

NORTHERN MARIANAS TRADES INSTITUTE
(A NONPROFIT ORGANIZATION)

INDEPENDENT AUDITOR'S REPORT
AND
FINANCIAL STATEMENTS

Year Ended December 31, 2015 with Comparative Totals
for the year ended December 31, 2014

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Northern Marianas Trades Institute

We have audited the accompanying financial statements of the Northern Marianas Trades Institute (NMTI), a nonprofit organization, which comprise the statement of financial position as of December 31, 2015, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the NMTI as of December 31, 2015, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited NMTI's financial statements for the year ended December 31, 2014, and our report dated July 6, 2015, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2014, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matters

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of functional expenses on page 13 is presented for purposes of additional analysis 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.



Saipan, Commonwealth of the Northern Mariana Islands
August 16, 2016

NORTHERN MARIANAS TRADES INSTITUTE
(A NONPROFIT ORGANIZATION)

Statements of Financial Position
December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
<u>Assets</u>		
Current assets:		
Cash	\$ 67,305	\$ 140,667
Tuition receivable	-	1,380
Advances to suppliers	1,913	29,749
Other receivables	<u>1,871</u>	<u>-</u>
Total current assets	71,089	171,796
Capital assets, net	208,467	115,464
Refundable deposit	<u>6,219</u>	<u>3,464</u>
Total assets	<u>\$ 285,775</u>	<u>\$ 290,724</u>
<u>Liabilities and Net Assets</u>		
Current liabilities:		
Accounts payable	\$ 46,242	\$ 34,630
Accrued payroll liabilities	15,985	7,759
Note payable, current portion	<u>19,699</u>	<u>15,490</u>
Total current liabilities	<u>81,926</u>	<u>57,879</u>
Note payable, non current	<u>-</u>	<u>5,333</u>
Total liabilities	<u>81,926</u>	<u>63,212</u>
Net assets:		
Unrestricted:		
Expendable	(13,449)	(2,238)
Non-expendable	208,467	115,464
Temporarily restricted	<u>8,831</u>	<u>114,286</u>
Total net assets	<u>203,849</u>	<u>227,512</u>
Total liabilities and net assets	<u>\$ 285,775</u>	<u>\$ 290,724</u>

See accompanying notes to financial statements.

NORTHERN MARIANAS TRADES INSTITUTE
(A NONPROFIT ORGANIZATION)

Statements of Activities
For the Year Ended December 31, 2015
(With comparative totals for the year ended December 31, 2014)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2015</u>	<u>Total 2014</u>
Revenues and other supports:				
Appropriations	\$ -	\$ 555,316	\$ 555,316	\$ 400,000
Tuition and fees	5,730	-	5,730	2,380
Other revenues and supports	45,430	22,466	67,896	46,083
Net assets released from restrictions:				
Satisfaction of program restrictions	<u>683,237</u>	<u>(683,237)</u>	<u>-</u>	<u>-</u>
Total revenues and other supports	<u>734,397</u>	<u>(105,455)</u>	<u>628,942</u>	<u>448,463</u>
Expenses:				
Program services:				
Instruction	272,758	-	272,758	164,906
Supporting services:				
General and administration	280,815	-	280,815	112,971
Operation and maintenance of facilities	85,150	-	85,150	21,725
Depreciation	<u>13,882</u>	<u>-</u>	<u>13,882</u>	<u>10,655</u>
Total expenses	<u>652,605</u>	<u>-</u>	<u>652,605</u>	<u>310,257</u>
Change in net assets	81,792	(105,455)	(23,663)	138,206
Net assets at beginning of year	<u>113,226</u>	<u>114,286</u>	<u>227,512</u>	<u>89,306</u>
Net assets at end of year	<u>\$ 195,018</u>	<u>\$ 8,831</u>	<u>\$ 203,849</u>	<u>\$ 227,512</u>

See accompanying notes to financial statements.

