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NORTHERN MARIANAS COLLEGE

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

YEAR ENDED SEPTEMBER 30, 2002

NORTHERN MARIANAS COLLEGE

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

YEAR ENDED SEPTEMBER 30, 2002

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**Deloitte
Touche
Tohmatsu**

INDEPENDENT AUDITORS' REPORT

Board of Regents
Northern Marianas College:

We have audited the accompanying statement of net assets of the Northern Marianas College (the College) as of September 30, 2002, and the related statements of revenues, expenses and changes in net assets and cash flows for year then ended. These financial statements are the responsibility of the management of the College. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as discussed in the following paragraphs, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

We did not observe the taking of physical inventory as of September 30, 2002, since that date was prior to our appointment as auditors for the College. Further, the College was unable to produce a detail of inventory as of September 30, 2002. We were unable to satisfy ourselves regarding inventory quantities by means of other auditing procedures. Inventory amounts as of September 30, 2002 enter into the determination of net loss and cash flows for the year ended September 30, 2002.

Because of inadequacies in the accounting records and internal control, we were unable to determine that property, plant and equipment were fairly stated as of September 30, 2002.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had the propriety of inventory and property, plant and equipment been determinable as discussed in the third and forth paragraphs above, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the College as of September 30, 2002, and the changes in its net assets and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in note 2 to the accompanying financial statements, the College adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, and GASB No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities.*

The Management's Discussion and Analysis on pages 15 through 19 is not a required part of the basic financial statements but is supplementary information required by GASB. This supplementary information is the responsibility of the College's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 29, 2003, on our consideration of the College's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Deloitte & Touche

August 29, 2003

NORTHERN MARIANAS COLLEGE

Statement of Net Assets
September 30, 2002

Assets:	
Current assets:	
Cash and cash equivalents	$ 522,000
Accounts receivable and unbilled charges, net (note 5)	1,682,261
Due from grantor agencies	1,343,190
Inventories	377,613
Total current assets	3,925,064
Noncurrent assets:	
Investments (note 4)	2,734,770
Property, plant and equipment, net (note 6)	9,958,244
Total noncurrent assets	12,693,014
Total assets	$ 16,618,078
Liabilities:	
Current liabilities:	
Bank overdraft	$ 50,932
Accounts payable	1,749,859
Accrued salaries and benefits payable	548,013
Deferred revenue	767,870
Due to CNMI	108,000
Total current liabilities	3,224,674
Noncurrent liabilities:	
Accrued payroll benefits payable	814,920
Total noncurrent liabilities	814,920
Total liabilities	4,039,594
Net assets:	
Invested in captial assets	9,958,244
Restricted for:	
Nonexpendable	2,734,770
Expendable	528,334
Unrestricted	(642,864)
Total net assets	12,578,484
Total liabilities and net assets	$ 16,618,078

Commitments and contingencies (notes 10 and 11)

See accompanying notes to financial statements.

Statement of Revenues, Expenses and Changes in Net Assets
Year Ended September 30, 2002

Operating revenues:	
U.S. federal grants	$ 6,464,992
Student tuition and fees (net of scholarship discounts and allowances of $1,596,961)	834,057
Private gifts, grants and donations - restricted	126,194
Other	857,778
Total operating revenues	8,283,021
Expenses:	
Salaries	8,577,495
Services	3,190,688
Benefits	2,498,721
Insurance, utilities and rent	795,372
Depreciation	593,380
Supplies	493,063
Miscellaneous	1,059,697
Total operating expenses	17,208,416
Operating loss	(8,925,395)
Nonoperating revenues (expenses):	
CNMI appropriations (note 7)	8,650,439
Investment income, net of expenses	92,753
Change in fair value of investments	(208,182)
Total nonoperating revenues	8,535,010
Decrease in net assets	(390,385)
Net assets, beginning of the year, as restated (note 12)	12,968,869
Net assets, end of the year	$ 12,578,484

See accompanying notes to financial statements.

