

NORTHERN MARIANAS COLLEGE

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

YEAR ENDED SEPTEMBER 30, 1994

NORTHERN MARIANAS COLLEGE

INDEPENDENT AUDITORS' REPORT  
AND  
FINANCIAL STATEMENTS

YEAR ENDED SEPTEMBER 30, 1994

**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, 1994, 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, due from other funds, due from CNMI, other assets, investment in plant, accounts payable, accrued liabilities, deferred tuition, due to other funds, revenues and expenditures as of and for the year ended September 30, 1994. Furthermore, in our judgment, the above balances affect the results of operations for the year ended September 30, 1994.

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.

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.

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. The scope of our work was not sufficient to enable us to express, and we do not express, an opinion on this additional information.

In accordance with Government Auditing Standards, we have also issued a report dated May 19, 1995 on our consideration of the College's internal control structure and a report dated May 19, 1995 on its compliance with laws and regulations.

*Deloitte & Touche*

May 19, 1995

NORTHERN MARIANAS COLLEGE

Balance Sheet  
September 30, 1994

ASSETS

Current funds:	
Unrestricted:	
Cash	\$ 526,900
Accounts receivable (net of allowance for doubtful accounts of \$70,000)	515,006
Due from other funds	337,905
Due from CNMI	449,880
Other assets	<u>60,044</u>
Total unrestricted	<u>1,889,735</u>
Restricted:	
Cash	142,390
Accounts receivable	37,768
Due from other funds	101,070
Due from CNMI	<u>41,301</u>
Total restricted	<u>322,529</u>
Total current funds	\$ <u>2,212,264</u>
Plant fund:	
Investment in plant (note 3):	
Equipment	\$ <u>5,271,358</u>
Total investment in plant	<u>5,271,358</u>
Total plant fund	\$ <u>5,271,358</u>

LIABILITIES AND FUND BALANCE  
(DEFICIT)

Current funds:	
Unrestricted:	
Accounts payable	\$ 333,007
Accrued liabilities	1,239,242
Deferred tuition	720,017
Due to other funds	363,364
Deficit	<u>(765,895)</u>
Total unrestricted	<u>1,889,735</u>
Restricted:	
Accounts payable	19,627
Accrued liabilities	26,305
Due to other funds	75,611
Fund balance	<u>200,986</u>
Total restricted	<u>322,529</u>
Total current funds	\$ <u>2,212,264</u>
Plant fund:	
Investment in plant:	
Net investment in plant	\$ <u>5,271,358</u>
Total investment in plant	<u>5,271,358</u>
Total plant fund	\$ <u>5,271,358</u>

See accompanying notes to financial statements.

NORTHERN MARIANAS COLLEGE

Statement of Changes in Fund Balances (Deficit)  
Year Ended September 30, 1994

	<u>Current Funds</u>		<u>Plant Fund</u>
	<u>Unrestricted</u>	<u>Restricted</u>	<u>Investment in Plant</u>
Revenues and other additions:			
Educational and general revenues	\$ 9,130,845	\$ -	\$ -
Federal grants and contracts	<u>-</u>	<u>3,872,387</u>	<u>-</u>
Total revenues and other additions	<u>9,130,845</u>	<u>3,872,387</u>	<u>-</u>
Expenditures and other deductions:			
Educational and general expenditures	<u>8,464,863</u>	<u>3,770,093</u>	<u>-</u>
Total expenditures and other deductions	<u>8,464,863</u>	<u>3,770,093</u>	<u>-</u>
Transfers among funds - additions (deductions):			
Mandatory:			
Renewals and replacements	(208,180)	(78,419)	286,599
Matching	<u>(119,950)</u>	<u>119,950</u>	<u>-</u>
Total transfers, net	<u>(328,130)</u>	<u>41,531</u>	<u>286,599</u>
Net increase	337,852	143,825	286,599
(Deficit) fund balance at beginning of year	<u>(1,103,747)</u>	<u>57,161</u>	<u>4,984,759</u>
(Deficit) fund balance at end of year	\$ <u>(765,895)</u>	\$ <u>200,986</u>	\$ <u>5,271,358</u>

See accompanying notes to financial statements.

