

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

FINANCIAL STATEMENTS,
ADDITIONAL INFORMATION AND
INDEPENDENT AUDITORS' REPORT

YEARS ENDED SEPTEMBER 30, 2016 AND 2015

INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Northern Mariana Islands Retirement Fund (NMIRF), a component unit of the Commonwealth of the Northern Mariana Islands, which comprise the statements of fiduciary net position as of September 30, 2016 and 2015, and the related statements of changes in fiduciary net position for the years then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Basis for Qualified Opinion

Management has not adopted Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*, which was effective October 1, 2014. As discussed in note 2 to the financial statements, NMIRF has not recorded pension expense and related revenue for the years ended September 30, 2016 and 2015. GASB Statement No. 68 requires an employer that has a special funding situation to recognize its proportionate share of the collective pension expense, as well as additional pension expense and revenue for the pension support of the CNMI primary government as a non-employer contributing entity. The effects of this departure from accounting principles generally accepted in the United States of America on the financial statements have not been determined.

Qualified Opinion

In our opinion, except for the effects of the matter described in the "Basis for Qualified Opinion" paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the Northern Mariana Islands Retirement Fund as of September 30, 2016 and 2015, and the changes in its fiduciary net position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter***Implementation of New Accounting Standards***

As discussed in note 2 to the financial statements, NMIRF adopted GASB Statement No. 72, *Fair Value Measurement and Application*, effective October 1, 2015.

Our opinion is not modified with respect to this matter.

Other Matters***Required Supplementary Information***

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America requires to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise NMIRF's basic financial statements. The Combining Statement of Fiduciary Net Position and the Combining Statement of Changes in Fiduciary Net Position as of and for the year ended September 30, 2016 (pages 16 and 17) are presented for purposes of additional analysis and are not a required part of the basic financial statements. The Combining Statement of Fiduciary Net Position and the Combining Statement of Changes in Fiduciary Net Position are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Combining Statement of Fiduciary Net Position and the Combining Statement of Changes in Fiduciary Net Position are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated July 18, 2017 on our consideration of NMIRF's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering NMIRF's internal control over financial reporting and compliance.

Deloitte & Touche LLC

July 18, 2017

NORTHERN MARIANA ISLANDS RETIREMENT FUND

Statements of Fiduciary Net Position
September 30, 2016 and 2015

<u>ASSETS</u>	<u>2016</u>	<u>2015</u>
Cash and cash equivalents	\$ 4,125,510	\$ 3,897,778
Receivables:		
Mortgage home loans, net of allowance for doubtful accounts of \$792,898 as of September 30, 2016 and 2015	2,666,737	3,015,971
Agency	329,908	594,167
Other	6,956	12,191
Total receivables, net	<u>3,003,601</u>	<u>3,622,329</u>
Due from CNMI	<u>999,998</u>	<u>1,362,499</u>
Due from autonomous agencies	<u>1,490,077</u>	<u>631,058</u>
Defined contribution plan investments	<u>25,872,905</u>	<u>22,053,621</u>
Foreclosed real estate	<u>209,095</u>	<u>209,095</u>
Total assets	<u>35,701,186</u>	<u>31,776,380</u>
<u>LIABILITIES AND FIDUCIARY NET POSITION</u>		
Accounts payable and accrued expenses	604,469	594,744
Health insurance payable	2,251,238	1,752,412
Life insurance payable	317,699	462,491
Due to Settlement Fund	176,175	1,176,175
Due to CNMI	1,465,731	465,731
Total liabilities	<u>4,815,312</u>	<u>4,451,553</u>
Fiduciary net position:		
Held in trust for pension benefits	29,338,695	25,776,306
Held in trust for medical and life insurance benefits	<u>1,547,179</u>	<u>1,548,521</u>
Total fiduciary net position	<u>\$ 30,885,874</u>	<u>\$ 27,324,827</u>

See accompanying notes to financial statements.

