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

FINANCIAL STATEMENTS,
ADDITIONAL INFORMATION AND
INDEPENDENT AUDITOR’S REPORT

Years Ended September 30, 2018 and 2017

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

Years Ended September 30, 2018 and 2017

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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, 2018 and 2017, 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.

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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, 2018 and 2017, 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* 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 June 29, 2019, 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 the effectiveness of the College’s 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.

Burger Comer Magliari

Saipan, Commonwealth of the Northern Mariana Islands
June 29, 2019

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, 2018 with comparisons to prior fiscal years. We encourage readers to consider the information presented here in conjunction with the financial statements and related notes.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Basic Financial Statements

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

Net position is divided into three major categories.

- The first category, investment in capital assets, indicates the College's equity in property, plant and equipment.

- The second category is restricted, which is further divided into two additional classifications:

    - Nonexpendable
    - Expendable

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

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

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

The ***Statements of Activities, 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.

<u>Notes to the Financial Statements</u>

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

	2018	2017	*Increase/(Decrease)* Amount	Percent
ASSETS				
Current Assets	$14,315,533	$15,166,315	$ (850,782)	-5.61%
Capital Assets, net	$ 3,683,703	$ 3,639,779	$ 43,924	1.21%
Other Assets	$ 8,604,622	$ 8,245,278	$ 359,344	4.36%
Total Assets	$26,603,858	$27,051,372	$ (447,514)	-1.65%
			$ -	
LIABILITIES			$ -	
Current Liabilities	$ 3,311,107	$ 3,880,912	$ (569,805)	-14.68%
Noncurrent Liabilities	$ 203,292	$ 203,292	$ -	0.00%
Total Liabilities	$ 3,514,399	$ 4,084,204	$ (569,805)	-13.95%
			$ -	
DEFERRED INFLOWS OF RESOURCES			$ -	
Grant Receipts	$ 174,401	$ 115,932	$ 58,469	50.43%
Total Deferred Inflows	$ 174,401	$ 115,932	$ 58,469	50.43%
			$ -	
NET POSITION			$ -	
Investment in Capital Assets, Net	$ 3,683,703	$ 3,639,779	$ 43,924	1.21%
Restricted Net Assets	$ 8,604,622	$ 8,245,278	$ 359,344	4.36%
Unrestricted	$10,626,733	$10,966,179	$ (339,446)	-3.10%
Total Net Position	$22,915,058	$22,851,236	$ 63,822	0.28%

	2017	2016	Amount	Percent
ASSETS				
Current Assets	$15,166,315	$14,336,524	$ 829,791	5.79%
Capital Assets, net	$ 3,639,779	$ 3,598,722	$ 41,057	1.14%
Other Assets	$ 8,245,278	$ 7,671,961	$ 573,317	7.47%
Total Assets	$27,051,372	$25,607,207	$ 1,444,165	5.64%
LIABILITIES				
Current Liabilities	$ 3,880,912	$ 3,015,533	$ 865,379	28.70%
Noncurrent Liabilities	$ 203,292	$ 299,701	$ (96,409)	-32.17%
Total Liabilities	$ 4,084,204	$ 3,315,234	$ 768,970	23.20%
DEFERRED INFLOWS OF RESOURCES				
Grant Receipts	$ 115,932	$ 137,260	$ (21,328)	-15.54%
Total Deferred Inflows	$ 115,932	$ 137,260	$ (21,328)	-15.54%
NET POSITION				
Investment in Capital Assets, Net	$ 3,639,779	$ 3,598,722	$ 41,057	1.14%
Restricted Net Assets	$ 8,245,278	$ 7,671,961	$ 573,317	7.47%
Unrestricted	$10,966,179	$10,884,030	$ 82,149	0.75%
Total Net Position	$22,851,236	$22,154,713	$ 696,523	3.14%

- Total assets as of September 30, 2018 amounted to $26,603,858, a $447,514 or 1.65% decrease from $27,051,372 as of September 30, 2017.
  - Cash increased by $256,203 in 2018.
  - Accounts receivable were reduced by $1,403,343 in FY18. The College performed a long overdue write-off of bad debt.
  - Investments grew by $359,344 due to capital appreciation in investments for FY18, a good achievement in a year of mixed news for domestic and international markets.
  - Capital assets increased by $43,924, although in subsequent events, a super typhoon more than erased the increase.
- Total liabilities decreased by $569,805 or 13.95%. At the end of FY17 NMC had a liability of $588,899 due to the CNMI government and at the end of FY18 there was no such liability.
- NMC's net position increased by $63,822 or 0.28% during FY18. If not for the large overdue write-off of bad debt, this increase would have been more significant.

Condensed Statements of Revenue, Expenses, and Changes in Net Position

	2018	2017	*Increase/(Decrease)* Amount	Percent
Operating Revenue, net	$ 11,429,945	$ 9,032,211	$ 2,397,734	26.55%
Operating Expenses	$ 17,638,332	$ 14,285,255	$ 3,353,077	23.47%
Operating Loss	$ (6,208,387)	$ (5,253,044)	$ (955,343)	18.19%
Nonoperating Revenues	$ 6,272,209	$ 5,949,567	$ 322,642	5.42%
Change in Net Position	$ 63,822	$ 696,523	$ (632,701)	-90.84%
Net Position, Beginning of Year	$ 22,851,236	$ 22,154,713	$ 696,523	3.14%
Net Position, End of Year	$ 22,915,058	$ 22,851,236	$ 63,822	0.28%

	2017	**2016**	*Increase/(Decrease)* **Amount**	**Percent**
Operating Revenue, net	$ 9,032,211	$ 10,878,555	$ (1,846,344)	-16.97%
Operating Expenses	$ 14,285,255	$ 13,313,105	$ 972,150	7.30%
Operating Loss	$ (5,253,044)	$ (2,434,550)	$ (2,818,494)	115.77%
Nonoperating Revenues	$ 5,949,567	$ 5,334,181	$ 615,386	11.54%
Change in Net Position	$ 696,523	$ 2,899,631	$ (2,203,108)	-75.98%
Net Position, Beginning of Year	$ 22,154,713	$ 19,255,082	$ 2,899,631	15.06%
Net Position, End of Year	$ 22,851,236	$ 22,154,713	$ 696,523	3.14%

- NMC's operating revenue increased by $2,397,734 and operating expenses increased by $3,353,077. This led to an operating loss of $6,208,387, an increase of $955,343 over the operating loss of FY17. Factors include:

  - US federal grants increased by $1,104,252, mostly due to an increase in funding for NMC-CREES.
  - PELL grants were greatly expanded in FY18 resulting in a tuition and fees increase of $1,437,059
  - The large write-off of bad debt of $1,904,914 and the $880,043 increase in services expense are leading causes for the significant increase in operating expenses.

