

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, 2013 and 2012

NORTHERN MARIANAS COLLEGE
(A Component Unit of the CNMI Government)
Years Ended September 30, 2013 and 2012

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INDEPENDENT AUDITOR'S REPORT

To the Board of Regents
Northern Marianas College

Report on the Financial Statements

I have audited the accompanying financial statements of the Northern Marianas College, as of and for the years ended September 30, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the College's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

My responsibility is to express opinions on these financial statements based on my audits. I conducted my audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

Opinions

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

Other Matters*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 13 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. 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 me with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

The schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, I have also issued my report dated June 16, 2014, on my consideration of the College's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the College's internal control over financial reporting and compliance.


Saipan, Commonwealth of the Northern Mariana Islands
June 16, 2014

Management's Discussion and Analysis
Year Ended September 30, 2013

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, 2013 with comparisons to prior fiscal years ended September 30, 2012 and 2011. We encourage readers to consider the information presented here in conjunction with the financial statements and related notes (pages 14 through 34).

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Basic Financial Statements

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

Net position is divided into three major categories.

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

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

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

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

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

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

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

Notes to the Financial Statements

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

FINANCIAL HIGHLIGHTS AND ANALYSIS OF BASIC FINANCIAL STATEMENTS

Condensed Statements of Net Position

	2013	2012	Increase (Decrease)	
			Amount	Percent
ASSETS:				
Current assets	\$ 10,594,151	\$ 9,296,321	\$ 1,297,830	13.96
Capital assets, net	5,023,808	5,492,298	(468,490)	(8.53)
Other assets	6,921,792	6,164,705	757,087	12.28
Total Assets	\$ 22,539,751	\$ 20,953,324	\$ 1,586,427	7.57
LIABILITIES:				
Current liabilities	\$ 2,739,234	\$ 1,798,343	\$ 940,891	52.32
Noncurrent liabilities	197,679	202,448	(4,769)	(2.36)
Total Liabilities	\$ 2,936,913	\$ 2,000,791	\$ 936,122	46.79
DEFERRED INFLOWS OF RESOURCES:				
Grants receipts	\$ 145,120	\$ 112,850	\$ 32,270	28.60
Total Liabilities	\$ 145,120	\$ 112,850	\$ 32,270	28.60
NET POSITION				
Investment in capital assets, net	\$ 5,023,808	\$ 5,492,298	\$ (468,490)	(8.53)
Restricted net assets	6,921,792	6,164,705	757,087	12.28
Unrestricted	7,512,118	7,182,680	329,438	4.59
Total Net Position	\$ 19,457,718	\$ 18,839,683	\$ 618,035	3.28

	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 POSITION				
Investment in capital assets, net	\$ 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 Position	\$ 18,839,683	\$ 17,116,218	\$ 1,723,465	10.07

Management's Discussion and Analysis
Year Ended September 30, 2013

- Total assets at September 30, 2013 amounted to \$22,539,751. This increased by \$1,586,427 or 7.57% from \$20,953,324 as of September 30, 2012. The increase is primarily due to the increase in the carrying values of the College's endowment fund investments and increase in due from grantors and accounts receivable.
- Total liabilities at September 30, 2013 amounted to \$2,936,913. This increase by \$936,122 or 46.78% from \$2,000,791 in 2012. The increase is due increases in accounts payable balance, accrued salaries, and unearned revenue.
- Net Position at September 30, 2013 amounted to \$19,457,718 from \$18,839,683 in 2012. The \$618,035 or 3.28% increase is primarily due to increase in appropriation income.

Condensed Statements of Activities and Changes in Net Position

	2013		2012		Increase (Decrease)		
					Amount	Percent	
Operating revenues, net	\$	10,952,742	\$	11,662,132	\$	(709,390)	(6.08)
Operating expenses		15,565,799		14,501,004		1,064,795	7.34
Operating loss		(4,613,057)		(2,838,872)		(1,774,185)	62.50
Nonoperating revenues		5,231,092		4,562,337		668,755	14.66
Change in net position		618,035		1,723,465		(1,105,430)	(64.14)
Net position, beginning of year		18,839,683		17,116,218		1,723,465	10.07
Net position, end of year	\$	19,457,718	\$	18,839,683	\$	618,035	3.28

	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 position		1,723,465		939,446		784,019	83.46
Net position, beginning of year		17,116,218		16,176,772		939,446	5.81
Net position, end of year	\$	18,839,683	\$	17,116,218	\$	1,723,465	10.07

NMC's net position increased as of September 30, 2013 by \$618,035 or 3.28%, despite the decrease in operating revenues by \$709,390 or 6.08% compared to fiscal 2012. The increase in appropriations from the CNMI government augmented the decrease in operating revenues. Operating expenses in fiscal year 2013 totaled \$15,565,799 and was \$1,064,794 or 7.34 % higher than that prior year primarily due to increases in services expense for PELL refunds to students of PELL grants received over the tuition and fees paid. A detailed analysis of revenues and expenses follows this section.