Statement of Cash Flows
Year Ended September 30, 2002

Cash flows from operating activities:	
Student tuition and fees	$ 2,350,577
U.S. federal grants	6,073,310
Other revenues	1,087,883
Payments to employees	(11,140,178)
Payments to suppliers	(5,885,648)
Net cash used in operating activities	(7,514,056)
Cash flows from noncapital financing activities:	
Repayment of bank overdrafts	(304,761)
CNMI appropriations	8,503,807
Net cash provided by noncapital financing activities	8,199,046
Cash flows from capital and related financing activities:	
Purchases of property, plant and equipment	(349,720)
Net cash used in capital and related financing activities	(349,720)
Net increase in cash and cash equivalents	335,270
Cash and cash equivalents, beginning of year	186,730
Cash and cash equivalents, end of year	$ 522,000
Reconciliation of net operating revenues (expenses) to net cash and cash equivalents used in operating activities:	
Operating loss	$ (8,925,395)
Adjustments to reconcile operating loss to net cash used in operating activitiies:	
Depreciation expense	593,380
Bad debts expense	278,486
Changes in assets and liabilities:	
Accounts receivable and unbilled charges	(233,552)
Inventories	(151,310)
Due from grantor agencies	(287,771)
Accounts payable	995,833
Accrued salaries and benefits payable	63,162
Deferred revenue	153,111
Net cash used in operating activities	$ (7,514,056)

See accompanying notes to financial statements.

(1) Organization

The Northern Marianas College (the College), a component unit of the Commonwealth of the Northern Mariana Islands (CNMI), was formally established as a nonprofit public corporation by CNMI Public Law 3-43 on January 19, 1983 to serve as the state agency for higher education and adult education programs. Autonomy was later granted by CNMI Public Law 4-34 (Post Secondary Education Act of 1984) effective October 1, 1985.

The College is governed by a seven member Board of Regents appointed by the Governor of the CNMI with the advice and consent of the Senate. Executive powers are vested in the College President who is appointed by the Board.

The College has been granted initial accreditation by the Accrediting Commission for Community and Junior Colleges, Western Association of Schools and Colleges, at its meeting on June 11, 1985. The College undergoes periodic re-evaluations and approval of its accreditation. The College was re-evaluated and approved most recently in 2001.

(2) Summary of Significant Accounting Policies

New Accounting Standards

The Governmental Accounting Standards Board (GASB) has issued Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, and Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities.* The financial statement presentation required by GASB Statements 34 and 35 provides a comprehensive, entity-wide perspective of the College's assets, liabilities, net assets, revenues, expenses, changes in net assets, and cash flows, and replaces the fund-group perspective previously required.

Other GASB Statements are required to be implemented in conjunction with GASB Statements 34 and 35. Therefore, the College has also implemented, where applicable, Statement No. 36, *Recipient Reporting for Certain Shared Nonexchange Revenues*, Statement No. 37, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus* and Statement No. 38, *Certain Financial Statement Note Disclosures.*

The Northern Marianas College has elected to not disclose restated 2001 financial statements to conform with the new financial statement presentation. Significant accounting changes made in order to comply with new requirements include (1) reporting fall semester revenues and expenses between fiscal years rather than in one fiscal year; (2) the elimination of fund group presentation; and (3) the presentation of a cash flow statement.

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.

Cash and Cash Equivalents

For the purpose of the statements of net assets and cash flows, cash and cash equivalents is defined as cash on hand and cash held in demand accounts as well as short-term investments with a maturity date within ninety days of the date acquired. As of September 30, 2002, cash and cash equivalents was $522,000 and the corresponding bank balances were $722,376, which are maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2002, bank deposits in the amount of $200,000 were FDIC insured. The College does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized.

Investments

Investments are carried at fair value. Fair value is the amount at which an investment could be exchanged in a current transaction between willing parties.

Taxes

The CNMI government imposes a gross receipts tax and an income tax. The College is specifically exempt from these taxes.

