NORTHERN MARIANAS COLLEGE
(A COMPONENT UNIT OF THE COMMONWEALTH
OF THE NORTHERN MARIANA ISLANDS)

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

YEAR ENDED SEPTEMBER 30, 2011

# NORTHERN MARIANAS COLLEGE
# (A COMPONENT UNIT OF THE COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS)

## FINANCIAL STATEMENTS
## AND
## INDEPENDENT AUDITORS' REPORT

## YEARS ENDED SEPTEMBER 30, 2011 AND 2010

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# INDEPENDENT AUDITORS' REPORT

Board of Regents
Northern Marianas College:

We have audited the accompanying statements of net assets of the Northern Marianas College (the College), a component unit of the Commonwealth of the Northern Mariana Islands, as of September 30, 2011 and 2010, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the College's management. 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 and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Northern Marianas College as of September 30, 2011 and 2010, and its changes in net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated June 28, 2012, on our consideration of internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 9 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the Northern Marianas College's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit such information and we do not express an opinion on it.

Deloitte & Touche LLC

June 28, 2012

**Overview of the Financial Statements and Financial Analysis**

The Northern Marianas College (the College) presents its financial statements in accordance with accounting principles generally accepted in the United States of America. These accounting principles require that three financial statements are presented: the Statement of Net Assets, the Statement of Revenues, Expenses and Changes in Net Assets and the Statement of Cash Flows.

This discussion and analysis of the College's financial statements provides an overview of its financial activities for the year with commentaries on internal and external issues which impacted these activities. It also describes the major accomplishments, opportunities and challenges that occurred during the financial year ended September 30, 2011.

***Statement of Net Assets***

The Statement of Net Assets presents end-of-year data on assets (current and noncurrent), liabilities (current and noncurrent) and net assets (assets less liabilities) and depicts the financial resources that are available to operate the College and the College's debts to vendors, personnel and other entities. The Statement of Net Assets also indicates the availability of financial resources to meet the expenditures of the College.

Net assets are divided into three major categories. The first category, invested in capital assets, indicates the College's equity in property, plant and equipment. The second category is restricted net assets, which is further divided into two additional classifications:

- Nonexpendable
- Expendable

The corpus of the nonexpendable restricted net assets is available only for investment purposes. Expendable restricted net assets are available only for purposes defined by donors and/or other external entities that have placed time or purpose restrictions on the use of the assets. The third and final category is unrestricted net assets. Unrestricted net assets can be used for any lawful purpose of the College.

***Summary Statements of Net Assets***

| | 2011 | 2010 | 2009 |
|---|---|---|---|
| **ASSETS:** | | | |
| Current assets | $ 9,267,420 | $ 7,961,377 | $ 6,381,490 |
| Capital assets, net | 5,573,917 | 5,903,617 | 6,299,601 |
| Other assets | 5,351,055 | 5,421,759 | 4,855,123 |
| **Total assets** | $ 20,192,392 | $ 19,286,753 | $ 17,536,214 |

***Summary Statements of Net Assets, Continued***

| | 2011 | 2010 | 2009 |
|---|---|---|---|
| **LIABILITIES:** | | | |
| Current liabilities | $ 2,909,841 | $ 2,941,416 | $ 2,430,314 |
| Noncurrent liabilities | 218,592 | 220,824 | 226,693 |
| **Total liabilities** | 3,128,433 | 3,162,240 | 2,657,007 |
| **NET ASSETS:** | | | |
| Invested in capital assets | 5,573,917 | 5,903,617 | 6,299,601 |
| Restricted - nonexpendable | 3,200,000 | 3,200,000 | 3,100,000 |
| Restricted - expendable | 2,151,055 | 2,221,759 | 1,755,123 |
| Unrestricted | 6,138,987 | 4,799,137 | 3,724,483 |
| **Total net assets** | 17,063,959 | 16,124,513 | 14,879,207 |
| **Total liabilities and net assets** | $ 20,192,392 | $ 19,286,753 | $ 17,536,214 |

Net assets at September 30, 2011, as evident above, increased over that reported in fiscal year 2010. The increase was attributable to several factors including the following, which cumulatively resulted in increases in net asset balances reported in fiscal years 2009 and 2010 and impacted balances as of September 30, 2011:

1. The support received from the ARRA State Fiscal Stabilization Fund (SFSF) funding from the Commonwealth of the Northern Mariana Islands (CNMI) and other resources generated by federal grants.

2. The College continued to increase its available cash balances through careful management of its cash flows and increased its collection efforts on receivables and amounts due from federal agencies. As a result of the efforts, the overall cash position of the College remains very healthy as of September 30, 2011.

***Property, Plant and Equipment***

At September 30, 2011, 2010 and 2009, the College had $5,573,917, $5,903,617 and $6,299,601, respectively, invested in capital assets, net of accumulated depreciation, where applicable. See note 6 to the financial statements for more information on the College's property, plant and equipment.