NORTHERN MARIANA ISLANDS RETIREMENT FUND

Statements of Changes in Fiduciary Net Position
Years Ended September 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Additions:		
Employee contributions	\$ 4,755,700	\$ 4,622,286
Employer contributions	<u>1,748,354</u>	<u>1,738,879</u>
	<u>6,504,054</u>	<u>6,361,165</u>
Investment income:		
Net appreciation (depreciation) in fair value of investments	2,090,712	(1,515,771)
Interest and dividend income	<u>104,116</u>	<u>156,734</u>
Total investment income (loss)	2,194,828	(1,359,037)
Less management and custodial fees	<u>(228,363)</u>	<u>(218,439)</u>
Net investment income (loss)	<u>1,966,465</u>	<u>(1,577,476)</u>
Life and health insurance surcharge	<u>-</u>	<u>24,389</u>
Interest and fees on loans	<u>306,871</u>	<u>330,762</u>
Transfers and rollovers	<u>386,414</u>	<u>66,423</u>
Other	<u>5,236</u>	<u>4,266</u>
Total additions	<u>9,169,040</u>	<u>5,209,529</u>
Deductions:		
Benefits and refund payments:		
Withdrawal and refunds	4,970,454	5,018,437
Forfeitures	294,509	96,876
Retirement benefits	203,223	234,715
Health and life insurance premiums	55,954	42,993
Survivor benefits	<u>6,000</u>	<u>8,712</u>
Total benefits and refund payments	<u>5,530,140</u>	<u>5,401,733</u>
Cost of medical claims	<u>2,029</u>	<u>1,574</u>
Administrative expenses:		
Salaries and wages	56,964	67,253
Employee benefits	14,834	15,798
Professional fees	1,423	9,798
Miscellaneous	<u>14,603</u>	<u>23,173</u>
Total administrative expenses	<u>87,824</u>	<u>116,022</u>
Total deductions	<u>5,619,993</u>	<u>5,519,329</u>
Nonoperating revenues (expenses):		
Gain on foreclosure	-	3,494
Other	<u>12,000</u>	<u>(45,907)</u>
Total nonoperating revenues (expenses), net	<u>12,000</u>	<u>(42,413)</u>
Net increase (decrease)	3,561,047	(352,213)
Fiduciary net position held in trust:		
Beginning of year	<u>27,324,827</u>	<u>27,677,040</u>
End of year	<u>\$ 30,885,874</u>	<u>\$ 27,324,827</u>

See accompanying notes to financial statements.

NORTHERN MARIANA ISLANDS RETIREMENT FUND

Notes to Financial Statements
September 30, 2016 and 2015

(1) Organization

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

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

As of September 30, 2016 and 2015, NMIRF has \$176,175 and \$1,176,175, respectively, in obligations to the Settlement Fund related to the Settlement Agreement.

On September 26, 2016, the CNMI paid \$1,000,000 to the Settlement Fund on behalf of NMIRF. Additionally, in compliance with Section 8.1, NMIRF collected \$-0- and \$75,000 of deficient employer contributions receivable from autonomous agencies during the years ended September 30, 2016 and 2015, respectively. These amounts are included in due to CNMI in the accompanying financial statements. Further, \$5,510,330 of receivables from autonomous agencies related to penalties, interest and other items that were not transferred to the CNMI have been 100% reserved for.

Defined Contribution Plan (DCP)

DCP was created by P.L. 15-13 to provide an individual account retirement system for any person employed by the CNMI or its autonomous agencies. Participating employers include the CNMI, NMIRF, CGECU, the Commonwealth Development Authority, the Commonwealth Healthcare Corporation, the Commonwealth Ports Authority, the Commonwealth Utilities Corporation, the Marianas Public Land Trust, the Marianas Visitors Authority, the Northern Marianas College, the Northern Marianas Housing Corporation and the CNMI Public School System. The NMIRF Acting Administrator is responsible for the general administration and operation of DCP. The DCP, by its nature, is fully funded on a current basis from employer and member contributions. DCP is a voluntary multi-employer pension plan and is the single retirement program for all new employees whose employment commenced on or after January 1, 2007. DCP has total participants of 2,562 and 2,464 as of September 30, 2016 and 2015, respectively.

NORTHERN MARIANA ISLANDS RETIREMENT FUND

Notes to Financial Statements
September 30, 2016 and 2015

(1) Organization, Continued

Defined Contribution Plan (DCP), Continued

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

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

CNMI Group Health and Life Insurance Trust Fund (GHLITF)

Membership to GHLITF is optional to active employees of the CNMI and its autonomous agencies while annuitants are provided with an option, to be exercised within six months of date of retirement, to continue their government health insurance coverage under the same group terms and conditions as the government coverage. Any person who declines to exercise the health insurance option within six months of the date of retirement, or who exercises the option and subsequently cancels health insurance coverage for more than six months, shall not be entitled to reapply for coverage.

GHLITF is open to active employees who work at least 20 hours per week and is available to retired CNMI Government employees who retire as a result of length of service, disability or age, as well as their dependents.