Accounts Receivable

Accounts receivable consists of tuition and fee charges to student and auxiliary enterprise services provided to students, faculty and staff. Accounts receivable also include amounts due from the federal government and the CNMI government, or private sources, in connection with reimbursement of allowable expenditures made pursuant to the College's grants and contracts. Accounts receivable are recorded net of estimated allowances for uncollectible amounts.

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.

Plant, Property and Equipment

Property and equipment are recorded at cost in instances where cost is determinable or estimated cost where cost is not determinable. Depreciation is provided using the straight-line basis over the estimated useful lives of the respective assets.

(2) Summary of Significant Accounting Policies, Continued

Deferred Revenue

Deferred revenues include amounts received for tuition and fees and certain auxiliary activities prior to the end of the fiscal year but related to the subsequent accounting period.

Compensated Absences

The College recognizes cost for accrued annual leave at the time such leave is earned. As of September 30, 2002, the College recorded accrued annual leave in the amount of $814,920 which is included within the statement of net assets as accrued payroll benefits payable.

Retirement Plan

The College contributes to the Northern Mariana Islands Retirement Fund (the Fund), a cost-sharing multiple employer defined benefit pension plan administered by the CNMI. The Fund provides retirement, security and other benefits to employees, and their spouses and dependents of the CNMI Government and CNMI agencies, instrumentalities, and public corporations. CNMI Public Law 6-17, the Northern Mariana Retirement Fund Act of 1988 assigns the authority to establish and amend benefit provisions to the Fund's Board of Trustees. The Fund issues a publicly available financial report that includes financial statements and required supplementary information for the Fund. That report may be obtained by writing to the Northern Mariana Islands Retirement Fund, P.O. Box 501247, Saipan, MP, 96950-1247.

Plan members are required to contribute 6.5% and 9.0% of their annual covered salary for Class I and Class II members, respectively, and the College is required to contribute at an actuarially determined rate. The current rate is 26.4% of annual covered payroll. The contribution requirements of plan members and the College are established and may be amended by the Fund's Board of Trustees. The College's contributions to the Fund for the year ended September 30, 2002 were $2,038,083, equal to the required contributions.

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.

Net Assets

The College's net assets are classified as follows:

Invested In Capital Assets - This represents the College's total investment in capital assets.

Restricted Net Assets - Expendable - Restricted expendable net assets include resources in which the College is legally or contractually obligated to spend resources in accordance with restrictions imposed by external third parties.

(2) Summary of Significant Accounting Policies, Continued

Net Assets, Continued

Restricted Net Assets - Nonexpendable - Nonexpendable restricted net assets consist of endowment and similar type funds in which donors or other outside sources have stipulated, as condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to principal.

Unrestricted Net Assets - Unrestricted net assets represent resources derived from student tuition and fees, CNMI appropriations, and sales and services of educational departments and auxiliary enterprises. These resources are used for transactions relating to the educational and general operations of the College, and may be used at the discretion of the governing board to meet current expenses for any purpose. These resources also include auxiliary enterprises, which are substantially self-supporting activities that provide services for students, faculty and staff.

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

Classification of Revenues

The College has classified its revenues as either operating or nonoperating according to the following criteria:

Operating Revenues - Operating revenues include activities that have the characteristics exchange transactions, such as (1) student tuition and fees, (2) sales and services of auxiliary enterprises, and (3) most federal, state and local grants.

Nonoperating Revenues - Nonoperating revenues include activities that have the characteristics of nonexchange transactions, such as gifts and contributions, and other revenue sources that are defined as nonoperating revenues by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, and GASB Statement No. 34, such as CNMI appropriations and investment income.

Scholarship Discounts and Allowances - Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship discounts and allowances in the Statement of Revenues, Expenses, and Changes in Net Assets. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the College, and the amount that is paid by students and/or third parties making payments on the students' behalf. Certain governmental grants, such as Pell grants, and other federal, state or nongovernmental programs, are recorded as either operating or nonoperating revenues in the College's financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the College has recorded a scholarship discount and allowance.

(3) 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, include an estimate of claims that have been incurred but not reported. No losses as a result of these risks have occurred or have been reported within the accompanying financial statements.

