

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

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

Years Ended September 30, 2012 and 2011

NORTHERN MARIANAS COLLEGE
(A Component Unit of the CNMI Government)
Years Ended September 30, 2012 and 2011

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INDEPENDENT AUDITORS' REPORT

Board of Regents
Northern Marianas College

I have audited the accompanying statement of net assets of the Northern Marianas College (the College), a component unit of the Commonwealth of the Northern Mariana Islands (CNMI) Government, as of September 30, 2012 and the related statements of revenues, expenses and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the College's management. My responsibility is to express an opinion on these financial statements based on my audit. The financial statements of the College as of September 30, 2011, were audited by other auditors whose report dated June 28, 2012, expressed an unqualified opinion on those statements before restatement.

I conducted my audit 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 I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control over financial reporting. Accordingly, I express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provide a reasonable basis for my opinion.

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Northern Marianas College as of September 30, 2012 and its changes in net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

I also audited the adjustments described in Note 13 that were applied to restate the 2011 financial statements. In my opinion, such adjustments are appropriate and have been properly applied.

As discussed in note 2 to the financial statements, the College has not recorded a liability and benefits expense related to an increase in retirement contributions.

In accordance with Government Auditing Standards, I have also issued my report dated June 3, 2013, on my consideration of internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of my audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 12 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. I 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 I obtained during my audit of the basic financial statements. I 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.

My audit was conducted for the purpose of forming opinions on the financial statements of the Northern Marianas College as a whole. The accompanying schedule of expenditures of federal awards on pages 38 through 39 is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is also not a required part of the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.



Saipan, Commonwealth of the Northern Mariana Islands
June 3, 2013



Northern Marianas College

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Management's Discussion and Analysis Year Ended September 30, 2012

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, 2012 with comparisons to prior fiscal years ended September 30, 2011 and 2010. We encourage readers to consider the information presented here in conjunction with the financial statements and related notes (pages 13 through 33).

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 Assets* presents information on assets and liabilities, with the difference between the two reported as net assets. Changes in net assets over time may provide an indicator as to whether the financial position of the College is improving or deteriorating.

Net assets are divided into three major categories.

- The first category, invested in capital assets, indicates the College's equity in property, plant and equipment.
- The second category is restricted net assets, 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 net assets. Unrestricted net assets can be used for any lawful purpose of the College.

The *Statements of Revenues, Expenses and Changes in Net Assets* report how net assets have 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 Assets.
- Cash flows from non-capital financing activities include operating grant proceeds.
- Cash flows from capital and related financing activities include the borrowing and repayment (principal and interest) of capital-related debt, the acquisition and construction of capital assets, and the proceeds of capital grants and contributions.
- Cash flows from investing activities include proceeds from sale of investments, receipt of interest and changes in the fair value of investments subject to reporting as cash equivalents. Outflows in this category include the purchase of investments.

Notes to the Financial Statements

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

FINANCIAL HIGHLIGHTS AND ANALYSIS OF BASIC FINANCIAL STATEMENTS

Condensed Statements of Net Assets

| | 2012 | 2011 | Increase (Decrease) | |
|---------------------|----------------------|----------------------|---------------------|-------------|
| | | | Amount | Percent |
| ASSETS: | | | | |
| Current assets | \$ 9,296,321 | \$ 9,267,420 | \$ 28,901 | 0.31 |
| Capital assets, net | 5,492,298 | 5,626,176 | (133,878) | (2.38) |
| Other assets | 6,164,705 | 5,351,055 | 813,650 | 15.21 |
| Total Assets | \$ 20,953,324 | \$ 20,244,651 | \$ 708,673 | 3.50 |

| | | | | |
|--------------------------|---------------------|---------------------|-----------------------|----------------|
| LIABILITIES: | | | | |
| Current liabilities | \$ 1,911,193 | \$ 2,909,841 | \$ (998,648) | (34.32) |
| Noncurrent liabilities | 202,448 | 218,592 | (16,144) | (7.39) |
| Total Liabilities | \$ 2,113,641 | \$ 3,128,433 | \$ (1,014,792) | (32.44) |

NET ASSETS

| | | | | |
|----------------------------|----------------------|----------------------|---------------------|--------------|
| Invested in capital assets | \$ 5,492,298 | \$ 5,626,176 | \$ (133,878) | (2.38) |
| Restricted net assets | 6,164,705 | 5,351,055 | 813,650 | 15.21 |
| Unrestricted | 7,182,680 | 6,138,987 | 1,043,693 | 17.00 |
| Total Net Assets | \$ 18,839,683 | \$ 17,116,218 | \$ 1,723,465 | 10.07 |

| | 2011 | 2010 | Increase (Decrease) | |
|---------------------|----------------------|----------------------|---------------------|-------------|
| | | | Amount | Percent |
| ASSETS: | | | | |
| Current assets | \$ 9,267,420 | \$ 7,961,377 | \$ 1,306,043 | 16.40 |
| Capital assets, net | 5,626,176 | 5,955,876 | (329,700) | (5.54) |
| Other assets | 5,351,055 | 5,421,759 | (70,704) | (1.30) |
| Total Assets | \$ 20,244,651 | \$ 19,339,012 | \$ 905,639 | 4.68 |

| | | | | |
|--------------------------|---------------------|---------------------|--------------------|---------------|
| LIABILITIES: | | | | |
| Current liabilities | \$ 2,909,841 | \$ 2,941,416 | \$ (31,575) | (1.07) |
| Noncurrent liabilities | 218,592 | 220,824 | (2,232) | (1.01) |
| Total Liabilities | \$ 3,128,433 | \$ 3,162,240 | \$ (33,807) | (1.07) |

NET ASSETS

| | | | | |
|----------------------------|----------------------|----------------------|-------------------|-------------|
| Invested in capital assets | \$ 5,626,176 | \$ 5,955,876 | \$ (329,700) | (5.54) |
| Restricted net assets | 5,351,055 | 5,421,759 | (70,704) | (1.30) |
| Unrestricted | 6,138,987 | 4,799,137 | 1,339,850 | 27.92 |
| Total Net Assets | \$ 17,116,218 | \$ 16,176,772 | \$ 939,446 | 5.81 |

- Total assets at September 30, 2012 amounted to \$20,953,324. This increased by \$708,673 or 3.50% from \$20,244,651 as of September 30, 2011. The increase is primarily due to the increase in the carrying values of the College's endowment fund investments.

- Total liabilities at September 30, 2012 amounted to \$2,113,641. This decreased by \$1,014,792 or 32.44% from \$3,128,433 in 2011. The decrease is due to lower deferred revenues in 2012. Deferred revenues pertain to the portion of the Fall tuition that pertains to the next fiscal year. The Deferred revenue in 2012 is reduced by the corresponding portion of the scholarships.
- Net Assets at September 30, 2012 amounted to \$18,839,683 from \$17,116,218 in 2011. The \$1,723,465 or 10.07% increase is primarily due to lower operating expenses in fiscal year 2012. This was also due to the College's strong financial planning and combined efforts to reduce costs and increase collections

Condensed Statements of Revenues, Expenses and Changes in Net Assets

| | 2012 | | 2011 | | Increase (Decrease) | | |
|-------------------------------|------|-------------|------|-------------|---------------------|-------------|---------|
| | | | | | Amount | Percent | |
| Operating revenues, net | \$ | 11,662,132 | \$ | 13,782,356 | \$ | (2,120,224) | (15.38) |
| Operating expenses | | 14,501,004 | | 17,157,317 | | (2,656,313) | (15.48) |
| Operating loss | | (2,838,872) | | (3,374,961) | | 536,089 | (15.88) |
| Nonoperating revenues | | 4,562,337 | | 4,314,407 | | 247,930 | 5.75 |
| Change in net assets | | 1,723,465 | | 939,446 | | 784,019 | 83.46 |
| Net assets, beginning of year | | 17,116,218 | | 16,176,772 | | 939,446 | 5.81 |
| Net assets, end of year | \$ | 18,839,683 | \$ | 17,116,218 | \$ | 1,723,465 | 10.07 |

| | 2011 | | 2010 | | Increase (Decrease) | | |
|-------------------------------|------|-------------|------|-------------|---------------------|-------------|---------|
| | | | | | Amount | Percent | |
| Operating revenues, net | \$ | 13,782,356 | \$ | 10,481,359 | \$ | 3,300,997 | 31.49 |
| Operating expenses | | 17,157,317 | | 15,025,733 | | 2,131,584 | 14.19 |
| Operating loss | | (3,374,961) | | (4,544,374) | | 1,169,413 | (25.73) |
| Nonoperating revenues | | 4,314,407 | | 5,789,680 | | (1,475,273) | (25.48) |
| Change in net assets | | 939,446 | | 1,245,306 | | (305,860) | (24.56) |
| Net assets, beginning of year | | 16,176,772 | | 14,931,466 | | 1,245,306 | 8.34 |
| Net assets, end of year | \$ | 17,116,218 | \$ | 16,176,772 | \$ | 939,446 | 5.81 |

NMC's net assets increase as of September 30, 2012 increase by \$1,723,465 or 10.07%, despite the decrease in operating revenues by \$2,120,224 or 15.38% compared to fiscal 2011, because of NMC's notable effort to reduce its operating expenses. Operating expenses in fiscal year 2012 is \$2,656,313 or 15.48% lower that prior year. A detailed analysis of revenues and expenses follows this section.

