

NORTHERN MARIANAS COLLEGE
(A Component Unit of the CNMI Government)

REPORT ON THE AUDIT OF FINANCIAL STATEMENTS
IN ACCORDANCE WITH OMB CIRCULAR A-133

Years Ended September 30, 2014 and 2013

NORTHERN MARIANAS COLLEGE
(A Component Unit of the CNMI Government)

Years Ended September 30, 2014 and 2013

TABLE OF CONTENTS

DESCRIPTION	<u>PAGE NUMBER/S</u>
I. FINANCIAL STATEMENTS	
Independent Auditor's Report on Financial Statements	1 – 3
Management's Discussion & Analysis	4 – 14
Statements of Net Position	15
Statements of Activities and Changes in Net Position	16
Statements of Cash Flows	17 – 18
Notes to Financial Statements	19 – 37
II. INDEPENDENT AUDITORS' REPORTS ON INTERNAL CONTROL AND ON COMPLIANCE	
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	38 – 39
Independent Auditors' Report on Compliance for Each Major Program and on Internal Control Over Compliance with <i>OMB Circular A-133</i>	40 – 42
Schedule of Expenditures of Federal Awards	43 – 44
Notes to the Schedule of Expenditures of Federal Awards	45
Schedule of Findings and Questioned Costs	
Section I – Summary of Auditors' Results	46 – 47
Section II – Compliance and Other Matters	48 – 53
Section III – Federal Awards and Questioned Costs	54 – 56
III. SCHEDULE OF PRIOR YEAR AUDIT FINDINGS	57
IV. SUMMARY OF UNRESOLVED QUESTIONED COSTS	58

INDEPENDENT AUDITOR'S REPORT

To the Board of Regents
Northern Marianas College

Report on the Financial Statements

We have audited the accompanying financial statements of the Northern Marianas College, as of and for the years ended September 30, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the College's basic financial statements as listed in the table of contents.

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 opinions 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.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position and the respective changes in financial position of the Northern Marianas College, for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 14 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

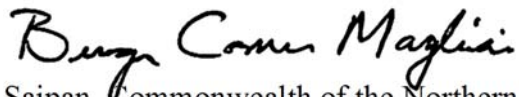
Other Information

Our audits were conducted for the purpose of forming opinion on the financial statements that collectively comprise the College's basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

The schedule of expenditures of federal awards 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 basic 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 schedule of expenditures of federal awards 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 June 1, 2015, on our consideration of the College's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of 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 the College's internal control over financial reporting and compliance.



Saipan, Commonwealth of the Northern Mariana Islands
June 1, 2015



Northern Marianas College

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Management's Discussion and Analysis
Year Ended September 30, 2014

This discussion and analysis of the Northern Marianas College's (the College) financial performance provides an overview of the College's activities for the fiscal year ended September 30, 2014 with comparisons to prior fiscal years ended September 30, 2013 and 2012. We encourage readers to consider the information presented here in conjunction with the financial statements and related notes (pages 15 through 37).

OVERVIEW OF THE FINANCIAL STATEMENTS

The Financial Section of this report presents the College's financial statements as two components: basic financial statements and notes to the financial statements. It also includes supplemental information.

Basic Financial Statements

The *Statements of Net Position* present information on assets, liabilities and deferred outflows and inflows of resources, with the difference between these reported as net position. Changes in net position over time may provide an indicator as to whether the financial position of the College is improving or deteriorating.

Net position is divided into three major categories.

- The first category, investment in capital assets, indicates the College's equity in property, plant and equipment.
- The second category is restricted, which is further divided into two additional classifications:
 - Nonexpendable
 - Expendable

The corpus of the nonexpendable restricted net assets is available only for investment purposes.

Expendable restricted net assets are available only for purposes defined by donors and/or other external entities that have placed time or purpose restrictions on the use of the assets.

- The third and final category is unrestricted. Unrestricted net position can be used for any lawful purpose of the College.

The *Statements of Activities and Changes in Net Position* report how net position has changed during the year. It compares related operating revenues and operating expenses connected with the College's principal business as the state agency for higher education and adult education programs. Operating expenses include the cost of instruction, administrative expenses, student expenses, student services, and operations and maintenance. All other revenues and expenses are reported as non-operating.

The *Statements of Cash Flows* reports inflows and outflows of cash, classified into four major categories:

- Cash flows from operating activities include transactions and events reported as components of operating income in the Statement of Revenues, Expenses, and Changes in Net Position.
- Cash flows from non-capital financing activities include operating grant proceeds.
- Cash flows from capital and related financing activities include the borrowing and repayment (principal and interest) of capital-related debt, the acquisition and construction of capital assets, and the proceeds of capital grants and contributions.
- Cash flows from investing activities include proceeds from sale of investments, receipt of interest, and changes in the fair value of investments subject to reporting as cash equivalents. Outflows in this category include the purchase of investments.

Notes to the Financial Statements

Various notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements and are found immediately following the financial statements to which they refer.

FINANCIAL HIGHLIGHTS AND ANALYSIS OF BASIC FINANCIAL STATEMENTS

Condensed Statements of Net Position

	2014	2013	Increase (Decrease)	
			Amount	Percent
ASSETS:				
Current assets	\$ 10,668,941	\$ 10,594,151	\$ 74,790	0.71
Capital assets, net	4,648,526	5,023,808	(375,282)	(7.47)
Other assets	7,355,502	6,921,792	433,710	6.27
Total Assets	\$ 22,672,969	\$ 22,539,751	\$ 133,218	0.59
LIABILITIES:				
Current liabilities	\$ 2,301,664	\$ 2,739,234	\$ (437,570)	(15.97)
Noncurrent liabilities	214,776	197,679	17,097	8.65
Total Liabilities	\$ 2,516,440	\$ 2,936,913	\$ (420,473)	(14.32)
DEFERRED INFLOWS OF RESOURCES:				
Grants receipts	\$ 131,293	\$ 145,119	\$ (13,826)	(9.53)
Total Liabilities	\$ 131,293	\$ 145,119	\$ (13,826)	(9.53)
NET POSITION				
Investment in capital assets, net	\$ 4,648,526	\$ 5,023,808	\$ (375,282)	(7.47)
Restricted net assets	7,355,502	6,921,792	433,710	6.27
Unrestricted	8,021,208	7,512,119	509,089	6.78
Total Net Position	\$ 20,025,236	\$ 19,457,719	\$ 567,517	2.92

	2013	2012	Increase (Decrease)	
			Amount	Percent
ASSETS:				
Current assets	\$ 10,594,151	\$ 9,296,321	\$ 1,297,830	13.96
Capital assets, net	5,023,808	5,492,298	(468,490)	(8.53)
Other assets	6,921,792	6,164,705	757,087	12.28
Total Assets	\$ 22,539,751	\$ 20,953,324	\$ 1,586,427	7.57
LIABILITIES:				
Current liabilities	\$ 2,739,234	\$ 1,798,343	\$ 940,891	52.32
Noncurrent liabilities	197,679	202,448	(4,769)	(2.36)
Total Liabilities	\$ 2,936,913	\$ 2,000,791	\$ 936,122	46.79
DEFERRED INFLOWS OF RESOURCES:				
Grants receipts	\$ 145,119	\$ 112,850	\$ 32,269	28.59
Total Liabilities	\$ 145,119	\$ 112,850	\$ 32,269	28.59
NET POSITION				
Investment in capital assets, net	\$ 5,023,808	\$ 5,492,298	\$ (468,490)	(8.53)
Restricted net assets	6,921,792	6,164,705	757,087	12.28
Unrestricted	7,512,119	7,182,680	329,439	4.59
Total Net Position	\$ 19,457,719	\$ 18,839,683	\$ 618,036	3.28

- Total assets at September 30, 2014 amounted to \$22,672,969, a \$133,218 or 0.59% increase from \$22,539,751 as of September 30, 2013.