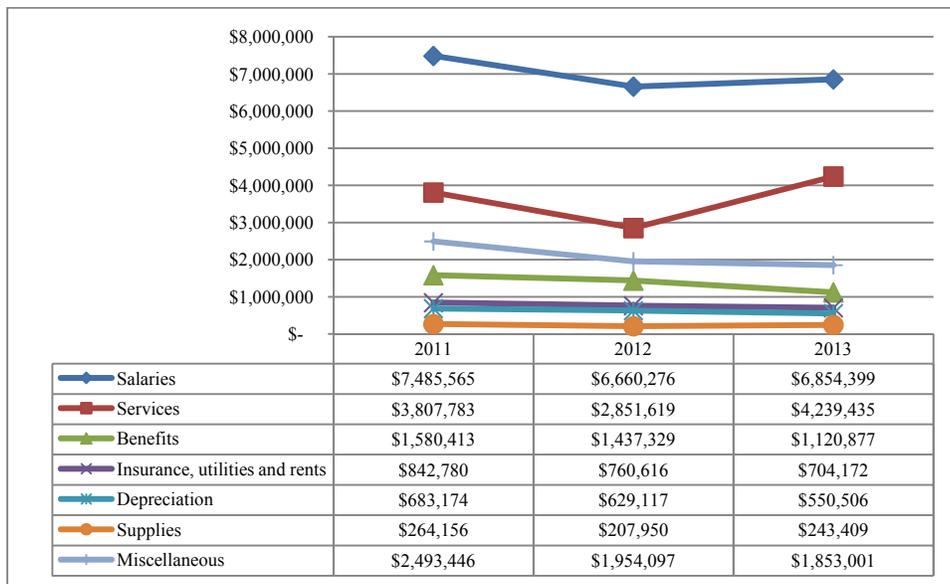
Revenues by Source

	2013		2012	
	Amount	% of Total	Amount	% of Total
Operating revenues:				
U.S Federal grants	\$ 8,882,907	54.89	\$ 9,472,580	58.38
Tuition and fees	1,370,666	8.47	1,385,230	8.54
Private gifts, grants and donations	14,750	0.09	15,555	0.10
Others	684,419	4.23	788,767	4.86
Total operating revenues	10,952,742	67.68	11,662,132	71.88
Nonoperating				
CNMI appropriations	4,474,062	27.65	3,748,689	23.11
Investment income	86,327	0.53	58,450	0.36
Realized gain on investments	309,297	1.91	353,670	2.18
Unrealized gain on investments	361,406	2.23	401,528	2.47
	757,030	4.67	813,648	5.01
Total nonoperating revenues	5,231,092	32.32	4,562,337	28.12
Total revenues	\$ 16,183,834	100.00	\$ 16,224,469	100.00

- Grants from U.S Federal Agencies constituted 54.89% and 58.38% of the College's total revenues in 2013 and 2012, respectively. The grants received from U.S Federal Agencies decreased by \$589,673 or 6.22%, primarily due to the expiration of U.S. Department of Education State Fiscal Stabilization Fund and TRIO - Upward Bound grants.
- Student tuition and fees, net of scholarships decreased by \$14,564 between fiscal years 2013 and 2012.
- GASB 34 and 35 requires that tuition and fees revenue from students be reported net of scholarship discounts and allowances. Discounts and allowances are the difference between the College's stated charges for tuition and fees and the amount paid by the students or third parties on behalf of the students.
- It is noted that a material portion of the College's tuition and fees are funded via Pell Grants to students. The College relies primarily on revenues from tuition and fees for non-payroll related operational expenses of the College, including equipment renewals, replacement, and maintenance.
- Appropriations received from the CNMI Government constituted 27.65% and 23.11% of the College's total revenues in 2013 and 2012, respectively. The College relies on the CNMI appropriations to augment the operating revenues to provide cash flows for the College's operating expenses. Appropriations from the CNMI for fiscal year 2013 increased by \$725,373 or 19.35%.
- The investment income is consistent with prior year's results. The College's investments are managed by the NMC Foundation and governed by College's Investment policies, which limit the risks exposure of the investments.

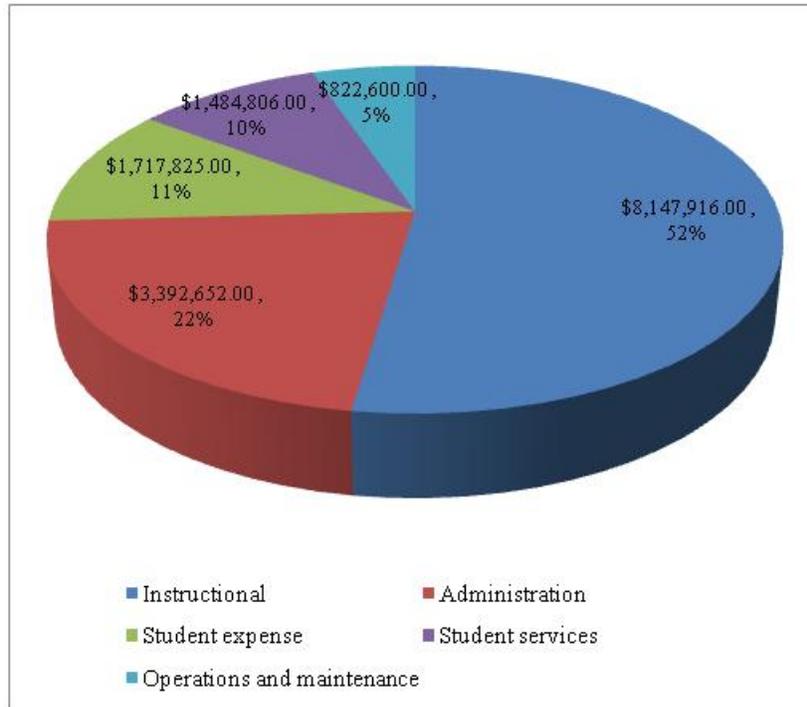
Expenses by Natural Classification

	2013		2012	
	Amount	% of Total	Amount	% of Total
Salaries	\$ 6,854,399	44.04	\$ 6,660,276	45.93
Services	4,239,435	27.24	2,851,619	19.66
Benefits	1,120,877	7.20	1,437,329	9.91
Insurance, utilities and rents	704,172	4.52	760,616	5.25
Depreciation	550,506	3.54	629,117	4.34
Supplies	243,409	1.56	207,950	1.43
Miscellaneous	1,853,001	11.90	1,954,097	13.48
	\$ 15,565,799	100.00	\$ 14,501,004	100.00



- Salaries constituted 44.04% and 45.93% of the College's total expenditures for fiscal years 2013 and 2012, respectively. Total salaries expenses in 2013 increased by \$194,123 or 2.9%.
- Expenses for Services, which include professional service contracts, bookstore operating expenses, and student expenses increase by \$1,387,816 or 48.7%. This is related to the timing of the receipt PELL grants that are passed through the College to the students.
- Miscellaneous expense, which includes the travel, purchase of assets below \$5,000, and other operating expenses decreased by \$101,096 or 5.2% compared to 2012.
- All other expense categories decreased except for supplies.