Revenues by Sources

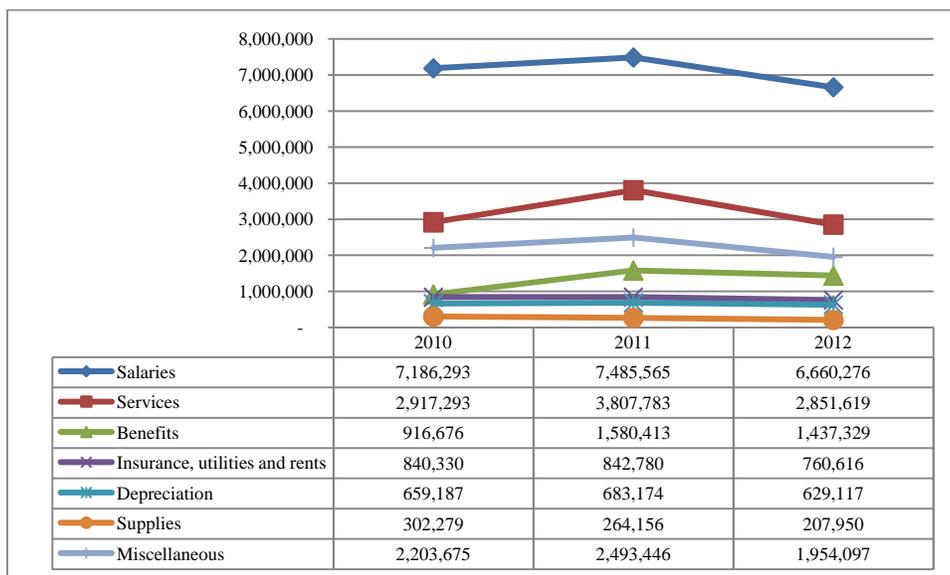
| | 2012 | | 2011 | |
|---------------------------------------|----------------------|---------------|----------------------|---------------|
| | Amount | % of Total | Amount | % of Total |
| Operating revenues: | | | | |
| U.S Federal grants | \$ 9,472,580 | 58.38 | \$ 11,872,542 | 65.61 |
| Tuitions and fees | 1,385,230 | 8.54 | 1,191,403 | 6.58 |
| Private gifts, grants and donations | 15,555 | 0.10 | 13,300 | 0.07 |
| Others | 788,767 | 4.86 | 705,111 | 3.90 |
| Total operating revenues | 11,662,132 | 71.88 | 13,782,356 | 76.16 |
| Nonoperating | | | | |
| CNMI appropriations | 3,748,689 | 23.11 | 4,385,111 | 24.23 |
| Investment income | 58,450 | 0.36 | 99,277 | 0.55 |
| Realized gain on investments | 353,670 | 2.18 | 403,454 | 2.23 |
| Unrealized gain (loss) on investments | 401,528 | 2.47 | (573,435) | (3.17) |
| | 813,648 | 5.01 | (70,704) | (0.39) |
| Total nonoperating revenues | 4,562,337 | 28.12 | 4,314,407 | 23.84 |
| Total revenues | \$ 16,224,469 | 100.00 | \$ 18,096,763 | 100.00 |

- Grants for the U.S Federal Agencies constitute 58.38% and 65.61% of the College's total revenues in 2012 and 2011, respectively. The grants received from U.S Federal Agencies decreased by \$2,399,962 or 20.21%, primarily due to the completion of majority of the ARRA grants in 2011.
- Student tuition and fees increased by \$193,827 between fiscal years 2012 and 2011. The increase is due to increased recruitment and marketing efforts as well as activities such as Cash for College, and College Access Challenge Grant activities. This is attributed to various factors including the College's cognizant planning efforts and support from the CNMI government in allowing students to attend the College for their first two years of a student's College career. GASB 34 and 35 requires that tuition and fees revenues from students be reported net of scholarship discounts and allowances. Discounts and allowances are the difference between the College's stated charges for tuition and fees and the amount paid by the students or third parties on behalf of the students.
- It is noted that a material portion of the College's tuition and fees are funded via Pell Grants to students. The College relies on revenues from tuition and fees for non-payroll related expenses of the College, including equipment renewals, replacements and maintenance.

- Appropriation received from the CNMI Government constitutes 23.11% and 24.23% of the College's total revenues. The College relies on the CNMI appropriation to augment the operating revenues provide cash flows for the College's operating expenses. Appropriations from the CNMI for fiscal year 2012 decreased by \$636,422 or 14.51%. In anticipation of such decrease, the College planned for and adjusted its finances to absorb the impact and maintain its financial stability.
- The investment income increased significantly from prior year primarily due to the increase in fair values of the investment corpus. This however, are unrealized gains and is still subject to the market volatility. The College's investments are managed by NMC Foundation governed by College's Investment policies which limits the risks exposure of the investments.

Expenses by Natural Classification

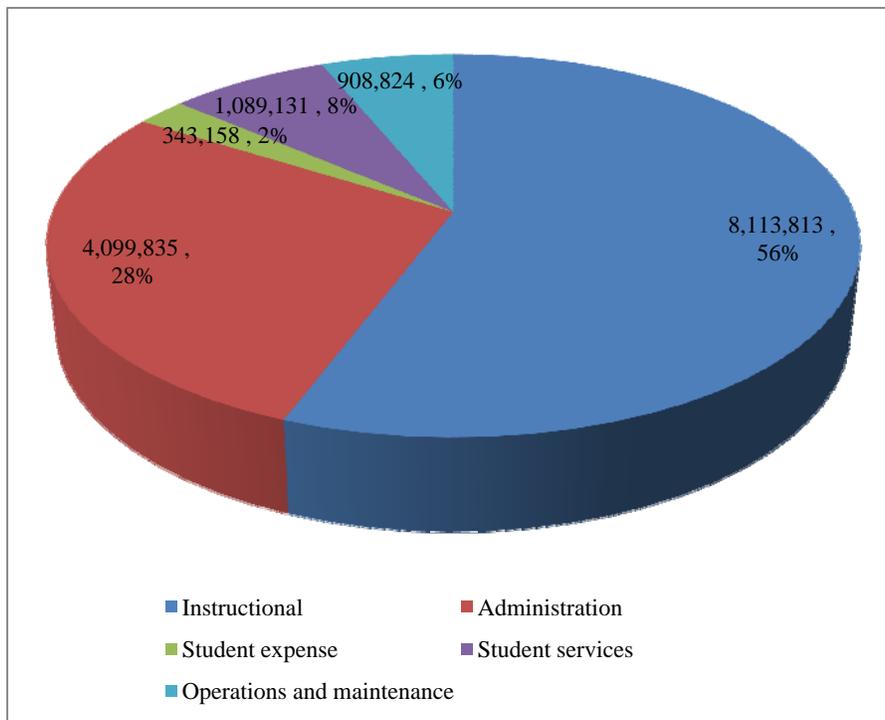
| | 2012 | | 2011 | |
|--------------------------------|---------------|------------|---------------|------------|
| | Amount | % of Total | Amount | % of Total |
| Salaries | \$ 6,660,276 | 45.93 | \$ 7,485,565 | 43.63 |
| Services | 2,851,619 | 19.67 | 3,807,783 | 22.19 |
| Benefits | 1,437,329 | 9.91 | 1,580,413 | 9.21 |
| Insurance, utilities and rents | 760,616 | 5.25 | 842,780 | 4.91 |
| Depreciation | 629,117 | 4.34 | 683,174 | 3.98 |
| Supplies | 207,950 | 1.43 | 264,156 | 1.54 |
| Miscellaneous | 1,954,097 | 13.48 | 2,493,446 | 14.53 |
| | \$ 14,501,004 | 100.00 | \$ 17,157,317 | 100.00 |



- Salaries constitute 45.93% and 43.63% of the College's total expenditures for fiscal years 2012 and 2011, respectively. Total salaries expenses in 2012 decreased by \$825,289 or 11.03%. This is due to the phase out of the salaried positions funded under the America Recover Reinvestment Act (ARRA) State Financial Stability Funds (SFSF).

- Expenses for Services, which includes professional service contracts, bookstore operating expenses and student expenses decreased by \$956,164 or 25%. The College contract expenses decreased with the closing of major ARRA funding in 2011.
- A miscellaneous expense, which includes the travel, purchase of assets below \$5,000 and other operating expenses decreased by \$539,349 or 21.63% compared to 2011. This is also related to the ARRA funding in 2011 which provided funding for the College to purchase equipment.
- There were no significant changes in the other expense categories.

Expenses by Function



The graph above shows how the College is spending based on its function. The College spends 56% of its operating expenses on Instructional expenses. This includes salaries and benefits and professional contracts among others.

PROPERTY, PLANT AND EQUIPMENT

At September 30, 2012, 2011 and 2010, the College had \$5,492,298, \$5,626,176 and \$5,955,876 respectively, invested in capital assets, net of accumulated depreciation, where applicable. See note 5 to the financial statements for more information on the College's property, plant and equipment.

LONG-TERM DEBT

The College did not engage in any long-term debt financing in fiscal year 2012. See note 6 to the financial statements for more information on the College's long-term obligations.

MAJOR ACCOMPLISHMENT AND CHALLENGES IN FISCAL YEAR 2012

To the best of its ability, the College continued to weather the CNMI's financial storm, iron out Accreditation issues, all while maintaining a conducive and quality learning environment for the students and stakeholders the College serves. As clearly evident in the financial statements, not unlike other agencies and instruments of the CNMI Government, the College was subject to reductions in funding from appropriations. In addition, the CNMI economic turmoil continues to be highly impacted by the eminent loss of its non-resident/international workforce as members of this community are being forced back to their recognized homelands. In such, as the bread winners of the non-resident/international families' leave, the family usually follows, and unfortunately, that means that the numbers of non-resident/international students are forced to attend College elsewhere. This is a reflection of the difficult economic conditions in the CNMI. To cope with a drastic reduction in funding, the College made major efforts to continue to stabilize its financial resources. Through financial planning, the College quickly adjusted its expense levels and reorganized itself to operate within the reduced resource levels. To do this, the College had to make the tough choice of materially adjusting its personnel costs downward and shifting qualified employees to federal or special funding. In spite of these circumstances, the College continued to strengthen its financial statements as clearly evident in the overall increase in its net assets during the period, which has been relatively consistent since fiscal year 2006, when the College was first subject to a drastic reduction in its support from CNMI appropriations.

