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, 2015 and 2014

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

Years Ended September 30, 2015 and 2014

TABLE OF CONTENTS

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CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

To the Board of Regents
Northern Marianas College

Report on the Financial Statements

We have audited the accompanying financial statements of the Northern Marianas College (the College) as of and for the years ended September 30, 2015 and 2014, 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.

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the College and the respective changes in financial position and cash flows for the years then ended in conformity 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 16 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 (GASB), who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Financial Information

Our audits were conducted for the purpose of forming an 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 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 1, 2016, on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the College's internal control over financial reporting and compliance.

Burger Comer Magliari

Saipan, Commonwealth of the Northern Mariana Islands
June 1, 2016

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, 2015 with comparisons to prior fiscal years ended September 30, 2014 and 2013. We encourage readers to consider the information presented here in conjunction with the financial statements and related notes.

Fiscal year 2015 presented the College with unique and unprecedented challenges that significantly impacted its financial statements. The disastrous Category 5 Typhoon Soudelor and the calamitous communications blackout that occurred in August and July 2015, respectively, resulted in millions of dollars of lost revenues and assets that will have a long lasting impression on the College's financial statement presentation. The impact of delay in the start of the Fall 2015 semester due to Typhoon Soudelor affected the proportional deferral of revenues from tuition and fees, resulting in a decrease in revenues for the period, and subsequently will result in an overstatement of earned revenues for fiscal year 2016. Fortunately, as a result of the College's prudent financial planning, the institution was in fact able to weather these storms, mitigate harmful impacts, and not only rebound quickly to continue to provide academic and other programs to students and stakeholders but also leverage the catastrophes to grow and improve the institution.

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

    - Expendable. 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, to the extent that the College uses these mechanisms.

- Cash flows from investing activities include proceeds from sale of investments, receipt of interest, and changes in the fair value of investments subject to reporting as cash equivalents. Outflows in this category include the purchase of investments.

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

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

FINANCIAL HIGHLIGHTS AND ANALYSIS OF BASIC FINANCIAL STATEMENTS

Condensed Statements of Net Position

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

	2014	2013	Increase (Decrease) Amount	Increase (Decrease) Percent
ASSETS:				
Current assets	$ 10,668,941	$ 10,594,151	$ 74,790	0.0071
Capital assets, net	$ 4,648,526	$ 5,023,808	$ (375,282)	(0.0747)
Other assets	$ 7,355,502	$ 6,921,792	$ 433,710	0.0627
Total Assets	**$ 22,672,969**	**$ 22,539,751**	**$ 133,218**	**0.0059**
LIABILITIES:				
Current liabilities	$ 2,301,664	$ 2,739,234	$ (437,570)	(0.1597)
Noncurrent liabilities	$ 214,776	$ 197,679	$ 17,097	0.0865
Total Liabilities	**$ 2,516,440**	**$ 2,936,913**	**$ (420,473)**	**(0.1432)**
DEFERRED INFLOWS OF RESOURCES				
Grant receipts	$ 131,293	$ 145,119	$ (13,826)	(0.0953)
Total Liabilities	**$ 131,293**	**$ 145,119**	**$ (13,826)**	**(0.0953)**

NET POSITION				
Investment in capital assets, net	$ 4,648,526	$ 5,023,808	$ (375,282)	(0.0747)
Restricted net assets	$ 7,355,502	$ 6,921,792	$ 433,710	0.0627
Unrestricted	$ 8,021,208	$ 7,512,119	$ 509,089	0.0678
TOTAL NET POSITION	**$ 20,025,236**	**$ 19,457,719**	**$ 567,517**	**0.0292**

- Total assets at September 30, 2015 amounted to $22,744,049, a $71,080 or 0.31% increase from $22,672,969 as of September 30, 2014.
  - Cash increased from $6,399,585 to $6,667,554, primarily due to the collection of accounts receivable and the remittance from grantors. NMC's cash balances are restricted in compliance with legal, grant, accreditation requirements or obligated by policy for restricted purposes.
  - Accounts receivable and due from grantors increased by $250,839 and $798,064 respectively, compared to fiscal year 2014.
  - Investment decreased by $230,371 for fiscal year 2015 due to the volatility of markets during the period.
  - The College experienced a decrease of $1,177,856, approximately 25%, in Capital assets in 2015 as a result of removing assets damaged from Typhoon Soudelor.
- Total liabilities as of September 30, 2015 amounted to $3,343,059. This increased by $826,619 or 33%. The increase in accounts payable is attributable to emergency purchases related to Typhoon Soudelor (such as generators and building materials) made in the immediate aftermath of the disaster, which were paid after September 30. Similarly, the increase in accrued salaries and benefits payable was for disaster-related hazardous overtime pay that was accrued for fiscal year 2015.

Condensed Statements of Activities and Changes in Net Position

		2015		2014		Increase (Decrease) Amount	Percent
Net operating revenues	$	10,800,030	$	11,064,744	$	(264,714)	(0.0239)
Total operating expenses	$	15,701,511	$	15,044,715	$	656,796	0.0437
Operating loss	$	(4,901,481)	$	(3,979,971)	$	(921,510)	0.2315
Non-operating revenues	$	4,131,327	$	4,547,488	$	(416,161)	(0.0915)
Change in net position	$	(770,154)	$	567,517	$	(1,337,671)	(2.3571)
Net position, beginning of the year	$	20,025,236	$	19,457,719	$	567,517	0.0292
Net position, end of the year	$	19,255,082	$	20,025,236	$	(770,154)	(0.0385)

		2014		2013		Increase (Decrease) Amount	Percent
Net operating revenues	$	11,064,744	$	10,952,753	$	111,991	0.0102
Total operating expenses	$	15,044,715	$	15,565,799	$	(521,084)	(0.0335)
Operating loss	$	(3,979,971)	$	(4,613,046)	$	(8,593,017)	(1.8628)
Non-operating revenues	$	4,547,488	$	5,231,082	$	(683,594)	(0.1307)
Change in net position	$	567,517	$	618,036	$	(50,519)	(0.0817)
Net position, beginning of the year	$	19,457,719	$	18,839,683	$	618,036	0.0328
Net position, end of the year	$	20,025,236	$	19,457,719	$	567,517	0.0292

NMC's net position decreased by $770,154 or -3.85% as of September 30, 2015 compared to the prior year. The decrease is primarily due to the effects of Typhoon Soudelor as follows:

- A decrease in net Tuition and Fees revenue of $571,539, or -47%, as a result of the impact on revenue recognition of deferred revenues from tuition and fees for Fall 2015, which was delayed because of Typhoon Soudelor. Typically, the College recognizes all revenues for fall in the subsequent fiscal year, however, the College's auditors apportion the deferral of fall revenues based on the beginning of activities for the fall semester. Typhoon Soudelor occurred on August 2, 2015, delaying the Fall 2015 semester from August to September 2015. The impact of this delay of activities for the fall semester affected the proportional deferral of tuition and fees, resulting in a decrease in revenues for the period. However, the effect of this on the subsequent period will result in an overstatement of earned revenues for fiscal year 2016.

