

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

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FINANCIAL STATEMENTS,  
ADDITIONAL INFORMATION AND  
INDEPENDENT AUDITOR'S REPORT

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Years Ended September 30, 2016 and 2015

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

Years Ended September 30, 2016 and 2015

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**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 (the College), a component unit of the CNMI government, as of and for the years ended September 30, 2016 and 2015, 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 audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

## ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the College as of September 30, 2016 and 2015, and the respective changes in financial position and cash flows 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 13 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 Financial Information***

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the College's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is not a required part of the basic financial statements. 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 basic financial statements. The 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 is 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 May 11, 2017, on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the College's internal control over financial reporting and compliance.



Saipan, Commonwealth of the Northern Mariana Islands  
May 11, 2017



## Management's Discussion and Analysis Year Ended September 30, 2016

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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, 2016 with comparisons to prior fiscal years ended September 30, 2015 and 2014. We encourage readers to consider the information presented here in conjunction with the financial statements and related notes (pages 14 through 38).

### 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 Revenues, Expenses 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*

|                                      | 2016                | 2015                | <i>Increase (Decrease)</i> |                 |
|--------------------------------------|---------------------|---------------------|----------------------------|-----------------|
|                                      |                     |                     | Amount                     | Percent         |
| <b>ASSETS</b>                        |                     |                     |                            |                 |
| Current Assets                       | \$14,336,524        | \$12,148,248        | \$2,188,276                | 0.1801          |
| Capital Assets, net                  | \$ 3,598,722        | \$ 3,470,670        | \$ 128,052                 | 0.0369          |
| Other Assets                         | \$ 7,671,961        | \$ 7,125,131        | \$ 546,830                 | 0.0767          |
| <b>Total Assets</b>                  | <b>\$25,607,207</b> | <b>\$22,744,049</b> | <b>\$2,863,158</b>         | <b>0.1259</b>   |
| <b>LIABILITIES</b>                   |                     |                     |                            |                 |
| Current Liabilities                  | \$ 3,015,533        | \$ 3,010,848        | \$ 4,685                   | 0.0016          |
| Noncurrent Liabilities               | \$ 299,701          | \$ 332,211          | \$ (32,510)                | (0.0979)        |
| <b>Total Liabilities</b>             | <b>\$ 3,315,234</b> | <b>\$ 3,343,059</b> | <b>\$ (27,825)</b>         | <b>(0.0083)</b> |
| <b>DEFERRED INFLOWS OF RESOURCES</b> |                     |                     |                            |                 |
| Grant Receipts                       | \$ 137,260          | \$ 145,908          | \$ (8,648)                 | (0.0593)        |
| <b>Total Liabilities</b>             | <b>\$ 137,260</b>   | <b>\$ 145,908</b>   | <b>\$ (8,648)</b>          | <b>(0.0593)</b> |
| <b>NET POSITION</b>                  |                     |                     |                            |                 |
| Investment in Capital Assets, Net    | \$ 3,598,722        | \$ 3,470,670        | \$ 128,052                 | 0.0369          |
| Restricted Net Assets                | \$ 7,671,961        | \$ 7,125,131        | \$ 546,830                 | 0.0767          |
| Unrestricted                         | \$10,884,030        | \$ 8,659,281        | \$2,224,749                | 0.2569          |
| <b>Total Net Position</b>            | <b>\$22,154,713</b> | <b>\$19,255,082</b> | <b>\$2,899,631</b>         | <b>0.1506</b>   |

|                                      | 2015                | 2014                | Increase (Decrease) |                 |
|--------------------------------------|---------------------|---------------------|---------------------|-----------------|
|                                      |                     |                     | Amount              | Percent         |
| <b>ASSETS</b>                        |                     |                     |                     |                 |
| Current Assets                       | \$12,148,248        | \$10,668,941        | \$ 1,479,307        | 0.1387          |
| Capital Assets, net                  | \$ 3,470,670        | \$ 4,648,526        | \$(1,177,856)       | (0.2534)        |
| Other Assets                         | \$ 7,125,131        | \$ 7,355,502        | \$ (230,371)        | (0.0313)        |
| <b>Total Assets</b>                  | <b>\$22,744,049</b> | <b>\$22,672,969</b> | <b>\$ 71,080</b>    | <b>0.0031</b>   |
| <b>LIABILITIES</b>                   |                     |                     |                     |                 |
| Current Liabilities                  | \$ 3,010,848        | \$ 2,301,664        | \$ 709,184          | 0.3081          |
| Noncurrent Liabilities               | \$ 332,211          | \$ 214,776          | \$ 117,435          | 0.5468          |
| <b>Total Liabilities</b>             | <b>\$ 3,343,059</b> | <b>\$ 2,516,440</b> | <b>\$ 826,619</b>   | <b>0.3285</b>   |
| <b>DEFERRED INFLOWS OF RESOURCES</b> |                     |                     |                     |                 |
| Grant Receipts                       | \$ 145,908          | \$ 131,293          | \$ 14,615           | 0.1113          |
| <b>Total Liabilities</b>             | <b>\$ 145,908</b>   | <b>\$ 131,293</b>   | <b>\$ 14,615</b>    | <b>0.1113</b>   |
| <b>NET POSITION</b>                  |                     |                     |                     |                 |
| Investment in Capital Assets, Net    | \$ 3,470,670        | \$ 4,648,526        | \$(1,177,856)       | (0.2534)        |
| Restricted Net Assets                | \$ 7,125,131        | \$ 7,355,502        | \$ (230,371)        | (0.0313)        |
| Unrestricted                         | \$ 8,659,281        | \$ 8,021,208        | \$ 638,073          | 0.0795          |
| <b>Total Net Position</b>            | <b>\$19,255,082</b> | <b>\$20,025,236</b> | <b>\$ (770,154)</b> | <b>(0.0385)</b> |

- Total assets at September 30, 2016 amounted to \$25,607,207, a \$2,863,158 or 12.59% increase from \$22,744,049 as of September 30, 2015.
  - Cash increased from \$6,667,554 to \$9,571,397, primarily due to awards from the local government and an increase in tuition and fees. SLL 19-06 provided \$1,000,000 and SLL 19-08 provided \$280k to help with storm recovery. These funds were largely unspent at the end of FY16. Revenue from tuition and fees increased \$1,352,666 in 2016.
  - Accounts receivables increased by \$348,431 while the amount due from grantors decreased by \$961,665 compared to fiscal year 2015.
  - Investments increased by \$546,830 due to net investment income for fiscal year 2016.
  - The increase in capital assets in 2016 is \$128,052, rebounding from 2015 where Typhoon Soudelor resulted in a decrease of \$1,177,856.
- Total liabilities remained relatively level. Total liabilities on September 30, 2016 amounted to \$3,315,234. This decreased by only \$27,825 or 0.83% from \$3,343,059 in 2015.

