)</u>	<u>\$ (17,936,766)</u>

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, 2010 and 2009

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.

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

Notes to Financial Statements  
September 30, 2010 and 2009

(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, 2010 and 2009, the bank balances were \$2,152,976 and \$882,030, respectively, placed in non-interest bearing accounts which are fully insured by the Federal Deposit Insurance Corporation's (FDIC) in 2010 and insured up to \$250,000 in 2009. Deposits in excess of insured limits are collateralized with the bank's securities.

*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, 2010 and 2009

(2) Summary of Significant Accounting Policies, Continued

*Annual Leave*

Employees are credited with annual leave at rates ranging from 4-8 hours per pay-period depending on their length of service. Accumulation of such annual leave credit is limited to 480 hours, which is equivalent to 60 days. Liabilities for unpaid annual leave are accrued at the end of each accounting period utilizing current salary rates. At September 30, 2010 and 2009, accrued annual leave was \$0 and \$25,254, respectively, included in the accompanying statements of Fiduciary Deficit Fund Balance as part of accounts payable and accrued expenses.

*Sick Leave*

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 employment.

(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. Further, these eligible persons must have elected to enroll during the period permitted in the Emergency Regulations adopted on September 6, 1996.

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, 2010 and 2009 is as follows:

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

Depreciation expense for the years ended September 30, 2010 and 2009 are \$1,944 and \$2,233, respectively.

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

Notes to Financial Statements  
September 30, 2010 and 2009

(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, 2010 and 2009 amounted to \$245,472 and \$225,098, respectively, and is included in the accompanying Statement of Changes in Fiduciary Deficit Fund Balance as component of life and health insurance surcharge.

Medical insurance premiums paid to the third-party insurance provider for the years ended September 30, 2010 and 2009 were \$17,481,920 and \$12,922,940, respectively. Of these amounts, \$1,554,688 and \$1,271,108 were unremitted as of September 30, 2010 and 2009, respectively and are recorded as health insurance premiums payable in the accompanying Statements of Fiduciary Deficit Fund Balance.

(6) Life Insurance Premiums

On March 29, 2001, GHLI Trust Fund, by the Northern Marianas Islands Retirement Fund (NMIRF), entered into an agreement with Individual Assurance Company, Life & Health Accident (IAC) 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 April 1, 2004. The rates for basic life insurance were as follows: (1) \$0.40 per \$1,000 per bi-weekly pay period with critical illness; and (2) \$0.34 per \$1,000 per bi-weekly pay period without critical illness. The agreement with IAC expired in 2008.

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, 2010 and 2009

(6) Life Insurance Premiums, Continued

As of September 30, 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 5% surcharge. Life premium surcharge recognized as revenue for the year ended September 30, 2010 and 2009 amounted to \$255,211 and \$229,610, respectively, and are included in the accompanying Statement of Changes in Fiduciary Deficit Fund Balance as component of life and health insurance surcharge.

Life insurance premiums paid to third-party insurance provider for the years ended September 30, 2010 and 2009 were \$5,203,064 and \$4,562,907, respectively. Of these amounts, \$374,382 and \$150,426 were unremitted as of September 30, 2010 and 2009, respectively and are recorded as life insurance premiums payable in the accompanying Statements of Fiduciary Deficit Fund Balances.

(7) Cost of Medical Claims

Cost of medical claims were \$5,049 and \$147,169 for the years ended September 30, 2010 and 2009, respectively.

Unpaid processed medical claims included in the accompanying Statements of Fiduciary Deficit Fund Balance amounted to \$16,343,943 and \$16,322,922 as of September 30, 2010 and 2009, 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 \$38.9 million. Unprocessed claims as of September 30, 2007 were approximately \$35 million. However, 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.

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

Notes to Financial Statements  
September 30, 2010 and 2009

(8) Unprocessed Medical Claims, Continued

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.

(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.