NORTHERN MARIANAS TRADES INSTITUTE
(A NONPROFIT ORGANIZATION)

Statements of Cash Flows
For the Year Ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Operations:		
Contributions received	\$ 555,316	\$ 400,000
Collections of general receivables	6,311	1,000
Cash received other revenues and support	67,896	46,083
Expenses paid	<u>(594,876)</u>	<u>(303,693)</u>
Net cash provided by operating activities	<u>34,647</u>	<u>143,390</u>
Cash flows from investing activities:		
Acquisition of property and equipment	<u>(106,885)</u>	<u>(91,644)</u>
Net cash used in investing activities	<u>(106,885)</u>	<u>(91,644)</u>
Cash flows from financing activities:		
Payment of notes payable	<u>(1,124)</u>	<u>2,549</u>
Net cash provided by (used in) financing activities	<u>(1,124)</u>	<u>2,549</u>
Net increase (decrease) in cash	(73,362)	54,295
Cash, beginning of year	<u>140,667</u>	<u>86,372</u>
Cash, end of year	<u>\$ 67,305</u>	<u>\$ 140,667</u>
Reconciliation of changes in net assets to net cash provided by operating activities:		
Change in net assets	\$ (23,663)	\$ 138,206
Adjustments to reconcile changes in net assets to net cash provided by (used for) operating activities:		
Depreciation	13,882	10,655
(Increase) decrease in operating assets:		
Tuition receivable	1,380	(1,380)
Advances to suppliers	26,764	(29,749)
Other receivables	(799)	-
Refundable deposit	(2,755)	-
Increase (decrease) in operating liabilities:		
Accounts payable	11,612	18,021
Accrued payroll liabilities	<u>8,226</u>	<u>7,637</u>
Net cash provided by operating activities	<u>\$ 34,647</u>	<u>\$ 143,390</u>

See accompanying notes to financial statements.

NORTHERN MARIANAS TRADES INSTITUTE
(A NONPROFIT ORGANIZATION)

Notes to Financial Statements
December 31, 2015

(1) Nature of Organization

The Northern Marianas Trades Institute (the Organization) was incorporated under the laws of the Commonwealth of the Northern Mariana Islands (CNMI) on April 21, 2008. On July 18, 2013, the Organization amended its articles of incorporation to apply for charter as a non-profit, tax-exempt corporation.

The purpose of the Organization includes providing job placement to participants into subsidized employment with emphasis on placements in order to meaningfully and effectively replace overseas contract workers at private sector industries; integrating soft skills training to supplement the skills based course work with all courses and training; and establishing as respected, certified and accredited regional skills and vocational trades institute centered on vocational and skills based training to resident workers.

(2) Summary of Significant Accounting Policies

A summary of the Organization's significant accounting policies used in the preparation of the accompanying financial statements follows:

Financial Statement Presentation

The financial statements of NMTI are prepared using the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) and in accordance with the Financial Accounting Standards Board Accounting Standards Codification (FASB ASC) Section 958-205, *Presentation of Financial Statements of Not-for-Profit Organizations*. Under FASB ASC 958-205, NMTI is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Unrestricted Net Assets are those assets presently available for use by the Organization over which the Board of Directors has discretionary control in carrying out the operations of the Organization.

Temporarily Restricted Net Assets are those assets which are subject to donor-imposed stipulations that may or will be met, either by actions of the Organization and/or the passage of time. When a donor restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as assets released from restrictions.

NORTHERN MARIANAS TRADES INSTITUTE
(A NONPROFIT ORGANIZATION)

Notes to Financial Statements
December 31, 2015

(2) Summary of Significant Accounting Policies, Continued

Financial Statement Presentation, Continued

Permanently Restricted Net Assets are those assets with a donor-imposed restriction that stipulates that resources be maintained permanently but permits the Organization to use up or expend part or all of the income (or other economic benefits) derived from the donated assets.

In addition, NMTI is required to present a statement of cash flows.

NMTI has determined that all assets, revenues, expenses, gains and losses resulting from CNMI government appropriations are temporarily restricted.

Method of Accounting

The financial statements have been prepared using the accrual basis of accounting in conformity with accounting principles generally accepted accounting in the United States of America (GAAP). Under the accrual basis of accounting, revenues are recorded as earned and expenses are recorded at the time liabilities are incurred.

Comparative Financial Information

The financial statements include certain prior-year summarized comparative information in total but not by net asset class or functional expense categories. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended December 31, 2014, from which the summarized information was derived.

