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

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

Year Ended September 30, 2013

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

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INDEPENDENT AUDITOR'S REPORT

The Trustee Ad Litem
Northern Mariana Islands Retirement Fund

Report on the Financial Statements

I have audited the accompanying statement of plan net assets available for benefits of the Northern Marianas Islands Retirement Fund, a component unit of the Commonwealth of the Northern Mariana Islands Government, and the related statement of changes in plan net assets available for benefits for the year ended September 30, 2013 and the related notes to the financial statements, which collectively comprise the Northern Mariana Islands Retirement Fund's basic financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

My responsibility is to express opinions on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

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, 2013, and the related 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.

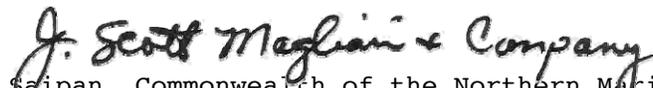
Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information as listed in the accompanying table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. I have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, I have also issued my report dated March 31, 2015, on my consideration of the Fund's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the CNMI Fund's internal control over financial reporting and compliance.


Saipan, Commonwealth of the Northern Mariana Islands
March 31, 2015

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

Management's Discussion and Analysis
September 30, 2013

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) Defined Benefit Plan as a narrative overview for the years ended September 30, 2013. Readers are encouraged to consider the information presented in conjunction with the financial statements and accompanying notes. The Defined Contribution Plan is not covered by this MD&A.

FINANCIAL HIGHLIGHTS (DEFINED BENEFIT PLAN)

- Net assets held in trust for pension benefits as of September 30, 2013 and 2012 were \$132,299,337 and \$242,483,716, respectively, a decrease of \$110,184,379 or 45% from fiscal year 2012. The decline in net assets is due to draw down from investment to fund benefit and refund payments.
- Total additions, as reflected in the Statements of Changes in Plan Net Assets Available for Benefits, were \$21,710,414 and \$60,945,899 for the years ended September 30, 2013 and 2012, respectively. Total additions decreased by \$39,235,485 or 64% compared to 2012, due primarily to the \$15,307,839 decrease in net investment income and \$23,333,891 decrease in contributions.
- Value of investments at market value declined from \$218,069,145 in 2012 to \$128,308,882 in 2013, primarily due to withdrawal from the investment portfolio to fund the benefit payments and refund of member contributions.
- Total deductions, as reflected in the Statements of Changes in Plan Net Assets Available for Benefits, were \$131,894,794 and \$106,901,446 for the years ended September 30, 2013 and 2012, respectively. The 2013 \$24,993,344 or 23% increase compared to 2012 is primarily due to the \$50,411,923 increase in refund offset by \$22,575,380 decrease in provision for uncollectible contributions.

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

Management's Discussion and Analysis
September 30, 2013

OVERVIEW OF FINANCIAL STATEMENTS

This section of the MD&A serves as an introduction to the basic financial statements. The NMIRF has two 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 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 Fund 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, 2013

FINANCIAL ANALYSIS

Net Assets Available for Benefits

	2013	2012	2011
Cash and cash equivalents	\$ 28,969,709	\$ 7,630,685	\$ 3,715,769
Receivable from employers	65,342,541	63,671,878	57,652,870
Other receivables	35,393,033	36,301,007	30,812,659
Investments	128,303,882	218,069,145	266,868,926
Capital assets, net	2,908,284	3,025,739	3,112,332
Other assets	831,132	831,121	831,447
Total assets	261,748,581	329,529,575	362,994,003
Unearned revenues	87,791,158	86,269,192	73,676,356
Other liabilities	41,658,086	776,667	878,384
Total liabilities	129,449,244	87,045,859	74,554,740
Net Assets	\$ 132,299,337	\$ 242,483,716	\$ 288,439,263

As of September 30, 2013, 2012 and 2011, the Fund's net assets available for pension benefits were \$132,299,337, \$242,483,716 and \$288,439,263, respectively.

Summarized below are the significant changes in net assets available for benefits:

- Cash and cash equivalents increased by \$21,339,024. This is from the drawdown from investment to payoff refund for members who elected to withdraw their contribution from the Fund.
- Receivable from employers and related unearned revenues increased by \$1,670,663 or 3%. The CNMI Government and autonomous agencies continue to contribute less than the actuarially determined rate.
- Investments decreased by \$89,765,263 or 41% due to the drawdowns authorized for the payment of refunds and benefits.
- The increase in other liabilities pertains to the refund payable.

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

Management's Discussion and Analysis
September 30, 2013

FINANCIAL ANALYSIS, Continued

Changes in Net Assets

The following table presents the changes in the DB Plan net assets for the years ended September 30, 2013, 2012, and 2011.