Future minimum payments are as follows:

<u>Year ending</u> <u>September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Current:			
2011	\$ 327,838	\$ 32,162	\$ 360,000
Non Current:			
2012	<u>240,530</u>	<u>8,102</u>	<u>248,632</u>
	<u>\$ 568,368</u>	<u>\$ 40,264</u>	<u>\$ 607,632</u>

Interest expense for the years ended September 30, 2010 and 2009 were \$55,121 and \$63,747, 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) Deficit Fund Balance

As of September 30, 2010 and 2009, GHLI Trust Fund's deficit fund balances amount to \$17,465,694 and \$17,936,766, 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.

(12) Subsequent Events

GHLI Trust Fund evaluated subsequent events from September 30, 2010 through May 20, 2011, the date the financial statements were available to be issued. The Fund did not note any material subsequent events requiring disclosure or adjustment.

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

---

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

---

**Year Ended September 30, 2010**



CERTIFIED PUBLIC ACCOUNTANT

**SAIPAN**

Family Building, Suite 201  
PMB 297 Box 10000  
Saipan, MP 96950  
Tel Nos. (670) 233-1837/0456  
Fax No. (670) 233-8214

**GUAM**

Reflection Center, Suite 204  
P.O. Box 12734  
Tamuning, GU 96931  
Tel Nos. (671) 472-2680/2687  
Fax No. (671) 472-2686

**PALAU**

PIDC Apartment No. 11  
P.O. Box 1266  
Koror, PW 96940  
Tel No. (680) 488-8615  
Fax No. (680) 488-8616

**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, 2010, and have issued my report thereon dated May 20, 2011. 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 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.

I noted certain matters that I reported to management of GHLI Trust Fund in a separate letter dated May 20, 2011.

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.

  
Saipan, Commonwealth of the Northern Mariana Islands  
May 20, 2011

**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, 2010

**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.

---

**NORTHERN MARIANA ISLANDS RETIREMENT FUND  
CNMI WORKERS' COMPENSATION COMMISSION  
CNMI GROUP HEALTH AND LIFE INSURANCE TRUST FUND**

**(Component Units of the CNMI Government)**

---

**STATISTICAL DATA**

---

**For the Last Ten Years**

**NORTHERN MARIANA ISLANDS RETIREMENT FUND**  
**CNMI WORKERS' COMPENSATION COMMISSION**  
**CNMI GROUP HEALTH AND LIFE INSURANCE TRUST FUND**  
(Component Units of the CNMI Government)

**STATISTICAL DATA**

**For the Last Ten Years**  
**(Unaudited)**

**PART I. NORTHERN MARIANA ISLANDS RETIREMENT FUND**

**Table 1 Net Assets**

Fiscal Year Ending September 30,	Total Assets	Total Liabilities	Net Assets held in Trust for Pension Benefits
2010	\$ 420,990,833	\$ 65,433,037	\$ 355,557,796
2009	\$ 429,908,620	\$ 64,802,936	\$ 365,105,684
2008	\$ 472,013,144	\$ 61,348,299	\$ 410,664,845
2007	\$ 568,550,167	\$ 57,848,917	\$ 510,701,250
2006	\$ 523,231,057	\$ 50,542,567	\$ 472,688,490
2005	\$ 504,376,999	\$ 44,245,498	\$ 460,131,501
2004	\$ 407,540,252	\$ 7,733,296	\$ 399,806,956
2003	\$ 389,631,273	\$ 3,959,246	\$ 385,672,027
2002	\$ 339,179,647	\$ 3,894,256	\$ 335,285,391
2001	\$ 378,782,079	\$ 3,693,021	\$ 375,089,058

