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

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

Years Ended September 30, 2012 and 2011

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

Years Ended September 30, 2012 and 2011

TABLE OF CONTENTS

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INDEPENDENT AUDITORS' REPORT

Board of Regents
Northern Marianas College

I have audited the accompanying statement of net assets of the Northern Marianas College (the College), a component unit of the Commonwealth of the Northern Mariana Islands (CNMI) Government, as of September 30, 2012 and the related statements of revenues, expenses and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the College's management. My responsibility is to express an opinion on these financial statements based on my audit. The financial statements of the College as of September 30, 2011, were audited by other auditors whose report dated June 28, 2012, expressed an unqualified opinion on those statements before restatement.

I conducted my audit 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 I 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, I 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. I believe that my audit provide a reasonable basis for my opinion.

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Northern Marianas College as of September 30, 2012 and its changes in net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

I also audited the adjustments described in Note 13 that were applied to restate the 2011 financial statements. In my opinion, such adjustments are appropriate and have been properly applied.

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, I have also issued my report dated June 3, 2013, on my consideration of internal control over financial reporting and my 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 my audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 12 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. I have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

My audit was conducted for the purpose of forming opinions on the financial statements of the Northern Marianas College as a whole. The accompanying schedule of expenditures of federal awards on pages 34 through 35 is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is also not a required part of the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

J. Scott Magliari & Company

Saipan, Commonwealth of the Northern Mariana Islands
June 3, 2013

Northern Marianas College

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Management's Discussion and Analysis
Year Ended September 30, 2012

This discussion and analysis of the Northern Marianas College's (the College) financial performance provides an overview of the College's activities for the fiscal year ended September 30, 2012 with comparisons to prior fiscal years ended September 30, 2011 and 2010. We encourage readers to consider the information presented here in conjunction with the financial statements and related notes (pages 13 through 33).

OVERVIEW OF THE FINANCIAL STATEMENTS

The Financial Section of this report presents the College's financial statements as two components: basic financial statements, and notes to the financial statements. It also includes supplemental information.

Basic Financial Statements

The ***Statements of Net Assets*** presents information on assets and liabilities, with the difference between the two reported as net assets. Changes in net assets over time may provide an indicator as to whether the financial position of the College is improving or deteriorating.

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.

The ***Statements of Revenues, Expenses and Changes in Net Assets*** report how net assets have changed during the year. It compares related operating revenues and operating expenses connected with the College's principal business as the state agency for higher education and adult education programs. Operating expenses include the cost of instruction, administrative expenses, student expenses, student services and operations and maintenance. All other revenues and expenses are reported as non-operating.

The ***Statements of Cash Flows*** reports inflows and outflows of cash, classified into four major categories:

- Cash flows from operating activities include transactions and events reported as components of operating income in the Statement of Revenues, Expenses and Changes in Net Assets.

- Cash flows from non-capital financing activities include operating grant proceeds.

- Cash flows from capital and related financing activities include the borrowing and repayment (principal and interest) of capital-related debt, the acquisition and construction of capital assets, and the proceeds of capital grants and contributions.

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

Notes to the Financial Statements

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

FINANCIAL HIGHLIGHTS AND ANALYSIS OF BASIC FINANCIAL STATEMENTS

Condensed Statements of Net Assets

	2012	2011	Increase (Decrease) Amount	Increase (Decrease) Percent
ASSETS:				
Current assets	$ 9,296,321	$ 9,267,420	$ 28,901	0.31
Capital assets, net	5,492,298	5,626,176	(133,878)	(2.38)
Other assets	6,164,705	5,351,055	813,650	15.21
Total Assets	**$ 20,953,324**	**$ 20,244,651**	**$ 708,673**	**3.50**
LIABILITIES:				
Current liabilities	$ 1,911,193	$ 2,909,841	$ (998,648)	(34.32)
Noncurrent liabilities	202,448	218,592	(16,144)	(7.39)
Total Liabilities	**$ 2,113,641**	**$ 3,128,433**	**$ (1,014,792)**	**(32.44)**
NET ASSETS				
Invested in capital assets	$ 5,492,298	$ 5,626,176	$ (133,878)	(2.38)
Restricted net assets	6,164,705	5,351,055	813,650	15.21
Unrestricted	7,182,680	6,138,987	1,043,693	17.00
Total Net Assets	**$ 18,839,683**	**$ 17,116,218**	**$ 1,723,465**	**10.07**

	2011	2010	Increase (Decrease) Amount	Increase (Decrease) Percent
ASSETS:				
Current assets	$ 9,267,420	$ 7,961,377	$ 1,306,043	16.40
Capital assets, net	5,626,176	5,955,876	(329,700)	(5.54)
Other assets	5,351,055	5,421,759	(70,704)	(1.30)
Total Assets	**$ 20,244,651**	**$ 19,339,012**	**$ 905,639**	**4.68**
LIABILITIES:				
Current liabilities	$ 2,909,841	$ 2,941,416	$ (31,575)	(1.07)
Noncurrent liabilities	218,592	220,824	(2,232)	(1.01)
Total Liabilities	**$ 3,128,433**	**$ 3,162,240**	**$ (33,807)**	**(1.07)**
NET ASSETS				
Invested in capital assets	$ 5,626,176	$ 5,955,876	$ (329,700)	(5.54)
Restricted net assets	5,351,055	5,421,759	(70,704)	(1.30)
Unrestricted	6,138,987	4,799,137	1,339,850	27.92
Total Net Assets	**$ 17,116,218**	**$ 16,176,772**	**$ 939,446**	**5.81**

- Total assets at September 30, 2012 amounted to $20,953,324. This increased by $708,673 or 3.50% from $20,244,651 as of September 30, 2011. The increase is primarily due to the increase in the carrying values of the College's endowment fund investments.