***Long-Term Debt***

The College did not engage in any long-term debt financing in fiscal year 2011. See note 7 to the financial statements for more information on the College's long-term obligations.

***Statement of Revenues, Expenses and Changes in Net Assets***

Changes in total net assets are based on the activity presented in the Statement of Revenues, Expenses and Changes in Net Assets. The purpose of the statement is to present both operating and nonoperating revenues received by the College and the operating and nonoperating expenses paid by the College, and any other revenue and expenses received or spent by the College. The College reflects a material net operating loss for the fiscal year because CNMI appropriations are not reported as operating revenue.

Generally speaking, operating revenues are received for providing services to various customers and constituents of the College. Operating expenses are those expenses paid to acquire or produce the services provided in return for operating revenues, and to carry out the mission of the College. Nonoperating revenues are revenues received for which services are not provided. For example, CNMI appropriations (representing 23.65% and 32.61% of total gross operating and nonoperating revenues in fiscal years 2011 and 2010, respectively) are nonoperating because the CNMI Legislature provides them to the College and therefore, they are not a direct result of the College's operations.

***Summary Statements of Revenues, Expenses and Changes in Net Assets***

| | **2011** | **2010** | **2009** |
|---|---|---|---|
| Operating revenues, net | $ 14,227,360 | $ 10,481,359 | $ 9,515,958 |
| Operating expenses | 17,602,321 | 15,025,733 | 14,038,646 |
| Operating loss | (3,374,961) | (4,544,374) | (4,522,688) |
| Nonoperating revenues | 4,314,407 | 5,789,680 | 6,063,244 |
| Increase in net assets | 939,446 | 1,245,306 | 1,540,556 |
| Net assets - beginning of year | 16,124,513 | 14,879,207 | 13,338,651 |
| Net assets - end of year | $ 17,063,959 | $ 16,124,513 | $ 14,879,207 |

The Statement of Revenues, Expenses and Changes in Net Assets reflects an increase in net assets for financial year 2011. This is attributable to an increase in revenue for fiscal year 2011 from federal grants of $4,023,762.

As in prior years, the College posted a net operating loss of $3,374,961 for fiscal year 2011. Although efforts to recruit students have increased, the loss of non-resident/international students as a result of federal immigration, and as is evident in the decrease of tuition and fees revenue, the College still did not generate adequate revenues from operations to cover all expenses. As the College is a quasi-governmental agency, its mission is to provide low cost access to higher education for the community and, as such, receives subsidies from the CNMI Government to fully fund its operations.

The College will continue to reflect operating losses until the ongoing efforts to improve operating revenues come to fruition and the College no longer has to rely on CNMI appropriations as these appropriations are reported as nonoperating income. Some highlights of the information presented on the Statement of Revenues, Expenses and Changes in Net Assets are as follows:

- Student tuition and fees, net, decreased by $195,072 between fiscal years 2010 and 2011. The College has noted a declining trend in student enrollment since fiscal year 2004. This is attributed to various factors including the loss of non-resident/international students as a result of federal immigration previously managed by the CNMI Government and the continuing decline of the current state of the CNMI economy, as people attaining college age are either relocating or joining the workforce or the military. GASB 34 and 35 requires that tuition and fees revenues from students be reported net of scholarship discounts and allowances. Discounts and allowances are the difference between the College's stated charges for tuition and fees and the amount paid by the students or third parties on behalf of the students.

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

- Federal grants increased by $4,023,762, which is primarily attributable to the SFSF - Education State Grants, Recovery Act program of ARRA and other new grants.

- Expenses increased over those incurred in 2010 by $2,576,588, which is consistent with the increased level of operating revenues as a result of new grants and related support costs.

- Appropriations from the CNMI for fiscal year 2011 decreased by 17.6%; however, it remained consistent with the total level of allocated funding as a percentage of revenues available for appropriations for the CNMI as a whole. The CNMI's support of the College has remained consistent in spite of economic times, which the College is appreciative of. This has enabled the College to strategically plan its staffing levels as CNMI appropriations primarily funds salaries and benefits.

***Statement of Cash Flows***

The final statement presented by the College is the Statement of Cash Flows which presents detailed information about the cash activity of the College during the year. The statement is essentially divided into four parts. The first part of the statement deals with the College's operating cash flows and shows the net cash used by the operating activities of the College. The second section reflects cash flows from investing and noncapital financing activities. This section reflects cash received and spent for nonoperating investing and noncapital financing purposes. The third section deals with cash flows from capital and related financing activities. This section deals with the cash used for the acquisition and construction of capital and related items. The fourth section reconciles the net cash used in operating activities to the operating loss reflected in the Statement of Revenues, Expenses and Changes in Net Assets. Some highlights of the information presented on the Statement of Cash Flows are as follows:

