

## Independent Auditor's Report

The Board of Trustees  
Northern Mariana Islands Group Health and Life Insurance Trust Fund

I have audited the accompanying statements of net assets of the Northern Mariana Islands Group Health and Life Insurance Trust Fund (GHLITF), a component unit of the Commonwealth of the Northern Mariana Islands (CNMI) Government, as of September 30, 2004 and 2003 and the related statements of changes in fiduciary net assets for the years then ended. These financial statements are the responsibility of the Fund's management. My responsibility is to express an opinion on these financial statements based on my audits.

I conducted my audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audits provide a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Northern Mariana Islands Group Health and Life Insurance Trust Fund as of September 30, 2004 and 2003, and its revenues, expenditures and changes in fiduciary net assets for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, I have also issued my report dated February 9, 2005, on my consideration of the Northern Mariana Islands Group Health and Life Insurance Trust Fund's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grants. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of my audit.

Saipan, Commonwealth of the Northern Mariana Islands  
February 9, 2005

**NORTHERN MARIANA ISLANDS**  
**GROUP HEALTH AND LIFE INSURANCE TRUST FUND**  
(a component unit of the CNMI Government)

Notes to Financial Statements  
September 30, 2004 and 2003

(1) Description of the Fund

Fund Description

On June 21, 1996, Public Law 10-19 was enacted to transfer the administration of the Group Health and Life Insurance Programs to the Northern Marianas Islands Retirement Fund (NMIRF). The passage of this law eventually created the new Northern Mariana Islands Group Health and Life Insurance Trust Fund (Trust Fund) to be held in trust and administered in accordance with policies set forth in the rules and regulations promulgated by the NMIRF.

The Trust Fund was established to ensure that CNMI Government employees are provided with medical and life insurance benefits, and that funds collected and disbursed for these purposes are administered in a fiscally sound and professionally accountable manner.

Public Law 10-19 created a segregated fund to hold employee and employer contributions to the programs. All employer and employee contributions to the Group and Health Insurance Programs shall be collected and held in the Trust Fund. The monies in the Trust Fund may be expended only for the payment of insurance premiums, claims, reasonable costs of administration and related expenses.

Emergency Regulations were adopted by the NMIRF on September 9, 1996. The pertinent provisions of these regulations are as follows:

- Assets of the GHLI programs on the effective date of Public Law 10-19 shall be recorded as assets of the separate Fund allocable solely to Fund activities.
- The Administrator of the NMIRF is responsible for preparing an annual budget for the operation of the GHLI programs.
- Each employer contributing to the Trust Fund must remit its total premiums, including amounts deducted from employees' paychecks, to the GHLI Trust Fund within five working days of the close of each pay-period. Any remittance not received by the tenth working day following the pay-period will be subject to interest charges.
- Trust Fund assets may be invested, to the extent not required to be available to defray current expenses, in interest-bearing accounts in FDIC insured local banks.

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Notes to Financial Statements  
September 30, 2004 and 2003

(1) Description of the Fund, Continued

Fund Description, Continued

- When the Trust Fund reaches Three Million Dollars (\$3,000,000) in excess of the amount estimated to cover obligations for one full year, the Board of Trustees of the NMIRF may invest any excess funds in other appropriate investments.

Additionally, Public Law 10-19 specifies that liabilities of the Government Life and Health Insurance Programs will be liabilities of the CNMI Government and not liabilities of the NMIRF. The CNMI Government is therefore self-insured for the payment of medical claims in excess of the Trust Fund's available fund balance.

(2) Summary of Significant Accounting Policies

Basis of Accounting

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

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

Use of Estimates

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

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Notes to Financial Statements  
September 30, 2004 and 2003

(2) Summary of Significant Accounting Policies, Continued

Membership and Contributing Employers

Membership in the Trust Fund administered by the NMIRF consisted of the following as of September 30, 2004.

<u>A. Type of Enrollment</u>	<u>No. of subscribers</u>
Self Only High Option	897
Self Plus One High Option	698
Self Plus Four High Option	1,037
Self Plus Five Plus High Option	231
Self Only Low Option	306
Self Plus One Low Option	85
Self Plus Four Low Option	238
Self Plus Five Plus Low Option	84
<u>B. Total Number of Enrollees:</u>	
Subscribers	3,576
Dependents	9,009

Cash and Cash Equivalents

For purposes of reporting the statement of fiduciary net assets, cash and cash equivalents are defined as amounts in demand deposits as well as highly liquid investments maturing within three months from the date acquired.

Property and Equipment

Property and equipment are recorded at cost. Depreciation is provided over the estimated useful lives of the related assets using the straight-line method for financial statement purposes.

Income Taxes

The Trust Fund is a component unit of the CNMI government. Accordingly, the Trust Fund is not subject to income taxes.

Annual Leave

Employees are credited with annual leave at rates ranging from 4 to 8 hours per pay-period depending on their length of service. Accumulation of such annual leave credit is limited to 480 hours, which is equivalent to 60 days. Liabilities for unpaid annual leave are accrued at the end of each accounting

period utilizing current salary rates. At September 30, 2004 and 2003, accrued annual leave was \$26,922 and \$24,476, respectively.