Health and life insurance coverage are provided by third-party providers. GHLITF acts in a trustee capacity for payments to the providers. Contributions from employees and employers are based on rates agreed to by the Acting Administrator and the third-party providers.

Medical insurance premiums paid by the CNMI and its autonomous agencies are remitted to GHLITF which then remits all contributions to the third-party insurance providers after deducting a 2% surcharge.

As of September 30, 2016 and 2015, the rates for basic life insurance are as follows: (1) \$0.60 per \$1,000 per bi-weekly pay period for active; and (2) \$0.65 per \$1,000 per semi-monthly pay period for retired individuals for the term life insurance including accidental death and dismemberment, extended insurance (waiver of premium) and living benefit coverage for active members, and including extended insurance (waiver of premium) and living benefit coverage for retired members. Members have the option to include dependent coverage for an additional premium. Premiums paid by the CNMI and its autonomous agencies are remitted to GHLITF which then remits all contributions to third-party insurance providers after deducting a 3.33% surcharge. Life premium surcharge for the years ended September 30, 2016 and 2015 amounted to \$-0- and \$24,389, respectively, and is included in life and health insurance surcharge in the accompanying financial statements. Life insurance premiums payable to insurance providers amounted \$317,699 and \$462,491 as of September 30, 2016 and 2015, respectively.

NORTHERN MARIANA ISLANDS RETIREMENT FUND

Notes to Financial Statements
September 30, 2016 and 2015

(1) Organization, Continued

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

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

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

NMIRF has a note receivable from CGECU, an affiliated entity and a component unit of the CNMI, in the amount of \$1,524,406 as of September 30, 2016 and 2015. The note bears interest at 8% per annum and is due on March 15, 2026. The note is nonperforming and has been 100% allowed for. The note is collateralized by the full faith and credit of the CNMI, a first mortgage on real property (owned by the CNMI) in Navy Hill, Saipan, a security interest in the CNMI's accounts receivable, and deeds to real property on the islands of Rota and Tinian. NMIRF has elected not to pursue the collateral.

Member Home Loan Program (MHLP)

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

(2) Summary of Significant Accounting Policies

Basis of Accounting

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

Budgets

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

Cash and Cash Equivalents

Custodial credit risk is the risk that in the event of a bank failure, NMIRF's deposits may not be returned to it. Such deposits are not covered by depository insurance and are either uncollateralized or collateralized with securities held by the pledging financial institution or held by the pledging financial institution but not in the depositor-government's name. NMIRF's deposit policy requires that all savings deposit made by NMIRF are collateralized by U.S. Government obligations at the rate of 100% of the corresponding bank deposit.

NORTHERN MARIANA ISLANDS RETIREMENT FUND

Notes to Financial Statements
September 30, 2016 and 2015

(2) Summary of Significant Accounting Policies, Continued

Cash and Cash Equivalents, Continued

For purposes of the statements of fiduciary net position, cash and cash equivalents is defined as cash held in demand deposits and savings. At September 30, 2016 and 2015, total cash and cash equivalents were \$4,125,510 and \$3,897,778, respectively, and the corresponding bank balances were \$4,123,147 and \$3,902,191, respectively, which are maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC), of which \$2,908,034 as of September 30, 2016 are collateralized with securities held by the pledging financial institution. CNMI law does not require component units to collateralize their bank accounts and thus NMIRF's deposits in excess of FDIC insurance and deposits collateralized with securities are uncollateralized. Accordingly, the deposits are exposed to custodial credit risk.

Investments

Investments and related investment earnings are reported at fair value using quoted market prices. Fair value is the price that would be received to sell an asset or paid to transfer a liability (i.e., the exit price) in an orderly transaction between market participants at the date as of which the fair value of an asset or liability is determined.

Capital Assets

Capital assets are recorded at cost. Depreciation is provided using the straight-line method over the estimated useful lives of the related assets. Estimated lives used range from 3 to 7 years for all assets. Capital assets are fully depreciated as of September 30, 2016 and 2015.

Foreclosed Real Estate

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

A summary of the changes in foreclosed real estate as of September 30, 2016 and 2015 is as follows:

	<u>2016</u>	<u>2015</u>
Balance at beginning of year	\$ 209,095	\$ 174,095
Additions	<u>-</u>	<u>35,000</u>
Balance at end of year	\$ <u>209,095</u>	\$ <u>209,095</u>

NORTHERN MARIANA ISLANDS RETIREMENT FUND

Notes to Financial Statements
September 30, 2016 and 2015

(2) Summary of Significant Accounting Policies, Continued

Loans Receivable, Interest Receivable and Allowance for Loan Losses

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

Agency Receivables

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

Revenue Recognition

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

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

Non-operating revenues primarily result from gain on foreclosure.