The College continued to be prudent in its expenditure patterns and management of cash flows in fiscal year 2012 and as a result, complied again with its Board of Regents policy and accreditation standards relative to fiscal stability.

As mentioned earlier, NMC's net assets increase as of September 30, 2012 increase by \$1,775,725 or 10.41%, despite the decrease in operating revenues by \$2,067,964 or 15.00% compared to fiscal 2011, because of NMC's notable effort to reduce its operating expenses. Operating expenses in fiscal year 2012 is \$2,656,313 or 15.48% lower that prior year. A detailed analysis of revenues and expenses follows this section. This will assist the College in continuing to remain financially sound during these rather tumultuous economic times for the CNMI.

The College credits prudent financial planning and a collaborative spirit amongst its employees, students, administrators and board for the College's financial stability and successful financial year in FY 2012. The College faced the challenge of the expiration of three million dollars in federal funds from the one-time funding from SFSF ARRA funds in FY 2011, rising utilities costs, as well as the reduction in appropriations support. Even with such challenges, the College remained financially sound by reducing its costs by over thirty percent, reducing and reconfiguring how the College uses and consumes its utilities, and maximizing upon its revenue generation opportunities.

The College continued to see an increase of resident enrollment of over 1,000 academic students per year since fiscal year 2010, an average of 1,200 non-academic students per year, and an average of 23,000 non-traditional students and consumers per year. The College's School of Education has continues to place an average of over ninety percent (>90%) of its graduates into the workforce. The remaining programs at the College continue to place an average of of over seventy percent (>70%) of its graduates into the workforce. Most students who graduate from NMC work in meaningful and fulfilling jobs or careers. In relation to such, the College continues to strive to help re-build the CNMI's economy, workforce, services, and resources by providing technical assistance to CNMI entities in the private, public, and non-profit sectors. A few type of technical assistance provide include grant writing and grant management services, development of the agriculture and aquaculture industries, professional services, courses, workshops, forums, data collection, research, and other areas within the College's mandates and abilities. In addition, the College has worked diligently to have graduating high school students and other community members remain in the CNMI through federal financial aid services and programs, and by working with key entities to provide essential services for our communities.

In planning for the upcoming Fiscal Year 2013, the College continues to be prudent in its expenditure patterns and management of cash flows. Monitoring utility usages, cutting back on hours of Utility usage, reducing obligations through methods identified in the College's Form 3 Resource Allocation processes, increase minimum number of students in classes, increase classroom capacity and seating capacities, and continuously seeking improved and diversified revenue generating opportunities are being implemented and/or explored.

Please see the College's official fiscal year 2012 Annual Report for more information.

ECONOMIC OUTLOOK

There are signs that the CNMI's economic outlook will improve very slightly in the upcoming year, however, government funding continues to be bleak. In fiscal year 2012, governmental budgets continued to face additional reductions from that of fiscal year 2011 across the board. This is expected to level off in fiscal year 2013. Signs are positive that austerity measures and work reduction hours will be eliminated in the Central CNMI Government for FY 2013. Tourism, the only remaining industries with a major role in driving the CNMI's economy, is forecasted to improve as chartered flights from Russia, China, and Korea continues to rise. The College continues to make efforts to help the CNMI by restructuring the U.S. Apprenticeship program and housing such under the Dean of Administration and Resource Development and building it workforce development programs to be more in tune with the needs of the dynamic changes the CNMI's economy has been going through.

While several efforts are underway to look at alternative industries to revive the CNMI's economy, appreciable growth is anticipated in the foreseeable future. The College's budget under appropriations is expected to increase for fiscal year 2013 as well as funding to be allocated from Commonwealth Workers (CW) Fee of \$500,000 that is expected to help the College financially. The College will continue to make necessary cuts and take internal measures to ensure that this will not result in the College operating in a deficit. The College, however, has mechanisms in place to closely monitor such actions and is actively pursuing alternative funding opportunities to compensate for reductions in the traditional sources of funding.

CONTACTING THE COLLEGE'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the College's finances and to demonstrate the College's accountability for the money it receives. The Management's Discussion and Analysis for the year ended September 30, 2012 is set forth in the report on the audit of the College's financial statements which is dated June 3, 2013. The Discussion and Analysis explains the major factors impacting the 2012 financial statements. If you have questions about the 2011 or 2010 reports, or need additional information, please contact the Dean of Administration at the Northern Marianas College, P.O. Box 501250, Saipan, MP 96950, or email dattao@nmcnet.edu.

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

Statements of Net Assets
September 30, 2012 and 2011

| | <u>2012</u> | <u>2011</u> Restated |
|---|----------------------|-------------------------|
| Assets: | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 5,504,633 | \$ 5,247,213 |
| Time certificate of deposit | 693,748 | 692,789 |
| Accounts receivable and unbilled charges, net | 1,434,157 | 1,014,868 |
| Due from grantor agencies | 881,531 | 1,508,345 |
| Due from CNMI | 177,562 | 317,096 |
| Inventories | 598,208 | 457,471 |
| Prepayments | <u>6,482</u> | <u>29,638</u> |
| Total current assets | <u>9,296,321</u> | <u>9,267,420</u> |
| Noncurrent assets: | | |
| Investments | 6,164,705 | 5,351,055 |
| Property, plant and equipment, net | <u>5,492,298</u> | <u>5,626,176</u> |
| Total noncurrent assets | <u>11,657,003</u> | <u>10,977,231</u> |
| Total assets | <u>\$ 20,953,324</u> | <u>\$ 20,244,651</u> |
| Liabilities: | | |
| Current liabilities: | | |
| Accounts payable | \$ 560,301 | \$ 767,013 |
| Accrued salaries and benefit payable | 275,296 | 470,548 |
| Current portion of compensated absences | 380,949 | 407,009 |
| Deferred revenues | <u>694,647</u> | <u>1,265,271</u> |
| Total current liabilities | 1,911,193 | 2,909,841 |
| Noncurrent liabilities: | | |
| Compensated absences, net of current portion | <u>202,448</u> | <u>218,592</u> |
| Total liabilities | <u>2,113,641</u> | <u>3,128,433</u> |
| Commitments and contingencies | | |
| Net assets: | | |
| Invested in capital assets | 5,492,298 | 5,626,176 |
| Restricted net assets: | | |
| Nonexpendable | 3,200,000 | 3,200,000 |
| Expendable | 2,964,705 | 2,151,055 |
| Unrestricted | <u>7,182,680</u> | <u>6,138,987</u> |
| Total net assets | <u>18,839,683</u> | <u>17,116,218</u> |
| Total liabilities and net assets | <u>\$ 20,953,324</u> | <u>\$ 20,244,651</u> |

See accompanying notes to financial statements.

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

Statements of Revenues, Expenses and Changes in Net Assets
For the Years Ended September 30, 2012 and 2011

| | <u>2012</u> | <u>2011</u> Restated |
|--|----------------------|-------------------------|
| Operating revenues: | | |
| U.S Federal grants | \$ 9,472,580 | \$ 11,872,542 |
| Tuitions and fees (net of scholarship discounts and allowances of \$3,149,009 and \$2,815,895 in 2012 and 2011 respectively) | 1,385,230 | 1,191,403 |
| Private gifts, grants and donations - restricted | 15,555 | 13,300 |
| Others (net of bookstore cost of sales of \$392,992 in 2012 and \$445,004 in 2011) | <u>788,767</u> | <u>705,111</u> |
| Net operating revenues | <u>11,662,132</u> | <u>13,782,356</u> |
| Expenses: | | |
| Salaries | 6,660,276 | 7,485,565 |
| Services | 2,851,619 | 3,807,783 |
| Benefits | 1,437,329 | 1,580,413 |
| Insurance, utilities and rents | 760,616 | 842,780 |
| Depreciation | 629,117 | 683,174 |
| Supplies | 207,950 | 264,156 |
| Miscellaneous | <u>1,954,097</u> | <u>2,493,446</u> |
| Total operating expenses | <u>14,501,004</u> | <u>17,157,317</u> |
| Operating loss | <u>(2,838,872)</u> | <u>(3,374,961)</u> |
| Nonoperating revenues: | | |
| CNMI Appropriations | 3,748,689 | 4,385,111 |
| Investment income | 58,450 | 99,277 |
| Realized gain on investments | 353,670 | 403,454 |
| Unrealized gain (loss) on investments | <u>401,528</u> | <u>(573,435)</u> |
| Total nonoperating revenues | <u>4,562,337</u> | <u>4,314,407</u> |
| Increase in net assets | 1,723,465 | 939,446 |
| Net assets, beginning of the year (restated) | <u>17,116,218</u> | <u>16,176,772</u> |
| Net assets, end of the year | <u>\$ 18,839,683</u> | <u>\$ 17,116,218</u> |

See accompanying notes to financial statements.