**Condensed Statements of Revenues, Expenses and Changes in Net Position**

|  | 2016           | 2015           | Increase (Decrease) |          |
|--|----------------|----------------|---------------------|----------|
|  |                |                | Amount              | Percent  |
| <b>Operating Revenues, net</b>         | \$10,878,555   | \$10,800,030   | \$ 78,525           | 0.0073   |
| <b>Operating Expenses</b>              | \$13,313,105   | \$15,701,511   | \$ (2,388,406)      | (0.1521) |
| <b>Operating Loss</b>                  | \$ (2,434,550) | \$ (4,901,481) | \$ (2,466,931)      | (0.5033) |
| <b>Nonoperating Revenues</b>           | \$ 5,334,181   | \$ 4,131,327   | \$ 1,202,854        | 0.2912   |
| <b>Change in Net Position</b>          | \$ 2,899,631   | \$ (770,154)   | \$ 3,669,785        | (4.7650) |
| <b>Net Position, Beginning of Year</b> | \$19,255,082   | \$20,025,236   | \$ (770,154)        | (0.0385) |
| <b>Net Position, End of Year</b>       | \$22,154,713   | \$19,255,082   | \$ 2,899,631        | 0.1506   |

|  | 2015           | 2014           | Increase (Decrease) |          |
|--|----------------|----------------|---------------------|----------|
|  |                |                | Amount              | Percent  |
| <b>Operating Revenues, net</b>         | \$10,800,030   | \$11,064,744   | \$ (264,714)        | (0.0239) |
| <b>Operating Expenses</b>              | \$15,701,511   | \$15,044,715   | \$ 656,796          | 0.0437   |
| <b>Operating Loss</b>                  | \$ (4,901,481) | \$ (3,979,971) | \$ 921,510          | 0.2315   |
| <b>Nonoperating Revenues</b>           | \$ 4,131,327   | \$ 4,547,488   | \$ (416,161)        | (0.0915) |
| <b>Change in Net Position</b>          | \$ (770,154)   | \$ 567,517     | \$ (1,337,671)      | (2.3571) |
| <b>Net Position, Beginning of Year</b> | \$20,025,236   | \$19,457,719   | \$ 567,517          | 0.0292   |
| <b>Net Position, End of Year</b>       | \$19,255,082   | \$20,025,236   | \$ (770,154)        | (0.0385) |

NMC's net position increased by \$2,899,631 or 15.06% as of September 30, 2016.

The increase is due to the following:

- Operating revenue increased only moderately by \$78,525 or 0.73%. Operating revenue was not a primary driver of NMC's increased net position.
- Operating expenses decreased by \$2,388,406. The decrease in operating expenses can be attributed to the significant decrease in depreciation from 2015 when NMC suffered tremendous storm damage.
- Non-operating revenue increased by \$1,202,854, a 29.12% increase over FY2015. This is due to capital appreciation of investments as well as an increase in appropriations from the CNMI government.

### Revenues by Source

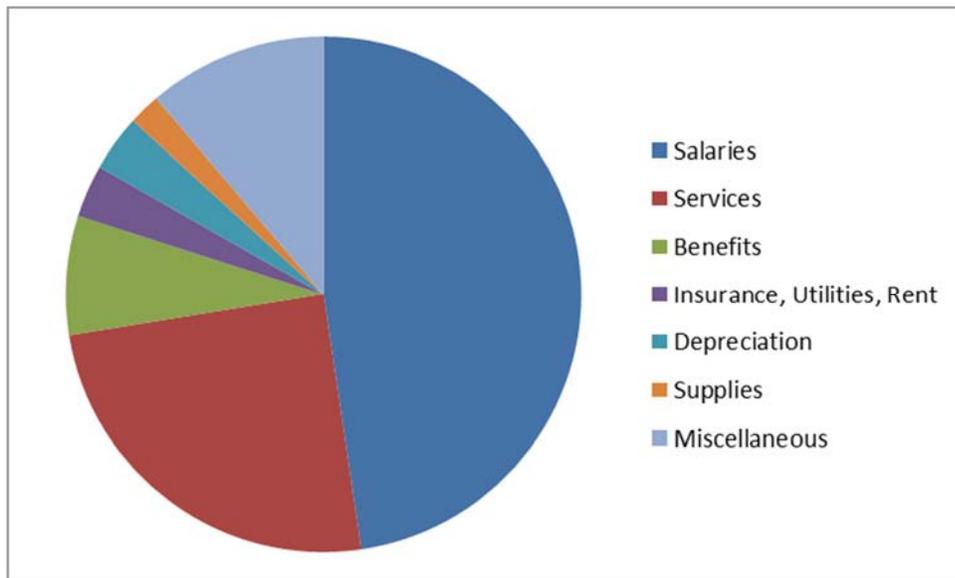
| <b>Operating Revenue</b>                           | <b>2016</b>         | <b>% of Total</b> | <b>2015</b>         | <b>% of Total</b> |
|--|---------------------|-------------------|---------------------|-------------------|
| U.S. Federal Grants                                | \$ 8,284,254        | 51.10%            | \$ 9,590,521        | 64.23%            |
| Tuition and Fees                                   | \$ 2,000,953        | 12.34%            | \$ 648,287          | 4.34%             |
| Private Gifts, Grants, and Donations- Restricted   | \$ 25,530           | 0.16%             | \$ 12,675           | 0.08%             |
| Others   | \$ 567,818          | 3.50%             | \$ 548,547          | 3.67%             |
| <b>Total Operating Revenue</b>                     | <b>\$10,878,555</b> | <b>67.10%</b>     | <b>\$10,800,030</b> | <b>72.33%</b>     |
| <b>Non-Operating Revenue</b>                       | <b>2016</b>         | <b>% of Total</b> | <b>2015</b>         | <b>% of Total</b> |
| CNMI Appropriations                                | \$ 4,787,351        | 29.53%            | \$ 4,361,698        | 29.21%            |
| Realized and Unrealized Gain (loss) on Investments | \$ 546,830          | 3.37%             | \$ (230,371)        | -1.54%            |
| <b>Total Non-Operating Revenue</b>                 | <b>\$ 5,334,181</b> | <b>32.90%</b>     | <b>\$ 4,131,327</b> | <b>27.67%</b>     |
| <b>Total Revenue</b>                               | <b>\$16,212,736</b> | <b>100.00%</b>    | <b>\$14,931,357</b> | <b>100.00%</b>    |

- Grants from U.S Federal Agencies constituted 51.10% and 64.23% of the College's total revenues in 2016 and 2015, respectively. The grants received from U.S Federal Agencies decreased by \$1,306,267 or 13.62%. This can be attributed largely to decrease in funding or termination of grants including the College ACCESS Challenge Grant Program, Children's Healthy Living Program, and NMC High Efficiency Air Conditioning Unit Retrofit. Another contributing factor is the increase in tuition costs that went into effect in 2016.
- Student tuition and fees, net of scholarships increased by \$1,352,666 in 2016, a 208.65% increase over 2015 levels. The reason for the significant increase is delayed revenue recognition due to Typhoon Soudelor. Typically, the College recognizes all revenues for fall in the subsequent fiscal year; however, the College's auditors apportion the deferral of fall revenues based on the beginning of activities for the fall semester. Typhoon Soudelor occurred on August 2, 2015, delaying the Fall 2016 semester from August to September 2015. The impact of this delay of activities for the fall semester affected the proportional deferral of tuition and fees, resulting in a decrease in revenue for the 2015 fiscal year. Therefore, the result on FY 2016 is an overstatement of earned revenues.
- 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 29.52% and 29.21% of the College’s total revenues in 2016 and 2015, 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 2016 increased by \$425,653 or 9.76%. The College continues to work closely with the CNMI executive and legislative branches to increase levels of crucial state support, without which the College will not be able to meet CNMI workforce demands or be an economic driver for our community.