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**NORTHERN MARIANA ISLANDS**  
**GROUP HEALTH AND LIFE INSURANCE TRUST FUND**  
(a component unit of the CNMI Government)

Notes to Financial Statements  
September 30, 2004 and 2003

(2) Summary of Significant Accounting Policies, Continued

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. Accumulated sick leave at September 30, 2004 and 2003 was \$49,499 and \$36,073, respectively.

(3) Eligibility and Contributions

The Group Life Insurance Program is open to active employees who work at least 20 hours per week and retired CNMI government employees who retire as a result of length of service, disability or age, as well as their dependents. Further, these eligible persons must have elected to enroll during the period permitted in the Emergency Regulations adopted on September 6, 1996.

Life insurance coverage is to be provided by a private carrier. Contributions from employees and employers are based on rates as determined by the Board of Trustees. The rates in effect for group life insurance at the time of the transfer (June 21, 1996) shall continue to be in effect until a change is made by the Board of Trustees. Employee deductions are made through payroll or pension benefit withholdings.

Beginning with the partial Plan Year that commences January 1, 2004, the contributions and premium for each category were increased by the Board of Trustees. The new semi-monthly rates for retiree and bi-weekly contribution rates for active participants are as follows:

		<u>Retiree</u>	<u>Active</u>
Self Only High Option	Government share	\$ 13.30	\$ 12.29
	Subscriber share	40.85	37.71
Self Plus One High Option	Government share	\$ 24.07	22.23
	Subscriber share	73.93	68.24
Self Plus Four High Option	Government share	\$ 34.87	\$ 32.19
	Subscriber share	107.00	98.76
Self Plus Five Plus High Option	Government share	\$ 45.80	\$ 42.27
	Subscriber share	140.06	129.28

Self Only Low Option	Government share	\$ 8.35	7.71
	Subscriber share	25.70	23.72

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**NORTHERN MARIANA ISLANDS**  
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Notes to Financial Statements  
September 30, 2004 and 2003

(3) Eligibility and Contributions, Continued

		<u>Retiree</u>	<u>Active</u>
Self Plus One Low Option	Government share	\$ 14.21	13.12
	Subscriber share	43.78	40.41
Self Plus Four Low Option	Government share	\$ 20.06	18.52
	Subscriber share	61.86	57.10
Self Plus Five Plus Low Option	Government share	\$ 25.92	23.92
	Subscriber share	79.94	73.78

(4) Property and Equipment

A schedule of property and equipment at September 30, 2004 and 2003 is as follows:

	<u>Estimated Useful Lives</u>	<u>2004</u>	<u>2003</u>
Furniture and fixtures	7 years	\$ 9,120	\$ 9,120
Office equipment	5 years	42,259	37,563
Vehicle	5 years	14,595	14,595
		65,974	61,278
Less: accumulated depreciation		<u>( 61,081)</u>	<u>( 53,602)</u>
		<u>\$ 4,893</u>	<u>\$ 7,676</u>

(5) Due to NMIRF

The Trust Fund experienced difficulties meeting the required payments to HPMR for the processed medical claims of the GHLITF members. During the fiscal year 2003, the Third Party Administrator (HPMR) required the Trust Fund to pay an amount of \$600,000 to further continue their service. Since the Trust Fund did not have enough funds to settle this obligation, the CNMI Government paid this amount on their behalf. The related receivable of CNMI Government was subsequently paid off from the proceeds of the Public Law 8-31 appropriation of the government due to NMIRF. Thus, the \$600,000 discussed earlier, becomes a payable of GHLITF to NMIRF.

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Notes to Financial Statements  
September 30, 2004 and 2003

(6) Third party Administrator

On August 1, 2001, CNMI Group Health and Life Insurance Trust Fund (GHLITF), by and through the Northern Marianas Islands Retirement Fund, engaged Hawaii Pacific Medical Referral, Inc. (HPMR) to implement a third-party administration for both on and off-island health care Plan members. This is to better serve the members by providing discounted medical services through HPMR's medical provider network, case management, utilization review and claims processing services.

During the fiscal year, GHLITF remitted a total of \$5,866,921 to HPMR. \$4,762,059 was paid to various medical providers and \$1,104,862 was paid to HPMR for third party administrator's (TPA) fees. The remaining balance is in various funds (revolving, reserve and Philippine Trust accounts) set-up by HPMR. As of September 30, 2004 and the 2003, the total revolving funds recognized as Due from HPMR was \$0 and \$50,000, respectively.

(7) IAC Life Insurance Premium

On March 29, 2001, CNMI Group Health and Life Insurance Trust Fund (GHLITF), by the Northern Marianas Islands Retirement Fund (NMIRF), entered into an agreement with Individual Assurance Company, Life & Health Accident (IAC) to provide group life insurance for the Government of the CNMI employees, dependents of employees and retirees. The term of the policy shall be for a period of three (3) years commencing April 1, 2001. The rates for basic life insurance shall be as follows: (1) \$0.40 per \$1,000 per bi-weekly pay period with critical illness; and (2) \$0.34 per \$1,000 per bi-weekly pay period without critical illness.

