

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

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

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**Year ended September 30, 2019**

**Suite 203 MH II Building  
Marina Heights Business Park  
P.O. Box 504053  
Saipan, MP 96950**

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

Financial Statements

Year Ended September 30, 2019

Table of Contents

Independent Auditor's Report.....	1-2
Financial Statements:	
Statement of Financial Position.....	3
Statement of Activities.....	4
Statement of Functional Expenses.....	5
Statement of Cash Flows.....	6
Notes to Financial Statements.....	7-15



**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, a nonprofit organization, which comprise the statement of financial position as of September 30, 2019, and the related statements of activities, functional expenses and cash flows for the year 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 audit. We conducted our audit 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 Northern Marianas Trades Institute as of September 30, 2019, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

*Bernard Comer Magliani*

Saipan, MP  
June 17, 2020

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

Statement of Financial Position  
September 30, 2019

	<u>2019</u>
	<u>Assets</u>
Current assets:	
Cash	\$ 81,913
Accounts receivable	26,611
Other receivables	<u>2,048</u>
Total current assets	110,572
Capital assets, net	462,204
Deposit	<u>6,219</u>
Total assets	<u>\$ 578,995</u>
	<u>Liabilities and Net Assets</u>
Current liabilities:	
Accounts payable	<u>54,792</u>
Total current and total liabilities	<u>54,792</u>
Net assets:	
Without donor restrictions	515,093
With donor restrictions	<u>9,110</u>
Total net assets	<u>524,203</u>
Total liabilities and net assets	<u>\$ 578,995</u>

See accompanying notes to financial statements.

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

Statement of Activities  
Year ended September 30, 2019

	Net Assets		
	Without Donor Restriction	With Donor Restriction	Total
Revenues and other support:			
Tuition and fees	\$ 122,135	-	122,135
Government support - CW fees	-	1,304,081	1,304,081
Fundraising	26,447	-	26,447
Other revenues and support	113,792	-	113,792
In-kind contributions	2,000	-	2,000
Net assets released from restrictions:			
Satisfaction of program restrictions	<u>1,298,622</u>	<u>(1,298,622)</u>	<u>-</u>
Total revenues and other support	<u>1,562,996</u>	<u>5,459</u>	<u>1,568,455</u>
Expenses:			
Program services:			
Instruction	1,319,098	-	1,319,098
Supporting services:			
General and administration	242,395	-	242,395
Operation and maintenance of facilities	78,640	-	78,640
Fundraising expenses	<u>11,113</u>	<u>-</u>	<u>11,113</u>
Total expenses	<u>1,651,246</u>	<u>-</u>	<u>1,651,246</u>
Change in net assets	(88,250)	5,459	(82,791)
Net assets at beginning of year	<u>603,343</u>	<u>3,651</u>	<u>606,994</u>
Net assets at end of year	<u>\$ 515,093</u>	<u>9,110</u>	<u>524,203</u>

See accompanying notes to financial statements.

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

Statement of Functional Expenses  
Year ended September 30, 2019

	<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>Fundraising</u>	
Salaries and wages	\$ 888,006	129,059	46,299	-	1,063,364
Supplies	111,820	23,280	-	4,223	139,323
Depreciation	45,338	19,607	27,489	-	92,434
Payroll taxes	67,932	9,873	3,542	-	81,347
Professional fees	8,100	47,168	-	-	55,268
Repairs and maintenance	40,925	1,912	-	210	43,047
Fringe benefits	35,578	2,106	1,310	-	38,994
Utilities	23,058	-	-	-	23,058
Insurance	21,397	48	-	-	21,445
Books and reference materials	20,123	-	-	-	20,123
Gas and oil	18,305	-	-	-	18,305
Travel and training	15,767	893	-	-	16,660
Rent	11,518	-	-	5,600	17,118
Communications	4,499	110	-	-	4,609
Permits and licenses	2,500	102	-	-	2,602
Recruitment	-	2,460	-	-	2,460
Bank charges	-	2,238	-	-	2,238
In-kind expenses	2,000	-	-	-	2,000
Board meetings	-	1,766	-	-	1,766
Printing	1,670	-	-	-	1,670
Advertising	257	-	-	1,080	1,337
Interest	-	618	-	-	618
Postage	-	488	-	-	488
Security services	-	342	-	-	342
Dues and subscriptions	-	325	-	-	325
Freight	305	-	-	-	305
	<u>\$ 1,319,098</u>	<u>242,395</u>	<u>78,640</u>	<u>11,113</u>	<u>1,651,246</u>

See accompanying notes to financial statements.