(4) Investments

GASB Statement No. 3 requires government entities to categorize investments to give an indication of the level of credit risk assumed by the entity at year end. The three categories are described below:

Category 1 Insured or registered, or securities held by the College or its agent in the College's name;

Category 2 Uninsured and unregistered, with securities held by the broker's or dealer's trust department or agent in the College's name; or

Category 3 Uninsured and unregistered, with securities held by the broker or dealer, or by its trust department or agent but not in the College's name.

Summarized below are the College's investments as of September 30, 2002:

	Investment Risk Category			Total Carrying
	1	2	3	Amount
Cash management	$ -	$ 50,763	$ -	$ 50,763
Corporate bonds	-	814,971	-	814,971
U.S. Government or government guaranteed securities	-	982,159	-	982,159
Common stocks	-	886,877	-	886,877
	$ -	$ 2,734,770	$ -	$ 2,734,770

(5) Accounts Receivable and Unbilled Charges

Summarized below is the College's accounts receivable and unbilled charges as of September 30, 2002:

Student tuition and fees	$ 3,810,454
Auxiliary enterprises	111,884
Other activities	61,282
	3,983,620
Less allowance for doubtful accounts	(2,301,359)
Net accounts receivable and unbilled charges	$ 1,682,261

(6) Property, Plant and Equipment

Summarized below is the College's investment in property, plant and equipment and changes for the year ended September 30, 2002:

	Estimated Useful Lives	Balance at October 1, 2001	Additions	Deletions	Balance at September 30, 2002
Land	-	$ 5,579,900	$ -	$ -	$ 5,579,900
Building and improvements	5 - 30 years	6,185,190	537	-	6,185,727
Furniture and equipment	3 - 5 years	964,004	156,805	-	1,120,809
Vehicles	5 years	241,748	-	-	241,748
Computers	3 - 5 years	1,116,652	183,870	-	1,300,522
		14,087,494	341,212	-	14,428,706
Less accumulated depreciation		(3,882,338)	(588,124)	-	(4,470,462)
Net investment in plant		$ 10,205,156	$ (246,912)	$ -	$ 9,958,244

(7) CNMI Contributions

To ensure that the College receives its full accreditation by the Western Association of Schools and Colleges, and meet the educational and the vocational needs of the community, the College receives annual appropriations from the CNMI Government. During the year ended September 30, 2002, the College received approximately $8,650,439 in cash or in College expenses paid for by the CNMI Government.

(8) Natural Classifications With Functional Classification

For fiscal years prior to 2002, the College reported expenses in functional categories. In order to be consistent with the CNMI Government's reporting method, operating expenses are displayed in their natural classifications for fiscal year 2002. The following table shows natural classifications with functional classifications:

	Salaries	Benefits	Services	Supplies	Insurance, Utilities and Rent	Depreciation	Miscellaneous	Totals
Instructional	$ 8,574,659	$ 2,498,721	$ -	$ 4,255	$ -	$ -	$ 4,844	$11,082,479
Administration	-	-	1,349,949	488,808	795,372	-	1,054,853	3,688,982
Student expense	-	-	652,910	-	-	-	-	652,910
Student services	2,836	-	882,888	-	-	-	-	885,724
Operation and maintenance	-	-	304,941	-	-	593,380	-	898,321
	$ 8,577,495	$ 2,498,721	$ 3,190,688	$ 493,063	$ 795,372	$ 593,380	$ 1,059,697	$17,208,416

(9) Encumbrances

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. Accordingly, $1,771,941 of outstanding purchase orders and purchase commitments are not reported in the financial statements.

(10) Commitments

On October 1, 2001, the College executed a lease agreement for the rental of several housing units which house the College's School of Education. The lease commenced on October 1, 2001 for a period of two years with the option to renew for additional two year terms. The terms of the lease calls for rent to be paid in equal monthly installments of $7,650.