***Expenses by Natural Classification***

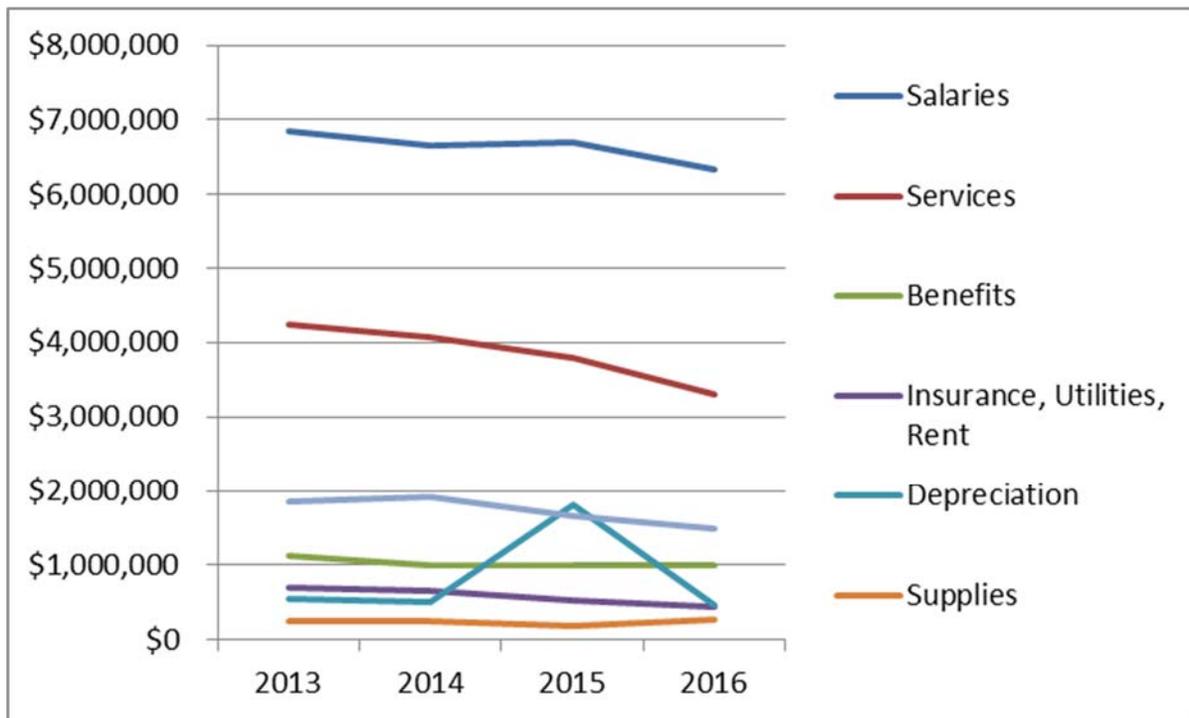
|                            | 2016                |                | 2015                |                |
|----------------------------|---------------------|----------------|---------------------|----------------|
|                            | Amount              | % of Total     | Amount              | % of Total     |
| Salaries                   | 6,344,329           | 47.65%         | 6,692,441           | 42.62%         |
| Services                   | 3,298,215           | 24.77%         | 3,790,690           | 24.14%         |
| Benefits                   | 1,002,268           | 7.53%          | 1,006,489           | 6.41%          |
| Insurance, Utilities, Rent | 438,636             | 3.29%          | 529,151             | 3.37%          |
| Depreciation               | 467,511             | 3.51%          | 1,818,196           | 11.58%         |
| Supplies                   | 265,062             | 1.99%          | 193,998             | 1.24%          |
| Miscellaneous              | 1,497,084           | 11.25%         | 1,670,546           | 10.64%         |
|                            | <b>\$13,313,105</b> | <b>100.00%</b> | <b>\$15,701,511</b> | <b>100.00%</b> |



- Salaries constituted 47.65% and 42.62% of the College’s total expenditures for fiscal years 2016 and 2015, respectively. Total salaries expenses in 2016 decreased by \$348,112 or 5.2% compared to 2015.

- Expenses for Services, which include professional service contracts, bookstore operating expenses, and student expenses decreased by \$492,475 or 13%.
- Benefits decreased by only \$4,221 in FY16 compared to FY15.
- Depreciation expense decreased in 2016 by \$1,350,685 or 74.29%. This decrease is related to Typhoon Soudelor in 2015 where NMC experienced abnormally large depreciation expense.

**Comparative Expenses**



|                                   | 2013        | 2014         | 2015        | 2016         |
|-----------------------------------|-------------|--------------|-------------|--------------|
| <b>Salaries</b>                   | \$6,854,399 | \$ 6,655,187 | \$6,692,441 | \$ 6,344,329 |
| <b>Services</b>                   | \$4,239,435 | \$ 4,064,438 | \$3,790,690 | \$ 3,298,215 |
| <b>Benefits</b>                   | \$1,120,877 | \$ 991,920   | \$1,006,489 | \$ 1,002,268 |
| <b>Insurance, Utilities, Rent</b> | \$ 704,172  | \$ 652,256   | \$ 529,151  | \$ 438,636   |
| <b>Depreciation</b>               | \$ 550,506  | \$ 512,189   | \$1,818,196 | \$ 467,511   |
| <b>Supplies</b>                   | \$ 243,409  | \$ 245,139   | \$ 193,998  | \$ 265,062   |
| <b>Miscellaneous</b>              | \$1,853,001 | \$ 1,923,586 | \$1,670,546 | \$ 1,497,084 |

The graph above shows the College’s spending pattern from fiscal year 2013 to 2016.

## **CAPITAL ASSETS**

At September 30, 2016 and 2015, the College had \$3,598,722 and \$3,470,670, respectively, invested in capital assets, net of accumulated depreciation, where applicable. These values are significantly less than our 2014 value of \$4,648,526 due to four buildings being fully depreciated in FY 2015.

## **LONG-TERM DEBT**

The College did not engage in any long-term debt financing in fiscal year 2016.

## **MAJOR ACCOMPLISHMENTS AND CHALLENGES IN FISCAL YEAR 2016**

NMC continued to rebound from 2015's Typhoon Soudelor both physically and financially in 2016. After experiencing a decrease in net position of \$770,154 in 2015, largely attributed to depreciation of damaged buildings, the College improved its financial position significantly in 2016 with an increase of \$2,899,631. This increase comes at a time when the college is successfully navigating through accreditation requirements under Western Association of Schools and Colleges Senior College and University Commission (WSCUC), while striving to maintain a quality learning environment conducive to students and stakeholders.

The college continues to seek additional outside financial resources to expand programs to benefit the local community. In August 2016 NMC launched the PROA Center to expand the capacity of indigenous Chamorro and Carolinian (and other qualified) students in the CNMI by increasing college enrollment. This program is funded by an Asian American and Native American Pacific Islander-serving Institutions (AANAPISI) Program grant through the Department of Education. This is just one example of how NMC is pursuing additional federal funds to expand our offerings during uncertain financial times.

The school campus still faces significant renovation projects ahead in the coming years. That financial burden is offset by FEMA funds that remain unspent. The balance available for NMC use is \$4,542,563.05. The College continues to remain prudent in its expenditure patterns and management of cash flows. This has allowed the college to achieve strong composite financial index ratios in compliance with Board of Regents policies, accreditation standards, and federal financial responsibility standards.

## **ECONOMIC OUTLOOK**

The near term economic outlook for the CNMI in fiscal year 2017 is optimistic. Indicators suggest the economy will continue to grow in 2017, building on the growth in 2016. Projections signal that government revenue will grow for 2017 and increase even more in 2018. The projected growth is tempered by the risk factors facing the CNMI. The lone significant private industry in the CNMI is tourism. While tourism has experienced sustained growth in recent years, the lack of economic diversity is a risk factor. The recent addition of casino gambling on Saipan has generated

significant tax revenue that will benefit government entities, including NMC. NMC benefited from \$425,653 in additional appropriations in 2016 but future increases are unpredictable. The CNMI faces a very significant threat as the CW (Commonwealth Worker) program is set to expire in 2019. The US Government Accountability Office preliminary estimates suggest a “26% to 62% reduction in CNMI GDP compared to 2015 levels” should the program be phased out as currently scheduled. While there is optimism a solution can be found prior to the CW program ending, NMC manages this significant risk with conservative budgeting and by preserving significant cash and cash equivalents.

## **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, 2016 is set forth in the report on the audit of the College’s financial statements which is dated May 11, 2017. The Management Discussion and Analysis explains the major factors impacting the 2016 financial statements. If you have questions about the 2016 or 2015 reports, or need additional information, please contact Andrew Reese, Chief Financial Officer at the Northern Marianas College, P.O. Box 501250, Saipan, MP 96950, or email [andrew.reese@marianas.edu](mailto:andrew.reese@marianas.edu).