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

Statements of Cash Flows
For the Years Ended September 30, 2012 and 2011

| | 2012 | 2011 |
|---|-----------------------|-----------------------|
| Cash flows from operating activities: | | |
| Student tuition and fees | \$ 965,941 | \$ 2,039,780 |
| U.S Federal grants | 10,099,394 | 11,689,861 |
| Other receipts | 804,322 | 1,310,375 |
| Payments to employees | (6,897,732) | (8,958,062) |
| Payments to suppliers | <u>(8,106,528)</u> | <u>(8,126,121)</u> |
| Net cash used in operating activities | <u>(3,134,603)</u> | <u>(2,044,167)</u> |
| Cash flows from investing activities | | |
| Proceed from sale and maturities of investment securities | 2,138,710 | 5,739,982 |
| Net interest and dividend | 58,450 | 99,277 |
| Purchase of investment securities | (2,197,162) | (5,839,259) |
| Purchase of time certificate of deposit | <u>(959)</u> | <u>(2,434)</u> |
| Net cash used in investing activities | <u>(961)</u> | <u>(2,434)</u> |
| Cash flows from noncapital financing activities: | | |
| CNMI Appropriations | <u>3,888,223</u> | <u>4,481,935</u> |
| Net cash provided by noncapital financing activities | <u>3,888,223</u> | <u>4,481,935</u> |
| Cash flows capital and related financing activities: | | |
| Purchases of property, plant and equipment | <u>(495,239)</u> | <u>(353,474)</u> |
| Net cash used in capital and related financing activities | <u>(495,239)</u> | <u>(353,474)</u> |
| Net increase in cash and cash equivalents | 257,420 | 2,081,860 |
| Cash and cash equivalents, beginning of year | <u>5,247,213</u> | <u>3,165,353</u> |
| Cash and cash equivalents, end of year | <u>\$ 5,504,633</u> | <u>\$ 5,247,213</u> |
| Reconciliation of operating loss to net cash used in operating activities | | |
| Operating loss | \$ (2,838,872) | \$ (3,374,961) |
| Adjustments to reconcile operating loss to net cash used in operating activities: | | |
| Depreciation | 629,117 | 683,174 |
| Changes in assets and liabilities | | |
| Accounts receivable and unbilled charges, net | (419,289) | 1,016,364 |
| Due from grantor agencies | 626,814 | (182,681) |
| Inventories | (140,737) | (128,132) |
| Prepayments | 23,156 | (24,124) |
| Accounts payable | (206,712) | (120,696) |
| Accrued salaries and benefit payable | (195,252) | 98,163 |
| Current portion of compensated absences | (42,204) | 9,753 |
| Deferred revenues | <u>(570,624)</u> | <u>(21,027)</u> |
| Net cash used in operating activities | <u>\$ (3,134,603)</u> | <u>\$ (2,044,167)</u> |

See accompanying notes to financial statements.

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

Notes to Financial Statements
September 30, 2012 and 2011

(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, 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.

(2) Summary of Significant Accounting Policies

Basis of Presentation

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

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

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

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.

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

Notes to Financial Statements
September 30, 2012 and 2011

(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.

Budgetary Comparison

Under GASBS No. 34, budgetary comparison information is required to be presented for the general fund and each major special revenue fund with a legally adopted budget. The Authority is not legally required to adopt a budget for the general fund. Therefore, budget comparison information is not included in the Authority's financial statements.

Cash and Cash Equivalents

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

As of September 30, 2012 and 2011, cash and cash equivalents and time certificate of deposit were \$6,198,381 and \$5,940,002, respectively, and the corresponding bank balances were \$6,387,564.12 and \$6,368,494, respectively, which are maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2012 and 2011, bank deposits in the amount of \$750,000 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 fee charges to student and auxiliary enterprise services provided to students, faculty and staff. Accounts receivable also include amounts due from the federal government and the CNMI government, or private sources, in connection with reimbursement of allowable expenditures made pursuant to the College's grants and contracts. Accounts receivable are recorded net of estimated allowances for uncollectible amounts.

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

Notes to Financial Statements
September 30, 2012 and 2011

(2) Summary of Significant Accounting Policies, Continued

Accounts Receivable and Allowance for Doubtful Accounts, Continued

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

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.

Property, Plant and Equipment

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 and building and improvements are recorded at fair market values at September 30, 2012 and 2011. 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 fixed assets acquired subsequent to 1994, except for land and buildings and improvements. Accordingly, fixed asset records consist of additions commencing in fiscal year 1994 since any earlier acquired fixed assets have been fully depreciated or disposed.

Investments

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

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

Concentration of credit risk for investments is the risk of loss attributed to the magnitude of an entity's investment in a single issuer. GASB Statement No. 40 requires disclosure by issuer and amount of investments in any one issuer that represents five percent (5%) or more of total investments for the College. As of September 30, 2012 and 2011, there were no investments in any one issuer that exceeded five percent (5%) of total investments.

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

Notes to Financial Statements
September 30, 2012 and 2011

(2) Summary of Significant Accounting Policies, Continued

Investments, Continued

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

General:

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

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

Notes to Financial Statements
September 30, 2012 and 2011

(2) Summary of Significant Accounting Policies, Continued

Investments, Continued

U.S. Fixed Income, Continued:

- 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.

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.

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

Notes to Financial Statements
September 30, 2012 and 2011

(2) Summary of Significant Accounting Policies, Continued

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.

Deferred Revenue

Deferred 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, 2012 and 2011, the College recorded accrued annual leave in the amount of \$583,397 and \$625,601, respectively, which is included within the statements of net assets as compensated absences.

Net Assets

The College's net assets are classified as follows:

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

Restricted Net Assets - Expendable - Restricted expendable net assets include resources in which the College is legally or contractually obligated to spend resources in accordance with restrictions imposed by external third parties.

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

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

Notes to Financial Statements
September 30, 2012 and 2011

(2) Summary of Significant Accounting Policies, Continued

Net Assets, Continued

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

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

Classification of Revenues

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

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

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

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

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

Notes to Financial Statements
September 30, 2012 and 2011

(2) Summary of Significant Accounting Policies, Continued

Retirement Plan

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

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

GASB Statement No. 45 requires employers to record other postemployment benefits (OPEB) expense for their contractually required contributions to the OPEB plan. Except as described in the paragraphs below, the College has complied with GASB Statement No. 45 by recording OPEB expense based on the statutory determined contribution rate of the Fund. It is the understanding of the management of the College that the statutory 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 6.5% and 9% of their annual covered salary for Class I and Class II members, respectively. On June 14, 2007, Public Law No. 15-70 was enacted to amend the NMIRF Act to improve the DB Plan's fiscal solvency. Public Law No. 15-70 provides for increasing employee contributions to the DB Plan by 1% per year beginning in fiscal year 2008 until reaching 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, 2012 and 2011 is 60.8686% and 37.3909%, respectively, of covered payroll.

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

Notes to Financial Statements
September 30, 2012 and 2011

(2) Summary of Significant Accounting Policies, Continued

Retirement Plan, Continued

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

Defined Contribution Plan (DC Plan)

On June 16, 2006, Public Law No. 15-13 was enacted which created the DC Plan, a multiemployer pension plan and is the single retirement program for all employees whose first time CNMI government employment commences on or after January 1, 2007. Each member of the DC Plan is required to contribute to the member's individual account an amount equal to 10% of the member's compensation. The College is required to contribute to each member's individual account an amount equal to 4% of the member's compensation. The DC Plan by its nature is fully funded on a current basis from employer and member contributions. Members of the DC Plan, who have completed five years of government service, have a vested balance of 100% of both member and employer contribution plus any earnings thereon. With the passage of Public Law 17-82 in September 11, 201, the membership to the DC Plan became voluntary.

The College's contributions to the Fund for the years ended September 30, 2012, 2011 and 2010 were \$1,054,635, \$1,202,149 and \$584,329, respectively.

Pursuant to Public Law No. 6-41, codified in 1CMC § 8362, any employer who fails to pay or remit contributions as required by this section shall pay a penalty of 10% per month or part thereof for which the contribution remains unpaid, up to a maximum penalty of 25% of the unpaid contribution.

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, including penalties and interest, amounted to \$7,479,253 and \$6,345,651 as of September 30, 2012 and 2011, respectively. Such deficient retirement contribution and related penalties and interest are not reflected in the accompanying financial statements.

Estimates

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

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

Notes to Financial Statements
September 30, 2012 and 2011

(2) Summary of Significant Accounting Policies, Continued

Adopted Pronouncements

During fiscal year 2012, the College implemented the following GASB Statements:

GASB Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, which amends Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, and addresses issues related to measurement of OPEB obligations by certain employers participating in agent multiple-employer OPEB plans. The provisions of Statement 57 related to the use and reporting of the alternative measurement method are effective immediately.

GASB issued Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions (an amendment of GASB Statement No. 53)*, which will improve financial reporting by state and local governments by clarifying the circumstances in which hedge accounting continues to be applied when a swap counterparty, or a swap counterparty's credit support provider, is replaced. The provisions of this statement are effective for periods beginning after June 15, 2011.

The implementation of these pronouncement did not have a material effect on the accompanying financial statements.

Recent Pronouncements

In December 2010, GASB issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, which addresses how to account for and report service concession arrangements (SCAs), a type of public-private or public-public partnership that state and local governments are increasingly entering into. The provisions of this statement are effective for periods beginning after December 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the College.

In December 2010, GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus*, which is designed to improve financial reporting for governmental entities by amending the requirements of Statements No. 14, *The Financial Reporting Entity*, and No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, to better meet user needs and address reporting entity issues that have come to light since those Statements were issued in 1991 and 1999, respectively. The provisions of this statement are effective for periods beginning after June 15, 2012. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the College.