- The College logged a record increase in depreciation of $1,306,007, or 255%, during fiscal year 2015 over the prior year period. Typhoon Soudelor severely damaged many buildings on College’s main As Terlaje campus. Four buildings were completely destroyed and were subsequently deemed out of service. The damages to the existing structures of these buildings were assessed at a value *greater* than the remaining book value of the buildings. Therefore, these four buildings were fully depreciated, greatly increasing recorded depreciation over the average of prior years. The College is in the process of rebuilding its campus and will record any increases to Capital Improvements accordingly in future years.

Revenues by Source

	2015		2014	
	Amount	% of Total	Amount	% of Total
Operating revenues:				
U.S. Federal grants	$ 9,590,521	64.23%	$ 8,996,516	57.62%
Tuition and fees	648,287	4.34%	1,219,826	7.81%
Private gifts, grants and donations - restricted	12,675	0.08%	2,250	0.01%
Others	548,547	3.67%	846,152	5.42%
Total operating revenues	10,800,030	72.33%	11,064,744	70.87%
Non-operating revenues:				
CNMI Appropriations	4,361,698	29.21%	4,113,778	26.35%
Realized and unrealized gain (loss) on investments	(230,371)	-1.54%	433,710	2.78%
Total non-operating revenues	4,131,327	27.67%	4,547,488	29.13%
Total revenues	$ 14,931,357	100.00%	$ 15,612,232	100.00%

- Grants from U.S. Federal Agencies constituted 64.23% and 57.63% of the College's total revenues in 2015 and 2014, respectively. The grants received from U.S. Federal Agencies increased by $594,005 or 6.6%, primarily due to additional funds received from the Federal Emergency Management Agency (FEMA) in the amount of $295,000, the CNMI-EIC-2013-3 grant in the amount of $256,000, the BUILD EXITO Grant in the amount of $55,700, and other indirect programs.

- Student tuition and fees, net of scholarships decreased by $571,539 between fiscal years 2015 and 2014, again due to the impact of Typhoon Soudelor on the calculation of deferred revenue for Fall 2015.

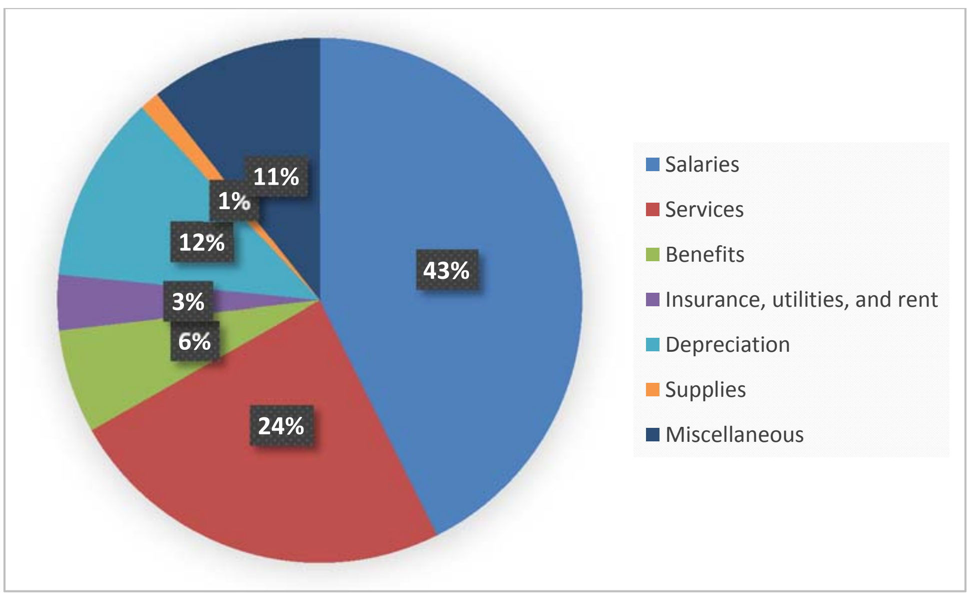
- GASB 34 and 35 requires that tuition and fees revenue from students be reported net of scholarship discounts and allowances. Discounts and allowances are the difference between the College's stated charges for tuition and fees and the amount paid by the students or third parties on behalf of the students.

- It is noted that a material portion of the College's tuition and fees are funded via Pell Grants to students. The College relies primarily on revenues from tuition and fees for non-payroll related operational expenses of the College, including equipment renewals, replacement, and maintenance.

- Appropriations received from the CNMI Government constituted 29.21% and 26.35% of the College's total revenues in 2015 and 2014, respectively. The College relies on the CNMI appropriations to supplement operating revenues to provide cash flows for the College's operating expenses. While appropriations from the CNMI for fiscal year 2015 increased by $247,920, or 6%, overall appropriations to the College have decreased by more than half over the past 10 years. The College continues to work closely with the CNMI executive and legislative branches to increase levels of crucial state support, without which the College will not be able to meet CNMI workforce demands or be a driver for economic development for our community.

Expenses by Natural Classification

	2015		2014	
	Amount	% of Total	Amount	% of Total
Salaries	6,692,441	42.62%	6,655,187	44.24%
Services	3,790,690	24.14%	4,064,438	27.02%
Benefits	1,006,489	6.41%	991,920	6.59%
Insurance, utilities, and rent	529,151	3.37%	652,256	4.34%
Depreciation	1,818,196	11.58%	512,189	3.40%
Supplies	193,998	1.24%	245,139	1.63%
Miscellaneous	1,670,546	10.64%	1,923,586	12.79%
	15,701,511	100.00%	15,044,715	100.00%



- Overall, with the exception of depreciation, operating expenses for the institution declined as a result of the impact of Typhoon Soudelor on the College's main campus. Most activities were suspended from August 2, 2015 until emergency repairs could be made in preparation of the fall semester to begin on September 28, 2015**.** As a result, many discretionary activities were cancelled or postponed.
    - Salaries constituted 42.62% and 44.24% of the College's total expenditures for fiscal years 2015 and 2014, respectively. Total salaries expenses in 2015 decreased by $37,254 or 0.5% compared to 2014.