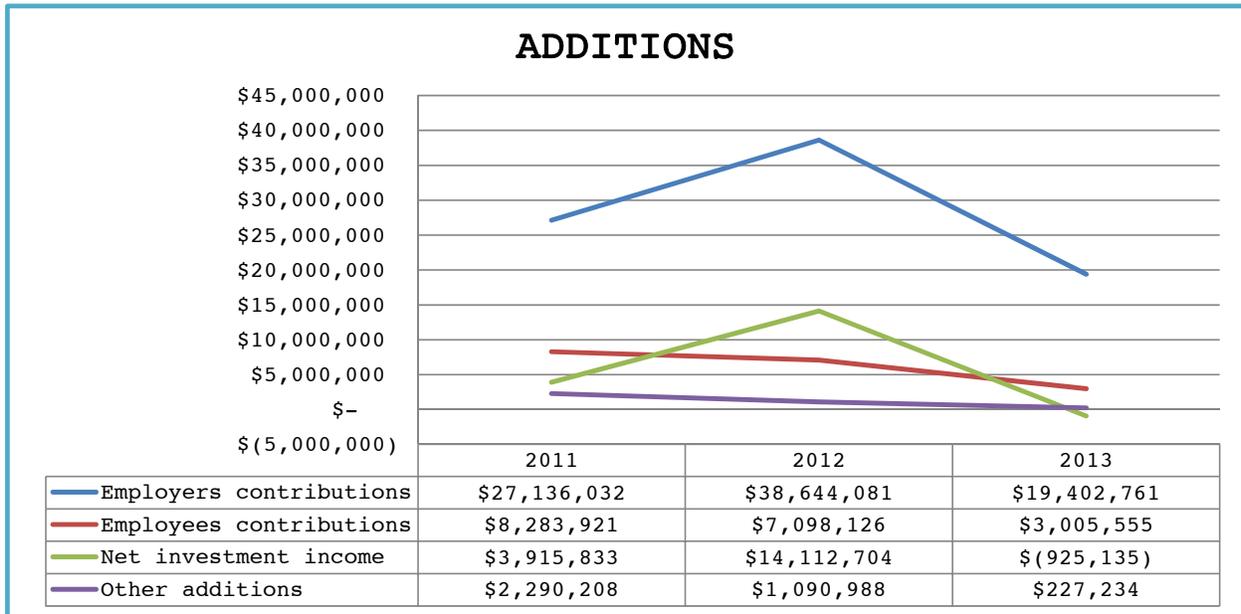
	2013	2012	2011
Additions:			
Employers contributions	\$ 19,402,761	\$ 38,644,081	\$ 27,136,032
Employees contributions	3,005,555	7,098,126	8,283,921
Net investment income	(925,135)	14,112,704	3,915,833
Other additions	227,234	1,090,988	2,290,208
Total additions	<u>21,710,415</u>	<u>60,945,899</u>	<u>41,625,994</u>
Deductions:			
Retirement benefits	56,763,444	56,915,101	55,129,861
Refunds	54,132,080	3,720,157	3,966,594
Provision for uncollectible contributions	3,102,237	25,677,617	13,712,763
Health and life insurance	7,262,464	8,650,853	7,837,852
Survivor benefit	7,233,627	6,975,729	6,684,089
Administrative expenses	2,114,864	3,564,302	2,336,824
Disability benefits	1,209,746	1,342,622	1,442,337
Death lump-sum distributions	76,332	55,065	67,361
Total deductions	<u>131,894,794</u>	<u>106,901,446</u>	<u>91,177,681</u>
Net increase in net assets	(110,184,379)	(45,955,547)	(49,551,687)
Net assets held in trust for pension benefits, beginning of the year	<u>242,483,716</u>	<u>288,439,263</u>	<u>337,990,950</u>
Net assets held in trust for pension benefits, end of the year	<u>\$ 132,299,337</u>	<u>\$ 242,483,716</u>	<u>\$ 288,439,263</u>

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

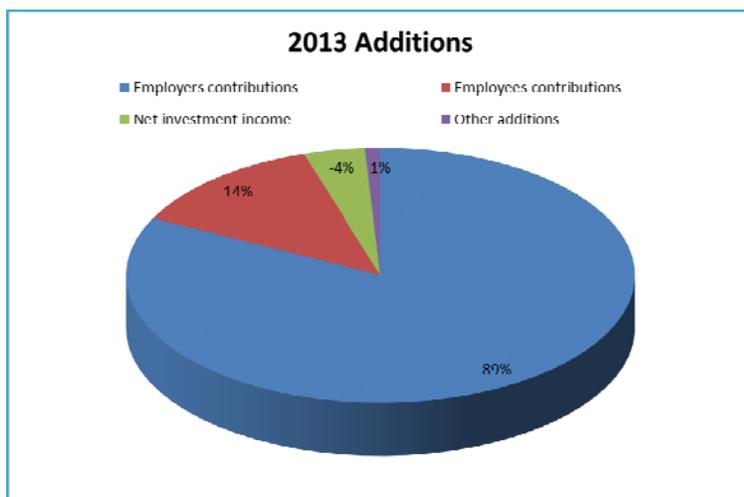
Management's Discussion and Analysis
September 30, 2013

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 and other additions from debt service collection (interest and principal), rental income and others.



In fiscal year 2013, 89% of the NMIRF revenues were from employer contributions.

Investments

Investment performance showed a net loss of \$925,135 in 2013 compared to the \$14,112,704 in net gain in 2012.