Expenses by Function FY 2013



The graph above shows how the College is spending based on its function. The College spends 52% of its operating expenses on Instructional expenses. This includes salaries and benefits and professional contracts, among others.

CAPITAL ASSETS

At September 30, 2013, 2012 and 2011, the College had \$5,023,808, \$5,492,298 and \$5,626,176 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 2013. See Note 6 to the financial statements for more information on the College's long-term obligations.

MAJOR ACCOMPLISHMENTS AND CHALLENGES IN FISCAL YEAR 2013

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

In FY 2013, the College continued to face significant challenges with respect to its accreditation with the Accrediting Commission for Community and Junior Colleges under the Western Association of Schools and Colleges. During this time period, the College booked major unanticipated expenses associated with its concerted, focused efforts to meet accreditation requirements. The entire college community was engaged and mobilized in a key offensive to respond to critical accreditation concerns and recommendations. In addition, other major unanticipated expenses in FY 2013 included the urgent actions taken in response the U.S. Department of Education's policy decision to make the College's bachelor's program in education ineligible for financial aid. An immediate and swift response was initiated by the College – fortunately, resulting in a favorable outcome. All accreditation expenses were absorbed by the College, including those expenses incurred by the accrediting commission peer visiting team, those for professional services, and those related to the substantive change action for the College's School of Education. The College estimates that the cost to the institution has been between \$1 million to \$1.5 million for each year it has been placed on accreditation sanction status.

Despite these challenges, in FY 2013 the College continued to be prudent in its expenditure patterns and management of cash flows and has been able to maintain positive net worth in cash equivalencies, in compliance with its Board of Regents policy and accreditation standards relative to fiscal stability. As mentioned earlier, NMC's net position increased as of September 30, 2013 to \$19,457,718 from \$18,839,683 at the end of FY 2012, by \$618,035 or 3.28%, despite the decrease in operating revenues of \$709,390 or 6.08% compared to FY 2012. 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 its financial stability and successful financial year in FY 2013 to a collaborative spirit among its employees, students, administrators, and Board of Regents. This feat is further attributed to the diligence of the Finance Office, Administrative Services, and the entire college community's efforts to find ways to increase revenues and reduce operational costs. NMC continues to monitor all its financial revenue sources and make appropriate adjustments in personnel and utility consumption, as well as adhering to procurement policies and procedures. Additional consolidation and cost saving measures were implemented in 2013. Review of historical spending practices and the initiative to optimize financial resources led to

the consolidation of spending in certain categories under identified departments such as faculty overload and adjunct pay, professional development expenses, and travel, among others. Such consolidations benefitted the College in a variety of ways: 1) cost savings from discounts for volume purchases; 2) expedited transactions through centralization; and 3) monitoring of certain facilities expenses.

Please see the College's official fiscal year 2013 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 austere. In fiscal year 2013, governmental budgets continued to face additional reductions from that of fiscal year 2012 across the board. This is expected to level off in fiscal year 2014. Austerity measures and work reduction hours were eliminated in the CNMI Central Government for FY 2013. Tourism, the only remaining industry 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 its 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. Significantly, the College was removed from accreditation sanction in February 2014. As a result, the College is finally in a position to expand its academic and community program offerings to meet workforce demands and help strengthen the CNMI economy. The College anticipates growth in enrollment in response to these factors, which will in turn boost college revenues. In addition, the College's appropriations budget is expected to increase for fiscal year 2014 as well as funding to be allocated from Commonwealth Workers (CW) Fee of \$500,000. All these factors will help the College financially. However, the College will continue to make necessary cuts and take internal measures as necessary to ensure that this will not result in the College operating in a deficit. The College has mechanisms in place to closely monitor such actions and is actively pursuing alternative funding opportunities to compensate for reductions in the traditional sources of funding.

CONTACTING THE COLLEGE'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the College's finances and to demonstrate the College's accountability for the money it receives. The Management's Discussion and Analysis for the year ended September 30, 2013 is set forth in the report on the audit of the College's financial statements which is dated June 16, 2014. The Management Discussion and Analysis explains the major factors impacting the 2013 financial statements. If you have questions about the 2013 or 2012 reports, or need additional information, please contact Tracy M. Guerrero, Chief Financial Officer at the Northern Marianas College, P.O. Box 501250, Saipan, MP 96950, or email tracy.guerrero@marianas.edu.