**Table 2 Changes in Net Assets**

Fiscal Year Ending September 30,	Total Additions	Total Deductions	Changes in Net Assets	Net Assets, Beginning	Net Assets, Ending
2010	\$ 77,460,032	\$ 87,007,920	\$ (9,547,888)	\$ 365,105,684	\$ 355,557,796
2009	\$ 48,916,991	\$ 94,476,152	\$ (45,559,161)	\$ 410,664,845	\$ 365,105,684
2008	\$ 2,782,009	\$ 102,818,414	\$ (100,036,405)	\$ 510,701,250	\$ 410,664,845
2007	\$ 139,457,912	\$ 101,445,152	\$ 38,012,760	\$ 472,688,490	\$ 510,701,250
2006	\$ 88,520,799	\$ 75,963,810	\$ 12,556,989	\$ 460,131,501	\$ 472,688,490
2005	\$ 120,026,665	\$ 59,702,120	\$ 60,324,545	\$ 399,806,956	\$ 460,131,501
2004	\$ 112,885,380	\$ 98,750,451	\$ 14,134,929	\$ 385,672,027	\$ 399,806,956
2003	\$ 106,147,818	\$ 55,761,182	\$ 50,386,636	\$ 335,285,391	\$ 385,672,027
2002	\$ 27,743,910	\$ 67,547,577	\$ (39,803,667)	\$ 375,089,058	\$ 335,285,391
2001	\$ (29,995,471)	\$ 48,434,795	\$ (78,430,266)	\$ 453,519,324	\$ 375,089,058

**NORTHERN MARIANA ISLANDS RETIREMENT FUND  
CNMI WORKERS' COMPENSATION COMMISSION  
CNMI GROUP HEALTH AND LIFE INSURANCE TRUST FUND  
(Component Units of the CNMI Government)**

**STATISTICAL DATA**

**For the Last Ten Years  
(Unaudited)**

**PART I - NORTHERN MARIANA ISLANDS RETIREMENT FUND, continued**

**Table 3 Schedule of Revenues by Sources**

Fiscal Year Ending September 30,	Employee Contributions	Employer Contributions*	Investment Income (loss), Net	CNMI Appropriations	Other Income	Total
2010	\$ 13,105,581	\$ 34,541,111	\$ 25,763,676	\$ 806,508	\$ 3,243,156	\$ 77,460,032
2009	\$ 11,951,915	\$ 37,707,841	\$ (4,546,620)	\$ 883,715	\$ 2,920,140	\$ 48,916,991
2008	\$ 10,683,584	\$ 49,864,936	\$ (60,941,821)	\$ 659,069	\$ 2,516,241	\$ 2,782,009
2007	\$ 9,711,613	\$ 58,151,686	\$ 69,507,989	\$ 675,159	\$ 1,411,465	\$ 139,457,912
2006	\$ 10,883,652	\$ 40,747,619	\$ 35,154,027	\$ 687,686	\$ 1,047,815	\$ 88,520,799
2005	\$ 11,836,454	\$ 40,284,859	\$ 67,285,330	\$ -	\$ 620,022	\$ 120,026,665
2004	\$ 12,156,404	\$ 59,670,684	\$ 38,572,608	\$ 1,880,000	\$ 605,684	\$ 112,885,380
2003	\$ 12,171,783	\$ 39,323,544	\$ 52,007,089	\$ 2,000,000	\$ 645,402	\$ 106,147,818
2002	\$ 10,525,660	\$ 37,423,070	\$ (21,079,068)	\$ 642,981	\$ 231,267	\$ 27,743,910
2001	\$ 11,386,721	\$ 38,394,742	\$ (82,555,191)	\$ 2,617,013	\$ 161,244	\$ (29,995,471)

\* Employer contributions in FY 2004, 2005 and 2006 includes penalty of \$4.9 million and \$9.0 million

\*\* In 2006 and 2005, NM IRF adopted the modified accrual basis of recording revenue from appropriations from CNMI Government due to unavailability of such appropriations to pay current obligations.