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

Management's Discussion and Analysis
September 30, 2013

FINANCIAL ANALYSIS, Continued

Deductions from Plan Net Assets

	2013		2012		2011	
	Amount	%	Amount	%	Amount	%
Retirement benefits	\$ 56,763,444	43.0	\$ 56,915,101	53.2	\$ 55,129,861	60.5
Refunds	54,132,080	41.0	3,720,157	3.5	3,966,594	4.4
Provision for uncollectible contributions	3,102,237	2.4	25,677,617	24.0	13,712,763	15.0
Health and life insurance	7,262,464	5.5	8,650,853	8.1	7,837,852	8.6
Survivor benefit	7,233,627	5.5	6,975,729	6.5	6,684,089	7.3
Administrative expenses	2,114,864	1.6	3,564,302	3.3	2,336,824	2.6
Disability benefits	1,209,746	0.9	1,342,622	1.3	1,442,337	1.5
Death lump-sum distributions	76,332	0.1	55,065	0.1	67,361	0.1
Total deductions	\$ 131,894,794	100.0	\$ 106,901,446	100.0	\$ 91,177,681	100.0

The primary uses of NMIRF's assets include the payment of benefits to members and their beneficiaries and refund of contributions. Refund of contributions significantly increased because of the legislation that made the retirement fund voluntary and allowed for withdrawal of contributions even for vested members. For the years ended September 30, 2013, 2012 and 2011, deductions were \$131,894,790, \$106,901,446 and \$91,177,681. This reflects an increase of \$24,993,344 or 23% in 2013 and \$15,723,765 or 17% in 2012.

OTHER SIGNIFICANT INFORMATION

The passage of Public Law 17-82 on September 11, 2012 and its subsequent amendment by Public Law 18-02 on March 11, 2013 adversely impacted the financial condition of the NMIRF. These laws permit members of the Defined Benefit Plan to withdraw their employee contributions with interest and without penalty.

On August 2, 2013, the parties in Case No. 09-000023 agreed to a proposed settlement. The Settlement Agreement was signed on August 6, 2013 and the Final Settlement Agreement was approved by the U.S. District Court on September 30, 2013.

The NMIRF eventually paid over \$51,000,000 refund of employee contributions to current government employees who opted to refund pursuant to the Settlement Agreement and to those who qualified pursuant to Public Law 17-82/18-02.

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

Management's Discussion and Analysis
September 30, 2013

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:

Administrator
NMI Retirement Fund
PO Box 5234 CHRB
Saipan, MP 96950
www.nmiretirement.com

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

Statement of Plan Net Assets Available for Benefits
September 30, 2013

	<u>Defined Benefit Plan</u>	<u>Defined Contribution Plan</u>	<u>Total</u>
<u>ASSETS</u>			
Cash and cash equivalents	\$ 28,969,709	\$ -	\$ 28,969,709
Receivables:			
Employers:			
Contributions	227,867,520	-	227,867,520
Penalty on the unpaid contribution	64,956,964	-	64,956,964
Early retirement bonus program	3,631,090	-	3,631,090
Special annuity	385,577	-	385,577
Prior service contributions	<u>780,733</u>	<u>-</u>	<u>780,733</u>
Total receivable from employers	297,621,884	-	297,621,884
Less allowance for uncollectible receivables	<u>232,279,343</u>	<u>-</u>	<u>232,279,343</u>
Receivable from employers, net	65,342,541	-	65,342,541
CNMI appropriations	15,026,333	-	15,026,333
Judicial building loan receivable	4,977,581	-	4,977,581
Member Home Loan program notes receivable, net	3,978,432	-	3,978,432
Note receivable - Autonomous agency	1,319,942	-	1,319,942
Note receivable from CGECU	1,524,406	-	1,524,406
Benefits receivable	7,318,318	-	7,318,318
Accrued investment income	391,765	-	391,765
Other receivables	<u>856,256</u>	<u>-</u>	<u>856,256</u>
Total receivables	<u>100,735,574</u>	<u>-</u>	<u>100,735,574</u>
Defined benefit plan investments, at fair market value:			
Mutual funds	66,546,235	-	66,546,235
Corporate debt instruments	60,706,303	-	60,706,303
Equity securities	965,733	-	965,733
Cash equivalents	<u>85,611</u>	<u>-</u>	<u>85,611</u>
Total defined benefit plan investments	<u>128,303,882</u>	<u>-</u>	<u>128,303,882</u>
Defined contribution plan investments	<u>-</u>	<u>28,998,414</u>	<u>28,998,414</u>
Capital assets	<u>2,908,284</u>	<u>-</u>	<u>2,908,284</u>
Other assets	<u>831,132</u>	<u>-</u>	<u>831,132</u>
Total assets	<u>261,748,581</u>	<u>28,998,414</u>	<u>290,746,995</u>

See accompanying notes to financial statements.

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

Statement of Plan Net Assets Available for Benefits
September 30, 2013

LIABILITIES AND NET ASSETS HELD IN TRUST FOR PENSION BENEFITS

Accounts payable	284,486	-	284,486
Refunds payable	40,972,443	-	40,972,443
Unearned revenues	87,791,158	-	87,791,158
Judicial Building Trust Fund	504	-	504
Other payables	<u>400,653</u>	-	<u>400,653</u>
 Total liabilities	 <u>129,449,244</u>	 -	 <u>129,449,244</u>
 Contingencies			
 Net assets held in trust for pension benefits	 <u>\$ 132,299,337</u>	 <u>\$ 28,998,414</u>	 <u>\$ 161,297,751</u>

See accompanying notes to financial statements.

