

NORTHERN MARIANAS TRADES INSTITUTE
(A NONPROFIT ORGANIZATION)

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITOR'S REPORT

September 30, 2018 and December 31, 2017

NORTHERN MARIANAS TRADES INSTITUTE
(A Nonprofit Organization)

Financial Statements

For the Nine Months Ended September 30, 2018 and Year Ended December 31, 2017

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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 September 30, 2018 and December 31, 2017, and the related statements of activities and cash flows for the nine months and the year then ended, respectively, 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.

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the NMTI as of September 30, 2018 and December 31, 2017, and the changes in its net assets and its cash flows for the nine months and year then ended, respectively, 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
August 13, 2019

NORTHERN MARIANAS TRADES INSTITUTE
(A NONPROFIT ORGANIZATION)

Statements of Financial Position
September 30, 2018 and December 31, 2017

	<u>September 30</u> <u>2018</u>	<u>December 31</u> <u>2017</u>
<u>Assets</u>		
Current assets:		
Cash	\$ 135,858	196,710
Accounts receivable	33,580	1,763
Other receivables	<u>5,883</u>	<u>5,074</u>
Total current assets	175,321	203,547
Capital assets, net	528,265	460,475
Refundable deposit	<u>6,219</u>	<u>6,219</u>
Total assets	<u>\$ 709,805</u>	<u>670,241</u>
<u>Liabilities and Net Assets</u>		
Current liabilities:		
Accounts payable	96,249	63,337
Accrued payroll liabilities	<u>6,562</u>	<u>12,090</u>
Total current liabilities	<u>102,811</u>	<u>75,427</u>
Net assets:		
Without donor restrictions	603,343	385,269
With donor restrictions	<u>3,651</u>	<u>209,545</u>
Total net assets	<u>606,994</u>	<u>594,814</u>
Total liabilities and net assets	<u>\$ 709,805</u>	<u>670,241</u>

See accompanying notes to financial statements.

NORTHERN MARIANAS TRADES INSTITUTE
(A NONPROFIT ORGANIZATION)

Statements of Activities
Nine months ended September 30, 2018 and Year ended December 31, 2017

	September 30, 2018			December 31, 2017		
	Net Assets			Net Assets		
	Without Donor Restriction	With Donor Restriction	Total	Without Donor Restriction	With Donor Restriction	Total
Revenues and other support:						
CNMI appropriation	\$ -	625,000	625,000	-	75,000	75,000
Tuition and fees	114,320	-	114,320	67,813	-	67,813
Government support - CW fees	-	303,630	303,630	-	1,139,376	1,139,376
Fundraising	41,873	-	41,873	28,900	-	28,900
Other revenues and support	69,815	-	69,815	69,166	-	69,166
In-kind contributions	11,250	-	11,250	4,560	-	4,560
Net assets released from restrictions:						
Satisfaction of program restrictions	1,134,524	(1,134,524)	-	1,138,454	(1,138,454)	-
Total revenues and other support	1,371,782	(205,894)	1,165,888	1,308,893	75,922	1,384,815
Expenses:						
Program services:						
Instruction	784,476	-	784,476	918,534	-	918,534
Supporting services:						
General and administration	239,738	-	239,738	332,282	-	332,282
Operation and maintenance of facilities	39,809	-	39,809	51,699	-	51,699
Depreciation	64,768	-	64,768	27,567	-	27,567
Fundraising expenses	13,667	-	13,667	-	-	-
In-kind contributions	11,250	-	11,250	4,560	-	4,560
Total expenses	1,153,708	-	1,153,708	1,334,642	-	1,334,642
Change in net assets	218,074	(205,894)	12,180	(25,749)	75,922	50,173
Net assets at beginning of year	385,269	209,545	594,814	411,018	133,623	544,641
Net assets at end of year	\$ 603,343	3,651	606,994	385,269	209,545	594,814

See accompanying notes to financial statements.

NORTHERN MARIANAS TRADES INSTITUTE
(A NONPROFIT ORGANIZATION)

Statements of Cash Flows
Nine months ended September 30, 2018 and Year ended December 31, 2017

	September 30 <u>2018</u>	December 31 <u>2017</u>
Operations:		
Contributions received	\$ 928,630	1,214,376
Collections of general receivables	125,570	72,373
Cash received other revenues and support	111,688	98,066
Expenses paid	<u>(1,062,365)</u>	<u>(1,310,703)</u>
Net cash provided by operating activities	<u>103,523</u>	<u>74,112</u>
Cash flows from investing activities:		
Acquisition of property and equipment	<u>(159,074)</u>	<u>(149,464)</u>
Net cash used in investing activities	<u>(159,074)</u>	<u>(149,464)</u>
Cash flows from financing activities:		
Payment of loan principal	<u>(5,301)</u>	<u>(19,699)</u>
Net cash used in financing activities	<u>(5,301)</u>	<u>(19,699)</u>
Net decrease in cash	(60,852)	(95,051)
Cash, beginning of year	<u>196,710</u>	<u>291,761</u>
Cash, end of year	<u>\$ 135,858</u>	<u>196,710</u>
Reconciliation of changes in net assets to net cash provided by operating activities:		
Change in net assets	\$ 12,180	50,173
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	64,768	27,567
Increase decrease in operating assets:		
Other receivables	(809)	(1,659)
Increase in operating liabilities:		
Accounts payable	32,912	(1,056)
Accrued payroll liabilities	(5,528)	5,105
Accrued interest payable	<u>-</u>	<u>(6,018)</u>
Net cash provided by operating activities	<u>\$ 103,523</u>	<u>74,112</u>

See accompanying notes to financial statements.