**Table 4 Schedule of Expenses by Type**

Fiscal Year Ending September 30,	Benefits Payments	Administrative Expenses	Provisions	Total
2010	\$ 72,675,878	\$ 2,226,648	\$ 12,105,394	\$ 87,007,920
2009	\$ 68,108,748	\$ 1,840,906	\$ 24,526,498	\$ 94,476,152
2008	\$ 67,626,208	\$ 1,962,329	\$ 33,229,877	\$ 102,818,414
2007	\$ 63,835,220	\$ 1,781,430	\$ 35,828,502	\$ 101,445,152
2006	\$ 60,213,662	\$ 1,949,985	\$ 13,800,163	\$ 75,963,810
2005	\$ 51,722,560	\$ 1,727,688	\$ 6,251,872	\$ 59,702,120
2004	\$ 48,414,015	\$ 1,646,748	\$ 48,689,688	\$ 98,750,451
2003	\$ 45,820,883	\$ 1,686,707	\$ 8,253,592	\$ 55,761,182
2002	\$ 43,024,940	\$ 1,734,819	\$ 22,787,818	\$ 67,547,577
2001	\$ 39,713,889	\$ 1,757,662	\$ 6,963,244	\$ 48,434,795

**NORTHERN MARIANA ISLANDS RETIREMENT FUND  
CNMI WORKERS' COMPENSATION COMMISSION  
CNMI GROUP HEALTH AND LIFE INSURANCE TRUST FUND  
(Component Units of the CNMI Government)**

**STATISTICAL DATA**

**For the Last Ten Years  
(Unaudited)**

**PART I - NORTHERN MARIANA ISLANDS RETIREMENT FUND, continued**

**Table 5 Schedule of Benefit Payments by Type**

Fiscal Year Ending September 30,	Age and Service			Disability	Refunds	Total
	Retired Members	Survivors	Death Benefits			
2010	\$ 59,413,775	\$ 6,388,873	\$ 86,828	\$ 1,577,470	\$ 4,841,691	\$ 72,308,637
2009	\$ 55,756,227	\$ 5,738,051	\$ 62,291	\$ 1,710,488	\$ 4,841,691	\$ 68,108,748
2008	\$ 54,888,364	\$ 5,283,650	\$ 55,827	\$ 1,819,812	\$ 5,578,555	\$ 67,626,208
2007	\$ 51,615,969	\$ 4,962,681	\$ 57,895	\$ 1,857,517	\$ 5,341,158	\$ 63,835,220
2006	\$ 49,068,320	\$ 4,761,419	\$ 60,628	\$ 1,745,555	\$ 4,577,740	\$ 60,213,662
2005	\$ 43,209,342	\$ 4,125,910	\$ 48,651	\$ 1,404,326	\$ 2,934,331	\$ 51,722,560
2004	\$ 40,174,378	\$ 3,885,727	\$ 46,467	\$ 1,268,301	\$ 3,039,142	\$ 48,414,015
2003	\$ 37,563,646	\$ 3,540,771	\$ 47,583	\$ 1,073,750	\$ 3,595,133	\$ 45,820,883
2002	\$ 34,568,758	\$ 3,324,133	\$ 40,167	\$ 917,921	\$ 4,173,961	\$ 43,024,940
2001	\$ 32,610,856	\$ 3,047,572	\$ 33,667	\$ 818,511	\$ 3,203,283	\$ 39,713,889

Retired member payments includes health and life insurance paid for them

**Table 6 Membership: Defined Benefit Plan**

Fiscal Year Ending September 30,	Members Currently Receiving Benefits			Retired but not Receiving Benefits	Total	Active
	Retirees	Beneficiaries	Disabled			
2010	2,841	1,439	154	143	4,577	3,078
2009	2,152	525	85	151	2,913	3,433
2008	2,190	657	99	154	3,100	3,501
2007	2,112	631	105	126	2,974	4,595
2006	2,007	693	103	129	2,932	5,067
2005	1,809	631	85	127	2,652	5,394
2004	1,705	605	79	no data	2,389	5,517
2003	1,598	492	73	115	2,278	5,219
2002	1,552	533	55	118	2,258	5,141
2001	1,461	528	57	112	2,158	5,271