- Total liabilities at September 30, 2012 amounted to $2,113,641. This decreased by $1,014,792 or 32.44% from $3,128,433 in 2011. The decrease is due to lower deferred revenues in 2012. Deferred revenues pertain to the portion of the Fall tuition that pertains to the next fiscal year. The Deferred revenue in 2012 is reduced by the corresponding portion of the scholarships.

- Net Assets at September 30, 2012 amounted to $18,839,683 from $17,116,218 in 2012. The $1,723,465 or 10.07% increase is primarily due to lower operating expenses in fiscal year 2012. This was also due to the College's strong financial planning and combined efforts to reduce costs and increase collections

Condensed Statements of Revenues, Expenses and Changes in Net Assets

	2012	2011	Increase (Decrease) Amount	Increase (Decrease) Percent
Operating revenues, net	$ 11,662,132	$ 13,782,356	$ (2,120,224)	(15.38)
Operating expenses	14,501,004	17,157,317	(2,656,313)	(15.48)
Operating loss	(2,838,872)	(3,374,961)	536,089	(15.88)
Nonoperating revenues	4,562,337	4,314,407	247,930	5.75
Change in net assets	1,723,465	939,446	784,019	83.46
Net assets, beginning of year	17,116,218	16,176,772	939,446	5.81
Net assets, end of year	$ 18,839,683	$ 17,116,218	$ 1,723,465	10.07

	2011	2010	Increase (Decrease) Amount	Increase (Decrease) Percent
Operating revenues, net	$ 13,782,356	$ 10,481,359	$ 3,300,997	31.49
Operating expenses	17,157,317	15,025,733	2,131,584	14.19
Operating loss	(3,374,961)	(4,544,374)	1,169,413	(25.73)
Nonoperating revenues	4,314,407	5,789,680	(1,475,273)	(25.48)
Change in net assets	939,446	1,245,306	(305,860)	(24.56)
Net assets, beginning of year	16,176,772	14,931,466	1,245,306	8.34
Net assets, end of year	$ 17,116,218	$ 16,176,772	$ 939,446	5.81

NMC's net assets increase as of September 30, 2012 increase by $1,723,465 or 10.07%, despite the decrease in operating revenues by $2,120,224 or 15.38% compared to fiscal 2011, because of NMC's notable effort to reduce its operating expenses. Operating expenses in fiscal year 2012 is $2,656,313 or 15.48% lower that prior year. A detailed analysis of revenues and expenses follows this section.

Revenues by Sources

	2012		2011	
	Amount	% of Total	Amount	% of Total
Operating revenues:				
U.S Federal grants	$ 9,472,580	58.38	$ 11,872,542	65.61
Tuitions and fees	1,385,230	8.54	1,191,403	6.58
Private gifts, grants and donations	15,555	0.10	13,300	0.07
Others	788,767	4.86	705,111	3.90
Total operating revenues	11,662,132	71.88	13,782,356	76.16
Nonoperating				
CNMI appropriations	3,748,689	23.11	4,385,111	24.23
Investment income	58,450	0.36	99,277	0.55
Realized gain on investments	353,670	2.18	403,454	2.23
Unrealized gain (loss) on investments	401,528	2.47	(573,435)	(3.17)
	813,648	5.01	(70,704)	(0.39)
Total nonoperating revenues	4,562,337	28.12	4,314,407	23.84
Total revenues	$ 16,224,469	100.00	$ 18,096,763	100.00

- Grants for the U.S Federal Agencies constitute 58.38% and 65.61% of the College's total revenues in 2012 and 2011, respectively. The grants received from U.S Federal Agencies decreased by $2,399,962 or 20.21%, primarily due to the completion of majority of the ARRA grants in 2011.

- Student tuition and fees increased by $193,827 between fiscal years 2012 and 2011. The increase is due to increased recruitment and marketing efforts as well as activities such as Cash for College, and College Access Challenge Grant activities. This is attributed to various factors including the College's cognizant planning efforts and support from the CNMI government in allowing students to attend the College for their first two years of a student's College career. 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.

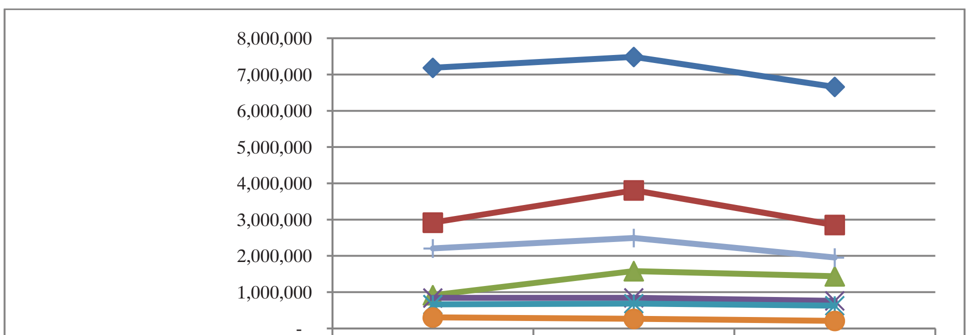
- It is noted that a material portion of the College's tuition and fees are funded via Pell Grants to students. The College relies on revenues from tuition and fees for non-payroll related expenses of the College, including equipment renewals, replacements and maintenance.