- Expenses for Services, which include professional service contracts, bookstore operating expenses, and student expenses decrease by $273,748 or 6.74%.

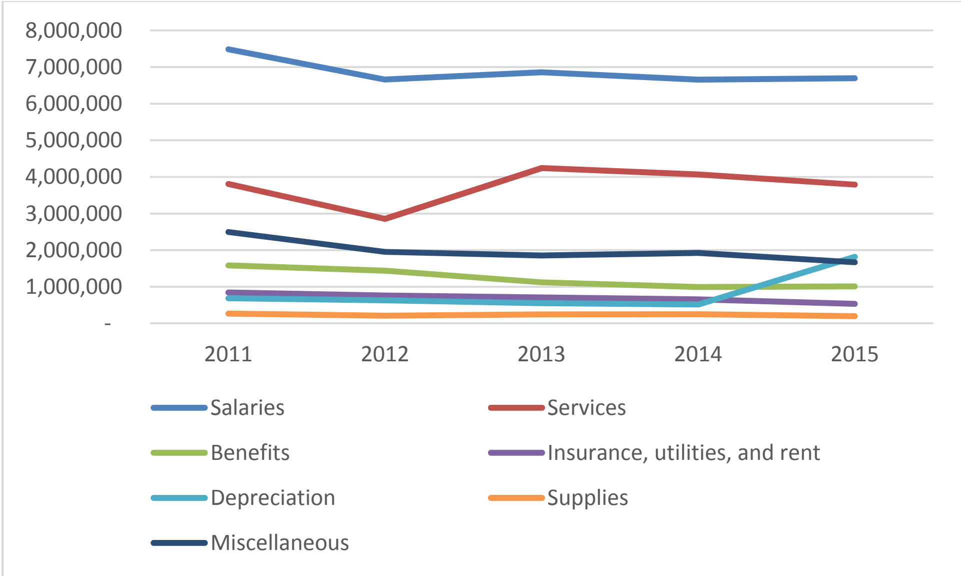
- Insurance, utilities, and rent expense decreased by $123,105, or 18.87%, as a result of the campus closure after Typhoon Soudelor and resulting destruction of rentable facilities.

- Supplies expense also decreased by $51,141 or 20.86%.

- Miscellaneous expense, which includes travel, the purchase of assets below $5,000, and other operating expenses decreased by $253,040 or 13.15% compared to 2014. In this area, the College administration made a concerted effort to reduce additional expenditures by vigorously seeking waivers of annual dues or fees, conference and professional development fees, and other similar expenses due to the calamitous circumstances faced by the College during the period. As a result, the College realized tens of thousands of dollars in associated savings.

- In 2014, the College adjusted its categorization of functional expenditures as required by GASB to more accurately reflect the allocation of expenses across function. Significantly, the College allocated salary expenses more accurately across the different functional expenditures as well as added additional expenditure categories for the functions of community services, to more accurately capture the significant expenditures associated with the Community Resource Extension and Education Services (CREES) as well as Auxiliary Services to more accurately capture the expenses associated with the NMC Bookstore. In 2015, the College continued to report in this format and will do so consistently moving forward. These changes in reporting the functional expenditures will more accurately reflect functional expenditures consistent with other colleges and universities for comparative purposes, particularly in the U.S. Department of Education's Integrated Postsecondary Education System (IPEDS).

Comparative Expenses



The graph above shows how the College is spending funds from fiscal year 2011 to 2015 and reflects a decreasing trend in expenditures over the five year period.

CAPITAL ASSETS

At September 30, 2015 and 2014, the College had $3,470,670 and $4,648,526, 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.

During this Fiscal Year 2015, Typhoon Soudelor severely damaged many buildings on the main Saipan Campus. There were four buildings deemed out of service. The damages to the existing structures of these buildings were assessed at a value *greater* than the remaining book value of the buildings. Therefore, these four buildings were fully depreciated, greatly increasing recorded depreciation over the average.

LONG-TERM DEBT

The College did not engage in any long-term debt financing in fiscal year 2015. See Note 6 to the financial statements for more information on the College's long-term obligations.

MAJOR ACCOMPLISHMENTS AND CHALLENGES IN FISCAL YEAR 2015

Undoubtedly, the singular events defining the College's challenges for fiscal year 2015 were the communications blackout and Typhoon Soudelor. On July 8, 2015, a break in an undersea cable totally disconnected the CNMI phone, Internet, banking, and other communications from the rest of the world. The breakage resulted in a complete blackout in communication links from the CNMI, crippling the ability of residents and businesses to surf the web, make phone calls, use credit cards or ATMs, consult with off-island health professionals, and book flights, among many other affected functions. Business transactions at the College and elsewhere in the CNMI came to a standstill during the week-long blackout. Then, on August 2, 2015 Typhoon Soudelor, a Category 5 typhoon with sustained winds of over 180 mph, tore through the island of Saipan devastating much of the College's As Terlaje campus. Four of the campus' buildings were entirely destroyed along with all the building contents. Many other buildings were damaged severely. Like the rest of Saipan, utility service to the College was completed interrupted – there was no electricity or running water for weeks afterward. Despite this devastating setback, the College still managed to resume its Fall 2015 semester just six weeks after the wreckage of Typhoon Soudelor. This was a tremendous accomplishment in the face of approximately $5 million in damage to the College's campus.

The effects of the communications blackout and Typhoon Soudelor manifested themselves not only physically on the College's campus but also negatively impacted the College's financial statements for fiscal year 2015 and will impact it also in 2016. The overall effect was a decrease in the College's Statement of Net Position as a result of a significant increase in depreciation of capital assets, a decrease in tuition and fee revenue as a result of the delayed fall semester, increases in liabilities such as accounts payable for the purchase of emergency equipment and materials and accrued salaries and benefits for disaster-related overtime pay. However, the decrease in tuition and fees revenue was slightly offset by an increase in federal grant revenue primarily as a result of the receipt of disaster-related emergency funding from FEMA. In addition, the increase in depreciation expense was slightly offset by a decrease in other expense areas such as services, supplies, utilities, and miscellaneous expenditures, as result of the cancellation or delay of discretionary programs and expenses due to Typhoon Soudelor. Overall, the fact that the decrease in net position was only 3.85% over the prior year is quite remarkable under these extraordinary circumstances.