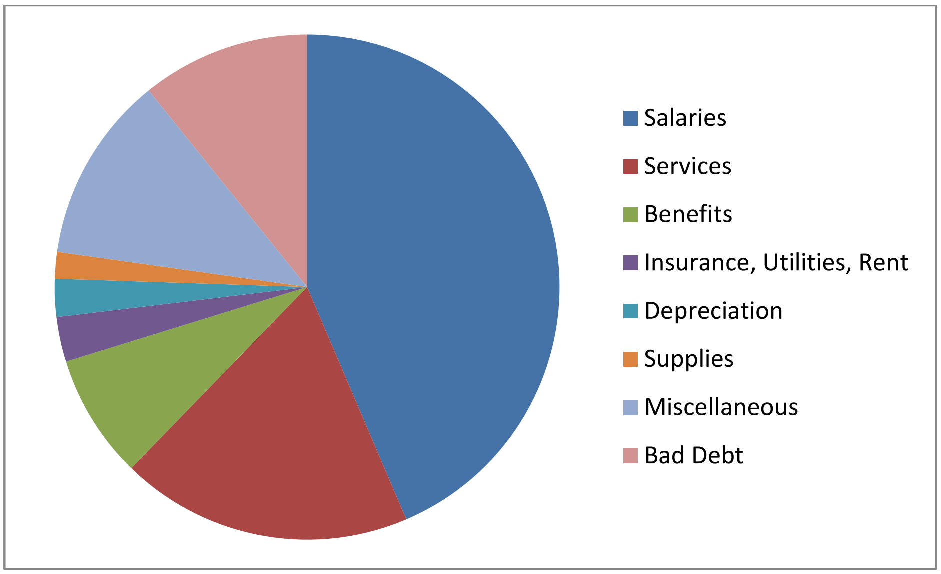
Revenue by Source

Operating Revenue	2018	% of Total	2017	% of Total
US Federal Grants	$ 8,419,448	47.56%	$ 7,315,196	48.83%
Tuition and Fees	$ 2,759,944	15.59%	$ 1,322,885	8.83%
Private Gifts, Grants, and Donations- Restricted	$ 18,530	0.10%	$ 23,995	0.16%
Others	$ 232,023	1.31%	$ 370,135	2.47%
Total Operating Revenue	$11,429,945	64.57%	$ 9,032,211	60.29%
Non-Operating Revenue				
CNMI Appropriations	$ 5,912,865	33.40%	$ 5,376,250	35.89%
Realized and Unrealized Gain (Loss) on Investments	$ 359,344	2.03%	$ 573,317	3.83%
Total Non-Operating Revenue	$ 6,272,209	35.43%	$ 5,949,567	39.71%
Total Revenue	$17,702,154	100.00%	$14,981,778	100.00%

- Operating revenue of $11,429,945 represents 64.57% of NMC's total revenue. This is a significant reversal from 2017 where operating revenue was only 60.29% of NMC's total revenue. Operating revenue represented 67.10% and 72.33% of total revenue in 2016 and 2015 respectively, so the increase represents a return to more normal levels.
  - US Federal grant revenue represents 47.56% of NMC's total revenue continuing a 3-year trend. This is down from 48.83% in FY17, 51.10% in FY16 and 64.23% in FY15.
- Non-operating revenue of $6,272,209 represents 35.43% of NMC's total revenue. This is a $322,642 increase over FY17 but the percentage of total revenue declined from 39.71%.
  - CNMI appropriations represent 33.40% of NMC's total revenue. While the total appropriations increased $536,615, as a share of total revenue, appropriations were down from 39.71% in FY17.

Expenses by Natural Classification

	2018	% of Total	2017	% of Total
Salaries	$ 7,684,902	43.57%	$ 7,296,210	51.08%
Services	$ 3,297,642	18.70%	$ 2,417,599	16.92%
Benefits	$ 1,404,047	7.96%	$ 1,317,068	9.22%
Insurance,	$ 506,969	2.87%	$ 467,636	3.27%
Depreciati	$ 428,850	2.43%	$ 467,504	3.27%
Supplies	$ 299,423	1.70%	$ 262,625	1.84%
Miscellane	$ 2,111,585	11.97%	$ 1,956,814	13.70%
Bad Debt	$ 1,904,914	10.80%	$ 99,799	0.70%
Total	$17,638,332	100.00%	$14,285,255	100.00%