***Summary Statements of Cash Flows***

| | 2011 | 2010 | 2009 |
|---|---|---|---|
| **Cash provided by (used in):** | | | |
| Operating activities | $ (2,044,167) | $ (4,338,054) | $ (4,565,046) |
| Investing activities | (2,434) | (120,142) | (14,939) |
| Noncapital financing activities | 4,481,935 | 5,411,729 | 5,396,568 |
| Capital and related financing activities | (353,474) | (305,730) | (707,835) |
| **Net change in cash and cash equivalents** | 2,081,860 | 647,803 | 108,748 |
| **Cash and cash equivalents, beginning of year** | 3,165,353 | 2,517,550 * | 2,754,476 |
| **Cash and cash equivalents, end of year** | $ 5,247,213 | $ 3,165,353 | $ 2,863,224 * |

The College again posted a net shortfall in cash flows from operating activities; however, due to the College's efforts and practices the net shortfall from operating activities decreased by $2,293,887 from fiscal year 2010. This is primarily attributable to an increase in cash flows from federal grants. Cash flows for payments to employees and suppliers increased consistent with the need to support the increase in programs.

The College recognizes that it will continue to reflect negative cash flows from operating activities as CNMI appropriations are considered cash flows from noncapital financing activities and are presented as such in the statement of cash flows. Measures to change practices and increase cash flows are being studied for implementation in fiscal year 2012.

CNMI appropriations are used primarily to fund salaries and wages and related employee benefits, which are considered operating expenses of the College.

* Adjustments were made in subsequent years.

***Major Accomplishment and Challenges in Fiscal Year 2011***

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

### *Major Accomplishment and Challenges in Fiscal Year 2011, Continued*

The College continued to be prudent in its expenditure patterns and management of cash flows in fiscal year 2011 and as a result, complied again with its Board of Regents policy and accreditation standards relative to fiscal stability.

In fiscal year 2011, the College's cash position remained strong with an overall appreciation in balances of $2,081,860. This will assist the College in continuing to remain financially sound during these rather tumultuous economic times for the CNMI.

The College was fortunate to receive one-time funding from SFSF ARRA funds in fiscal year 2011 which helped maintain its current staffing levels and provided professional development opportunities for employees, students, stakeholders, and regent members. SFSF ARRA funds were significant in providing much needed funding in the College's fight to have our accreditation reaffirmed, as funding for technical assistance, professional services and consultants were sought and used through such funds. The College also benefited from the SFSF funding in the areas of reliable back-up power distribution, as SFSF funding was used to purchase a back-up generator, build a generation facility, and bury all power lines underground. SFSF funding was also used to upgrade our technological resources and bring forth our information technology resources into the next generation which benefited most of our students' needs for improved equipment and facilities. In addition, SFSF funding brought forth much needed relief to the College as funding was made available to pay for utility services that the CNMI Government could no longer afford to pay for.

The College has started to see an increase in enrollment of over 1,000 academic students per year since fiscal year 2010, an average of 1,200 non-academic students per year, and an average of 23,000 non-traditional students and consumers per year. The College's School of Education has placed an average of ninety-five percent (95%) of its graduates into the workforce. The remaining programs at the College place an average of seventy percent (70%) of its graduates into the workforce. Most students who graduate from the College work in meaningful and fulfilling jobs or careers. In relation to such, the College continues to strive to help re-build the CNMI's economy, workforce, services, and resources by providing technical assistance to CNMI entities in the private, public and non-profit sectors. Technical assistance provided includes grant writing, grant management services, development of agriculture and aquaculture industries, professional services, courses, workshops, forums, data collection, research and other areas within the College's mandates and abilities. In addition, the College has worked diligently to have graduating high school students and other community members remain in the CNMI through federal financial aid services and programs, and by working with key entities to provide essential services for our communities.

In planning for fiscal year 2012, the College continues to be prudent in its expenditure patterns and management of cash flows. Monitoring utility usage, cutting back on hours of utility usage, reducing obligations through methods identified in the College's Form 3 Resource Allocation processes, increasing the minimum number of students in classes, increasing classroom capacity and seating capacities and continuously seeking improved and diversified revenue generating opportunities are being implemented and/or explored.

***Economic Outlook***

The CNMI's economic outlook continues to be bleak. In fiscal year 2011, governmental budgets faced further reductions of 11% across the board. Austerity measures and work reduction hours are expected to continue in the central CNMI Government for fiscal year 2012. Tourism, the only remaining industry with a major role in driving the CNMI's economy continues to decline. As with every dark tunnel there is always light at the end and the College hopes to be that light. The College continues to make efforts to increase its revenue stream by reducing its costs, and implementing revenue generating practices.

While several efforts are underway to look at alternative industries to revive the CNMI's economy, no immediate appreciable growth is anticipated in the foreseeable future. As a result of the dwindling resources available for appropriations CNMI wide, the College's budget under appropriations is not expected to increase significantly in the coming years. The College will continue to take internal measures to ensure that this will not result in the College operating in a deficit. The continuing economic challenges may result in further budget reductions in fiscal year 2012 with the most recent actions by the CNMI Legislature suggesting reduced work hours in an effort to balance the budget among other actions. The College, however, has mechanisms in place to closely monitor such actions and is actively pursuing alternative funding opportunities to compensate for reductions in the traditional sources of funding.