**NORTHERN MARIANA ISLANDS RETIREMENT FUND  
CNMI WORKERS' COMPENSATION COMMISSION  
CNMI GROUP HEALTH AND LIFE INSURANCE TRUST FUND  
(Component Units of the CNMI Government)**

**STATISTICAL DATA**

**For the Last Ten Years  
(Unaudited)**

**PART II – WORKERS' COMPENSATION COMMISSION**

**Table 1 Net Assets**

Fiscal Year Ending September 30,	Total Assets	Total Liabilities	Net Assets
2010	\$ 2,249,876	\$ 846,620	\$ 1,403,256
2009	\$ 2,196,728	\$ 930,753	\$ 1,265,975
2008	\$ 2,114,253	\$ 887,406	\$ 1,226,847
2007	\$ 2,159,001	\$ 945,082	\$ 1,213,919
2006	\$ 2,019,890	\$ 923,981	\$ 1,095,909
2005	\$ 1,869,160	\$ 843,552	\$ 1,025,608
2004	\$ 1,916,644	\$ 1,017,416	\$ 899,228
2003	\$ 1,770,076	\$ 826,693	\$ 943,383
2002	\$ 1,538,599	\$ 565,619	\$ 972,980
2001	\$ 997,540	\$ 165,111	\$ 832,429

**Table 2 Changes in Net Assets**

Fiscal Year Ending September 30,	Total Revenues	Total Expenditures	Change in Net Assets	Net Assets, Beginning	Net Assets, Ending
2010	\$ 296,791	\$ 159,510	\$ 137,281	\$ 1,265,975	\$ 1,403,256
2009	\$ 259,408	\$ 220,280	\$ 39,128	\$ 1,226,847	\$ 1,265,975
2008	\$ 209,935	\$ 197,007	\$ 12,928	\$ 1,213,919	\$ 1,226,847
2007	\$ 310,748	\$ 192,738	\$ 118,010	\$ 1,095,909	\$ 1,213,919
2006	\$ 331,821	\$ 261,520	\$ 70,301	\$ 1,025,608	\$ 1,095,909
2005	\$ 444,672	\$ 318,292	\$ 126,380	\$ 899,228	\$ 1,025,608
2004	\$ 430,515	\$ 474,670	\$ (44,155)	\$ 943,383	\$ 899,228
2003	\$ 443,951	\$ 473,548	\$ (29,597)	\$ 972,980	\$ 943,383
2002	\$ 452,285	\$ 311,734	\$ 140,551	\$ 832,429	\$ 972,980
2001	\$ 524,445	\$ 373,229	\$ 151,216	\$ 681,213	\$ 832,429

**Table 3 Schedule of Revenues by Source**

Fiscal Year Ending September 30,	Appropriations	Premiums	Fines and Penalties	Others	Total
2010	\$ 172,274	\$ 44,807	\$ 14,907	\$ 64,803	\$ 296,791
2009	\$ 226,582	\$ 42,609	\$ 9,865	\$ (19,648)	\$ 259,408
2008	\$ 165,442	\$ 39,357	\$ 13,293	\$ (8,157)	\$ 209,935
2007	\$ 193,187	\$ 49,838	\$ 14,767	\$ 52,956	\$ 310,748
2006	\$ 266,388	\$ 31,733	\$ 23,911	\$ 9,789	\$ 331,821
2005	\$ 355,300	\$ 56,836	\$ 27,460	\$ 5,076	\$ 444,672
2004	\$ 355,300	\$ 53,871	\$ 14,716	\$ 6,628	\$ 430,515
2003	\$ 355,300	\$ 41,159	\$ 15,690	\$ 31,802	\$ 443,951
2002	\$ 348,063	\$ 50,159	\$ 17,333	\$ 36,730	\$ 452,285
2001	\$ 378,396	\$ 57,854	\$ 25,486	\$ 62,709	\$ 524,445