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

Statement of Changes in Plan Net Assets Available for Benefits
Years Ended September 30, 2013

	Defined Benefit Plan	Defined Contribution Plan	Total
	<u>Plan</u>	<u>Plan</u>	<u>Total</u>
Additions:			
Contributions:			
Employer	\$ 19,402,761	\$ 1,615,074	\$ 21,017,835
Employee	<u>3,005,555</u>	<u>4,812,790</u>	<u>7,818,345</u>
Total contributions	<u>22,408,316</u>	<u>6,427,864</u>	<u>28,836,180</u>
Investment income:			
Interest and dividend income	8,064,946	57,988	8,122,934
Net realized and unrealized gains (losses) on investments	<u>(8,671,129)</u>	<u>(462,344)</u>	<u>(9,133,473)</u>
Total investment income (loss), net	(606,183)	(404,356)	(1,010,539)
Less management and custodial fees	<u>318,952</u>	<u>-</u>	<u>318,952</u>
Net investment income (loss)	<u>(925,135)</u>	<u>(404,356)</u>	<u>(1,329,491)</u>
Other additions:			
Rental and other income	<u>227,234</u>	<u>-</u>	<u>227,234</u>
Total additions	<u>21,710,415</u>	<u>6,023,508</u>	<u>27,733,923</u>
Deductions:			
Benefit and refund payments:			
Retirement benefits	56,763,444	-	56,763,444
Withdrawals and refunds	54,132,080	7,717,969	61,850,049
Health and life insurance premiums	7,262,464	-	7,262,464
Survivor benefits	7,233,627	-	7,233,627
Disability benefits	1,209,746	-	1,209,746
Death lump-sum distributions	76,332	-	76,332
Transfers and rollovers	<u>-</u>	<u>(960,017)</u>	<u>(960,017)</u>
Total benefit and refund payments	126,677,693	6,757,952	133,435,645
Provision for uncollectible contributions, net of recoveries	3,102,237	-	3,102,237
Administrative expenses	<u>2,114,864</u>	<u>224,153</u>	<u>2,339,017</u>
Total deductions	<u>131,894,794</u>	<u>6,982,105</u>	<u>138,876,899</u>
Net increase decrease	(110,184,379)	(958,597)	(111,142,976)
Net assets held in trust for pension benefits, beginning	<u>242,483,716</u>	<u>29,957,011</u>	<u>272,440,727</u>
Net assets held in trust for pension benefits, ending	<u>\$ 132,299,337</u>	<u>\$ 28,998,414</u>	<u>\$ 161,297,751</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, 2013

(1) Retirement Plan Description

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

A. General

The NMIRF Defined Benefit Plan (DB) 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, 16-36 and 17-32, 17-82 and 18-21.

(2) Description of the Defined Benefit Plan

A. Membership

Prior to Public Law 17-82, membership in the DB Plan is mandatory for all employees of the CNMI central government, autonomous agencies, instrumentalities and public corporations, regardless of age, hired before January 1, 2007. With the adoption of Public Law 17-82, membership to the DB plan became voluntary.

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

Notes to Financial Statements
September 30, 2013

(2) Description of the Defined Benefit Plan, Continued

A. Membership, Continued

As of September 30, 2013, membership receiving benefits and entitled to benefits consisted of the following:

Members currently receiving benefits:

Retirees	2,333
Beneficiaries	753
Disabled	<u>73</u>
	<u><u>3,159</u></u>

Of the 3,159 members receiving benefits, 12 retirees and 1 surviving spouse opted out of the Settlement fund and remained annuitants of the Fund as of September 30, 2013.

Active members contributing to the DB Plan as of September 30, 2013 are as follows:

Class I	113
Class II	<u>13</u>
	<u><u>126</u></u>

Of the 126 active members, 3 opted out of the Settlement fund and remained members of the Fund as of September 30, 2013.

B. Contribution

Class I member contributions are required at 10.5% of base pay and Class II member contributions are at 11% of base pay.

Based on the actuarial valuation as of October 1, 2010 issued in October 2012, the actuarially determined contribution rate for the fiscal year ended September 30, 2010 was 72.7215% of covered payroll.

The established statutory rate at September 30, 2013 was 72.7215% of covered payroll.

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

Notes to Financial Statements
September 30, 2013

(2) Description of the Defined Benefit Plan, Continued

C. Summary of the Principal Provisions of the 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 the effective date of Public Law 6-17 and who did not choose to become Class I Members. All employees of the government, public corporations, agencies and instrumentalities of the government hired on or after the effective date of Public Law 6-17 who are not Class II Members become Class I Members.

Membership Service

Membership Service is earned for actual compensated government employment after becoming a Fund Member. 1/12 year of service is earned for each month of employment.

Benefit Formulas

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.

Class II members receive the greater of the benefit determined using the Class II formula or the benefit determined using the Class I formula as if all service had been rendered as a Class I member.

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

NORTHERN MARIANA ISLANDS RETIREMENT FUND
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Notes to Financial Statements
September 30, 2013

(2) Description of the Defined Benefit Plan, Continued

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

Normal Retirement

Eligibility – Class I: Age 62 and 10 years of contributing membership service after May 7, 1989. Class II: Age 60 or 25 years of membership 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.

Early Retirement

Eligibility – Age 52 and 10 years of membership service or 25 years of membership service for a Class I member. At least 10 years of membership 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.

NORTHERN MARIANA ISLANDS RETIREMENT FUND
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(2) Description of the Defined Benefit Plan, Continued

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

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.

Public Law 17-82, which was signed in September 11, 2012, provided that Class I or Class II member of the DB Plan, active or inactive may elect to voluntarily terminate membership in the Fund.

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.

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Notes to Financial Statements
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(2) Description of the Defined Benefit Plan, Continued

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

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, 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.

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%. Refund is made upon termination with less than 15 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%. 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. 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.

Refund of Contributions for both Class I and Class II without separation from service was allowed by Public Law 17-82.

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

Notes to Financial Statements
September 30, 2013

(2) Description of the Defined Benefit Plan, Continued

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

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 their 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 CNMI Government. The government portion of health premiums is assumed to be \$1,142.89 per year. Retirees and beneficiaries pay the employee portion of the premiums through deductions from their periodic benefit payments.