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

Notes to Financial Statements
September 30, 2012 and 2011

(2) Summary of Significant Accounting Policies, Continued

Recent Pronouncements

In December 2010, GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which is intended to enhance the usefulness of its Codification by incorporating guidance that previously could only be found in certain Financial Accounting Standards Board (FASB) and American Institute of Certified Public Accountants (AICPA) pronouncements. The provisions of this statement are effective for periods beginning after December 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the College.

In July 2011, GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which establishes guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position. The provisions of this statement are effective for periods beginning after December 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the College.

In March 2012, GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the College.

In March 2012, GASB issued Statement No. 66, *Technical Corrections—2012—an amendment of GASB Statements No. 10 and No. 62*. This Statement amends Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, by removing the provision that limits fund-based reporting of an entity's risk financing activities to the general fund and the internal service fund type. This Statement also amends Statement 62 by modifying the specific guidance on accounting for (1) operating lease payments that vary from a straight-line basis, (2) the difference between the initial investment (purchase price) and the principal amount of a purchased loan or group of loans, and (3) servicing fees related to mortgage loans that are sold when the stated service fee rate differs significantly from a current (normal) servicing fee rate. These changes clarify how to apply Statement No. 13, *Accounting for Operating Leases with Scheduled Rent Increases*, and result in guidance that is consistent with the requirements in Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*, respectively. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the College.

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

Notes to Financial Statements
September 30, 2012 and 2011

(2) Summary of Significant Accounting Policies, Continued

Recent Pronouncements

In June 2012, GASB issued Statement No. 67, *Financial Reporting for Pension Plans—an amendment of GASB Statement No. 25*, and GASB Statement No 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*. The primary objective of these Statements is to improve accounting and financial reporting by state and local governments for pensions. These statements are effected effective for financial statements for fiscal years beginning after June 15, 2013 and 2014, respectively. Management has not assessed the effect of this pronouncements on the financial statements of the College.

(3) Accounts Receivable and Unbilled Charges

Summarized below is the College's accounts receivable and unbilled charges as of September 30, 2012 and 2011:

| | <u>2012</u> | <u>2011</u> |
|-------------------------------------|---------------------|---------------------|
| Student tuition and fees | \$ 2,988,310 | \$ 2,481,872 |
| Auxiliary enterprises | 145,153 | 278,909 |
| Other activities | <u>227,650</u> | <u>183,466</u> |
| Total | 3,361,113 | 2,944,247 |
| Allowance for doubtful accounts | <u>(1,926,956)</u> | <u>(1,929,379)</u> |
| Net Receivable and unbilled charges | <u>\$ 1,434,157</u> | <u>\$ 1,014,868</u> |

(4) Investments

As of September 30, 2012 and 2011, the College's investments at fair value are as follows:

| | <u>2012</u> | <u>2011</u> |
|--|---------------------|---------------------|
| Fixed income securities: | | |
| Government and Government-Sponsored Enterprise (GSE) bonds | \$ 1,003,829 | \$ 1,183,042 |
| Corporate bonds | 888,081 | 700,554 |
| Mortgage and asset backed securities | - | 114,940 |
| International bonds | <u>-</u> | <u>73,882</u> |
| Total fixed income | <u>1,891,910</u> | <u>2,072,418</u> |
| Other investments: | | |
| Domestic equities | 2,937,286 | 2,054,529 |
| International equities | - | 966,422 |
| Cash and cash equivalents | <u>1,335,509</u> | <u>257,686</u> |
| Total other investments | <u>4,272,795</u> | <u>3,278,637</u> |
| | <u>\$ 6,164,705</u> | <u>\$ 5,351,055</u> |

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

Notes to Financial Statements
September 30, 2012 and 2011

(4) Investments, Continued

As of September 30, 2012 and 2011, the College's fixed income securities had the following maturities:

| Investment type | Fair Value | 2012 | | | | Rating |
|--------------------------|--------------------|----------------------------------|-------------------|-------------------|-------------------|-----------|
| | | Investment Maturities (In Years) | | | | |
| | | Less than 1 | 1 - 5 | 6 - 10 | More than 10 | |
| Government and GSE bonds | \$ 810,398 | \$ - | \$ 556,294 | \$ 178,412 | \$ 75,692 | AAA |
| Government and GSE bonds | 193,431 | - | 66,042 | - | 127,389 | No rating |
| Corporate bonds | 44,566 | 23,351 | 21,215 | - | - | AA+ |
| Corporate bonds | 85,869 | - | - | - | 85,869 | AA |
| Corporate bonds | 51,076 | 23,951 | - | 27,125 | - | AA- |
| Corporate bonds | 102,918 | - | 26,060 | 22,650 | 54,208 | A+ |
| Corporate bonds | 43,536 | - | - | 20,247 | 23,289 | A |
| Corporate bonds | 100,727 | - | 72,260 | 28,467 | - | A- |
| Corporate bonds | 51,790 | - | 26,110 | 25,680 | - | BBB+ |
| Corporate bonds | 221,943 | 37,154 | 52,591 | 50,498 | 81,700 | BBB |
| Corporate bonds | 17,380 | - | 8,580 | 8,800 | - | BBB- |
| Corporate bonds | 20,433 | - | - | 20,433 | - | B+ |
| Corporate bonds | 8,600 | - | 8,600 | - | - | B |
| Corporate bonds | 18,990 | - | - | 18,990 | - | B- |
| Corporate bonds | 19,120 | - | 9,220 | 9,900 | - | BB+ |
| Corporate bonds | 35,830 | - | 18,180 | 17,650 | - | BB |
| Corporate bonds | 55,178 | - | 37,488 | 17,690 | - | BB- |
| Corporate bonds | 10,125 | - | 10,125 | - | - | CCC |
| | <u>\$1,891,910</u> | <u>\$ 84,456</u> | <u>\$ 912,765</u> | <u>\$ 446,542</u> | <u>\$ 448,147</u> | |

| Investment type | Fair Value | 2011 | | | | Rating |
|--------------------------------------|--------------------|----------------------------------|-------------------|-------------------|-------------------|-----------|
| | | Investment Maturities (In Years) | | | | |
| | | Less than 1 | 1 - 5 | 6 - 10 | More than 10 | |
| Government and GSE bonds | \$1,183,042 | \$ 81,088 | \$ 519,712 | \$ 388,459 | \$ 193,783 | No rating |
| Corporate bonds | 45,116 | - | 45,116 | - | - | AA+ |
| Corporate bonds | 105,091 | - | 24,617 | - | 80,474 | AA |
| Corporate bonds | 47,493 | - | - | 47,493 | - | AA- |
| Corporate bonds | 52,579 | - | - | 24,889 | 27,690 | A+ |
| Corporate bonds | 125,006 | - | 74,234 | 50,772 | - | A |
| Corporate bonds | 98,994 | - | 47,071 | 51,923 | - | A- |
| Corporate bonds | 76,690 | - | 25,483 | - | 51,207 | BBB+ |
| Corporate bonds | 90,060 | - | 53,576 | 36,484 | - | BBB |
| Corporate bonds | 59,524 | - | 10,249 | 25,905 | 23,370 | BBB- |
| Mortgage and asset backed securities | 114,941 | - | - | - | 114,941 | No rating |
| International bonds | 49,197 | 24,346 | - | 24,851 | - | A- |
| International bonds | 24,685 | - | - | 24,685 | - | BBB+ |
| | <u>\$2,072,418</u> | <u>\$ 105,434</u> | <u>\$ 800,058</u> | <u>\$ 675,461</u> | <u>\$ 491,465</u> | |

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

Notes to Financial Statements
September 30, 2012 and 2011

(5) Property, Plant and Equipment

Summarized below is the College's investment in property, plant and equipment and changes at September 30, 2012 and 2011:

| | Estimated Useful Lives | Balance October 1, 2011 | Additions | Deletions | Balance September 30, 2012 |
|-----------------------------------|---------------------------|-------------------------------|---------------------|-------------|----------------------------------|
| Buildings and improvements | 5 - 30 years | \$ 9,509,341 | \$ - | \$ - | \$ 9,509,341 |
| Furniture and equipment | 2 - 5 years | 1,118,665 | 11,952 | - | 1,130,617 |
| Vehicles | 5 years | 811,095 | 137,753 | - | 948,848 |
| Computers | 3 - 5 years | <u>1,033,096</u> | <u>345,534</u> | <u>-</u> | <u>1,378,630</u> |
| Total depreciable assets | | 12,472,197 | 495,239 | - | 12,967,436 |
| Accumulated depreciation | | <u>(7,959,397)</u> | <u>(629,117)</u> | <u>-</u> | <u>(8,588,514)</u> |
| Depreciable assets, net | | 4,512,800 | (133,878) | - | 4,378,922 |
| Land | | <u>1,113,376</u> | <u>-</u> | <u>-</u> | <u>1,113,376</u> |
| Net property, plant and equipment | | <u>\$ 5,626,176</u> | <u>\$ (133,878)</u> | <u>\$ -</u> | <u>\$ 5,492,298</u> |

| | Estimated Useful Lives | Balance October 1, 2010 | Additions | Deletions | Balance September 30, 2011 |
|-----------------------------------|---------------------------|-------------------------------|---------------------|------------------|----------------------------------|
| Buildings and improvements | 5 - 30 years | \$ 9,499,416 | \$ 9,925 | \$ - | \$ 9,509,341 |
| Furniture and equipment | 2 - 5 years | 913,049 | 338,169 | (132,553) | 1,118,665 |
| Vehicles | 5 years | 834,002 | - | (22,907) | 811,095 |
| Computers | 3 - 5 years | <u>1,216,289</u> | <u>5,380</u> | <u>(188,573)</u> | <u>1,033,096</u> |
| Total depreciable assets | | 12,462,756 | 353,474 | (344,033) | 12,472,197 |
| Accumulated depreciation | | <u>(7,620,256)</u> | <u>(683,174)</u> | <u>344,033</u> | <u>(7,959,397)</u> |
| Depreciable assets, net | | 4,842,500 | (329,700) | - | 4,512,800 |
| Land | | <u>1,113,376</u> | <u>-</u> | <u>-</u> | <u>1,113,376</u> |
| Net property, plant and equipment | | <u>\$ 5,955,876</u> | <u>\$ (329,700)</u> | <u>\$ -</u> | <u>\$ 5,626,176</u> |