**NORTHERN MARIANA ISLANDS RETIREMENT FUND  
CNMI WORKERS' COMPENSATION COMMISSION  
CNMI GROUP HEALTH AND LIFE INSURANCE TRUST FUND  
(Component Units of the CNMI Government)**

**STATISTICAL DATA**

**For the Last Ten Years  
(Unaudited)**

**PART II – WORKERS' COMPENSATION COMMISSION**

**Table 4 Schedule of Expenses by Type**

	Fiscal Year Ending September 30,				
	2010	2009	2008	2007	2006
Salaries and wages	\$ 61,977	\$ 84,326	\$ 83,135	\$ 95,588	\$ 127,106
Disability claims	35,451	46,553	21,422	13,648	45,046
Employee benefits	34,396	43,538	39,978	46,162	58,984
Rent	10,140	14,013	16,426	7,730	9,663
Professional fees	4,500	14,502	9,973	9,115	5,045
Utilities	3,918	7,121	17,844	11,435	3,054
Office supplies	3,544	2,270	1,860	1,714	1,915
Communications	1,551	2,344	1,818	2,158	1,953
Repairs and maintenance	954	3,031	794	-	1,590
Depreciation	478	841	237	355	1,001
Management and custodial fees	307	262	360	3,034	2,842
Printing	-	-	913	596	913
Travel and transportation	-	-	-	132	1,181
Dues and subscription	-	-	-	44	-
Miscellaneous	2,294	1,479	2,247	1,027	1,227
Total	\$ 159,510	\$ 220,280	\$ 197,007	\$ 192,738	\$ 261,520

	Fiscal Year Ending September 30,				
	2005	2004	2003	2002	2001
Salaries and wages	\$ 116,125	\$ 150,931	\$ 167,272	\$ 156,362	\$ 174,400
Disability claims	109,361	202,752	178,528	17,047	75,980
Employee benefits	49,564	65,316	54,726	51,738	48,745
Rent	13,078	14,469	10,629	12,561	10,629
Professional fees	4,898	4,682	725	2,039	2,858
Utilities	2,090	2,943	3,177	4,659	3,815
Office supplies	1,805	2,510	1,767	2,233	1,332
Communications	5,970	3,679	2,548	2,964	2,899
Repairs and maintenance	2,451	2,912	-	-	-
Depreciation	952	1,081	2,070	6,039	8,631
Management and custodial fees	2,110	2,909	2,796	2,624	2,452
Printing	662	1,114	-	-	-
Travel and transportation	6,617	9,660	38,548	9,755	11,481
Dues and subscription	1,097	1,600	4,750	-	-
Freight and postage	74	74	119	1,607	1,092
Bad debts	-	-	2,259	15,695	-
Training	-	-	1,625	1,200	2,370
Cost allocated from NMIRF	-	-	-	20,083	24,506
Miscellaneous	1,438	9,038	2,009	5,128	2,039
Total	\$ 318,292	\$ 475,670	\$ 473,548	\$ 311,734	\$ 373,229

**NORTHERN MARIANA ISLANDS RETIREMENT FUND  
CNMI WORKERS' COMPENSATION COMMISSION  
CNMI GROUP HEALTH AND LIFE INSURANCE TRUST FUND  
(Component Units of the CNMI Government)**