- Appropriation received from the CNMI Government constitutes 23.11% and 24.23% of the College's total revenues. The College relies on the CNMI appropriation to augment the operating revenues provide cash flows for the College's operating expenses. Appropriations from the CNMI for fiscal year 2012 decreased by $636,422 or 14.51%. In anticipation of such decrease, the College planned for and adjusted its finances to absorb the impact and maintain its financial stability.

- The investment income increased significantly from prior year primarily due to the increase in fair values of the investment corpus. This however, are unrealized gains and is still subject to the market volatility. The College's investments are managed by NMC Foundation governed by College's Investment policies which limits the risks exposure of the investments.

Expenses by Natural Classification

	2012			2011		
		Amount	% of Total		Amount	% of Total
Salaries	$	6,660,276	45.93	$	7,485,565	43.63
Services		2,851,619	19.67		3,807,783	22.19
Benefits		1,437,329	9.91		1,580,413	9.21
Insurance, utilities and rents		760,616	5.25		842,780	4.91
Depreciation		629,117	4.34		683,174	3.98
Supplies		207,950	1.43		264,156	1.54
Miscellaneous		1,954,097	13.48		2,493,446	14.53
	$	14,501,004	100.00	$	17,157,317	100.00



	2010	2011	2012
Salaries	7,186,293	7,485,565	6,660,276
Services	2,917,293	3,807,783	2,851,619
Benefits	916,676	1,580,413	1,437,329
Insurance, utilities and rents	840,330	842,780	760,616
Depreciation	659,187	683,174	629,117
Supplies	302,279	264,156	207,950
Miscellaneous	2,203,675	2,493,446	1,954,097

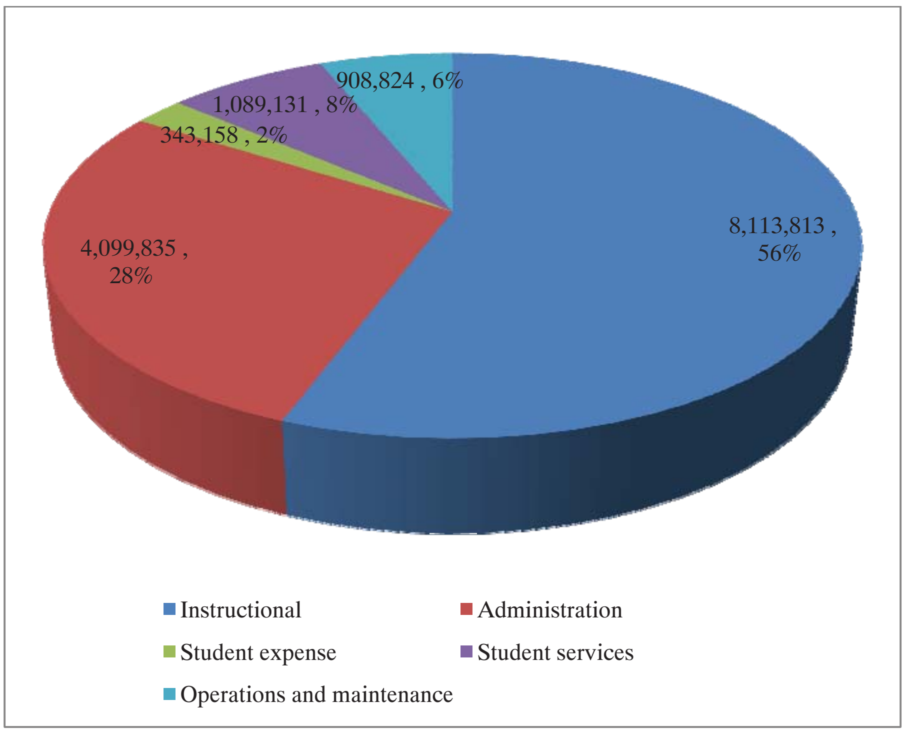
- Salaries constitute 45.93% and 43.63% of the College's total expenditures for fiscal years 2012 and 2011, respectively. Total salaries expenses in 2012 decreased by $825,289 or 11.03%. This is due to the phase out of the salaried positions funded under the America Recover Reinvestment Act (ARRA) State Financial Stability Funds (SFSF).

- Expenses for Services, which includes professional service contracts, bookstore operating expenses and student expenses decreased by $956,164 or 25%. The College contract expenses decreased with the closing of major ARRA funding in 2011.

- A miscellaneous expense, which includes the travel, purchase of assets below $5,000 and other operating expenses decreased by $539,349 or 21.63% compared to 2011. This is also related to the ARRA funding in 2011 which provided funding for the College to purchase equipment.

- There were no significant changes in the other expense categories.

Expenses by Function



The graph above shows how the College is spending based on its function. The College spends 56% or its operating expenses on Instructional expenses. This includes salaries and benefits and professional contracts among others.

PROPERTY, PLANT AND EQUIPMENT

At September 30, 2012, 2011 and 2010, the College had $5,492,298, $5,626,176 and $5,955,876 respectively, invested in capital assets, net of accumulated depreciation, where applicable. See note 5 to the financial statements for more information on the College's property, plant and equipment.

LONG-TERM DEBT

The College did not engage in any long-term debt financing in fiscal year 2012. See note 6 to the financial statements for more information on the College's long-term obligations.