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

Statement of Cash Flows  
Year ended September 30, 2019

	<u>2019</u>
Cash flows from operating activities:	
Contributions received	\$ 1,304,081
Collections of general receivables	124,135
Cash received from fundraising and other revenues and support	140,239
Expenses paid	<u>(1,602,996)</u>
Net cash used in operating activities	<u>(34,541)</u>
Cash flows from investing activities:	
Acquisition of property and equipment	<u>(7,224)</u>
Net cash used in investing activities	<u>(7,224)</u>
Cash flows from financing activities:	
Payment of loan principal	<u>(12,180)</u>
Net cash used in financing activities	<u>(12,180)</u>
Net decrease in cash, cash equivalents, and restricted cash	(53,945)
Cash, cash equivalents, and restricted cash at the beginning of year	<u>135,858</u>
Cash, cash equivalents, and restricted cash at the end of year	<u><u>\$ 81,913</u></u>
Reconciliation of changes in net assets to net cash used in operating activities:	
Change in net assets	\$ (82,791)
Adjustments to reconcile changes in net assets to net cash used in operating activities:	
Depreciation	92,434
(Increase) decrease in operating assets:	
Other receivables	3,835
Increase (decrease) in operating liabilities:	
Accounts payable	(41,457)
Accrued payroll liabilities	<u>(6,562)</u>
Net cash used in operating activities	<u><u>\$ (34,541)</u></u>

See accompanying notes to financial statements.



# NORTHERN MARIANAS TRADES INSTITUTE

(a nonprofit organization)

## Notes to Financial Statements

September 30, 2019

### (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 Organization provides job placement to participants into subsidized employment with an emphasis on: developing the local workforce to meaningfully and effectively replace overseas contract workers at private sector industries; integrating soft skills training to supplement the skills-based coursework 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.

On February 18, 2019, Public Law 20-92 was enacted, which specified that the Northern Marianas Technical Institute, formerly known as the Northern Marianas Trades Institute, would become a nonprofit public entity. The bill was passed and became CNMI Public Law 20-92. The public law contained various deadlines regarding the appointment of a Board of Directors, the formation of a Transition Committee, and the formal transition from the existing nonprofit organization to the public corporation. As of the date of the report on the audited financial statements, the formal transition has not yet been completed (see note 12).

### (2) Summary of Significant Accounting Policies

The summary of significant accounting policies of the Organization is presented to assist in understanding the Organization's financial statements. The financial statements and notes are representations of the Organization's management, who are responsible for the integrity and objectivity of the financial statements.

### 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.

These financial statements must classify an organization's assets, liabilities, revenues, expenses, gains and losses based on the existence or absence of donor-imposed restrictions. The two classes of net assets are now classified as one of the following types:

**NORTHERN MARIANAS TRADES INSTITUTE**  
(a nonprofit organization)

Notes to Financial Statements, continued

September 30, 2019

(2) Summary of Significant Accounting Policies, Continued

Financial Statement Presentation, Continued

- 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.
- 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.

NMTI has determined that all assets, revenues, expenses, gains and losses resulting from CNMI government appropriations are considered to be with donor restriction. The restriction is satisfied upon the expenditure of the assets for the restricted purpose.

Net Assets

The Organization reports grants or gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires; that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and are reported in the statement of activities as net assets released from restrictions.

Financial Reporting Framework

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.

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, and investments with an initial or remaining maturity of three months or less. At September 30, 2019, the carrying amount of the Organization's cash was \$81,913 and the corresponding bank balance was \$85,799. The Organization maintains cash balances at one financial institution. Accounts at the financial institution are insured by the Federal Deposit Insurance Corporation (FDIC insured) up to \$250,000 per depositor.

**NORTHERN MARIANAS TRADES INSTITUTE**  
(a nonprofit organization)

Notes to Financial Statements, continued

September 30, 2019

(2) Summary of Significant Accounting Policies, Continued

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 7).

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 were no such events as of September 30, 2019 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.

Advertising Costs

The Organization's policy is to expense advertising costs when incurred. For the year ended September 30, 2019, advertising expense was \$257.

**NORTHERN MARIANAS TRADES INSTITUTE**  
(a nonprofit organization)

Notes to Financial Statements, continued

September 30, 2019

(2) Summary of Significant Accounting Policies, Continued

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.