***Contacting the College's Financial Management***

This financial report is designed to provide a general overview of the College's finances and to demonstrate the College's accountability for the money it receives. The Management's Discussion and Analysis for the year ended September 30, 2010 is set forth in the report on the audit of the College's financial statements which is dated June 29, 2011. That Discussion and Analysis explains the major factors impacting the 2010 financial statements. If you have questions about the 2010 or 2009 reports, or need additional information, please contact the Dean of Administration at the Northern Marianas College, P.O. Box 501250, Saipan, MP 96950, or e-mail dattao@nmcnet.edu.

NORTHERN MARIANAS COLLEGE

Statements of Net Assets
September 30, 2011 and 2010

| | 2011 | 2010 |
|---|---|---|
| Assets: | | |
| Current assets: | | |
| Cash and cash equivalents | $ 5,247,213 | $ 3,165,353 |
| Time certificate of deposit | 692,789 | 690,355 |
| Accounts receivable and unbilled charges, net | 1,014,868 | 2,031,232 |
| Due from grantor agencies | 1,508,345 | 1,325,664 |
| Due from CNMI | 317,096 | 413,920 |
| Inventories | 457,471 | 329,339 |
| Prepaid expenses | 29,638 | 5,514 |
| Total current assets | 9,267,420 | 7,961,377 |
| Noncurrent assets: | | |
| Investments | 5,351,055 | 5,421,759 |
| Property, plant and equipment, net | 5,573,917 | 5,903,617 |
| Total noncurrent assets | 10,924,972 | 11,325,376 |
| Total assets | $ 20,192,392 | $ 19,286,753 |
| Liabilities: | | |
| Current liabilities: | | |
| Accounts payable | $ 767,013 | $ 887,709 |
| Accrued salaries and benefits payable | 470,548 | 372,385 |
| Current portion of compensated absences | 407,009 | 395,024 |
| Deferred revenue | 1,265,271 | 1,286,298 |
| Total current liabilities | 2,909,841 | 2,941,416 |
| Noncurrent liabilities: | | |
| Compensated absences, net of current portion | 218,592 | 220,824 |
| Total liabilities | 3,128,433 | 3,162,240 |
| Commitment and contingencies | | |
| Net assets: | | |
| Invested in capital assets | 5,573,917 | 5,903,617 |
| Restricted for: | | |
| Nonexpendable | 3,200,000 | 3,200,000 |
| Expendable | 2,151,055 | 2,221,759 |
| Unrestricted | 6,138,987 | 4,799,137 |
| Total net assets | 17,063,959 | 16,124,513 |
| Total liabilities and net assets | $ 20,192,392 | $ 19,286,753 |

See accompanying notes to financial statements.

NORTHERN MARIANAS COLLEGE

Statements of Revenues, Expenses and Changes in Net Assets
Years Ended September 30, 2011 and 2010

| | 2011 | 2010 |
|---|---|---|
| Operating revenues: | | |
| U.S. federal grants | $ 11,872,542 | $ 7,848,780 |
| Student tuition and fees (net of scholarship discounts and allowances of $2,815,895 and $2,077,277 in 2011 and 2010, respectively) | 1,191,403 | 1,386,475 |
| Private gifts, grants and donations - restricted | 13,300 | 25,640 |
| Other | 1,150,115 | 1,271,010 |
| | 14,227,360 | 10,531,905 |
| Provision for delinquent receivables | - | (50,546) |
| Net operating revenues | 14,227,360 | 10,481,359 |
| Expenses: | | |
| Salaries | 7,485,565 | 7,186,293 |
| Services | 4,252,787 | 2,917,293 |
| Benefits | 1,580,413 | 916,676 |
| Insurance, utilities and rent | 842,780 | 840,330 |
| Depreciation | 683,174 | 659,187 |
| Supplies | 264,156 | 302,279 |
| Miscellaneous | 2,493,446 | 2,203,675 |
| Total operating expenses | 17,602,321 | 15,025,733 |
| Operating loss | (3,374,961) | (4,544,374) |
| Nonoperating revenues: | | |
| CNMI appropriations | 4,385,111 | 5,323,044 |
| Net (decrease) increase in fair value of investments | (70,704) | 466,636 |
| Total nonoperating revenues | 4,314,407 | 5,789,680 |
| Increase in net assets | 939,446 | 1,245,306 |
| Net assets, beginning of the year | 16,124,513 | 14,879,207 |
| Net assets, end of the year | $ 17,063,959 | $ 16,124,513 |

See accompanying notes to financial statements.