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

The present values of vested and non-vested accrued benefits provide a measure of the value of future plan benefit payments resulting from service earned to the valuation date. 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 management's understanding of the reporting requirements of the Accounting Standards Codification 960 (ASC 960). ASC 960 is not applicable to governmental plans; results are provided for informational purposes only.

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.

NORTHERN MARIANA ISLANDS RETIREMENT FUND
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(2) Description of the Defined Benefit Plan, Continued

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

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

NORTHERN MARIANA ISLANDS RETIREMENT FUND
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Notes to Financial Statements
September 30, 2013

(2) Description of the Defined Benefit Plan, Continued

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

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.

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Notes to Financial Statements
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(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
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(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.

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 uncertainty of realization, 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 unearned revenues. Actual revenues are only recorded when such are collectible within the current period or soon enough thereafter to pay liabilities of the current period.

NORTHERN MARIANA ISLANDS RETIREMENT FUND
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Notes to Financial Statements
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(4) Summary of Significant Accounting Policies, Continued

Adopted Standard

To properly account for the transfer of the significant operations of the Fund to the Settlement Fund, the Fund adopted the early implementation of GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*.

Recent Pronouncement

In June 2012, GASB issued Statement No. 67, *Financial Reporting for Pension Plans—an amendment of GASB Statement No. 25*; and Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*. The requirements of these Statements will improve the decision-usefulness of information in employer and governmental nonemployer contributing entity financial reports and will enhance its value for assessing accountability and interperiod equity by requiring recognition of the entire net pension liability and a more comprehensive measure of pension expense. Decision-usefulness and accountability also will be enhanced through expanded note disclosures and required supplementary information. These Statements are effective for fiscal years beginning after June 15, 2014. Earlier application is encouraged.

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 Fund 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.

NORTHERN MARIANA ISLANDS RETIREMENT FUND
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Notes to Financial Statements
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(4) Summary of Significant Accounting Policies, Continued

Valuation of Investments

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

Equity securities traded on a national or international exchange are reported at current quoted market values.

Bonds are primarily reported at fair values obtained from independent pricing services.

Mortgages are valued on the basis of future principal and interest payments and are discounted at prevailing interest rates for similar instruments. Real estate partnerships are reported at values provided by general partners. These values are based on discounted cash flows, comparative sales, capitalization rates applied to net operating income, or cost, if none of the preceding fit a property's attributes and strategy.

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.

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Notes to Financial Statements
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(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 360 hours. 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 \$45,559 at September 30, 2013.

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 (Trustee Ad Litem for fiscal year 2013). 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
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Notes to Financial Statements
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(5) Description of Non-Retirement Funds

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:

Total assets	<u>\$ 1,814,787</u>
Total liabilities	\$ 17,738,060
Fund deficit	<u>(15,923,273)</u>
Total liabilities and fund deficit	<u>\$ 1,814,787</u>
Total revenues	\$ 512,534
Total expenditures	<u>(56,600)</u>
Excess of revenues over expenditures	<u>\$ 455,934</u>

NORTHERN MARIANA ISLANDS RETIREMENT FUND
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(6) Deposits and Investments Risk

Deposits – Custodial Risk

At September 30, 2013, the Fund's cash balances were deposited in various interest and non-interest bearing accounts. The Federal Deposit Insurance Corporation (FDIC) insures accounts up to \$250,000. From the total bank balance of \$29,313,520 as of September 30, 2013, only \$250,000 are subject to coverage by the FDIC with the remaining balance exceeding insurable limits. Of the \$29,063,520 in excess of insured limits, \$3,342,524 are collateralized with the bank's securities and the remaining \$25,720,996.

Investments

Carrying values of the NMIRF investments as of September 30, 2013 are as follows:

Defined Benefit Plan

Investment categorized	
Mortgage Pass-Throughs	\$ 55,419,896
Collateralized Mortgage Obligations	5,286,407
Foreign Stocks	<u>965,733</u>
Total Categorized	<u>61,672,036</u>
Investments Not Categorized:	
Mutual Bond Funds	49,636,595
Money Market Funds	6,273,527
Stock Mutual Funds	10,636,113
Cash equivalents	<u>85,611</u>
Total Not Categorized	<u>66,631,846</u>
Total Investments	<u><u>\$128,303,882</u></u>

NORTHERN MARIANA ISLANDS RETIREMENT FUND
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Notes to Financial Statements
September 30, 2013

(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 with the above mentioned requirements.

Summarized below are the ratings of Fund's fixed income investments as of September 30, 2013:

<u>Moody's/S&P/Fitch Credit Rating</u>	<u>Mortgage Pass Throughs</u>	<u>Collateralized Mortgage Obligations</u>	<u>Money Market and Mutual Bond Funds</u>
Aaa/AAA	\$ 55,419,896	\$ 5,286,407	\$ -
Unrated	<u>-</u>	<u>-</u>	<u>55,910,122</u>
TOTAL	<u>\$ 55,419,896</u>	<u>\$ 5,286,407</u>	<u>\$ 55,910,122</u>

NORTHERN MARIANA ISLANDS RETIREMENT FUND
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(6) Deposits and Investments Risk, Continued

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:

