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NORTHERN MARIANAS COLLEGE  
REPORT ON THE AUDIT OF FINANCIAL  
STATEMENTS IN ACCORDANCE  
WITH OMB CIRCULAR A-133  
YEAR ENDED SEPTEMBER 30, 1992

NORTHERN MARIANAS COLLEGE  
INDEPENDENT AUDITORS' REPORT  
AND  
FINANCIAL STATEMENTS  
YEAR ENDED SEPTEMBER 30, 1992



Independent Auditors' Report

Board of Regents  
Northern Marianas College:

We were engaged to audit the accompanying balance sheet of the Northern Marianas College (the College), a component unit of the Commonwealth of the Northern Mariana Islands, as of September 30, 1992, and the related statements of changes in fund balances (deficit) and current funds revenues, expenditures and other changes for the year then ended. These financial statements are the responsibility of the College's management.

Because of inadequacies in the College's accounting records and internal control structure, we were unable to form an opinion regarding cash, accounts receivable, accounts receivable-grantor agencies, due from other funds, prepaid expenses, accounts receivable-other, investment in plant, bank overdraft, accounts payable, accrued liabilities, deferred tuition, deferred revenue and due to other funds as of September 30, 1992. Furthermore, in our judgment, the above balances affect the results of operations for the year ended September 30, 1992.

Because of the matters discussed in the preceding paragraph, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the financial statements referred to in the first paragraph.

In accordance with Government Auditing Standards, we have also issued a report dated April 26, 1995 on our consideration of the College's internal control structure and a report dated April 26, 1995 on its compliance with laws and regulations.

As discussed in Note 4 to the financial statements, the College has not complied with certain federal award requirements. The ultimate outcome of this noncompliance cannot presently be determined. Accordingly, no provision for the potential loss or disallowance of federal awards has been made in the financial statements.

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The combining balance sheet and statement of current unrestricted funds revenues, expenditures and other changes, presented on pages 9 and 10 and the combining balance sheet and statement of current restricted funds revenues, expenditures and other changes, presented on pages 11 and 12, which are also the responsibility of the management of the College, are presented for purposes of additional analysis and are not a required part of the financial statements of the College. Such additional information has been subjected to the auditing procedures applied in our audit of the financial statements and, because of the matters discussed in the second paragraph above, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on this additional information.

*Deloitte & Touche*

April 26, 1995

NORTHERN MARIANAS COLLEGE

Balance Sheet  
September 30, 1992

Assets

Current funds:

Unrestricted:

Accounts receivable (net of allowance for doubtful accounts of \$431,000)	\$ 390,029
Due from other funds	<u>122,452</u>

Total unrestricted	<u>512,481</u>
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Restricted:

Cash (note 2)	124,009
Accounts receivable-grantor agencies	24,539
Due from other funds	328,201
Prepaid expenses	14,796
Accounts receivable - other	<u>5,607</u>

Total restricted	<u>497,152</u>
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Total current funds	\$ <u>1,009,633</u>
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Plant fund:

Investment in plant (notes 2 and 3):

Equipment	\$ <u>4,768,494</u>
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Total investment in plant	<u>4,768,494</u>
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Total plant fund	\$ <u>4,768,494</u>
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Liabilities and Fund Balances (Deficit)

Current funds:

Unrestricted:

Bank overdraft	\$ 286,746
Accounts payable	630,306
Accrued liabilities	825,983
Deferred tuition (note 2)	479,219
Due to other funds	112,871
Deficit	<u>(1,822,644)</u>

Total unrestricted	<u>512,481</u>
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Restricted:

Accounts payable	546,633
Accrued liabilities	109,486
Deferred revenue	139,748
Due to other funds	337,782
Deficit	<u>(636,497)</u>

Total restricted	<u>497,152</u>
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Total current funds	\$ <u>1,009,633</u>
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Plant fund:

Investment in plant:

Net investment in plant	\$ <u>4,768,494</u>
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Total investment in plant	<u>4,768,494</u>
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Total plant fund	\$ <u>4,768,494</u>
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See accompanying notes to financial statements.