**STATISTICAL DATA**

**For the Last Ten Years  
(Unaudited)**

**PART III – GROUP HEALTH AND LIFE INSURANCE TRUST FUND**

**Table 1 Net Assets**

Fiscal Year Ending September 30,	Total Assets	Total Liabilities	Deficit
2010	\$ 1,566,616	\$ 19,032,310	\$ (17,465,694)
2009	\$ 897,425	\$ 18,834,191	\$ (17,936,766)
2008	\$ 904,359	\$ 19,177,008	\$ (18,272,649)
2007	\$ 838,093	\$ 18,092,613	\$ (17,254,520)
2006	\$ 3,458,869	\$ 20,839,949	\$ (17,381,080)
2005	\$ 1,594,092	\$ 13,506,304	\$ (11,912,212)
2004	\$ 960,396	\$ 8,889,155	\$ (7,928,759)
2003	\$ 5,209,060	\$ 5,209,060	\$ -
2002	\$ 3,718,857	\$ 3,718,857	\$ -
2001	\$ 4,742,383	\$ 4,742,383	\$ -

**Table 2 Changes in Net Assets**

Fiscal Year Ending September 30,	Operating Income (Loss)	Expenditures	Changes in Fund Balance	Deficit, Beginning	Restatement	Deficit, Ending
2010	\$ 508,396	\$ 62,578	\$ 445,818	\$ (17,936,766)	\$ 25,254	\$ (17,465,694)
2009	\$ 448,438	\$ 112,555	\$ 335,883	\$ (18,272,649)	\$ -	\$ (17,936,766)
2008	\$ (649,188)	\$ 368,941	\$ (1,018,129)	\$ (17,254,520)	\$ -	\$ (18,272,649)
2007	\$ 1,640,827	\$ 1,514,267	\$ 126,560	\$ (17,381,080)	\$ -	\$ (17,254,520)
2006	\$ (4,058,112)	\$ 1,410,756	\$ (5,468,868)	\$ (11,912,212)	\$ -	\$ (17,381,080)
2005	\$ (2,607,093)	\$ 1,376,360	\$ (3,983,453)	\$ (7,928,759)	\$ -	\$ (11,912,212)
2004	\$ (2,367,197)	\$ 1,366,424	\$ (3,733,621)	\$ -	\$ (4,195,138)	\$ (7,928,759)
2003	\$ 2,586,666	\$ 2,586,666	\$ -	\$ -	\$ -	\$ -
2002	\$ 1,370,944	\$ 1,370,944	\$ -	\$ -	\$ -	\$ -
2001	\$ 378,238	\$ 378,238	\$ -	\$ -	\$ -	\$ -

Note: The restatement in 2004 pertains to revenues from CNMI recorded in prior periods to cover for excess of medical costs over actual premiums collected.

Such revenues were never remitted by the CNMI government, thus during the fiscal year 2005 Audit, GHLITF opted to record revenue using the modified accrual basis of accounting, in which revenues are not recognized unless they are available to finance current obligations.

The restatement in 2010 pertains to the reversal of accrued compensated absences

**NORTHERN MARIANA ISLANDS RETIREMENT FUND  
CNMI WORKERS' COMPENSATION COMMISSION  
CNMI GROUP HEALTH AND LIFE INSURANCE TRUST FUND  
(Component Units of the CNMI Government)**