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

Statements of Net Position  
September 30, 2016 and 2015

|   | 2016          | 2015          |
|---|---------------|---------------|
| <b>Assets:</b>                                |               |               |
| <b>Current assets:</b>                        |               |               |
| Cash and cash equivalents                     | \$ 9,571,397  | \$ 6,667,554  |
| Time certificate of deposit                   | 696,392       | 695,628       |
| Accounts receivable and unbilled charges, net | 2,225,269     | 1,876,838     |
| Due from grantor agencies                     | 1,003,623     | 1,965,288     |
| Due from CNMI                                 | 178,761       | 177,561       |
| Inventories                                   | 634,316       | 699,061       |
| Prepayments                                   | 26,766        | 66,318        |
| Total current assets                          | 14,336,524    | 12,148,248    |
| <b>Noncurrent assets:</b>                     |               |               |
| Investments                                   | 7,671,961     | 7,125,131     |
| Capital assets, net                           | 3,598,722     | 3,470,670     |
| Total noncurrent assets                       | 11,270,683    | 10,595,801    |
| Total assets                                  | 25,607,207    | 22,744,049    |
| <b>Liabilities:</b>                           |               |               |
| <b>Current liabilities:</b>                   |               |               |
| Accounts payable                              | 556,120       | 906,749       |
| Accrued salaries and benefits payable         | 170,490       | 466,145       |
| Current portion of compensated absences       | 291,818       | 280,934       |
| Unearned revenues                             | 1,997,105     | 1,357,020     |
| Total current liabilities                     | 3,015,533     | 3,010,848     |
| <b>Noncurrent liabilities:</b>                |               |               |
| Compensated absences, net of current portion  | 299,701       | 332,211       |
| Total liabilities                             | 3,315,234     | 3,343,059     |
| <b>Deferred inflows of resources:</b>         |               |               |
| Grant receipts                                | 137,260       | 145,908       |
| <b>Net position:</b>                          |               |               |
| Investment in capital assets, net             | 3,598,722     | 3,470,670     |
| <b>Restricted net assets:</b>                 |               |               |
| Nonexpendable                                 | 3,200,000     | 3,200,000     |
| Expendable                                    | 4,471,961     | 3,925,131     |
| Unrestricted                                  | 10,884,030    | 8,659,281     |
| Net position                                  | \$ 22,154,713 | \$ 19,255,082 |

See accompanying notes to financial statements.

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

Statements of Revenues, Expenses and Changes in Net Position  
For the Years Ended September 30, 2016 and 2015

|  | 2016          | 2015          |
|--|---------------|---------------|
| Operating revenues:  |               |               |
| U.S. Federal grants  | \$ 8,284,254  | \$ 9,590,521  |
| Tuition and fees (net of scholarship discounts<br>and allowances of \$2,168,350 and \$2,439,456<br>in 2016 and 2015, respectively) | 2,000,953     | 648,287       |
| Private gifts, grants and donations - restricted   | 25,530        | 12,675        |
| Others (net of bookstore cost of sales of \$430,532<br>in 2016 and \$338,307 in 2015)  | 567,818       | 548,547       |
| Net operating revenues   | 10,878,555    | 10,800,030    |
| Operating expenses:  |               |               |
| Salaries   | 6,344,329     | 6,692,441     |
| Services   | 3,298,215     | 3,790,690     |
| Depreciation   | 467,511       | 1,818,196     |
| Benefits   | 1,002,268     | 1,006,489     |
| Insurance, utilities and rents   | 438,636       | 529,151       |
| Supplies   | 265,062       | 193,998       |
| Miscellaneous  | 1,497,084     | 1,670,546     |
| Total operating expenses   | 13,313,105    | 15,701,511    |
| Operating loss   | (2,434,550)   | (4,901,481)   |
| Nonoperating revenues:   |               |               |
| CNMI Appropriations  | 4,787,351     | 4,361,698     |
| Realized and unrealized gain (loss) on investments   | 546,830       | (230,371)     |
| Total nonoperating revenues  | 5,334,181     | 4,131,327     |
| Change in net position   | 2,899,631     | (770,154)     |
| Net position, beginning of the year  | 19,255,082    | 20,025,236    |
| Net position, end of the year  | \$ 22,154,713 | \$ 19,255,082 |

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, 2016 and 2015

|  | 2016         | 2015         |
|--|--------------|--------------|
| Cash flows from operating activities:                      |              |              |
| Tuition and fees collected                                 | \$ 1,423,536 | \$ 901,765   |
| U.S Federal grants   | 9,237,271    | 8,807,072    |
| Other receipts   | 593,348      | 561,222      |
| Payments to employees                                      | (6,661,610)  | (6,579,399)  |
| Payments to suppliers                                      | (6,747,597)  | (7,143,515)  |
| Net cash used for operating activities                     | (2,155,052)  | (3,452,855)  |
| Cash flows from investing activities:                      |              |              |
| Increase in time certificate of deposit                    | (764)        | (534)        |
| Net cash used for investing activities                     | (764)        | (534)        |
| Cash flows from noncapital financing activities:           |              |              |
| CNMI Appropriations  | 4,786,151    | 4,361,698    |
| Deferred- CNMI Appropriations                              | 869,071      | -            |
| Net cash provided by noncapital financing activities       | 5,655,222    | 4,361,698    |
| Cash flows capital and related financing activities:       |              |              |
| Purchases of capital assets                                | (595,563)    | (640,340)    |
| Net cash used for capital and related financing activities | (595,563)    | (640,340)    |
| Net change in cash and cash equivalents                    | 2,903,843    | 267,969      |
| Cash and cash equivalents, beginning of year               | 6,667,554    | 6,399,585    |
| Cash and cash equivalents, end of year                     | \$ 9,571,397 | \$ 6,667,554 |

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, 2016 and 2015

|  | 2016           | 2015           |
|--|----------------|----------------|
| Reconciliation of operating loss to net cash used for operating activities:        |                |                |
| Operating loss   | \$ (2,434,550) | \$ (4,901,481) |
| Adjustments to reconcile operating loss to net cash used for operating activities: |                |                |
| Depreciation   | 467,511        | 1,818,196      |
| Changes in assets and liabilities:   |                |                |
| Accounts receivable and unbilled charges, net                                      | (348,431)      | (250,839)      |
| Due from grantor agencies  | 961,665        | (798,064)      |
| Inventories  | 64,745         | (164,376)      |
| Prepayments  | 39,552         | 2,475          |
| Accounts payable   | (350,629)      | 209,260        |
| Accrued salaries and benefits payable  | (295,655)      | 95,622         |
| Current portion of compensated absences  | (21,626)       | 17,420         |
| Unearned revenues  | (228,986)      | 504,317        |
| Deferred inflows of resources  | (8,648)        | 14,615         |
| Net cash used for operating activities   | \$ (2,155,052) | \$ (3,452,855) |

See accompanying notes to financial statements.

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

Notes to Financial Statements  
September 30, 2016 and 2015

(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 Governmental Accounting Standards Board (GASB).

In June 1999, the GASB issued Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. This was followed in November 1999 by GASB Statement No. 35, *Basic Financial Statements - and Management's Discussion and Analysis - for Public Colleges and Universities*. The financial statement presentation required by GASB No. 34 and 35, as amended by GASB Statement No. 61, *The Financial Reporting Entity: Omnibus*, provides a comprehensive, entity-wide perspective of the College's assets, liabilities, net position, revenues, expenses, changes in net position, and cash flows, and replaces the fund-group perspective previously required.

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, 2016 and 2015

(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 deposit with maturities of greater than three months are separately classified.

At September 30, 2016 and 2015, the carrying amount of the College's cash and cash equivalents and time certificates of deposit were \$10,267,789 and \$7,363,182, respectively, and the corresponding bank balances were \$10,259,946 and \$7,359,641, respectively. Of the bank balance amounts, \$10,712,383 and \$7,510,782, respectively, are maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2016 and 2015, bank deposits in the amount of \$1,325,532 and \$1,386,549, 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, 2016 and 2015

(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, 2016 and 2015. 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 as capital assets those items 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*

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

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.

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

Notes to Financial Statements  
September 30, 2016 and 2015

(2) Summary of Significant Accounting Policies, Continued

*Investments, Continued*

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, 2016 and 2015, there were no investments in any one issuer that exceeded five percent (5%) of total investments.