NORTHERN MARIANAS COLLEGE

Statement of Changes in Fund Balances (Deficit)  
Year Ended September 30, 1992

	<u>Current Funds</u>		<u>Plant Fund</u>
	<u>Unrestricted</u>	<u>Restricted</u>	<u>Investment</u> <u>in Plant</u>
Revenues and other additions:			
Educational and general revenues	\$ 5,626,159	\$ 50,000	\$ -
Federal grants and contracts	<u>1,461,900</u>	<u>3,680,139</u>	<u>-</u>
Total revenues and other additions	<u>7,088,059</u>	<u>3,730,139</u>	<u>-</u>
Expenditures and other deductions:			
Educational and general expenditures	<u>7,843,384</u>	<u>4,111,551</u>	<u>-</u>
Total expenditures and other deductions	<u>7,843,384</u>	<u>4,111,551</u>	<u>-</u>
Transfers among funds - additions (deductions):			
Mandatory:			
Renewals and replacements	(281,753)	(675,634)	957,387
Matching	<u>(286,781)</u>	<u>286,781</u>	<u>-</u>
Total transfers, net	<u>(568,534)</u>	<u>(388,853)</u>	<u>957,387</u>
Net (decrease) increase	(1,323,859)	(770,265)	957,387
Fund balances (deficit) at beginning of year (as restated, note 5)	<u>(498,785)</u>	<u>133,768</u>	<u>3,811,107</u>
Fund balances (deficit) at end of year	\$ <u>(1,822,644)</u>	\$ <u>(636,497)</u>	\$ <u>4,768,494</u>

See accompanying notes to financial statements.

NORTHERN MARIANAS COLLEGE

Statement of Current Funds Revenues,  
Expenditures and Other Changes  
Year Ended September 30, 1992

	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total</u>
Revenues (note 2):			
Educational and general:			
Government grants and contracts	\$ 1,461,900	\$ 3,699,431	\$ 5,161,331
Governmental appropriations	4,020,300	-	4,020,300
Student tuition and fees	1,175,780	-	1,175,780
Other sources	<u>430,079</u>	<u>50,000</u>	<u>480,079</u>
Total revenues	<u>7,088,059</u>	<u>3,749,431</u>	<u>10,837,490</u>
Expenditures and mandatory transfers:			
Educational and general:			
Personnel	4,450,094	2,730,424	7,180,518
Institutional and department research	1,426,503	943,173	2,369,676
Student aid	1,369,641	437,954	1,807,595
Bad debts	431,000	-	431,000
Contracts and projects	<u>166,146</u>	<u>-</u>	<u>166,146</u>
	7,843,384	4,111,551	11,954,935
Mandatory transfers for:			
Renewals and replacements	281,753	675,634	957,387
Matching	<u>286,781</u>	<u>(286,781)</u>	<u>-</u>
Total expenditures and mandatory transfers	<u>8,411,918</u>	<u>4,500,404</u>	<u>12,912,322</u>
Other transfers and additions:			
Deficiency of restricted receipts under transfers to revenues	<u>-</u>	<u>(19,292)</u>	<u>(19,292)</u>
Net decrease in fund balances	\$ <u>(1,323,859)</u>	\$ <u>(770,265)</u>	\$ <u>(2,094,124)</u>

See accompanying notes to financial statements.

# NORTHERN MARIANAS COLLEGE

## Notes to Financial Statements September 30, 1992

### (1) Organization

The Northern Marianas College (the College), a component unit of the Commonwealth of 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 on a three year term basis.

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 and was re-evaluated and approved on June 10, 1990.

### (2) Summary of Significant Accounting Policies

The accompanying financial statements are prepared in accordance with generally accepted accounting principles, which requires the use of management estimates. Significant accounting policies used by the College are as follows:

#### Accrual Basis

The accompanying financial statements of the College have been prepared on the accrual basis. However, during the year, the College did not record depreciation on physical plant and equipment. The statement of current funds revenues, expenditures and other changes is a statement of financial activities of current funds related to the current reporting period. It does not purport to present the results of operations or the net income or loss for the period as would a statement of income or a statement of revenues and expenses.

To the extent that current funds are used to finance plant assets, the amounts so provided are accounted for as (1) expenditures, in the case of normal replacement of movable equipment and library books; (2) mandatory transfers, in the case of required provisions for debt amortization and interest, and equipment renewal and replacement; and (3) transfers of a non-mandatory nature for all other cases.

#### Fund Accounting

In order to ensure observance of limitations and restrictions placed on the use of the resources available to the College, accounts of the College are maintained in accordance with the principles of "fund accounting". This is the procedure by which resources for various purposes are classified for accounting and reporting purposes into funds that are in accordance with activities or objectives specified. Separate accounts are maintained for each fund; however, in the accompanying financial statements, funds that have similar characteristics have been combined into fund groups. Accordingly, all financial transactions have been recorded and reported by fund group.