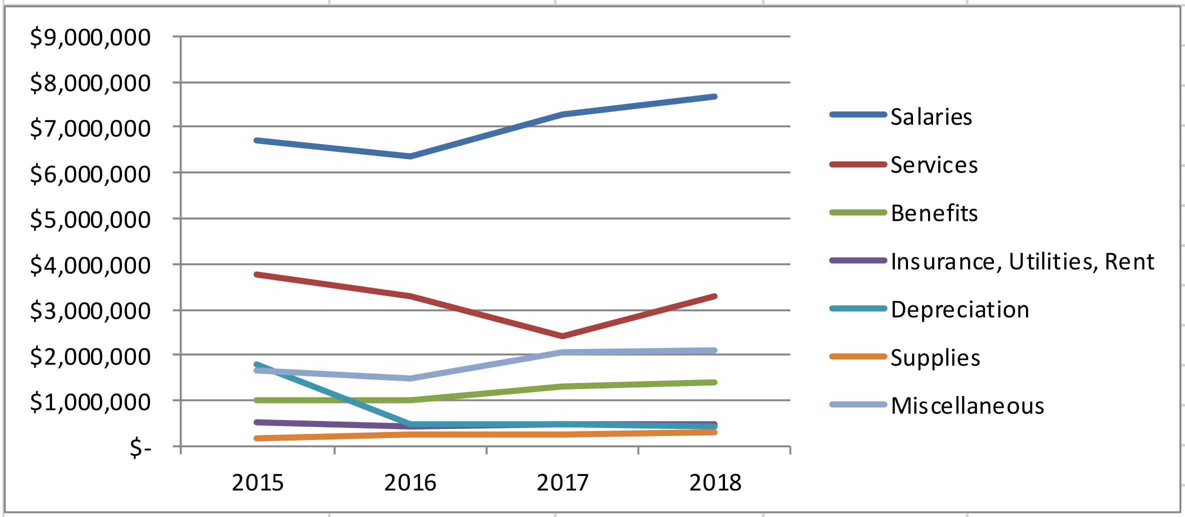


Highlights:

- Salaries constituted 43.57% and 50.72% of the College's total expenditures for fiscal years 2018 and 2017, respectively.
- Expenses for services, which include professional services contracts, bookstore operating expenses, and student expenses, represented 18.7% of total expenditures. This is up from FY17 when services represented 16.81% of total expenditures.
- Benefits expense increased $86,979 but represented a smaller share of total expenditures.
- Bad debt had an abnormally large write-off in FY18. This was long overdue and affects the percentage of total expenditures for all categories.

Comparative Expenses

	2015	2016	2017	2018
Salaries	$ 6,692,441	$ 6,344,329	$ 7,296,210	$ 7,684,902
Services	$ 3,790,690	$ 3,298,215	$ 2,417,599	$ 3,297,642
Benefits	$ 1,006,489	$ 1,002,268	$ 1,317,068	$ 1,404,047
Insurance, Utilities, Rent	$ 529,151	$ 438,636	$ 467,636	$ 506,970
Depreciation	$ 1,818,196	$ 467,511	$ 467,504	$ 428,850
Supplies	$ 193,998	$ 265,062	$ 262,625	$ 299,423
Miscellaneous	$ 1,670,546	$ 1,497,084	$ 2,056,613	$ 2,111,585



The graph above shows the College's spending pattern from fiscal year 2015 to 2018.

CAPITAL ASSETS

As of September 30, 2018, and 2017, the College had $3,683,703 and $3,639,779, respectively, invested in capital assets, net of accumulated depreciation, where applicable. These values remain depressed from pre-Typhoon Soudelor values in August 2015. For context, fiscal year 2014's capital assets were $4,648,526. After the end of FY18, NMC experienced a great loss of capital assets as a result of Super Typhoon Yutu.

LONG-TERM DEBT

The College did not engage in any long-term debt financing in fiscal year 2018.

MAJOR ACCOMPLISHMENTS AND CHALLENGES IN FISCAL YEAR 2018

NMC experienced significant change to its leadership in FY18. In February 2018, major organizational changes were made with the addition of two Vice President positions. In March 2018, Cynthia Deleon Guerrero was appointed Vice President of Learning and Student Success. Dr. Carmen Fernandez and the Board of Regents were unable to reach an agreement for a contract extension in August 2018 and Frankie Eliptico, who serves as Vice President for Administration and Advancement, was appointed Interim President.

In May 2018, NMC celebrated a record number of graduates with 257 degrees awarded including 54 bachelor's degrees, highlighting NMC's progress in 4-year degree programs. Many of these graduates have now filled key job vacancies and are now in meaningful careers and contributing to the CNMI's economic growth. By leveraging its core academic programs, maximizing its collaborative partnerships with public and private entities, and enhancing custom training programs, Northern Marianas College continues to lead the CNMI's workforce development efforts.

Further, the College continues to address critical training needs through its certificate programs that include small business management, basic law enforcement, computer applications, fire science technology, nursing assistant program, and hospitality operations. The Community Development Institute (CDI) at NMC has also stepped up its offerings on Saipan, Tinian, and Rota by offering workshops and short-term certificate programs in key areas like customer service, computer network security, childcare, and workplace safety. In 2018, CDI saw a total enrollment of about 959 participants.

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, 2018 is set forth in the report on the audit of the College's financial statements which is dated June 29, 2019. The Management's Discussion and Analysis explains the major factors impacting the 2018 financial statements. If you have questions about the 2018 or 2017 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

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

Statements of Net Position
September 30, 2018 and 2017

	2018	2017
Assets:		
Current assets:		
Cash and cash equivalents	$ 10,458,619	10,202,416
Time certificates of deposit	697,925	696,928
Accounts receivable and unbilled charges, net	966,838	2,370,181
Due from grantor agencies	1,564,799	1,274,954
Due from CNMI	178,761	178,761
Inventories	444,633	443,075
Prepayments	3,958	-
Total current assets	14,315,533	15,166,315
Noncurrent assets:		
Investments	8,604,622	8,245,278
Capital assets, net	3,683,703	3,639,779
Total noncurrent assets	12,288,325	11,885,057
Total assets	26,603,858	27,051,372
Liabilities:		
Current liabilities:		
Accounts payable	1,283,430	1,021,840
Accrued salaries and benefits payable	208,089	205,922
Current portion of compensated absences	380,950	380,950
Unearned revenues	1,438,638	1,683,301
Due to CNMI	-	588,899
Total current liabilities	3,311,107	3,880,912
Noncurrent liabilities:		
Compensated absences, net of current portion	203,292	203,292
Total liabilities	3,514,399	4,084,204
Deferred inflows of resources:		
Grant receipts	174,401	115,932
Net position:		
Investment in capital assets, net	3,683,703	3,639,779
Restricted net assets:		
Nonexpendable	3,200,000	3,200,000
Expendable	5,404,622	5,045,278
Unrestricted	10,626,733	10,966,179
Net position	$ 22,915,058	22,851,236