**STATISTICAL DATA**

**For the Last Ten Years  
(Unaudited)**

**PART III – GROUP HEALTH AND LIFE INSURANCE TRUST FUND, Continued**

**Table 3 Schedule of Revenues by Source**

Fiscal Year Ending September 30,	Health Insurance Premiums	Investment Income	Life and Health Insurance Surcharge	CNMI Appropriation	Other Income	Cost of Medical and Life Claims	Operating Income (Loss)
2010	\$ -	\$ 4,344	\$ 694,710	\$ 503,000	\$ -	\$ (693,658)	\$ 508,396
2009	\$ -	\$ 18,269	\$ 454,708	\$ 122,630	\$ -	\$ (147,169)	\$ 448,438
2008	\$ 483,943	\$ 14,207	\$ 163,457	\$ 1,200,000	\$ -	\$ (2,510,795)	\$ (649,188)
2007	\$ 9,559,092	\$ 67,766	\$ -	\$ -	\$ -	\$ (7,986,031)	\$ 1,640,827
2006	\$ 7,851,218	\$ 48,425	\$ -	\$ -	\$ -	\$ (11,957,755)	\$ (4,058,112)
2005	\$ 7,738,642	\$ 27,770	\$ -	\$ -	\$ -	\$ (10,373,505)	\$ (2,607,093)
2004	\$ 6,995,577	\$ 44,551	\$ -	\$ -	\$ -	\$ (9,407,325)	\$ (2,367,197)
2003	\$ 6,601,742	\$ 4,282	\$ -	\$ -	\$ -	\$ (4,019,358)	\$ 2,586,666
2002	\$ 8,514,432	\$ 2,937	\$ -	\$ -	\$ -	\$ (7,146,425)	\$ 1,370,944
2001	\$ 8,514,424	\$ 20,177	\$ -	\$ -	\$ 350	\$ (8,156,713)	\$ 378,238

**NORTHERN MARIANA ISLANDS RETIREMENT FUND  
CNMI WORKERS' COMPENSATION COMMISSION  
CNMI GROUP HEALTH AND LIFE INSURANCE TRUST FUND  
(Component Units of the CNMI Government)**

**STATISTICAL DATA**

**For the Last Ten Years  
(Unaudited)**

**PART III – GROUP HEALTH AND LIFE INSURANCE TRUST FUND, Continued**

**Table 4 Schedule of Expenses by Type**

	Fiscal Year Ending September 30,				
	2010	2009	2008	2007	2006
Interest expense	\$ 55,121	\$ 63,747	\$ 67,500	\$ -	\$ -
Professional fees	4,500	4,500	109,560	1,282,290	1,149,889
Depreciation	1,944	2,233	2,920	2,207	663
Office supplies	75	534	559	2,391	2,606
Salaries and wages	-	28,458	102,004	136,913	163,794
Employee benefits	-	12,088	45,849	59,252	71,056
Rent	-	-	19,545	16,287	-
Utilities	-	-	12,618	1,671	-
Travel	-	-	2,711	4,089	4,895
Communications	-	-	2,240	2,836	3,883
Printing and subscription	-	-	2,198	979	7,516
Repairs and maintenance	-	-	254	2,837	1,640
Freight and postage	-	-	-	221	3,333
Allocated overhead from NMIRF	-	-	-	-	-
Printing	-	88	-	-	-
Miscellaneous	938	907	983	2,294	1,481
Total	\$ 62,578	\$ 368,941	\$ 1,514,267	\$ 1,410,756	\$ 1,376,360

	Fiscal Year Ending September 30,				
	2005	2004	2003	2002	2001
Professional fees	\$ 1,107,274	\$ 1,104,862	\$ 2,319,769	\$ 1,040,894	\$ 6,963
Depreciation	2,315	6,901	3,762	17,916	7,623
Office supplies	1,817	2,298	2,230	8,771	2,576
Salaries and wages	185,929	165,004	167,970	190,629	231,105
Interest expense	-	-	-	-	-
Employee benefits	57,357	51,864	54,185	66,148	73,062
Rent	-	-	14,659	21,001	18,276
Utilities	-	-	5,007	-	5,674
Travel	12,149	2,488	6,029	-	-
Communications	3,057	4,574	4,716	4,688	4,824
Printing and subscription	4,580	5,238	3,939	4,574	-
Repairs and maintenance	613	19,937	2,451	1,757	2,014
Freight and postage	-	-	-	1,556	-
Allocated overhead from NMIRF	-	-	-	6,475	18,274
Printing	-	-	-	-	5,064
Other employee benefits	-	2,446	-	-	-
Miscellaneous	1,269	812	1,949	6,535	2,783
Total	\$ 1,376,360	\$ 1,366,424	\$ 2,586,666	\$ 1,370,944	\$ 378,238