Also in fiscal year 2015, the College continued to weather the CNMI's financial storm and navigate through new accreditation requirements under Western Association of Schools and Colleges Senior College and University Commission (WSCUC), while striving to maintain a quality learning environment conducive to students and stakeholders. Despite indicators that the CNMI economy rebounded in 2015, sustained economic recovery continues to hinge upon the imminent loss of its non-resident/international workforce. This affects not only the College's non-resident/international student enrollment but also affects public policy decisions regarding state funding for workforce development to the College, the CNMI's only accredited institution of higher education.

The transition to new accreditation requirements under WSCUC continued in fiscal year 2015. In fiscal year 2014, the College overcame significant, longstanding challenges with respect to its accreditation with the Accrediting Commission for Community and Junior Colleges (ACCJC) under the Western Association of Schools and Colleges such that the ACCJC acted to reaffirm the College's accreditation in February 2014. The College immediately and successfully sought to transition to WSCUC, and was granted its initial accreditation for a six year period in July 2014. Significantly, this allowed the College to expand its bachelor's degree offerings to meet pressing community workforce needs. Because of the College's historical challenges sufficiently maintaining accreditation standards, in fiscal year 2015 the College continued to allocate significant resources as an investment in learning and complying with WSCUC accreditation requirements.

Despite all of these challenges, in FY 2015 the College continued to be prudent in its expenditure patterns and management of cash flows and has been able to maintain strong composite financial index ratios, in compliance with Board of Regents policies, accreditation standards relative to fiscal stability, and federal financial responsibility standards. This is evidence that despite the ongoing challenges, the College continues to remain financially sound during these tumultuous economic times for the CNMI.

NMC continues to monitor all its financial revenue sources and to make appropriate adjustments in personnel and utility consumption, as well as adhering to procurement policies and procedures. Consolidation and cost saving measures implemented in prior fiscal years were continued in 2015. Review of historical spending practices and the initiative to optimize financial resources led to the consolidation of spending in certain categories under identified departments such as faculty overload and adjunct pay, professional development expenses, and travel, among others. Such consolidations continued to benefit the College in a variety of ways: 1) cost savings from discounts for volume purchases; 2) expedited transactions through centralization; and 3) monitoring of certain facilities expenses.

Please see the College's official fiscal year 2015 Annual Report for more information.

ECONOMIC OUTLOOK

The economic outlook for the CNMI in fiscal year 2016 is optimistic. Indicators suggested the economy will improve in the upcoming year. Again in fiscal year 2015, governmental budgets increased slightly over that of fiscal year 2014. Tourism, the only remaining industry with a major role in driving the CNMI's economy, continues sustained growth. Visitor arrivals have continued to increase since 2011 when they were at an all-time low. The advent of casino gambling on Saipan has significantly improved economic prospects for the CNMI as a whole, despite pending increases in minimum wage and deadline for the transition of CNMI-specific uses of foreign labor to align with U.S. immigration laws. Other positive indicators of economic growth in 2016 include the construction of new hotels and casino on Saipan as well as job growth as reported by the CNMI Department of Labor. The College diligently continues its efforts to position itself to build its workforce development programs, both academic and non-academic, aligned with the dynamically changing needs of the CNMI's economy.

As a result of the College's improved accreditation status, the College is finally in a position to expand its academic and community program offerings to meet workforce demands and help strengthen the CNMI economy. The College continues to anticipate growth in enrollment in response to these factors, which will in turn boost college revenues. In addition, the College's appropriations budget increased slightly for fiscal year 2016 and included funding allocations for the Commonwealth Workers (CW) Fee of $547,000. 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, 2015 is set forth in the report on the audit of the College's financial statements. The Management Discussion and Analysis explains the major factors impacting the 2015 financial statements. If you have questions about the 2015 or 2014 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, 2015 and 2014

	2015	2014
Assets:		
Current assets:		
Cash and cash equivalents	$ 6,667,554	$ 6,399,585
Time certificate of deposit	695,628	695,094
Accounts receivable and unbilled charges, net	1,876,838	1,625,999
Due from grantor agencies	1,965,288	1,167,224
Due from CNMI	177,561	177,561
Inventories	699,061	534,685
Prepayments	66,318	68,793
Total current assets	12,148,248	10,668,941
Noncurrent assets:		
Investments	7,125,131	7,355,502
Capital assets, net	3,470,670	4,648,526
Total noncurrent assets	10,595,801	12,004,028
Total assets	22,744,049	22,672,969
Liabilities:		
Current liabilities:		
Accounts payable	906,749	697,489
Accrued salaries and benefit payable	466,145	370,523
Current portion of compensated absences	280,934	380,949
Unearned revenues	1,357,020	852,703
Total current liabilities	3,010,848	2,301,664
Noncurrent liabilities:		
Compensated absences, net of current portion	332,211	214,776
Total liabilities	3,343,059	2,516,440
Deferred inflows of resources:		
Grant receipts	145,908	131,293
Net position:		
Investment in capital assets, net	3,470,670	4,648,526
Restricted net assets:		
Nonexpendable	3,200,000	3,200,000
Expendable	3,925,131	4,155,502
Unrestricted	8,659,281	8,021,208
Net position	$ 19,255,082	$ 20,025,236

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, 2015 and 2014

	2015	2014
Operating revenues:		
U.S. Federal grants	$ 9,590,521	$ 8,996,516
Tuition and fees (net of scholarship discounts and allowances of $2,439,456 and $2,267,035 in 2015 and 2014, respectively)	648,287	1,219,826
Private gifts, grants and donations - restricted	12,675	2,250
Others (net of bookstore cost of sales of $338,307 in 2015 and $400,200 in 2014)	548,547	846,152
Net operating revenues	10,800,030	11,064,744
Operating expenses:		
Salaries	6,692,441	6,655,187
Services	3,790,690	4,064,438
Depreciation	1,818,196	512,189
Benefits	1,006,489	991,920
Insurance, utilities and rents	529,151	652,256
Supplies	193,998	245,139
Miscellaneous	1,670,546	1,923,586
Total operating expenses	15,701,511	15,044,715
Operating loss	(4,901,481)	(3,979,971)
Nonoperating revenues:		
CNMI Appropriations	4,361,698	4,113,778
Realized and unrealized gain (loss) on investments	(230,371)	433,710
Total nonoperating revenues	4,131,327	4,547,488
Change in net position	(770,154)	567,517
Net position, beginning of the year	20,025,236	19,457,719
Net position, end of the year	$ 19,255,082	$ 20,025,236

See accompanying notes to financial statements.