Future minimum lease payments under the lease, are as follows:

Year ending September 30,	
2003	$ 91,800

(11) Contingencies

The College participates in a number of U.S. Department of Education assisted grant programs and other various federally assisted grants. These programs are subject to financial and compliance audits to ascertain if Federal laws and guidelines have been followed. Cumulative questioned costs of $1,623,797 relating to fiscal year 2002 and prior have been set forth in the College's Single Audit Report for the year ended September 30, 2002. The ultimate disposition of these questioned costs can be determined only by final action of the respective grantor agencies. Therefore, no provision for any liability that may result upon resolution of this matter has been made in the accompanying financial statements.

(11) Contingencies, Continued

Sick Leave

It is the policy of the College to record expenditures for sick leave when the leave is actually taken. Sick leave is compensated time for absence during working hours arising from employee illness or injury. The estimated accumulated sick leave at September 30, 2002, is $1,822,637.

(12) Restatement of Beginning Net Assets

As described in note 2, as a result of the adoption of GASB Statements No. 34 and 35, the College was required to make certain changes in accounting principles. Net assets at September 30, 2001 (as disclosed below) were increased for the cumulative effect of fall semester tuition and fees prior to fiscal year 2002. Additionally, the financial activities of the College's Book Store, which were omitted in fiscal year 2001, are included in the fiscal year 2002 financial statements.

The effect of such adjustments in the revised statements was as follows:

Net assets reported as of September 30, 2001	$ 12,344,578
Adjustments:	
Fall semester tuition and fees adjusted to accrual basis	376,773
Inclusion of the Book Store activities	247,518
Change in September 30, 2001 net assets	624,291
Restated September 30, 2001 net assets	$ 12,968,869

(13) Subsequent Events

On August 18, 2003, the College entered into various agreements through which the College would acquire leasehold interests in various real properties and ownership of certain buildings on such properties located in the CNMI. It is the College's plan to use these properties for the launching of its Pacific Gateway Project through which the College expects to increase student enrollment primarily with students from East Asian countries including but not limited to Japan, Korea and China.

Under the terms of these agreements, the total price for the assignment of the leasehold interests and transfer of ownership interest in the properties located thereon is $7,500,000. The College is required to effectuate payment of the above stated price with an initial deposit in the sum of $3,500,000 to be held in escrow until formal turnover of the properties to the College on or about December 31, 2003. Per the terms of the agreements, the College's "Occupancy Date" of the properties is January 1, 2004.

(13) Subsequent Events, Continued

The College made an initial payment of $2,000,000 toward the deposit upon the execution of the agreements. The second installment of $1,500,000 towards the initial deposit is due on or before October 15, 2003. Both these installments were funded by the CNMI Governor's office. Should no issues arise which render the above agreements null and void, the remaining $4,000,000 is payable in annual installments of $200,000 per year with the first annual payment due on or before the last business day of October 2004 and each subsequent annual payment being due on or before the last day of business in October of each consecutive year until fully paid. The College expects to fund these additional installments through increased tuition and fees and through financing.

Northern Marianas College

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NORTHERN MARIANAS COLLEGE

Management Discussion and Analysis
For the Financial Year Ended September 30, 2002

Overview of the Financial Statements and Financial Analysis

The Northern Marianas College (the College) presents it financial statements in accordance with accounting principles generally accepted in the United States of America. These principles require that three financial statements are presented: the Statement of Net Assets; the Statement of Revenues, Expenses and Changes in Net Assets; and the Statement of Cash Flows.

The College's financial statements differ from that in fiscal years 2001 and prior as fiscal year 2002 is a year of transition to a new reporting structure under Governmental Accounting Standards Board Statement Nos. 34, 35, 37 and 38. As such comparative data for the prior period is not presented. Comparative data will be provided beginning fiscal year 2003.

This discussion and analysis of the College's financial statements provides an overview of its financial activities for the year with added commentaries on issues, internal and external, which directly or indirectly, impacted such.

Statement of Net Assets

The Statement of Net Assets presents the assets, liabilities and net assets of the College as of the end of the fiscal year. The Statement of Net Assets presents end-of-year data concerning assets (current and noncurrent), liabilities (current and noncurrent), and net assets (assets less liabilities).