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

Statements of Net Position
September 30, 2013 and 2012

	2013	2012
Assets:		
Current assets:		
Cash and cash equivalents	\$ 5,525,846	\$ 5,504,633
Time certificate of deposit	694,446	693,748
Accounts receivable and unbilled charges, net	1,982,777	1,434,157
Due from grantor agencies	1,427,101	881,531
Due from CNMI	365,521	177,562
Inventories	597,067	598,208
Prepayments	1,393	6,482
Total current assets	10,594,151	9,296,321
Noncurrent assets:		
Investments	6,921,792	6,164,705
Capital assets, net	5,023,808	5,492,298
Total noncurrent assets	11,945,600	11,657,003
Total assets	22,539,751	20,953,324
Liabilities:		
Current liabilities:		
Accounts payable	960,963	560,301
Accrued salaries and benefit payable	505,662	275,296
Current portion of compensated absences	380,949	380,949
Unearned revenues	891,660	581,797
Total current liabilities	2,739,234	1,798,343
Noncurrent liabilities:		
Compensated absences, net of current portion	197,679	202,448
Total liabilities	2,936,913	2,000,791
Deferred inflows of resources:		
Grant Receipts	145,120	112,850
Net position:		
Investment in capital assets, net	5,023,808	5,492,298
Restricted net assets:		
Nonexpendable	3,200,000	3,200,000
Expendable	3,721,792	2,964,705
Unrestricted	7,512,118	7,182,680
Net position	\$ 19,457,718	\$ 18,839,683

See accompanying notes to financial statements.

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

Statements of Activities and Changes in Net Position
For the Years Ended September 30, 2013 and 2012

	2013	2012
Operating revenues:		
U.S. Federal grants	\$ 8,882,907	\$ 9,472,580
Tuition and fees (net of scholarship discounts and allowances of \$2,057,102 and \$2,302,357 in 2013 and 2012, respectively)	1,370,666	1,385,230
Private gifts, grants and donations - restricted	14,750	15,555
Others (net of bookstore cost of sales of \$464,229 in 2013 and \$392,992 in 2012)	684,419	788,767
Net operating revenues	10,952,742	11,662,132
Operating expenses:		
Salaries	6,854,399	6,660,276
Services	4,239,435	2,851,619
Benefits	1,120,877	1,437,329
Insurance, utilities and rents	704,172	760,616
Depreciation	550,506	629,117
Supplies	243,409	207,950
Miscellaneous	1,853,001	1,954,097
Total operating expenses	15,565,799	14,501,004
Operating loss	(4,613,057)	(2,838,872)
Nonoperating revenues:		
CNMI Appropriations	4,474,062	3,748,689
Investment income	86,327	58,450
Realized gain on investments	309,297	353,670
Unrealized gain on investments	361,406	401,528
Total nonoperating revenues	5,231,092	4,562,337
Change in net position	618,035	1,723,465
Net position, beginning of the year	18,839,683	17,116,218
Net position, end of the year	\$ 19,457,718	\$ 18,839,683

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, 2013 and 2012

	2013	2012
Cash flows from operating activities:		
Tuition and fees collected	\$ 1,131,909	\$ 965,941
U.S Federal grants	8,369,607	10,099,394
Other receipts	699,169	804,322
Payments to employees	(6,628,802)	(6,897,732)
Payments to suppliers	<u>(7,754,002)</u>	<u>(8,106,528)</u>
Net cash used for operating activities	<u>(4,182,119)</u>	<u>(3,134,603)</u>
Cash flows from investing activities:		
Net interest and dividends	86,327	58,450
Purchase of investment securities, net	(86,384)	(58,452)
Purchase of time certificate of deposit	<u>(698)</u>	<u>(959)</u>
Net cash used for investing activities	<u>(755)</u>	<u>(961)</u>
Cash flows from noncapital financing activities:		
CNMI Appropriations	<u>4,286,103</u>	<u>3,888,223</u>
Net cash provided by noncapital financing activities	<u>4,286,103</u>	<u>3,888,223</u>
Cash flows capital and related financing activities:		
Purchases of capital assets	<u>(82,016)</u>	<u>(495,239)</u>
Net cash used for capital and related financing activities	<u>(82,016)</u>	<u>(495,239)</u>
Net change in cash and cash equivalents	21,213	257,420
Cash and cash equivalents, beginning of year	<u>5,504,633</u>	<u>5,247,213</u>
Cash and cash equivalents, end of year	<u>\$ 5,525,846</u>	<u>\$ 5,504,633</u>
Reconciliation of operating loss to net cash used for operating activities:		
Operating loss	\$ (4,613,057)	\$ (2,838,872)
Adjustments to reconcile operating loss to net cash used for operating activities:		
Depreciation	550,506	629,117
Changes in assets and liabilities:		
Accounts receivable and unbilled charges, net	(548,620)	(419,289)
Due from grantor agencies	(545,570)	626,814
Inventories	1,141	(140,737)
Prepayments	5,089	23,156
Accounts payable	400,662	(206,712)
Accrued salaries and benefit payable	230,366	(195,252)
Current portion of compensated absences	(4,769)	(42,204)
Unearned revenues	309,863	(570,624)
Deferred inflows of resources	<u>32,270</u>	<u>-</u>
Net cash used for operating activities	<u>\$ (4,182,119)</u>	<u>\$ (3,134,603)</u>

See accompanying notes to financial statements.

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

Notes to Financial Statements
September 30, 2013 and 2012

(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, 2013 and 2012

(2) Summary of Significant Accounting Policies, Continued

Basis of Accounting, Continued

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

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

Cash and Cash Equivalents

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

As of September 30, 2013 and 2012, cash and cash equivalents and time certificate of deposit were \$6,220,292 and \$6,198,381, respectively, and the corresponding bank balances were \$6,595,806 and \$6,387,564.12, respectively, which are maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2013 and 2012, 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 fees charged to students and auxiliary enterprise services provided to students, faculty and staff. Accounts receivable also include amounts due from the federal government and the CNMI government, or private sources, in connection with reimbursement of allowable expenditures made pursuant to the College's grants and contracts. Accounts receivable are recorded net of estimated allowances for uncollectible amounts.