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

Notes to Financial Statements
September 30, 2012 and 2011

(6) Long-Term Obligation

Changes in long-term obligations for the years ended September 30, 2012 and 2011, are as follows:

| | 2012 | 2011 |
|----------------------|------------|------------|
| Compensated absences | | |
| Balance, beginning | \$ 625,601 | \$ 615,848 |
| Additions | 33,076 | 9,753 |
| Reductions | (75,280) | - |
| Balance, end | 583,397 | 625,601 |
| Due within one year | (380,949) | (407,009) |
| Noncurrent | \$ 202,448 | \$ 218,592 |

(7) Related Party Transactions

To ensure that the College receives its full accreditation by the Western Association of Schools and Colleges, and meets educational and the vocational needs of the community, the College receives annual appropriations from the CNMI Government. During the years ended September 30, 2012 and 2011, the College recognized \$3,748,689 and \$4,385,111, respectively, in appropriations from the CNMI Government.

At September 30, 2012 and 2011, amounts payable for utility expense to the Commonwealth Utilities Corporation (CUC, a component unit of the CNMI) amounted to \$49,345 and \$108,709, respectively, which are included in accounts payable in the accompanying statements of net assets. During the years ended September 30, 2012 and 2011, total utility expense to CUC amounted to \$618,456 and \$670,254, respectively.

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

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

Notes to Financial Statements
September 30, 2012 and 2011

(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 2012 and 2011. The following table shows natural classifications with functional classifications:

| | 2012 | | | | | | | Total |
|-------------------------------|---------------------|---------------------|---------------------|---|---------------------|-------------------|----------------------|----------------------|
| | <u>Salaries</u> | <u>Services</u> | <u>Benefits</u> | <u>Insurance Utilities and Rent</u> | <u>Depreciation</u> | <u>Supplies</u> | <u>Miscellaneous</u> | |
| Instructional | \$ 6,564,659 | \$ 77,849 | \$ 1,437,329 | \$ - | \$ - | \$ 19,060 | \$ 15,216 | \$ 8,114,113 |
| Administration | - | 1,226,242 | - | 760,616 | - | 174,096 | 1,938,881 | 4,099,835 |
| Student expense | - | 343,158 | - | - | - | - | - | 343,158 |
| Student services | 95,617 | 978,720 | - | - | - | 14,794 | - | 1,089,131 |
| Operations and maintenance | - | 225,650 | - | - | 629,117 | - | - | 854,767 |
| | <u>\$ 6,660,276</u> | <u>\$ 2,851,619</u> | <u>\$ 1,437,329</u> | <u>\$ 760,616</u> | <u>\$ 629,117</u> | <u>\$ 207,950</u> | <u>\$ 1,954,097</u> | <u>\$ 14,501,004</u> |

| | 2011 | | | | | | | Total |
|-------------------------------|---------------------|---------------------|---------------------|---|---------------------|-------------------|----------------------|----------------------|
| | <u>Salaries</u> | <u>Services</u> | <u>Benefits</u> | <u>Insurance Utilities and Rent</u> | <u>Depreciation</u> | <u>Supplies</u> | <u>Miscellaneous</u> | |
| Instructional | \$ 7,428,224 | \$ 116,402 | \$ 1,580,413 | \$ - | \$ - | \$ 45,445 | \$ 11,585 | \$ 9,182,069 |
| Administration | - | 530,704 | - | 842,780 | - | 218,711 | 2,481,861 | 4,074,056 |
| Student expense | - | 1,724,355 | - | - | - | - | - | 1,724,355 |
| Student services | 57,341 | 1,039,599 | - | - | - | - | - | 1,096,940 |
| Operations and maintenance | - | 396,723 | - | - | 683,174 | - | - | 1,079,897 |
| | <u>\$ 7,485,565</u> | <u>\$ 3,807,783</u> | <u>\$ 1,580,413</u> | <u>\$ 842,780</u> | <u>\$ 683,174</u> | <u>\$ 264,156</u> | <u>\$ 2,493,446</u> | <u>\$ 17,157,317</u> |

(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, 2012 and 2011.

(11) Contingencies

CNMI Contributions

A substantial amount of the College's funding is provided by appropriations from the CNMI Government. The future of the College is contingent on its ability to continue to obtain CNMI appropriations.

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

Notes to Financial Statements
September 30, 2012 and 2011

(11) Contingencies, Continued

Financial and Compliance Audits

The College participates in a number of U.S. Department of Education assisted grant programs and other various federally assisted grants. These programs are subject to financial and compliance audits to ascertain if Federal laws and guidelines have been followed. Cumulative questioned costs of \$139,682 relating to prior fiscal years have been set forth in the College's Single Audit Report for the year ended September 30, 2012. The ultimate disposition of these questioned costs can be determined only by final action of the respective grantor agencies. Therefore, no provision for any liability that may result upon resolution of this matter has been made in the accompanying financial statements.

Lawsuits and Claims

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

Sick Leave

It is the policy of the College to record expenditures for sick leave when the leave is actually taken. Sick leave is compensated time for absence during working hours arising from employee illness or injury. The estimated accumulated sick leave at September 30, 2012 and 2011 is \$1,243,801 and \$1,393,678, respectively.

(12) 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.

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

Notes to Financial Statements
September 30, 2012 and 2011

(13) Restatement

As a result of the physical inventory of the College's property, plant and equipment during 2012, the College discovered that there were assets previously removed from the asset listing that are still used by the College. Furthermore, there were assets with original cost of less than \$5,000 that are included in the asset listing. The asset listing was updated to reflect the physical inventory of the property, plant and equipment.

Accordingly, the College restated its financial statements for the years ended September 30, 2011. The effect of the restatement was to increase the College's net assets invested in capital assets and property, plant and equipment for 2011 by \$52,259.



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**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

I have audited the financial statements of the Northern Marianas College (the College) as of and for the year ended September 30, 2012, and have issued my report thereon dated June 3, 2013. I conducted my audit 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.

Internal Control Over Financial Reporting

Management of the College, is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing my audit, I considered the College's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of College's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the College's internal control over financial reporting.

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.

My consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. I did not identify any deficiencies in internal control over financial reporting that I consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the College's financial statements are free of material misstatement, I 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 my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

I noted certain matters that I reported to management of the College, in a separate letter dated June 3, 2013.

This report is intended solely for the information and use of management, the Board of Regents, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.


Saipan, Commonwealth of the Northern Mariana Islands
June 3, 2013



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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD
HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Board of Regents
Northern Marianas College

Compliance

I have audited the College's compliance with the types of compliance requirements described in the OMB Circular A-133 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, 2012. 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. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the College's management. My responsibility is to express an opinion on College's compliance based on my audit.

I conducted my 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that I 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 I considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination of the College's compliance with those requirements.

In our opinion, Northern Marianas College, complied, in all material respects, with the 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, 2012. However, the results of my auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as Finding No. 2012-01 and Finding No. 2012-02.

Internal Control Over Compliance

Management of the College is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing my audit, I considered the College's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, I 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 a 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.

My 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 deficiencies, significant deficiencies, or material weaknesses. I did not identify any deficiencies in internal control over compliance that I consider to be material weaknesses, as defined above. However, I identified certain deficiencies in internal control over compliance that I consider to be significant deficiencies as described in the accompanying schedule of findings and questioned costs as Findings 2012-01 and 2012-02. 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.

The College's responses to the findings identified in my audit are described in the accompanying schedule of findings and questioned costs. I did not audit the College's responses and, accordingly, I express no opinion on the responses.

This report is intended solely for the information and use of management, the Board of Regents, others within the entity, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.


Saipan, Commonwealth of the Northern Mariana Islands
June 3, 2013

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

Schedule of Expenditures of Federal Awards
Year Ended September 30, 2012

| Federal Grantor/Program Title | CFDA Number | Expenditures |
|--|----------------|-------------------|
| Direct Programs | | |
| Student Financial Assistance Programs: | | |
| Federal Pell Grant Program | 84.063 | \$ 3,553,960 |
| Federal Supplemental Educational Opportunity Grants | 84.007 | 69,111 |
| Federal Work-Study Program | 84.033 | <u>42,179</u> |
| Sub-total Student Financial Assistance Programs | | 3,665,250 |
| College Access Challenge Grant Program | 84.378 | 1,660,811 |
| Adult Education - Basic Grants to States | 84.002 | 556,981 |
| Trio-Upward Bound | 84.047 | <u>397,896</u> |
| Sub-total U.S. Department of Education | | <u>6,280,938</u> |
| <u>U.S. Department of Agriculture</u> | | |
| Payment to Agricultural Experiment Stations under the Hatch Act | 10.203 | 562,843 |
| Cooperative Extension Services | 10.500 | <u>1,096,585</u> |
| Sub-total U.S. Department of Agriculture | | <u>1,659,428</u> |
| <u>U.S. Department of Commerce</u> | | |
| Learn and Serve America-Higher Education | 94.005 | <u>4,829</u> |
| Sub-total U.S. Department of Commerce | | <u>4,829</u> |
| Sub-total Direct Programs | | <u>7,945,195</u> |
| Indirect Programs | | |
| <u>U.S. Department of Education</u> | | |
| State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act | 84.394 | <u>425,659</u> |
| Sub-total U.S. Department of Education | | <u>425,659</u> |
| <u>U.S. Department of the Interior</u> | | |
| Economic, Social, and Political Development of the Territories | 15.875 | <u>399,886</u> |
| Sub-total U.S. Department of the Interior | | <u>\$ 399,886</u> |

See accompanying notes to Schedule of Expenditure of Federal Awards.