NORTHERN MARIANAS COLLEGE

(A Component Unit of the CNMI Government)

Statements of Cash Flows
For the Years Ended September 30, 2015 and 2014

	2015	2014
Cash flows from operating activities:		
Tuition and fees collected	$ 901,765	$ 1,537,647
U.S Federal grants	8,807,072	9,242,567
Other receipts	561,222	848,402
Payments to employees	(6,579,399)	(6,773,229)
Payments to suppliers	(7,143,515)	(8,145,831)
Net cash used for operating activities	(3,452,855)	(3,290,444)
Cash flows from investing activities:		
Purchase of time certificate of deposit	(534)	(648)
Net cash used for investing activities	(534)	(648)
Cash flows from noncapital financing activities:		
CNMI Appropriations	4,361,698	4,301,738
Net cash provided by noncapital financing activities	4,361,698	4,301,738
Cash flows capital and related financing activities:		
Purchases of capital assets	(640,340)	(136,907)
Net cash used for capital and related financing activities	(640,340)	(136,907)
Net change in cash and cash equivalents	267,969	873,739
Cash and cash equivalents, beginning of year	6,399,585	5,525,846
Cash and cash equivalents, end of year	$ 6,667,554	$ 6,399,585

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, 2015 and 2014

	2015	2014
Reconciliation of operating loss to net cash used for operating actvities:		
Operating loss	$ (4,901,481)	$ (3,979,971)
Adjustments to reconcile operating loss to net cash used for operating activities:		
Depreciation	1,818,196	512,189
Changes in assets and liabilities:		
Accounts receivable and unbilled charges, net	(250,839)	356,778
Due from grantor agencies	(798,064)	259,877
Inventories	(164,376)	62,382
Prepayments	2,475	(67,400)
Accounts payable	209,260	(263,474)
Accrued salaries and benefit payable	95,622	(135,139)
Current portion of compensated absences	17,420	17,097
Unearned revenues	504,317	(38,957)
Deferred inflows of resources	14,615	(13,826)
Net cash used for operating activities	$ (3,452,855)	$ (3,290,444)

See accompanying notes to financial statements.

(1) Organization

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

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

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

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

(2) Summary of Significant Accounting Policies

Basis of Presentation

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

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

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

(2) Summary of Significant Accounting Policies, Continued

Basis of Accounting

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

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

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

Cash and Cash Equivalents

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

As of September 30, 2015 and 2014, cash and cash equivalents and time certificates of deposit were $7,359,641 and $7,089,754, respectively, and the corresponding bank balances were $7,510,782 and $7,173,534, respectively, which are maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2015 and 2014, bank deposits in the amount of $1,386,549 and $887,055, respectively, were FDIC insured. The College does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized.

Accounts Receivable and Allowance for Doubtful Accounts

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

(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, 2015 and 2014. The College capitalizes property and equipment that equals or exceeds $5,000. Depreciation is provided using the straight-line basis over the estimated useful lives of the respective assets.

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

Investments

The College accounts for its investments at fair value in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools.* Realized gains and losses are recognized upon disposition, while unrealized gains and losses on the carrying value of investments are reported as a part of net investment income in the Statement of Revenues, Expenses and Changes in Net Position.

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.

(2) Summary of Significant Accounting Policies, Continued

Investments, Continued

Concentration of credit risk for investments is the risk of loss attributed to the magnitude of an entity's investment in a single issuer. GASB Statement No. 40 requires disclosure by issuer and amount of investments in any one issuer that represents five percent (5%) or more of total investments for the College. As of September 30, 2015 and 2014, there were no investments in any one issuer that exceeded five percent (5%) of total investments.

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

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

General:

- Any pertinent restrictions existing under the laws of the CNMI with respect to the College, that may exist now or in the future, will be the governing restriction.

- U.S. and non-U.S. equities, ADRs (American Depository Receipts), convertible bonds, preferred stocks, fixed-income securities, mutual funds and short-term securities are permissible investments.

- No individual security of any issuer, other than that of the United States Government, shall constitute more than 5% (at cost) of the Total Fund or 10% (at cost) of any Investment Manager's portfolio.

- No investment may be made in the securities of a single corporate entity in excess of 15% (at market) of any individual Investment Manager's portfolio, without prior approval.

- Holdings of any issuer shall constitute no more than 5% of the outstanding securities of such issuer.

- Investments in a registered mutual fund managed by the Investment Manager are subject to prior approval.

- The following securities and transactions are not authorized without prior written approval: letter stock and other unregistered securities; non-negotiable securities; commodities or other commodity contracts; options; futures; short sales; and margin transactions.

(2) Summary of Significant Accounting Policies, Continued

Investments, Continued

General, Continued:

- An Investment Manager's portfolio shall not be excessively over weighted in any one industry (as compared to respective benchmark index) without prior approval by timely reporting and advice to the Board of Regents and Directors.

U.S. Fixed Income:

- All fixed income securities held in the portfolio shall have a Standard & Poor's credit quality rating of no less than "BBB", or an equivalent credit quality rating from Moody's (Baa) or Fitch (BBB). U.S. Treasury and U.S. Government agencies, which are unrated securities, are qualified for inclusion in the portfolio and will be considered to be of the highest rating.

- No more than 20% of the market value of the portfolio shall be rated less than single "A" quality, unless the Investment Manager has specific prior written authorization from the Board of Regents and Directors.

- Total portfolio quality (capitalization weighted) shall maintain a credit quality rating of no less than "A".

Equities:

- Consistent with the desire to maintain broad diversification, allocations to any economic or industry sector should not be excessive.

- Equity holdings shall be restricted to readily marketable securities of corporations that are actively traded on the major exchanges and over the counter.

- The Investment Managers shall have the discretion to invest a portion of the assets in cash reserves when they deem appropriate. However, as per the Investment Policy Statement, they will be evaluated against their peers on the performance of the total funds under their direct management.