MAJOR ACCOMPLISHMENT AND CHALLENGES IN FISCAL YEAR 2012

To the best of its ability, the College continued to weather the CNMI's financial storm, iron out Accreditation issues, all while maintaining a conducive and quality learning environment for the students and stakeholders the College serves. As clearly evident in the financial statements, not unlike other agencies and instruments of the CNMI Government, the College was subject to reductions in funding from appropriations. In addition, the CNMI economic turmoil continues to 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. In 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, the College made major efforts to continue to stabilize its financial resources. Through financial planning, 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 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.

The College continued to be prudent in its expenditure patterns and management of cash flows in fiscal year 2012 and as a result, complied again with its Board of Regents policy and accreditation standards relative to fiscal stability.

As mentioned earlier, NMC's net assets increase as of September 30, 2012 increase by $1,775,725 or 10.41%, despite the decrease in operating revenues by $2,067,964 or 15.00% compared to fiscal 2011, because of NMC's notable effort to reduce its operating expenses. Operating expenses in fiscal year 2012 is $2,656,313 or 15.48% lower that prior year. A detailed analysis of revenues and expenses follows this section. This will assist the College in continuing to remain financially sound during these rather tumultuous economic times for the CNMI.

The College credits prudent financial planning and a collaborative spirit amongst its employees, students, administrators and board for the College's financial stability and successful financial year in FY 2012. The College faced the challenge of the expiration of three million dollars in federal funds from the one-time funding from SFSF ARRA funds in FY 2011, rising utilities costs, as well as the reduction in appropriations support. Even with such challenges, the College remained financially sound by reducing its costs by over thirty percent, reducing and reconfiguring how the College uses and consumes its utilities, and maximizing upon its revenue generation opportunities.

The College continued to see an increase of resident 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 continues to place an average of over ninety percent (>90%) of its graduates into the workforce. The remaining programs at the College continue to place an average of of over seventy percent (>70%) of its graduates into the workforce. Most students who graduate from NMC 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. A few type of technical assistance provide include grant writing and grant management services, development of the 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 the upcoming Fiscal Year 2013, the College continues to be prudent in its expenditure patterns and management of cash flows. Monitoring utility usages, cutting back on hours of Utility usage, reducing obligations through methods identified in the College's Form 3 Resource Allocation processes, increase minimum number of students in classes, increase classroom capacity and seating capacities, and continuously seeking improved and diversified revenue generating opportunities are being implemented and/or explored.

Please see the College's official fiscal year 2012 Annual Report for more information.

ECONOMIC OUTLOOK

There are signs that the CNMI's economic outlook will improve very slightly in the upcoming year, however, government funding continues to be bleak. In fiscal year 2012, governmental budgets continued to face additional reductions from that of fiscal year 2011 across the board. This is expected to level off in fiscal year 2013. Signs are positive that austerity measures and work reduction hours will be eliminated in the Central CNMI Government for FY 2013. Tourism, the only remaining industries with a major role in driving the CNMI's economy, is forecasted to improve as chartered flights from Russia, China, and Korea continues to rise. The College continues to make efforts to help the CNMI by restructuring the U.S. Apprenticeship program and housing such under the Dean of Administration and Resource Development and building it workforce development programs to be more in tune with the needs of the dynamic changes the CNMI's economy has been going through.

While several efforts are underway to look at alternative industries to revive the CNMI's economy, appreciable growth is anticipated in the foreseeable future. The College's budget under appropriations is expected to increase for fiscal year 2013 as well as funding to be allocated from Commonwealth Workers (CW) Fee of $500,000 that is expected to help the College financially. The College will continue to make necessary cuts and take internal measures to ensure that this will not result in the College operating in a deficit. 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, 2012 is set forth in the report on the audit of the College's financial statements which is dated June 3, 2013. The Discussion and Analysis explains the major factors impacting the 2012 financial statements. If you have questions about the 2011 or 2010 reports, or need additional information, please contact the Dean of Administration at the Northern Marianas College, P.O. Box 501250, Saipan, MP 96950, or email dattao@nmcnet.edu.

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

Statements of Net Assets
September 30, 2012 and 2011

	2012	2011 Restated
Assets:		
Current assets:		
Cash and cash equivalents	$ 5,504,633	$ 5,247,213
Time certificate of deposit	693,748	692,789
Accounts receivable and unbilled charges, net	1,434,157	1,014,868
Due from grantor agencies	881,531	1,508,345
Due from CNMI	177,562	317,096
Inventories	598,208	457,471
Prepayments	6,482	29,638
Total current assets	9,296,321	9,267,420
Noncurrent assets:		
Investments	6,164,705	5,351,055
Property, plant and equipment, net	5,492,298	5,626,176
Total noncurrent assets	11,657,003	10,977,231
Total assets	$ 20,953,324	$ 20,244,651
Liabilities:		
Current liabilities:		
Accounts payable	$ 560,301	$ 767,013
Accrued salaries and benefit payable	275,296	470,548
Current portion of compensated absences	380,949	407,009
Deferred revenues	694,647	1,265,271
Total current liabilities	1,911,193	2,909,841
Noncurrent liabilities:		
Compensated absences, net of current portion	202,448	218,592
Total liabilities	2,113,641	3,128,433
Commitments and contingencies		
Net assets:		
Invested in capital assets	5,492,298	5,626,176
Restricted net assets:		
Nonexpendable	3,200,000	3,200,000
Expendable	2,964,705	2,151,055
Unrestricted	7,182,680	6,138,987
Total net assets	18,839,683	17,116,218
Total liabilities and net assets	$ 20,953,324	$ 20,244,651

See accompanying notes to financial statements.