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, 2018 and 2017

		2018	2017
Operating revenues:			
U.S. Federal grants	$	8,419,448	7,315,196
Tuition and fees (net of scholarship discounts and allowances of $3,035,604 and $2,908,065 in 2018 and 2017, respectively)		2,759,944	1,322,885
Private gifts, grants and donations - restricted		18,530	23,995
Others (net of bookstore cost of sales of $681,148 in 2018 and $417,970 in 2017)		232,023	370,135
Net operating revenues		11,429,945	9,032,211
Operating expenses:			
Salaries		7,684,902	7,296,210
Services		3,297,642	2,417,599
Depreciation		428,850	467,504
Benefits		1,404,047	1,317,068
Insurance, utilities and rents		506,969	467,636
Supplies		299,423	262,625
Miscellaneous		2,111,585	1,956,814
Bad debts		1,904,914	99,799
Total operating expenses		17,638,332	14,285,255
Operating loss		(6,208,387)	(5,253,044)
Nonoperating revenues:			
CNMI appropriations		5,912,865	5,376,250
Realized and unrealized gain on investments		359,344	573,317
Total nonoperating revenues		6,272,209	5,949,567
Change in net position		63,822	696,523
Net position, beginning of the year		22,851,236	22,154,713
Net position, end of the year	$	22,915,058	22,851,236

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, 2018 and 2017

		2018	2017
Cash flows from operating activities:			
Tuition and fees collected	$	1,111,938	1,453,068
U.S Federal grants		8,129,603	7,488,134
Other receipts		250,553	394,130
Payments to employees		(9,088,949)	(8,613,278)
Payments to suppliers		(5,586,036)	(5,519,620)
Net cash used for operating activities		(5,182,891)	(4,236,134)
Cash flows from investing activities:			
Increase in time certificate of deposit		(997)	(536)
Net cash used for investing activities		(997)	(536)
Cash flows from noncapital financing activities:			
CNMI appropriations		5,912,865	5,376,250
Net cash provided by noncapital financing activities		5,912,865	5,376,250
Cash flows from capital and related financing activities:			
Purchases of capital assets		(472,774)	(508,561)
Net cash used for capital and related financing activities		(472,774)	(508,561)
Net change in cash and cash equivalents		256,203	631,019
Cash and cash equivalents, beginning of year		10,202,416	9,571,397
Cash and cash equivalents, end of year	$	10,458,619	10,202,416

See accompanying notes to financial statements.

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

Statements of Cash Flows, continued
For the Years Ended September 30, 2018 and 2017

		2018	2017
Reconciliation of operating loss to net cash used for operating actvities:			
Operating loss	$	(6,208,387)	(5,253,044)
Adjustments to reconcile operating loss to net cash used for operating activities:			
Depreciation		428,850	467,504
Provision for bad debts		1,904,914	99,799
Changes in assets and liabilities:			
Accounts receivable and unbilled charges, net		(501,571)	(244,711)
Due from grantor agencies		(289,845)	(271,331)
Inventories		(1,558)	191,241
Prepayments		(3,958)	26,766
Accounts payable		261,590	465,720
Accrued salaries and benefits payable		2,167	35,432
Current portion of compensated absences		-	(7,277)
Unearned revenues		(244,663)	275,095
Due to CNMI		(588,899)	-
Deferred inflows of resources		58,469	(21,328)
Net cash used for operating activities	$	(5,182,891)	(4,236,134)

See accompanying notes to financial statements.

(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).

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.

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.

(2) Summary of Significant Accounting Policies, Continued

Basis of Accounting, Continued

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, 2018 and 2017, the carrying amount of the College's cash and cash equivalents and time certificates of deposit were $11,156,544 and $10,899,344, respectively, and the corresponding bank balances were $11,642,805 and $10,830,607, respectively. Of the bank balance amounts, $11,642,805 and $11,527,534, respectively, are maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2018 and 2017, bank deposits in the amount of $692,269 and $1,309,760, 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.

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.

(2) Summary of Significant Accounting Policies, Continued

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, 2018 and 2017. 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.

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, 2018 and 2017, there were no investments in any one issuer that exceeded five percent (5%) of total investments.

(2) Summary of Significant Accounting Policies, Continued

Investments, Continued

Custodial credit risk is the risk that in the event of failure of the counterparty, the College will not be able to recover the value of its investments or collateral security that are in the possession of outside parties. Investment securities are exposed to custodial risk if the security is uninsured, 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.

(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.

(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.

(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, 2018 and 2017, the College recorded accrued annual leave in the amount of $584,242, which is included within the statements of net position 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.

(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, 2018 and 2017.

In addition to liabilities, the Statements 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, 2018, 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.

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.

(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, which has been superseded by GASB Statement No. 75, required 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.

(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, 2018, 2017 and 2016 were $205,012, $199,990 and $182,644, 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.

(2) Summary of Significant Accounting Policies, Continued

Recently Issued Accounting Pronouncements

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 does not believe that the implementation of this statement had a material effect on the financial statements.

In June 2015, GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans,* which replaces Statements No. 43, *Financial Reporting for Postemployment 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 does not believe that the implementation of this statement had a material effect on the financial statements.

In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benef*its *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 does not believe that the implementation of this statement had 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 had a material effect on the financial statements.

(2) Summary of Significant Accounting Policies, Continued

Recently Issued Accounting Pronouncements, Continued

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 had 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 had a material effect on the financial statements.