NORTHERN MARIANAS COLLEGE

Statements of Cash Flows
Years Ended September 30, 2011 and 2010

| | 2011 | 2010 |
|---|---|---|
| Cash flows from operating activities: | | |
| Student tuition and fees | $ 2,039,780 | $ 807,019 |
| U.S. federal grants | 11,689,861 | 7,548,939 |
| Other revenues | 1,310,375 | 1,276,807 |
| Payments to employees | (8,958,062) | (8,030,547) |
| Payments to suppliers | (8,126,121) | (5,940,272) |
| Net cash used in operating activities | (2,044,167) | (4,338,054) |
| Cash flows from investing activities: | | |
| Proceeds from sale and maturities of investment securities | 5,739,982 | 4,958,790 |
| Net interest and dividends on investments | 99,277 | 74,703 |
| Purchase of investment securities | (5,839,259) | (5,033,493) |
| Purchase of time certificate of deposit | (2,434) | (20,142) |
| Investment contribution | - | (100,000) |
| Net cash used in investing activities | (2,434) | (120,142) |
| Cash flows from noncapital financing activities: | | |
| CNMI appropriations | 4,481,935 | 5,411,729 |
| Net cash provided by noncapital financing activities | 4,481,935 | 5,411,729 |
| Cash flows from capital and related financing activities: | | |
| Payments of loan | - | (42,527) |
| Purchases of property, plant and equipment | (353,474) | (263,203) |
| Net cash used in capital and related financing activities | (353,474) | (305,730) |
| Net increase in cash and cash equivalents | 2,081,860 | 647,803 |
| Cash and cash equivalents, beginning of year | 3,165,353 | 2,517,550 |
| Cash and cash equivalents, end of year | $ 5,247,213 | $ 3,165,353 |
| Reconciliation of operating loss to net cash used in operating activities: | | |
| Operating loss | $ (3,374,961) | $ (4,544,374) |
| Adjustments to reconcile operating loss to net cash used in operating activitiies: | | |
| Depreciation | 683,174 | 659,187 |
| Provision for delinquent receivables | - | 50,546 |
| Changes in assets and liabilities: | | |
| Accounts receivable and unbilled charges | 1,016,364 | (820,413) |
| Due from grantor agencies | (182,681) | (299,841) |
| Inventories | (128,132) | 69,081 |
| Prepaid expenses | (24,124) | - |
| Accounts payable | (120,696) | 254,224 |
| Accrued salaries and benefits payable | 98,163 | 61,238 |
| Compensated absences | 9,753 | 11,184 |
| Deferred revenue | (21,027) | 221,114 |
| Net cash used in operating activities | $ (2,044,167) | $ (4,338,054) |

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, at its meeting on June 11, 1985. The College undergoes periodic re-evaluations and approval of its accreditation. The College was re-evaluated and approved most recently in 2009.

## (2) Summary of Significant Accounting Policies

### Basis of 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.

### Concentrations of Credit Risk

Financial instruments which potentially subject the College to concentrations of credit risk consist principally of cash demand deposits and investments.

At September 30, 2011 and 2010, the College has cash deposits and investments in bank accounts that exceed federal depository insurance limits. The College has not experienced any losses on such accounts.

(2) Summary of Significant Accounting Policies, Continued

Cash and Cash Equivalents

For the purpose of the statements of net assets and cash flows, cash and cash equivalents is defined as cash on hand and cash held in demand accounts as well as short-term investments with a maturity date within ninety days of the date acquired. Time certificates of deposits with maturities of greater than three months are separately classified. As of September 30, 2011 and 2010, cash and cash equivalents and time certificate of deposit were $5,940,002 and $3,855,708, respectively, and the corresponding bank balances were $6,368,494 and $4,061,942, respectively, which are maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2011 and 2010, bank deposits in the amount of $750,000 were FDIC insured. The College does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized.

Investments

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

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

Concentration of credit risk for investments is the risk of loss attributed to the magnitude of an entity's investment in a single issuer. GASB Statement No. 40 requires disclosure by issuer and amount of investments in any one issuer that represents five percent (5%) or more of total investments for the College. As of September 30, 2011 and 2010, there were no investments in any one issuer that exceeded five percent (5%) of total investments.

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

General:

- Any pertinent restrictions existing under the laws of CNMI with respect to the College, that may exist now or in the future, will be the governing restriction.
- U.S. and non-U.S. equities, ADRs (American Depository Receipts), convertible bonds, preferred stocks, fixed-income securities, mutual funds and short-term securities are permissible investments.
- No individual security of any issuer, other than that of the United States Government, shall constitute more than 5% (at cost) of the Total Fund or 10% (at cost) of any Investment Manager's portfolio.
- No investment may be made in the securities of a single corporate entity in excess of 15% (at market) of any individual Investment Manager's portfolio, without prior approval.
- Holdings of any issuer shall constitute no more than 5% of the outstanding securities of such issuer.

(2) Summary of Significant Accounting Policies, Continued

Investments, Continued

General, Continued:

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

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

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

U.S. Fixed Income:

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

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

- 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/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.