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

Statements of Revenues, Expenses and Changes in Net Assets
For the Years Ended September 30, 2012 and 2011

	2012	2011 Restated
Operating revenues:		
U.S Federal grants	$ 9,472,580	$ 11,872,542
Tuitions and fees (net of scholarship discounts and allowances of $3,149,009 and $2,815,895 in 2012 and 2011 respectively)	1,385,230	1,191,403
Private gifts, grants and donations - restricted	15,555	13,300
Others (net of bookstore cost of sales of $392,992 in 2012 and $445,004 in 2011)	788,767	705,111
Net operating revenues	11,662,132	13,782,356
Expenses:		
Salaries	6,660,276	7,485,565
Services	2,851,619	3,807,783
Benefits	1,437,329	1,580,413
Insurance, utilities and rents	760,616	842,780
Depreciation	629,117	683,174
Supplies	207,950	264,156
Miscellaneous	1,954,097	2,493,446
Total operating expenses	14,501,004	17,157,317
Operating loss	(2,838,872)	(3,374,961)
Nonoperating revenues:		
CNMI Appropriations	3,748,689	4,385,111
Investment income	58,450	99,277
Realized gain on investments	353,670	403,454
Unrealized gain (loss) on investments	401,528	(573,435)
Total nonoperating revenues	4,562,337	4,314,407
Increase in net assets	1,723,465	939,446
Net assets, beginning of the year (restated)	17,116,218	16,176,772
Net assets, end of the year	$ 18,839,683	$ 17,116,218

See accompanying notes to financial statements.

NORTHERN MARIANAS COLLEGE

(A Component Unit of the CNMI Government)

Statements of Cash Flows
For the Years Ended September 30, 2012 and 2011

	2012	2011
Cash flows from operating activities:		
Student tuition and fees	$ 965,941	$ 2,039,780
U.S Federal grants	10,099,394	11,689,861
Other reciepts	804,322	1,310,375
Payments to employees	(6,897,732)	(8,958,062)
Payments to suppliers	(8,106,528)	(8,126,121)
Net cash used in operating activities	(3,134,603)	(2,044,167)
Cash flows from investing activities		
Proceed from sale and maturities of investment securities	2,138,710	5,739,982
Net interest and dividend	58,450	99,277
Purchase of investment securities	(2,197,162)	(5,839,259)
Purchase of time certificate of deposit	(959)	(2,434)
Net cash used in investing activities	(961)	(2,434)
Cash flows from noncapital financing activities:		
CNMI Appropriations	3,888,223	4,481,935
Net cash provided by noncapital financing activities	3,888,223	4,481,935
Cash flows capital and related financing activities:		
Purchases of property, plant and equipment	(495,239)	(353,474)
Net cash used in capital and related financing activities	(495,239)	(353,474)
Net increase in cash and cash equivalents	257,420	2,081,860
Cash and cash equivalents, beginning of year	5,247,213	3,165,353
Cash and cash equivalents, end of year	$ 5,504,633	$ 5,247,213
Reconciliation of operating loss to net cash used in operatung actvities		
Operating loss	$ (2,838,872)	$ (3,374,961)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	629,117	683,174
Changes in assets and liabilities		
Accounts receivable and unbilled charges, net	(419,289)	1,016,364
Due from grantor agencies	626,814	(182,681)
Inventories	(140,737)	(128,132)
Prepayments	23,156	(24,124)
Accounts payable	(206,712)	(120,696)
Accrued salaries and benefit payable	(195,252)	98,163
Current portion of compensated absences	(42,204)	9,753
Deferred revenues	(570,624)	(21,027)
Net cash used in operating activities	$ (3,134,603)	$ (2,044,167)

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 Presentation

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

Pursuant to the provisions of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as amended by GASB Statement No. 35, *Basic Financial Statements - and Management's Discussion and Analysis – for Public Colleges and Universities,* the full scope of the College's activities is considered to be a single business-type activity and accordingly, is reported within a single column in the basic financial statements.

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

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.

(2) Summary of Significant Accounting Policies, Continued

Basis of Accounting, Continued

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

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

Budgetary Comparison

Under GASBS No. 34, budgetary comparison information is required to be presented for the general fund and each major special revenue fund with a legally adopted budget. The Authority is not legally required to adopt a budget for the general fund. Therefore, budget comparison information is not included in the Authority’s financial statements.

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, 2012 and 2011, cash and cash equivalents and time certificate of deposit were $6,198,381 and $5,940,002, respectively, and the corresponding bank balances were $6,387,564.12 and $6,368,494, respectively, which are maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2012 and 2011, 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.

Accounts Receivable and Allowance for Doubtful Accounts

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

Accounts Receivable and Allowance for Doubtful Accounts, Continued

The allowance for doubtful accounts is stated at an amount that management believes will be adequate to absorb possible losses on accounts receivable that may become uncollectible based on evaluations of the collectability of these accounts and prior collection experience. The allowance is established through a charge to bad 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, 2012 and 2011. 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.

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, 2012 and 2011, there were no investments in any one issuer that exceeded five percent (5%) of total investments.

(2) Summary of Significant Accounting Policies, Continued

Investments, Continued

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.

- 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.

(2) Summary of Significant Accounting Policies, Continued

Investments, Continued

U.S. Fixed Income, Continued:

- 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.