# NORTHERN MARIANAS COLLEGE

Notes to Financial Statements  
September 30, 1992

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

### Fund Accounting, Continued

Within each fund group, fund balances restricted by outside sources are so indicated and are distinguished from unrestricted funds allocated to specific purposes by action of the governing Board. Externally restricted funds may only be utilized in accordance with the purposes established by the source of such funds and are in contrast with unrestricted funds over which the governing Board retains full control to use in achieving any of its institutional purposes.

All other unrestricted revenue is accounted for in the unrestricted current fund. Restricted gifts, grants, appropriations, endowment income and other restricted resources are accounted for in the appropriate restricted funds. Restricted current funds are reported as revenues and expenditures when expended for current operating purposes.

### Investment in Plant

All buildings and equipment transferred to the College were recorded at management's estimate of fair market value at that date. Subsequent additions have been recorded at cost and/or realizable value, as estimated and provided by the College. Depreciation on plant assets is not recorded. To the extent that current funds are used to finance plant assets, the amounts so provided are accounted for as (1) expenditures, in the case of normal replacement of movable equipment, or (2) transfers to the plant fund.

Real property and certain buildings were contributed to the College by the CNMI Government, however, no appraisal has been performed to compute the fair market value of these assets. Therefore, such costs have neither been recorded as in-kind contributions nor as expenditures.

### Revenue Recognition

Tuition and fees are recorded as deferred revenue as of the applicable enrollment date and are recognized totally within the fiscal year in which the semester is predominantly conducted. Other grants and revenues are recorded as income at the point the revenues are earned and measurable.

### Functional Allocation of Expenditures

The costs of providing the various programs and other activities have been summarized on the functional basis in the statements of changes in fund balances (deficit) and current funds, revenues, expenditures and other changes. Accordingly, certain costs have been allocated among the programs and supporting services benefits.

### Cash

For the purposes of the balance sheet, the College considers cash to be cash on hand and in bank accounts.

The College does not require collateralization of its cash deposits. Cash is maintained in FDIC insured banks. At September 30, 1992, the College's deposits were fully insured.



NORTHERN MARIANAS COLLEGE

Notes to Financial Statements  
September 30, 1992

(2) Summary of Significant Accounting Policies, Continued

Retirement Plan

The College contributes to the Northern Mariana Islands Retirement Fund (the Fund), a defined benefit, cost-sharing multi-employer pension plan established and administered by the CNMI.

The Fund provides retirement, security and other benefits to employees, and their spouses and dependents, of the CNMI Government and CNMI agencies, instrumentalities and public corporations. Benefits are based on the average annual salary of the beneficiary over the term of credited service. Generally, benefits vest after three years of credited service. Members who retire at or after age 60, or with 25 years of vesting service, are entitled to retirement benefits. CNMI Public Law 6-17, the Northern Mariana Retirement Fund Act of 1988, is the authority under which benefit provisions are established.

The College's total payroll for fiscal year 1992 was \$7,180,518, which was covered in total by the Fund's pension plan. As a result of the Fund's most recent actuarial valuation report (as of October 1, 1991), it has been determined that for the years ended September 30, 1992, funding requirements for Class I members are 8.1% and 6.5% for employers and employees, respectively, and for Class II members the requirements are 20.93% and 9% for employers and employees respectively, of covered payroll.

The Fund utilizes the actuarial cost method termed "entry age normal cost" with actuarial assumptions used to compute the pension benefit obligation as follows: (a) a rate of return of 8% per year on the investment of present and future assets, (b) a 5% increase in employee salaries compounded annually until retirement, (c) expenses at 1.1% of total payroll, and (d) retirement age of the earlier of age 62 and 3 years of vesting service (not including 5 additional years granted after 20 years of service) for Class I or age 60 and 25 years of service for Class II members (including 5 additional years granted after 20 years of service).

The pension benefit obligation, which is the actuarial present value of credited projected benefits, is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and any step-rate benefits, estimated to be payable in the future as a result of employment service to date. The measure is intended to assist users in evaluating the Fund's funding status on a going-concern basis, and in evaluating progress made in accumulating adequate assets to pay benefits when due.