Cash

For purposes of the statements of net position and cash flows, the Organization considers cash in savings and checking accounts to be cash.

NMTI maintains its cash in bank deposit accounts insured by the Federal Insurance Corporation (FDIC) up to \$250,000. Cash in bank accounts are within insured limits as of December 31, 2015 and 2014.

NORTHERN MARIANAS TRADES INSTITUTE
(A NONPROFIT ORGANIZATION)

Notes to Financial Statements
December 31, 2015

(2) Summary of Significant Accounting Policies, Continued

Property and Equipment

Property and equipment consists of office equipment, and is stated at cost, less accumulated depreciation. The Organization capitalizes all expenditures in excess of \$500 for property and equipment. Expenditures for major additions and improvements are capitalized. Minor replacements, maintenance and repairs are charged to expense as incurred. Donated assets are capitalized at the estimated fair market value at the time of receipt.

Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets (note 3).

The Organization reviews the carrying value of property and equipment for impairment whenever events and circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. In cases where undiscounted expected future cash flows are less than the carrying value, an impairment loss is recognized equal to an amount by which the carrying value exceeds the fair value of assets. The factors considered by management in performing this assessment include current operating results, trends, and prospects, as well as the effects of obsolescence, demand, competition, and other economic factors. There were no such event as of December 31, 2015 and the Organization did not recognize impairment loss on property and equipment for the year then ended.

Contributions

The Organization adopted FASB ASC Topic 958-605-25, *Not-for-Profit Entities – Revenue Recognition*, whereby contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. Restricted net assets are reclassified to unrestricted net assets upon satisfaction of the time or purpose restrictions.

All contributions are recognized as public support when received and are considered unrestricted, unless specifically restricted by the donor.

NORTHERN MARIANAS TRADES INSTITUTE
(A NONPROFIT ORGANIZATION)

Notes to Financial Statements
December 31, 2015

(2) Summary of Significant Accounting Policies, Continued

Revenues

Revenues are derived from re-grants from the CNMI government, fundraising activities and tuition and fees charged to students.

Fair Value of Financial Instruments

The carrying amounts reflected in the statement of financial position for cash, advances to suppliers, refundable deposits, accounts payable and accrued expenses approximate their respective fair values due to the short-term maturities of those instruments.

Advertising Costs

Advertising costs are expensed as incurred.

Income Taxes

The Organization is a nonprofit organization exempt from federal income tax and Northern Marianas Territorial Income Tax (NMTIT) under Section 501(c)(3) of the Internal Revenue Code and the NMTIT.

Tax years that remain subject to examination by major tax jurisdictions for the Organization are 2014, 2013 and 2012. The Organization shall record as current period expense any interest that may be assessed on prior years' taxes. Any penalties that are assessed will be recorded separately from income tax expense.

Use of Estimates

Preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on the functional basis in the accompanying Statements of Activities and Schedule of Functional Expenditures. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

NORTHERN MARIANAS TRADES INSTITUTE
(A NONPROFIT ORGANIZATION)

Notes to Financial Statements
December 31, 2015

(3) Capital Assets

The following is a summary of capital assets; at cost, less accumulated depreciation, at December 31, 2015 and 2014:

	Estimated Useful Life	<u>2015</u>	<u>2014</u>
Leasehold improvements	15 years	\$ 166,790	\$ 94,118
Shop equipment	5 years	36,191	36,191
Vehicles	5 years	29,393	-
Facilities and equipment	5 years	23,475	18,655
Office equipment	5 years	12,481	12,481
Furniture and fixtures	7 years	<u>7,984</u>	<u>7,984</u>
		276,314	169,429
Accumulated depreciation		<u>(67,847)</u>	<u>(53,965)</u>
Capital assets, net		<u>\$ 208,467</u>	<u>\$ 115,464</u>

(4) Commitments

The Organization conducts its operations from facilities that are leased under a 25-year operating lease expiring in December 2033.