From the data presented, readers of the Statement of Net Assets are able to determine the assets available to continue the operations of the College. They are also available to determine how much the College owes vendors, personnel and other entities. Finally, the Statement of Net Assets provides a picture of the net assets, (assets minus liabilities) and their availability for expenditures by the College.

Net assets are divided into three major categories. The first category, invested in capital assets, provides the institution's equity in property, plant and equipment owned by the College. The next category is restricted net assets, which is divided in to two categories, nonexpendable and expendable. The corpus of the nonexpendable restricted assets is only available for investment purposes. Expendable restricted assets are available for expenditure by the College but must be spent for purposes as determined by donors and/or external entities that have placed, time or purpose restrictions on the use of the assets. The final category is unrestricted net assets. Unrestricted assets are available to the College for any lawful purpose of the institution.

Summary Statement of Net Assets

ASSETS:	
Current assets	$ 3,925,064
Capital assets, net	9,958,244
Other assets	2,734,770
Total assets	$ 16,618,078
LIABILITIES:	
Current liabilities	$ 3,224,674
Non-current liabilities	814,920
Total liabilities	4,039,594
NET ASSETS:	
Invested in capital assets	9,958,244
Restricted – non-expendable	2,734,770
Restricted – expendable	528,334
Unrestricted	(642,864)
Total net assets	$ 16,618,078

Total assets for the year increased by $147,169, which is attributable primarily to the following:

Increased cash balances
Change in the market value of endowment investment balances
Eliminations of interfund assets/liabilities under the new presentation

Total liabilities for the year decreased by $86,737, which is attributable primarily to the following:

Repayment of bank overdrafts
Reduced level of deferred revenue, also as the result of the new presentation

Statement of Revenues, Expenses and Changes in Net Assets

Changes in total net assets as presented on the Statement of Net Assets are based on the activity presented in the Statement of Revenues, Expenses and Changes in Net Assets. The purpose of the statement is to present the revenues received by the College, both operating and nonoperating, and the expenses paid by the institution, operating and nonoperating, and any other revenue and expenses received or spent by the College. The College reflects a material net operating loss for the fiscal year since CNMI appropriations and activity of the endowment fund are not reported as operating revenue.

Generally speaking, operating revenues are received for providing services to the various customers and constituencies of the College. Operating expenses are those expenses paid to acquire or produce the services provided in return for operating revenues, and to carry out the mission of the College. Nonoperating revenues are revenues received for which services are not provided. For example, CNMI appropriations (representing 50.81% of total operating and nonoperating revenues) are nonoperating because the Commonwealth Legislature provides them to the College as they are not a direct result of the College's operation.

Summary Statement of Revenue, Expenses and Changes in Net Assets

Operating revenues	$ 8,283,021
Operating expenses	17,208,416
Operating loss	(8,925,395)
Nonoperating revenues	8,535,010
Decrease in net assets	(390,385)
Net assets - beginning of year	12,344,578
Cumulative effect of change in accounting principles	624,291
Net assets – beginning of year, as restated	12,968,869
Net assets – end of year	$ 12,578,484

The Statement of Revenues, Expenses and Changes in Net Assets reflects a slightly negative outcome for the financial year 2002 with an overall decrease in net assets of approximately $390K. The College will continue to reflect operating losses until such time that operating revenues are increased substantially and the College no longer has to rely on CNMI appropriations as such appropriations are reported as nonoperating income. Some highlights of the information presented on the Statement of Revenues, Expenses and Changes in Net Assets are as follows:

- Student tuition and fees increased by approximately $465K as a result of increases in student tuition and fees and enrollment. GASB 34 and 35 requires that tuition and fee revenues from students be reported net of scholarship discounts and allowances. Discounts and allowances are the difference between the College's stated charges for tuition and fees and the amount paid by the students or third parties on behalf of the students. It is noted that a material portion of the College's tuition and fees are funded via Pell Grants to students. The College relies on revenue from tuition and fees for nonpayroll related expenses of the College, including equipment renewals, replacements and maintenance.