NORTHERN MARIANAS COLLEGE

Statement of Current Funds Revenues,  
Expenditures and Other Changes  
Year Ended September 30, 1994

	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total</u>
Revenues:			
Educational and general:			
Governmental appropriations	\$ 6,939,704	\$ -	\$ 6,939,704
Government grants and contracts	-	3,853,716	3,853,716
Student tuition and fees	1,797,911	-	1,797,911
Other sources	<u>393,230</u>	<u>-</u>	<u>393,230</u>
Total revenues	<u>9,130,845</u>	<u>3,853,716</u>	<u>12,984,561</u>
Expenditures and mandatory transfers:			
Educational and general:			
Personnel	4,973,379	2,859,287	7,832,666
Institutional and department research	1,360,790	910,806	2,271,596
Student aid	2,060,694	-	2,060,694
Bad debts	<u>70,000</u>	<u>-</u>	<u>70,000</u>
	8,464,863	3,770,093	12,234,956
Mandatory transfers for:			
Renewals and replacements	208,180	78,419	286,599
Matching	<u>119,950</u>	<u>(119,950)</u>	<u>-</u>
Total expenditures and mandatory transfers	<u>8,792,993</u>	<u>3,728,562</u>	<u>12,521,555</u>
Other transfers and additions:			
Excess of restricted receipts over transfers to revenues	<u>-</u>	<u>18,671</u>	<u>18,671</u>
Net increase in fund balance	<u>\$ 337,852</u>	<u>\$ 143,825</u>	<u>\$ 481,677</u>

See accompanying notes to financial statements.

# NORTHERN MARIANAS COLLEGE

Notes to Financial Statements  
September 30, 1994

## (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 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 accounting policies of the College conform to generally accepted accounting principles. The preparation of financial statements in conformity with generally accepted accounting principles 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. Significant accounting policies of 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, 1994

## (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.

### Cash

For the purposes of the balance sheet, the College considers cash to be cash on hand and in bank accounts. All of the College's cash is with a federally insured bank, \$100,000 of which is subject to coverage by federal insurance with the remaining balance exceeding insurable limits. The College does not require collateralization of its bank accounts and, therefore, amounts in excess of insurable limits are uncollateralized.

### 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 or 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 benefited.



NORTHERN MARIANAS COLLEGE

Notes to Financial Statements  
September 30, 1994

(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 1994 was \$7,832,666, 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, 1993), 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 9.0% 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 7.5% 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, 1993 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	\$ 101,364,778	\$ -	\$ 101,364,778
Current employees:			
Accumulated employee contributions	16,820,972	3,088,984	19,909,956
Employer - financed vested	64,248,466	1,637,947	65,886,413
Employer - financed nonvested	<u>50,821,509</u>	<u>8,876,185</u>	<u>59,697,694</u>
Total pension benefit obligation	233,255,725	13,603,116	246,858,841
Net assets available for benefits, at market value	<u>95,749,956</u>	<u>17,772,010</u>	<u>113,521,966</u>
Unfunded benefit obligation	\$ <u>137,505,769</u>	\$ <u>(4,168,894)</u>	\$ <u>133,336,875</u>

# NORTHERN MARIANAS COLLEGE

## Notes to Financial Statements September 30, 1994

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

#### Retirement Plan, Continued

The actuarial valuation did not provide a breakdown of the 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, 1994:

	<u>Balance at September 30, 1993</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at September 30, 1994</u>
Equipment	\$ <u>4,984,759</u>	\$ <u>286,599</u>	\$ <u>-</u>	\$ <u>5,271,358</u>
Total	\$ <u>4,984,759</u>	\$ <u>286,599</u>	\$ <u>-</u>	\$ <u>5,271,358</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, 1994, reserves for encumbrances totalling \$41,500 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 of the Interior in fiscal year 1994. Federally assisted grants can be subject to financial and compliance audits to ascertain if federal laws and guidelines have been followed. Expenditures of \$69,781 were questioned in the fiscal year 1994 audit, and \$999,018 were questioned in prior year audits. If these costs are ultimately denied, the unrestricted current fund could be charged for necessary reimbursement to the grantor agencies.

NORTHERN MARIANAS COLLEGE

Combining Balance Sheet  
Current Unrestricted Funds  
September 30, 1994

<u>ASSETS</u>	<u>Operating Fund</u>	<u>CNMI Grants</u>	<u>Total</u>
Unrestricted:			
Cash	\$ 384,124	\$ 142,776	\$ 526,900
Accounts receivable, net	515,006	-	515,006
Due from other funds	334,404	3,501	337,905
Due from CNMI	195,125	254,755	449,880
Other assets	<u>60,044</u>	<u>-</u>	<u>60,044</u>
Total unrestricted assets	<u>\$ 1,488,703</u>	<u>\$ 401,032</u>	<u>\$ 1,889,735</u>

LIABILITIES AND FUND BALANCE (DEFICIT)

Unrestricted:			
Accounts payable	\$ 333,007	\$ -	\$ 333,007
Accrued liabilities	1,147,924	91,318	1,239,242
Deferred tuition	720,017	-	720,017
Due to other funds	103,509	259,855	363,364
Fund balance (deficit)	<u>(815,754)</u>	<u>49,859</u>	<u>(765,895)</u>
Total unrestricted liabilities and fund balance (deficit)	<u>\$ 1,488,703</u>	<u>\$ 401,032</u>	<u>\$ 1,889,735</u>

See Accompanying Independent Auditors' Report.