In March 2016, GASB issued Statement No. 82, *Pension Issues – an amendment of GASB Statements No. 67, No. 68, and No. 73,* which addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard 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 had a material effect on the financial statements.

In November 2016, GASB issued Statement No. 83, *Certain Asset Retirement Obligations.* This Statement addresses accounting and financial reporting for certain asset retirement obligations. GASB Statement No. 83 will be effective for the fiscal year ending September 30, 2019. Management has not evaluated the impact that the implementation of this statement will have on the financial statements.

In January 2017, GASB issued Statement No. 84, *Fiduciary Activities.* This Statement improves guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. GASB Statement No. 84 will be effective for reporting periods after December 15, 2018. Management has not evaluated the impact that the implementation of this statement will have on the financial statements.

(2) Summary of Significant Accounting Policies, Continued

Recently Issued Accounting Pronouncements, Continued

In May 2017, GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*. The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. The provisions of GASB Statement No. 86 are effective for fiscal years beginning after June 15, 2017. Management does not believe that the implementation of this statement had a material effect on the financial statements.

In June 2017, GASB issued Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and as inflows of resources or outflows of resources recognized based on the payment provisions of the contract. GASB Statement No. 87 will be effective for the College for the fiscal year ending September 30, 2021. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

New Accounting Standards

GASB Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowing and Direct Placements*. The objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. This Statement also requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance related consequences, termination events, and significant subjective acceleration clauses. This Statement also requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt. This Statement is effective for reporting periods beginning after June 15, 2018. Management has not evaluated the impact that the implementation of this statement will have on the financial statements.

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

GASB Statement No. 89, *Accounting for Interest Cost Incurred Before the end of a Construction Period*. This Statement establishes accounting requirements for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was accounted for in accordance with the requirements of paragraphs 5–22 of Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements, which are superseded by this Statement. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. This Statement also reiterates that in financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles. This Statement is effective for reporting periods beginning after December 15, 2018. Management has not evaluated the impact that the implementation of this statement will have on the financial statements.

GASB Statement No. 90, *Majority Equity Interest, an Amendment of GASB Statements No. 16 and No. 61.* The primary objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value. This Statement also requires that a component unit in which a government has a 100 percent equity interest account for its assets, deferred outflows of resources, liabilities, and deferred inflows of resources at acquisition value at the date the government acquired a 100 percent equity interest in the component unit. Transactions presented in cash flows statements of the component unit in that circumstance should include only transactions that occurred subsequent to the acquisition. This Statement is effective for reporting periods beginning after December 15, 2018. Management has not evaluated the impact that the implementation of this statement will have 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, 2018 and 2017:

	2018	2017
Student tuition and fees	$ 1,025,614	3,816,137
Auxiliary enterprises	474,067	484,060
Other activities	121,286	238,157
Total	1,620,967	4,538,354
Allowance for doubtful accounts	(654,129)	(2,168,173)
Net receivable and unbilled charges	$ 966,838	2,370,181

(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 GAAP. 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.

(4) Investments, Continued

The following table presents a summary of the College's investments by type as of September 30, 2018, at fair value:

	Fair Value September 30, 2018	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable inputs (Level 3)
Investments by Fair Value Level				
Equity Securities				
Domestic equity	$ 2,312,702	2,312,702	-	-
International equity	1,908,756	1,908,756	-	-
Total equity securities	4,221,458	4,221,458	-	-
Debt Securities				
Government Sponsored Enterprise	124,994	-	124,994	-
Real Estate and Tangibles	702,792	-	-	702,792
Cash and cash equivalents	980,436	-	-	980,436
Asset-Backed, Mortgage-Backed, Collateralized Mortgage Obligation	199,724	-	199,724	-
US Treasury	1,061,845	-	1,061,845	-
Corporate bonds	962,747	-	962,747	-
Mutual funds	350,626	350,626	-	-
Total Investments By Fair Value Level	$ 8,604,622	4,572,084	2,349,310	1,683,228

As of September 30, 2018 and 2017, the College's fixed income securities had the following maturities:

Investment type	Fair Value	than 1	1-5	6-10	than 10	Rating
Government and GSE bonds	$ 1,061,845	847,008	214,837	-	-	AAA
Government and GSE bonds	124,994	124,994	-	-	-	AA+
Corporate bonds	65,096	65,096		-	-	AA+
Corporate bonds	55,117	-	55,117	-	-	AA-
Corporate bonds	90,356	-	90,356	-	-	AA
Corporate bonds	216,888	191,677	25,211	-	-	A+
Corporate bonds	319,279	135,500	183,779	-	-	A-
Corporate bonds	81,597	81,597	-	-	-	A
Corporate bonds	134,413	62,483	71,930	-	-	BBB+
Corporate bonds	199,724	-	199,724	-	-	No rating
	$ 2,349,309	1,508,355	840,954	-	-	

(4) Investments, Continued

2017

		Investment Maturities (In Years)				
Investment type	Fair Value	Less than 1	1-5	6-10	More than 10	Rating
Government and GSE bonds	$ 1,170,625	255,240	400,294	-	515,091	AAA
Government and GSE bonds	120,075	120,075	-	-	-	AA+
Corporate bonds	55,102	-	55,102	-	-	AA+
Corporate bonds	96,485	-	45,277	51,208	-	AA-
Corporate bonds	115,668	-	115,668	-	-	AA
Corporate bonds	25,070	-	25,070	-	-	A+
Corporate bonds	226,086	-	184,505	41,581	-	A-
Corporate bonds	81,719	-	-	81,719	-	A
Corporate bonds	133,803	-	-	133,803	-	BBB+
Corporate bonds	338,877	-	31,694	227,005	80,178	No rating
	$ 2,363,510	375,315	857,610	535,316	595,269	

(5) Capital Assets

Summarized below is the College's investment in capital assets and changes for the years ended September 30, 2018 and 2017:

	Estimated Useful Lives	Balance October 1 , 2017	Additions	Deletions	Balance September 30, 2018
Buildings and improvements	5 - 30 years	$ 7,558,145	148,322	-	7,706,467
Furniture and equipment	2 - 5 years	1,686,311	221,876	(6,620)	1,901,567
Vehicles	5 years	964,943	39,784	(72,960)	931,767
Computers	3 - 5 years	1,387,097	62,792	-	1,449,889
Total depreciable assets		11,596,496	472,774	(79,580)	11,989,690
Accumulated depreciation		(9,070,093)	(428,850)	79,580	(9,419,363)
Depreciable assets, net		2,526,403	43,924	-	2,570,327
Land		1,113,376	-	-	1,113,376
Net capital assets		$ 3,639,779	43,924	-	3,683,703

(5) Capital Assets, Continued

	Estimated Useful Lives	Balance October 1 , 2016	Additions	Deletions	Balance September 30, 2017
Buildings and improvements	5 - 30 years	$ 7,328,298	229,847	-	7,558,145
Furniture and equipment	2 - 5 years	1,718,687	35,157	(67,533)	1,686,311
Vehicles	5 years	858,798	243,557	(137,412)	964,943
Computers	3 - 5 years	1,389,962	-	(2,865)	1,387,097
Total depreciable assets		11,295,745	508,561	(207,810)	11,596,496
Accumulated depreciation		(8,810,399)	(467,504)	207,810	(9,070,093)
Depreciable assets, net		2,485,346	41,057	-	2,526,403
Land		1,113,376	-	-	1,113,376
Net capital assets		$ 3,598,722	41,057	-	3,639,779

(6) Long-Term Obligation

Changes in long-term obligations for the years ended September 30, 2018 and 2017, are as follows:

	2018	2017
Compensated absences		
Balance, beginning	$ 203,292	299,701
Additions	380,950	337,704
Reductions	-	(53,163)
Balance, end	584,242	584,242
Due within one year	(380,950)	(380,950)
Noncurrent	$ 203,292	203,292

(7) Related Party Transactions

To ensure that the College carries out its mission and meets the educational and vocational needs of the community, the College receives annual appropriations from the CNMI Government. During the years ended September 30, 2018 and 2017, the College recognized $5,912,865 and $5,376,250, respectively, in appropriations from the CNMI Government. The amounts due from CNMI Government for appropriations as of September 30, 2018 and 2017 amounted to $1,200, and the amount due from CNMI Government for retirement contributions paid for retired employees amounted to $177,561 as of September 30, 2018 and 2017.

At September 30, 2018 and 2017, amounts payable for utility expense to the Commonwealth Utilities Corporation (CUC), a component unit of the CNMI Government, amounted to $30,571 and $23,848, respectively, and are included in accounts payable in the accompanying statements of net position. During the years ended September 30, 2018 and 2017, total utilities purchased from CUC amounted to $328,688 and $285,380, 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 for comparable transactions with other persons and did not involve more than a normal risk of collectability or present any other unfavorable features to the College.

(8) Natural Classifications with Functional Classification

In order to be consistent with the CNMI Government's reporting method, operating expenses are displayed in their natural classifications for fiscal years 2018 and 2017. The following table shows natural classifications with functional classifications:

	2018								
	Salaries	Services	Benefits	Insurance Utilities and Rent	Depreciation	Supplies	Bad debts	Miscellaneous	Total
Instruction	$ 2,298,455	99,876	377,461	-	-	58,515	1,904,914	141,166	4,880,387
Academic Support	466,199	22,154	76,373	-	-	8,259	-	40,388	613,373
Institutional Support	1,992,313	575,704	408,631	-	-	66,748	-	756,783	3,800,179
Student Services	787,453	261,939	175,544	-	-	28,695	-	119,811	1,373,442
Community Services	2,063,868	421,839	366,038	-	-	137,206	-	914,789	3,903,740
Scholarships	-	1,329,356	-	-	-	-	-	-	1,329,356
Auxiliary	76,614	-	-	-	-	-	-	78,368	154,982
Operation and Maintenance	-	586,774	-	506,969	428,850	-	-	60,280	1,582,873
	$ 7,684,902	3,297,642	1,404,047	506,969	428,850	299,423	1,904,914	2,111,585	17,638,332

(8) Natural Classifications with Functional Classification, Continued

	2017							
	Salaries	Services	Benefits	Insurance Utilities and Rent	Depreciation	Supplies	Miscellaneous	Total
Instruction	$ 2,303,299	26,060	455,606	-	-	54,679	161,068	3,000,712
Academic Support	747,837	57,042	90,320	-	-	6,625	132,947	1,034,771
Institutional Support	2,001,219	117,572	388,123	-	-	56,882	809,635	3,373,431
Student Services	651,420	205,832	146,561	-	-	12,068	98,657	1,114,538
Community Services	1,525,292	464,225	236,458	-	-	132,371	339,663	2,698,009
Scholarships	-	1,061,122	-	-	-	-	-	1,061,122
Auxiliary	67,143	-	-	-	-	-	121,047	188,190
Operation and Maintenance	-	485,746	-	467,636	467,504	-	393,596	1,814,482
	$ 7,296,210	2,417,599	1,317,068	467,636	467,504	262,625	2,056,613	14,285,255

(9) Commitments

The accrual basis of accounting provides that expenses include only amounts associated with goods and services received and liabilities include only the unpaid amounts associated with such expenses. Outstanding purchase orders and purchase commitments are not reported in the financial statements for the years ended September 30, 2018 and 2017.

(10) 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 contributions and related penalties and interest are not reflected in the accompanying financial statements.

(10) Contingencies, 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, 2018 and 2017 is $1,732,936 and $1,763,997, respectively. These amounts are not accrued in the accompanying financial statements.

(11) Risk Management

The College is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

The College has elected to purchase commercial insurance from independent third parties for the risks of loss to which it is exposed with respect to workers' compensation, general liability, and the use of motor vehicles. Settled claims have not exceeded this commercial coverage in any of the past three years.