- Cash increased from \$5,525,846 to \$6,399,585, primarily due to the collection of accounts receivable and the remittance from grantors.
- Accounts receivables and due from grantors decreased by \$356,778 and \$259,877, respectively, compared to fiscal year 2013.
- Investment increased by \$433,710 due to net investment income for fiscal year 2014. This change in investment value is less than the \$757,020 increase in 2013.
- The change in Capital assets in 2014 is due to aggregate acquisitions of \$136,907, offset by the \$512,189 depreciation.
- Total liabilities at September 30, 2014 amounted to \$2,516,440. This decreased by \$420,473 or 14.32% from \$2,936,913 in 2013. The decrease is due to lower accounts payable balance as of September 30, 2014, with the increase in collection of receivables, the College was able to pay payables before the fiscal year ended.

Condensed Statements of Activities and Changes in Net Position

			Increase (Decrease)	
	2014	2013	Amount	Percent
Operating revenues, net	\$ 11,064,744	\$ 10,952,753	\$ 111,991	1.02
Operating expenses	15,044,715	15,565,799	(521,084)	(3.35)
Operating loss	(3,979,971)	(4,613,046)	633,075	(13.72)
Nonoperating revenues	4,547,488	5,231,082	(683,594)	(13.07)
Change in net position	567,517	618,036	(50,519)	(8.17)
Net position, beginning of year	19,457,719	18,839,683	618,036	3.28
Net position, end of year	\$ 20,025,236	\$ 19,457,719	\$ 567,517	2.92

			Increase (Decrease)	
	2013	2012	Amount	Percent
Operating revenues, net	\$ 10,952,753	\$ 11,662,132	\$ (709,379)	(6.08)
Operating expenses	15,565,799	14,501,004	1,064,795	7.34
Operating loss	(4,613,046)	(2,838,872)	(1,774,174)	62.50
Nonoperating revenues	5,231,082	4,562,337	668,745	14.66
Change in net position	618,036	1,723,465	(1,105,429)	(64.14)
Net position, beginning of year	18,839,683	17,116,218	1,723,465	10.07
Net position, end of year	\$ 19,457,719	\$ 18,839,683	\$ 618,036	3.28

NMC's net position increased by \$567,517 or 2.92% as of September 30, 2014.

The increase is due to the following:

- Operating revenue increased primarily due to increase in bookstores gross profit by \$124,211 or 100%. The bookstore reported gross revenues of \$245,910 in 2014 compared to \$121,699 in 2013.
- Operating expenses decreased by \$521,084. The decrease in operating expenses was necessitated by the \$360,284 decrease in appropriations. The College received \$4,113,778 in 2014 compared to \$4,474,062 in 2013.
- The College's investment portfolio values increased by \$433,710.

Revenues by Source

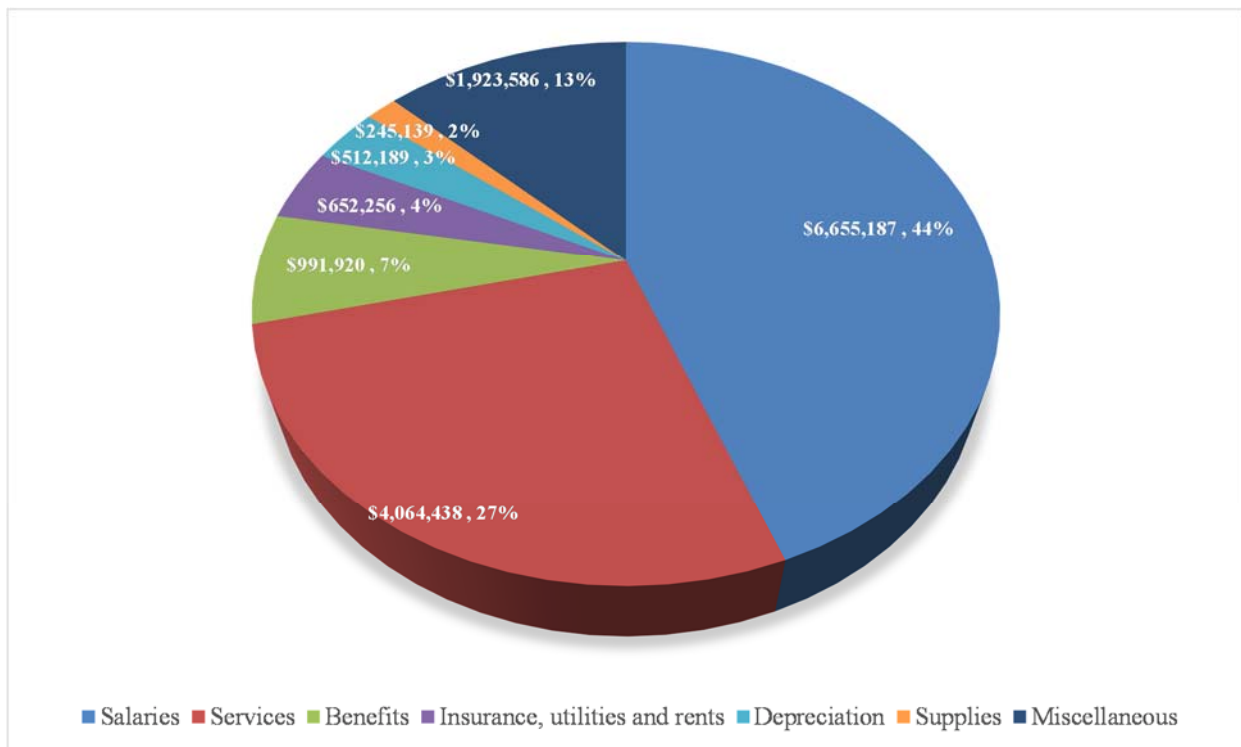
	2014		2013	
	Amount	% of Total	Amount	% of Total
Operating revenues:				
U.S Federal grants	\$ 8,996,516	57.63	\$ 8,882,907	54.89
Tuition and fees	1,219,826	7.81	1,370,667	8.47
Private gifts, grants and donations	2,250	0.01	10,000	0.06
Others	846,152	5.42	689,179	4.26
Total operating revenues	11,064,744	70.87	10,952,753	67.68
Nonoperating				
CNMI appropriations	4,113,778	26.35	4,474,062	27.65
Investment income	72,962	0.47	86,317	0.53
Realized gain on investments	499,275	3.20	309,297	1.91
Unrealized gain on investments	(138,527)	(0.89)	361,406	2.23
	433,710	2.78	757,020	4.67
Total nonoperating revenues	4,547,488	29.13	5,231,082	32.32
Total revenues	\$ 15,612,232	100.00	\$ 16,183,835	100.00

- Grants from U.S Federal Agencies constituted 57.63% and 54.89% of the College's total revenues in 2014 and 2013, respectively. The grants received from U.S Federal Agencies increased by \$113,609 or 1.28%, primarily due to an increase in Pell Grant Assistance from the U.S. Department of Education as a result of increased enrollment for the fiscal year.
- Student tuition and fees, net of scholarships decreased by \$150,841 between fiscal years 2014 and 2013 due to a reclassification of auxiliary service type of funding from fees to others, thus increasing the revenue generated in the others category.
- GASB 34 and 35 requires that tuition and fees revenue from students be reported net of scholarship discounts and allowances. Discounts and allowances are the difference between the College's stated charges for tuition and fees and the amount paid by the students or third parties on behalf of the students.
- It is noted that a material portion of the College's tuition and fees are funded via Pell Grants to students. The College relies primarily on revenues from tuition and fees for non-payroll related operational expenses of the College, including equipment renewals, replacement, and maintenance.
- Appropriations received from the CNMI Government constituted 26.35% and 27.65% of the College's total revenues in 2014 and 2013, respectively. The College relies on the CNMI appropriations to augment the operating revenues to provide cash flows for the College's operating expenses. Appropriations from the CNMI for fiscal year 2014 decreased by \$360,284 or 8.05%.

- The investment income is decreased by \$323,310 or 42.71% compared to fiscal year 2013. The College's investments are managed by the NMC Foundation and governed by College's Investment policies, which limit the risks exposure of the investments.

