

**NORTHERN MARIANAS TRADES INSTITUTE  
(A NONPROFIT ORGANIZATION)**

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**INDEPENDENT AUDITOR'S REPORT  
AND  
FINANCIAL STATEMENTS**

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**Years Ended December 31, 2017 and 2016**

**NORTHERN MARIANAS TRADES INSTITUTE**  
(A Nonprofit Organization)

Financial Statements

Years Ended December 31, 2017 and 2016

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**BURGER • COMER • MAGLIARI**  
**CERTIFIED PUBLIC ACCOUNTANTS**

**INDEPENDENT AUDITOR'S REPORT**

To the Board of Directors  
Northern Marianas Trades Institute

We have audited the accompanying financial statements of the Northern Marianas Trades Institute (NMTI), a nonprofit organization, which comprise the statements of financial position as of December 31, 2017 and 2016, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

**Management's Responsibility for the Financial Statements**

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

**Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the NMTI as of December 31, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of functional expenses on page 13 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.



Saipan, MP  
January 17, 2019

**NORTHERN MARIANAS TRADES INSTITUTE**  
(A NONPROFIT ORGANIZATION)

Statements of Financial Position  
December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
	<u>Assets</u>	
Current assets:		
Cash	\$ 196,710	291,761
Other receivables	6,837	5,178
	<hr/>	<hr/>
Total current assets	203,547	296,939
Capital assets, net	460,475	338,578
Refundable deposit	6,219	6,219
	<hr/>	<hr/>
Total assets	<u>\$ 670,241</u>	<u>641,736</u>
	<u>Liabilities and Net Assets</u>	
Current liabilities:		
Accounts payable	63,337	64,393
Accrued payroll liabilities	12,090	6,985
Accrued interest payable	-	6,018
Note payable	-	19,699
	<hr/>	<hr/>
Total current liabilities	75,427	97,095
Net assets:		
Without donor restrictions	385,269	411,018
With donor restrictions	209,545	133,623
	<hr/>	<hr/>
Total net assets	594,814	544,641
Total liabilities and net assets	<u>\$ 670,241</u>	<u>641,736</u>

See accompanying notes to financial statements.

**NORTHERN MARIANAS TRADES INSTITUTE**  
(A NONPROFIT ORGANIZATION)

Statements of Activities  
For the Years Ended December 31, 2017 and 2016

	2017			2016		
	Net Assets			Net Assets		
	Without Donor Restriction	With Donor Restriction	Total	Without Donor Restriction	With Donor Restriction	Total
Revenues and other support:						
CNMI Appropriation	\$ -	75,000	75,000	-	161,000	161,000
Tuition and fees	67,813	-	67,813	36,076	-	36,076
Government support	-	1,139,376	1,139,376	-	1,144,379	1,144,379
Fundraising, net	28,900	-	28,900	16,596	-	16,596
Other revenues and support	69,166	-	69,166	124,596	-	124,596
In-kind contributions	4,560	-	4,560	2,665	-	2,665
Net assets released from restrictions:						
Satisfaction of program restrictions	<u>1,138,454</u>	<u>(1,138,454)</u>	<u>-</u>	<u>1,180,587</u>	<u>(1,180,587)</u>	<u>-</u>
Total revenues and other support	<u>1,308,893</u>	<u>75,922</u>	<u>1,384,815</u>	<u>1,360,520</u>	<u>124,792</u>	<u>1,485,312</u>
Expenses:						
Program services:						
Instruction	918,534	-	918,534	777,144	-	777,144
Supporting services:						
General and administration	332,282	-	332,282	170,125	-	170,125
Operation and maintenance of facilities	51,699	-	51,699	188,601	-	188,601
Depreciation	27,567	-	27,567	21,127	-	21,127
In-kind contributions	<u>4,560</u>	<u>-</u>	<u>4,560</u>	<u>2,665</u>	<u>-</u>	<u>2,665</u>
Total expenses	<u>1,334,642</u>	<u>-</u>	<u>1,334,642</u>	<u>1,159,662</u>	<u>-</u>	<u>1,159,662</u>
Change in net assets	(25,749)	75,922	50,173	200,858	124,792	325,650
Net assets at beginning of year	<u>411,018</u>	<u>133,623</u>	<u>544,641</u>	<u>210,160</u>	<u>8,831</u>	<u>218,991</u>
Net assets at end of year	<u>\$ 385,269</u>	<u>209,545</u>	<u>594,814</u>	<u>411,018</u>	<u>133,623</u>	<u>544,641</u>