The total premiums collected by GHLITF were \$3,874,969 and \$3,770,042, as of September 30, 2004 and 2003, respectively. Of these amounts, \$3,730,336 was remitted to IAC in 2004 and \$3,699,494 in 2003.

(8) Restatement

In previous years, any amount in excess of submitted claims over the Trust Funds' available balance was recognized as Due from CNMI Government. The basis of recognizing the excess as a receivable was Public Law 10-19, which specifies that liabilities of the Government Life and Health Insurance Programs will be liabilities of the CNMI Government.

However for the FY 2004, the management realized the need to disclose the excess of claims over the available fund as deficit. This is to properly show the results of the Trust Fund's operations as not having enough premiums to cover the cost of medical claims.

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**GROUP HEALTH AND LIFE INSURANCE TRUST FUND**  
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Notes to Financial Statements  
September 30, 2004 and 2003

(8) Restatement, Continued

Consequently, the Due from CNMI Government balance for the fiscal year 2003 was also adjusted to the net assets.

The financial statements for 2003 have been retroactively restated for the change, which resulted to a decrease of \$4,195,138 in the Due from CNMI. The effect of this change is shown as follows:

	<u>As originally Stated in 2003</u>	<u>As restated in 2003</u>
Due from CNMI	<u>\$ 4,495,138</u>	<u>\$ 300,000</u>
Total net assets (deficit), beginning of year	<u>\$ -</u>	<u>\$ ( 4,195,138)</u>

(9) Unprocessed Medical Claims

As disclosed in Note 1, Public Law 10-19 stated that the CNMI Government would be ultimately liable for the liabilities of the Trust Fund and not the NMIRF. In relation to this, GHLITF has submitted unprocessed claims from the Commonwealth Health Center and Hawaii Pacific Medical Referral with service dates as of September 30, 2004 and earlier that totaled \$24,444,486.

However, the ultimate liability that will result from these claims has not been determined. Due to this, these claims have not been recorded, and the amounts due from the CNMI government for these claims have also not been disclosed.

(10) Risk Management

The Trust Fund is subject to various risks in the normal course of operations. The Trust Fund protects itself against these risks by purchasing liability insurance from private companies.



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

Statements of Fiduciary Net Assets  
September 30, 2004 and 2003

<b><u>Assets</u></b>	<u>2004</u>	<u>Expendable Trust Fund</u> <u>2003</u>
Cash and cash equivalents (Note 2)	\$ 97,958	\$ 125,508
Restricted cash-Special Disability Fund (Note 3)	104,195	184,747
Restricted certificate of deposit- Special Disability Fund (Note 3)	123,827	123,552
Investments (Notes 2 and 4)	635,370	632,043
Accounts receivable (Notes 6 and 7)	953,080	701,250
Property and equipment, net (Notes 2 and 5)	<u>2,214</u>	<u>2,976</u>
Total assets	<u>\$ 1,916,644</u>	<u>\$ 1,770,076</u>
<b><u>Liabilities</u></b>		
Accounts payable and accrued liabilities (Note 2)	\$ 106,216	\$ 133,888
Deferred revenue (Note 7)	<u>948,758</u>	<u>692,805</u>
Total liabilities	<u>1,054,974</u>	<u>826,693</u>
<b><u>Net Assets</u></b>		
Held in trust for workers' compensation benefits and other purposes	<u>\$ 861,670</u>	<u>\$ 943,383</u>
Contingencies (Note 9)		

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(a component unit of the CNMI Government)

Statements of Changes in Fiduciary Net Assets  
Years ended September 30, 2004 and 2003

	Expendable Trust Fund	
	<u>2004</u>	<u>2003</u>
Revenues:		
CNMI appropriation (Note 8)	\$ 355,300	\$ 355,300
Premiums and insurers	53,871	41,159
Fines and penalties (Note 6)	14,716	15,690
Other	<u>6,628</u>	<u>31,802</u>
Total revenues	<u>430,515</u>	<u>443,951</u>
Expenditures:		
Disability claims	240,310	178,528
Salaries and wages	150,931	167,272
Employee benefits	65,316	54,726
Rent	14,469	10,629
Travel and transportation	9,660	38,548
Professional fees	4,682	725
Utilities	2,943	3,177
Repairs and maintenance	2,912	1,943
Management and custodial fees	2,909	2,796
Communication	2,679	2,548
Office Supplies	2,510	1,767
Dues and subscriptions	1,600	4,750
Printing	1,114	66
Depreciation	1,081	2,070
Freight and postage	74	119
Miscellaneous	<u>9,038</u>	<u>3,884</u>
Total expenditures	<u>512,228</u>	<u>473,548</u>
Net decrease	(81,713)	(29,597)
Net assets, beginning of the year	<u>943,383</u>	<u>972,980</u>
Net assets, end of the year	<u>\$ 861,670</u>	<u>\$ 943,383</u>

See accompanying notes to financial statements.