

*Financial Statements and
Supplementary Information*

Northern Mariana Islands Settlement Fund
(A Not-for-Profit Organization)

*Year ended September 30, 2022
with Report of Independent Auditors*



Northern Mariana Islands Settlement Fund
(A Not-for-Profit Organization)

Financial Statements and Supplementary Information

Year ended September 30, 2022

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Report of Independent Auditors

The Trustee
Northern Mariana Islands Settlement Fund

Opinion

We have audited the financial statements of the Northern Mariana Islands Settlement Fund, which comprise the statement of financial position as of September 30, 2022, and the related statements of activities and cash flows for the year then ended, and the related notes (collectively referred to as the “financial statements”).

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Northern Mariana Islands Settlement Fund at September 30, 2022, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Fund and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Fund’s ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free of material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Fund's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Fund's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying Schedule of Investments Owned is presented for purposes of additional analysis and is not a required part of the financial statements.

Supplementary Information, continued

Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the 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 financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Ernst + Young

October 18, 2023

Northern Mariana Islands Settlement Fund
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Statement of Financial Position

September 30, 2022

Assets

Current assets:

Cash	\$ 10,480,589
Other receivables, net	139,182
Investments	110,488,126
Prepaid expenses	<u>72,305</u>

Total current assets 121,180,202

Property and equipment, net 255,171

Total assets \$121,435,373

Liabilities and net assets

Current liabilities:

Accounts payable and accrued expenses \$ 325,361

Net assets

Without donor restriction 121,079,687

With donor restriction 30,325

Total net assets 121,110,012

Total liabilities and net assets \$121,435,373

See accompanying notes.

Northern Mariana Islands Settlement Fund
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Statement of Activities

Year ended September 30, 2022

	<u>Without Donor Restriction</u>	<u>With Donor Restriction</u>	<u>Total</u>
Revenues			
Contributions and payments:			
CNMI government contribution	\$ 38,000,000	\$13,223,009	\$ 51,223,009
Employer supplemental payments	1,468,741	---	1,468,741
Active settlement class member contributions	<u>459,858</u>	<u>---</u>	<u>459,858</u>
Total contributions and payments	<u>39,928,599</u>	<u>13,223,009</u>	<u>53,151,608</u>
Investment income, net:			
Net depreciation in fair value of investments	(23,275,306)	---	(23,275,306)
Interest and dividends	4,300,879	---	4,300,879
Investment expense	<u>(69,235)</u>	<u>---</u>	<u>(69,235)</u>
Total investment income, net	<u>(19,043,662)</u>	<u>---</u>	<u>(19,043,662)</u>
Other income:			
Rental and other income	96,183	---	96,183
Local interest income	<u>14,181</u>	<u>---</u>	<u>14,181</u>
Total other income	<u>110,364</u>	<u>---</u>	<u>110,364</u>
Total revenues	<u>20,995,301</u>	<u>13,223,009</u>	<u>34,218,310</u>
Expenses			
Benefit and refund payments:			
Retirement benefits	43,877,495	---	43,877,495
Survivor benefits	8,509,318	---	8,509,318
Disability benefit	252,593	---	252,593
Death lump-sum distributions	69,868	---	69,868
Refunds	<u>678</u>	<u>---</u>	<u>678</u>
Total benefit and refund payments	<u>52,709,952</u>	<u>---</u>	<u>52,709,952</u>
Supporting activities - other expenses:			
Personnel expenses	881,029	---	881,029
General and administrative expenses	240,879	---	240,879
Professional expenses	<u>476,804</u>	<u>---</u>	<u>476,804</u>
Total supporting activities - other expenses	<u>1,598,712</u>	<u>---</u>	<u>1,598,712</u>
Total expenses	<u>54,308,664</u>	<u>---</u>	<u>54,308,664</u>
Net assets released from restriction	<u>13,223,009</u>	<u>(13,223,009)</u>	<u>---</u>
Decrease in net assets	(20,090,354)	---	(20,090,354)
Net assets at beginning of the year	<u>141,170,041</u>	<u>30,325</u>	<u>141,200,366</u>
Net assets at end of year	<u>\$121,079,687</u>	<u>\$ 30,325</u>	<u>\$121,110,012</u>

See accompanying notes.