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, is not registered in the name of the College and is 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 the 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.

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

Notes to Financial Statements  
September 30, 2016 and 2015

(2) Summary of Significant Accounting Policies, Continued

*Investments, Continued*

General, Continued:

- 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.

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, 2016 and 2015

(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, 2016 and 2015

(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, 2016 and 2015, the College recorded accrued annual leave in the amount of \$591,519 and \$613,145, respectively, which is included within the statements of net assets as compensated absences.

*Net Position*

The College's net position is classified as follows:

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

*Restricted Expendable* - Restricted expendable includes 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 consists of endowment and similar type funds in which donors or other outside sources have stipulated, as a 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 represents 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, 2016 and 2015

(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, 2016.

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, 2016, 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 of 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 appropriations, 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 Revenues, Expenses 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, 2016 and 2015

(2) Summary of Significant Accounting Policies, Continued

*Retirement Plan*

The College contributed to the Northern Mariana Islands Retirement Fund's (the Fund) defined benefit plan (DB Plan), a cost sharing, multiple-employer plan established and administered by the Fund. On September 30, 2013, the DB Plan was transferred to Northern Mariana Islands Settlement Fund (NMISF) and the College now contributes to NMISF.

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, 2016 and 2015

(2) Summary of Significant Accounting Policies, Continued

*Retirement Plan, Continued*

The College's contribution to the Fund is at 20% 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 multi employer 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 contributions plus any earnings thereon. With the passage of Public Law 17-82 in September 11, 2012, membership in the DC Plan became voluntary.

The College's total contributions to the Settlement and Retirement Fund for the years ended September 30, 2016, 2015 and 2014 were \$182,644, \$178,131 and \$189,997, 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.

*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.

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

Notes to Financial Statements  
September 30, 2016 and 2015

(2) Summary of Significant Accounting Policies, Continued

*New Accounting Standards*

In February 2015, GASB issued Statement No. 72, *Fair Value Measurement and Application*, which addresses accounting and financial reporting issues related to fair value measurements and requires entities to expand their fair value disclosures by determining major categories of debt and equity securities within the fair value hierarchy on the basis of the nature and risk of the investment. The provisions in Statement No. 72 are effective for fiscal years beginning after June 15, 2015. Management believes that the implementation of this statement only requires additional disclosures to be made about fair value measurements, the level of fair value hierarchy, and valuation techniques and does not have a material effect on the financial statements.

In June 2015, GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68 and Amendments to Certain Provisions of GASB Statement 67 and 68*, which aligns the reporting requirements for pensions and pension plans not covered in GASB Statements 67 and 68 with the reporting requirements in Statement 68. The provisions in Statement No. 73 are effective for fiscal years beginning after June 15, 2015, with the exception of the provisions that address employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement 68, which are effective for fiscal years beginning after June 15, 2016. Management has not evaluated the impact that the implementation of this statement will have on the financial statements.

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

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

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

Notes to Financial Statements  
September 30, 2016 and 2015

(2) Summary of Significant Accounting Policies, Continued

*New Accounting Standards, Continued*

In June 2015, GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, which eliminates two of the four categories of authoritative GAAP that exist under the existing hierarchy prescribed by Statement No. 55. The two categories that will remain under the new standards are (1) GASB Statements and (2) GASB technical bulletins and implementation guides in addition to AICPA guidance that the GASB clears. The provisions in Statement No. 76 are effective for fiscal years beginning after June 15, 2015. Management does not believe that the implementation of this statement had a material effect on the financial statements.

In August 2015, GASB issued Statement No. 77, *Tax Abatement Disclosures*, which requires governments that enter into tax abatement agreements to disclose certain information about the agreements. The provisions in Statement No. 77 are effective for fiscal years beginning after December 31, 2015. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

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

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

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

**NORTHERN MARIANAS COLLEGE**  
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Notes to Financial Statements  
September 30, 2016 and 2015

(2) Summary of Significant Accounting Policies, Continued

*New Accounting Standards, Continued*

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

(3) Accounts Receivable and Unbilled Charges

Summarized below is the College’s accounts receivable and unbilled charges as of September 30, 2016 and 2015:

|   | 2016             | 2015             |
|---|------------------|------------------|
| Student tuition and fees                | \$ 3,508,272     | \$ 3,237,987     |
| Auxiliary enterprises                   | 528,044          | 327,320          |
| Other activities                        | 255,251          | 232,542          |
| <br>Total                               | <br>4,291,567    | <br>3,797,849    |
| Allowance for doubtful accounts         | (2,066,298)      | (1,921,011)      |
| <br>Net Receivable and unbilled charges | <br>\$ 2,225,269 | <br>\$ 1,876,838 |

**NORTHERN MARIANAS COLLEGE**  
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Notes to Financial Statements  
September 30, 2016 and 2015

(4) Investments

GASB 72 requires all investments be categorized under a fair value hierarchy. The College determines fair value of its investments based upon both observable and unobservable inputs. The College categorizes its fair value measurements within the fair value hierarchy established by Generally Accepted Accounting Principles. Levels within the hierarchy are as follows:

- Level 1- quoted prices (unadjusted) for identical assets or liabilities in active markets that a government can access at the measurement date.
- Level 2 – inputs (other than quoted prices included within level 1) that are observable for an asset or liability, either directly or indirectly. These inputs can include quoted prices for similar assets or liabilities in active or inactive markets, or market-corroborated inputs.
- Level 3 – unobservable inputs for an asset or liability, which generally results in a government using the best information available and may include the government’s own data.

The remaining investments not categorized under the fair value hierarchy are shown at net asset value (NAV). These are investments in non-governmental entities for which a readily determinable fair value is not available, such as member units or an ownership interest in partners’ capital to which a proportionate share of net assets is attributed. Investments at NAV are commonly calculated by subtracting the fair value of liabilities from the fair value of assets.

**NORTHERN MARIANAS COLLEGE**  
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Notes to Financial Statements  
September 30, 2016 and 2015

(4) Investments, Continued

The following table presents a summary of the College's investments by type as of September 30, 2016, at fair value:

| Investments by Fair Value Level                                      | Fair Value<br>September 30, 2016 | Quoted Prices in<br>Active Markets for<br>Identical Assets<br>(Level 1) | Significant Other<br>Observable Inputs<br>(Level 2) | Significant<br>Unobservable inputs<br>(Level 3) |
|--|----------------------------------|---|---|---|
| <b>Equity Securities</b>   |                                  |   |   |   |
| Domestic equity  | \$ 1,678,879                     | \$ 1,678,879  | \$ -  | \$ -  |
| International equity   | 1,593,282                        | 1,593,282   | -   | -   |
| Total equity securities  | <u>3,272,161</u>                 | <u>3,272,161</u>  | -   | -   |
| <b>Debt Securities</b>   |                                  |   |   |   |
| Government Sponsored Enterprise                                      | 1,010,843                        | -   | 1,010,843   | -   |
| Real Estate and Tangibles  | 718,146                          | -   | -   | 718,146   |
| Cash and cash equivalents  | 978,622                          | -   | -   | 978,622   |
| Asset-Backed, Mortgage-Backed,<br>Collateralized Mortgage Obligation | 574,963                          | -   | 574,963   | -   |
| US Treasury  | 444,945                          | -   | 444,945   | -   |
| Corporate bonds  | 355,852                          | -   | 355,852   | -   |
| Mutual funds   | 316,429                          | 316,429   | -   | -   |
| <b>Total Investments By Fair Value Level</b>                         | <u>\$ 7,671,961</u>              | <u>\$ 3,588,590</u>   | <u>\$ 2,386,603</u>                                 | <u>\$ 1,696,768</u>                             |

