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

FINANCIAL STATEMENTS,
ADDITIONAL INFORMATION AND
INDEPENDENT AUDITOR'S REPORT

Years Ended September 30, 2019 and 2018

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

Years Ended September 30, 2019 and 2018

TABLE OF CONTENTS

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INDEPENDENT AUDITOR'S REPORT

To the Board of Regents
Northern Marianas College

Report on the Financial Statements

We have audited the accompanying financial statements of the Northern Marianas College (the College), a component unit of the CNMI government, as of and for the years ended September 30, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the College's basic financial statements as listed in the table of contents.

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 opinions 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 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 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 opinions.

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Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the College as of September 30, 2019 and 2018, and the respective changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

We draw attention to Note 13, which discloses the economic uncertainties that have arisen as a result of the declared outbreak of a coronavirus (COVID-19) a pandemic by the World Health Organization. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 11 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. We 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 we obtained during our audit of the basic financial statements. We 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.

Other Financial Information

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the College's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards,* 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 basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 24, 2020, on our consideration of the College's internal control over financial reporting and on our 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 effectiveness of the College’s internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the College's internal control over financial reporting and compliance.

Burger Comer Magliari

Saipan, Commonwealth of the Northern Mariana Islands
December 24, 2020

Northern Marianas College Management's Discussion and Analysis
Year Ended September 30, 2019

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, 2019 with comparisons to prior fiscal years. We encourage readers to consider the information presented here in conjunction with the financial statements and related notes. Due to Covid-19 Pandemic an extension up until December 31, 2020 was provided to the College to complete the Audit and Reporting.

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 Position present information on assets, liabilities, and deferred outflows and inflows of resources, with the difference between these reported as net position. Changes in net position over time may provide an indicator as to whether the financial position of the College is improving or deteriorating.

Net position is divided into three major categories.

- The first category, investment in capital assets, indicates the College's equity in property, plant and equipment.
- The second category is restricted, 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. Unrestricted net position can be used for any lawful purpose of the College.

The ***Statements of Activities, Expenses, and Changes in Net Position*** report how net position has 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 Position.
- 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 Position

			Increase/(Decrease)	
	2019	**2018**	**Amount**	**Percent**
ASSETS				
Current Assets	$ 14,545,279	$ 14,315,533	$ 229,746	1.61%
Capital Assets, Net	$ 4,063,161	$ 3,683,703	$ 379,458	10.30%
Other Assets	$ 9,112,961	$ 8,604,622	$ 508,339	5.90%
Total Assets	$ 27,721,401	$ 26,603,858	$1,117,543	4.20%
LIABILITIES				
Current Liabilities	$ 3,337,786	$ 3,311,107	$ 26,679	0.08%
Noncurrent Liabilities	$ 207,328	$ 203,292	$ 4,036	1.99%
Total Liabilities	$ 3,545,114	$ 3,514,399	$ 30,715	0.09%
DEFERRED INFLOWS OF RESOURCES				
Grant Receipts	$ 441,448	$ 174,401	$ 267,017	153%
Total Deferred Inflows	$ 441,448	$ 174,401	$ 267,017	153%
NET POSITION				
Investment in Capital Assets, Net	$ 4,063,161	$ 3,683,703	$ 379,458	10.30%
Restricted Net Assets	$ 9,112,961	$ 8,604,622	$ 508,339	5.91%
Unrestricted	$10,558,717	$ 10,626,733	$ (68,016)	0.06%
Total Net Position	$23,734,839	$ 22,915,058	$ 819,781	3.58%

			Increase/(Decrease)	
	2018	**2017**	**Amount**	**Percent**
ASSETS				
Current Assets	$ 14,315,533	$ 15,166,315	$ (850,782)	- 5.61%
Capital Assets, Net	$ 3,683,703	$ 3,639,779	$ 43,924	1.21%
Other Assets	$ 8,604,622	$ 8,245,278	$ 359,344	4.36%
Total Assets	$ 26,603,858	$ 27,051,372	$ (447,514)	- 1.65%
LIABILITIES				
Current Liabilities	$ 3,311,107	$ 3,880,912	$ (569,805)	- 14.68%
Noncurrent Liabilities	$ 203,292	$ 203,292	$ -	0.00%
Total Liabilities	$ 3,514,399	$ 4,084,204	$ (569,805)	- 14.68%

DEFERRED INFLOWS OF RESOURCES				
Grant Receipts	$ 174,401	$ 115,932	$ 58,469	50.43%
Total Deferred Inflows	$ 174,401	$ 115,932	$ 58,469	50.43%
NET POSITION				
Investment in Capital Assets, Net	$ 3,683,703	$ 3,639,779	$ 43,924	1.21%
Restricted Net Assets	$ 8,604,622	$ 8,245,278	$ 359,344	4.36%
Unrestricted	$ 10,626,733	$ 10,966,179	$ (339,446)	- 3.10%
Total Net Position	$ 22,915,058	$ 22,851,236	$ 63,822	0.28%

- Total assets as of September 30, 2019 amounted to $27,721,401, a $1,117,543 or 4.20% increase from $26,603,858 as of September 30, 2018.
    - Cash decreased by $2,935,905 in FY19 as the College absorbed personnel and other costs due to the devastating effects of Super Typhoon Yutu on the College's physical campus and the subsequent economic effects of Super Typhoon Yutu on the entire CNMI;
    - Amounts due from the CNMI Government amounted to $3,093,652 in FY19 an increase by $2,924,891 compared to FY18's $178,761;
    - Amounts due from Grantor Agencies grew by $238,486 in FY19;
    - Investments grew by $508,339 as domestic and international markets continued positive performances and strategic allocations between money managers; and
    - Capital assets increased by $379,458 as the College had to make investments into facilities and resources to continue serving students after the effects of Super Typhoon Yutu.
- Total liabilities increased by $30,715 or 0.09%. This was due to the increase in accrued payables in salaries and benefits as for recovery efforts as a result of Super Typhoon Yutu;
- NMC's net position increased by $819,781 or 3.58% during FY19.

Condensed Statements of Revenue, Expenses, and Changes in Net Position

			Increase/(Decrease)	
	2019	2018	Amount	Percent
Operating Revenue, Net	$ 10,950,543	$ 11,429,945	$ (479,402)	4.20%
Operating Expenses	$ 15,634,732	$ 17,638,332	$(2,003,600)	11.36%
Operating Loss	$ (4,684,189)	$ (6,208,387)	$(1,524,198)	24.55%
Non-operating Revenues	$ 5,553,970	$ 6,272,209	$ (768,238)	12.25%
Change in Net Position	$ 819,781	$ 63,822	$ 755,959	1,184.48%
Net Position, Beginning of Year	$ 22,915,058	$ 22,851,236	$ 63,822	0.28%
Net Position, End of Year	$ 23,734,839	$ 22,915,058	$ 819,781	3.60%

			Increase/(Decrease)	
	2018	2017	Amount	Percent
Operating Revenue, Net	$ 11,429,945	$ 9,032,211	$ 2,397,734	26.55%
Operating Expenses	$ 17,638,332	$ 14,285,255	$ 3,353,077	23.47%
Operating Loss	$ (6,208,387)	$ (5,253,044)	$ (955,343)	18.19%
Nonoperating Revenues	$ 6,272,209	$ 5,949,567	$ 322,642	5.42%
Change in Net Position	$ 63,822	$ (696,523)	$ (632,701)	- 90.84%
Net Position, Beginning of Year	$ 22,851,236	$ 22,154,713	$ 696,523	3.14%
Net Position, End of Year	$ 22,915,058	$ 22,851,236	$ 63,822	0.28%

NMC's operating revenue decreased by $479,402 and operating expenses decreased by $2,003,600. This led to an operating loss of $4,684,189, a decrease of $1,524,198 over the operating loss of FY18. Factors include:

- The College delay in course offerings for the Fall of 2018 due to recovery efforts from the effects of Super Typhoon Yutu;
- Colleges courses were held off-campus at alternative learning sites thus reducing operating expenses;
- Tuition and fees decreased to $1,580,670 in FY19 from $2,759,944 in FY18;
- U.S. federal grants increased by $471,767 mostly due to an increase in funding for CREES, USDOE, and Pass-through funding;