### Taxes

The CNMI government imposes a gross receipts tax and an income tax. The College is specifically exempt from these taxes.

### Accounts Receivable

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

## (2) Summary of Significant Accounting Policies, Continued

### Allowance for Doubtful Accounts

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

### Inventories

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

### Property, Plant and Equipment

Furniture and equipment, vehicles and computers are recorded at cost in instances where cost is determinable or estimated cost where cost is not determinable. Land and building and improvements are recorded at fair market values at September 30, 2011 and 2010. The College capitalizes property and equipment that equals or exceeds $5,000. Depreciation is provided using the straight-line basis over the estimated useful lives of the respective assets.

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

### Deferred Revenue

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

### Compensated Absences

The College recognizes cost for accrued annual leave at the time such leave is earned. As of September 30, 2011 and 2010, the College recorded accrued annual leave in the amount of $625,601 and $615,848, respectively, which is included within the statements of net assets as compensated absences.

### Retirement Plan

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

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

(2) Summary of Significant Accounting Policies, Continued

Retirement Plan, Continued

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 statutorial determined contribution rate of the Fund. It is the understanding of the management of the College that the statutorial 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 and 16-36.

DB Plan members are required to contribute 6.5% and 9% of their annual covered salary for Class I and Class II members, respectively. On June 14, 2007, Public Law No. 15-70 was enacted to amend the NMIRF Act to improve the DB Plan's fiscal solvency. Public Law No. 15-70 provides for increasing employee contributions to the DB Plan by 1% per year beginning in fiscal year 2008 until reaching 10.5% for Class I members and 11% for Class II members. The actuarially determined contribution rate for the fiscal year ended September 30, 2009 is 60.8686% of covered payroll based on an actuarial valuation as of October 1, 2009 issued in May 2011. The established statutory rate at September 30, 2011 and 2010 is 37.3909% of covered payroll.

Defined Contribution Plan (DC Plan)

On June 16, 2006, Public Law No. 15-13 was enacted which created the DC Plan, a multi-employer pension plan and is the single retirement program for all employees whose first time CNMI government employment commences on or after January 1, 2007. Each member of the DC Plan is required to contribute to the member's individual account an amount equal to 10% of the member's compensation. The College is required to contribute to each member's individual account an amount equal to 4% of the member's compensation. The DC Plan by its nature is fully funded on a current basis from employer and member contributions.

Members of the DC Plan, who have completed five years of government service, have a vested balance of 100% of both member and employer contribution plus any earnings thereon.

(2) Summary of Significant Accounting Policies, Continued

Retirement Plan, Continued

The College's contributions to the Fund for the years ended September 30, 2011, 2010 and 2009 were $1,202,149, $584,329 and $767,148, respectively.

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

On June 24, 2008, the Office of the CNMI Governor confirmed that the CNMI central government will be responsible for the College's deficient retirement contribution beginning October 1, 2005. The College's deficient retirement contributions, including penalties and interest, amounted to $6,345,651 and $6,128,657 as of September 30, 2011 and 2010, respectively. Such deficient retirement contribution and related penalties and interest are not reflected in the accompanying financial statements.

Estimates

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

Net Assets

The College's net assets are classified as follows:

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

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

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

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

(2) Summary of Significant Accounting Policies, Continued

Net Assets, Continued

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 unrestricted resources, and then toward restricted resources.

Classification of Revenues

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

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

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

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

New Accounting Standards

During fiscal year 2011, the College implemented the following pronouncements:

- GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions.

- GASB Statement No. 59, *Financial Instruments Omnibus*, which updates and improves existing standards regarding financial reporting of certain financial instruments and external investment pools.

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

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In December 2009, GASB issued Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, which amends Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans,* and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, and addresses issues related to measurement of OPEB obligations by certain employers participating in agent multiple-employer OPEB plans. The provisions of Statement 57 related to the use and reporting of the alternative measurement method are effective immediately. The provisions related to the frequency and timing of measurements are effective for actuarial valuations first used to report funded status information in OPEB plan financial statements for periods beginning after June 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the College.

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

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

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

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

## (2) Summary of Significant Accounting Policies, Continued

### New Accounting Standards, Continued

In July 2011, GASB issued Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions* (an amendment of GASB Statement No. 53), which will improve financial reporting by state and local governments by clarifying the circumstances in which hedge accounting continues to be applied when a swap counterparty, or a swap counterparty's credit support provider, is replaced. The provisions of this statement are effective for periods beginning after June 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the College.

### Reclassification

Certain 2010 balances in the accompanying financial statements have been reclassified to conform to the 2011 presentation.