As of September 30, 2016 and 2015, the College's fixed income securities had the following maturities:

| Investment type          | 2016                |                                  |                     |                   |                   | Rating    |
|--------------------------|---------------------|----------------------------------|---------------------|-------------------|-------------------|-----------|
|                          | Fair Value          | Investment Maturities (In Years) |                     |                   | More<br>than 10   |           |
|                          |                     | Less<br>than 1                   | 1-5                 | 6-10              |                   |           |
| Government and GSE bonds | \$ 1,300,337        | \$ 50,092                        | \$ 805,299          | \$ -              | \$ 444,946        | AAA       |
| Government and GSE bonds | 155,451             | -                                | 155,451             | -                 | -                 | AA+       |
| Corporate bonds          | 163,639             | -                                | 56,363              | 107,276           | -                 | A-        |
| Corporate bonds          | 192,213             | -                                | 60,655              | 131,558           | -                 | BBB+      |
| Corporate bonds          | 574,963             | -                                | 68,942              | 394,793           | 111,228           | No rating |
|                          | <u>\$ 2,386,603</u> | <u>\$ 50,092</u>                 | <u>\$ 1,146,710</u> | <u>\$ 633,627</u> | <u>\$ 556,174</u> |           |

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Notes to Financial Statements  
September 30, 2016 and 2015

(4) Investments, Continued

| Investment type          | 2015                |                                  |                     |                   |                   | Rating    |
|--------------------------|---------------------|----------------------------------|---------------------|-------------------|-------------------|-----------|
|                          | Fair Value          | Investment Maturities (In Years) |                     |                   | More than 10      |           |
|                          |                     | Less than 1                      | 1-5                 | 6-10              |                   |           |
| Government and GSE bonds | \$ 1,371,827        | \$ -                             | \$ 1,084,782        | \$ 160,148        | \$ 126,897        | AAA       |
| Government and GSE bonds | 3,786               | 3,786                            | -                   | -                 | -                 | No rating |
| Corporate bonds          | 39,811              | -                                | -                   | 39,811            | -                 | A         |
| Corporate bonds          | 62,345              | -                                | 17,210              | -                 | 45,135            | A-        |
| Corporate bonds          | 41,226              | -                                | 20,512              | 20,714            | -                 | AA+       |
| Corporate bonds          | 19,815              | -                                | -                   | -                 | 19,815            | AA-       |
| Corporate bonds          | 78,063              | -                                | 19,104              | 20,295            | 38,664            | BBB       |
| Corporate bonds          | 99,545              | -                                | -                   | 61,112            | 38,433            | BBB-      |
| Corporate bonds          | 185,187             | 19,129                           | -                   | 88,829            | 77,229            | BBB+      |
| Corporate bonds          | 6,527               | 6,527                            | -                   | -                 | -                 | No rating |
|                          | <u>\$ 1,908,132</u> | <u>\$ 29,442</u>                 | <u>\$ 1,141,608</u> | <u>\$ 390,909</u> | <u>\$ 346,173</u> |           |

(5) Capital Assets

Summarized below is the College's investment in capital assets and changes at September 30, 2016 and 2015:

|                            | Estimated Useful Lives | Balance October 1, 2015 | Additions         | Deletions           | Balance September 30, 2016 |
|----------------------------|------------------------|-------------------------|-------------------|---------------------|----------------------------|
| Buildings and improvements | 5 - 30 years           | \$ 6,861,452            | \$ 466,846        | \$ -                | \$ 7,328,298               |
| Furniture and equipment    | 2 - 5 years            | 1,773,486               | 22,987            | (77,786)            | 1,718,687                  |
| Vehicles                   | 5 years                | 990,326                 | 98,970            | (230,498)           | 858,798                    |
| Computers                  | 3 - 5 years            | 1,390,451               | 6,760             | (7,249)             | 1,389,962                  |
| Total depreciable assets   |                        | 11,015,715              | 595,563           | (315,533)           | 11,295,745                 |
| Accumulated depreciation   |                        | (8,658,421)             | (467,511)         | (315,533)           | (8,810,399)                |
| Depreciable assets, net    |                        | 2,357,294               | 128,052           | (631,066)           | 2,485,346                  |
| Land                       |                        | 1,113,376               | -                 | -                   | 1,113,376                  |
| Net capital assets         |                        | <u>\$ 3,470,670</u>     | <u>\$ 128,052</u> | <u>\$ (631,066)</u> | <u>\$ 3,598,722</u>        |

**NORTHERN MARIANAS COLLEGE**  
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Notes to Financial Statements  
September 30, 2016 and 2015

(5) Capital Assets, Continued

|                            | Estimated<br>Useful<br>Lives | Balance<br>October 1 ,<br>2014 | Additions             | Deletions      | Balance<br>September 30,<br>2015 |
|----------------------------|------------------------------|--------------------------------|-----------------------|----------------|----------------------------------|
| Buildings and improvements | 5 - 30 years                 | \$ 9,509,341                   | \$ -                  | \$ (2,647,889) | \$ 6,861,452                     |
| Furniture and equipment    | 2 - 5 years                  | 1,184,925                      | 640,341               | (51,780)       | 1,773,486                        |
| Vehicles                   | 5 years                      | 990,326                        | -                     | -              | 990,326                          |
| Computers                  | 3 - 5 years                  | 1,419,091                      | -                     | (28,640)       | 1,390,451                        |
| Total depreciable assets   |                              | 13,103,683                     | 640,341               | (2,728,309)    | 11,015,715                       |
| Accumulated depreciation   |                              | (9,568,533)                    | (1,818,197)           | 2,728,309      | (8,658,421)                      |
| Depreciable assets, net    |                              | 3,535,150                      | (1,177,856)           | -              | 2,357,294                        |
| Land                       |                              | 1,113,376                      | -                     | -              | 1,113,376                        |
| Net capital assets         |                              | <u>\$ 4,648,526</u>            | <u>\$ (1,177,856)</u> | <u>\$ -</u>    | <u>\$ 3,470,670</u>              |

(6) Long-Term Obligation

Changes in long-term obligations for the years ended September 30, 2016 and 2015, are as follows:

|                      | <u>2016</u>       | <u>2015</u>       |
|----------------------|-------------------|-------------------|
| Compensated absences |                   |                   |
| Balance, beginning   | \$ 613,145        | \$ 595,725        |
| Additions            | 34,784            | 43,546            |
| Reductions           | <u>(56,410)</u>   | <u>(26,126)</u>   |
| Balance, end         | 591,519           | 613,145           |
| Due within one year  | <u>(291,818)</u>  | <u>(280,934)</u>  |
| Noncurrent           | <u>\$ 299,701</u> | <u>\$ 332,211</u> |

**NORTHERN MARIANAS COLLEGE**  
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Notes to Financial Statements  
September 30, 2016 and 2015

(7) Deferred Tuition

On August 2, 2015 the CNMI was struck by typhoon Soudelor. The College experienced damage to many of the buildings on campus. The CNMI was declared a Federal disaster area and therefore qualified for Federal Emergency Management Agency (FEMA) assistance.

The College had to delay the start of the Fall 2015 semester because of the typhoon. The College normally recognizes fall semester revenues ratably from the beginning of August until the end of the semester in December each year. Because of Soudelor, most of the Fall 2015 tuition was deferred as of September 30, 2015. This delay affects the comparability of the financial statements from 2014 to 2015, and from 2015 to 2016.

The following schedule shows the Fall 2015 revenue recognized through September 30, 2015, the amount that would have been recognized if the start of classes was not delayed, the Fall 2015 revenue that will be recognized for the year ending September 30, 2016, and the amount that would be recognized in FY 2016 if the start of classes was not delayed.

|                                    | Delayed<br>Recognition | Normal<br>Recognition | Difference |
|------------------------------------|------------------------|-----------------------|------------|
| Total Fall 2015 tuition revenue    | \$ 1,761,745           | \$ 1,761,745          | \$ -       |
| Amount recognized in FY 2015       | 404,725                | 757,550               | 352,825    |
| Amount to be recognized in FY 2016 | \$ 1,357,020           | \$ 1,004,195          | \$ 352,825 |

(8) Change in Net Position

During the year ended September 30, 2015, the College experienced an operational loss of \$770,154 as noted in the Statement of Revenues, Expenses and Changes in Net Position. A significant amount of the loss can be attributed to depreciation.

|   |               |
|---|---------------|
| Change in Net Position                        | \$ ( 770,154) |
| Add depreciation                              | 1,818,196     |
| Change in Net Position Excluding Depreciation | \$ 1,048,042  |

The remaining net book value of buildings destroyed by typhoon Soudelor were written off in the books of the College as of September 30, 2015. The additional write off as a result of the typhoon was \$1,294,327.