Revenue by Source

Operating Revenue	**2019**	**% of Total**	**2018**	**% of Total**
US Federal Grants	$ 8,891,215	51.64%	$ 8,419,448	47.56%
Tuition and Fees	$ 1,580,670	9.20%	$ 2,759,944	15.59%
Private Gifts, Grants, and Donations Restricted	$ 2,605	0.002%	$ 18,530	0.10%
Others	$ 476,046	2.77%	$ 232,023	1.31%
Total Operating Revenue	$10,950,543	63.61%	$11,429,945	64.57%
Non-Operating Revenue				
CNMI Appropriations	$ 6,057,595	35.18%	$ 5,912,865	33.40%
Realized & Unrealized Gain(Loss) on Investments	$ 208,339	1.21%	$ 359,344	2.03%
Total Non-Operating Revenue	$ 6,265,934	36.39%	$ 6,272,209	35.43%
Total Revenue	$17,216,477	100%	$ 17,702,154	100%

- Operating revenue of $10,950,543 represents 63.61% of NMC's total revenue. This is a slight decrease from FY 2018 where operating revenue was 64.57% of NMC's total revenue. Operating revenue represented 60.29% and 67.10% of total revenue in 2017 and 2016 respectively.
  - US Federal grant revenue represents 51.64% of NMC's total revenue. This is up from 47.56% in FY18, 48.83% in FY17, and 51.10% in FY16 as the College was more aggressive in securing grants due to the challenges faced in the community.
- Non-operating revenue of $6,265,934 represents 36.39% of NMC's total revenue. This is a $6,275 decrease over FY18 but represents a slight increase in the percentage of total revenue 35.43% in FY18.
  - CNMI appropriations represent 35.18% of NMC's total revenue. Appropriations increased by $144,730, as a share of total revenue, appropriations were up from 33.40% in FY18.

Expenses by Natural Classification

	2019	% of Total	2018	% of Total
Salaries	$ 7,483,765	45.64%	$ 7,648,902	43.57%
Services	$ 3,436,309	20.96%	$ 3,297,642	18.70%
Benefits	$ 1,397,671	8.52%	$ 1,404,047	7.96%

Insurance	$ 528,900	3.23%	$ 506,969	2.87%
Depreciation	$ 498,835	3.04%	$ 428,850	2.43%
Supplies	$ 217,473	1.33%	$ 299,423	1.70%
Miscellaneous	$ 1,792,600	15.58%	$ 2,111,585	11.97%
Bad Debt	$ 279,179	1.70%	$ 1,904,914	10.80%
Total	$15,634,732	100.00%	$17,638,332	100.00%

Highlights

- Salaries constituted 45.64% and 43.57% of the College's total expenditures for fiscal years 2019 and 2018 respectively;
- Expenses for services, which include professional service contracts, bookstore operating expenses, and student expenses, represented 20.96% of total expenditures. This is up from FY18 when services represented 18.70% of total expenditures;
- Benefits expense decreased by $6,376 but represented a larger share of total expenditures in comparison to FY18;
- Miscellaneous expenses grew by $442,979 due to losses incurred from Super Typhoon Yutu;
- Bad debt decreased by $1,625,735 due to the large debt write off that occurred in FY18.

Comparative Expenses

	2016	**2017**	**2018**	**2019**
Salaries	$ 6,344,329	$ 7,296,210	$ 7,684,902	$ 7,483,765
Services	$ 3,298,215	$ 2,417,599	$ 3,297,642	$ 3,436,309
Benefits	$ 1,002,489	$ 1,317,068	$ 1,404,047	$ 1,397,671
Insurance, Utilities, Rent	$ 438,636	$ 467,636	$ 506,970	$ 528,900
Depreciation	$ 467,511	$ 467,504	$ 428,850	$ 498,835
Supplies	$ 265,052	$ 262,625	$ 299,423	$ 217,473
Miscellaneous	$ 1,497,084	$ 2,056,613	$ 2,111,585	$ 1,792,600
Bad Debt	N/A	N/A	$ 1,904.814	$ 279,179

CAPITAL ASSETS

As of September 30, 2019, and 2018, the College had $4,063,161 and $3,683,703, respectively, invested in capital assets, net of accumulated depreciation, where applicable. After the end of FY18, NMC experienced a great loss of capital assets as a result of Super Typhoon Yutu many buildings were destroyed and adjustments to depreciation and other assets were made accordingly.

LONG-TERM DEBT

The College did not engage in long-term debt financing in fiscal year 2019.

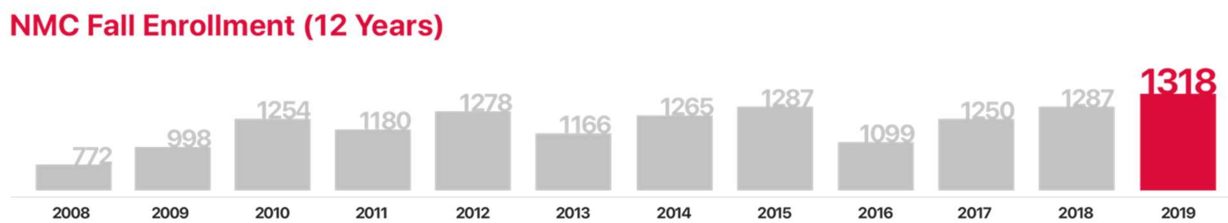
MAJOR ACCOMPLISHMENTS AND CHALLENGES IN FISCAL YEAR 2019

Super Typhoon Yutu. On October 24, 2018, Super Typhoon Yutu slammed into the CNMI with speeds of up to 220mph. The damage to NMC was extensive. The College lost 37 out of 39 classrooms.

Additionally, hundreds of computers, valuable lab equipment, vehicles, classroom furniture, and other equipment were destroyed by the typhoon. The total damage was estimated above $20 million.

Despite the extraordinary damage to the College, NMC staff, faculty, and administrators kept their focus on students and their path to their degrees. The College briefly suspended the Fall 2018 semester for about 30 days and then held classes at one of the local high schools so that courses can continue while FEMA and the Army Corps built 24 temporary classroom tents on the As Terlaje campus. These temporary structures are being used to this day while long term recovery efforts are ongoing.

Despite the storm's impact to the College's facilities and its disruption to student programs and services, the College faculty and staff worked to ensure that students were able to continue in their academic journey toward their college degrees. In fact, NMC's enrollment grew in the Fall 2019 semester:



Meeting Workforce Needs

Despite the unprecedented challenges brought by Super Typhoon Yutu in FY2019, NMC conferred degrees to one of the largest graduating classes in the institution's nearly 40-year history in June, 2019. Students earned degrees in business, nursing, natural resource management, education, and other areas critical to the CNMI's workforce capacity building efforts. The growing number of graduates is further evidence that more and more residents of the Northern Mariana Islands are looking to NMC for their professional advancement and personal growth.

Degrees and Certificates[2]	09-10	10-11	11-12	12-13	13-14	14-15	15-16	16-17	17-18	18-19	Total
BS in Education	**18**	**14**	**14**	**29**	**36**	**30**	**40**	**22**	**14**	**24**	**241**
Early Childhood Education Concentration				4	3	3	5	5	1	2	**23**
Elementary Childhood Education	18	14	14	16	25	14	14	12	6	11	**144**
Rehabilitation & Human Services Concentration				9	7	11	17	5	7	7	**63**
Special Education Concentration					3	4	5	2		5	**19**
BS in Business Management							**10**	**9**	**33**	**20**	**72**
Accounting Concentration									8	8	**16**
AA in Business	3	6	8	6	4	11	8	10	11	13	**80**
AA in Liberal Arts[1]	36	53	49	53	64	78	57	57	73	75	**595**
Education Emphasis						25	13	19	26	23	**106**
Health and Physical Education Emphasis							1			3	**4**
Social Work Emphasis										2	**2**
AAS in Business Administration[1]	12	19	20	20	13	8	19	30	39	32	**212**
Accounting Emphasis	6	10	7	6	4	5	10	14	18	14	**94**
Business Management Emphasis	5	10	10	7	7	5	10	9	18	17	**98**
Computer Applications Emphasis	4	3	4	9	5	0	2	11	11	8	**57**
AAS in Criminal Justice	4	5	8	6	8	12	9	17	23	21	**113**
AAS in Hospitality Management	3	2	2	9	4	13	6	9	16	10	**74**
AS in Fire Science Technology										1	**1**
AS in Natural Resources Management		1	4	2	6	7	9	11	16	7	**63**
AS in Nursing	4	12	16	35	22		15	18	17	6	**145**
CC in Basic Law Enforcement									30	47	**77**
CC in Fire Science Technology								38	31		**69**
CC in Hospitality Management			1								**1**
CC in Nursing Assistant								10		10	**20**
Total Degrees and Certificates Awarded	**80**	**112**	**122**	**160**	**157**	**159**	**173**	**231**	**303**	**266**	**1763**

The College is also pursuing partnerships with other institutions and agencies to expand workforce development opportunities for residents. In 2019, the College inked an agreement with the University of Guam to offer the bachelor's degree in criminal justice program. The College is also partnering with the CNMI Public School System to help increase graduation rates by offering bridge programs to help students advance more quickly to graduation.