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

Notes to Financial Statements
September 30, 2013 and 2012

(2) Summary of Significant Accounting Policies, Continued

Accounts Receivable and Allowance for Doubtful Accounts, Continued

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

Inventories

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

Capital Assets

Furniture and equipment, vehicles and computers are recorded at cost in instances where cost is determinable or estimated cost where cost is not determinable. Land, buildings and improvements are recorded at fair market values at September 30, 2013 and 2012. The College capitalizes property and equipment that equals or exceeds \$5,000. Depreciation is provided using the straight-line basis over the estimated useful lives of the respective assets.

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

Investments

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

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

Concentration of credit risk for investments is the risk of loss attributed to the magnitude of an entity's investment in a single issuer. GASB Statement No. 40 requires disclosure by issuer and amount of investments in any one issuer that represents five percent (5%) or more of total investments for the College. As of September 30, 2013 and 2012, 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, 2013 and 2012

(2) Summary of Significant Accounting Policies, Continued

Investments, Continued

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

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

General:

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

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

Notes to Financial Statements
September 30, 2013 and 2012

(2) Summary of Significant Accounting Policies, Continued

Investments, Continued

U.S. Fixed Income:

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

Equities:

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

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

Notes to Financial Statements
September 30, 2013 and 2012

(2) Summary of Significant Accounting Policies, Continued

Investments, Continued

Cash and Cash Equivalents:

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

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

Endowment Fund

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

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.

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

Notes to Financial Statements
September 30, 2013 and 2012

(2) Summary of Significant Accounting Policies, Continued

Compensated Absences

The College recognizes cost for accrued annual leave at the time such leave is earned. As of September 30, 2013 and 2012, the College recorded accrued annual leave in the amount of \$578,628 and \$583,397, respectively, which is included within the statements of net assets as compensated absences.

Net Position

The College's net position are classified as follows:

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

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

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

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

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

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

Notes to Financial Statements
September 30, 2013 and 2012

(2) Summary of Significant Accounting Policies, Continued

Classification of Revenues

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

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

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

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

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

Notes to Financial Statements
September 30, 2013 and 2012

(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
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Notes to Financial Statements
September 30, 2013 and 2012

(2) Summary of Significant Accounting Policies, Continued

Retirement Plan, Continued

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

Defined Contribution Plan (DC Plan)

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

The College's contributions to the Fund for the years ended September 30, 2013, 2012 and 2011 were \$349,967, \$1,054,635 and \$1,202,149, 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 \$9,116,781 and \$7,479,253 as of September 30, 2013 and 2012, 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, 2013 and 2012

(2) Summary of Significant Accounting Policies, Continued

Adopted Pronouncements

The College adopted the following pronouncements during the fiscal year ended September 30, 2013:

GASB 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.

GASB 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.

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.

Management does not believe that the implementation of these Statements have a material effect on the financial statements of the College.

Recent Pronouncements

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 April 2012, GASB issued Statement No. 66, *Technical Corrections – 2012*, which enhances the usefulness of financial reports by resolving conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting. The provisions of this statement are effective for periods beginning after December 15, 2012. Management has not yet determined the effect of implantation of this Statement on the financial statements of the College.

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

Notes to Financial Statements
September 30, 2013 and 2012

(2) Summary of Significant Accounting Policies, Continued

Recent Pronouncements, Continued

In June 2012, GASB issued Statement No. 67, *Financial Reporting for Pension Plans*, which revises existing guidance for the financial report of most pension plans, and Statement No. 68, *Accounting and Financial Reporting for Pensions*, which establishes new financial reporting requirements for most governments that provide their employees with pension benefits. The provisions in Statement 67 are effective for financial statements for periods beginning after June 15, 2013. The provisions in Statement 68 are effective for fiscal years beginning after June 15, 2014. Management has not yet determined the effect of implementation of these Statements on the financial statements of the College.

In January 2013, GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations*, which establishes accounting and financial reporting standards related to government combinations and disposals of government operations. As used in this Statement, the term government combinations includes a variety of transactions referred to as mergers, acquisitions, and transfers of operations. This Statement provides specific accounting and financial reporting guidance for combinations in the governmental environment. This Statement also improves the decision usefulness of financial reporting by requiring that disclosures be made by governments about combination arrangements in which they engage and for disposals of government operations. The provisions of Statement 69 are effective for government combinations and disposals of government operations occurring in financial reporting periods beginning after December 15, 2013, and should be applied on a prospective basis. Early application is encouraged. Management has not yet determined the effect of implementation of this Statement on the financial statements of the College.

In April 2013, GASB issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. The requirements of this Statement will enhance comparability of financial statements among governments by requiring consistent reporting by those governments that extend nonexchange financial guarantees and by those governments that receive nonexchange financial guarantees. This Statement will also enhance the information disclosed about a government's obligations and risk exposure from extending nonexchange financial guarantees. This Statement will also augment the ability of financial statement users to assess the probability that governments will repay obligation holders by requiring disclosures about obligations that are issued with this type of financial guarantee. The provisions of Statement 70 are effective for financial statements for reporting beginning after June 15, 2013. Earlier application is encouraged. Management has not yet determined the effect of implementation of this Statement on the financial statements of the College.