- Common stock and preferred stock of any institution or entity created or existing under the laws of the United States or any other country are permissible investments.

(2) Summary of Significant Accounting Policies, Continued

Investments, Continued

Cash and Cash Equivalents:

- Cash equivalent reserves shall consist of cash instruments having a quality rating of Standard & Poor’s A-1, Moody’s P-1, or their equivalent. U.S. Treasury and Agency securities, Bankers Acceptances, Certificates of Deposit, and Collateralized Repurchase Agreements are also acceptable investment vehicles. Custodial Sweep Accounts must be, in the judgment of the Investment Managers, of credit quality equal or superior to the standards described above.

- In the case of Certificates of Deposit, they must be issued by FDIC insured institutions. Deposits in institutions with less than $10,000,000 in assets may not be made in excess of $100,000 (or prevailing FDIC insurance limit), unless the Deposit is fully collateralized by U.S. Treasury Securities.

- No single issue shall have a maturity of greater than two (2) years.

- Custodial Sweep Account portfolios must have an average maturity of less than one (1) year.

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

Endowment Fund

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

(2) Summary of Significant Accounting Policies, Continued

Unearned Revenues

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

Compensated Absences

The College recognizes cost for accrued annual leave at the time such leave is earned. As of September 30, 2015 and 2014, the College recorded accrued annual leave in the amount of $613,145 and $595,725, respectively, which is included within the statements of net assets as compensated absences.

Net Position

The College's net position is classified as follows:

Investment in Capital Assets - This represents the College's total 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 a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to principal.

Unrestricted - Unrestricted 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.

(2) Summary of Significant Accounting Policies, Continued

Deferred Inflows and Deferred Outflows of Resources

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and thus, will not be recognized as an outflow of resources (expense/expenditure) until then. The College does not have any deferred outflows of resources as of September 30, 2015.

In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. As of September 30, 2015, the College only has one type of deferred inflows of resources arising from grants received with restrictions.

Classification of Revenues

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

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

Nonoperating Revenues - Nonoperating revenues include activities that have the characteristics of nonexchange transactions, such as gifts and contributions and CNMI 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.

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

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

Defined Benefit Plan (DB Plan)

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

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

(2) Summary of Significant Accounting Policies, Continued

Retirement Plan, Continued

The College contribution to the Fund is at 20% of covered payroll. This is based on the Court Order, requiring the CNMI and Autonomous Agencies to remit contributions to the Fund.

Defined Contribution Plan (DC Plan)

On June 16, 2006, Public Law No. 15-13 was enacted which created the DC Plan, a 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, membership in the DC Plan became voluntary.

The College's total contributions to the Settlement and Retirement Fund for the years ended September 30, 2015, 2014 and 2013 were $178,131, $189,997 and $349,967, respectively.

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

Estimates

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

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards

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 believes that the implementation of this Statement does not have a material effect on the financial statements of the College. The accompanying financial statements have not been adjusted to reflect any liability that may arise in relation to the implementation of this standard.

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. The implementation of this statement did not have a material effect on the accompanying financial statements.

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

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In November 2013, GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to The Measurement Date — An Amendment of GASB Statement No. 68*. The objective of this Statement is to address an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. The requirements of this Statement will eliminate the source of a potential significant understatement of restated beginning net position and expense in the first year of implementation of Statement 68 in the accrual-basis financial statements of employers and nonemployer contributing entities. This benefit will be achieved without the imposition of significant additional costs. The provisions of this Statement are required to be applied simultaneously with the provisions of Statement 68. Management has not yet determined the effect of this statement on the financial statements.

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

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

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

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

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

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

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

(3) Accounts Receivable and Unbilled Charges

Summarized below is the College's accounts receivable and unbilled charges as of September 30, 2015 and 2014:

	2015	2014
Student tuition and fees	$ 3,237,987	$ 3,134,021
Auxiliary enterprises	327,320	181,039
Other activities	232,542	239,644
Total	3,797,849	3,554,704
Allowance for doubtful accounts	(1,921,011)	(1,928,705)
Net Receivable and unbilled charges	$ 1,876,838	$ 1,625,999

(4) Investments

As of September 30, 2015 and 2014, the College's investments at fair value are as follows:

	2015	2014
Fixed income securities:		
Government and Government-Sponsored Enterprise (GSE) bonds	$ 1,375,613	$ 1,480,993
Corporate bonds	532,519	499,537
Total fixed income	1,908,132	1,980,530
Other investments:		
Domestic equities	4,075,070	4,348,119
Cash and cash equivalents	1,141,929	1,026,853
Total other investments	5,216,999	5,374,972
	$ 7,125,131	$ 7,355,502

(4) Investments, Continued

As of September 30, 2015 and 2014, the College's fixed income securities had the following maturities:

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

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

(5) Capital Assets

Summarized below is the College's investment in capital assets and changes at September 30, 2015 and 2014:

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

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

(6) Long-Term Obligation

Changes in long-term obligations for the years ended September 30, 2015 and 2014, are as follows:

	2015	2014
Compensated absences		
Balance, beginning	$ 595,725	$ 578,628
Additions	43,546	191,119
Reductions	(26,126)	(174,022)
Balance, end	613,145	595,725
Due within one year	(280,934)	(380,949)
Noncurrent	$ 332,211	$ 214,776

(7) Deferred Tuition

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

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

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

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

(8) Change in Net Assets

During the year ended September 30, 2015, the College experienced an operational loss of $770,154 as noted in the Statement of Activities. A significant amount of the loss can be attributed to depreciation.

Change in Net Assets	$	(770,154)
Add depreciation		1,818,196
Change in Net Assets Excluding Depreciation	$	1,048,042

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

(9) Related Party Transactions

To ensure that the College carries out its mission and meet educational and the vocational needs of the community, the College receives annual appropriations from the CNMI Government. During the years ended September 30, 2015 and 2014, the College recognized $4,361,698 and $4,113,778, respectively, in appropriations from the CNMI Government. There were no receivables due from CNMI Government from appropriation as of September 30, 2015 and 2014, however, the amount due from CNMI Government for retirement contributions paid for retired employees amounted to $177,561 as of September 30, 2015 and 2014.