The institution has also coordinated multiple cohorts of cadets for the Department of Public Safety and the Department of Fire and Emergency Management Services academies in the past years. This allows enforcement personnel and first responders to also earn college credits during their academy training.

Recovery and the Road Ahead

Northern Marianas College is on the path to disaster recovery and is working to turn what was the most disastrous storm in College history into one that will fuel unprecedented institutional growth. The institution is focused on building new, state-of-the-art buildings that will be highly resilient to typhoons and other disasters. These new facilities are even more necessary now as NMC's student population grows. The College is preparing a new facilities master plan that will take into account the College's new strategic plan, the future of learning spaces, and the Commonwealth's needs in the long term. Recovery funds from

FEMA, the Economic Development Administration, the US Department of Education, and other federal and local sources are being actively pursued.

Accreditation Reaffirmation

NMC is currently preparing its Institutional Report for review by Senior College and University Commission of the Western Association for Schools and Colleges. The preparation of the report is a comprehensive process that involves all stakeholders, including all staff, faculty, administrators, and board members.

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, 2019 is set forth in the report on the audit of the College's financial statements which is dated December 24, 2020. The Management's Discussion and Analysis explains the major factors impacting the 2019 financial statements. If you have questions about the 2019 or 2018 reports, or need additional information, please contact David Attao, Chief Financial Officer at the Northern Marianas College, P.O. Box 501250, Saipan, MP 96950, or email david.attao@marianas.edu.

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

Statements of Net Position
September 30, 2019 and 2018

	2019	2018
Assets:		
Current assets:		
Cash and cash equivalents	$ 7,523,114	10,458,619
Time certificate of deposit	698,914	697,925
Accounts receivable and unbilled charges, net	913,724	966,838
Due from grantor agencies	1,803,285	1,564,799
Due from CNMI	3,093,652	178,761
Inventories	508,374	444,633
Prepayments	4,216	3,958
Total current assets	14,545,279	14,315,533
Noncurrent assets:		
Investments	9,112,961	8,604,622
Capital assets, net	4,063,161	3,683,703
Total noncurrent assets	13,176,122	12,288,325
Total assets	27,721,401	26,603,858
Liabilities:		
Current liabilities:		
Accounts payable	994,171	1,283,430
Accrued salaries and benefits payable	279,566	208,089
Current portion of compensated absences	385,038	380,950
Unearned revenues	1,679,011	1,438,638
Total current liabilities	3,337,786	3,311,107
Noncurrent liabilities:		
Compensated absences, net of current portion	207,328	203,292
Total liabilities	3,545,114	3,514,399
Deferred inflows of resources:		
Grant receipts	441,448	174,401
Net position:		
Investment in capital assets, net	4,063,161	3,683,703
Restricted net assets:		
Nonexpendable	3,200,000	3,200,000
Expendable	5,912,961	5,404,622
Unrestricted	10,558,717	10,626,733
Net position	$ 23,734,839	22,915,058

See accompanying notes to financial statements.

NORTHERN MARIANAS COLLEGE

(A Component Unit of the CNMI Government)

Statements of Revenues, Expenses and Changes in Net Position
For the Years Ended September 30, 2019 and 2018

		2019	2018
Operating revenues:			
U.S. Federal grants	$	8,891,215	8,419,448
Tuition and fees (net of scholarship discounts and allowances of $2,989,684 and $3,035,604 in 2019 and 2018, respectively)		1,580,677	2,759,944
Private gifts, grants and donations - restricted		2,605	18,530
Others (net of bookstore cost of sales of $245,189 in 2019 and $681,148 in 2018)		476,046	232,023
Net operating revenues		10,950,543	11,429,945
Operating expenses:			
Salaries		7,483,765	7,684,902
Services		3,436,309	3,297,642
Miscellaneous		1,792,600	2,111,585
Benefits		1,397,671	1,404,047
Insurance, utilities and rents		528,900	506,969
Depreciation		498,835	428,850
Bad debts		279,179	1,904,914
Supplies		217,473	299,423
Total operating expenses		15,634,732	17,638,332
Operating loss		(4,684,189)	(6,208,387)
Nonoperating revenues (expenses):			
CNMI appropriations		6,057,595	5,912,865
Realized and unrealized gain on investments		208,339	359,344
Typhoon damages		(761,964)	-
Total nonoperating revenues		5,503,970	6,272,209
Change in net position		819,781	63,822
Net position, beginning of the year		22,915,058	22,851,236
Net position, end of the year	$	23,734,839	22,915,058

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, 2019 and 2018

	2019	2018
Cash flows from operating activities:		
Tuition and fees collected	$ 1,767,936	1,111,938
U.S Federal grants	8,652,729	8,129,603
Other receipts	478,651	250,553
Payments to employees	(8,881,436)	(9,088,949)
Payments to suppliers	(9,831,698)	(5,586,036)
Net cash used for operating activities	(7,813,818)	(5,182,891)
Cash flows from investing activities:		
Increase in time certificate of deposit	(989)	(997)
Increase in investments	(300,000)	-
Net cash used for investing activities	(300,989)	(997)
Cash flows from noncapital financing activities:		
CNMI appropriations	6,057,595	5,912,865
Net cash provided by noncapital financing activities	6,057,595	5,912,865
Cash flows capital and related financing activities:		
Purchases of capital assets	(878,293)	(472,774)
Net cash used for capital and related financing activities	(878,293)	(472,774)
Net change in cash and cash equivalents	(2,935,505)	256,203
Cash and cash equivalents, beginning of year	10,458,619	10,202,416
Cash and cash equivalents, end of year	$ 7,523,114	10,458,619

See accompanying notes to financial statements.

NORTHERN MARIANAS COLLEGE

(A Component Unit of the CNMI Government)

Statements of Cash Flows, continued

For the Years Ended September 30, 2019 and 2018

	2019	2018
Reconciliation of operating loss to net cash used for operating actvities:		
Operating loss	$ (4,684,189)	(6,208,387)
Adjustments to reconcile operating loss to net cash used for operating activities:		
Depreciation	498,835	428,850
Provision for bad debts	279,179	1,904,914
Typhoon damages	(761,964)	-
Changes in assets and liabilities:		
Accounts receivable and unbilled charges, net	(226,065)	(501,571)
Due from grantor agencies	(238,486)	(289,845)
Inventories	(63,741)	(1,558)
Prepayments	(258)	(3,958)
Accounts payable	(289,259)	261,590
Accrued salaries and benefits payable	71,477	2,167
Compensated absences	8,124	-
Unearned revenues	240,373	(244,663)
Due from CNMI	(2,914,891)	(588,899)
Deferred inflows of resources	267,047	58,469
Net cash used for operating activities	$ (7,813,818)	(5,182,891)

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 (WASC), 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.

In July 2014 the College was granted initial accreditation for a period of 6 years through June 2020 by the WASC Senior College and University Commission.

(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 Governmental Accounting Standards Board (GASB).

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.

Cash and Cash Equivalents

For the purpose of the statements of net position 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 deposit with maturities of greater than three months are separately classified.

At September 30, 2019 and 2018, the carrying amount of the College's cash and cash equivalents and time certificates of deposit were $8,222,028 and $11,156,544, respectively, and the corresponding bank balances were $8,631,408 and $11,642,805, respectively. Of the bank balance amounts, $8,631,408 and $11,642,805, respectively, are maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2019 and 2018, bank deposits in the amount of $750,000 and $750,000, respectively, 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 fees charged to students 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.

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 debt expense.

(2) Summary of Significant Accounting Policies, Continued

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.

Capital Assets

Buildings and improvements, 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, which was donated, is recorded at fair market value at September 30, 2019 and 2018. 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 as capital assets those items acquired subsequent to 1994, except for land and buildings and improvements. Accordingly, capital asset records consist of additions commencing in fiscal year 1994 since any earlier acquired fixed assets have been fully depreciated or disposed.