Expenses by Natural Classification

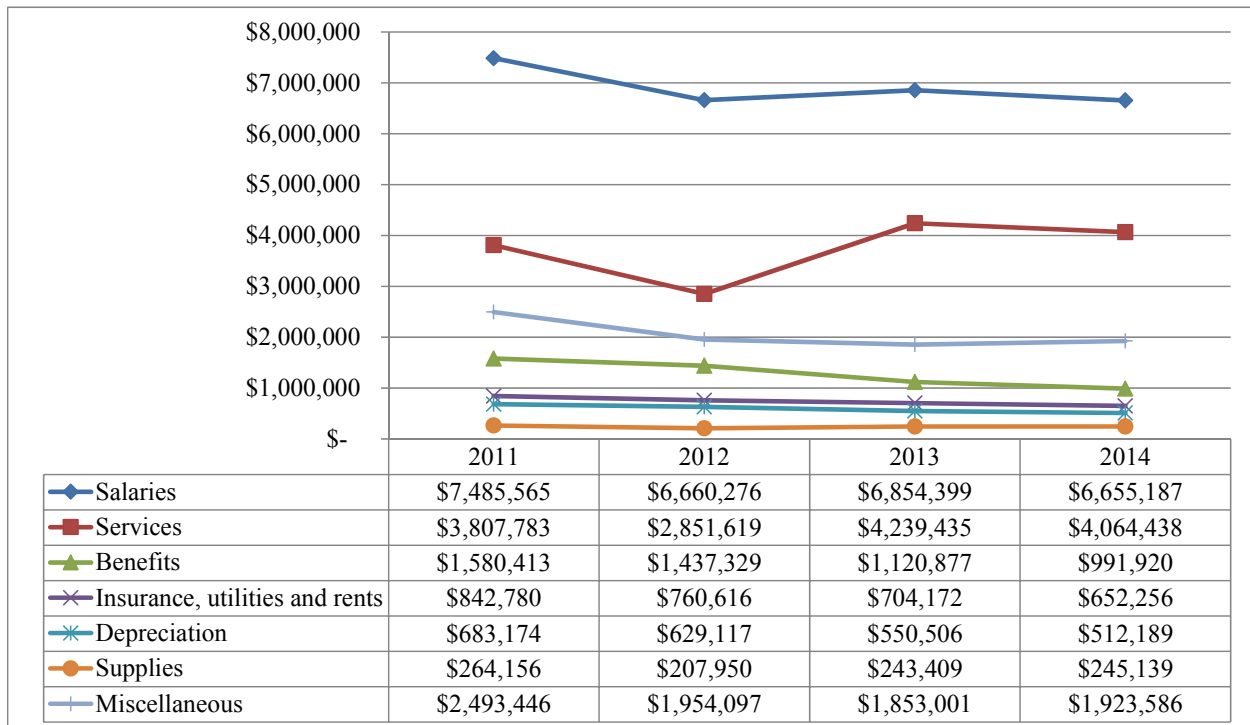
	2014		2013	
	Amount	% of Total	Amount	% of Total
Salaries	\$ 6,655,187	44.24	\$ 6,854,399	44.04
Services	4,064,438	27.02	4,239,435	27.24
Benefits	991,920	6.59	1,120,877	7.20
Insurance, utilities and rents	652,256	4.34	704,172	4.52
Depreciation	512,189	3.40	550,506	3.54
Supplies	245,139	1.63	243,409	1.56
Miscellaneous	1,923,586	12.79	1,853,001	11.90
	\$ 15,044,715	100.00	\$ 15,565,799	100.00



- Salaries constituted 44.24% and 44.04% of the College's total expenditures for fiscal years 2014 and 2013, respectively. Total salaries expenses in 2014 decreased by \$199,212 or 2.91% compared to 2013. Salaries in fiscal year 2014 is consistent with that of fiscal year 2012.
- Expenses for Services, which include professional service contracts, bookstore operating expenses, and student expenses decrease by \$174,997 or 4.13%.

- Benefits decreased by \$128,957 or 11.51% primarily due to the decrease in retirement contributions.
- Miscellaneous expense, which includes accreditation, professional development, and USDOE travel, purchase of assets below \$5,000, and other operating expenses increased by \$70,585 or 3.81% compared to 2013.
- For 2014, the College adjusted its categorization of functional expenditures as required by GASB to more accurately reflect the allocation of expenses across function. Significantly, the College allocated salary expenses more accurately across the different functional expenditures as well as added additional expenditure categories for the functions of community services, to more accurately capture the significant expenditures associated with the Cooperative Research Extension and Education Services (CREES) as well as Auxiliary Services to more accurately capture the expenses associated with the NMC Bookstore. The College plans to report in this format consistently moving forward. The College anticipates that these changes in reporting the functional expenditures will more accurately reflect functional expenditures consistent with other colleges and universities for comparative purposes, particularly in the U.S. Department of Education's Integrated Postsecondary Education System (IPEDS).

Comparative Expenses



The graph above shows how the College is spending pattern from fiscal year 2011 to 2014.

CAPITAL ASSETS

At September 30, 2014, 2013 and 2012, the College had \$4,648,526, \$5,023,808 and \$5,492,298, respectively, invested in capital assets, net of accumulated depreciation, where applicable. See Note 5 to the financial statements for more information on the College's property, plant and equipment.

LONG-TERM DEBT

The College did not engage in any long-term debt financing in fiscal year 2014. See Note 6 to the financial statements for more information on the College's long-term obligations.

MAJOR ACCOMPLISHMENTS AND CHALLENGES IN FISCAL YEAR 2014

To the best of its ability, the College continued to weather the CNMI's financial storm, iron out accreditation issues, all while maintaining a quality learning environment conducive to students and stakeholders. The CNMI economic turmoil continues to be highly impacted by the imminent loss of its non-resident/international workforce because of U.S. federal immigration policy changes. This affects the College's non-resident/international student enrollment. To cope with these funding challenges, the College made major efforts to continue to stabilize its financial resources through appropriate and timely financial monitoring and planning. Despite these circumstances, the College continued to strengthen its financial statements as clearly evident in the overall increase in its net position during the period, which has been relatively consistent since fiscal year 2006, when the College was first subject to a drastic reduction in its support from CNMI appropriations.

In FY 2014, the College overcame significant, longstanding challenges with respect to its accreditation with the Accrediting Commission for Community and Junior Colleges (ACCJC) under the Western Association of Schools and Colleges (WASC) such that the ACCJC acted to reaffirm the College's accreditation in February 2014. Even more remarkably, during this fiscal period the College immediately and successfully sought to transition to the WASC Senior College and University Commission (WSCUC). WSCUC granted its initial accreditation for a six year period in July 2014, which allowed the College to expand its bachelor's degree offerings to meet community workforce needs. As a result of these efforts, the College continued to book major expenses associated with its concerted, focused efforts to meet accreditation requirements.

Despite these challenges, in FY 2014 the College continued to be prudent in its expenditure patterns and management of cash flows and has been able to maintain positive net worth in cash equivalencies, in compliance with its Board of Regents policy and accreditation standards relative to fiscal stability. As mentioned earlier, NMC's net position increased as of September 30, 2014 to \$20,025,236 from \$19,457,718 at the end of FY 2013, by \$567,517 or 2.92%. A detailed analysis of revenues and expenses follows this section. This will assist the College in continuing to remain financially sound during these rather tumultuous economic times for the CNMI.

NMC continues to monitor all its financial revenue sources and to make appropriate adjustments in personnel and utility consumption, as well as adhering to procurement policies and procedures. Consolidation and cost saving measures implemented in the prior fiscal year were continued in 2014. Review of historical spending practices and the initiative to optimize financial resources led to the consolidation of spending in certain categories under identified departments such as faculty overload and adjunct pay, professional development expenses, and travel, among others. Such consolidations continued to benefit the College in a variety of ways: 1) cost savings from discounts for volume purchases; 2) expedited transactions through centralization; and 3) monitoring of certain facilities expenses.

Please see the College's official Annual Accomplishment Report for Fiscal Year 2014 for more information.

ECONOMIC OUTLOOK

There are signs that the CNMI's economic outlook will improve in the upcoming year. In fiscal year 2014, governmental budgets increased slightly over that of fiscal year 2013. Tourism, the only remaining industry with a major role in driving the CNMI's economy, continues to grow at a solid pace. Visitor arrivals have continued to increase since 2011 when they were at an all-time low, and are slowly climbing back to pre-2011 figures. Notably, the legalization of casino gambling on Saipan in 2014 has significantly improved economic prospects for the CNMI as a whole, despite the pending increases in minimum wage and deadline for the transition of CNMI-specific uses of foreign labor to align with U.S. immigration laws. The College diligently continues its efforts to position itself to build its workforce development programs, both academic and non-academic, and be better aligned with the dynamically changing needs of the CNMI's economy.