See accompanying notes to financial statements.

**NORTHERN MARIANAS TRADES INSTITUTE**  
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Statements of Cash Flows  
For the Years Ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Operations:		
Contributions received	\$ 1,214,376	1,305,379
Collections of general receivables	72,373	32,769
Cash received other revenues and support	98,066	141,192
Expenses paid	<u>(1,310,703)</u>	<u>(1,103,646)</u>
Net cash provided by operating activities	<u>74,112</u>	<u>375,694</u>
Cash flows from investing activities:		
Acquisition of property and equipment	<u>(149,464)</u>	<u>(151,238)</u>
Net cash used in investing activities	<u>(149,464)</u>	<u>(151,238)</u>
Cash flows from financing activities:		
Payment of loan principal	<u>(19,699)</u>	<u>-</u>
Net cash used in financing activities	<u>(19,699)</u>	<u>-</u>
Net increase (decrease) in cash	(95,051)	224,456
Cash, beginning of year	<u>291,761</u>	<u>67,305</u>
Cash, end of year	<u>\$ 196,710</u>	<u>291,761</u>
Reconciliation of changes in net assets to net cash provided by operating activities:		
Change in net assets	\$ 50,173	325,650
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	27,567	21,127
(Increase) decrease in operating assets:		
Advances to suppliers	-	1,913
Other receivables	(1,659)	(3,307)
Increase (decrease) in operating liabilities:		
Accounts payable	(1,056)	38,479
Accrued payroll liabilities	5,105	(9,000)
Accrued interest payable	<u>(6,018)</u>	<u>832</u>
Net cash provided by operating activities	<u>\$ 74,112</u>	<u>375,694</u>

See accompanying notes to financial statements.

**NORTHERN MARIANAS TRADES INSTITUTE**  
(A NONPROFIT ORGANIZATION)

Notes to Financial Statements  
December 31, 2017 and 2016

(1) Nature of Organization

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

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

(2) Summary of Significant Accounting Policies

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

Financial Statement Presentation

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

- Net Assets without donor restriction are those assets presently available for use by the Organization over which the Board of Directors has discretionary control in carrying out the operations of the Organization.
- Net Assets with donor restriction are those assets which are subject to donor-imposed stipulations that may or will be met, either by actions of the Organization and/or the passage of time. When a donor restriction expires or is satisfied, restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as assets released from restrictions.

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

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



**NORTHERN MARIANAS TRADES INSTITUTE**  
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Notes to Financial Statements  
December 31, 2017 and 2016

(2) Summary of Significant Accounting Policies, Continued

Method of Accounting

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

Comparative Financial Information

The financial statements include certain prior-year summarized comparative information in total but not by net asset class or functional expense categories. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended December 31, 2016, from which the summarized information was derived.

Cash and Cash Equivalents

For the purpose of the statement of financial position and cash flows, cash is defined as cash on hand, cash in savings and in checking accounts.

At December 31, 2017 and 2016, the carrying amounts of the Organization's cash were \$196,710 and \$291,761, respectively, and the corresponding bank balances were \$211,396 and \$291,561, respectively. The Organization maintains cash balances at one financial institution. Accounts at the institution are insured by the Federal Deposit Insurance Corporation (FDIC insured) up to \$250,000.