Investments

Investments and related investment earnings are reported at fair value using quoted market prices. Fair value is 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 date as of which the fair value of an asset or liability is determined.

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, 2019 and 2018, 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

Custodial credit risk is the risk that in the event of failure of the counterparty, the College will not be able to recover the value of its investments or collateral security that are in the possession of outside parties. Investment securities are exposed to custodial risk if the security is uninsured, is not registered in the name of the College and is held by either (a) the counterparty or (b) the counterparty's trust department or agent but not in the name of the College.

The following investment policy governs the investment of assets of the College:

General:

- Any pertinent restrictions existing under the laws of the 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.

(2) Summary of Significant Accounting Policies, Continued

Investments, Continued

General, Continued:

- 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 Board of 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 Board of Regents and Directors.

- 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.

(2) Summary of Significant Accounting Policies, Continued

Investments, Continued

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.

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.

(2) Summary of Significant Accounting Policies, Continued

Unearned Revenues

Unearned 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, 2019 and 2018, the College recorded accrued annual leave in the amount of $592,366 and $584,242, respectively, which is included within the statements of net position as compensated absences.

Net Position

The College's net position is classified as follows:

> *Investment in Capital Assets* - This represents the College's total investment in capital assets.
>
> *Restricted Expendable* - Restricted expendable includes resources in which the College is legally or contractually obligated to spend resources in accordance with restrictions imposed by external third parties and the Board of Regents.
>
> *Restricted - Nonexpendable* - Nonexpendable restricted consists of endowment and similar type funds in which donors or other outside sources have stipulated, as a 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.
>
> *Unrestricted* - Unrestricted represents 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.

(2) Summary of Significant Accounting Policies, Continued

Deferred Inflows and Deferred Outflows of Resources

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and thus, will not be recognized as an outflow of resources (expense/expenditure) until then. The College does not have any deferred outflows of resources as of September 30, 2019 and 2018.

In addition to liabilities, the Statements of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. As of September 30, 2019, the College only has one type of deferred inflows of resources arising from grants received with restrictions.

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 of 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 CNMI appropriations, and other revenue sources such as investment income 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.

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 Position. 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 contributed to the Northern Mariana Islands Retirement Fund's (the Fund) defined benefit plan (DB Plan), a cost sharing, multiple-employer plan established and administered by the Fund. On September 30, 2013, the DB Plan was transferred to Northern Mariana Islands Settlement Fund (NMISF) and the College now contributes to NMISF.

GASB Statement No. 45, which has been superseded by GASB Statement No. 75, required 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 statutorily determined contribution rate of the Fund. It is the understanding of the management of the College that the statutorily 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 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, 2013 is 72.7215%, of covered payroll.

(2) Summary of Significant Accounting Policies, Continued

Retirement Plan, Continued

The College's contribution to the Fund is at 20% 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 multi-employer 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 contributions plus any earnings thereon. With the passage of Public Law 17-82 in September 11, 2012, membership in the DC Plan became voluntary.

The College's total contributions to the Settlement and Retirement Fund for the years ended September 30, 2019, 2018 and 2017 were $189,490, $205,012 and $199,990, respectively.

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 to the Retirement Fund, including penalties and interest, amounted to $9,116,781 as of September 30, 2013. 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

Recently Issued Accounting Pronouncements

In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions,* which replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions,* as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans,* and provides guidance on reporting by governments that provide OPEB to their employees and for governments that finance OPEB for employees of other governments. The provisions in Statement No. 75 are effective for fiscal years beginning after June 15, 2017. Management does not believe that the implementation of this statement had a material effect on the financial statements.

In March 2016, GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements,* which improves accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The provisions in Statement No. 81 are effective for fiscal years beginning after December 15, 2016. Management does not believe that the implementation of this Statement had a material effect on the financial statements.

In November 2016, GASB issued Statement No. 83, *Certain Asset Retirement Obligations.* This Statement addresses accounting and financial reporting for certain asset retirement obligations. GASB Statement No. 83 became effective for the fiscal year ending September 30, 2019. Management does not believe that the implementation of this Statement had a material effect on the financial statements.

In January 2017, GASB issued Statement No. 84, *Fiduciary Activities.* This Statement improves guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. GASB Statement No. 84 will be effective for reporting periods beginning after December 15, 2018. Management does not believe that the implementation of this Statement will have a material effect on the financial statements.

In May 2017, GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*. The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. The provisions of GASB Statement No. 86 are effective for fiscal years beginning after June 15, 2017. Management does not believe that the implementation of this statement had a material effect on the financial statements.

(2) Summary of Significant Accounting Policies, Continued

Recently Issued Accounting Pronouncements, Continued

In June 2017, GASB issued Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and as inflows of resources or outflows of resources recognized based on the payment provisions of the contract. GASB Statement No. 87 will be effective for the College for the fiscal year ending September 30, 2021. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

New Accounting Standards

GASB Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowing and Direct Placements*. The objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. This Statement also requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance related consequences, termination events, and significant subjective acceleration clauses.

This Statement also requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt. This Statement is effective for reporting periods beginning after June 15, 2018. Management does not believe that implementation of this statement had a material effect on the financial statements.

GASB Statement No. 89, *Accounting for Interest Cost Incurred Before the end of a Construction Period*. This Statement establishes accounting requirements for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was accounted for in accordance with the requirements of paragraphs 5–22 of Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements, which are superseded by this Statement. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund.

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

This Statement also reiterates that in financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles. This Statement is effective for reporting periods beginning after December 15, 2018. Management has not evaluated the impact that the implementation of this statement will have on the financial statements.

GASB Statement No. 90, *Majority Equity Interest, an Amendment of GASB Statements No. 16 and No. 61.* The primary objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value. This Statement also requires that a component unit in which a government has a 100 percent equity interest account for its assets, deferred outflows of resources, liabilities, and deferred inflows of resources at acquisition value at the date the government acquired a 100 percent equity interest in the component unit. Transactions presented in cash flows statements of the component unit in that circumstance should include only transactions that occurred subsequent to the acquisition. This Statement is effective for reporting periods beginning after December 15, 2018. Management has not evaluated the impact that the implementation of this statement will have on the financial statements.

In May 2019, GASB issued Statement No. 91 *Conduit Debt Obligations*. The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures.

(2) Summary of Significant Accounting Policies, Continued

New Accounting Pronouncements, Continued

This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosure. GASB Statement No. 91 will be effective for the fiscal year ending September 30, 2022.

In January 2020, GASB issued Statement No. 92, *Omnibus 2020*. The requirements of this Statement will enhance comparability in the application of accounting and financial reporting requirements and will improve the consistency of authoritative literature. More comparable reporting will improve the usefulness of information for users of state and local government financial statements.

This Statement addresses a variety of topics and includes specific provisions about leases; reporting of intra-entity transfers of assets between a primary government employer and a component unit defined benefit pension plan or defined benefit other than postemployment benefit (OPEB) plan; applicability of Statement No. 73 and 84 to postemployment benefits, measurements of liabilities (and assets, if any) related to asset retirement obligations (AROs) in a government acquisition; reporting by public entity risk pools for amounts that are recoverable from reinsurers or excess insurers; reference to nonrecurring fair value measurements of assets or liabilities in authoritative literature and terminology used to refer to derivative instruments. GASB Statement No. 92 will be effective for the fiscal year ending September 30, 2020.

In April 2020, GASB issued Statement No. 93, *Replacement of Interbank Offered Rates* (IBOR). The primary objective of the Statement is to address those and other accounting and financial reporting implications of the replacement of IBOR. GASB Statement No. 93 will be effective for the fiscal year ending September 30, 2021.

In March 2020, GASB issued Statement No. 94, *Public-private and Public-public Partnership Arrangements* (PPPs). The primary objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). GASB Statement No. 94 will be effective for the fiscal year beginning after June 15, 2022.

In May 2020, GASB issued Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*. The primary objective of this Statement is to provide temporary relief to governments and other stakeholders in light of the COVID-19 pandemic.