Cash and Cash Equivalents:

- Cash equivalent reserves shall consist of cash instruments having a quality rating of Standard & Poor's A-1, Moody's P-1, or their equivalent. U.S. Treasury and Agency securities, Bankers Acceptances, Certificates of Deposit, and Collateralized Repurchase Agreements are also acceptable investment vehicles. Custodial Sweep Accounts must be, in the judgment of the Investment Managers, of credit quality equal or superior to the standards described above.
- In the case of Certificates of Deposit, they must be issued by FDIC insured institutions. Deposits in institutions with less than $10,000,000 in assets may not be made in excess of $100,000 (or prevailing FDIC insurance limit), unless the Deposit is fully collateralized by U.S. Treasury Securities.
- No single issue shall have a maturity of greater than two (2) years.
- Custodial Sweep Account portfolios must have an average maturity of less than one (1) year.

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

(2) Summary of Significant Accounting Policies, Continued

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.

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, 2012 and 2011, the College recorded accrued annual leave in the amount of $583,397 and $625,601, respectively, which is included within the statements of net assets as compensated absences.

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.

(2) Summary of Significant Accounting Policies, Continued

Net Assets, Continued

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.

When an expense is incurred that can be paid using either restricted or unrestricted resources, the College's policy is to first apply the expense towards restricted resources, and then toward unrestricted resources.

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.

(2) Summary of Significant Accounting Policies, Continued

Retirement Plan

The College contributes to the Northern Mariana Islands Retirement Fund's (the Fund) defined benefit plan (DB Plan) 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.

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, 16-2,16-36, 17-82 and 18-02.

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, 2010 is 72.7215% of covered payroll based on an actuarial valuation as of October 1, 2010 issued in October 2012. The established statutory rate at September 30, 2012 and 2011 is 60.8686% and 37.3909%, respectively, of covered payroll.

(2) Summary of Significant Accounting Policies, Continued

Retirement Plan, Continued

The College contribution to the Fund is at 30% of covered payroll. This is based on the Court Order, requiring the CNMI and Autonomous Agencies to remit contributions to the Fund.

Defined Contribution Plan (DC Plan)

On June 16, 2006, Public Law No. 15-13 was enacted which created the DC Plan, a multiemployer pension plan and is the single retirement program for all employees whose first time CNMI government employment commences on or after January 1, 2007. Each member of the DC Plan is required to contribute to the member's individual account an amount equal to 10% of the member's compensation. The College is required to contribute to each member's individual account an amount equal to 4% of the member's compensation. The DC Plan by its nature is fully funded on a current basis from employer and member contributions. Members of the DC Plan, who have completed five years of government service, have a vested balance of 100% of both member and employer contribution plus any earnings thereon. With the passage of Public Law 17-82 in September 11, 201, the membership to the DC Plan became voluntary.

The College's contributions to the Fund for the years ended September 30, 2012, 2011 and 2010 were $1,054,635, $1,202,149 and $584,329, 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 $7,479,253 and $6,345,651 as of September 30, 2012 and 2011, 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.

(2) Summary of Significant Accounting Policies, Continued

Adopted Pronouncements

During fiscal year 2012, the College implemented the following GASB Statements:

GASB 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.

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.

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

Recent Pronouncements

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.

(2) Summary of Significant Accounting Policies, Continued

Recent Pronouncements

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.

In March 2012, GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities,* which establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The provisions of this Statement are effective for financial statements for periods beginning after December 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 March 2012, GASB issued Statement No. 66, *Technical Corrections—2012—an amendment of GASB Statements No. 10 and No. 62*. This Statement amends Statement No. 10, Accounting and Financial Reporting for Risk Financing and Related Insurance Issues, by removing the provision that limits fund-based reporting of an entity's risk financing activities to the general fund and the internal service fund type. This Statement also amends Statement 62 by modifying the specific guidance on accounting for (1) operating lease payments that vary from a straight-line basis, (2) the difference between the initial investment (purchase price) and the principal amount of a purchased loan or group of loans, and (3) servicing fees related to mortgage loans that are sold when the stated service fee rate differs significantly from a current (normal) servicing fee rate. These changes clarify how to apply Statement No. 13, Accounting for Operating Leases with Scheduled Rent Increases, and result in guidance that is consistent with the requirements in Statement No. 48, Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues, respectively. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012. 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

Recent Pronouncements

In June 2012, GASB issued Statement No. 67, *Financial Reporting for Pension Plans—an amendment of GASB Statement No. 25,* and GASB Statement No 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*. The primary objective of these Statements is to improve accounting and financial reporting by state and local governments for pensions. These statements are effected effective for financial statements for fiscal years beginning after June 15, 2013 and 2014, respectively. Management has not assessed the effect of this pronouncements on the financial statements of the College.

(3) Accounts Receivable and Unbilled Charges

Summarized below is the College's accounts receivable and unbilled charges as of September 30, 2012 and 2011:

	2012	2011
Student tuition and fees	$ 2,988,310	$ 2,481,872
Auxiliary enterprises	145,153	278,909
Other activities	227,650	183,466
Total	3,361,113	2,944,247
Allowance for doubtful accounts	(1,926,956)	(1,929,379)
Net Receivable and unbilled charges	$ 1,434,157	$ 1,014,868

(4) Investments

As of September 30, 2012 and 2011, the College's investments at fair value are as follows:

	2012	2011
Fixed income securities:		
Government and Government-Sponsored Enterprise (GSE) bonds	$ 1,003,829	$ 1,183,042
Corporate bonds	888,081	700,554
Mortgage and asset backed securities	-	114,940
International bonds	-	73,882
Total fixed income	1,891,910	2,072,418
Other investments:		
Domestic equities	2,937,286	2,054,529
International equities	-	966,422
Cash and cash equivalents	1,335,509	257,686
Total other investments	4,272,795	3,278,637
	$ 6,164,705	$ 5,351,055