Property and Equipment

Property and equipment consists of office equipment, and is stated at cost, less accumulated depreciation. The Organization capitalizes all expenditures in excess of \$5,000 for property and equipment. Expenditures for major additions and improvements are capitalized. Minor replacements, maintenance and repairs are charged to expense as incurred. Donated assets are capitalized at the estimated fair market value at the time of receipt.

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

**NORTHERN MARIANAS TRADES INSTITUTE**  
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Notes to Financial Statements  
December 31, 2017 and 2016

(2) Summary of Significant Accounting Policies, Continued

Property and Equipment, Continued

The Organization reviews the carrying value of property and equipment for impairment whenever events and circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. In cases where undiscounted expected future cash flows are less than the carrying value, an impairment loss is recognized equal to an amount by which the carrying value exceeds the fair value of assets. The factors considered by management in performing this assessment include current operating results, trends, and prospects, as well as the effects of obsolescence, demand, competition, and other economic factors. There was no such event as of December 31, 2017 and the Organization did not recognize any impairment loss on property and equipment for the year then ended.

Contributions

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

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

Revenues

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

Fair Value of Financial Instruments

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

Advertising Costs

The Organization's policy is to expense advertising costs when incurred. For the years ended December 31, 2017 and 2016, advertising expense was \$2,989 and \$2,200, respectively.

**NORTHERN MARIANAS TRADES INSTITUTE**  
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Notes to Financial Statements  
December 31, 2017 and 2016

(2) Summary of Significant Accounting Policies, Continued

Income Taxes

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

Tax years that remain subject to examination by major tax jurisdictions for the Organization are 2016, 2015 and 2014. The Organization shall record as current period expense any interest that may be assessed on prior years' taxes. Any penalties that are assessed will be recorded separately from income tax expense.

Use of Estimates

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

Functional Allocation of Expenses

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

Compensated Absences

The Organization's employees are entitled to paid vacation, paid sick days, and personal days off, depending on job classification, length of service, and other factors. It is impracticable to estimate the amount of compensation for future absences, and accordingly, no liability has been recorded in the accompanying financial statements. The Organization's policy is to recognize the cost of compensated absences when actually paid to employees.

**NORTHERN MARIANAS TRADES INSTITUTE**  
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Notes to Financial Statements  
December 31, 2017 and 2016

(3) Capital Assets

The following is a summary of capital assets; at cost, less accumulated depreciation, at December 31, 2017 and 2016:

	<u>Estimated Useful Life</u>	<u>2017</u>	<u>2016</u>
Leasehold improvements	15 years	\$ 44,698	278,422
Shop equipment	5 years	36,191	36,191
Vehicles	5 years	75,977	44,977
Facilities and equipment	5 years	37,507	23,475
Office equipment	5 years	36,503	36,503
Furniture and fixtures	7 years	<u>9,784</u>	<u>7,984</u>
		240,660	427,552
Less accumulated depreciation		<u>(116,128)</u>	<u>(88,974)</u>
Subtotal		124,532	338,578
Construction in progress		<u>335,943</u>	<u>-</u>
Net Capital assets		<u>\$ 460,475</u>	<u>338,578</u>

**NORTHERN MARIANAS TRADES INSTITUTE**  
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Notes to Financial Statements  
December 31, 2017 and 2016

(4) Commitments

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

The lease agreement entered into in 2008 stated that during the 1<sup>st</sup> five-year period, the guaranteed minimum annual lease payment would be \$11,500 and during the 2<sup>nd</sup> to 5<sup>th</sup> five year periods, guaranteed annual minimum payments would be 2% of fair market value. The Organization paid \$5,940 under this lease for the years ended December 31, 2017 and 2018. The lease payments to be made from January 1, 2019 to December 31, 2023 are not yet known. Based on the original lease agreement, following is a schedule of expected future minimum rental payments:

<u>Years Ending</u> <u>December 31,</u>	
2018	\$ 5,940
2019	11,500
2020	11,500
2021	11,500
2022	11,500
2023	11,500
2024-2028	57,500
2029-2033	<u>57,500</u>
	<u>\$178,440</u>

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

At December 31, 2017 and 2016, the Organization had unpaid rent under this lease including interest of \$-0- and \$23,078, respectively, included in the accompanying Statement of Financial Position as a component of accounts payable.