Northern Mariana Islands Settlement Fund
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Statement of Cash Flows

Year ended September 30, 2022

Operating Activities

Decrease in net assets	\$(20,090,354)
Adjustments to reconcile decrease in net assets to net cash provided by operating activities:	
Net depreciation in fair value of investments	23,275,306
Depreciation expense	26,656
Provision for uncollectable accounts	16,986
Changes in operating assets and liabilities:	
Other receivables, net	(16,277)
Prepaid expenses	(4,071)
Accounts payable and accrued expenses	(55,474)
Net cash provided by operating activities	<u>3,152,772</u>

Investing activities

Purchase of investments	(4,300,879)
Proceeds from sale of investments	100,933
Collections of loan receivable	492,875
Purchase of property and equipment	(5,132)
Net cash used in investing activities	<u>(3,712,203)</u>
Net decrease in cash	(559,431)

Cash at beginning of year	<u>11,040,020</u>
Cash at end of year	<u>\$10,480,589</u>

See accompanying notes.

Northern Mariana Islands Settlement Fund
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Notes to Financial Statements

Year Ended September 30, 2022

1. Organization and Purpose

The Northern Mariana Islands Settlement Fund (Settlement Fund) was created as a result of a settlement agreement (the Settlement Agreement), approved by the U.S. District Court on September 30, 2013. The Settlement Agreement shall end when there are no longer any living Settlement Class Members.

The Settlement Agreement required the Northern Mariana Islands Retirement Fund (NMIRF) to transfer certain net assets of the NMIRF's Defined Benefit Plan to the newly created Settlement Fund. The transfer of net assets totaled approximately \$126 million effective October 1, 2013. The Settlement Fund reversed approximately \$3.3 million in fiscal year 2014 after determining the \$3.3 million relates to capitalized building plans and improvements. These assets are non-transferable per the Settlement Agreement.

Settlement Class Members, as defined in the Settlement Agreement, who do not opt out of the Settlement Agreement, shall cease to be members of the NMIRF's Defined Benefit Plan and shall become members of the Settlement Fund.

The primary purpose of the Settlement Agreement is to ensure that retirees, who are part of the Settlement Agreement, will always be paid at least 75% of their benefits and will always get paid as much as any retiree who opted out of the Settlement Agreement.

The U.S. District Court has appointed a Trustee with the powers of a federal equity receiver to administer and run the Settlement Fund as a fiduciary to the Settlement Class Members. The U.S. District Court concurs with the Trustee and Class Counsel that the Settlement Fund is an extension of the Court, and as such, is exempt from taxation under Section 1105(a) of the Commonwealth Code.

2. Summary of Significant Accounting Policies

Basis of Preparation

The Settlement Fund's financial statements have been prepared using the accrual basis of accounting. Under the accrual basis of accounting, expenses are recorded when a liability is incurred and revenues are recorded in the accounting period they are earned. The net assets of the Settlement Fund and changes herein are classified and reported as follows:

Net assets without donor restriction

Net assets without donor-imposed restrictions refer to contributions received from the CNMI Government and other government agencies which are used to fund benefit payments and other supporting activities. These net assets may be used at the discretion of the Settlement Fund's management and Trustee.

Northern Mariana Islands Settlement Fund
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Notes to Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

Basis of Preparation, continued

Net assets with donor restriction

Net assets with donor-imposed restrictions refer to funding received from the CNMI Government in accordance with Public Law 18-56 which requires a portion of annual license fee revenues to be allocated for the payment of 25% reduction in Settlement Class Members' benefits. This restriction is temporary in nature and will be met by actions of the Settlement Fund.