(4) Investments, Continued

As of September 30, 2012 and 2011, the College's fixed income securities had the following maturities:

	2012					
		Investment Maturities (In Years)				
Investment type	Fair Value	Less than 1	1 - 5	6 - 10	More than 10	Rating
Government and GSE bonds	$ 810,398	$ -	$ 556,294	$ 178,412	$ 75,692	AAA
Government and GSE bonds	193,431	-	66,042	-	127,389	No rating
Corporate bonds	44,566	23,351	21,215	-	-	AA+
Corporate bonds	85,869	-	-	-	85,869	AA
Corporate bonds	51,076	23,951	-	27,125	-	AA-
Corporate bonds	102,918	-	26,060	22,650	54,208	A+
Corporate bonds	43,536	-	-	20,247	23,289	A
Corporate bonds	100,727	-	72,260	28,467	-	A-
Corporate bonds	51,790	-	26,110	25,680	-	BBB+
Corporate bonds	221,943	37,154	52,591	50,498	81,700	BBB
Corporate bonds	17,380	-	8,580	8,800	-	BBB-
Corporate bonds	20,433	-	-	20,433	-	B+
Corporate bonds	8,600	-	8,600	-	-	B
Corporate bonds	18,990	-	-	18,990	-	B-
Corporate bonds	19,120	-	9,220	9,900	-	BB+
Corporate bonds	35,830	-	18,180	17,650	-	BB
Corporate bonds	55,178	-	37,488	17,690	-	BB-
Corporate bonds	10,125	-	10,125	-	-	CCC
	$1,891,910	$ 84,456	$ 912,765	$ 446,542	$ 448,147	

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

(5) Property, Plant and Equipment

Summarized below is the College's investment in property, plant and equipment and changes at September 30, 2012 and 2011:

	Estimated Useful Lives	Balance October 1, 2011	Additions	Deletions	Balance September 30, 2012
Buildings and improvements	5 - 30 years	$ 9,509,341	$ -	$ -	$ 9,509,341
Furniture and equipment	2 - 5 years	1,118,665	11,952	-	1,130,617
Vehicles	5 years	811,095	137,753	-	948,848
Computers	3 - 5 years	1,033,096	345,534	-	1,378,630
Total depreciable assets		12,472,197	495,239	-	12,967,436
Accumulated depreciation		(7,959,397)	(629,117)	-	(8,588,514)
Depreciable assets, net		4,512,800	(133,878)	-	4,378,922
Land		1,113,376	-	-	1,113,376
Net property, plant and equipment		$ 5,626,176	$ (133,878)	$ -	$ 5,492,298

	Estimated Useful Lives	Balance October 1, 2010	Additions	Deletions	Balance September 30, 2011
Buildings and improvements	5 - 30 years	$ 9,499,416	$ 9,925	$ -	$ 9,509,341
Furniture and equipment	2 - 5 years	913,049	338,169	(132,553)	1,118,665
Vehicles	5 years	834,002	-	(22,907)	811,095
Computers	3 - 5 years	1,216,289	5,380	(188,573)	1,033,096
Total depreciable assets		12,462,756	353,474	(344,033)	12,472,197
Accumulated depreciation		(7,620,256)	(683,174)	344,033	(7,959,397)
Depreciable assets, net		4,842,500	(329,700)	-	4,512,800
Land		1,113,376	-	-	1,113,376
Net property, plant and equipment		$ 5,955,876	$ (329,700)	$ -	$ 5,626,176

(6) Long-Term Obligation

Changes in long-term obligations for the years ended September 30, 2012 and 2011, are as follows:

	2012	2011
Compensated absences		
Balance, beginning	$ 625,601	$ 615,848
Additions	33,076	9,753
Reductions	(75,280)	-
Balance, end	583,397	625,601
Due within one year	(380,949)	(407,009)
Noncurrent	$ 202,448	$ 218,592

(7) 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, 2012 and 2011, the College recognized $3,748,689 and $4,385,111, respectively, in appropriations from the CNMI Government.

At September 30, 2012 and 2011, amounts payable for utility expense to the Commonwealth Utilities Corporation (CUC, a component unit of the CNMI) amounted to $49,345 and $108,709, respectively, which are included in accounts payable in the accompanying statements of net assets. During the years ended September 30, 2012 and 2011, total utility expense to CUC amounted to $618,456 and $670,254, respectively.

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

(8) 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 2012 and 2011. The following table shows natural classifications with functional classifications:

	2012							
	Salaries	Services	Benefits	Insurance Utilities and Rent	Depreciation	Supplies	Miscellaneous	Total
Instructional	$ 6,564,659	$ 77,849	$ 1,437,329	$ -	$ -	$ 19,060	$ 15,216	$ 8,114,113
Administration	-	1,226,242	-	760,616	-	174,096	1,938,881	4,099,835
Student expense	-	343,158	-	-	-		-	343,158
Student services	95,617	978,720	-	-	-	14,794	-	1,089,131
Operations and maintenance	-	225,650	-	-	629,117	-	-	854,767
	$ 6,660,276	$ 2,851,619	$ 1,437,329	$ 760,616	$ 629,117	$ 207,950	$ 1,954,097	$14,501,004

	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	-	1,724,355	-	-	-	-	-	1,724,355
Student services	57,341	1,039,599	-	-	-	-	-	1,096,940
Operations and maintenance	-	396,723	-	-	683,174	-	-	1,079,897
	$ 7,485,565	$ 3,807,783	$ 1,580,413	$ 842,780	$ 683,174	$ 264,156	$ 2,493,446	$17,157,317

(9) Commitments

The accrual basis of accounting provides that expenses include only amounts associated with goods and services received and liabilities include only the unpaid amounts associated with such expenses. Outstanding purchase orders and purchase commitments are not reported in the financial statements for the years ended September 30, 2012 and 2011.