(2) Summary of Significant Accounting Policies, Continued

New Accounting Pronouncements, Continued

The effective dates of certain provisions contained in the following pronouncements are postponed by one year:

- Statement No. 83, *Certain Asset Retirement Obligations*
- Statement No. 84, *Fiduciary Activities*
- Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*
- Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*
- Statement No. 90, *Majority Equity Interests*
- Statement No. 91, *Conduit Debt Obligations*
- Statement No. 92, *Omnibus 2020*
- Statement No. 93, *Replacement of Interbank Offered Rates*
- Implementation Guide No.2017-3, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (and Certain Issues Related to OPEB Plan Reporting)*
- Implementation Guide No. 2018-1, *Implementation Guidance Update—2018*
- Implementation Guide No. 2019-1, *Implementation Guidance Update—2019*
- Implementation Guide No. 2019-2, *Fiduciary Activities.*

The effective dates of the following pronouncements are postponed by 18 months:

- *Statement No. 87, Leases*
- *Implementation Guide No. 2019-3, Leases.*
-

In May 2020, GASB issued Statement No. 96, S*ubscription-based Information Technology Arrangements* (SBITAs). This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. GASB Statement No. 96 will be effective for fiscal years beginning after June 15, 2022.

(2) Summary of Significant Accounting Policies, Continued

New Accounting Pronouncements, Continued

In June 2020, GASB issued Statement No. 97, Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans. The primary objectives of this Statement are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans. GASB Statement No. 97 will be effective for fiscal years beginning after June 15, 2021.

NMC is currently evaluating whether or not the above listed new GASB pronouncements will have a significant impact on its financial statements.

(3) Accounts Receivable and Unbilled Charges

Summarized below is the College's accounts receivable and unbilled charges as of September 30, 2019 and 2018:

	2019	2018
Student tuition and fees	$ 1,208,624	1,025,614
Auxiliary enterprises	271,252	474,067
Other activities	161,270	121,286
Total	1,641,146	1,620,967
Allowance for doubtful accounts	(727,422)	(658,129)
Net receivable and unbilled charges	$ 913,724	966,838

(4) Investments

GASB 72 requires all investments be categorized under a fair value hierarchy. The College determines fair value of its investments based upon both observable and unobservable inputs. The College categorizes its fair value measurements within the fair value hierarchy established by GAAP. Levels within the hierarchy are as follows:

- Level 1- quoted prices (unadjusted) for identical assets or liabilities in active markets that a government can access at the measurement date.
- Level 2 – inputs (other than quoted prices included within level 1) that are observable for an asset or liability, either directly or indirectly. These inputs can include quoted prices for similar assets or liabilities in active or inactive markets, or market-corroborated inputs.
- Level 3 – unobservable inputs for an asset or liability, which generally results in a government using the best information available and may include the government's own data.

The remaining investments not categorized under the fair value hierarchy are shown at net asset value (NAV). These are investments in non-governmental entities for which a readily determinable fair value is not available, such as member units or an ownership interest in partners' capital to which a proportionate share of net assets is attributed. Investments at NAV are commonly calculated by subtracting the fair value of liabilities from the fair value of assets.

The following table presents a summary of the College's investments by type as of September 30, 2019 and 2018, at fair value:

	Fair Value September 30, 2019	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable inputs (Level 3)
Investments by Fair Value Level				
Equity Securities				
Domestic equity	$ 2,403,808	2,403,808	-	-
International equity	2,032,211	2,032,211	-	-
Total equity securities	4,436,019	4,436,019	-	-
Debt Securities				
Government Sponsored Enterprise	531,383	-	531,383	-
Real Estate and Tangibles	797,957	-	-	797,957
Cash and cash equivalents	527,669	-	-	527,669
Asset-Backed, Mortgage-Backed, Collateralized Mortgage Obligation	154,867	-	154,867	-
US Treasury	763,264	-	763,264	-
Corporate bonds	1,901,802	-	1,901,802	-
Total Investments By Fair Value Level	$ 9,112,961	4,436,019	3,351,316	1,325,626

(4) Investments, Continued

	Fair Value September 30, 2018	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable inputs (Level 3)
Investments by Fair Value Level				
Equity Securities				
Domestic equity	$ 2,312,702	2,312,702	-	-
International equity	1,908,756	1,908,756	-	-
Total equity securities	4,221,458	4,221,458	-	-
Debt Securities				
Government Sponsored Enterprise	124,994	-	124,994	-
Real Estate and Tangibles	702,792	-	-	702,792
Cash and cash equivalents	980,436	-	-	980,436
Asset-Backed, Mortgage-Backed, Collateralized Mortgage Obligation	199,724	-	199,724	-
US Treasury	1,061,845	-	1,061,845	-
Corporate bonds	962,747	-	962,747	-
Mutual funds	350,626	350,626	-	-
Total Investments By Fair Value Level	$ 8,604,622	4,572,084	2,349,310	1,683,228

As of September 30, 2019 and 2018, the College's fixed income securities had the following maturities:

	2019					
		Investment Maturities (In Years)				
Investment type	Fair Value	Less than 1	1-5	6-10	More than 10	Rating
Government and GSE bonds	$ 763,264	-	105,593	89,063	568,608	AAA
Government and GSE bonds	531,383	-	531,383	-	-	AA+
Corporate bonds	90,118	90,118	-	-	-	AA
Corporate bonds	155,845	-	155,845	-	-	A+
Corporate bonds	524,664	-	322,458	183,075	19,131	A-
Corporate bonds	386,168	-	347,640	38,528	-	A
Corporate bonds	481,088	-	329,074	138,788	13,226	BBB+
Corporate bonds	56,490	-	18,026	38,464	-	BBB
Corporate bonds	362,296	-	-	11,634	350,662	No rating
	$ 3,351,316	90,118	1,810,019	499,552	951,627	
Percentage of Portfolio	100%	3%	54%	15%	28%	

(4) Investments, Continued

	2018					
		Investment Maturities (In Years)				
Investment type	Fair Value	Less than 1	1-5	6-10	More than 10	Rating
Government and GSE bonds	$ 1,061,845	847,008	214,837	-	-	AAA
Government and GSE bonds	124,994	124,994	-	-	-	AA+
Corporate bonds	65,096	65,096	-	-	-	AA+
Corporate bonds	55,117	-	55,117	-	-	AA-
Corporate bonds	90,356	-	90,356	-	-	AA
Corporate bonds	216,888	191,677	25,211	-	-	A+
Corporate bonds	319,279	135,500	183,779	-	-	A-
Corporate bonds	81,597	81,597	-	-	-	A
Corporate bonds	134,413	62,483	71,930	-	-	BBB+
Corporate bonds	199,724	-	199,724	-	-	No rating
	$ 2,349,309	1,508,355	840,954	-	-	
Percentage of Portfolio	100%	64%	36%	0%	0%	

(5) Capital Assets, Net

Summarized below is the College's investment in capital assets and changes for the years ended September 30, 2019 and 2018:

	Estimated Useful Lives	Balance October 1 , 2018	Additions	Deletions	Balance September 30, 2019
Buildings and improvements	5 - 30 years	$ 7,706,467	843,211	(2,666,310)	5,883,368
Furniture and equipment	2 - 5 years	1,901,567	219,913	(537,774)	1,583,706
Vehicles	5 years	931,767	195,237	(245,688)	881,316
Computers	3 - 5 years	1,449,889	14,251	(238,695)	1,225,445
Total depreciable assets		11,989,690	1,272,612	(3,688,467)	9,573,835
Accumulated depreciation		(9,419,363)	(498,835)	3,294,148	(6,624,050)
Depreciable assets, net		2,570,327	773,777	(394,319)	2,949,785
Land		1,113,376	-	-	1,113,376
Capital assets, net		$ 3,683,703	773,777	(394,319)	4,063,161

(5) Capital Assets, Net, Continued

	Estimated Useful Lives	Balance October 1 , 2017	Additions	Deletions	Balance September 30, 2018
Buildings and improvements	5 - 30 years	$ 7,558,145	148,322	-	7,706,467
Furniture and equipment	2 - 5 years	1,686,311	221,876	(6,620)	1,901,567
Vehicles	5 years	964,943	39,784	(72,960)	931,767
Computers	3 - 5 years	1,387,097	62,792	-	1,449,889
Total depreciable assets		11,596,496	472,774	(79,580)	11,989,690
Accumulated depreciation		(9,070,093)	(428,850)	79,580	(9,419,363)
Depreciable assets, net		2,526,403	43,924	-	2,570,327
Land		1,113,376	-	-	1,113,376
Capital assets, net		$ 3,639,779	43,924	-	3,683,703

The reduction of capital assets in fiscal year 2019 is included in typhoon damages in the accompanying financial statements.