Tax Status

The Settlement Fund is a tax-exempt entity. See *Order re Joint Motion to Confirm the NMI Settlement Fund's Status as a Tax-Exempt Entity* (ECF No. 755) (3/9/2016).

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures 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.

Cash

Cash consists of cash on hand and deposits in banks.

Investments

Investments are recorded at fair value. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale and are primarily determined based on quoted market values.

Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded as earned. Dividends are recorded on ex-dividend date. Net depreciation includes the Settlement Fund's gains and losses on investments bought and sold as well as held during the year.

The reserves of the Settlement Fund in excess of current operational requirements are invested. In investing these reserves, the Settlement Fund employs the services of investment professionals and consultants to assist the Settlement Fund 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 Settlement Fund diversifies its investments in accordance with prudent investment standards. Settlement Fund investment guidelines contain limits and goals for each type of investment portfolio and specify prohibited transactions.

Northern Mariana Islands Settlement Fund
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Notes to Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

Payments of Benefits

Benefits are recorded when paid.

Fair Value of Financial Instruments

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

Cash, other receivables, net and accounts payable and accrued expenses – Fair value approximates carrying amounts due to the relatively short-term maturity of these financial instruments.

Loan 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.

Expenses

Expenses pertaining to the Settlement Fund's supporting activities and services are recorded when incurred. These expenses mainly include personnel, professional, and general and administrative expenses and are paid by the assets of the Settlement Fund. Expenses related to trustee fees are reviewed and approved by the U.S. District Court.

Receivables

Receivables primarily consist of contributions receivable from the CNMI government and loan receivable. Receivables are recorded at outstanding principal amounts, net of estimated allowances for doubtful accounts, if any.

The allowance for doubtful accounts is stated at an amount which management believes will be adequate to absorb possible losses on receivables that may become uncollectible based on evaluation of the collectability of these accounts. The allowance is established through a provision for bad debts charged to expense.

Property and Equipment

Property and equipment, consisting of property and equipment transferred by the NMIRF's Defined Benefit Plan to the Settlement Fund, are recorded by the Settlement Fund based on the assets' net book value at the date of transfer.

Depreciation is provided over the estimated useful lives of the related assets using the straight-line method. Estimated lives used range from 3 to 10 years for all assets.

Northern Mariana Islands Settlement Fund
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Notes to Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

Long-lived Assets

Long-lived assets and certain identifiable intangibles to be held and used or disposed of by the Settlement Fund are to be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

Recently Adopted Accounting Standards

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-02, “*Leases (Topic 842)*”. This standard intends to increase transparency and improve comparability by requiring entities to recognize assets and liabilities on the balance sheet for all leases, with certain exceptions. In addition, through improved disclosure requirements, the standard will enable users of financial statements to further understand the amount, timing, and uncertainty of cash flows arising from leases. This standard is effective for nonpublic entities for fiscal years beginning after December 15, 2021; however, early adoption is permitted. There was no impact to the Fund’s financial statements as a result of adoption of this standard.

Recently Issued Accounting Standards

In June 2016, FASB issued ASU No. 2016-13, “*Measurement of Credit Losses on Financial Instruments*”. This ASU significantly changes how entities will measure credit losses for most financial assets and certain other instruments that are not measured at fair value through net income. The standard will replace today’s “incurred loss” approach with an “expected loss” model. The new model, referred to as the current expected credit loss model (“CECL”), will apply to: (1) financial assets subject to credit losses and measured at amortized cost, and (2) certain off-balance sheet credit exposures. This includes, but is not limited to, loans, leases, held-to-maturity securities, loan commitments, and financial guarantees. ASU No. 2016-13 also expands the disclosure requirements regarding an entity’s assumptions, models, and methods for estimating the allowance for loan losses. The standard is effective for annual reporting periods beginning after December 15, 2022. The Fund is in the process of assessing the impact of the standard’s reporting and disclosure requirements.