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

Unpaid interest on this note amounted to \$-0- and \$6,018 as of December 31, 2017 and 2016, respectively.

On July 6, 2017, the CNMI Government paid \$48,000 on behalf of the Organization to the Department of Public Lands to settle outstanding unpaid balances.

**NORTHERN MARIANAS TRADES INSTITUTE**  
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Notes to Financial Statements  
December 31, 2017 and 2016

(5) Contingencies

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

(6) Concentrations

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

At December 31, 2017 and 2016, bank balances of \$211,396 and \$291,561, respectively, are deposited in a financial institution that is insured by the Federal Deposit Insurance Corporation. The Organization has not experienced any losses on such accounts.

(7) Economic Dependency

The Organization receives a substantial amount of its support from the local government and private companies. For the years ended December 31, 2017 and 2016, the Organization derived 86% and 91%, respectively, of its revenue from the CNMI government for the appropriation and sub-award of the Commonwealth Worker Funds. The Organization will face financial hardship should the level of support decrease.

(8) Subsequent Events

The Organization evaluated subsequent events through January 17, 2019, the date the financial statements were available to be issued. On October 25, 2018, Super Typhoon Yutu hit the island of Saipan causing major destruction island wide. The Organization's facilities were damaged during the typhoon. The Organization estimates it will cost \$2,000 for repairs.

**NORTHERN MARIANAS TRADES INSTITUTE  
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**SUPPLEMENTARY SCHEDULE**

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**Year Ended December 31, 2017**

**NORTHERN MARIANAS TRADE INSTITUTE**  
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Schedule of Functional Expenses  
For the Years Ended December 31, 2017 and 2016

	<u>Program Services</u>		<u>Supporting Services</u>		<u>Total</u>	
	<u>Instruction</u>	<u>General and administration</u>	<u>Operation and maintenance of facilities</u>	<u>2017</u>	<u>2016</u>	
Salaries and wages	\$ 596,446	211,657	41,449	849,552	690,044	
Supplies	97,102	12,919	-	110,021	108,942	
Professional fees	57,002	43,412	-	100,414	116,917	
Payroll taxes	45,628	16,192	3,171	64,991	52,789	
Repairs and maintenance	19,196	4,912	2,879	26,987	37,774	
Books and reference materials	24,763			24,763	27,304	
Insurance	19,196	-	-	19,196	14,075	
Fringe benefits	10,021	4,496	4,200	18,717	17,176	
Utilities	11,888	6,690	-	18,578	10,881	
Rent	-	14,882	-	14,882	5,749	
Gas and oil	11,224	3,073	-	14,297	12,244	
Recruitment	4,469	4,110	-	8,579	475	
Uniforms	7,111	-	-	7,111	554	
Travel	3,296	3,460	-	6,756	3,341	
Printing	5,071	64	-	5,135	3,415	
Communications	2,482	1,224	-	3,706	3,638	
Advertising	2,989	-	-	2,989	2,200	
Permits and licenses	650	1,945	-	2,595	5,065	
Board meetings	-	1,387	-	1,387	840	
Dues and subscriptions	-	823	-	823	420	
Bank charges	-	384	-	384	476	
Postage	-	340	-	340	209	
Interest	-	312	-	312	7,518	
Freight	-	-	-	-	12,938	
Penalties and fines	-	-	-	-	886	
	<u>\$ 918,534</u>	<u>332,282</u>	<u>51,699</u>	<u>1,302,515</u>	<u>1,135,870</u>	

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