The Fund's October 1, 1991 actuarial valuation determined the unfunded pension benefit obligation as follows:

	<u>Class I</u>	<u>Class II</u>	<u>Total</u>
Retirees and beneficiaries currently receiving benefits and terminated employees not yet receiving benefits	\$ 87,573,696	\$ -	\$ 87,573,696
Current employees:			
Accumulated employee contributions	19,203,871	4,112,402	23,316,273
Employer - financed, vested	38,481,721	538,918	39,020,639
Employer - financed, nonvested	<u>37,508,353</u>	<u>3,402,185</u>	<u>40,910,538</u>
Total pension benefit obligation	182,767,641	8,053,505	190,821,146
Net assets available for benefits, at market value	<u>76,022,531</u>	<u>10,432,715</u>	<u>86,455,246</u>
Unfunded benefit obligation	\$ <u>106,745,110</u>	\$ <u>(2,379,210)</u>	\$ <u>104,365,900</u>

NORTHERN MARIANAS COLLEGE

Notes to Financial Statements  
September 30, 1992

(2) Summary of Significant Accounting Policies, Continued

Retirement Plan, Continued

The actuarial valuation did not provide a breakdown of actuarial present value of vested and non-vested accumulated plan benefits by sponsor or net assets available for benefits by sponsor.

Ten-year historical trend information designed to provide information about the Fund's progress in accumulating adequate assets to meet payment of benefits when due is included within the Fund's audited financial statements.

(3) Plant and Equipment

Summarized below is the College's investment in plant and equipment and changes for the year ended September 30, 1992:

	<u>Balance at September 30, 1991</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at September 30, 1992</u>
Equipment	\$ <u>3,811,107</u>	\$ <u>957,387</u>	\$ <u>-</u>	\$ <u>4,768,494</u>
Total	\$ <u>3,811,107</u>	\$ <u>957,387</u>	\$ <u>-</u>	\$ <u>4,768,494</u>

(4) Commitment and Contingency

Commitment

The College reserves fund balance, for internal purposes, for assets not expected to be available for operations in the ensuing year. At September 30, 1992, reserves for related assets totalling \$24,539 existed within the restricted fund.

Contingency

The College participated in federally assisted grants from the U.S. Departments of Education, Health and Human Services, Commerce, Labor, Agriculture and Interior in fiscal year 1992. Federally assisted grants can be subject to financial and compliance audits to ascertain if federal laws and guidelines have been followed. Expenditures of \$284,825 were questioned in the fiscal year 1992 audit, and \$619,579 were questioned in prior years audits. If these costs are ultimately denied, the unrestricted current fund could be charged for necessary reimbursement to the grantor agencies.

(5) Restatement

Beginning fund balance of the current restricted fund has been increased by \$135,818 to reflect restricted receipts in excess of expenditures related to federal award programs. These amounts were previously reflected as deferred revenue and receivables from grantor agencies.

NORTHERN MARIANAS COLLEGE

Combining Balance Sheet  
Current Unrestricted Funds  
September 30, 1992

<u>Assets</u>	<u>Operating Fund</u>	<u>CNMI Grants</u>	<u>Total</u>
Unrestricted:			
Accounts receivable, net	\$ 390,029	\$ -	\$ 390,029
Due from other funds	<u>-</u>	<u>122,452</u>	<u>122,452</u>
Total unrestricted assets	\$ <u>390,029</u>	\$ <u>122,452</u>	\$ <u>512,481</u>
<u>Liabilities and Deficit</u>			
Unrestricted:			
Bank overdraft	\$ 117,647	\$ 169,099	\$ 286,746
Accounts payable	630,306	-	630,306
Accrued liabilities	825,983	-	825,983
Deferred tuition	479,219	-	479,219
Due to other funds	112,871	-	112,871
Deficit	<u>(1,775,997)</u>	<u>(46,647)</u>	<u>(1,822,644)</u>
Total unrestricted liabilities and deficit	\$ <u>390,029</u>	\$ <u>122,452</u>	\$ <u>512,481</u>

NORTHERN MARIANAS COLLEGE

Combining Statement of Current Unrestricted Funds  
Revenues, Expenditures and Other Changes  
Year Ended September 30, 1992