As a result of the College's improved accreditation status, the College is finally in a position to expand its academic and community program offerings to meet workforce demands and help strengthen the CNMI economy. The College continues to anticipate growth in enrollment in response to these factors, which will in turn boost college revenues. In addition, the College's appropriations budget increased slightly for fiscal year 2015 and included funding allocations for the Commonwealth Workers (CW) Fee of \$500,000. All these factors will help the College financially. However, the College will continue to make necessary cuts and take internal measures as necessary to ensure that this will not result in the College operating in a deficit. The College has mechanisms in place to closely monitor such actions and is actively pursuing alternative funding opportunities to compensate for reductions in the traditional sources of funding.

CONTACTING THE COLLEGE'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the College's finances and to demonstrate the College's accountability for the money it receives. The Management's Discussion and Analysis for the year ended September 30, 2014 is set forth in the report on the audit of the College's financial statements which is dated May 2015. The Management Discussion and Analysis explains the major factors impacting the 2014 financial statements. If you have questions about the 2014 or 2013 reports, or need additional information, please contact Tracy M. Guerrero, Chief Financial Officer at the Northern Marianas College, P.O. Box 501250, Saipan, MP 96950, or email tracy.guerrero@marianas.edu.

NORTHERN MARIANAS COLLEGE
(A Component Unit of the CNMI Government)

Statements of Net Position
September 30, 2014 and 2013

	2014	2013
Assets:		
Current assets:		
Cash and cash equivalents	\$ 6,399,585	\$ 5,525,846
Time certificate of deposit	695,094	694,446
Accounts receivable and unbilled charges, net	1,625,999	1,982,777
Due from grantor agencies	1,167,224	1,427,101
Due from CNMI	177,561	365,521
Inventories	534,685	597,067
Prepayments	68,793	1,393
Total current assets	10,668,941	10,594,151
Noncurrent assets:		
Investments	7,355,502	6,921,792
Capital assets, net	4,648,526	5,023,808
Total noncurrent assets	12,004,028	11,945,600
Total assets	22,672,969	22,539,751
Liabilities:		
Current liabilities:		
Accounts payable	697,489	960,963
Accrued salaries and benefit payable	370,523	505,662
Current portion of compensated absences	380,949	380,949
Unearned revenues	852,703	891,660
Total current liabilities	2,301,664	2,739,234
Noncurrent liabilities:		
Compensated absences, net of current portion	214,776	197,679
Total liabilities	2,516,440	2,936,913
Deferred inflows of resources:		
Grant Receipts	131,293	145,119
Net position:		
Investment in capital assets, net	4,648,526	5,023,808
Restricted net assets:		
Nonexpendable	3,200,000	3,200,000
Expendable	4,155,502	3,721,792
Unrestricted	8,021,208	7,512,119
Net position	\$ 20,025,236	\$ 19,457,719

See accompanying notes to financial statements.

NORTHERN MARIANAS COLLEGE
(A Component Unit of the CNMI Government)

Statements of Activities and Changes in Net Position
For the Years Ended September 30, 2014 and 2013

	2014	2013
Operating revenues:		
U.S. Federal grants	\$ 8,996,516	\$ 8,882,907
Tuition and fees (net of scholarship discounts and allowances of \$2,267,035 and \$2,057,102 in 2014 and 2013, respectively)	1,219,826	1,370,667
Private gifts, grants and donations - restricted	2,250	10,000
Others (net of bookstore cost of sales of \$400,200 in 2014 and \$464,229 in 2013)	846,152	689,179
Net operating revenues	11,064,744	10,952,753
Operating expenses:		
Salaries	6,655,187	6,854,399
Services	4,064,438	4,239,435
Benefits	991,920	1,120,877
Insurance, utilities and rents	652,256	704,172
Depreciation	512,189	550,506
Supplies	245,139	243,409
Miscellaneous	1,923,586	1,853,001
Total operating expenses	15,044,715	15,565,799
Operating loss	(3,979,971)	(4,613,046)
Nonoperating revenues:		
CNMI Appropriations	4,113,778	4,474,062
Investment income	72,962	86,317
Realized gain on investments	499,275	309,297
Unrealized gain on investments	(138,527)	361,406
Total nonoperating revenues	4,547,488	5,231,082
Change in net position	567,517	618,036
Net position, beginning of the year	19,457,719	18,839,683
Net position, end of the year	\$ 20,025,236	\$ 19,457,719

See accompanying notes to financial statements.

NORTHERN MARIANAS COLLEGE
(A Component Unit of the CNMI Government)

Statements of Cash Flows
For the Years Ended September 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Cash flows from operating activities:		
Tuition and fees collected	\$ 1,537,647	\$ 1,131,909
U.S Federal grants	9,242,567	8,369,607
Other receipts	848,402	699,169
Payments to employees	(6,773,229)	(6,628,802)
Payments to suppliers	<u>(8,145,831)</u>	<u>(7,754,002)</u>
Net cash used for operating activities	<u>(3,290,444)</u>	<u>(4,182,119)</u>
Cash flows from investing activities:		
Net interest and dividends	72,962	86,327
Purchase of investment securities, net	(72,962)	(86,384)
Purchase of time certificate of deposit	<u>(648)</u>	<u>(698)</u>
Net cash used for investing activities	<u>(648)</u>	<u>(755)</u>
Cash flows from noncapital financing activities:		
CNMI Appropriations	<u>4,301,738</u>	<u>4,286,103</u>
Net cash provided by noncapital financing activities	<u>4,301,738</u>	<u>4,286,103</u>
Cash flows capital and related financing activities:		
Purchases of capital assets	<u>(136,907)</u>	<u>(82,016)</u>
Net cash used for capital and related financing activities	<u>(136,907)</u>	<u>(82,016)</u>
Net change in cash and cash equivalents	873,739	21,213
Cash and cash equivalents, beginning of year	<u>5,525,846</u>	<u>5,504,633</u>
Cash and cash equivalents, end of year	<u>\$ 6,399,585</u>	<u>\$ 5,525,846</u>

See accompanying notes to financial statements.

NORTHERN MARIANAS COLLEGE
(A Component Unit of the CNMI Government)

Statements of Cash Flows
For the Years Ended September 30, 2014 and 2013

	2014	2013
Reconciliation of operating loss to net cash used for operating activities:		
Operating loss	\$ (3,979,971)	\$ (4,613,046)
Adjustments to reconcile operating loss to net cash used for operating activities:		
Depreciation	512,189	550,506
Changes in assets and liabilities:		
Accounts receivable and unbilled charges, net	356,778	(548,620)
Due from grantor agencies	259,877	(545,570)
Inventories	62,382	1,141
Prepayments	(67,400)	5,089
Accounts payable	(263,474)	400,662
Accrued salaries and benefit payable	(135,139)	230,366
Current portion of compensated absences	17,097	(4,769)
Unearned revenues	(38,957)	309,852
Deferred inflows of resources	(13,826)	32,270
Net cash used for operating activities	\$ (3,290,444)	\$ (4,182,119)

See accompanying notes to financial statements.

NORTHERN MARIANAS COLLEGE
(A Component Unit of the CNMI Government)

Notes to Financial Statements
September 30, 2014 and 2013

(1) Organization

The Northern Marianas College (the College), a component unit of the Commonwealth of the Northern Mariana Islands (CNMI), was formally established as a nonprofit public corporation by CNMI Public Law 3-43 on January 19, 1983 to serve as the state agency for higher education and adult education programs. Autonomy was later granted by CNMI Public Law 4-34 (Post-Secondary Education Act of 1984) effective October 1, 1985.

The College is governed by a seven member Board of Regents appointed by the Governor of the CNMI with the advice and consent of the Senate. Executive powers are vested in the College President who is appointed by the Board.