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 2016. The Organization does not have any unrecognized tax benefits at September 30, 2019 that would affect the annual tax rate. The Organization's policy is to reflect any penalties or interest assessed separate from any income tax expense recognized in the financial statements.

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 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.

(3) Net Assets with Donor Restrictions

The net assets with donor restrictions of the Organization consist of CNMI Government support from fees assessed by the CNMI government related to the hiring of foreign workers under what is known as a CW-1 permit. The net assets with donor restrictions at September 30, 2019 were \$9,110.

**NORTHERN MARIANAS TRADES INSTITUTE**  
(a nonprofit organization)

Notes to Financial Statements, continued

September 30, 2019

(4) Fair Value of Financial Instruments

Accounting Standards Codification (ASC) Topic 820, *Fair Value Measurements and Disclosures*, defines fair value, establishes a framework for measuring fair value and expands financial statement disclosure about fair value measurements. Under ASC 820, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC 820 also establishes a fair value hierarchy, which prioritizes the inputs to valuation technique used to measure fair value into three broad levels:

- Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.
- Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 - Unobservable inputs for the asset or liability.

In some cases, the inputs used to measure fair value might fall in different levels of the fair value hierarchy. The level in the fair value hierarchy within which the fair value measurement in its entirety falls shall be determined based on the lowest level input that is significant to the fair value measurement in its entirety. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgment, considering factors specific to the asset or liability.

**Fair Value Option for Financial Assets and Financial Liabilities**

ASC Topic 825, *Financial Instruments* permits all entities to choose, at specified election dates, to measure eligible items, as defined under the standard, at fair value (the fair value option). A business entity shall report unrealized gains and losses on items for which the fair value option has been elected in earnings (or another performance indicator if the business entity does not report earnings) at each subsequent reporting date. Upfront costs and fees related to items for which the fair value option is elected shall be recognized in earnings as incurred and not deferred.

**Fair Value of Financial Instruments**

The carrying amounts reflected in the statements of financial position for cash, accounts receivable, and accounts payable approximate their respective fair values due to the short-term maturities of those instruments.

**NORTHERN MARIANAS TRADES INSTITUTE**  
(a nonprofit organization)

Notes to Financial Statements, continued

September 30, 2019

(5) Liquidity and Availability of Assets

Accounting Standards Update ASU 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities (Topic 958)* was implemented during the year ended September 30, 2019 and was applied to the financial statements in accordance with the transition guidance prescribed in the ASU, with enhanced disclosures about:

- The amounts and purposes of governing board designations, appropriations, and similar actions that result in self-imposed limits on the use of resources without donor-imposed restrictions as of the end of the period.
- The composition of net assets with donor restrictions at the end of the period and how the restrictions affect the use of resources.
- The qualitative information that communicates how the Organization manages its liquid resources available to meet cash needs for general expenditures within one year of the statement of financial position date.
- The quantitative information, either on the face of the statement of financial position or in the notes, and additional qualitative information in the notes as necessary, that communicates the availability of the Organization's financial assets at the statement of financial position date to meet cash needs for general expenditures within one year of the statement of financial position date. Availability of a financial asset may be affected by (1) its nature, (2) external limits imposed by donors, grantors, laws, and contracts with others, and (3) internal limits imposed by governing board decisions.
- The amounts of expenses by both their natural classification and their functional classification. The analysis of expenses is provided in one location as a separate statement.
- The method(s) used to allocate costs among program and support functions.

The Organization has \$108,524 of financial assets available within 1 year of the statement of financial position date to meet cash needs for general expenditures consisting of cash of \$81,913 and accounts receivable of \$26,611. None of the financial assets are subject to donor or other contractual restrictions that make them unavailable for general expenditure within one year of the statement of financial position date. The accounts receivable are subject to implied time restrictions but are expected to be collected within one year. The Organization has a goal to maintain financial assets, which consist of cash on hand to meet at least 90 days of normal operating expenses, which are approximately \$137,604 per month. Excess cash may or may not be invested in short term investments such as money market funds or certificates of deposit depending on the Organization's planned capital expenditures.

**NORTHERN MARIANAS TRADES INSTITUTE**  
(a nonprofit organization)

Notes to Financial Statements, continued

September 30, 2019

(6) Supplemental Cash Flow Information

The Organization has adopted FASB ASU 2016-18, Restricted Cash, which requires that the statement of cash flows explain the change during the period in the total of cash, cash equivalents, and restricted cash or restricted cash equivalents. All cash and cash equivalents at September 30, 2019 were reported in one line item in the accompanying statement of financial position.