Litigation Judgment

NMIRF has litigation judgment receivables approximating \$56,000 which it records on the cash basis based on collection uncertainties. NMIRF received \$12,000 during the years ended September 30, 2016 and 2015, respectively, related to these receivables and continues to pursue remaining amounts.

Compensated Absences

Vested or accumulated vacation leave is recorded as benefits accrue to employees. Employees are credited with annual leave at rates ranging from 4 to 8 hours per pay period depending on their length of service. Accumulation of annual leave credit is limited to 360 hours. Liabilities for unpaid annual leave rate accrued at the end of each accounting period utilizing current salary rates. Unused leave is payable to employees upon resignation or termination of employment if the employee has completed one year or more of service. Accrued annual leave as of September 30, 2016 and 2015 was \$8,907 and \$6,984, respectively. Employees are credited with sick leave at the rate of 4 hours per pay period. Unused sick leave hours may be accumulated without limit but cannot be converted to cash upon termination of employments.

NORTHERN MARIANA ISLANDS RETIREMENT FUND

Notes to Financial Statements
September 30, 2016 and 2015

(2) Summary of Significant Accounting Policies, Continued

Other Nonoperating Revenues (Expenses)

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

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

GASB Statement No. 68

In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions* and in November 2013, GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*, which revise and establish new financial reporting requirements for most governments that provide their employees with pension benefits through plans that are administered through trusts. Management has determined that the CNMI is legally responsible for making contributions to NMISF as a non-employer entity and that net pension obligations are allocated in total to the CNMI. Management acknowledges the requirement to recognize revenue in an amount equal to the non-employer contributing entities' (CNMI) total proportionate share of the collective pension expense that is associated with NMIRF. NMIRF has not recorded related revenues and pension expense for the years ended September 30, 2016 and 2015 as amounts were not available.

New Accounting Standards

During fiscal year 2016, the following pronouncements were implemented:

- GASB Statement No. 72, *Fair Value Measurement and Application*, which addresses accounting and financial reporting issues related to fair value measurements and requires entities to expand their fair value disclosures by determining major categories of debt and equity securities within the fair value hierarchy on the basis of the nature and risk of the investment. The implementation of this statement required additional disclosures to be made about fair value measurements, the level of fair value hierarchy, and valuation techniques.
- GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, which eliminates two of the four categories of authoritative GAAP that exist under the existing hierarchy prescribed by Statement No. 55. The two categories that will remain under the new standard are (1) GASB Statements and (2) GASB technical bulletins and implementation guides in addition to AICPA guidance that the GASB clears. The implementation of this statement did not have a material effect on the accompanying financial statements.

NORTHERN MARIANA ISLANDS RETIREMENT FUND

Notes to Financial Statements
September 30, 2016 and 2015

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

- GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*, which addresses for certain external investment pools and their participants the accounting and financial reporting implications that result from changes in the regulatory provisions referenced by previous accounting and financial reporting standards. Those provisions were based on the Investment Company Act of 1940, Rule 2a7. Rule 2a7 contains the Securities and Exchange Commission's regulations that apply to money market funds and were significantly amended in 2014. The implementation of this statement did not have a material effect on the accompanying financial statements.

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

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

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

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

NORTHERN MARIANA ISLANDS RETIREMENT FUND

Notes to Financial Statements
September 30, 2016 and 2015

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In December 2015, GASB issued Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, which addresses a practice issue regarding the scope and applicability of Statement No. 68, Accounting and Financial Reporting for Pensions. The provisions in Statement No. 78 are effective for fiscal years beginning after December 15, 2015. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In January 2016, GASB issued Statement No. 80, *Blending Requirements for Certain Component Units - an amendment of GASB Statement No. 14*, which improves financial reporting by clarifying the financial statement presentation requirements for certain component units. The provisions in Statement No. 80 are effective for fiscal years beginning after June 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In March 2016, GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*, which improves accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The provisions in Statement No. 81 are effective for fiscal years beginning after December 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In March 2016, GASB issued Statement No. 82, *Pension Issues - an amendment of GASB Statements No. 67, No. 68, and No. 73*, which addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The provisions in Statement No. 82 are effective for fiscal years beginning after June 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

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.

Reclassifications

Certain 2015 balances in the accompanying financial statements have been reclassified to conform to the 2016 presentation.