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

Schedule of Expenditures of Federal Awards
Year Ended September 30, 2012

| Federal Grantor/Program Title | CFDA Number | Expenditures |
|---|----------------|---------------------|
| Indirect Programs, Continued | | |
| <u>U.S. Department of Agriculture</u> | | |
| Agriculture and Food Research Initiative | 10.310 | \$ 185,709 |
| Resident Instruction Grants for Insular Area Activities | 10.308 | 178,361 |
| Cooperative Extension Service: | | |
| Implementation of Western Sustainable Agricultural Research and Educational Program Professional Development Plan | 10.500 | 25,519 |
| Technology Transfer of Alternative Plant | 10.500 | 21,762 |
| Grants for Agricultural Research, Special Research Grants - Agricultural Development in the American Pacific | 10.200 | 20,688 |
| Integrated Programs | 10.303 | 12,042 |
| Specialty Crop Research Initiative | 10.309 | 3,674 |
| Sustainable Agriculture Research and Education | 10.215 | 25 |
| Sub-total U.S. Department of Agriculture | | <u>447,780</u> |
| <u>National Science Foundation</u> | | |
| Education and Human Resources | 47.076 | <u>36,449</u> |
| Sub-total National Science Foundation | | <u>36,449</u> |
| <u>U.S. Department of Health and Human Services</u> | | |
| University Centers for Excellence in Developmental Disabilities Education, Research, and Service (B) | 93.632 | 137,011 |
| Model State-Supported Area Health Education Centers | 93.107 | <u>80,600</u> |
| Sub-total U.S. Department of Health and Human Services | | <u>217,611</u> |
| Sub-total Indirect Programs | | <u>1,527,385</u> |
| Total Federal Programs | | <u>\$ 9,472,580</u> |

See accompanying notes to Schedule of Expenditure of Federal Awards.

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

Notes to the Schedule of Expenditures of Federal Awards
Year Ended September 30, 2012

(1) Scope of Review

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. The U.S. Department of the Interior has been designated as the College's cognizant agency.

Programs Subject to OMB A-133

The Schedule of Expenditures of Federal Awards presents each Federal program related to the U.S. Department of Education, the U.S. Department of Agriculture, the U.S. Department of Health and Human Services, the U.S. Department of Commerce, the U.S. Department of the Interior, the U.S. Department of Transportation and the National Science Foundation which are subject to OMB A-133.

(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. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133. 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 2012, the College has an approved indirect cost rate of 19.90% 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, 2012

SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? _____yes X no

- Significant deficiency(ies) identified that are not considered to be material weaknesses? _____yes X 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: Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? X yes _____no

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

Schedule of Findings and Questioned Costs
Year Ended September 30, 2012

SECTION I – SUMMARY OF AUDITOR’S RESULTS, Continued

Federal Awards

Identification of major programs:

| <u>CFDA Number</u> | <u>Description</u> | <u>Federal Expenditures</u> |
|------------------------|---|---------------------------------|
| 84.063 | Federal Pell Grant Program | \$ 3,553,960 |
| 84.007 | Federal Supplemental Educational Opportunity Grants | 69,111 |
| 84.033 | Federal Work-Study Program | <u>42,179</u> |
| | Financial Assistance Programs cluster | 3,665,250 |
| 84.378 | College Access Challenge Grant Program | 1,660,811 |
| 10.500 | Cooperative Extension Services | 1,096,585 |
| 10.203 | Payment to Agricultural Experiment Stations under the Hatch Act | 562,843 |
| 84.002 | Adult Education - Basic Grants to States | 556,981 |
| 84.394 | State Fiscal Stabilization Fund(SFSF) - Education State Grants, Recovery Act | 425,659 |
| 15.875 | Economic, Social, and Political Development of the Territories | 399,886 |
| 84.047 | Trio - Upward Bound | <u>397,896</u> |
| | Total Federal Expenditures-Major Programs | <u>\$ 8,765,911</u> |
| | Percentage of total awards tested | <u>93%</u> |

Dollar threshold used to distinguish between
Type A and Type B programs:

\$ 300,000

Auditee qualified as low-risk auditee

_____yes X no

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

Schedule of Findings and Questioned Costs
Year Ended September 30, 2012

SECTION II – FINANCIAL STATEMENT FINDINGS

No findings reported.

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

Schedule of Findings and Questioned Costs
Year Ended September 30, 2012

SECTION III – FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Reporting – College Access Challenge Grant Program

Finding No. 2012-01

| <u>CFDA No.</u> | <u>Findings/Noncompliance</u> | <u>Questioned Costs</u> |
|-----------------|---|-----------------------------|
| 84.378 | <p><u>Criteria:</u></p> <p>Grantees funded under the College Access Challenge Grant (CACG) Program are required to submit the following Annual Performance Report (APR).</p> <p>Included in the APR is certification of the Maintenance of Effort (MOE) signed by the State Budget Officer. Pursuant to CACG guidance on the preparation of the APR, tables showing State support for public and private higher education in fiscal years 2006-2011 have been posted on the CACG website. The data provided in the APR should be consistent with the figures shown in these tables, which were verified during the 2012 APR cycle. If State support amounts for the past years have changed, the reason for the change should be documented on the MOE section of the APR.</p> <p><u>Condition:</u></p> <p>The total State appropriation reported on the MOE section of the APR is not consistent with the <i>State Support Data</i> provided to CACG from prior years' report, as follows:</p> | \$ - |

| | <u>Per MOE</u> | <u>Per CACG Website</u> | <u>Difference</u> |
|------|--------------------|-----------------------------|-------------------|
| 2007 | \$5,056,680 | \$6,646,380 | \$1,589,700 |
| 2008 | \$5,617,993 | \$6,993,306 | \$1,375,313 |
| 2009 | \$5,657,018 | \$6,712,017 | \$1,054,999 |
| 2010 | \$5,411,589 | \$6,744,589 | \$1,333,000 |
| 2011 | \$4,125,290 | \$7,630,717 | \$3,505,427 |

The reason for the difference was not documented on the MOE section of the APR.

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

Schedule of Findings and Questioned Costs
Year Ended September 30, 2012

SECTION III – FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Reporting – College Access Challenge Grant Program

Finding No. 2012-01, continued

| <u>CFDA No.</u> | <u>Findings/Noncompliance</u> | <u>Questioned Costs</u> |
|-----------------|--|-----------------------------|
| 84.378 | <p><u>Cause:</u></p> <p>The certification was provided by the CNMI government Office of Management and Budget. The College Access Challenge Grant (CACG) Director failed to verify that the information provided was consistent with prior year information.</p> <p><u>Effect:</u></p> <p>The College did not comply with the reporting requirements applicable to its College Access Challenge Grant Program. Furthermore, the College may have erred in determining that the College meet the Maintenance of Effort requirement using the information provided by the CNMI Office of Management and Budget.</p> <p><u>Recommendation:</u></p> <p>The College should verify the information provided and document the reasons for the difference between the information provided in prior years with the current APR.</p> <p>If College determined that the 2012 information is erroneous the APR should be corrected.</p> <p><u>Auditee Response:</u></p> <p>This matter was also brought to our attention by our Grantor on their email dated June 3, 2013, on which, we were give one week to explain the discrepancies between our current year submission and the prior years' information.</p> | \$ - |

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

Schedule of Findings and Questioned Costs
Year Ended September 30, 2012

SECTION III – FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Reporting – College Access Challenge Grant Program

Finding No. 2012-01, continued

| <u>CFDA No.</u> | <u>Findings/Noncompliance</u> | <u>Questioned Costs</u> |
|-----------------|---|-----------------------------|
| 84.378 | <p><u>Auditee Response, continued:</u></p> <p>We learned recently through phone communications with our Department of Education (ED) CACG contact in Washington, DC that ED used the following sources to arrive at the amounts listed in the <i>State Support Data table</i> posted on their website depicting total Northern Marianas support for public institutions of higher education for fiscal years 2006-2011:</p> <ul style="list-style-type: none">- CNMI Appropriation to NMC;- CNMI Scholarship Expenditures Allocated to NMC Students; and- State Fiscal Stabilization Fund <p>On June 7, 2013, NMC have responded to ED CACG's inquiry on the discrepancies within the one week allowance provided to us. We concur with the level of support presented on the CACG website for fiscal years 2007 to 2010 and we provided corrected level of support for fiscal years 2011 and 2012.</p> <p>With this new information on hand, we determined that we erred in our previous report that NMC met the Maintenance of Effort required by CACG. We are in the process of obtaining a waiver.</p> <p>Contact Person: Leo Pangelinan (Dean of Student Services) and Timothy Baker (director of CACG)</p> <p>Status: Completed on June 7, 2013</p> | \$ - |

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

Schedule of Findings and Questioned Costs
Year Ended September 30, 2012

SECTION III – FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Special Tests and Provisions, Maintenance of Effort – College Access Challenge Grant Program