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

Notes to Financial Statements
September 30, 2013 and 2012

(3) Accounts Receivable and Unbilled Charges

Summarized below is the College's accounts receivable and unbilled charges as of September 30, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Student tuition and fees	\$ 3,023,518	\$ 2,988,310
Auxiliary enterprises	404,246	145,153
Other activities	<u>421,531</u>	<u>227,650</u>
Total	3,854,295	3,361,113
Allowance for doubtful accounts	<u>(1,866,518)</u>	<u>(1,926,956)</u>
Net Receivable and unbilled charges	<u>\$ 1,982,777</u>	<u>\$ 1,434,157</u>

(4) Investments

As of September 30, 2013 and 2012, the College's investments at fair value are as follows:

	<u>2013</u>	<u>2012</u>
Fixed income securities:		
Government and Government-Sponsored		
Enterprise (GSE) bonds	\$ 1,444,118	\$ 1,003,829
Corporate bonds	<u>449,983</u>	<u>888,081</u>
Total fixed income	<u>1,894,101</u>	<u>1,891,910</u>
Other investments:		
Domestic equities	3,975,138	2,937,286
Cash and cash equivalents	<u>1,052,553</u>	<u>1,335,509</u>
Total other investments	<u>5,027,691</u>	<u>4,272,795</u>
	<u>\$ 6,921,792</u>	<u>\$ 6,164,705</u>

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

Notes to Financial Statements
September 30, 2013 and 2012

(4) Investments, Continued

As of September 30, 2013 and 2012, the College's fixed income securities had the following maturities:

2013						
Investment type	Fair Value	Investment Maturities (In Years)				Rating
		Less than 1	1 - 5	6 - 10	More than 10	
Government and GSE bonds	\$1,333,494	\$ 95,972	\$ 918,955	\$ 186,162	\$ 132,405	AAA
Government and GSE bonds	110,624	-	-	-	110,624	No rating
Corporate bonds	93,162	-	19,138	56,748	17,276	A
Corporate bonds	42,548	-	42,548	-	-	A-
Corporate bonds	56,644	-	19,870	-	36,774	A+
Corporate bonds	18,556	-	-	-	18,556	AA
Corporate bonds	22,212	-	-	22,212	-	AA-
Corporate bonds	20,972	-	20,972	-	-	AA+
Corporate bonds	195,889	-	22,992	115,391	57,506	BBB
	<u>\$1,894,101</u>	<u>\$ 95,972</u>	<u>\$1,044,475</u>	<u>\$ 380,513</u>	<u>\$ 373,141</u>	
2012						
Investment type	Fair Value	Investment Maturities (In Years)				Rating
		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>	

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

Notes to Financial Statements
September 30, 2013 and 2012

(5) Capital Assets

Summarized below is the College's investment in capital assets and changes at September 30, 2013 and 2012:

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

	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 capital assets		<u>\$ 5,626,176</u>	<u>\$ (133,878)</u>	<u>\$ -</u>	<u>\$ 5,492,298</u>

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

Notes to Financial Statements
September 30, 2013 and 2012

(6) Long-Term Obligation

Changes in long-term obligations for the years ended September 30, 2013 and 2012, are as follows:

	2013	2012
Compensated absences		
Balance, beginning	\$ 583,397	\$ 625,601
Additions	146,092	33,076
Reductions	(150,861)	(75,280)
Balance, end	578,628	583,397
Due within one year	(380,949)	(380,949)
Noncurrent	\$ 197,679	\$ 202,448

(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, 2013 and 2012, the College recognized \$4,474,062 and \$3,748,689, respectively, in appropriations from the CNMI Government. The amounts due from CNMI Government from appropriation as of September 30, 2013 and 2012 amounted to \$187,959 and \$0, respectively, while the amount due from CNMI Government for retirement contributions paid for retired employees amounted to \$177,562 as of September 30, 2013 and 2012.

At September 30, 2013 and 2012, amounts payable for utility expense to the Commonwealth Utilities Corporation (CUC), a component unit of the CNMI Government, amounted to \$46,965 and \$49,345, respectively, which are included in accounts payable in the accompanying statements of net position. During the years ended September 30, 2013 and 2012, 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, 2013 and 2012

(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 2013 and 2012. The following table shows natural classifications with functional classifications:

	2013							Total
	Salaries	Services	Benefits	Insurance Utilities and Rent	Depreciation	Supplies	Miscellaneous	
Instructional	\$ 6,751,857	\$ 239,928	\$ 1,120,877	\$ -	\$ -	\$ 30,602	\$ 4,652	\$ 8,147,916
Administration	-	636,549	-	704,172	-	203,582	1,848,349	3,392,652
Student expense	-	1,717,825	-	-	-	-	-	1,717,825
Student services	102,542	1,373,039	-	-	-	9,225	-	1,484,806
Operations and maintenance	-	272,094	-	-	550,506	-	-	822,600
	<u>\$ 6,854,399</u>	<u>\$ 4,239,435</u>	<u>\$ 1,120,877</u>	<u>\$ 704,172</u>	<u>\$ 550,506</u>	<u>\$ 243,409</u>	<u>\$ 1,853,001</u>	<u>\$ 15,565,799</u>

	2012							Total
	Salaries	Services	Benefits	Insurance Utilities and Rent	Depreciation	Supplies	Miscellaneous	
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>

(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, 2013 and 2012.

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

Notes to Financial Statements
September 30, 2013 and 2012

(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 \$76,575 relating to prior fiscal years have been set forth in the College's Single Audit Report for the year ended September 30, 2013. 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, 2013 and 2012 is \$1,310,493 and \$1,243,801, respectively. These are not accrued in the accompanying financial statements.

(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.



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

Board of Regents
Northern Marianas College:

I have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements the Northern Marianas College (the College), as of and for the year ended September 30, 2013, and the related notes to the financial statements, and have issued my report thereon dated June 16, 2014.

Internal Control Over Financial Reporting

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

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

My consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during my audit I did not identify any deficiencies in internal control that I consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the College's financial statements are free from 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*.

Purpose of this Report

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


Saipan, Commonwealth of the Northern Mariana Islands
June 16, 2014



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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

Board of Regents
Northern Marianas College:

Report on Compliance for Each Major Federal Program

I have audited the Northern Marianas College's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have direct and material effect on each of the College's major federal programs for the year ended September 30, 2013. The College's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

My responsibility is to express an opinion on compliance for each of the College's major federal programs based on my audit of the types of compliance requirements referred to above. 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 on compliance for each major federal program. However, my audit does not provide a legal determination of the College's compliance.