(6) Long-Term Obligation

Changes in long-term obligations for the years ended September 30, 2019 and 2018, are as follows:

	2019	2018
Compensated absences		
Balance, beginning	$ 203,292	203,292
Additions	389,074	380,950
Reductions	-	-
Balance, end	592,366	584,242
Due within one year	(385,038)	(380,950)
Noncurrent	$ 207,328	203,292

(7) Related Party Transactions

To ensure that the College carries out its mission and meets the educational and vocational needs of the community, the College receives annual appropriations from the CNMI Government. During the years ended September 30, 2019 and 2018, the College recognized $6,057,595 and $5,912,865, respectively, in appropriations from the CNMI Government. The amounts due from CNMI Government for appropriations as of September 30, 2019 and 2018 amounted to $2,916,091 $1,200, respectively, and the amount due from CNMI Government for retirement contributions paid for retired employees amounted to $177,561 as of September 30, 2019 and 2018.

At September 30, 2019 and 2018, amounts payable for utility expense to the Commonwealth Utilities Corporation (CUC), a component unit of the CNMI Government, amounted to $30,571 and $20,729, respectively, and are included in accounts payable in the accompanying statements of net position. During the years ended September 30, 2019 and 2018, total utilities purchased from CUC amounted to $246,863 and $328,688, 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 for comparable transactions with other persons and did not involve more than a normal risk of collectability 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 2019 and 2018. The following table shows natural classifications with functional classifications:

	2019								
	Salaries	Services	Benefits	Insurance Utilities and Rent	Depreciation	Supplies	Bad debts	Miscellaneous	Total
Instruction	$ 1,941,231	103,470	330,551	-	-	24,135	-	67,346	2,466,733
Academic Support	225,064	35,439	39,447	-	-	8,856	-	34,098	342,904
Institutional Support	2,230,625	953,031	534,147	-	-	29,531	-	109,376	3,856,710
Student Services	1,446,560	167,661	273,201	-	-	11,619	-	137,757	2,036,798
Community Services	1,422,302	55,332	167,344	-	-	114,827	-	23,611	1,783,416
Scholarships	-	1,619,936	-	-	-	-	-	-	1,619,936
Auxiliary	61,688	-	15,714	-	-	2,093	-	1,234	80,729
Operation and Maintenance	156,295	501,440	37,267	528,900	498,835	26,412	279,179	1,419,178	3,447,506
	$ 7,483,765	3,436,309	1,397,671	528,900	498,835	217,473	279,179	1,792,600	15,634,732

(8) Natural Classifications with Functional Classification, Continued

	2018								
	Salaries	Services	Benefits	Insurance Utilities and Rent	Depreciation	Supplies	Bad debts	Miscellaneous	Total
Instruction	$ 2,298,455	99,876	377,461	-	-	58,515	1,904,914	141,166	4,880,387
Academic Support	466,199	22,154	76,373	-	-	8,259	-	40,388	613,373
Institutional Support	1,992,313	575,704	408,631	-	-	66,748	-	756,783	3,800,179
Student Services	787,453	261,939	175,544	-	-	28,695	-	119,811	1,373,442
Community Services	2,063,868	421,839	366,038	-	-	137,206	-	914,789	3,903,740
Scholarships	-	1,329,356	-	-	-	-	-	-	1,329,356
Auxiliary	76,614	-	-	-	-	-	-	78,368	154,982
Operation and Maintenance	-	586,774	-	506,969	428,850	-	-	60,280	1,582,873
	$ 7,684,902	3,297,642	1,404,047	506,969	428,850	299,423	1,904,914	2,111,585	17,638,332

(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, 2019 and 2018.

(10) Contingencies

Financial and Compliance Audits

The College participates in a number of U.S. Department of Education assisted grant programs and various other federally assisted grants. These programs are subject to financial and compliance audits to ascertain if Federal laws and guidelines have been followed. Substantially all grants are subject to either the Uniform Guidance or to financial and compliance audits by the grantor agencies of the Federal Government or their designees.

Lawsuits and Claims

On September 30, 2013, the U.S District Court approved the Final Settlement Agreement for Case No. 09-000023, to which the College is a party. Beginning in fiscal year 2014, the College and employees who are members of the Retirement Fund, who did not opt out of the Settlement, contribute to the Settlement Fund. The College contributes at 20% of covered payroll. The Settlement Fund asserts that the College should contribute at 30% of covered payroll.

On March 10, 2016, the U.S. District Court for the Northern Mariana Islands issued an order on the Settlement Fund's motion, and found that the College has not been underpaying into the Settlement Fund, and has been meeting its obligations under the Settlement Agreement. The College will have no further liability beyond what it normally pays to the Settlement Fund.

(10) Contingencies, Continued

Sick Leave

It is the policy of the College to record expenditures for sick leave when the leave is actually taken. Employees are credited with sick leave at the rate of 4 hours per pay period. Unused sick leave hours may be accumulated without limit but cannot be converted to cash upon termination of employment and are convertible to service upon retirement for employees covered by the defined benefit plan. Sick leave is compensated time for absence during working hours arising from employee illness or injury. The estimated accumulated sick leave at September 30, 2019 and 2018 is \$1,856,662 and \$1,732,936, respectively. These amounts are not accrued in the accompanying financial statements.

Insurance

The College does not maintain comprehensive general liability insurance coverage for its facilities. Also, the College does not have insurance for its building and improvements, equipment, and furniture and fixtures. In the event of a loss, the College is self-insured to a material extent.

(11) 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.

(12) Reclassifications

Certain reclassifications have been made to the 2018 financial statements to conform to the current year presentation. These reclassifications had no effect on previously reported results of operations or net position.

(13) Subsequent events

In preparing the accompanying financial statements and these footnotes, management has evaluated subsequent events through December 24, 2020, which is the date the financial statements were available to be issued.

In December 2019, an outbreak of a novel strain of coronavirus (COVID-19) originated in Wuhan, China and has since spread to other countries, including the U.S and throughout Micronesia. On March 11, 2020, the World Health Organization characterized COVID-19 as a pandemic. In addition, multiple jurisdictions in the U.S. have declared a state of emergency. It is anticipated that these impacts will continue for some time. As a result of the spread of the coronavirus pandemic, economic uncertainties have arisen which are likely to impact the day to day administration of the College. While this matter is expected to negatively impact the College's results of operations and financial position, the related financial impact cannot be reasonably estimated at this time.

NORTHERN MARIANAS COLLEGE
(A COMPONENT UNIT OF THE CNMI GOVERNMENT)

INDEPENDENT AUDITOR'S REPORTS ON INTERNAL CONTROL AND ON COMPLIANCE

YEAR ENDED SEPTEMBER 30, 2019

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Regents
Northern Marianas College:

We have audited, in accordance with the 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, the financial statements of the Northern Marianas College (the College) as of and for the year ended September 30, 2019, and the related notes to the financial statements, and have issued our report thereon dated December 24, 2020.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the College's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control. Accordingly, we do not express an opinion on the effectiveness of the College's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2019-001, 2019-002, 2019-003, and 2019-004 that we consider to be significant deficiencies.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the College's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

Northern Marianas College's Response to Findings

Northern Marianas College's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Northern Marinas College's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Burger Comer Magliari

Saipan, Commonwealth of the Northern Mariana Islands
December 24, 2020

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

Board of Regents
Northern Marianas College:

Report on Compliance for Each Major Federal Program

We have audited the Northern Marianas College's (the College's) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the College's major federal programs for the year ended September 30, 2019. The College's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the College's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the College's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the College's compliance.

Opinion on Each Major Federal Program

In our opinion, the College complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2019.

Report on Internal Control over Compliance

Management of the College is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the College's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the College's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we did identify certain deficiencies in internal control over compliance, described in the accompanying schedule of findings and questioned costs as item 2019-005 that we consider to be significant deficiencies.

Northern Marianas College's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Northern Marianas College's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Burger Comer Magliari

Saipan, Commonwealth of the Northern Mariana Islands
December 24, 2020

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

Schedule of Expenditures of Federal Awards
Year Ended September 30, 2019

Federal CFDA #	Federal Grantor/Program Title	Pass-through ID Number	Expenditures	Research and Development Cluster
	Direct from U.S. Department of Agriculture:			
10.203	Hatch Act		$ 1,360,586	$ 1,360,586
10.322	Building Faculty Capacity		4,900	-
10.500	Cooperative Extension Service		913,685	-
	Subtotal Direct Programs		2,279,171	1,360,586
10.303	Islands of Opportunity Alliance	none identified	11,018	-
	Pass-through			
	Fruit Fly and Mango Fly		6,556	-
	Pass-through			
	Children'sHealthy Living Program		32,984	-
	Pass-through			
	Solenopsis Invicta/Imptd Fire Ant		4,780	-
	Pass-through			
	National Institutions of Food and Agriculture		33,706	-
	Pass-through			
	Distance Learning and Telemedicine		30,333	-
	Subtotal Pass-Through Programs		119,377	-
	Total U.S. Department of Agriculture		$ 2,398,548	$ 1,360,586

See accompanying notes to Schedule of Expenditures of Federal Awards.