Investment Type	Carrying Value	Investment Maturities (in Years)	
		6 to 10	More Than 10
Investments Subject to Interest Rate Risk:			
Mutual Bond Funds	\$ 49,636,595	\$ 49,636,595	\$ -
Mortgage Pass-Throughs	55,419,896	-	55,419,896
Collateralized Mortgage Obligations	<u>5,286,407</u>	<u>-</u>	<u>5,286,407</u>
Total Investment Subject to Interest Rate Risk	<u>110,342,898</u>	<u>\$ 49,636,595</u>	<u>\$ 60,706,303</u>
Investments Not Subject to Interest Rate Risk:			
Money Market Funds	6,273,527		
Stock Mutual Funds	10,636,113		
Foreign Stocks	965,733		
Cash equivalents	<u>85,611</u>		
Total Investments Not Subject to Interest Rate Risk	<u>17,960,984</u>		
Total Investments	<u>\$ 128,303,882</u>		

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, 2013 the NMIRF had \$26,639,681 with 5 issuers that individually exceeded 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.

NORTHERN MARIANA ISLANDS RETIREMENT FUND
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Notes to Financial Statements
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(6) Deposits and Investments Risk, Continued

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, 2013, 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.

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.

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. There were no investments in derivative instruments as of September 30, 2013.

Accrued Investment Income

Accrued investment income as of September 30, 2013 is as follows:

Dividends receivable	\$ 205,635
Interest receivable	<u>186,130</u>
	<u>\$ 391,765</u>

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(7) Employer Contributions and Penalties

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.

The NMIRF entered into a Memorandum of Understanding with the Municipality of Tinian to convert the past due employer contributions to notes receivable bearing 9% interest.

Employer retirement contributions receivable as of September 30, 2013 are as

CNMI primary government	\$ 177,209,769
CNMI autonomous agencies	<u>50,657,551</u>
Contributions receivable	227,867,520
Note receivable	
- Municipality of Tinian	<u>1,319,942</u>
Total contribution deficiencies	<u>\$ 229,187,462</u>

The CNMI Government and its autonomous agencies are in arrears in its employer contributions to the Fund. Management asserts the need to make a 100% allowance on this account. (See Note 17).

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. The assessments were recorded as a receivable due from the CNMI Government and its autonomous agencies. However, due to the uncertainty of the Government's ability to pay, the recognition of related revenues were deferred until payments are actually collected.

Assessed penalties on unpaid CNMI Government employer contributions amounted to \$52,734,553 as of September 30, 2013 and the aggregate assessed penalties on autonomous agencies amounted to \$12,222,411 as of September 30, 2013. The assessments were recorded as a receivable due from the CNMI Government and its autonomous agencies. 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 20 for further discussion.)

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(8) Special Annuity

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

Receivable for special annuity as of September 30, 2013 amounted to \$385,577.

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 Note 20 for further discussion.)

(9) 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, 2013.

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, 2013.

Appropriations Receivable as of September 30, 2013 is summarized as follows:

Public Law 11-41	\$ 8,494,020
Public Law 8-31	<u>6,532,313</u>
Ending balance	<u>\$ 15,026,333</u>

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 20 for further disclosure.)

Pursuant to 4 CMC §1803, thirty percent (30%) of the taxes collected under 4 CMC §1502 and twenty percent (20%) of the taxes collected under 4 CMC §1405(b) shall be allotted and paid to the Northern Mariana Islands Retirement Fund. Public Law 17-21, *Appropriations and Budget Authority Act of 2011*, projected the appropriations related to 4 CMC §1803 at \$1,690,000 while Public Law 16-32, *Appropriations and Budget Authority Act of 2010*, did not state the budgeted amounts. Since the appropriations pursuant to 4 CMC §1803 are intended to repay the CNMI government outstanding contributions receivable in relation the Court Ordered settlement, the Fund did not recognize any revenue as a result of these appropriations. Any payments received from these appropriations are recorded as reduction to the contributions receivable.

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

Notes to Financial Statements
September 30, 2013

(10) 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, 2013, the JBF has cash balance \$504, reported as component of NMIRF's cash and Judicial Building Trust Fund payable.

The CNMI judicial building loan receivable balance at September 30, 2013 was \$4,977,581. The Loan receivable is in arrears and the Fund have exerted collection efforts on the CNMI government who guarantees the loan payment upon the default of the JBF.

(11) 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, 2013, the member home loan program receivable is as follows:

Notes receivable	\$ 4,771,330
Allowance for doubtful accounts	<u>(792,898)</u>
Notes receivable, net	<u>\$ 3,978,432</u>

Interest income earned on the MHLP was \$515,665 for the year ended September 30, 2013, presented as component of interest and dividend income in the Statement of Changes in Plan Net Assets Available for Benefits.

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

Notes to Financial Statements
September 30, 2013

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

Public Law No. 9-52 became effective on September 18, 1995. This law authorized the Fund to loan to 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%.

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, 2013 is \$1,524,406. Interest income earned on this loan was \$0 for the year ended September 30, 2013. Interest that could have been earned if this loan was on accrual basis is \$137,196.

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. Additionally, a first mortgage on real property located in Navy Hill, Saipan, CNMI was also used as collateral for this loan.

(13) 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, 2013, the Fund recognizes as receivable from CNMI Government \$3,631,090 for early retirement benefits. The CNMI Department of Finance confirms the receivable as not appropriated because the CNMI Legislature has not budgeted nor appropriated funds to pay for this obligation. Consequently, due to the uncertainty of its collectability, an allowance for uncollectible receivables of \$3,631,090 was presented at September 30, 2013. (See Note 18 for further disclosures.)