NORTHERN MARIANAS COLLEGE

Combining Statement of Current Unrestricted Funds Revenues,  
Expenditures and Other Changes  
Year Ended September 30, 1994

	<u>Operating Fund</u>	<u>CNMI Grants</u>	<u>Total</u>
Revenues:			
Educational and general:			
Governmental appropriations	\$ 4,895,535	\$ 2,044,169	\$ 6,939,704
Student tuition and fees	1,797,911	-	1,797,911
Other sources	<u>393,226</u>	<u>4</u>	<u>393,230</u>
Total revenues	<u>7,086,672</u>	<u>2,044,173</u>	<u>9,130,845</u>
Expenditures and mandatory transfers:			
Educational and general:			
Personnel	4,973,379	-	4,973,379
Student aid	-	2,060,694	2,060,694
Institutional and department research	1,360,220	570	1,360,790
Bad debts	<u>70,000</u>	<u>-</u>	<u>70,000</u>
	6,403,599	2,061,264	8,464,863
Mandatory transfers for:			
Renewals and replacements	208,180	-	208,180
Matching	<u>119,950</u>	<u>-</u>	<u>119,950</u>
Total expenditures and mandatory transfers	<u>6,731,729</u>	<u>2,061,264</u>	<u>8,792,993</u>
Net increase (decrease) in fund balance	\$ <u>354,943</u>	\$ <u>(17,091)</u>	\$ <u>337,852</u>

See Accompanying Independent Auditors' Report.

NORTHERN MARIANAS COLLEGE

Combining Balance Sheet  
Current Restricted Funds  
September 30, 1994

<u>ASSETS</u>	<u>Federal Grants Fund</u>	<u>Vocational Education</u>	<u>Total</u>
Restricted:			
Cash	\$ 27,899	\$ 114,491	\$ 142,390
Accounts receivable	37,768	-	37,768
Due from other funds	94,530	6,540	101,070
Due from CNMI	<u>-</u>	<u>41,301</u>	<u>41,301</u>
 Total restricted assets	 \$ <u>160,197</u>	 \$ <u>162,332</u>	 \$ <u>322,529</u>
 <u>LIABILITIES AND FUND BALANCE</u>			
Restricted:			
Accounts payable	\$ 14,073	\$ 5,554	\$ 19,627
Accrued liabilities	12,616	13,689	26,305
Due to other funds	18,283	57,328	75,611
Fund balance	<u>115,225</u>	<u>85,761</u>	<u>200,986</u>
 Total restricted liabilities and fund balance	 \$ <u>160,197</u>	 \$ <u>162,332</u>	 \$ <u>322,529</u>

See Accompanying Independent Auditors' Report.

NORTHERN MARIANAS COLLEGE

Combining Statement of Current Restricted Funds Revenues,  
Expenditures and Other Changes  
Year Ended September 30, 1994

	<u>Federal Grants Fund</u>	<u>Vocational Education</u>	<u>Total</u>
Revenues:			
Educational and general:			
Government grants and contracts	\$ <u>2,584,477</u>	\$ <u>1,269,239</u>	\$ <u>3,853,716</u>
Total revenues	<u>2,584,477</u>	<u>1,269,239</u>	<u>3,853,716</u>
Expenditures and mandatory transfers:			
Educational and general:			
Personnel	1,812,713	1,046,574	2,859,287
Institutional and department research	<u>817,851</u>	<u>92,955</u>	<u>910,806</u>
	2,630,564	1,139,529	3,770,093
Mandatory transfers for:			
Renewals and replacements	73,863	4,556	78,419
Matching	<u>(119,950)</u>	<u>-</u>	<u>(119,950)</u>
Total expenditures and mandatory transfers	<u>2,584,477</u>	<u>1,144,085</u>	<u>3,728,562</u>
Other transfers and additions:			
Excess of restricted receipts over transfers to revenues	<u>18,671</u>	<u>-</u>	<u>18,671</u>
Net increase in fund balance	\$ <u>18,671</u>	\$ <u>125,154</u>	\$ <u>143,825</u>

See Accompanying Independent Auditors' Report.