(7) Capital Assets

The following is a summary of capital assets at September 30, 2019:

	<u>Estimated Useful Life</u>	<u>Amount</u>
Leasehold improvements	15 years	\$ 380,641
Shop equipment	5 years	46,208
Vehicles	5 years	208,744
Facilities and equipment	5 years	49,857
Office equipment	5 years	40,300
Furniture and fixtures	7 years	<u>9,784</u>
		735,534
Less accumulated depreciation		<u>(273,330)</u>
		\$ <u>462,204</u>

(8) 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. Failure to comply with the guidelines can result in the expenditure of Federal awards to be questioned and possibly disallowed.

(9) Concentrations of Credit Risk

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

At September 30, 2019 bank balances of \$85,799 were deposited in a financial institution that is covered by Federal Deposit Insurance Corporation (FDIC) insurance. The Organization has not experienced any losses on such accounts.

If all debtors were unable to meet their obligations, the Organization would incur an expense equal to accounts receivable reflected in the accompanying financial statements.

**NORTHERN MARIANAS TRADES INSTITUTE**  
(a nonprofit organization)

Notes to Financial Statements, continued

September 30, 2019

(10) Economic Dependency

The Organization receives a substantial amount of its support from the CNMI government and from private companies. For the year ended September 30, 2019, the Organization derived 83% 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 CNMI government support decrease.

(11) Commitments

The Organization operates from leased facilities under a 25-year operating lease expiring in December 2033. The lease agreement required minimum annual payments of \$11,500 for the first five years, and then two percent (2%) of market value for the next ten years. The Organization paid \$1,485 under this lease for the year ended September 30, 2019. 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</u> <u>September 30,</u>	
2020	\$ 11,500
2021	11,500
2022	11,500
2023	11,500
2024	11,500
2025-2029	57,500
2030-2033	<u>34,500</u>
	<u>\$149,500</u>

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

(12) Subsequent Events

The Organization evaluated subsequent events through June 17, 2020, the date the financial statements were available to be issued.



**NORTHERN MARIANAS TRADES INSTITUTE**  
(a nonprofit organization)

Notes to Financial Statements, continued

September 30, 2019

(12) Subsequent Events, continued

On March 16, 2020, in accordance with the CNMI Governor's declaration of significant emergency, the Organization effectively closed all its classes including the Adult Vocational Education classes due to COVID 19. Although there has been no formal decision on when classes would resume, the Organization anticipates to resume in tandem with the CNMI Public School System to ensure that the vocational education options are made available to PSS students.

After the closure of classes, administrators and instructors worked on efforts to provide proper completion of instructional requirements while maintaining compliance with COVID 19 guidelines. This was done through instructional packaging and when available, through the use of technology. On April 17, 2020, with the exception of the CEO and senior department heads, the Organization's staff members were furloughed. On April 24, 2020, in consultation with the Board of Trustees, the remaining staff were furloughed. The CEO is on leave without pay and continues to work at NMTI from Monday to Thursday in accordance with the Governor's directive.

The Organization, in partnership with the Department of Public Works, entered into a pilot project to provide in-class training as well as on the job training to a selected number of individuals in the field of Construction Technology. The program was designed to prepare prospective DPW employees in the area of construction trades to fill or replace an aging workforce. The Federal Highway Administration approved a grant to DPW as the recipient and NMTI as the subrecipient.

There are two additional federal grant programs that are in the application phase and related to the Disaster Relief program as a result of the Presidential Declaration of Emergency due to Super Typhoons Manghut and Yutu. One is through the Economic Development Administration (EDA) to construct a new state of the art technical institute facility in Koblerville, Saipan and another one through the Community Development Block Grant (CDBG) with the U.S. Department of Housing and Urban Development (HUD) to acquire property and existing facilities and to modify them into classrooms and shops conducive to learning in the technical field. The two potential grants are still in the application process and have not been finalized by the Organization.

On March 12, 2020, the CNMI Attorney General determined that the Organization is a nonprofit public corporation and that, although their name had been changed upon the signing of Public Law 20-92 on February 18, 2019, the Organization would need to go through certain transitional processes before the change could be official.

On March 20, 2020, immediately after all members of the Board of Trustees were confirmed, the Board met and elected its officers. The Chairman of the Board of Trustees wrote a letter to the Governor to inform him of the results of their meeting and had requested for the appointment of a Transition Committee in accordance with CNMI Public Law 20-92. As of this time, the Governor has yet to appoint a Transition Committee.