At September 30, 2015 and 2014, amounts payable for utility expense to the Commonwealth Utilities Corporation (CUC), a component unit of the CNMI Government, amounted to $43,091 and $49,652, respectively, which are included in accounts payable in the accompanying statements of net position. During the years ended September 30, 2015 and 2014, total utilities purchased from CUC amounted to $347,533 and $505,444, respectively.

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

(10) Natural Classifications with Functional Classification

In order to be consistent with the CNMI Government's reporting method, operating expenses are displayed in their natural classifications for fiscal years 2015 and 2014. The following table shows natural classifications with functional classifications:

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

	2014							
	Salaries	Services	Benefits	Insurance Utilities and Rent	Depreciation	Supplies	Miscellaneous	Total
Instruction	$3,038,331	$ 273,321	$ 456,653	$ -	$ -	$ 27,848	$ 172,920	$ 3,969,073
Academic Support	291,185	-	37,599	-	-	5,995	-	334,779
Institutional Support	1,247,099	142,818	206,505	-	-	74,747	806,456	2,477,625
Student Services	869,014	817,500	120,200	-	-	20,361	269,045	2,096,120
Community Services	1,103,912	378,292	170,432	-	-	102,055	670,238	2,424,929
Scholarships	-	2,009,521	-	-	-	-	-	2,009,521
Auxiliary	99,530	27,821	-	-	-	-	4,927	132,278
Operation and Maintenance	6,116	415,165	531	652,256	512,189	14,133	-	1,600,390
	$6,655,187	$4,064,438	$ 991,920	$ 652,256	$ 512,189	$ 245,139	$ 1,923,586	$15,044,715

(11) Commitments

The accrual basis of accounting provides that expenses include only amounts associated with goods and services received and liabilities include only the unpaid amounts associated with such expenses. Outstanding purchase orders and purchase commitments are not reported in the financial statements for the years ended September 30, 2015 and 2014.

(12) Contingencies

Financial and Compliance Audits

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

Lawsuits and Claims

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

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, 2015 and 2014 is $1,396,777 and $1,286,947, respectively. These amounts are not accrued in the accompanying financial statements.

(13) Risk Management

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

(14) Subsequent events

The College has evaluated subsequent events from October 1, 2015 to June 1, 2016, the date the financial statements were available to be issued.

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

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

REPORTS ON INTERNAL CONTROL AND COMPLIANCE

Year Ended September 30, 2015

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

Board of Regents
Northern Marianas College:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Northern Marianas College (the College) as of and for the year ended September 30, 2015, and the related notes to the financial statements, and have issued our report thereon dated June 1, 2016.

Internal Control over Financial Reporting

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

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

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

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Compliance and Other Matters

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

Purpose of this Report

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

Burger Comer Magliari

Saipan, Commonwealth of the Northern Mariana Islands
June 1, 2016

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY OMB CIRCULAR A-133

Board of Regents
Northern Marianas College:

Report on Compliance for Each Major Federal Program

We have audited the Northern Marianas College's (the College's) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the College's major federal programs for the year ended September 30, 2015. The College's major federal programs are identified in the summary of auditors' 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.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the College's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the College's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, the College complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2015.

Report on Internal Control over Compliance

Management of the College is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the College's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the College's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the financial statements of the College as of and for the year ended September 30, 2015, and the related notes to the financial statements, which collectively comprise the College's basic financial statements. We issued our report thereon dated June 1, 2016, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Burger Comer Magliari

Saipan, Commonwealth of the Northern Mariana Islands
June 1, 2016

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

Schedule of Expenditures of Federal Awards
Year Ended September 30, 2015

Federal Grantor/Program Title	CFDA Number	Expenditures
Direct Programs		
U.S. Department of Education		
Student Financial Assistance Cluster:		
Federal Pell Grant Program	84.063	$ 4,209,385
Federal Supplemental Educational Opportunity Grants	84.007	42,522
Federal Work-Study Program	84.033	34,551
Sub-total Student Financial Assistance Cluster		4,286,458
College Access Challenge Grant Program	84.378	991,239
Adult Education - Basic Grants to States	84.002	396,412
Federal TEACH Grant	84.379	154,807
Sub-total U.S. Department of Education		5,828,916
U.S. Department of Agriculture		
Payment to Agricultural Experiment Stations under the Hatch Act	10.203	928,275
Cooperative Extension Services	10.500	797,942
Sub-total U.S. Department of Agriculture		1,726,217
Sub-total Direct Programs, carried forward		$ 7,555,133
Indirect Programs		
U.S. Department of the Interior		
Passed-through CNMI Government		
Economic, Social, and Political Development of the Territories - Compact Impact	15.875	52,720
CNMI-EIC-2013-1	15.875	255,660
Sub-total U.S. Department of the Interior		308,380
Sub-total Indirect Programs, carried forward		$ 308,380

See accompanying notes to Schedule of Expenditures of Federal Awards.

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

Schedule of Expenditures of Federal Awards
Year Ended September 30, 2015

Federal Grantor/Program Title	CFDA Number	Expenditures
Sub-total Direct Programs, brought forward		$ 7,555,133
Sub-total Indirect Programs, brought forward		308,380
U.S. Department of Agriculture		
Agriculture and Food Research Initiative	10.310	632,123
Cooperative Extension Service:		
Fruit Flies and Mango Fruits	10.500	3,837
Integrated Programs	10.303	9,382
Animal and Health Inspection Service	10.025	4,684
Sub-total U.S. Department of Agriculture		650,026
U.S. Department of Commerce - National Oceanic and Atmospheric Administration		
Marine Conservation Plan Grant:		
Building Capacity on Farm Made Aquafeed	11.unknown	2,650
Rabbitfish Farming	11.unknown	5,628
Sub-total U.S. Department of Commerce		8,278
U.S. Department of Homeland Security		
Passed-through CNMI Government		
Commonwealth Worker Fund	97.unknown	500,000
FEMA Disaster Recovery- Typhoon Soudelor	97.unknown	293,368
Sub-total U.S. Department of Homeland Security		793,368

See accompanying notes to Schedule of Expenditures of Federal Awards.

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

Schedule of Expenditures of Federal Awards
Year Ended September 30, 2015

Federal Grantor/Program Title	CFDA Number	Expenditures
U.S. Department of Health and Human Services		
University Centers for Excellence in Developmental Disabilities Education, Research, and Service (B)	93.632	154,328
Model State-Supported Area Health Education Centers	93.107	65,286
Enhance Cross Discipline and Infrastructure and Training	93.351	55,722
Sub-total U.S. Department of Health and Human Services		275,336
Sub-total Indirect Programs		2,035,388
Total Federal Programs		$ 9,590,521

See accompanying notes to Schedule of Expenditures of Federal Awards.