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

Notes to Financial Statements
September 30, 2013

(14) Benefits Receivable

Benefits receivable consists of the following at September 30, 2013:

Buyback receivable	\$ 234,150
Underpayment of contributions	116,508
Benefits overpayment	<u>6,967,660</u>
Total	<u>\$7,318,208</u>

Deferred revenue was credited when these receivables were recognized. Earned revenues will only be recognized when such receivables are actually collected. (See Note 20 for further discussion.)

(15) Trust Territory Prior Service Receivable

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, 2013.

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.

The CNMI Department of Finance confirmed the receivable balance as not budgeted nor appropriated funds. Consequently, due to the uncertainty of its collectability, an allowance for uncollectible receivables of \$780,733 was presented at September 30, 2013. (See Note 17 for further disclosure.)

(16) Other Receivables

At September 30, 2013, other receivables consist of the following:

Due from the CNMI General Fund – Professional fees related to Civil Case No. 09-00023	\$ 474,956
Advances for Professional fees	275,000
Others	<u>106,300</u>
	<u>\$ 856,256</u>

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

Notes to Financial Statements
September 30, 2013

(17) 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, 2013, the allowance for uncollectible receivables from employers, consist of the following:

CNMI Primary Government:	
Employer contributions (Note 7)	\$177,209,769
Early retirement bonus program (Note 15)	3,631,090
Prior service contribution (Note 15)	<u>780,733</u>
Total CNMI Primary Government	181,621,592
CNMI Autonomous Agencies:	
Employer contributions (Note 7)	<u>50,657,751</u>
	<u><u>\$232,279,343</u></u>

(18) Capital Assets

The following is a summary of capital assets as of September 30, 2013:

Building improvements	\$ 3,785,118
Software	584,219
Office equipment and furniture	540,744
Mechanical equipment	367,850
Electrical equipment	251,446
Vehicles	<u>74,890</u>
At cost	5,604,267
Accumulated depreciation	<u>(2,695,983)</u>
Net	<u><u>\$ 2,908,284</u></u>

(19) Other Assets

Other assets pertains to certain parcels of land deeded by CGECU to NMIRF valued at cost of \$546,650 and \$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, 2013.

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, 2013

(20) Unearned Revenues

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, 2013 unearned revenue consists of the following:

CNMI Penalty for unpaid contributions (Note 7)	\$ 52,734,553
CNMI appropriations (Note 9)	15,026,333
Agency Penalty for unpaid contributions (Note 7)	12,222,411
Benefits receivable (Note 14)	7,318,318
Special annuity (Note 8)	385,577
Advances from tenant	52,500
Prior service trust fund	<u>51,466</u>
	<u>\$ 87,791,158</u>

(21) Funding Policy, Status and Progress

The Settlement Fund came into effect on October 1, 2013, consequently assets and liabilities of the Fund were transferred to the Settlement Fund and the CNMI Government make the future benefit payments to the annuitant who opted out of the Settlement Fund an unfunded pension obligation of the CNMI government.

Member and employer contribution for active members who opted out of the settlement fund will continue to be paid to the Fund as stated in Note 2.

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 Note 2, to the accompanying financial statements.

As of the most recent actuarial valuation report (October 1, 2010), the computed funding requirements for Class I members are 22.7068% and 10.5% for employers and employees, respectively, and for Class II members the requirements are 1014.2838% and 11% for employers and employees, respectively, of covered payroll. These translate to aggregate remaining government contribution rate as percentage of covered payroll of 72.7215%.

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

Notes to Financial Statements
September 30, 2013

(22) 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, the Territory of Guam and other countries.

The NMIRF has investment policies that prohibit concentration of its risk in investment portfolio. As of September 30, 2013 the NMIRF had \$26,639,681 with 5 issuers that individually exceeded 5% of total investments. All loans receivable at September 30, 2013 are due from 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 Statement of Plan Net Assets Available for Benefit.

(23) 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.

(24) Other Matters

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 Government 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.

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

Notes to Financial Statements
September 30, 2013

(25) Subsequent Events

On September 30, 2013, the U.S District Court approved the Final Settlement Agreement for Case No. 09-000023. Pursuant to the Settlement order the Fund will make the following transfers on October 1, 2013:

A. Transfer to the CNMI Government

Pursuant to paragraph 8.1 and 8.2 of the Settlement Order, the Fund transferred the following to the CNMI Government and recognized loss from Settlement of \$719,863 and Due from the CNMI Government of \$600,080.

Assets	
Employer contributions receivable, net	\$ <u>65,758,249</u>
Liabilities	
Unearned revenues	64,438,306
Accounts payable and accrued expenses	<u>600,080</u>
	<u>65,038,386</u>
Net Assets to be transferred	\$ <u><u>719,863</u></u>

B. Transfer to the Settlement Fund

Pursuant to paragraph 8.0 and 8.2 of the Settlement Order, the Fund transferred the following to the Settlement Fund and recognized loss from Settlement of \$126,076,580 and Due to the Settlement Fund of \$119,678,477.

Assets	
Cash, cash equivalents and investment, net of refunds	\$ 116,421,161
Capital assets, net	2,908,284
Notes receivable	5,163,710
Other receivables	<u>1,635,925</u>
	<u>126,129,080</u>
Liabilities	
Unearned revenues	<u>52,500</u>
Net Assets to be transferred	\$ <u><u>126,076,580</u></u>

No adjustments were necessary as of September 30, 2013.