The College has been granted initial accreditation by the Accrediting Commission for Community and Junior Colleges, Western Association of Schools and Colleges (WASC), at its meeting on June 11, 1985. The College undergoes periodic re-evaluations and approval of its accreditation. The College was re-evaluated and approved most recently in 2009.

In July 2014, the College was granted initial accreditation for a period of 6 years, through June 2020, by the WASC Senior College and University Commission.

(2) Summary of Significant Accounting Policies

Basis of Presentation

The accompanying financial statements are presented in accordance with accounting principles generally accepted in the United States of America as prescribed by the Government Accounting Standards Board (GASB).

Pursuant to the provisions of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as amended by GASB Statement No. 35, *Basic Financial Statements - and Management's Discussion and Analysis - for Public Colleges and Universities*, the full scope of the College's activities is considered to be a single business-type activity and accordingly, is reported within a single column in the basic financial statements.

Operating revenues are those revenues that are generated from the primary operations of the College. All other revenues are reported as nonoperating revenues. Operating expenses are those expenses that are essential to the primary operations of the College. All other expenses are reported as nonoperating expenses.

NORTHERN MARIANAS COLLEGE
(A Component Unit of the CNMI Government)

Notes to Financial Statements
September 30, 2014 and 2013

(2) Summary of Significant Accounting Policies, Continued

Basis of Accounting

For financial statement purposes, the College is considered a special-purpose government engaged only in business-type activities. Accordingly, the College's financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. All significant intra-agency transactions have been eliminated.

The College has the option to apply all Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, unless FASB conflicts with GASB. The College has elected not to apply FASB pronouncements issued after the applicable date.

Nonexchange transactions, in which the College receives (or gives) value without directly giving (or receiving) equal value in exchange, include state appropriations, certain grants, and donations. Revenues are recognized if probable of collection, net of estimated uncollectible amounts, as soon as all eligibility requirements imposed by the provider have been met.

Cash and Cash Equivalents

For the purpose of the statements of net position and cash flows, cash and cash equivalents is defined as cash on hand and cash held in demand accounts as well as short-term investments with a maturity date within ninety days of the date acquired. Time certificates of deposits with maturities of greater than three months are separately classified.

As of September 30, 2014 and 2013, cash and cash equivalents and time certificate of deposit were \$7,089,754 and \$6,212,789, respectively, and the corresponding bank balances were \$7,173,534 and \$6,595,806, respectively, which are maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2014 and 2013, bank deposits in the amount of \$887,055 and \$810,563, respectively, were FDIC insured. The College does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized.

Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable consists of tuition and fees charged to students and auxiliary enterprise services provided to students, faculty and staff. Accounts receivable also include amounts due from the federal government and the CNMI government, or private sources, in connection with reimbursement of allowable expenditures made pursuant to the College's grants and contracts. Accounts receivable are recorded net of estimated allowances for uncollectible amounts.

NORTHERN MARIANAS COLLEGE
(A Component Unit of the CNMI Government)

Notes to Financial Statements
September 30, 2014 and 2013

(2) Summary of Significant Accounting Policies, Continued

Accounts Receivable and Allowance for Doubtful Accounts, Continued

The allowance for doubtful accounts is stated at an amount that management believes will be adequate to absorb possible losses on accounts receivable that may become uncollectible based on evaluations of the collectability of these accounts and prior collection experience. The allowance is established through a charge to bad debt expense.

Inventories

Bookstore inventories are valued at retail less gross profit percentages sufficient to reduce inventories to the lower of first-in, first-out (FIFO) cost or market. All other inventories are valued at the lower of FIFO cost or market.

Capital Assets

Furniture and equipment, vehicles and computers are recorded at cost in instances where cost is determinable or estimated cost where cost is not determinable. Land, buildings and improvements are recorded at fair market values at September 30, 2014 and 2013. The College capitalizes property and equipment that equals or exceeds \$5,000. Depreciation is provided using the straight-line basis over the estimated useful lives of the respective assets.

The College has elected to present capital assets acquired subsequent to 1994, except for land and buildings and improvements. Accordingly, capital asset records consist of additions commencing in fiscal year 1994 since any earlier acquired fixed assets have been fully depreciated or disposed.

Investments

Credit risk for investments is the risk that an issuer or other counterparty to an investment will not fulfill its obligations.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of debt instruments.

Concentration of credit risk for investments is the risk of loss attributed to the magnitude of an entity's investment in a single issuer. GASB Statement No. 40 requires disclosure by issuer and amount of investments in any one issuer that represents five percent (5%) or more of total investments for the College. As of September 30, 2014 and 2013, there were no investments in any one issuer that exceeded five percent (5%) of total investments.

NORTHERN MARIANAS COLLEGE
(A Component Unit of the CNMI Government)

Notes to Financial Statements
September 30, 2014 and 2013

(2) Summary of Significant Accounting Policies, Continued

Investments, Continued

Custodial credit risk is the risk that in the event of failure of the counterparty, the College will not be able to recover the value of its investments or collateral security that are in the possession of outside parties. Investment securities are exposed to custodial risk if the security is uninsured, are not registered in the name of the College and are held by either (a) the counterparty or (b) the counterparty's trust department or agent but not in the name of the College.

The following investment policy governs the investment of assets of the College:

General:

- Any pertinent restrictions existing under the laws of CNMI with respect to the College, that may exist now or in the future, will be the governing restriction.
- U.S. and non-U.S. equities, ADRs (American Depository Receipts), convertible bonds, preferred stocks, fixed-income securities, mutual funds and short-term securities are permissible investments.
- No individual security of any issuer, other than that of the United States Government, shall constitute more than 5% (at cost) of the Total Fund or 10% (at cost) of any Investment Manager's portfolio.
- No investment may be made in the securities of a single corporate entity in excess of 15% (at market) of any individual Investment Manager's portfolio, without prior approval.
- Holdings of any issuer shall constitute no more than 5% of the outstanding securities of such issuer.
- Investments in a registered mutual fund managed by the Investment Manager are subject to prior approval.
- The following securities and transactions are not authorized without prior written approval: letter stock and other unregistered securities; non-negotiable securities; commodities or other commodity contracts; options; futures; short sales; and, margin transactions.
- An Investment Manager's portfolio shall not be excessively over weighted in any one industry (as compared to respective benchmark index) without prior approval by timely reporting and advice to the Board of Regents and Directors.

NORTHERN MARIANAS COLLEGE
(A Component Unit of the CNMI Government)

Notes to Financial Statements
September 30, 2014 and 2013

(2) Summary of Significant Accounting Policies, Continued

Investments, Continued

U.S. Fixed Income:

- All fixed income securities held in the portfolio shall have a Standard & Poor's credit quality rating of no less than "BBB", or an equivalent credit quality rating from Moody's (Baa) or Fitch (BBB). U.S. Treasury and U.S. Government agencies, which are unrated securities, are qualified for inclusion in the portfolio and will be considered to be of the highest rating.
- No more than 20% of the market value of the portfolio shall be rated less than single "A" quality, unless the Investment Manager has specific prior written authorization from the Board of Regents and Directors.
- Total portfolio quality (capitalization weighted) shall maintain a credit quality rating of no less than "A".

Equities:

- Consistent with the desire to maintain broad diversification, allocations to any economic or industry sector should not be excessive.
- Equity holdings shall be restricted to readily marketable securities of corporations that are actively traded on the major exchanges and over the counter.
- The Investment Managers shall have the discretion to invest a portion of the assets in cash reserves when they deem appropriate. However, as per the Investment Policy Statement, they will be evaluated against their peers on the performance of the total funds under their direct management.
- Common stock and preferred stock of any institution or entity created or existing under the laws of the United States or any other country are permissible investments.