(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.

(11) Contingencies, Continued

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 $139,682 relating to prior fiscal years have been set forth in the College's Single Audit Report for the year ended September 30, 2012. 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, 2012 and 2011 is $1,243,801 and $1,393,678, respectively.

(12) 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.

(13) Restatement

As a result of the physical inventory of the College's property, plant and equipment during 2012, the College discovered that there were assets previously removed from the asset listing that are still used by the College. Furthermore, there were assets with original cost of less than $5,000 that are included in the asset listing. The asset listing was updated to reflect the physical inventory of the property, plant and equipment.

Accordingly, the College restated its financial statements for the years ended September 30, 2011. The effect of the restatement was to increase the College's net assets invested in capital assets and property, plant and equipment for 2011 by $52,259.

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

Schedule of Expenditures of Federal Awards
Year Ended September 30, 2012

Federal Grantor/Program Title	CFDA Number	Expenditures
Direct Programs		
Student Financial Assistance Programs:		
Federal Pell Grant Program	84.063	$ 3,553,960
Federal Supplemental Educational Opportunity Grants	84.007	69,111
Federal Work-Study Program	84.033	42,179
Sub-total Student Financial Assistance Programs		3,665,250
College Access Challenge Grant Program	84.378	1,660,811
Adult Education - Basic Grants to States	84.002	556,981
Trio-Upward Bound	84.047	397,896
Sub-total U.S. Department of Education		6,280,938
U.S. Department of Agriculture		
Payment to Agricultural Experiment Stations under the Hatch Act	10.203	562,843
Cooperative Extension Services	10.500	1,096,585
Sub-total U.S. Department of Agriculture		1,659,428
U.S. Department of Commerce		
Learn and Serve America-Higher Education	94.005	4,829
Sub-total U.S. Department of Commerce		4,829
Sub-total Direct Programs		7,945,195
Indirect Programs		
U.S. Department of Education		
State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act	84.394	425,659
Sub-total U.S. Department of Education		425,659
U.S. Department of the Interior		
Economic, Social, and Political Development of the Territories	15.875	399,886
Sub-total U.S. Department of the Interior		$ 399,886

NORTHERN MARIANAS COLLEGE

See accompanying notes to Schedule of Expenditure of Federal Awards.

(A Component Unit of the CNMI Government)

Schedule of Expenditures of Federal Awards
Year Ended September 30, 2012

Federal Grantor/Program Title	CFDA Number	Expenditures
Indirect Programs, Continued		
U.S. Department of Agriculture		
Agriculture and Food Research Initiative	10.310	$ 185,709
Resident Instruction Grants for Insular Area Activities	10.308	178,361
Cooperative Extension Service:		
Implementation of Western Sustainable Agricultural Research and Educational Program Professional Development Plan	10.500	25,519
Technology Transfer of Alternative Plant	10.500	21,762
Grants for Agricultural Research, Special Research Grants - Agricultural Development in the American Pacific	10.200	20,688
Integrated Programs	10.303	12,042
Specialty Crop Research Initiative	10.309	3,674
Sustainable Agriculture Research and Education	10.215	25
Sub-total U.S. Department of Agriculture		447,780
National Science Foundation		
Education and Human Resources	47.076	36,449
Sub-total National Science Foundation		36,449
U.S. Department of Health and Human Services		
University Centers for Excellence in Developmental Disabilities Education, Research, and Service (B)	93.632	137,011
Model State-Supported Area Health Education Centers	93.107	80,600
Sub-total U.S. Department of Health and Human Services		217,611
Sub-total Indirect Programs		1,527,385
Total Federal Programs		$ 9,472,580

See accompanying notes to Schedule of Expenditure of Federal Awards.

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

Notes to the Schedule of Expenditures of Federal Awards
Year Ended September 30, 2012

(1) Scope of Review

The Northern Marianas College (the College) was created as an autonomous public agency of the Commonwealth of the Northern Mariana Islands (CNMI) pursuant to Title 3, Division 1, Chapter 3, Article 1 of the Commonwealth Code. The College's existence is to be perpetual and it shall have all the rights and privileges of a corporation. The purpose of the College is to provide secondary educational opportunities to the people of the CNMI. The U.S. Department of the Interior has been designated as the College's cognizant agency.

Programs Subject to OMB A-133

The Schedule of Expenditures of Federal Awards presents each Federal program related to the U.S. Department of Education, the U.S. Department of Agriculture, the U.S. Department of Health and Human Services, the U.S. Department of Commerce, the U.S. Department of the Interior, the U.S. Department of Transportation and the National Science Foundation which are subject to OMB A-133.

(2) Summary of Significant Accounting Policies

Basis of Accounting

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the College and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements. All program award amounts represent the total allotment or grant award received. All expenses and capital outlays are reported as expenditures.

Cost Allocation

The College is currently allocating administrative costs to program awards based upon criteria prescribed in those program awards.

(3) Indirect Cost Allocation

For fiscal year 2012, the College has an approved indirect cost rate of 19.90% for all grant programs, except for U.S. Department of Education programs, which is 8%.