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

Schedule of Expenditures of Federal Awards
Year Ended September 30, 2019

Federal CFDA #	Federal Grantor/Program Title	Pass-through ID Number	Expenditures	Research and Development Cluster
	Direct from U.S. Department of Education:			
	Student Financial Aid Cluster:			
84.007	Federal Supplemental Educational Opportunity Grants		$ 54,600	-
84.033	Federal Work-Study Program		36,604	-
84.063	Federal Pell Grant Program		4,497,348	-
84.379	Teacher Education Assistance for College and Higher Education Grants		67,067	-
	Subtotal Student Financial Aid Cluster		4,655,619	-
84.002	Adult Education - Basic Grants to States		281,870	-
	Subtotal Direct Programs		4,937,489	-
	Pass-through from Asian & Pacific Islander American Scholarship Fund:			
84.031	Enhancing Tech	none identified	408,062	-
	Subtotal Pass-Through Programs		408,062	-
	Total U.S. Department of Education		$ 5,345,551	-
	Direct from U.S. Department of Justice:			
16.525	Office on Violence Against Women		$ 39,802	-
	Total U.S. Department of Justice		$ 39,802	-

See accompanying notes to Schedule of Expenditures of Federal Awards.

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

Schedule of Expenditures of Federal Awards
Year Ended September 30, 2019

Federal CFDA #	Federal Grantor/Program Title	Pass-through ID Number	Expenditures	Research and Development Cluster
	U.S. Department of Health and Human Services:			
	Pass-through from University of Hawaii:			
93.107	Model State-Supported Area Health Education Center	5U77HP08404-09-00	$ 78,286	$ 78,286
	Pass-through from Portland State University:			
93.310	Enhance Cross Discipline and Infrastructure and Training	205CRE491	54,803	54,803
	Pass-through from Portland State University:			
93.310	Enhance Cross Discipline and Infrastructure and Training	205CRE492	37,906	-
	Pass-through from University of Hawaii:			
93.632	Pacific Basin University Centers for Excellence in Developmental Diabilities Education, Research, and Service (B)	MA120060	112,843	112,843
	Total Pass-Through Programs		283,838	245,932
	Total U.S. Department of Health and Human Services		$ 283,838	$ 245,932
	U.S. Department of Homeland Security:			
	Pass-through from CNMI Government:			
97.unknown	Commonwealth Worker Fund	none identified	$ 543,452	
	Total Pass-Through Programs		543,452	
	Total U.S. Department of Homeland Security		$ 543,452	
	U.S. Department of the Interior:			
	Pass-through from CNMI Government:			
15.875	Economic, Social, and Political Development of the Territories - Compact Impact	none identified	$ 39,108	
	Total Pass-Through Programs		39,108	
	Total U.S. Department of the Interior		$ 39,108	
	Grand Total		$ 8,650,299	

See accompanying notes to Schedule of Expenditures of Federal Awards.

Notes to the Schedule of Expenditures of Federal Awards
Year Ended September 30, 2019

(1) Scope of Audit

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. Only the financial statements of the College are included within the scope of the Uniform Guidance audit (the "Single Audit").

Programs Subject to Single Audit

The Schedule of Expenditures of Federal Awards presents each Federal program related to the following agencies:

- U.S. Department of Agriculture
- U.S. Department of the Interior
- U.S. Department of Education
- U.S. Department of Health and Human Services
- U.S. Department of Homeland Security
- U.S. Department of Justice

(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, consistent with the manner in which the College maintains its accounting records. The information in this schedule is presented in accordance with the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). 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 2019, the College has an approved indirect cost rate of 21% for all grant programs, except for U.S. Department of Education programs, which is 8%.

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

Schedule of Findings and Questioned Costs
Year Ended September 30, 2019

SUMMARY OF INDEPENDENT AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? ______ yes __X__ no
- Significant deficiency(ies) identified that are not considered to be material weaknesses? __X__ yes ______ no

Noncompliance material to financial statements noted? ______ yes __X__ no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? ______ yes __X__ no
- Significant deficiency(ies) identified that are not considered to be material weaknesses? __X__ yes ______

Type of auditor's report issued on compliance for major federal programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR § 200.516 (a)? __X__ yes ______

SECTION I – SUMMARY OF INDEPENDENT AUDITORS' RESULTS, Continued

Federal Awards

Identification of major programs:

CFDA Number	Description	Federal Expenditures
	Student Financial Assistance Cluster:	
84.063	Federal Pell Grant Program	$ 4,497,348
84.379	Teacher Education Assistance for College and Higher Education (TEACH) Grant Program	67,067
84.007	Federal Supplemental Educational Opportunity Grants	54,600
84.033	Federal Work-Study Program	36,604
	Student Financial Assistance Cluster	4,655,619
84.031	Asian & Pacific Islander American Scholarship	408,062
Total Federal Expenditures-Major Programs		$ 5,063,681
	Percentage of total federal awards tested	59%

Dollar threshold used to distinguish between Type A and Type B programs	$ 750,000

Auditee qualified as low-risk auditee ___X___ yes _____ no

SECTION II – FINANCIAL STATEMENTS FINDINGS

Finding No. 2019-001, Payroll

Finding type: Significant deficiency in internal control

Criteria:

The pay rate paid to an employee matches the latest employment contract or approved notice of personnel action.

Condition:

a. For 3 of 90 items tested, or 3% of the samples selected for testing, employees were paid at a rate higher than what was stated on their employment contract.

Cause:

The most recent pay rate was not verified by NMC staff preparing the payroll.

Effect:

There is a possibility that incorrect salary is being paid to employees. This could overstate NMC's expenses.

Recommendation:

In order to properly pay employees, the person in charge of payroll should secure a copy of the contract and personnel action forms and verify the rate before entering it to the system.

SECTION II – FINANCIAL STATEMENTS FINDINGS

Finding No. 2019-002, Payroll

Finding type: Significant deficiency in internal control

Criteria:

Personnel action form must be reviewed and approved prior to employment.

Condition:

For 52 of 90 items tested, or 58% of the sample, we noted that personnel action form was signed after the effective date.

Cause:

There was not enough time for review and approval of the personnel action form by the authorized personnel.

Effect:

NMC did not comply with their payroll internal control requirements in which personnel action form should be signed prior to employment. With this situation, the employee is already working without proper approval from authorized personnel.

Recommendation:

Ample time to process employment documents should be given to achieve proper documentation and approvals.

SECTION II – FINANCIAL STATEMENTS FINDINGS

Finding No. 2019-003, Payroll

Finding type: Significant deficiency in internal control

Criteria:

Employment contract must be reviewed and approved prior to employment.

Condition:

For 45 of 90 items tested, or 50% of the sample, we noted that employment contract was signed after the effective date.

Cause:

There was not enough time for review and approval of the employment contract by the authorized personnel.

Effect:

NMC did not comply with their payroll internal control requirements in which employment contracts should be signed prior to employment. With this situation, the employee is already working without proper approval from authorized personnel.

Recommendation:

Ample time to process employment documents should be given to achieve proper documentation and approvals.

SECTION II – FINANCIAL STATEMENTS FINDINGS

Finding No. 2019-004, Travel Authorization

Finding type: Significant deficiency in internal control

Criteria:

Travel trip reports should be submitted within 10 days after travel is completed.

Condition:

For 4 of 90 items tested, or 4% of the sample, the trip report was submitted more than 10 days after the travel was completed.

Effect:

NMC is not in compliance with its travel policies and procedures.

Recommendation:

In order to ensure that the travel transaction complies with their travel policies and procedures, NMC should consider imposing penalties for failing to turn in trip reports in a timely manner.

SECTION III – FEDERAL AWARDS FINDINGS

Finding No. 2019-005, Payroll

Federal Agencies	US Department of Education
Program Name	Asian American and Native American Pacific Islander-Serving Institutions Program
CFDA No.	84.031L
Repeat Finding from Prior Audit?	No
Finding Type	Significant deficiency

Criteria:

Personnel action form must be reviewed and approved prior to employment.