**NORTHERN MARIANAS COLLEGE**  
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Notes to Financial Statements  
September 30, 2016 and 2015

(9) Related Party Transactions

To ensure that the College carries out its mission and meets educational and the vocational needs of the community, the College receives annual appropriations from the CNMI Government. During the years ended September 30, 2016 and 2015, the College recognized \$4,787,351 and \$4,361,698, respectively, in appropriations from the CNMI Government. The amounts due from CNMI Government from appropriation as of September 30, 2016 and 2015 amounted to \$1,200 and \$0, respectively, while the amount due from CNMI Government for retirement contributions paid for retired employees amounted to \$177,561 as of September 30, 2016 and 2015.

At September 30, 2016 and 2015, amounts payable for utility expense to the Commonwealth Utilities Corporation (CUC), a component unit of the CNMI Government, amounted to \$24,881 and \$43,091, respectively, which are included in accounts payable in the accompanying statements of net position. During the years ended September 30, 2016 and 2015, total utilities purchased from CUC amounted to \$265,504 and \$347,533, 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.

(10) 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 2016 and 2015. The following table shows natural classifications with functional classifications:

|                           | 2016                |                     |                     |                                    |                   |                   |                     |                      |
|---------------------------|---------------------|---------------------|---------------------|------------------------------------|-------------------|-------------------|---------------------|----------------------|
|                           | Salaries            | Services            | Benefits            | Insurance<br>Utilities<br>and Rent | Depreciation      | Supplies          | Miscellaneous       | Total                |
| Instruction               | \$ 1,859,214        | \$ 99,488           | \$ 351,310          | \$ -                               | \$ -              | \$ 24,304         | \$ 52,437           | \$ 2,386,753         |
| Academic Support          | 867,356             | 22,696              | 97,346              | -                                  | -                 | 8,293             | 94,462              | 1,090,153            |
| Institutional Support     | 1,477,059           | 125,046             | 238,450             | -                                  | -                 | 51,901            | 563,397             | 2,455,853            |
| Student Services          | 672,706             | 575,433             | 93,822              | -                                  | -                 | 16,861            | 149,576             | 1,508,398            |
| Community Services        | 1,374,418           | 371,929             | 221,340             | -                                  | -                 | 163,703           | 568,455             | 2,699,845            |
| Scholarships              | -                   | 1,921,131           | -                   | -                                  | -                 | -                 | -                   | 1,921,131            |
| Auxiliary                 | 93,576              | -                   | -                   | -                                  | -                 | -                 | 15,439              | 109,015              |
| Operation and Maintenance | -                   | 182,492             | -                   | 438,636                            | 467,511           | -                 | 53,318              | 1,141,957            |
|                           | <u>\$ 6,344,329</u> | <u>\$ 3,298,215</u> | <u>\$ 1,002,268</u> | <u>\$ 438,636</u>                  | <u>\$ 467,511</u> | <u>\$ 265,062</u> | <u>\$ 1,497,084</u> | <u>\$ 13,313,105</u> |

**NORTHERN MARIANAS COLLEGE**  
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Notes to Financial Statements  
September 30, 2016 and 2015

(10) Natural Classifications with Functional Classification, Continued

|                           | 2015               |                    |                    |                                    |                    |                   |                    |                     |
|---------------------------|--------------------|--------------------|--------------------|------------------------------------|--------------------|-------------------|--------------------|---------------------|
|                           | Salaries           | Services           | Benefits           | Insurance<br>Utilities<br>and Rent | Depreciation       | Supplies          | Miscellaneous      | Total               |
| Instruction               | \$1,754,015        | \$ 82,348          | \$ 308,597         | \$ -                               | \$ -               | \$ 17,159         | \$ 17,194          | \$ 2,179,313        |
| Academic Support          | 799,558            | -                  | 80,545             | -                                  | -                  | 6,890             | 138,421            | 1,025,414           |
| Institutional Support     | 1,546,127          | 52,931             | 250,769            | -                                  | -                  | 54,155            | 435,003            | 2,338,985           |
| Student Services          | 903,448            | 519,699            | 124,244            | -                                  | -                  | 28,883            | 219,629            | 1,795,903           |
| Community Services        | 1,588,390          | 742,999            | 242,334            | -                                  | -                  | 86,911            | 833,332            | 3,493,966           |
| Scholarships              | -                  | 1,991,915          | -                  | -                                  | -                  | -                 | -                  | 1,991,915           |
| Auxiliary                 | 100,903            | -                  | -                  | 4,066                              | -                  | -                 | 12,915             | 117,884             |
| Operation and Maintenance | -                  | 400,798            | -                  | 525,085                            | 1,818,196          | -                 | 14,052             | 2,758,131           |
|                           | <u>\$6,692,441</u> | <u>\$3,790,690</u> | <u>\$1,006,489</u> | <u>\$ 529,151</u>                  | <u>\$1,818,196</u> | <u>\$ 193,998</u> | <u>\$1,670,546</u> | <u>\$15,701,511</u> |

(11) 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, 2016 and 2015.

(12) Contingencies

*Financial and Compliance Audits*

The College participates in a number of U.S. Department of Education assisted grant programs and various other federally assisted grants. These programs are subject to financial and compliance audits to ascertain if Federal laws and guidelines have been followed. Substantially all grants are subject to either the Uniform Guidance or to financial and compliance audits by the grantor agencies of the Federal Government or their designees.

*Lawsuits and Claims*

On September 30, 2013, the U.S District Court approved the Final Settlement Agreement for Case No. 09-000023, to which the College is a party. Beginning in fiscal year 2014, the College and employees who are members of the Retirement Fund, who did not opt out of the Settlement, contribute 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. Such deficient retirement contribution and related penalties and interest are not reflected in the accompanying financial statements.

**NORTHERN MARIANAS COLLEGE**  
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Notes to Financial Statements  
September 30, 2016 and 2015

(12) Contingencies, Continued

*Lawsuits and Claims, Continued*

On March 10, 2016, the U.S. District Court for the Northern Mariana Islands issued an order on the Settlement Fund's motion, and found that the College has not been underpaying into the Settlement Fund, and has been meeting its obligations under the Settlement Agreement. The College will have no further liability beyond what it normally pays to the Settlement Fund.

*Sick Leave*

It is the policy of the College to record expenditures for sick leave when the leave is actually taken. Employees are credited with sick leave at the rate of 4 hours per pay period. Unused sick leave hours may be accumulated without limit but cannot be converted to cash upon termination of employment. Sick leave is compensated time for absence during working hours arising from employee illness or injury. The estimated accumulated sick leave at September 30, 2016 and 2015 is \$472,228 and \$1,396,777, respectively. These amounts are not accrued in the accompanying financial statements.

(13) 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.

(14) Subsequent events

The College has evaluated subsequent events from October 1, 2016 to May 11, 2017, the date the financial statements were available to be issued. The College did not note any subsequent events requiring disclosure or adjustment in the accompanying financial statements.