Basis for Qualified Opinion on Student Financial Assistance Programs Cluster

As described in the accompanying Schedule of Findings and Questioned Costs, the College did not comply with requirements regarding Student Financial Assistance Programs Cluster as described in 2013-1 for Eligibility. Compliance with such requirements is necessary, in my opinion, for the College to comply with the requirements applicable to that program.

Qualified Opinion on Student Financial Assistance Programs Cluster

In my opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, the College, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on Student Financial Assistance Programs Cluster for the year ended September 30, 2013.

Unmodified Opinion on Each of the Other Major Federal Programs

In my opinion, the College complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its other major federal programs identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs for the year ended September 30, 2013.

Other Matters

The results of my auditing procedures did not disclosed other instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133.

Report on Internal Control Over Compliance

Management of the College, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing my audit of compliance, I considered the College's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with 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.

My consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, I identified certain deficiencies in internal control over compliance that I consider to be material weaknesses and significant deficiencies.

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. I consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item Finding 2013-01 to be a material weakness.

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 response to the internal control over compliance findings identified in my audit is described in the accompanying Schedule of Findings and Questioned Costs. The College's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, I express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.


Saipan, Commonwealth of the Northern Mariana Islands
June 16, 2014

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

Schedule of Expenditures of Federal Awards
Year Ended September 30, 2013

Federal Grantor/Program Title	CFDA Number	Expenditures
Direct Programs		
Student Financial Assistance Cluster:		
Federal Pell Grant Program	84.063	\$ 3,602,123
Federal Supplemental Educational Opportunity Grants	84.007	180,770
Federal Work-Study Program	84.033	30,249
Sub-total Student Financial Assistance Cluster		3,813,142
College Access Challenge Grant Program	84.378	1,670,145
Adult Education - Basic Grants to States	84.002	400,204
Trio-Upward Bound	84.047	9,334
Sub-total U.S. Department of Education		5,892,825
<u>U.S. Department of Agriculture</u>		
Payment to Agricultural Experiment Stations under the Hatch Act	10.203	418,625
Cooperative Extension Services	10.500	1,077,080
Sub-total U.S. Department of Agriculture		1,495,705
<u>U.S. Department of Commerce</u>		
Learn and Serve America-Higher Education	94.005	6,456
Sub-total U.S. Department of Commerce		6,456
Sub-total Direct Programs, carried forward		\$ 7,394,986

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, 2013

Federal Grantor/Program Title	CFDA Number	Expenditures
Sub-total Direct Programs, brought forward		<u>\$ 7,394,986</u>
Indirect Programs		
<u>U.S. Department of the Interior</u>		
Economic, Social, and Political Development of the Territories	15.875	214,286
Sub-total U.S. Department of the Interior		214,286
<u>U.S. Department of Agriculture</u>		
Agriculture and Food Research Initiative	10.310	\$ 265,723
Resident Instruction Grants for Insular Area Activities Cooperative Extension Service:	10.308	156,412
Implementation of Western Sustainable Agricultural Research and Educational Program Professional Development Plan	10.500	33,522
Technology Transfer of Alternative Plant	10.500	15,962
Grants for Agricultural Research, Special Research Grants - Agricultural Development in the American Pacific	10.200	6,979
Integrated Programs	10.303	15,267
Sub-total U.S. Department of Agriculture		493,865
<u>U.S. Department of Homeland Security</u>		
US Apprenticeship Program (CWAP)	97.unknown	500,000
Sub-total U.S. Department of Homeland Security		500,000
<u>U.S. Department of Health and Human Services</u>		
University Centers for Excellence in Developmental Disabilities Education, Research, and Service (B)	93.632	212,228
Model State-Supported Area Health Education Centers	93.107	67,541
Sub-total U.S. Department of Health and Human Services		279,768
Sub-total Indirect Programs		1,487,920
Total Federal Programs		<u>\$ 8,882,906</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, 2013

(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 Circular 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 2013, 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, 2013

SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? _____yes X no

- Significant deficiency(ies) identified that are not considered to be material weaknesses? _____yes X none reported

Noncompliance material to financial statements noted? _____yes X no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? X yes _____no

- Significant deficiency(ies) identified that are not considered to be material weaknesses? _____yes X none reported

Type of auditor's report issued on compliance for major federal programs: Qualified

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, 2013

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	\$ 3,602,123
84.007	Federal Supplemental Educational Opportunity Grants	180,770
84.033	Federal Work-Study Program	<u>30,249</u>
	Student Financial Assistance Cluster	3,813,142
84.378	College Access Challenge Grant Program	1,670,145
10.500	Cooperative Extension Services	1,126,564
97. Unknown	CNMI Contract Workers Education Funding Fee	500,000
10.203	Payment to Agricultural Experiment Stations under the Hatch Act	418,625
84.002	Adult Education - Basic Grants to States	<u>400,203</u>
	Total Federal Expenditures-Major Programs	<u>\$ 7,928,679</u>
	Percentage of total awards tested	<u>89%</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, 2013

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, 2013

SECTION III – FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Eligibility – Student Financial Assistance Cluster

Finding No. 2013-01

<u>CFDA No.</u>	<u>Findings/Noncompliance</u>	<u>Questioned Costs</u>
84.063, 84.007, and 84.033		\$ -

Criteria:

Pursuant to the PELL grant eligibility requirement, student must maintain Satisfactory Academic Progress (SAP) in college or career school.