- Federal, state and private grants and contracts increased by approximately $575K, which is primarily attributable to increased level of U.S. federal grant assistance for various programs at the College. Increased student enrollment also translated into increased levels of Federal Pell Grant awards. Also noteworthy is the increased level of ETC (Education Tax Credit) donations realized by the College in fiscal year 2002.

- Sales and services of the auxiliary services (The Book Store) are included in the fiscal year 2002 revenues resulting in an increase in other revenues by approximately $320K. The operations of the Book Store were not included in the College's fiscal year 2001 financial statements.

- Expenses were reduced as no additional expenses were deemed warranted in fiscal year 2002 to ensure an adequate allowance level for bad debts or to write off receivables deemed uncollectible.

- Appropriations from the CNMI decreased slightly over FY2001 funding levels.

- As a result of the downturn in the United States economy, the change in fair value of the Endowment Fund investment balances decreased by approximately 208K.

Statement of Cash Flows

The final statement presented by the Northern Marianas College is the Statement of Cash Flows. The Statement of Cash Flows presents detailed information about the cash activity of the College during the year. The statement is divided into four parts. The first part of the statement deals with the College's operating cash flows and shows the net cash used by the operating activities of the College. The second section reflects cash flows from noncapital financing activities. This section reflects cash received and spent for nonoperating, noninvesting and noncapital financing purposes. The third section deals with cash flows from capital and related financing activities. This section deals with the cash used for the acquisition and construction of capital and related items. The fourth section reconciles the net cash used in operating activities to the operating loss reflected in the Statement of Revenues, Expenses and Changes in Net Assets.

Summary Statement of Cash Flows

Cash Provided By (Used In):	
Operating activities	$ (7,514,056)
Noncapital financing activities	8,199,046
Capital and related financing activities	(349,720)
Net change in cash and equivalents	335,270

Cash and equivalents, beginning of year	186,730
Cash and equivalents, end of year	$ 522,000

The College will continue to reflect negative cash flows from operating activities as CNMI appropriations are considered cash flows from noncapital financing activities and are presented as such in the statement of cash flows. CNMI appropriations are used primarily to fund salaries and wages and related employee benefits, which are considered operating expenses of the College.

Economic Outlook

The CNMI's economic outlook is uncertain as of this date. Austerity measures continue to be in effect government wide to compensate for decreased revenues. Two significant industries, which play a material role in driving the CNMI economy are tourism and the garment industry. A series of unfortunate events have hindered the return of tourist arrival levels to that enjoyed in the 1990's and thus the industry and the economy continue to suffer as a result. The garment industry, another major source of revenue for the CNMI, has also declined compounding the economic woes, which have plagued the Commonwealth for several years now. On a positive note, the tourism industry trends are showing evidence of recovery with tourism arrivals inching upwards.

Pacific Gateway USA

To counter the negative impact that the economy has had on the College, which is evidenced by reduce levels of funding from the CNMI Government, the College launched the Pacific Gateway Project (the Project). The primary goal of the Project is to increase College revenues through increased student enrollment primarily from East Asian countries including but not limited to China, Japan and Korea. The end objective of the Project is to enable the College to enhance financial stability and to enable it to continually accomplish the mission set forth in the Constitution: "to provide the best quality and meaningful post-secondary education for the purpose of improving the quality of life for the individual and for the Commonwealth as a whole. The College shall be responsible for providing education in the areas of adult and continuing education, postsecondary and adult vocational education and professional development for the people of the Commonwealth."

In furtherance of the Project, in August 2003 the College entered into various agreements through which the College would acquire leasehold interests in various real properties and ownership of certain buildings on such properties in the CNMI. Through the assistance of the CNMI Government, the College has remitted $3.5M into an escrow account, which is to serve as the initial deposit for the purchase of these properties. Formal turnover of the properties to the College is scheduled to occur on or around December 31, 2003.