For other risks of loss to which it is exposed, the College has elected not to purchase commercial insurance. Instead, the College's management believes it is more economical to manage its risks internally. The College will report all of its risk management activities, if and when such occurs. Claims expenditures and liabilities will be reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Losses, if reported, would include an estimate of claims that have been incurred but not reported. No losses as a result of these risks have occurred or have been reported within the last three years.

(12) Subsequent events

In preparing the accompanying financial statements and these footnotes, management has evaluated subsequent events through June 29, 2019, which is the date the financial statements were available to be issued. On October 25, 2018, Super Typhoon Yutu hit the islands of Saipan and Tinian causing major destruction island wide. The Northern Marianas College's facilities were damaged during the typhoon and the preliminary assessment of damages is approximately $15 million and the preliminary assessment of government assistance from FEMA is approximately $33 million.

(13) Reclassifications

Certain reclassifications have been made to the 2017 financial statements to conform to the current year presentation. These reclassifications had no effect on previously reported results of operations or net position.

NORTHERN MARIANAS COLLEGE
(A COMPONENT UNIT OF THE CNMI GOVERNMENT)

INDEPENDENT AUDITOR'S REPORTS ON INTERNAL CONTROL AND ON COMPLIANCE

YEAR ENDED SEPTEMBER 30, 2018

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Regents
Northern Marianas College:

We have audited, in accordance with the 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, the financial statements of the Northern Marianas College (the College) as of and for the year ended September 30, 2018, and the related notes to the financial statements, and have issued our report thereon dated June 29, 2019.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the College's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control. Accordingly, we do not express an opinion on the effectiveness of the College's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we did identify deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as Findings 2018-001 through 2018-003 that we consider to be significant deficiencies.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the College's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

Northern Marianas College's Response to Findings

Northern Marianas College's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Northern Marinas College's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Saipan, Commonwealth of the Northern Mariana Islands
June 29, 2019

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

Board of Regents
Northern Marianas College:

Report on Compliance for Each Major Federal Program

We have audited the Northern Marianas College's (the College's) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the College's major federal programs for the year ended September 30, 2018. The College's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the College's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and 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). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the College's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the College's compliance.

Opinion on Each Major Federal Program

In our opinion, the College complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2018

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Report on Internal Control over Compliance

Management of the College is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the College's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the College's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we did identify a deficiency in internal control, described in the accompanying schedule of findings and questioned costs as Finding 2018-004 that we consider to be significant deficiency.

Northern Marianas College's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Northern Marinas College's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Burger Comer Magliari

Saipan, Commonwealth of the Northern Mariana Islands
June 29, 2019

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

Schedule of Expenditures of Federal Awards
Year Ended September 30, 2018

Federal CFDA #	Federal Grantor/Program Title	Pass-through ID Number	Expenditures	Research and Development Cluster
	Direct from U.S. Department of Agriculture:			
10.203	Hatch Act		$ 816,955	$ 816,955
10.322	Building Faculty Capacity		15,910	-
10.500	Cooperative Extension Service		833,893	-
	Subtotal Direct Programs		1,666,758	816,955
10.303	Islands of Opportunity Alliance	none identified	1,883	-
	Pass-through Fruit Fly and Mango Fly		7,863	-
	Pass-through Solenopsis Invicta/Imptd Fire Ant		3,932	-
	Pass-through National Institutions of Food and Agriculture		29,974	-
	Pass-through Distance Learning and Telemedicine		385,214	-
	Subtotal Pass-Through Programs		428,866	-
	Total U.S. Department of Agriculture		$ 2,095,624	$ 816,955

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, 2018

Federal CFDA #	Federal Grantor/Program Title	Pass-through ID Number	Expenditures	Research and Development Cluster
	Direct from U.S. Department of Education:			
	Student Financial Aid Cluster:			
84.007	Federal Supplemental Educational Opportunity Grants		$ 45,100	
84.033	Federal Work-Study Program		40,361	
84.063	Federal Pell Grant Program		4,311,307	
84.379	Teacher Education Assistance for College and Higher Education Grants		82,667	
	Subtotal Student Financial Aid Cluster		4,479,435	
84.002	Adult Education - Basic Grants to States		368,275	
	Subtotal Direct Programs		4,847,710	
	Pass-through from Asian & Pacific Islander American Scholarship Fund:			
84.031	Enhancing Tech	none identified	289,422	
	Subtotal Pass-Through Programs		289,422	
	Total U.S. Department of Education		$ 5,137,132	
	National Endowment for the Humanities:			
	Pass-through from Northern Marianas Humanities Council:			
	Culture in the Marianas: Perspectives on the Present-day Landscape	GPH16-00261	$ 3,792	$ 3,792
	Subtotal Pass-Through Programs		3,792	3,792
	Total National Endowment for the Humanities		$ 3,792	$ 3,792

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, 2018

Federal CFDA #	Federal Grantor/Program Title	Pass-through ID Number	Expenditures	Research and Development 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	$ 71,308	$ 71,308
	Pass-through from Portland State University:			
93.310	Enhance Cross Discipline and Infrastructure and Training	205CRE491	42,235	42,235
	Pass-through from Portland State University:			
93.310	Enhance Cross Discipline and Infrastructure and Training	205CRE492	28,053	-
	Pass-through from University of Hawaii:			
93.632	Pacific Basin University Centers for Excellence in Developmental Diabilities Education, Research, and Service (B)	MA120060	163,995	163,995
	Total Pass-Through Programs		305,591	277,538
	Total U.S. Department of Health and Human Services		$ 305,591	$ 277,538
	U.S. Department of Homeland Security:			
	Pass-through from CNMI Government:			
97.unknown	Commonwealth Worker Fund	none identified	$ 629,903	
	Total Pass-Through Programs		629,903	
	Total U.S. Department of Homeland Security		$ 629,903	
	U.S. Department of the Interior:			
	Pass-through from CNMI Government:			
15.875	Economic, Social, and Political Development of the Territories - Compact Impact	none identified	$ 41,355	
	National Empowering Insular Communities Program		354	
	Solar Project		40,302	
	Total Pass-Through Programs		82,011	
	Total U.S. Department of the Interior		$ 82,011	
	Grand Total		$ 8,254,053	

See accompanying notes to Schedule of Expenditures of Federal Awards.