NORTHERN MARIANA ISLANDS RETIREMENT FUND

Notes to Financial Statements
September 30, 2016 and 2015

(3) Investments

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

Investments at September 30, 2016 and 2015 consist of the following:

	<u>2016</u>	<u>2015</u>
Mutual funds	\$ 24,915,891	\$ 21,298,375
Loans	<u>957,014</u>	<u>755,246</u>
	<u>\$ 25,872,905</u>	<u>\$ 22,053,621</u>

Fair Value Measurement

NMIRF categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Investments not categorized under the fair value hierarchy are shown at either net asset value (NAV) or amortized cost. The following table sets forth by fair value hierarchy level assets carried at fair value at September 30, 2016 and 2015:

	Total	2016		
		Fair Value Measurements Using		
		Level 1	Level 2	Level 3
Investments by fair value level				
Core funds	\$ <u>2,327,110</u>	\$ <u>2,327,110</u>	\$ -	\$ -
Total investments by fair value level	2,327,110	\$ <u>2,327,110</u>	\$ -	\$ -
Investments measured at net asset value (NAV)				
ASC Direct Retirement Trust	22,588,781			
Investments measured at amortized cost				
Loans	<u>957,014</u>			
	<u>\$ 25,872,905</u>			
	Total	2015		
		Fair Value Measurements Using		
		Level 1	Level 2	Level 3
Investments by fair value level				
Core funds	\$ <u>1,963,260</u>	\$ <u>1,963,260</u>	\$ -	\$ -
Total investments by fair value level	1,963,260	\$ <u>1,963,260</u>	\$ -	\$ -
Investments measured at net asset value (NAV)				
ASC Direct Retirement Trust	19,335,115			
Investments measured at amortized cost				
Loans	<u>755,246</u>			
	<u>\$ 22,053,621</u>			

Core funds classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those funds. This type includes combination of exchange traded funds (ETFs) and collective trust funds.

NORTHERN MARIANA ISLANDS RETIREMENT FUND

Notes to Financial Statements
September 30, 2016 and 2015

(3) Investments, Continued

Fair Value Measurement, Continued

ASC Direct Retirement Trust are fully diversified risk-allocation funds designed to perform in line with the MSCI ACWI Equity Index and Barclays Aggregate Bond Index over a complete market cycle. The fair values of the investments in this type have been determined using the NAV per share of the investments. NAV is the value of the fund's assets minus the value of its liabilities.

Loans to members are interest-bearing temporary withdrawals from their mutual fund investments subject to monthly amortization. Amortization including interest earned are invested back to the member's portfolio. This type is valued at amortized cost.

(4) Member Home Loan Program (MHLP)

As of September 30, 2016 and 2015, member home loan program receivables are as follows:

	<u>2016</u>	<u>2015</u>
Notes receivable	\$ 3,459,635	\$ 3,808,869
Allowance for doubtful accounts	<u>792,898</u>	<u>792,898</u>
	<u>\$ 2,666,737</u>	<u>\$ 3,015,971</u>

Interest income earned on the MHLP was \$306,871 and \$330,762 for the years ended September 30, 2016 and 2015, respectively.

Maturities of the above principal balances subsequent to September 30, 2016 and 2015 will be as follows:

	<u>2016</u>	<u>2015</u>
Fully matured and others	\$ 826,520	\$ 565,455
1 - 6 months	87,987	94,635
7 - 18 months	175,973	188,352
19 months - 3 years	261,876	281,887
After 3 years	<u>2,107,279</u>	<u>2,678,540</u>
	<u>\$ 3,459,635</u>	<u>\$ 3,808,869</u>

(5) Risk Management

NMIRF is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions, injuries to employees; and natural disasters. NMIRF has elected to purchase commercial insurance from independent third parties for the risks of loss to which it is exposed. NMIRF is self-insured for workers' compensation claims. There are no claims from these risks for the past three fiscal years.