Finding No. 2012-02

| <u>CFDA No.</u> | <u>Findings/Noncompliance</u> | <u>Questioned Costs</u> |
|-----------------|---|-------------------------|
| 84.378 | <p><u>Criteria:</u></p> <p>Section 137 of the Higher Education Act of 1965, as amended (HEA), requires that States provide financial support for higher education at least at a level equal to the average amount provided over the five preceding State Fiscal Years (SFYs) for public institutions of higher education (public institutions), excluding capital expenses and research and development costs, and for financial aid for students attending private institutions of higher education (private institutions).</p> <p>If a State fails to maintain financial support for public and/or private institutions, it may request that the Secretary of Education to waive the requirements under section 137 of the HEA.</p> <p>Waiver requests must be e-mailed and postmarked on or before May 15th of the year under consideration.</p> | \$ - |

Condition:

The Maintenance of Effort was recalculated based on the 2007-2011 information obtained from the CACG website and the College's APR, and it was determined that the College did not meet the required maintenance of effort.

| | <u>Per CACG Website</u> |
|---------|-------------------------|
| 2007 | \$6,646,380 |
| 2008 | \$6,993,306 |
| 2009 | \$6,712,017 |
| 2010 | \$6,744,589 |
| 2011 | \$7,630,717 |
| Average | \$6,945,402 |
| 2012 | <u>5,614,710</u> |
| Under | <u>\$1,330,692</u> |

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

Schedule of Findings and Questioned Costs
Year Ended September 30, 2012

Special Tests and Provisions, Maintenance of Effort- College Access Challenge Grant Program

Finding No. 2012-01, continued

| <u>CFDA No.</u> | <u>Findings/Noncompliance</u> | <u>Questioned Costs</u> |
|-----------------|-------------------------------|-------------------------|
| 84.378 | | \$ - |

Cause:

NMC relied on the certification provided by the CNMI government Office of Management and Budget. The CACG Director failed to verify that the information provided was consistent with prior year information based on the *State Support Data table*.

Effect:

The federal award may be delayed because of the additional verification and explanation the College has to provide the grantor in relation to the error in the MOE section of the APR.

Recommendation:

Although the May 15th original deadline for the application of waiver and the May 22nd extended deadline have already elapsed, NMC should still submit a formal request for waiver. The letter should be e-mailed to CACGP@ed.gov, and a hard copy should be sent to the address as follows:

Assistant Secretary for Postsecondary Education
U.S. Department of Education
1990 K Street, N.W.
Washington, DC 20006
Attention: CACG MOE Waiver Request

Auditee Response:

As discussed in our response to the Finding No. 2012-01, NMC has initiated the application for waiver process on June 7, 2013.

Contact Person: Leo Pangelinan (Dean of Student Services) and Timothy Baker (director of CACG)

Target Completion: On-going, awaiting U.S. Department of Education determination.



Northern Marianas College

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SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

A. FINANCIAL STATEMENT FINDINGS

No findings reported.

B. FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

- 2011-01 Equipment and Real Property Management
Resolved. NMC took dated pictures of the equipment that were not located by the prior Auditors.
- 2011-02 Procurement and Suspension and Debarment
Resolved. Although this is a U.S Department of Agriculture grant, NMC believes that the determination form NMC's cognizant agency, the U.S. Department of Education, that NMC's small purchase procedures are not in violation of federal regulations also applies to the U.S Department of Agriculture grants.
- 2011-03 Allowable Costs/Cost Principles
Corrective actions were taken.
- 2011-04 Equipment and Real Property Management
Resolved. NMC took dated pictures of the vehicles that were not located by the prior Auditors.
- 2011-05 Procurement and Suspension and Debarment
Resolved. Please refer to finding 2011-02.
- 2011-06 Procurement and Suspension and Debarment
Resolved. NMC received a letter from the U.S. Department of Education dated September 24, 2012, which indicated that the U.S. Department of Education do not concur with the prior Auditors' findings regarding NMC's procurement policies and procedures.
- 2011-07 Period of Availability of Federal Funds
Resolved. NMC received a letter from the U.S. Department of Education dated September 24, 2012, which indicated that the U.S. Department of Education do not sustain the finding nor concur with the recommendation regarding this finding.

- 2011-08 Procurement and Suspension and Debarment
Resolved. Please refer to finding 2011-06.
- 2011-09 Procurement and Suspension and Debarment
Resolved. Please refer to finding 2011-06.
- 2011-10 Activities Allowed or Unallowed and Allowable Costs/Cost Principles
Corrective actions were taken.
- 2011-11 Equipment and Real Property Management
Corrective actions were taken.
- 2011-12 Procurement and Suspension and Debarment
Resolved. Please refer to finding 2011-06.
- 2011-13 Reporting
Corrective actions were taken.

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

Summary of Unresolved Questioned Costs
Year Ended September 30, 2012

The prior year Single Audit report on compliance with laws and regulations noted the following questioned costs and comments that were unresolved at September 30, 2012:

| | |
|---|--------------------|
| Questioned costs as previously reported | \$ 417,752 |
| Questioned costs resolved during the year ended September 30, 2012 | (22,440) |
| Questioned cost not warranting further action pursuant to OMB Circular A-133 Subpart C .315 (See attached representation from the College) | (255,629) |
| Questioned costs of fiscal year 2012 Single Audit | <u> -</u> |
| Unresolved questioned costs at September 30, 2012 | <u>\$ 139,682</u> |



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PRIOR FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Finding No.: 2006-8,9; 2007-5,6,7,8,11,12,14,16; 2008-4,5,6,7,8,11
 Federal Agency: U.S. Department of Agriculture and U.S. Department of Education
 CFDA Program: Please See Prior Audits
 Grant Numbers: Please See Prior Audits
 Area: Various

Summary of Prior Year Questioned Costs

| Finding #: | USDA | USDE | Total |
|--|----------------------|----------------------|----------------------|
| 2006-8 | - | \$ 6,336.00 | \$ 6,336.00 |
| 2006-9 | 12,071.00 | - | 12,071.00 |
| 2007-5 | 17,793.00 | - | 17,793.00 |
| 2007-6 | 12,454.00 | - | 12,454.00 |
| 2007-7 | - | 3,525.00 | 3,525.00 |
| 2007-8 | - | 12,563.00 | 12,563.00 |
| 2007-11 | 15,681.00 | - | 15,681.00 |
| 2007-12 | 9,662.00 | - | 9,662.00 |
| 2007-14 | - | 4,600.00 | 4,600.00 |
| 2007-16 | - | 52,703.00 | 52,703.00 |
| 2008-4 | 11,820.00 | - | 11,820.00 |
| 2008-5 | 4,133.00 | - | 4,133.00 |
| 2008-6 | 18,721.00 | - | 18,721.00 |
| 2008-7 | 9,192.00 | - | 9,192.00 |
| 2008-8 | - | 16,873.00 | 16,873.00 |
| 2008-11 | - | 47,502.00 | 47,502.00 |
| 2009-6 | 7,083.00 | - | 7,083.00 |
| 2009-7 | 60,607.00 | - | 60,607.00 |
| 2009-8 | 5,202.00 | - | 5,202.00 |
| 2009-9 | - | 2,549.00 | 2,549.00 |
| 2009-10 | - | 22,584.00 | 22,584.00 |
| 2009-11 | - | 2,272.00 | 2,272.00 |
| 2009-14 | - | 16,776.00 | 16,776.00 |
| 2010-2 | 3,683.00 | - | 3,683.00 |
| 2010-7 | - | 18,927.00 | 18,927.00 |
| 2011-3 | - | 4,131.00 | 4,131.00 |
| 2011-07 | - | 18,309.00 | 18,309.00 |
| Total Questioned Cost as of September 30, 2011 | <u>\$ 188,102.00</u> | <u>\$ 229,650.00</u> | <u>\$ 417,752.00</u> |

Auditee Response and Corrective Action Plan

Name of Contact Person: David Attao

Corrective Action: The College requests that the schedule of prior federal award findings and questioned costs be removed due to actions taken by the College in previous years and no formal response by the respective federal agency in compliance with the Office of Management and Budget Final Revision of OMB Circular A-133, "Audits of Institutions of Higher Education and Other Non-Profit Institutions". **“A valid reason for considering an audit finding as not warranting further action is that: (a) two years have passed since the audit report was filed with the central clearinghouse designated by OMB, (b) the Federal agency or pass-through entity is not currently following up on the audit finding, and (c) a management decision was not issued.**

The College has been diligent in making the required changes and recommendations as requested by both the Auditors and the Federal Agency. The College has met with the Federal Agencies and requested for Management Decision Letters (MDLs) or Program Determination Letters (PDLs) for the items listed below. The College went as far as making changes to policies and procedures, bringing physical evidence, travels and procured the services of consultants to go to Washington D.C to explain each finding. All of which such entities commented to the College that an appropriate and timely response will be made. Considering the dates of the findings below and the lack of response from the agencies on these items, the College considers such as valid reasons for consideration of an audit finding as NOT WARRANTING FURTHER ACTION. Furthermore, PDLs and/or correspondences issued from such agencies in 2008 and subsequent years, describe the College's actions taken on findings and questioned costs similar to those listed below to be **cleared**. The lack of action or resolution of these particular findings and questioned costs were not questioned or published further.

Therefore, the College requests that the findings and questioned costs from FY 2006 to FY 2008 in the cumulative amount of \$255,629.00.

Findings and questioned cost from FY 2009 and FY 2010 amounting to \$139,682 are currently under review with the USDA NIFA and is pending review with the USDE. Formal meetings and discussions with USDA NIFA have been positive and resolutions have been identified. A response from USDA NIFA on the actions the College has taken for such findings and questioned costs are pending. In addition, there are similar findings and questioned costs in USDA NIFA and USDE programs. The College continues its efforts to take the appropriate actions and measures to resolve such issues.