NORTHERN MARIANAS TRADES INSTITUTE
(A NONPROFIT ORGANIZATION)

Notes to Financial Statements
September 30, 2018 and December 31, 2017

(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
September 30, 2018 and December 31, 2017

(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 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, 2017, from which the summarized information was derived.

Cash and Cash Equivalents

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

At September 30, 2018 and December 31, 2017, the carrying amounts of the Organization's cash were \$135,858 and \$196,710, respectively, and the corresponding bank balances were \$142,286 and \$211,396, 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).

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Notes to Financial Statements
September 30, 2018 and December 31, 2017

(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 September 30, 2018 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 statements 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 nine months ended September 30, 2018 and year ended December 31, 2017, advertising expense was \$6,381 and \$2,989, respectively.

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Notes to Financial Statements
September 30, 2018 and December 31, 2017

(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.

The Organization files its tax return in the CNMI. With few exceptions, the Organization is no longer subject to tax examinations by tax authorities for years before 2015. The Organization does not have any unrecognized tax benefits at September 30, 2018 and 2017 that would affect the annual tax rate.

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.

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Notes to Financial Statements
September 30, 2018 and December 31, 2017

(3) Capital Assets

The following is a summary of capital assets; at cost, less accumulated depreciation, at September 30, 2018 and December 31, 2017:

	<u>Estimated Useful Life</u>	<u>2018</u>	<u>2017</u>
Leasehold improvements	15 years	\$ 380,641	44,698
Shop equipment	5 years	36,191	36,191
Vehicles	5 years	192,387	75,977
Facilities and equipment	5 years	49,857	37,507
Office equipment	5 years	40,301	36,503
Furniture and fixtures	7 years	<u>9,784</u>	<u>9,784</u>
		709,161	240,660
Less accumulated depreciation		<u>(180,896)</u>	<u>(116,128)</u>
Subtotal		528,265	124,532
Construction in progress		<u>-</u>	<u>335,943</u>
Net Capital assets		<u>\$ 528,265</u>	<u>460,475</u>

(4) 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.

(5) Concentrations

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

At September 30, 2018 and December 31, 2017, bank balances of \$142,286 and \$211,396 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.

(6) Economic Dependency

The Organization receives a substantial amount of its support from the local government and private companies. For the years ended September 30, 2018 and December 31, 2017, the Organization derived 80% and 86%, respectively, of its revenue from the CNMI government for

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Notes to Financial Statements
September 30, 2018 and December 31, 2017

(6) Economic Dependency, continued

the appropriation and sub-award of the Commonwealth Worker Funds. The Organization will face financial hardship should the level of support decrease.

(7) 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 1st five-year period, the guaranteed minimum annual lease payment would be \$11,500 and during the 2nd to 5th five-year periods, guaranteed annual minimum payments would be 2% of fair market value. The Organization paid \$1,980 and \$5,940 under this lease for the nine months ended September 30, 2018 and year ended December 31, 2018. The lease payments to be made from January 1, 2020 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 December 31,</u>	
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>\$172,500</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.

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.

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Notes to Financial Statements
September 30, 2018 and December 31, 2017

(8) Subsequent Events

The Organization evaluated subsequent events through August 12, 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.

On June 13, 2019 the Organization entered into an agreement for designation of use of public domain lands with Department of Public Lands for a parcel of public land in Koblerville, Saipan with no repayment terms. After 10 years, Department of Public Lands will conduct a land use review to ascertain compliance with the intended use of the premises.

(9) Reclassification

Certain amounts in the 2017 financial statements have been reclassified to conform to the 2018 presentation. These reclassifications had no effect on previously reported results of operations.

NORTHERN MARIANAS TRADES INSTITUTE
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SUPPLEMENTARY SCHEDULE

For the Nine Months Ended September 30, 2018
(with summarized information for the year ended December 31, 2017)

NORTHERN MARIANAS TRADE INSTITUTE
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Schedule of Functional Expenses
September 30, 2018 and December 31, 2017

	<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>September 30 2018</u>	<u>December 31 2017</u>
Salaries and wages	\$ 521,486	154,569	30,770	706,825	849,552
Supplies	60,647	9,158	-	69,805	110,021
Payroll taxes	39,894	11,824	2,354	54,072	64,991
Professional fees	18,758	31,932	-	50,690	100,414
Repairs and maintenance	32,308	1,874	3,034	37,216	26,987
Books and reference materials	35,113	-	-	35,113	24,763
Insurance	18,877	-	-	18,877	19,196
Utilities	10,208	6,805	-	17,013	18,578
Rent	5,744	1,436	-	7,180	14,882
Gas and oil	9,157	3,924	-	13,081	14,297
Fringe benefits	3,083	3,975	3,651	10,709	18,717
Travel	9,556	-	-	9,556	6,756
Printing	6,796	40	-	6,836	5,135
Advertising	4,071	-	-	4,071	2,989
Recruitment	-	4,870	-	4,870	8,579
Uniforms	4,680	-	-	4,680	7,111
Board meetings	-	3,058	-	3,058	1,387
Communications	1,480	1,480	-	2,960	3,706
Permits and licenses	2,618	110	-	2,728	2,595
Bank charges	-	1,885	-	1,885	384
Freight	-	1,637	-	1,637	-
Penalties and fines	-	539	-	539	-
Dues and subscriptions	-	400	-	400	823
Interest	-	127	-	127	312
Postage	-	95	-	95	340
	<u>\$ 784,476</u>	<u>239,738</u>	<u>39,809</u>	<u>1,064,023</u>	<u>1,302,515</u>

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