NORTHERN MARIANA ISLANDS RETIREMENT FUND

Combining Statement of Fiduciary Net Position
September 30, 2016

<u>ASSETS</u>	Northern Mariana Islands Retirement Fund	CNMI Group Health and Life Insurance Trust Fund	Defined Contribution Plan	Elimination	Total
Cash and cash equivalents	\$ 3,218,734	\$ 906,776	\$ -	\$ -	\$ 4,125,510
Receivables:					
Mortgage home loans, net of allowance for doubtful accounts of \$792,898	2,666,737	-	-	-	2,666,737
Agency	-	-	329,908	-	329,908
Other	6,900	56	-	-	6,956
Total receivables, net	<u>2,673,637</u>	<u>56</u>	<u>329,908</u>	<u>-</u>	<u>3,003,601</u>
Due from retirement fund	-	737,090	-	(737,090)	-
Due from CNMI	-	999,998	-	-	999,998
Due from autonomous agencies	-	1,490,077	-	-	1,490,077
Defined contribution plan investments	-	-	25,872,905	-	25,872,905
Foreclosed real estate	209,095	-	-	-	209,095
Total assets	<u>6,101,466</u>	<u>4,133,997</u>	<u>26,202,813</u>	<u>(737,090)</u>	<u>35,701,186</u>
<u>LIABILITIES AND FIDUCIARY NET POSITION</u>					
Accounts payable and accrued expenses	586,588	17,881	-	-	604,469
Health insurance payable	-	2,251,238	-	-	2,251,238
Life insurance payable	-	317,699	-	-	317,699
Due to Settlement Fund	176,175	-	-	-	176,175
Due to Trust Fund	737,090	-	-	(737,090)	-
Due to CNMI	1,465,731	-	-	-	1,465,731
Total liabilities	<u>2,965,584</u>	<u>2,586,818</u>	<u>-</u>	<u>(737,090)</u>	<u>4,815,312</u>
Fiduciary net position:					
Held in trust for pension benefits	3,135,882	-	26,202,813	-	29,338,695
Held in trust for medical and life insurance benefits	-	1,547,179	-	-	1,547,179
Total fiduciary net position	<u>\$ 3,135,882</u>	<u>\$ 1,547,179</u>	<u>\$ 26,202,813</u>	<u>\$ -</u>	<u>\$ 30,885,874</u>

See Accompanying Independent Auditors' Report.

NORTHERN MARIANA ISLANDS RETIREMENT FUND

Combining Statement of Changes in Fiduciary Net Position
Year Ended September 30, 2016

	Northern Mariana Islands Retirement Fund	CNMI Group Health and Life Insurance Trust Fund	Defined Contribution Plan	Total
Additions:				
Employee contributions	\$ 55,354	\$ -	\$ 4,700,346	\$ 4,755,700
Employer contributions	-	-	1,748,354	1,748,354
	<u>55,354</u>	<u>-</u>	<u>6,448,700</u>	<u>6,504,054</u>
Investment income:				
Net appreciation in the fair value of investments	-	-	2,090,712	2,090,712
Interest and dividend income	-	-	104,116	104,116
Total investment income	-	-	2,194,828	2,194,828
Less management and custodial fees	-	-	(228,363)	(228,363)
Net investment income	-	-	1,966,465	1,966,465
Interest and fees on loans	306,871	-	-	306,871
Transfers and rollovers	-	-	386,414	386,414
Other	3,689	1,547	-	5,236
Total additions	<u>365,914</u>	<u>1,547</u>	<u>8,801,579</u>	<u>9,169,040</u>
Deductions:				
Benefits and refund payments:				
Withdrawal and refunds	18,409	-	4,952,045	4,970,454
Forfeitures	-	-	294,509	294,509
Retirement benefits	203,223	-	-	203,223
Health and life insurance premiums	55,954	-	-	55,954
Survivor benefits	6,000	-	-	6,000
Total benefits and refund payments	<u>283,586</u>	<u>-</u>	<u>5,246,554</u>	<u>5,530,140</u>
Cost of medical claims	-	2,029	-	2,029
Administrative expenses:				
Salaries and wages	56,964	-	-	56,964
Employee benefits	14,834	-	-	14,834
Professional fees	1,423	-	-	1,423
Miscellaneous	13,743	860	-	14,603
Total administrative expenses	<u>86,964</u>	<u>860</u>	<u>-</u>	<u>87,824</u>
Total deductions	<u>370,550</u>	<u>2,889</u>	<u>5,246,554</u>	<u>5,619,993</u>
Nonoperating revenues:				
Other	12,000	-	-	12,000
Total nonoperating revenues	<u>12,000</u>	<u>-</u>	<u>-</u>	<u>12,000</u>
Net increase (decrease)	7,364	(1,342)	3,555,025	3,561,047
Fiduciary net position held in trust:				
Beginning of year	3,128,518	1,548,521	22,647,788	27,324,827
End of year	<u>\$ 3,135,882</u>	<u>\$ 1,547,179</u>	<u>\$ 26,202,813</u>	<u>\$ 30,885,874</u>

See Accompanying Independent Auditors' Report.