## (3) 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.

## (4) Accounts Receivable and Unbilled Charges

Summarized below is the College's accounts receivable and unbilled charges as of September 30, 2011 and 2010:

| | 2011 | 2010 |
|---|---|---|
| Student tuition and fees | $ 2,481,872 | $ 3,513,779 |
| Auxiliary enterprises | 278,909 | 363,655 |
| Other activities | 183,466 | 245,680 |
| | 2,944,247 | 4,123,114 |
| Less allowance for doubtful accounts | (1,929,379) | (2,091,882) |
| Net accounts receivable and unbilled charges | $ 1,014,868 | $ 2,031,232 |

## (5) Investments

As of September 30, 2011 and 2010, the College's investments at fair value are as follows:

| | 2011 | 2010 |
|---|---|---|
| Fixed income securities: | | |
| Mortgage and asset backed securities | $ 114,940 | $ - |
| Corporate bonds | 700,554 | 776,247 |
| Government and GSE bonds | 1,183,042 | 1,148,665 |
| International bonds | 73,882 | 100,993 |
| | 2,072,418 | 2,025,905 |
| Other investments: | | |
| Domestic equities | 2,054,529 | 2,112,517 |
| International equities | 966,422 | 1,075,682 |
| Cash and cash equivalents | 257,686 | 207,655 |
| | 3,278,637 | 3,395,854 |
| | $ 5,351,055 | $ 5,421,759 |

As of September 30, 2011 and 2010, the College's fixed income securities had the following maturities:

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

| 2010 | | Investment Maturities (In Years) | | | | |
|---|---|---|---|---|---|---|
| Investment Type | Fair Value | Less Than 1 | 1 - 5 | 6 - 10 | More Than 10 | Rating |
| International bonds | $ 75,565 | $ 24,803 | $ 25,340 | $ 25,422 | $ - | A- |
| International bonds | 25,428 | - | - | 25,428 | - | BBB+ |
| Corporate bonds | 46,187 | - | 46,187 | - | - | AA+ |
| Corporate bonds | 76,045 | - | 25,727 | - | 50,318 | AA |
| Corporate bonds | 78,321 | - | 28,224 | 25,542 | 24,555 | AA- |
| Corporate bonds | 76,554 | - | 24,675 | 25,495 | 26,384 | A+ |
| Corporate bonds | 157,169 | - | 80,829 | 76,340 | - | A |
| Corporate bonds | 51,270 | - | - | 51,270 | - | A- |
| Corporate bonds | 100,970 | - | - | 25,640 | 75,330 | BBB+ |
| Corporate bonds | 80,320 | - | 52,453 | 27,867 | - | BBB |
| Corporate bonds | 109,411 | - | 57,814 | 25,638 | 25,959 | BBB- |
| Government and GSE bonds | 1,148,665 | 314,539 | 346,446 | 373,121 | 114,559 | AAA |
| | $ 2,025,905 | $ 339,342 | $ 687,695 | $ 681,763 | $ 317,105 | |

## (6) Property, Plant and Equipment

Summarized below is the College's investment in property, plant and equipment and changes at September 30, 2011 and 2010:

| | Estimated Useful Lives | Balance at October 1, 2010 | Additions | Deletions | Balance at September 30, 2011 |
|---|---|---|---|---|---|
| Building and improvements | 5 - 30 years | $ 9,499,416 | $ 9,925 | $ - | $ 9,509,341 |
| Furniture and equipment | 3 - 5 years | 912,625 | 338,169 | (132,553) | 1,118,241 |
| Vehicles | 5 years | 834,002 | - | (22,907) | 811,095 |
| Computers | 3 - 5 years | 1,088,459 | 5,380 | (188,573) | 905,266 |
| | | 12,334,502 | 353,474 | (344,033) | 12,343,943 |
| Less accumulated depreciation | | (7,544,261) | (683,174) | 344,033 | (7,883,402) |
| | | 4,790,241 | (329,700) | - | 4,460,541 |
| Land | - | 1,113,376 | - | - | 1,113,376 |
| Net property, plant and equipment | | $ 5,903,617 | $ (329,700) | $ - | $ 5,573,917 |

| | Estimated Useful Lives | Balance at October 1, 2009 | Additions | Deletions | Balance at September 30, 2010 |
|---|---|---|---|---|---|
| Building and improvements | 5 - 30 years | $ 9,555,536 | $ - | $ (56,120) | $ 9,499,416 |
| Furniture and equipment | 3 - 5 years | 935,561 | 169,020 | (191,956) | 912,625 |
| Vehicles | 5 years | 849,002 | - | (15,000) | 834,002 |
| Computers | 3 - 5 years | 1,076,255 | 94,183 | (81,979) | 1,088,459 |
| | | 12,416,354 | 263,203 | (345,055) | 12,334,502 |
| Less accumulated depreciation | | (7,230,129) | (659,187) | 345,055 | (7,544,261) |
| | | 5,186,225 | (395,984) | - | 4,790,241 |
| Land | - | 1,113,376 | - | - | 1,113,376 |
| Net property, plant and equipment | | $ 6,299,601 | $ (395,984) | $ - | $ 5,903,617 |