The following is a schedule of future minimum rental payments required under the above operating lease as of December 31, 2015:

Year Ending <u>December 31,</u>	
2016	\$ 11,500
2017	11,500
2018	11,500
2019	11,500
2020	11,500
2021-2025	57,500
2026-2030	57,500
2031-2033	<u>34,500</u>
	<u>\$ 207,000</u>

NORTHERN MARIANAS TRADES INSTITUTE
(A NONPROFIT ORGANIZATION)

Notes to Financial Statements
December 31, 2015

(4) Commitments, Continued

The minimum payment may change every fifth year anniversary of the lease agreement based on 2% of fair market value of the leased property.

At December 31, 2015 and 2014, the Organization had unpaid rent under this lease including interest of \$42,953 and \$30,745, respectively, included in the accompanying Statement of Financial Position as a component of accounts payable.

On January 13, 2011, due to financial difficulties, the Organization signed a promissory note transferring \$19,699 of the unpaid lease to a long-term debt payable in monthly installments of \$500, including interest at 12% per annum. The note matures on November 1, 2014.

Unpaid interest on this note amounted to \$2,801 and \$2,549 as of December 31, 2015 and 2014, respectively.

(5) Contingencies

Federal awards and their related expenditures can be subject to financial and compliance audits to ascertain if federal laws and guidelines have been followed.

(6) Concentrations

Financial instruments which potentially expose the Organization to concentrations of credit risk consist primarily of cash.

At December 31, 2015 and 2014, bank balances of \$67,205 and \$140,567, respectively, are deposited in a financial institution that is insured by the Federal Deposit Insurance Corporation and are within the insured limits.

(7) Economic Dependency

At December 31, 2015 and 2014, the Organization derived 88% and 89%, respectively, of its revenue from the CNMI appropriation for the sub-award of the Commonwealth Worker Funds. The Organization will face financial hardship should the level of support decrease.

NORTHERN MARIANAS TRADES INSTITUTE
(A NONPROFIT ORGANIZATION)

Notes to Financial Statements
December 31, 2015

(8) Subsequent Events

The Organization evaluated subsequent events from January 1, 2016 through August 16, 2016, the date the financial statements were available to be issued. The Company did not note any material subsequent events requiring disclosure or adjustment to the statements of financial condition.

NORTHERN MARIANAS TRADES INSTITUTE
(A NONPROFIT ORGANIZATION)

SUPPLEMENTARY SCHEDULE

Year Ended December 31, 2015

NORTHERN MARIANAS TRADE INSTITUTE
(A NONPROFIT ORGANIZATION)

Schedule of Functional Expenses
For the Year Ended December 31, 2015
(With Comparative Summarized Information for the Year Ended December 31, 2014)

	<u>Program Services</u>		<u>Supporting Services</u>		<u>Total</u>	
	<u>Instruction</u>	<u>General and administration</u>	<u>Operation and maintenance of facilities</u>	<u>2015</u>	<u>2014</u>	
Salaries and wages	\$ 164,596	\$ 193,344	\$ 21,046	\$ 378,986	\$ 141,517	
Professional fees	39,191	45,956	20,620	105,767	74,765	
Supplies	30,724	7,716	-	38,440	10,842	
Payroll taxes	12,591	14,791	1,610	28,992	9,251	
Books and reference materials	21,939	-	-	21,939	17,557	
Rent	1,350	-	11,500	12,850	11,500	
Repairs and maintenance	-	-	11,351	11,351	897	
Insurance	-	-	8,003	8,003	800	
Utilities	-	-	7,646	7,646	8,232	
Fringe benefits	-	4,700	-	4,700	711	
Equipment rental	-	4,677	-	4,677	2,334	
Gas and oil	-	-	3,374	3,374	296	
Interest	-	3,342	-	3,342	5,513	
Permits and licenses	-	3,308	-	3,308	1,555	
Uniforms	2,367	-	-	2,367	650	
Communications	-	1,721	-	1,721	1,562	
Board meetings	-	557	-	557	240	
Recruitment	-	475	-	475	1,081	
Bank charges	-	132	-	132	123	
Postage	-	96	-	96	29	
Travel	-	-	-	-	9,190	
Penalties and fines	-	-	-	-	657	
Advertising	-	-	-	-	300	
	<u>\$ 272,758</u>	<u>\$ 280,815</u>	<u>\$ 85,150</u>	<u>\$ 638,723</u>	<u>\$ 299,602</u>	

See independent auditors' report and accompanying notes to financial statements.