Notes to the Schedule of Expenditures of Federal Awards
Year Ended September 30, 2015

(1) Scope of Audit

The Northern Marianas College (the College) was created as an autonomous public agency of the Commonwealth of the Northern Mariana Islands (CNMI) pursuant to Title 3, Division 1, Chapter 3, Article 1 of the Commonwealth Code. The College's existence is to be perpetual and it shall have all the rights and privileges of a corporation. The purpose of the College is to provide secondary educational opportunities to the people of the CNMI. Only the financial statements of the College are included within the scope of the OMB Circular A-133 audit (the "Single Audit").

Programs Subject to Single Audit

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

- U.S. Department of Agriculture
- U.S. Department of Commerce
- U.S. Department of the Interior
- U.S. Department of Education
- U.S. Department of Health and Human Services
- U.S. Department of Homeland Security

(2) Summary of Significant Accounting Policies

Basis of Accounting

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the College and is presented on the accrual basis of accounting, consistent with the manner in which the College maintains its accounting records. The information in this schedule is presented in accordance with the 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 2015, the College has an approved indirect cost rate of 21% for all grant programs, except for U.S. Department of Education programs, which is 8%.

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

Schedule of Findings and Questioned Costs
Year Ended September 30, 2015

Section I – Summary of Auditors' Results

Financial Statements

1.	Type of auditors' report issued:	Unmodified
	Internal control over financial reporting:	
2.	Material weakness(es) identified?	No
3.	Significant deficiency(ies) identified?	None reported
4.	Noncompliance material to financial statements noted?	No

Federal Awards

	Internal control over major federal programs:	
5.	Material weakness(es) identified?	No
6.	Significant deficiency(ies) identified?	None reported
7.	Type of auditors' report issued on compliance for major federal programs:	Unmodified
8.	Any audit findings disclosed that are required to be reported in Accordance with Section 510(a) of OMB Circular A-133?	None reported

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

Schedule of Findings and Questioned Costs
Year Ended September 30, 2015

Section I – Summary of Auditors' Results, Continued

Federal Awards, Continued

9. Identification of major federal programs:

CFDA Numbers	Description	Federal Expenditures
	Student Financial Assistance Cluster:	
84.063	Federal Pell Grant Program	$ 4,209,385
84.007	Federal Supplemental Educational Opportunity Grants	42,522
84.033	Federal Work-Study Program	34,551
	Student Financial Assistance Cluster	4,286,458
84.378	College Access Challenge Grant Program	991,239
84.002	Adult Education - Basic Grants to States	396,412
10.203	Payment to Agricultural Experiment Stations under the Hatch Act	928,275
10.500	Cooperative Extension Services	801,779
97.Unknown	U.S. Apprenticeship Program (CWAP)	500,000
10.310	Agriculture and Food Research Initiative	632,123
Total Federal Expenditures-Major Programs		$ 8,536,286
	Percentage of total federal awards tested	89%

10. Dollar threshold used to distinguish between Type A and Type B programs — $ 300,000

11. Auditee qualified as low-risk auditee — No

Section II – Financial Statement Findings

No matters were reported.

Section III – Federal Award Findings and Questioned Costs

No matters were reported.

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SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For Year Ending September 30, 2015

A. FINANCIAL STATEMENT FINDINGS

No findings reported

B. FINDINGS AND QUESTIONED COSTS

a. NONFEDERAL FINDINGS AND QUESTIONED COSTS

Finding No.:	**2014-01**
Federal Agency:	N/A
CFDA Program:	N/A
Area:	Travel Costs
Questioned Costs:	$-0-
Corrective Action Taken:	Yes

Finding No.:	**2014-02**
Federal Agency:	N/A
CFDA Program:	N/A
Area:	Travel Liquidation
Questioned Costs:	$-0-
Corrective Action Taken:	Yes

b. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Finding No.:	**2014-03**
Federal Agency:	U.S Department of Education
CFDA Program:	84.378 College Access Challenge Grant
Area:	Allowable Costs/Cost Principles - Travel
Questioned Costs:	$-0-
Corrective Action Taken:	Yes

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b. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Finding No.:	**2014-04**
Federal Agency:	U.S Department of Homeland Security
CFDA Programs:	10.203 Payment to Agricultural Experiment Stations Under the Hatch Act 10.500 Cooperative Extension Services
Area:	Allowable Costs/Cost Principles – Travel Liquidation
Questioned Costs:	$-0-
Corrective Action Taken:	Yes

The College believes that all federal award findings and questioned costs prior to FY 2014 are no longer valid and do not warrant further action. Therefore, the College requests all other prior federal award findings and questioned costs to be removed according to the criteria set forth in the Office of Management and Budget's guidance titled "Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards" (2 C.F.R. Part 200). The guidance states, "**A valid reason for considering an audit finding *as not warranting further action* is that all of the following have occurred: (a) two years have passed since the audit report was filed with the central clearinghouse designated by OMB, (b) the Federal agency or pass-through entity is not currently following up on the audit finding, and (c) a management decision was not issued.**

NORTHERN MARIANAS COLLEGE
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Summary of Unresolved Questioned Costs
Year Ended September 30, 2015

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, 2015:

Questioned costs as previously reported	$ 76,575
Questioned costs resolved during the year ended September 30, 2015	76,575
Questioned costs of fiscal year 2015 Single Audit	-
Unresolved questioned costs at September 30, 2015	$ -

Details of these questioned costs are as follow:

	USDA
2009-6	$ 7,083
2009-7	60,607
2009-8	5,202
2010-2	3,683
Questioned costs as previously reported	76,575
Resolved in 2015	76,575
Unresolved questioned costs at September 30, 2015	$ -

Pursuant to OMB Circular A-133 §.315(b) (4), the College believes that the above prior year questioned costs are no longer valid or do not warrant further action. The reasons for this position is that the following has occurred:

i. Two years have passed since the audit report in which the findings occurred was submitted to the Federal Clearinghouse;
ii. The Federal agency or pass-through entity is not currently following up with the College on the audit findings; and
iii. A management decision was not issued.

Therefore, the College deems the prior year questioned costs resolved.