## (7) Long-Term Obligations

Changes in long-term obligations for the years ended September 30, 2011 and 2010, are as follows:

| | Balance October 1, 2010 | Additions | Reductions | Balance September 30, 2011 | Due Within One Year |
|---|---|---|---|---|---|
| Compensated absences | $ 615,848 | $ 9,753 | $ - | $ 625,601 | $ 407,009 |

| | Balance October 1, 2009 | Additions | Reductions | Balance September 30, 2010 | Due Within One Year |
|---|---|---|---|---|---|
| Compensated absences | $ 604,664 | $ 11,184 | $ - | $ 615,848 | $ 395,024 |
| Loan payable | 42,527 | - | 42,527 | - | - |
| | $ 647,191 | $ 11,184 | $ 42,527 | $ 615,848 | $ 395,024 |

## (8) Related Party Transactions

To ensure that the College receives its full accreditation by the Western Association of Schools and Colleges, and meets educational and the vocational needs of the community, the College receives annual appropriations from the CNMI Government. During the years ended September 30, 2011 and 2010, the College recognized $4,385,111 and $5,323,044, respectively, in appropriations from the CNMI Government.

At September 30, 2011 and 2010, amounts payable for utility expense to the Commonwealth Utilities Corporation (CUC, a component unit of the CNMI) amounted to $108,709 and $207,746, respectively, which are included in accounts payable in the accompanying statements of net assets. During the years ended September 30, 2011 and 2010, total utility expense to CUC amounted to $670,254 and $637,103, respectively.

## (9) 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 2011 and 2010. The following table shows natural classifications with functional classifications:

| 2011 | Salaries | Services | Benefits | Insurance, Utilities and Rent | Depreciation | Supplies | Miscellaneous | Total |
|---|---|---|---|---|---|---|---|---|
| Instructional | $ 7,428,224 | $ 116,402 | $ 1,580,413 | $ - | $ - | $ 45,445 | $ 11,585 | $ 9,182,069 |
| Administration | - | 530,704 | - | 842,780 | - | 218,711 | 2,481,861 | 4,074,056 |
| Student expense | - | 2,169,359 | - | - | - | - | - | 2,169,359 |
| Student services | 57,341 | 1,039,599 | - | - | - | - | - | 1,096,940 |
| Operation and maintenance | - | 396,723 | - | - | 683,174 | - | - | 1,079,897 |
| | $ 7,485,565 | $ 4,252,787 | $ 1,580,413 | $ 842,780 | $ 683,174 | $ 264,156 | $ 2,493,446 | $ 17,602,321 |

| 2010 | Salaries | Services | Benefits | Insurance, Utilities and Rent | Depreciation | Supplies | Miscellaneous | Total |
|---|---|---|---|---|---|---|---|---|
| Instructional | $ 7,131,324 | $ 73,749 | $ 916,676 | $ - | $ - | $ 27,225 | $ 8,743 | $ 8,157,717 |
| Administration | - | 834,190 | - | 840,330 | - | 275,054 | 2,194,932 | 4,144,506 |
| Student expense | - | 564,548 | - | - | - | - | - | 564,548 |
| Student services | 54,969 | 1,204,348 | - | - | - | - | - | 1,259,317 |
| Operation and maintenance | - | 240,458 | - | - | 659,187 | - | - | 899,645 |
| | $ 7,186,293 | $ 2,917,293 | $ 916,676 | $ 840,330 | $ 659,187 | $ 302,279 | $ 2,203,675 | $ 15,025,733 |

## (10) Commitment

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. Accordingly, $10,063 and $186,016 of outstanding purchase orders and purchase commitments are not reported in the financial statements for the years ended September 30, 2011 and 2010, respectively.

## (11) Contingencies

### CNMI Contributions

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

### Financial and Compliance Audits

The College participates in a number of U.S. Department of Education assisted grant programs and other various federally assisted grants. These programs are subject to financial and compliance audits to ascertain if Federal laws and guidelines have been followed. Cumulative questioned costs of $417,752 relating to fiscal years 2011 and prior have been set forth in the College's Single Audit Report for the year ended September 30, 2011. The ultimate disposition of these questioned costs can be determined only by final action of the respective grantor agencies. Therefore, no provision for any liability that may result upon resolution of this matter has been made in the accompanying financial statements.

### Lawsuits and Claims

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

### Sick Leave

It is the policy of the College to record expenditures for sick leave when the leave is actually taken. Sick leave is compensated time for absence during working hours arising from employee illness or injury. The estimated accumulated sick leave at September 30, 2011 and 2010, is $1,393,678 and $1,349,428, respectively.

## (12) Subsequent Event

On April 17, 2012, NMIRF filed a bankruptcy petition in the U.S. District Court for the CNMI. The CNMI Government, private individuals and other parties subsequently filed motions to dismiss the petition. On June 1, 2012, the U.S. District Court granted the motions. An automatic stay is currently in place pending the written order.