Subsequent Events

Management has evaluated subsequent events through October 18, 2023 which is the date the financial statements were available to be issued.

Northern Mariana Islands Settlement Fund
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Notes to Financial Statements, continued

3. Property and Equipment

A summary of property and equipment as of September 30, 2022 is as follows:

	<u>Estimated Useful Lives</u>	<u>2022</u>
Office and computer equipment	3-10 years	\$ 741,464
Furniture and fixture	3-5 years	307,590
Vehicles	3-5 years	<u>70,389</u>
		1,119,443
Less accumulated depreciation and amortization		<u>864,272</u>
		<u>\$ 255,171</u>

4. Annual Payment Due from the CNMI Government

The Settlement Agreement requires the CNMI Government to make minimum required annual payments to the Settlement Fund sufficient to enable the Settlement Fund to pay 75% of Settlement Class Members' full retirement benefits for the Settlement Fund's expected life. During the year ended September 30, 2022, the Settlement Fund received \$38 million from the CNMI Government.

Projected minimum annual payments necessary to enable the Settlement Fund to pay 75% of Settlement Class Members' retirement benefits total approximately as follows:

<u>Year ending September 30,</u>	
2023	\$40,000,000
2024	<u>39,000,000</u>
Total future minimum payments receivable	<u>\$79,000,000</u>

The CNMI Government is to make the aforementioned minimum payments unless the U.S. District Court determines that a different amount is required to enable Settlement Class Members to receive 75% of their benefits.

In the event the CNMI Government pays an annual amount in excess of the amount required, then the CNMI Government's minimum annual payment for the succeeding year is reduced by the amount paid in excess.

If the CNMI Government makes payments such that it reduces the minimum payment in subsequent years to less than \$3 million, then the CNMI Government shall still be obligated to transfer in any fiscal year at least the lesser of \$3 million, or the annual costs to pay 75% of the Settlement Class Members' benefits plus reasonable administrative costs.

Northern Mariana Islands Settlement Fund
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Notes to Financial Statements, continued

4. Annual Payment Due from the CNMI Government, continued

For fiscal years after September 2024, the CNMI Government is to make minimum payments to the Settlement Fund to enable the Settlement Fund to pay 75% of Settlement Class Members' benefits each year for the Settlement Fund's expected life as determined by an independent actuary.

The Settlement Agreement calls for an alternative payment of a greater amount (APGA) if 17% of the CNMI Government's total annual revenues is greater than the minimum annual amount paid by the CNMI Government, then the CNMI Government is to remit the difference to the Settlement Fund. For the year ended September 30, 2022, the Settlement Fund did not record an additional contribution from the CNMI Government related to APGA.

In the event the CNMI Government believes the Settlement Fund has assets equal to the actuarial present value of accrued benefits of the Settlement Class Members plus reasonable expenses of the Settlement Fund for its expected life, then the CNMI Government may petition the U.S. District Court to allow it to cease making annual payments.

5. Consent Judgment Owned by the Settlement Fund

The Settlement Fund owns a Consent Judgment totaling \$779 million which the Settlement Fund may enforce against the CNMI Government in the U.S. District Court, if the CNMI Government fails to timely pay its obligations due under the Settlement Agreement.

6. Settlement Class Members

The contribution and benefits of Settlement Class Members are determined based on the class they belonged to under the NMIRF. Class II members are all persons who were NMIRF members prior to the effective date of Public Law 6-17 and who did not choose to become Class I members. All Settlement Class Members hired on or after the effective date of Public Law 6-17 who are not Class II members are Class I members.