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

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**SUPPLEMENTARY INFORMATION**

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**Year Ended September 30, 2016**

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

Schedule of Expenditures of Federal Awards  
Year Ended September 30, 2016

| Federal<br>CFDA #                                       | Federal Grantor/Program Title                                    | Pass-through<br>ID Number | Expenditures        | Research and<br>Development<br>Cluster |
|---|--|---------------------------|---------------------|--|
| Direct from U.S. Department of Agriculture:             |  |                           |                     |  |
| 10.203  | Payments to Agricultural Experiment Stations Under the Hatch Act |                           | \$ 903,802          | \$ 903,802                             |
| 10.322  | Building Faculty Capacity  |                           | 47,177              | -                                      |
| 10.500  | Cooperative Extension Service                                    |                           | <u>677,181</u>      | <u>-</u>                               |
|   | Subtotal Direct Programs   |                           | <u>1,628,160</u>    | <u>903,802</u>                         |
| Pass-through from Secretariat of the Pacific Community: |  |                           |                     |  |
| 10.200  | Non Communicable Disease Prevention and Control Plan             | 2-1-22                    | 11,986              | -                                      |
| Pass-through  |  |                           |                     |  |
| 10.303  | Islands of Opportunity Alliance                                  | none identified           | 16,844              | -                                      |
| Pass-through from University of Hawaii:                 |  |                           |                     |  |
| 10.310  | Children's Healthy Living Program                                | MA110018                  | <u>205,116</u>      | <u>205,116</u>                         |
|   | Subtotal Pass-Through Programs                                   |                           | <u>233,946</u>      | <u>205,116</u>                         |
|   | Total U.S. Department of Agriculture                             |                           | <u>\$ 1,862,106</u> | <u>\$ 1,108,918</u>                    |

See accompanying notes to Schedule of Expenditures of Federal Awards.

**NORTHERN MARIANAS COLLEGE**  
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Schedule of Expenditures of Federal Awards  
Year Ended September 30, 2016

| Federal<br>CFDA #   | Federal Grantor/Program Title  | Pass-through<br>ID Number | Expenditures        | Research and<br>Development<br>Cluster |
|---|--|---------------------------|---------------------|--|
| Direct from U.S. Department of Education:                             |  |                           |                     |  |
| Student Financial Aid Cluster:  |  |                           |                     |  |
| 84.007  | Federal Supplemental Educational Opportunity Grants                      |                           | \$ 43,978           |  |
| 84.033  | Federal Work-Study Program   |                           | 37,793              |  |
| 84.063  | Federal Pell Grant Program   |                           | 3,915,969           |  |
| 84.379  | Teacher Education Assistance for College and Higher Education Grants     |                           | <u>98,792</u>       |  |
|   | Subtotal Student Financial Aid Cluster                                   |                           | 4,096,532           |  |
| 84.002  | Adult Education - Basic Grants to States                                 |                           | 352,276             |  |
| 84.031  | Project for the Promotion and Retention of Opportunities for Advancement |                           | 50,587              |  |
| 84.378  | College Access Challenge Grant Program                                   |                           | <u>846,909</u>      |  |
|   | Subtotal Direct Programs   |                           | <u>5,346,304</u>    |  |
| Pass-through from Asian & Pacific Islander American Scholarship Fund: |  |                           |                     |  |
| 84.031  | Enhancing Tech   | none identified           | 18,315              |  |
| 84.unknown  | Pass-through Pacific Rim College to Improve Education                    | none identified           | <u>4,672</u>        |  |
|   | Subtotal Pass-Through Programs   |                           | <u>22,987</u>       |  |
|   | Total U.S. Department of Education                                       |                           | <u>\$ 5,369,291</u> |  |
| National Endowment for the Humanities:                                |  |                           |                     |  |
| Pass-through from Northern Marianas Humanities Council:               |  |                           |                     |  |
| 45.164  | Culture in the Marianas: Perspectives on the Present-day Landscape       | GPH16-00261               | <u>\$ 507</u>       | <u>\$ 507</u>                          |
|   | Subtotal Pass-Through Programs   |                           | <u>507</u>          | <u>507</u>                             |
|   | Total National Endowment for the Humanities                              |                           | <u>\$ 507</u>       | <u>\$ 507</u>                          |

See accompanying notes to Schedule of Expenditures of Federal Awards.

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

Schedule of Expenditures of Federal Awards  
Year Ended September 30, 2016

| Federal<br>CFDA #                                  | Federal Grantor/Program Title  | Pass-through<br>ID Number | Expenditures        | Research and<br>Development<br>Cluster |
|--|--|---------------------------|---------------------|--|
| U.S. Department of Health and Human Services:      |  |                           |                     |  |
| Pass-through from University of Hawaii:            |  |                           |                     |  |
| 93.107   | Model State-Supported Area Health Education Center   | 5U77HP08404-09-00         | \$ 76,956           | \$ 76,956                              |
| Pass-through from Portland State University:       |  |                           |                     |  |
| 93.310   | Enhance Cross Discipline and Infrastructure and Training   | 205CRE491                 | 34,414              | 34,414                                 |
| Pass-through from Portland State University:       |  |                           |                     |  |
| 93.310   | Enhance Cross Discipline and Infrastructure and Training   | 205CRE492                 | 15,185              | -                                      |
| Pass-through from University of Hawaii:            |  |                           |                     |  |
| 93.632   | Pacific Basin University Centers for Excellence in Developmental<br>Diabilities Education, Research, and Service (B) | MA120060                  | <u>188,961</u>      | <u>188,961</u>                         |
| Total Pass-Through Programs                        |  |                           | <u>315,516</u>      | <u>300,331</u>                         |
| Total U.S. Department of Health and Human Services |  |                           | <u>\$ 315,516</u>   | <u>\$ 300,331</u>                      |
| U.S. Department of Homeland Security:              |  |                           |                     |  |
| Pass-through from CNMI Government:                 |  |                           |                     |  |
| 97.unknown   | Commonwealth Worker Fund   | none identified           | <u>\$ 607,766</u>   |  |
| Total Pass-Through Programs                        |  |                           | <u>607,766</u>      |  |
| Total U.S. Department of Homeland Security         |  |                           | <u>\$ 607,766</u>   |  |
| U.S. Department of the Interior:                   |  |                           |                     |  |
| Pass-through from CNMI Government:                 |  |                           |                     |  |
| 15.875   | Economic, Social, and Political Development of the<br>Territories - Compact Impact                                   | none identified           | <u>\$ 129,068</u>   |  |
| Total Pass-Through Programs                        |  |                           | <u>129,068</u>      |  |
| Total U.S. Department of the Interior              |  |                           | <u>\$ 129,068</u>   |  |
| Grand Total  |  |                           | <u>\$ 8,284,254</u> |  |

See accompanying notes to Schedule of Expenditures of Federal Awards.

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

Notes to the Schedule of Expenditures of Federal Awards  
Year Ended September 30, 2016

(1) Scope of Audit

The Northern Marianas College (the College) was created as an autonomous public agency of the Commonwealth of the Northern Mariana Islands (CNMI) pursuant to Title 3, Division 1, Chapter 3, Article 1 of the Commonwealth Code. The College's existence is to be perpetual and it shall have all the rights and privileges of a corporation. The purpose of the College is to provide secondary educational opportunities to the people of the CNMI. Only the financial statements of the College are included within the scope of the Uniform Guidance audit (the "Single Audit").

Programs Subject to Single Audit

The Schedule of Expenditures of Federal Awards presents each Federal program related to the following agencies:

- U.S. Department of Agriculture
- U.S. Department of the Interior
- U.S. Department of Education
- U.S. Department of Health and Human Services
- U.S. Department of Homeland Security
- National Endowment for the Humanities

(2) Summary of Significant Accounting Policies

*Basis of Accounting*

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the College and is presented on the accrual basis of accounting, consistent with the manner in which the College maintains its accounting records. The information in this schedule is presented in accordance with the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in this Schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements. All program award amounts represent the total allotment or grant award received. All expenses and capital outlays are reported as expenditures.

*Cost Allocation*

The College is currently allocating administrative costs to program awards based upon criteria prescribed in those program awards.

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

Notes to the Schedule of Expenditures of Federal Awards  
Year Ended September 30, 2016

(3) Indirect Cost Allocation

For fiscal year 2016, the College has an approved indirect cost rate of 21% for all grant programs, except for U.S. Department of Education programs, which is 8%.