NORTHERN MARIANAS COLLEGE
(A Component Unit of the CNMI Government)

Notes to Financial Statements
September 30, 2014 and 2013

(2) Summary of Significant Accounting Policies, Continued

Investments, Continued

Cash and Cash Equivalents:

- Cash equivalent reserves shall consist of cash instruments having a quality rating of Standard & Poor's A-1, Moody's P-1, or their equivalent. U.S. Treasury and Agency securities, Bankers Acceptances, Certificates of Deposit, and Collateralized Repurchase Agreements are also acceptable investment vehicles. Custodial Sweep Accounts must be, in the judgment of the Investment Managers, of credit quality equal or superior to the standards described above.
- In the case of Certificates of Deposit, they must be issued by FDIC insured institutions. Deposits in institutions with less than \$10,000,000 in assets may not be made in excess of \$100,000 (or prevailing FDIC insurance limit), unless the Deposit is fully collateralized by U.S. Treasury Securities.
- No single issue shall have a maturity of greater than two (2) years.
- Custodial Sweep Account portfolios must have an average maturity of less than one (1) year.

GASB Statement No. 40 requires entities to provide information about the credit risk associated with their investments by disclosing the credit quality ratings.

Endowment Fund

The College administers an endowment fund through the NMC Foundation Board of Directors, a separate legal entity. The investments are held in the name of the College; however, they are administered by a separate legal entity. The fund was established through an initial contribution of \$3,000,000, with additional contributions of \$100,000 from the NMC Foundation during the year ended September 30, 2010 and \$100,000 from a private donation during the year ended September 30, 2008. Principal of this fund is nonexpendable while investment income is available for operations subject to approval by the Foundation Board. Investment income is accounted for as expendable restricted revenues of the College. Fundraising activity of the Foundation Board is accounted for as unrestricted revenue of the College. All activities of the Foundation Board are accounted for within the College's financial statements.

NORTHERN MARIANAS COLLEGE
(A Component Unit of the CNMI Government)

Notes to Financial Statements
September 30, 2014 and 2013

(2) Summary of Significant Accounting Policies, Continued

Unearned Revenues

Unearned revenues include amounts received for tuition and fees and certain auxiliary activities prior to the end of the fiscal year but related to the subsequent accounting period.

Compensated Absences

The College recognizes cost for accrued annual leave at the time such leave is earned. As of September 30, 2014 and 2013, the College recorded accrued annual leave in the amount of \$595,925 and \$578,628, respectively, which is included within the statements of net assets as compensated absences.

Net Position

The College's net position are classified as follows:

Investment in Capital Assets - This represents the College's total invested in capital assets.

Restricted Expendable - Restricted expendable include resources in which the College is legally or contractually obligated to spend resources in accordance with restrictions imposed by external third parties and the Board of Regents.

Restricted - Nonexpendable - Nonexpendable restricted consist of endowment and similar type funds in which donors or other outside sources have stipulated, as condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to principal.

Unrestricted - Unrestricted represent resources derived from student tuition and fees, CNMI appropriations, and sales and services of educational departments and auxiliary enterprises. These resources are used for transactions relating to the educational and general operations of the College, and may be used at the discretion of the governing board to meet current expenses for any purpose. These resources also include auxiliary enterprises, which are substantially self-supporting activities that provide services for students, faculty and staff.

When an expense is incurred that can be paid using either restricted or unrestricted resources, the College's policy is to first apply the expense towards restricted resources, and then toward unrestricted resources.

NORTHERN MARIANAS COLLEGE
(A Component Unit of the CNMI Government)

Notes to Financial Statements
September 30, 2014 and 2013

(2) Summary of Significant Accounting Policies, Continued

Deferred Inflows and Deferred Outflows of Resources

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and thus, will not be recognized as an outflow of resources (expense/expenditure) until then. The College does not have any deferred outflows of resources as of September 30, 2014.

In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. As of September 30, 2014, the College only has one type of deferred inflows of resources arising from grants received with restrictions.

Classification of Revenues

The College has classified its revenues as either operating or nonoperating according to the following criteria:

Operating Revenues - Operating revenues include activities that have the characteristics exchange transactions, such as (1) student tuition and fees; (2) sales and services of auxiliary enterprises; and (3) most federal, state and local grants.

Nonoperating Revenues - Nonoperating revenues include activities that have the characteristics of nonexchange transactions, such as gifts and contributions and CNMI Appropriation, and other revenue sources such as investment income that are defined as nonoperating revenues by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, and GASB Statement No. 34, such as CNMI appropriations and investment income.

Scholarship Discounts and Allowances - Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship discounts and allowances in the Statement of Activities and Changes in Net Position. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the College, and the amount that is paid by students and/or third parties making payments on the students' behalf. Certain governmental grants, such as Pell grants, and other federal, state or nongovernmental programs, are recorded as either operating or nonoperating revenues in the College's financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the College has recorded a scholarship discount and allowance.

NORTHERN MARIANAS COLLEGE
(A Component Unit of the CNMI Government)

Notes to Financial Statements
September 30, 2014 and 2013

(2) Summary of Significant Accounting Policies, Continued

Retirement Plan

The College contributes to the Northern Mariana Islands Retirement Fund's (the Fund) defined benefit plan (DB Plan) and defined contribution plan (DC Plan), a cost sharing, and multi-employer plan (the Plan) established and administered by the Fund.

The Fund issues a publicly available financial report that includes financial statements and required supplementary information for the Plan. That report may be obtained by writing to the Northern Mariana Islands Retirement Fund, P.O. Box 501247, Saipan, MP, 96950-1247.

GASB Statement No. 45 requires employers to record other postemployment benefits (OPEB) expense for their contractually required contributions to the OPEB plan. Except as described in the paragraphs below, the College has complied with GASB Statement No. 45 by recording OPEB expense based on the statutorily determined contribution rate of the Fund. It is the understanding of the management of the College that the statutorily determined contribution rate of the Fund incorporates both the pension liability and OPEB liability. GASB Statement No. 45 also requires detailed disclosure of information related to the OPEB plan and the management of the College was unable to obtain this information from the Fund financial report. The management of the College is unable to obtain the required disclosures and is of the opinion that such information must be obtained from the Fund. It is the position of the management of the College that the Fund is solely responsible for disclosure of OPEB information.

Defined Benefit Plan (DB Plan)

The DB Plan provides retirement, disability, security and other benefits to employees of the CNMI Government and CNMI agencies, instrumentalities and public corporations and their spouses and dependents. Benefits are based on the average annual salary of the beneficiary over the term of credited service. Public Law No. 6-17, the Northern Mariana Islands Retirement Fund (NMIRF) Act of 1988, is the authority under which benefit provisions are established. Public Law No. 6-17 was subsequently amended by Public Law Nos. 6-41, 8-24, 8-30, 8-31, 8-39, 9-25, 9-45, 10-8, 10-19, 11-9, 11-95, 13-60, 15-14, 15-70, 15-126, 16-2, 16-36, 17-82 and 18-02.

DB Plan members are required to contribute 10.5% for Class I members and 11% for Class II members. The actuarially determined contribution rate for the fiscal year ended September 30, 2010 is 72.7215% of covered payroll based on an actuarial valuation as of October 1, 2010 issued in October 2012. The established statutory rate at September 30, 2013 is 72.7215, of covered payroll.

NORTHERN MARIANAS COLLEGE
(A Component Unit of the CNMI Government)

Notes to Financial Statements
September 30, 2014 and 2013

(2) Summary of Significant Accounting Policies, Continued

Retirement Plan, Continued

The College contribution to the Fund is at 30% of covered payroll. This is based on the Court Order, requiring the CNMI and Autonomous Agencies to remit contributions to the Fund.

Defined Contribution Plan (DC Plan)

On June 16, 2006, Public Law No. 15-13 was enacted which created the DC Plan, a multiemployer pension plan and is the single retirement program for all employees whose first time CNMI government employment commences on or after January 1, 2007. Each member of the DC Plan is required to contribute to the member's individual account an amount equal to 10% of the member's compensation. The College is required to contribute to each member's individual account an amount equal to 4% of the member's compensation. The DC Plan by its nature is fully funded on a current basis from employer and member contributions. Members of the DC Plan, who have completed five years of government service, have a vested balance of 100% of both member and employer contribution plus any earnings thereon. With the passage of Public Law 17-82 in September 11, 2012, the membership to the DC Plan became voluntary.

The College's contributions to the Settlement and Retirement Fund for the years ended September 30, 2014, 2013 and 2012 were \$189,997, \$349,967 and \$1,054,635, respectively.