The College's SAP policy standard is summarized below:

1. Maintain a term and cumulative Grade Point Average of at least 2.0 on a 4.0 scale, and
2. Complete at least 75% of the number of credit taken each semester.

Furthermore, students who fail to meet any of the above criteria for any one semester will be placed on financial aid probation. A student on probation may continue to receive federal aid during the probation period but must give evidence of satisfactory academic progress by the end of the probation period. Two consecutive probations will subject the student to suspension from financial aid and thus will not be eligible for financial aid in subsequent semesters until they make up the deficient credits and/or term and/or cumulative GPA.

Condition:

For 2 or 2.22% of 90 students selected for testing eligibility, I noted that the following

1. 9529 - Student was on suspension after Spring 2012, Fall 2012 term GPA was 1.43 while cumulative GPA 2.20. The student was admitted back to the program in Spring 2013 despite the below 2.0 term GPA.

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

Schedule of Findings and Questioned Costs
Year Ended September 30, 2013

SECTION III – FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Eligibility – Student Financial Assistance Cluster

Finding No. 2013-01, Continued

<u>CFDA No.</u>	<u>Findings/Noncompliance</u>	<u>Questioned Costs</u>
84.063, 84.007, and 84.033		\$ -

Condition, Continued:

2. 13810 - Student was on suspension after Spring 2012, Fall 2012 term GPA 0 while cumulative GPA 2.14. The student was admitted back into the program in Spring 2013 despite having a below 2.0 term GPA.

Cause:

The Financial Aid office uses its discretion approving reinstatement. Although the SAP policies and the reinstatement policy clearly states that the student must earn a semester and cumulative GPA of at least 2.0. The Financial Aid Administrator allows reinstatement if either is met since they believe that the PELL grant allows them to exercise such discretion.

Effect:

The College is not in compliance with its SAP and Reinstatement Policies and the eligibility requirements pursuant to the Student Financial Assistance Programs Cluster.

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

Schedule of Findings and Questioned Costs
Year Ended September 30, 2013

SECTION III – FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Eligibility – Student Financial Assistance Cluster

Finding No. 2013-01, Continued

<u>CFDA No.</u>	<u>Findings/Noncompliance</u>	<u>Questioned Costs</u>
84.063, 84.007, and 84.033		\$ -

Recommendation:

If the College Board intends to provide the Financial Aid Administrator with the discretion on whether both term and cumulative GPAs or either of the two shall be the basis for reinstatement. Such should be documented in the policy. They should weigh in the effect of lowering the SAP on the quality of financial aid recipients of the College. Allowing either term or cumulative GPA instead of both is more lenient than the current policy.

Auditee Response:

The College agrees with the auditor's finding for students (student no. 9529 and 13810) who were found to have been allowed to continue on probation without meeting Satisfactory Academic Progress (SAP) policy standards.

As recommended, the College took corrective action on June 4, 2014 by adopting a revised college procedure for student financial aid to address the current discrepancy between policy and practice.

4013.1 Student Financial Aid, an implementing procedure for the College's policy on all financial aid matters, establishes the College's SAP policy standard as follows for federal financial aid:

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

Schedule of Findings and Questioned Costs
Year Ended September 30, 2013

SECTION III – FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Eligibility – Student Financial Assistance Cluster

Finding No. 2013-01, Continued

<u>CFDA No.</u>	<u>Findings/Noncompliance</u>	<u>Questioned Costs</u>
84.063, 84.007, and 84.033		\$ -

Auditee Response, Continued:

1. Maintain a term or cumulative Grade Point Average (GPA) of at least a 2.0 on a 4.0 scale, and;
2. Complete at least 67% of the number of credits taken each semester (Ws and UWs will be counted against the student)

Contact Person: Leo Pangelinan (Dean of Student Services) and Daisy Manglona-Propst (Director of Financial Aid).

Target Completion: The College implemented procedure 4013.01, "Financial Aid (Title IV)" on June 4, 2014 to address this concern. With the implementation of this revised procedure, the College considers this finding resolved



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

2012-01	Reporting – College Access Challenge Grant Program	Resolved.
2012-02	Special Tests and Provisions, Maintenance of Effort – College Access Challenge Grant Program	Resolved. The U.S. Dept of Education granted the College waiver on August 12, 2013 and provided the College the full fiscal year 2013 award.

NORTHERN MARIANAS COLLEGE
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Summary of Unresolved Questioned Costs
Year Ended September 30, 2013

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, 2013:

Questioned costs as previously reported	\$ 139,683
Questioned costs resolved during the year ended September 30, 2013	(63,108)
Questioned costs of fiscal year 2013 Single Audit	<u> -</u>
Unresolved questioned costs at September 30, 2013	<u><u> \$ 76,575</u></u>

Details of these questioned costs is as follow:

Reference	USDA	USDE	Total
2009-6	\$ 7,083	\$ -	\$ 7,083
2009-7	60,607	-	60,607
2009-8	5,202	-	5,202
2009-9	-	2,549	2,549
2009-10	-	22,584	22,584
2009-11	-	2,272	2,272
2009-14	-	16,776	16,776
2010-2	3,683	-	3,683
2010-7	<u> -</u>	<u>18,927</u>	<u>18,927</u>
Questioned costs as previously reported	76,575	63,108	139,683
Resolved in 2013	<u> -</u>	<u>(63,108)</u>	<u>(63,108)</u>
Unresolved questioned costs at September 30, 2013	<u><u> \$76,575</u></u>	<u><u> \$ -</u></u>	<u><u> \$76,575</u></u>

Findings and questioned cost from FY 2009 and FY 2010 amounting to \$76,575 are currently under review with the USDA NIFA. Formal meetings and discussions with U.S. Dept of Agriculture National Institute of Food and Agriculture (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.