As of September 30, 2022, Settlement Class Members receiving benefits and entitled to benefits consisted of the following:

Retirees	1,758
Beneficiaries	783
Disabled	<u>17</u>
	<u>2,558</u>

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Notes to Financial Statements, continued

6. Settlement Class Members, continued

Active Settlement Class Members contributing to the Settlement Fund as of September 30, 2022 are as follow:

Class I	56
Class II	<u>17</u>
	<u>73</u>

As of September 30, 2022, there are 1,664 inactive class members, out of which, only 49 inactive class members are eligible to receive benefits once they turn 62. Of the 49 vested inactive class members, 20 inactive class members are already eligible to apply for refund on their contributions plus interest.

Contributions

All Settlement Class Members who are employed by the CNMI Government or an Autonomous Agency shall continue to pay employee contributions to the Settlement Fund as required by the laws of the CNMI existing on August 6, 2013 excluding Public Law 17-82 and Public Law 18-02. Class I member contributions are required at 10.5% of base pay and Class II member contributions are at 11% of base pay.

The CNMI Government and Autonomous Agencies will make supplemental payments to the Settlement Fund in the amount of employer contributions for currently employed Settlement Class Members at the same contribution rates being paid as of June 26, 2013 pursuant to Paragraph 5.0 of the Settlement Agreement.

7. Description of Benefits Provided by the Settlement Fund

The Settlement Agreement ensures that Settlement Class Members will always get paid at least 75% of their full benefits that they were entitled to when they were part of the NMIRF. The Settlement Agreement does not prevent the CNMI Government from making additional payments to the Settlement Class Members in the future.

Benefits provided to Settlement Class Members are determined based on the Class I and Class II provisions effective when they were part of the NMIRF. As a result of the Settlement Agreement, the benefit computation identified below is reduced to 75% of the computed amounts. The factors affecting the computation of benefits are summarized below:

Service

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

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Notes to Financial Statements, continued

7. Description of Benefits Provided by the Settlement Fund, continued

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.

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.

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 reduced by an actuarially determined amount for each month the member is under 62 years of age, but not less than \$6,000 adjusted by 75% pursuant to the settlement agreement.

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

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Notes to Financial Statements, continued

7. Description of Benefits Provided by the Settlement Fund, 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.

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% (66 2/3% for members prior to December 5, 2003) 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, Worker's 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 of the benefit being paid at death.

Time and form of payment – The surviving spouse's benefit commences immediately if there are minor children, otherwise at the spouse's attainment of age 35, and continues until remarriage or death. Payment will be in the form of 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.

Northern Mariana Islands Settlement Fund
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Notes to Financial Statements, continued

7. Description of Benefits Provided by the Settlement Fund, continued

Lump-sum Death Benefit

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

Amount of benefit – A lump-sum payment of \$1,000 plus, if there is no surviving spouse or children, a refund, reduced by pension payments already received, of 1/3 of the accumulated employee contributions with interest. The lump-sum payment is adjusted for the effect of the Settlement Agreement by \$750.

8. Other Receivables

Other receivables, net as of September 30, 2022 is as follows:

Overpayment of benefits	\$ 6,544,821
Employers' contribution receivable	5,509,976
Accrued interest	315,406
Buyback receivable	194,650
Underpayment of contributions	55,521
Others	<u>15,405</u>
	12,635,779
Less allowance for doubtful accounts	<u>12,496,597</u>
	<u>\$ 139,182</u>

9. Concentration of Credit Risk

Financial instruments which potentially subject the Settlement Fund to concentrations of credit risk consist principally of cash and investments.

The Settlement Fund maintains its cash deposits in bank accounts which exceeded federal depository insurance limits. The Settlement Fund has not experienced any losses in such accounts.

The Settlement Fund invests available cash in money market funds, mutual funds, common stock, domestic and international corporate bonds and securities backed by the United States Government. Concentrations of credit risk are minimized due to a highly diversified portfolio of investments.

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Notes to Financial Statements, continued

10. Fair Value Measurements

Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 820, *Fair Value Measurement*, defines fair value, establishes a framework for measuring fair value and expands financial statement disclosures about fair value measurements. Under FASB ASC 820, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

FASB ASC 820 also establishes a fair value hierarchy, which prioritizes the inputs to valuation technique used to measure fair value into three broad levels:

- Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.
- Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 - Unobservable inputs for the asset or liability.