On June 24, 2008, the Office of the CNMI Governor confirmed that the CNMI central government will be responsible for the College's deficient retirement contribution beginning October 1, 2005. The College's deficient retirement contributions to the Retirement Fund, including penalties and interest, amounted to \$9,116,781 as of September 30, 2013. Such deficient retirement contribution and related penalties and interest are not reflected in the accompanying financial statements.

On September 30, 2013, the U.S District Court approved the Final Settlement Agreement for Case No. 09-000023, wherein the College is a party to. Beginning fiscal year 2014, the College and employees who are members of the Retirement Fund, who did not opt out of the Settlement, contributes to the Settlement Fund. The College contributes at 20% of covered payroll. The Settlement Fund asserts that the College should contribute at 30% of covered payroll. The Settlement Fund asserts that the College owes the Settlement Fund \$71,749 for unpaid contributions and penalties as of September 30, 2014. Such deficient retirement contribution and related penalties and interest are not reflected in the accompanying financial statements.

NORTHERN MARIANAS COLLEGE
(A Component Unit of the CNMI Government)

Notes to Financial Statements
September 30, 2014 and 2013

(2) Summary of Significant Accounting Policies, Continued

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) 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.

Recent Pronouncements

In June 2012, GASB issued Statement No. 67, *Financial Reporting for Pension Plans*, which revises existing guidance for the financial report of most pension plans, and Statement No. 68, *Accounting and Financial Reporting for Pensions*, which establishes new financial reporting requirements for most governments that provide their employees with pension benefits. The provisions in Statement 67 are effective for financial statements for periods beginning after June 15, 2013. The provisions in Statement 68 are effective for fiscal years beginning after June 15, 2014.

In January 2013, GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations*, which establishes accounting and financial reporting standards related to government combinations and disposals of government operations. As used in this Statement, the term government combinations includes a variety of transactions referred to as mergers, acquisitions, and transfers of operations. This Statement provides specific accounting and financial reporting guidance for combinations in the governmental environment. This Statement also improves the decision usefulness of financial reporting by requiring that disclosures be made by governments about combination arrangements in which they engage and for disposals of government operations. The provisions of Statement 69 are effective for government combinations and disposals of government operations occurring in financial reporting periods beginning after December 15, 2013, and should be applied on a prospective basis. Early application is encouraged.

NORTHERN MARIANAS COLLEGE
(A Component Unit of the CNMI Government)

Notes to Financial Statements
September 30, 2014 and 2013

(2) Summary of Significant Accounting Policies, Continued

Recent Pronouncements, Continued

In April 2013, GASB issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. The requirements of this Statement will enhance comparability of financial statements among governments by requiring consistent reporting by those governments that extend nonexchange financial guarantees and by those governments that receive nonexchange financial guarantees. This Statement also will enhance the information disclosed about a government's obligations and risk exposure from extending nonexchange financial guarantees. This Statement also will augment the ability of financial statement users to assess the probability that governments will repay obligation holders by requiring disclosures about obligations that are issued with this type of financial guarantee. The provisions of Statement 70 are effective for financial statements for reporting beginning after June 15, 2013. Earlier application is encouraged.

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*. The objective of this Statement is to address an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. The requirements of this Statement will eliminate the source of a potential significant understatement of restated beginning net position and expense in the first year of implementation of Statement 68 in the accrual-basis financial statements of employers and nonemployer contributing entities. This benefit will be achieved without the imposition of significant additional costs. The provisions of this Statement are required to be applied simultaneously with the provisions of Statement 68.

Management has not yet determined the effect of implementation of these Statements on the financial statements of the College.

NORTHERN MARIANAS COLLEGE
(A Component Unit of the CNMI Government)

Notes to Financial Statements
September 30, 2014 and 2013

(3) Accounts Receivable and Unbilled Charges

Summarized below is the College's accounts receivable and unbilled charges as of September 30, 2014 and 2013:

	2014	2013
Student tuition and fees	\$ 3,134,021	\$ 3,023,518
Auxiliary enterprises	181,039	404,246
Other activities	239,644	421,531
 Total	 3,554,704	 3,854,295
Allowance for doubtful accounts	(1,928,705)	(1,866,518)
 Net Receivable and unbilled charges	 \$ 1,625,999	 \$ 1,982,777

(4) Investments

As of September 30, 2014 and 2013, the College's investments at fair value are as follows:

	2014	2013
Fixed income securities:		
Government and Government-Sponsored Enterprise (GSE) bonds	\$ 1,480,993	\$ 1,444,118
Corporate bonds	499,537	449,983
 Total fixed income	 1,980,530	 1,894,101
Other investments:		
Domestic equities	4,348,119	3,975,138
Cash and cash equivalents	1,026,853	1,052,553
 Total other investments	 5,374,972	 5,027,691
	\$ 7,355,502	\$ 6,921,792

NORTHERN MARIANAS COLLEGE
(A Component Unit of the CNMI Government)

Notes to Financial Statements
September 30, 2014 and 2013

(4) Investments, Continued

As of September 30, 2014 and 2013, the College's fixed income securities had the following maturities:

2014						
Investment type	Fair Value	Investment Maturities (In Years)				Rating
		Less than 1	1 - 5	6 - 10	More than 10	
Government and GSE bonds	\$ 1,477,097	\$ -	\$ 1,139,894	\$ 337,203	\$ -	AAA
Government and GSE bonds	3,896	3,896	-	-	-	No rating
Corporate bonds	20,207	20,207	-	-	-	AA
Corporate bonds	40,277	-	-	19,525	20,752	A
Corporate bonds	131,565	-	76,228	-	55,337	A-
Corporate bonds	20,059	-	-	20,059	-	AA+
Corporate bonds	139,825	-	19,029	61,408	59,388	BBB
Corporate bonds	61,650	-	-	20,962	40,688	BBB-
Corporate bonds	80,305	-	19,314	19,684	41,307	BBB+
Corporate bonds	5,649	5,649	-	-	-	No rating
	<u>\$ 1,980,530</u>	<u>\$ 29,752</u>	<u>\$ 1,254,465</u>	<u>\$ 478,841</u>	<u>\$ 217,472</u>	

2013						
Investment type	Fair Value	Investment Maturities (In Years)				Rating
		Less than 1	1 - 5	6 - 10	More than 10	
Government and GSE bonds	\$ 1,333,494	\$ 95,972	\$ 918,955	\$ 186,162	\$ 132,405	AAA
Government and GSE bonds	110,624	-	-	-	110,624	No rating
Corporate bonds	20,972	-	20,972	-	-	AA+
Corporate bonds	18,556	-	-	-	18,556	AA
Corporate bonds	93,162	-	19,138	56,748	17,276	A
Corporate bonds	56,644	-	19,870	-	36,774	A+
Corporate bonds	22,212	-	-	22,212	-	AA-
Corporate bonds	42,548	-	42,548	-	-	A-
Corporate bonds	195,889	-	22,992	115,391	57,506	BBB
	<u>\$ 1,894,101</u>	<u>\$ 95,972</u>	<u>\$ 1,044,475</u>	<u>\$ 380,513</u>	<u>\$ 373,141</u>	

NORTHERN MARIANAS COLLEGE
(A Component Unit of the CNMI Government)

Notes to Financial Statements
September 30, 2014 and 2013

(5) Capital Assets

Summarized below is the College's investment in capital assets and changes at September 30, 2014 and 2013:

	Estimated Useful Lives	Balance October 1, 2013	Additions	Deletions	Balance September 30, 2014
Buildings and improvements	5 - 30 years	\$ 9,509,341	\$ -	\$ -	\$ 9,509,341
Furniture and equipment	2 - 5 years	1,152,332	54,927	(22,334)	1,184,925
Vehicles	5 years	965,954	81,980	(57,608)	990,326
Computers	3 - 5 years	<u>1,421,825</u>	<u>-</u>	<u>(2,734)</u>	<u>1,419,091</u>
Total depreciable assets		13,049,452	136,907	(82,676)	13,103,683
Accumulated depreciation		<u>(9,139,020)</u>	<u>(512,189)</u>	<u>82,676</u>	<u>(9,568,533)</u>
Depreciable assets, net		3,910,432	(375,282)	-	3,535,150
Land		<u>1,113,376</u>	<u>-</u>	<u>-</u>	<u>1,113,376</u>
Net capital assets		<u>\$ 5,023,808</u>	<u>\$ (375,282)</u>	<u>\$ -</u>	<u>\$ 4,648,526</u>