	<u>Operating Fund</u>	<u>CNMI Grants</u>	<u>Total</u>
Revenues:			
Educational and general:			
Governmental grants and contracts	\$ -	\$ 1,461,900	\$ 1,461,900
Governmental appropriations	4,020,300	-	4,020,300
Student tuition and fees	1,175,780	-	1,175,780
Other sources	<u>403,234</u>	<u>26,845</u>	<u>430,079</u>
Total revenues	<u>5,599,314</u>	<u>1,488,745</u>	<u>7,088,059</u>
Expenditures and mandatory transfers:			
Educational and general:			
Personnel	4,450,094	-	4,450,094
Institutional and department research	1,426,503	-	1,426,503
Student aid	-	1,369,641	1,369,641
Bad debts	431,000	-	431,000
Contracts and projects	<u>166,146</u>	<u>-</u>	<u>166,146</u>
	6,473,743	1,369,641	7,843,384
Mandatory transfers for:			
Renewals and replacements	280,998	755	281,753
Matching	<u>286,781</u>	<u>-</u>	<u>286,781</u>
Total expenditures and mandatory transfers	<u>7,041,522</u>	<u>1,370,396</u>	<u>8,411,918</u>
Net (decrease) increase in fund balances	\$ <u>(1,442,208)</u>	\$ <u>118,349</u>	\$ <u>(1,323,859)</u>

NORTHERN MARIANAS COLLEGE

Combining Balance Sheet  
Current Restricted Funds  
September 30, 1992

<u>Assets</u>	<u>Federal Grants Fund</u>	<u>Vocational Education</u>	<u>Land Grants</u>	<u>Total</u>
Restricted:				
Cash	\$ 61,750	\$ 5,538	\$ 56,721	\$ 124,009
Accounts receivable - grantor agencies	-	24,539	-	24,539
Due from other funds	44,841	-	283,360	328,201
Prepaid expenses	6,554	-	8,242	14,796
Accounts receivable - other	<u>5,607</u>	<u>-</u>	<u>-</u>	<u>5,607</u>
 Total restricted assets	 <u>\$ 118,752</u>	 <u>\$ 30,077</u>	 <u>\$ 348,323</u>	 <u>\$ 497,152</u>
 <u>Liabilities and Fund Balances (Deficit)</u>				
Restricted:				
Accounts payable	\$ 123,215	\$ 268,060	\$ 155,358	\$ 546,633
Accrued liabilities	42,240	37,510	29,736	109,486
Deferred revenue	-	139,748	-	139,748
Due to other funds	-	337,782	-	337,782
Fund balance (deficit)	<u>(46,703)</u>	<u>(753,023)</u>	<u>163,229</u>	<u>(636,497)</u>
 Total restricted liabilities and fund balances (deficit)	 <u>\$ 118,752</u>	 <u>\$ 30,077</u>	 <u>\$ 348,323</u>	 <u>\$ 497,152</u>

NORTHERN MARIANAS COLLEGE

Combining Statement of Current Restricted Funds Revenues,  
Expenditures and Other Changes  
Year Ended September 30, 1992

	<u>Federal Grants Fund</u>	<u>Vocational Education</u>	<u>Land Grants</u>	<u>Total</u>
<b>Revenues:</b>				
Educational and general:				
Government grants and contracts	\$ 1,383,710	\$ 1,432,335	\$ 883,386	\$ 3,699,431
Donations	<u>-</u>	<u>50,000</u>	<u>-</u>	<u>50,000</u>
Total revenues	<u>1,383,710</u>	<u>1,482,335</u>	<u>883,386</u>	<u>3,749,431</u>
<b>Expenditures and mandatory transfers:</b>				
Educational and general:				
Personnel	611,163	1,123,696	995,565	2,730,424
Institutional and department research	248,012	539,042	156,119	943,173
Student aid	<u>437,954</u>	<u>-</u>	<u>-</u>	<u>437,954</u>
	1,297,129	1,662,738	1,151,684	4,111,551
Mandatory transfers for:				
Renewals and replacements	86,581	570,570	18,483	675,634
Matching	<u>-</u>	<u>-</u>	<u>(286,781)</u>	<u>(286,781)</u>
Total expenditures and mandatory transfers	<u>1,383,710</u>	<u>2,233,308</u>	<u>883,386</u>	<u>4,500,404</u>
<b>Other transfers and additions:</b>				
Excess (deficiency) of restricted receipts over (under) transfers to revenues	<u>20,010</u>	<u>-</u>	<u>(39,302)</u>	<u>(19,292)</u>
Net increase (decrease) in fund balances (deficit)	\$ <u>20,010</u>	\$ <u>(750,973)</u>	\$ <u>(39,302)</u>	\$ <u>(770,265)</u>