In some cases, the inputs used to measure fair value might fall in different levels of the fair value hierarchy. The level in the fair value hierarchy within which the fair value measurement in its entirety falls shall be determined based on the lowest level input that is significant to the fair value measurement in its entirety. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgment, considering factors specific to the asset or liability.

The level in the fair value hierarchy within which the fair value measurement is classified is determined based on the lowest level input that is significant to the fair value measure in its entirety.

Following is a description of the valuation techniques and inputs used for each general type of investment measured at fair value:

Mutual funds – fixed income. These are primarily reported at fair values obtained from bank and independent pricing services.

Mutual funds – balanced. These are a mixture of both equities and fixed income securities.

Mutual funds – equity securities. These are traded on a national or international exchange and are reported at current quoted market values.

Money market funds. These are valued under the market approach through the use of quoted market prices in an active market, which is the Net Asset Value of the underlying funds.

Cash investments. These are deposits in interest bearing accounts that are very short-term in nature and are accordingly valued at cost plus accrued interest, which approximates fair value.

Northern Mariana Islands Settlement Fund
(A Not-for-Profit Organization)

Notes to Financial Statements, continued

10. Fair Value Measurements, continued

The following tables set forth by level, within the fair value hierarchy, the Settlement Fund's investments carried at fair value as of September 30, 2022:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds – fixed income	\$ 62,111,723	\$ ---	\$ ---	\$ 62,111,723
Mutual funds – balanced	29,754,464	---	---	29,754,464
Mutual funds – equity securities	16,462,498	---	---	16,462,498
Money market funds	2,016,989	---	---	2,016,989
Cash investments	<u>---</u>	<u>142,452</u>	<u>---</u>	<u>142,452</u>
Total investments at fair value	<u>\$110,345,674</u>	<u>\$142,452</u>	<u>\$ ---</u>	<u>\$110,488,126</u>

11. Risks and Uncertainties

The Settlement Fund invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market volatility and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statement of financial position.

12. Net Assets with Donor Restriction

In July 2014, the CNMI Government passed Public Law 18-56 that allocates a portion of revenues received from annual license fee revenues to pay for the 25% reduction in Settlement Class Members' benefits. For the year ended September 30, 2022, receipts from Public Law 18-56 totaled \$13,223,009. These amounts are included as a component of CNMI Government Contribution in the accompanying statements of activities. For the year ended September 30, 2022, net assets released from restriction and distributed to Settlement Class Members totaled \$13,223,009, as presented in the accompanying statements of activities. At September 30, 2022, unreleased funds totaled \$30,325. These amounts are presented as net assets with donor restriction in the accompanying statements of financial position.

13. Availability and Liquidity of Financial Assets

The following reflects the Settlement Fund's financial assets as of September 30, 2022:

Cash	\$ 10,480,589
Other receivables, net	139,182
Investments	<u>110,488,126</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$121,107,897</u>

Supplementary Information

Northern Mariana Islands Settlement Fund
(A Not-for-Profit Organization)

Schedule of Investments Owned

September 30, 2022

Investment Name

Mutual funds – fixed income

Dodge and Cox Income Fund	\$ 30,474,391
PGIM High Yield-Q	20,687,621
Vanguard Short-Term Bond Index FD Inst	10,949,581
PIMCO Total Return Fund	<u>130</u>

62,111,723

Mutual funds – mixed funds

Fidelity Strategic Real Return	29,754,464
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Mutual funds – equity securities

Vanguard Total World Stock Index Fund Inst	16,462,498
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Money market funds

Dreyfus Treasury Obligations Cash Management Fund	2,016,989
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Cash investments

Bank of Hawaii Cash and Cash Equivalents	<u>142,452</u>
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Total Investments Owned	<u>\$110,488,126</u>
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