	Estimated Useful Lives	Balance October 1, 2012	Additions	Deletions	Balance September 30, 2013
Buildings and improvements	5 - 30 years	\$ 9,509,341	\$ -	\$ -	\$ 9,509,341
Furniture and equipment	2 - 5 years	1,130,617	21,715	-	1,152,332
Vehicles	5 years	948,848	17,106	-	965,954
Computers	3 - 5 years	<u>1,378,630</u>	<u>43,195</u>	<u>-</u>	<u>1,421,825</u>
Total depreciable assets		12,967,436	82,016	-	13,049,452
Accumulated depreciation		<u>(8,588,514)</u>	<u>(550,506)</u>	<u>-</u>	<u>(9,139,020)</u>
Depreciable assets, net		4,378,922	(468,490)	-	3,910,432
Land		<u>1,113,376</u>	<u>-</u>	<u>-</u>	<u>1,113,376</u>
Net capital assets		<u>\$ 5,492,298</u>	<u>\$ (468,490)</u>	<u>\$ -</u>	<u>\$ 5,023,808</u>

NORTHERN MARIANAS COLLEGE
(A Component Unit of the CNMI Government)

Notes to Financial Statements
September 30, 2014 and 2013

(6) Long-Term Obligation

Changes in long-term obligations for the years ended September 30, 2014 and 2013, are as follows:

	2014	2013
Compensated absences		
Balance, beginning	\$ 578,628	\$ 583,397
Additions	191,119	146,092
Reductions	(174,022)	(150,861)
Balance, end	595,725	578,628
Due within one year	(380,949)	(380,949)
Noncurrent	\$ 214,776	\$ 197,679

(7) Related Party Transactions

To ensure that the College carries out its mission and meet educational and the vocational needs of the community, the College receives annual appropriations from the CNMI Government. During the years ended September 30, 2014 and 2013, the College recognized \$4,113,778 and \$4,474,062, respectively, in appropriations from the CNMI Government. There were no receivables due from CNMI Government from appropriation as of September 30, 2014 and 2013 amounted to \$0 and \$187,959, respectively, however, the amount due from CNMI Government for retirement contributions paid for retired employees amounted to \$177,562 as of September 30, 2014 and 2013.

At September 30, 2014 and 2013, amounts payable for utility expense to the Commonwealth Utilities Corporation (CUC), a component unit of the CNMI Government, amounted to \$49,652 and \$46,965, respectively, which are included in accounts payable in the accompanying statements of net position. During the years ended September 30, 2014 and 2013, total utility purchased from CUC amounted to \$505,444 and \$618,456, respectively.

In the ordinary course of business, the College has and expects to continue to have transactions with its employees and officials. In the opinion of management, such transactions were on substantially the same terms as those prevailing at the time of comparable transactions with other persons and did not involve more than a normal risk of collectibility or present any other unfavorable features to the College.

NORTHERN MARIANAS COLLEGE
(A Component Unit of the CNMI Government)

Notes to Financial Statements
September 30, 2014 and 2013

(8) Natural Classifications with Functional Classification

In order to be consistent with the CNMI Government's reporting method, operating expenses are displayed in their natural classifications for fiscal years 2014 and 2013. The following table shows natural classifications with functional classifications:

	2014							
	Salaries	Services	Benefits	Insurance Utilities and Rent	Depreciation	Supplies	Miscellaneous	Total
Instruction	\$ 3,038,331	\$ 6,895	\$ 456,653	\$ -	\$ -	\$ 27,848	\$ 172,920	\$ 3,702,647
Academic Support	291,185	-	37,599	-	-	5,995	-	334,779
Institutional Support	1,247,099	142,818	206,505	-	-	74,747	806,456	2,477,625
Student Services	869,014	266,559	120,200	-	-	20,361	269,045	1,545,179
Community Services	1,103,912	31,373	170,432	-	-	102,055	670,238	2,078,010
Scholarships	-	1,989,328	-	-	-	-	-	1,989,328
Auxiliary	99,530	27,821	-	-	-	-	4,927	132,278
Operation and Maintenance	6,116	1,599,644	531	652,256	512,189	14,133	-	2,784,869
	<u>\$ 6,655,187</u>	<u>\$ 4,064,438</u>	<u>\$ 991,920</u>	<u>\$ 652,256</u>	<u>\$ 512,189</u>	<u>\$ 245,139</u>	<u>\$ 1,923,586</u>	<u>\$ 15,044,715</u>

	2013							
	Salaries	Services	Benefits	Insurance Utilities and Rent	Depreciation	Supplies	Miscellaneous	Total
Instruction	\$ 3,129,278	\$ 8,378	\$ 516,022	\$ -	\$ -	\$ 27,651	\$ 166,575	\$ 3,847,904
Academic Support	299,901	-	42,487	-	-	5,953	-	348,341
Institutional Support	1,284,429	173,548	233,352	-	-	74,220	776,863	2,542,412
Student Services	895,027	323,914	135,827	-	-	20,217	259,172	1,634,157
Community Service	1,136,957	38,124	192,589	-	-	101,335	645,645	2,114,650
Scholarships	-	1,717,825	-	-	-	-	-	1,717,825
Auxiliary	102,509	33,808	-	-	-	-	4,746	141,063
Operation and Maintenance	6,298	1,943,838	600	704,172	550,506	14,033	-	3,219,447
	<u>\$ 6,854,399</u>	<u>\$ 4,239,435</u>	<u>\$ 1,120,877</u>	<u>\$ 704,172</u>	<u>\$ 550,506</u>	<u>\$ 243,409</u>	<u>\$ 1,853,001</u>	<u>\$ 15,565,799</u>

NORTHERN MARIANAS COLLEGE
(A Component Unit of the CNMI Government)

Notes to Financial Statements
September 30, 2014 and 2013

(9) Commitments

The accrual basis of accounting provides that expenses include only amounts associated with goods and services received and liabilities include only the unpaid amounts associated with such expenses. Outstanding purchase orders and purchase commitments are not reported in the financial statements for the years ended September 30, 2014 and 2013.

(10) Contingencies

Financial and Compliance Audits

The College participates in a number of U.S. Department of Education assisted grant programs and other various federally assisted grants. These programs are subject to financial and compliance audits to ascertain if Federal laws and guidelines have been followed. Cumulative questioned costs of \$76,575 relating to prior fiscal years have been set forth in the College's Single Audit Report for the year ended September 30, 2014. The ultimate disposition of these questioned costs can be determined only by final action of the respective grantor agencies. Therefore, no provision for any liability that may result upon resolution of this matter has been made in the accompanying financial statements.

Lawsuits and Claims

The College is involved in various legal actions and possible claims arising principally from claims of former employees. The eventual outcome of these matters cannot be reasonably predicted by management and, accordingly, no provisions for any liabilities or potential losses that may result from settlement of these claims have been recorded in the accompanying financial statements.

Sick Leave

It is the policy of the College to record expenditures for sick leave when the leave is actually taken. Sick leave is compensated time for absence during working hours arising from employee illness or injury. The estimated accumulated sick leave at September 30, 2014 and 2013 is \$1,286,947 and \$1,310,493, respectively. These are not accrued in the accompanying financial statements.

NORTHERN MARIANAS COLLEGE
(A Component Unit of the CNMI Government)

Notes to Financial Statements
September 30, 2014 and 2013

(11) Risk Management

The College 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. The College has elected to purchase commercial insurance from independent third parties for the risks of loss to which it is exposed with respect to workers' compensation, general liability, and the use of motor vehicles. Settled claims have not exceeded this commercial coverage in any of the past three years. For other risks of loss to which it is exposed, the College has elected not to purchase commercial insurance. Instead, the College's management believes it is more economical to manage its risks internally. The College will report all of its risk management activities, if and when such occurs. Claims expenditures and liabilities will be reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Losses, if reported, would include an estimate of claims that have been incurred but not reported. No losses as a result of these risks have occurred or have been reported within the last three years.