(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.

(3) Indirect Cost Allocation

For fiscal year 2018, 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%.

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

Schedule of Findings and Questioned Costs
Year Ended September 30, 2018

SUMMARY OF INDEPENDENT AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued:	Unmodified	
Internal control over financial reporting:		
• Material weakness(es) identified?	______ yes	X no
• Significant deficiency(ies) identified that are not considered to be material weaknesses?	X yes	______ none reported
Noncompliance material to financial statements noted?	______ yes	X no

Federal Awards

Internal control over major programs:		
• Material weakness(es) identified?	______ yes	X no
• Significant deficiency(ies) identified that are not considered to be material weaknesses?	X yes	______ none reported
Type of auditor's report issued on compliance for major federal programs:	Unmodified	
Any audit findings disclosed that are required to be reported in accordance with 2 CFR § 200.516 (a)?	______ yes	X none reported

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

Schedule of Findings and Questioned Costs
Year Ended September 30, 2018

SECTION I – SUMMARY OF INDEPENDENT AUDITORS' RESULTS, Continued

Federal Awards

Identification of major programs:

CFDA Number	Description	Federal Expenditures
	Student Financial Assistance Cluster:	
84.063	Federal Pell Grant Program	$ 4,311,307
84.379	Teacher Education Assistance for College and Higher Education (TEACH) Grant Program	82,667
84.007	Federal Supplemental Educational Opportunity Grants	45,100
84.033	Federal Work-Study Program	40,361
	Student Financial Assistance Cluster	4,479,435
10.203	Hatch Act	816,955
10.500	Cooperative Extension Services – Smith Lever	833,893
Total Federal Expenditures-Major Programs		$ 6,130,283
	Percentage of total federal awards tested	74%

Dollar threshold used to distinguish between Type A and Type B programs $ 750,000

Auditee qualified as low-risk auditee __X__ yes _____ no

SECTION II – FINANCIAL STATEMENTS FINDINGS

Finding No. 2018-001, Contracts

Finding type: Significant deficiency in internal control

Criteria:

Based on NMC procurement policy, the following should be observed:

a. If contract is above $25,000, there should be a formally advertised procurement (Invitation for Bids or Request for Proposal)
b. There should be adequate public notice. Publication in a newspaper of general circulation in the Commonwealth once per week over a period of thirty calendar days.
c. A bidding time of at least thirty calendar days shall be provided, unless the Procurement Manager determines a shorter period is reasonable and necessary.

Condition:

Two (2) of the eighteen contracts tested or 11% of the samples selected for testing showed incomplete support in terms of public notice and approval for those contracts where publication was made for less than 30 days.

Cause:

The supporting documents required to verify publication dates were not provided, since these were all lost during typhoon Yutu.

Effect:

NMC could not demonstrate compliance with their procurement policy.

Recommendation:

NMC's procurement records were in a building that withstood a previous typhoon. When the procurement office is rebuilt, it should be constructed to withstand supertyphoon conditions.

SECTION II – FINANCIAL STATEMENTS FINDINGS

Finding No. 2018-002, Payroll

Finding type: Significant deficiency in internal control

Criteria:

The pay rate paid to an employee matches the latest employment contract or approved notice of personnel action.

Condition:

a. Two (2) of ninety (90) employees, or 2% of the samples selected for testing, were paid at a rate higher than what was stated on their latest personnel action form.

Cause:

The most recent pay rate was not verified by NMC staff preparing the payroll.

Effect:

There is a possibility that incorrect salary is being paid to employees. This could overstate NMC's expenses.

Recommendation:

In order to properly pay employees, the person in charge of payroll should secure a copy of the personnel action forms and verify the rate before entering it to the system.

SECTION II – FINANCIAL STATEMENTS FINDINGS

Finding No. 2018-003, Travel Authorization

Finding type: Significant deficiency in internal control

Criteria:

NMC's policies do not address whether repatriation will be paid for employees or their dependents.

Condition:

In one (1) of 90 travel authorizations or 1% of the travel transactions tested, NMC paid for the repatriation of one of their employees together with his dependent.

Effect:

NMC is not in compliance with its travel policies and procedures.

Recommendation:

In order to ensure that the travel transaction complies with their travel policies and procedures, verification of the purpose of travel should be performed and confirmed that it conforms to their policies. If NMC plans to pay for repatriation in the future, this should be included in NMC's policies.

SECTION III – FEDERAL AWARDS FINDINGS

Finding No. 2018-004, Payroll

Federal Agencies	US Department of Agriculture
Program Name	Hatch Act
CFDA No.	10.203
Repeat Finding from Prior Audit?	No
Finding Type	Significant deficiency

Criteria:

Annual leave and sick leave credits taken must be reviewed and approved prior to payment.

Condition:

For 1 of 90 items tested, or 1% of the sample, we noted that approved hours for annual leave in the leave form did not match the hours indicated on the timesheet.

Cause:

There was a discrepancy in the leave hours found in the timesheet and in the leave form. This discrepancy was not addressed when the hours were entered in the system.

Effect:

NMC did not comply with their payroll internal control requirements in which verification of leave credits taken should be done before entering it to the system. With this situation, an incorrect amount of salary was provided to the employee.

Recommendation:

Comparison of the leave hours taken between the timesheet and the leave form should be done before entering the payroll information to the system to ensure that approved hours in the leave form agrees with the timesheet.

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

Schedule of Prior Year Findings and Questioned Costs
Year Ended September 30, 2018

There were no unresolved audit findings and questioned costs from the prior year audits of the College.