Condition:

For 103 of 120 items tested, or 86% of the sample, we noted that personnel action form was signed after the effective date.

Cause:

There was not enough time for review and approval of the personnel action form by the authorized personnel.

Effect:

NMC did not comply with their payroll internal control requirements in which personnel action forms should be signed prior to employment. With this situation, the employee is already working without proper approval from authorized personnel.

Recommendation:

Ample time to process employment documents should be given to achieve proper documentation and approvals.

Views of Responsible Officials

See corrective action plan immediately following this schedule of findings and questioned costs.

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

Schedule of Prior Year Findings and Questioned Costs
Year Ended September 30, 2019

There were no unresolved audit findings and questioned costs from the prior year audits of the College.

Northern Marianas College

P.O. Box 501250 • Saipan, MP 96950 • Phone: (670) 234-5498 Ext. 6700
Fax: (670) 234-1270 • website: www.marianas.edu

Finding No. 2019 – 001, Payroll
Auditee Response:
Contact Person: David J. Attao, CFO
Contact Information: david.attao@marianas.edu
Completion Date: December 2020

Due to the devastating and traumatic effects of Super Typhoon Yutu on the College's physical and human resources including the total destruction of offices, buildings, lack of power, water, and full displacement of employees at the College, NMC partially agrees with this finding as processing of contracts and personnel actions were subject to delays. An additional review by staff and responsible entities will be added to cross-check and verify pay rates with contracts and personnel actions. Employees with verified information will be paid according to what is listed on their approved contracts and corresponding personnel actions. Payments for inaccurate, incomplete contracts or personnel actions will be held until such documents are completed with the most updated and accurate information.

Finding No. 2019 – 002, Payroll
Auditee Response:
Contact Person: David J. Attao, CFO
Contact Information: david.attao@marianas.edu
Completion Date: December 2020

Due to the devastating and traumatic effects of Super Typhoon Yutu on the College's physical and human resources including the total destruction of offices, buildings, lack of power, water, and full displacement of employees at the College, NMC partially agrees with this finding as processing of contracts and personnel actions were subject to delays. The finding revolves around the renewal of employment contracts, as such, the College implemented a ninety (90) day or more performance review/evaluation process to help secure the proper documentation needed for renewals. The College plans to reinstate the prior approval and decentralized decision making processes to further assist with obtaining the necessary signatures from the authorized personnel in a planned and timely manner. In addition, no new employees may start employment without securing the appropriate approvals and documents. Employees with verified information will be paid according to what is listed on their approved contracts and corresponding personnel actions. Payments for inaccurate, incomplete contracts or personnel actions will be held until such documents are completed with the most updated and accurate information.

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Fax: (670) 234-1270 • website: www.marianas.edu

Finding No. 2019 – 003, Payroll

Auditee Response:
Contact Person: David J. Attao, CFO
Contact Information: david.attao@marianas.edu
Completion Date: December 2020

Due to the devastating and traumatic effects of Super Typhoon Yutu on the College's physical and human resources including the total destruction of offices, buildings, lack of power, water, and full displacement of employees at the College, NMC partially agrees with this finding as processing of contracts and personnel actions were subject to delays. The finding revolves around the renewal of employment contracts, as such, the College implemented a ninety (90) day or more performance review/evaluation process to help secure the proper documentation needed for renewals. The College plans to reinstate the prior approval and decentralized decision making processes to further assist with obtaining the necessary signatures from the authorized personnel in a planned and timely manner. In addition, no new employees may start employment without securing the appropriate approvals and documents. Employees with verified information will be paid according to what is listed on their approved contracts and corresponding personnel actions. Payments for inaccurate, incomplete contracts or personnel actions will be held until such documents are completed with the most updated and accurate information.

Finding No. 2019 – 004, Travel Authorization

Auditee Response:
Contact Person: David J. Attao, CFO
Contact Information: david.attao@marianas.edu
Completion Date: Completed

NMC partially agrees with this finding as filing of such reports were subject to delays as in some cases documents access to documents needed to close out were inaccessible and the remaining individuals were off island and/or were unable to file on time. The College however notes that NMC Procedure No. 7006.2 allows for ten (10) working days upon completion of the travel to file and submit the trip report with supporting documents and that the College will strictly enforce and require travelers who fail to close out travel by the set deadline to be subject to a forfeiture of the remaining 10% due, be processed for payroll deduction for the full amount, be suspended from travel until such funds are recovered and/or a combination of such remedies.

Northern Marianas College

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Fax: (670) 234-1270 • website: www.marianas.edu

Finding No. 2019 – 005, Payroll
Auditee Response:
Contact Person: David J. Attao, CFO
Contact Information: david.attao@marianas.edu
Completion Date: December 2020

Due to the devastating and traumatic effects of Super Typhoon Yutu on the College's physical and human resources including the total destruction of offices, buildings, lack of power, water, and full displacement of employees at the College, NMC partially agrees with this finding as processing of contracts and personnel actions were subject to delays. The College implemented a ninety (90) day or more performance review/evaluation/renewal process to help secure the proper documentation needed for contracts and/or personnel actions. The College plans to reinstate the prior approval and decentralized decision making processes to further assist with obtaining the necessary signatures from the authorized personnel in a planned and timely manner. In addition, no new employees may start employment without securing the appropriate approvals and documents. Employees with verified information will be paid according to what is listed on their approved contracts and corresponding personnel actions. Payments for inaccurate, incomplete contracts or personnel actions will be held until such documents are completed with the most updated and accurate information.

ELECTRONIC TRANSMISSION – CONFIRMATION OF RECEIPT REQUESTED

March 11, 2021

Ms. Frankie M. Eliptico
Interim President
Northern Marianas College
P. O. Box 501250
Saipan, Mariana Islands 96950

Re: Audit Control Number: 09-19-19596
Grant Award Number: P031L150029

Dear Interim President Eliptico:

This letter transmits the U.S. Department of Education's (ED) program determination for one finding cited in the audit report on Northern Marianas College (the College) for the period from October 1, 2018 to September 30, 2019. The audit report was issued on December 24, 2020, by BCM LLC. The audit was performed in compliance with the requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). ED's Risk Management Services Division (RMSD), within the Office of Acquisition and Grants Administration, is responsible for resolution of the finding presented in detail below.

Finding Number 2019-005, Page 55, Other

The auditors stated that personnel action forms were signed after the effective date for 103 of 120 items tested, or 86% of the sample. The College did not comply with their payroll internal control requirements in which personnel action forms should be signed prior to employment. With this situation, the employee is already working without proper approval from authorized personnel.

Auditors' Recommendation

The auditors recommended that the College provide ample time to process employment documents to achieve proper documentation and approvals.

The College's Response

The College provided the following response in the audit report:

> Due to the devastating and traumatic effects of Super Typhoon Yutu on the College's physical and human resources including the total destruction of offices, buildings, lack of power, water, and full displacement of employees at the College, NMC partially agrees with

this finding as processing of contracts and personnel actions were subject to delays. The College implemented a ninety (90) day or more performance review/evaluation/renewal process to help secure the proper documentation needed for contracts and/or personnel actions. The College plans to reinstate the prior approval and decentralized decision-making processes to further assist with obtaining the necessary signatures from the authorized personnel in a planned and timely manner. In addition, no new employees may start employment without securing the appropriate approvals and documents. Employees with verified information will be paid according to what is listed on their approved contracts and corresponding personnel actions. Payments for inaccurate, incomplete contracts or personnel actions will be held until such documents are completed with the most updated and accurate information.

RMSD Determination

We sustain the finding and concur with the auditors' recommendation.

According to 2 CFR §200.303 *Internal controls*, non-Federal entities are required to establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award.

In an email dated February 12, 2021, Mr. David Attao, Chief Operating Officer, stated that the process of implementing corrective actions has been taken. Also, ED received documentation supporting the implementation of corrective actions, including a copy of the revised policy and procedures and samples of current contract renewal and student personnel action forms. Further, ED received supporting documents confirming that a memo dated December 28, 2020, was sent out to all employees and students to address the finding.

Based on our review of the above documentation, we accept the College's responses that corrective actions have been taken. We consider this finding resolved and closed.

If you have any questions regarding this program determination letter, please contact Tina Le of my staff at (202) 453-7465.

Sincerely,

Mark W. Robinson
Director
Risk Management Services Division
Office of Acquisition and Grants Administration

cc: David Attao, the College
David J. Burger, BCM LLC
Pearson Owens, ED Program Office