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

Required Supplementary Information
Schedule of Funding Progress
September 30, 2013

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Funded Ratio (a/b)
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%
Oct. 1, 2010	\$ 337,990,950	\$ 960,593,139	35.2%
Oct. 1, 2011	No information		
Oct. 1, 2012	No information		

Actuarial Valuation Date	Unfunded AAL (UAAL) (b-a)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
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	581.92%
Oct. 1, 2009	\$ 591,775,065	\$ 80,775,065	732.62%
Oct. 1, 2010	\$ 622,602,189	\$ 72,229,545	862.00%
Oct. 1, 2011	No information		
Oct. 1, 2012	No information		

See Independent Auditor's Report and
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

September 30, 2013

<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>
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	84.27%
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	31.96%
2010	\$ 32,660,238	\$ 19,404,702	54.41%
2011	\$ 27,136,032	\$ 11,404,016	42.03%
2012	\$ 38,644,081	\$ 12,966,464	33.55%
2013	\$ 19,402,761	\$ 26,719,346	137.71%

See Independent Auditor's Report and
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, 2013

(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, 2010
Actuarial cost method	Entry age
Amortization method	level percent – period is open
Remaining amortization period	36 years (commencing October 1, 2010)
Asset valuation method	Market value, including accrued contributions
Actuarial assumptions:	
Investment rate of return	7.5%
Projected salary increases	3.0%



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

The Trustees Ad Litem
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, 2013, and have issued my report thereon dated March 31, 2015. 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 of the financial statements, I considered the Fund's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. Accordingly, I do not express an opinion on the effectiveness of the Fund's internal control.

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 a 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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

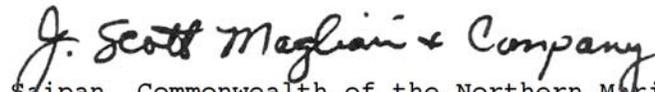
My consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during my audit I did not identify any deficiencies in internal control that I consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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 is required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Findings as Finding 2013-01.

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.

This report is intended solely for the information and use of the management of NMIRF, the Trustee Ad Litem, 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
March 31, 2015

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

Schedule of Findings
September 30, 2013

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>
2013-01	Overpayment of Refund	44

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

Schedule of Findings
September 30, 2013

SECTION II – FINANCIAL STATEMENTS FINDINGS

Finding No. 2013-01 – Overpayment of Refund

Criteria:

Pursuant to Public Law 17-82 and 18-02, notwithstanding any other provision of law, Class I or Class II member of the Defined Benefit Plan, active or inactive, may elect to voluntarily terminate membership in the fund and shall enter the federal insurance system commonly known as "Social Security" upon its extension to offers and employees of the Commonwealth government. Any employee who elects to terminate membership in the fund shall receive his/her employee contribution with regular interest without penalty and without separating from government service.

Condition:

Randomly selected 126 refunds with aggregate refund amount of \$6,320,255 or 15% of the \$40,972,443 outstanding refund payables, including rollover.

For 1 or .8% of the 126, the member was overpaid \$35,263.79. The member contribution ledger already included in September 26, 2001 the \$34,683.43 buyback payment but the Fund issued a separate distribution for the Buyback refund. Summarized below are the refund payments made to the member based on the member contribution ledger and the additional buyback refund:

	<u>Paid to Employee</u>	<u>To ASC</u>	<u>Total</u>
Initial distribution (54668)	\$ 11,921.85	\$ 17,882.77	\$ 29,804.61
Final distribution (55439)	44,429.53	66,644.31	111,073.84
Additional – Buy back (54873)	<u>35,263.79</u>	<u>-</u>	<u>35,263.79</u>
Total distribution	<u>\$ 91,615.17</u>	<u>\$ 84,527.08</u>	176,142.25
Total contribution including Buyback			<u>140,878.46</u>
Over distribution			<u>\$ 35,263.79</u>

Cause:

The Fund overlooked the posting of the paid buyback contribution in the member contribution ledger. Based on my inquiry with the internal auditor, the member followed up for the Buyback refund. Since majority of the Buyback refunds processed were not yet posted in the member contribution ledgers, the Fund employee who processed the buyback refund for this member did not verify whether the buyback was already included in the previous distributions.

Recommendation:

The Fund should recoup the overpayment from the member and also review other buyback refunds to ensure that overpayments were not made.

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

Schedule of Findings
September 30, 2013

SECTION II – FINANCIAL STATEMENTS FINDINGS

Finding No. 2013-01 – Overpayment of Refund

Auditee Response:

The Fund acknowledges the overpayment made. The Fund still owes this member \$36,852 in compounded interest. The overpayment will be deducted from the interest once the Fund is authorized to release in the interests to the members.

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

Schedule of Findings
September 30, 2013

SECTION III – STATUS OF PRIOR YEAR FINDINGS

<u>Reference Number</u>	<u>Findings</u>	<u>Status</u>
2012-01	Timely posting and reconciliation of member contributions to individual member ledgers	Resolved. The Fund updated member contributions to process the refund.
2012-02	Updating of Annuity Recipient Information	On-going.
2012-03	Surviving Child/Children	On-going.
2012-03	Net Realizable values of Notes Receivable	Resolved. Losses were subsequently recognized when the Fund transferred the notes to the Settlement Fund and the CNMI government.
2011-01	Timely posting and reconciliation of member contributions to individual member ledgers	Resolved. Refer to 2012-01.
2010-01	Timely posting and reconciliation of member contributions to individual member ledgers	Resolved. Refer to 2012-01.