

NORTHERN MARIANAS COLLEGE

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

YEAR ENDED SEPTEMBER 30, 2003

NORTHERN MARIANAS COLLEGE

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

YEARS ENDED SEPTEMBER 30, 2003 AND 2002

INDEPENDENT AUDITORS' REPORT

Board of Regents
Northern Marianas College:

We have audited the accompanying statements of net assets of the Northern Marianas College (the College) as of September 30, 2003 and 2002, and the related statements of revenues, expenses and changes in net assets and cash flows for years 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 audits.

Except as discussed in the following paragraphs, 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 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 audits provide 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. 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 operating loss and cash flows for the years ended September 30, 2003 and 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, 2003 and 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 fourth 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, 2003 and 2002, and the changes in its net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 3 through 7 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. 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 January 23, 2004, 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.

The image shows a handwritten signature in cursive script that reads "Deloitte & Touche".

January 23, 2004



Northern Marianas College

P.O. Box 501250 • Saipan, MP 96950 U.S.A. • Phone: (670) 234-5498

Fax: (670) 234-0759 • Web Site: www.nmcnet.edu

NORTHERN MARIANAS COLLEGE

Management Discussion and Analysis
For the Financial Year Ended September 30, 2003

Overview of the Financial Statements and Financial Analysis

The Northern Marianas College (the College) presents its financial statements in accordance with accounting principles generally accepted in the United States of America. These accounting 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 those in fiscal years 2001 and prior as fiscal year 2002 was a year of transition to a new reporting structure under Governmental Accounting Standards Board Statement Nos. 34, 35, 37 and 38. As fiscal year 2003 is the second year of financial statement presentation in accordance with the new reporting structure, comparative data is provided for fiscal year 2002 in the attached financial statements.

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 able 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 into two categories, nonexpendable and expendable. The corpus of the nonexpendable restricted assets is only available for investment purposes. Expendable restricted assets are available for expenditures 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.

NORTHERN MARIANAS COLLEGE

Management Discussion and Analysis
For the Financial Year Ended September 30, 2003

Summary Statement of Net Assets

	<u>2003</u>	<u>2002</u>
ASSETS:		
Current assets	\$ 3,915,418	\$ 3,925,064
Capital assets, net	9,650,775	9,958,244
Other assets	<u>3,050,113</u>	<u>2,734,770</u>
Total assets	<u>\$ 16,616,306</u>	<u>\$ 16,618,078</u>
LIABILITIES:		
Current liabilities	\$ 2,453,121	\$ 3,224,674
Non-current liabilities	<u>750,924</u>	<u>814,920</u>
Total liabilities	<u>3,204,045</u>	<u>4,039,594</u>
NET ASSETS:		
Invested in capital assets	9,650,775	9,958,244
Restricted – non-expendable	3,050,113	2,734,770
Restricted – expendable	2,243,647	528,334
Unrestricted	<u>(1,532,274)</u>	<u>(642,864)</u>
Total net assets	<u>13,412,261</u>	<u>12,578,484</u>
Total liabilities and net assets	<u>\$ 16,616,306</u>	<u>\$ 16,618,078</u>

Total assets are very consistent with fiscal year 2002 with a very minimal decline in 2003 of approximately \$2K.

Total liabilities for the year decreased by approximately \$835K, which is attributable primarily to the following:

Repayment of bank overdrafts
Large reduction in accounts payable by paying off outstanding vendor balances
Repayment of advance from the CNMI government for a payroll shortfall in 2002

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.

NORTHERN MARIANAS COLLEGE

Management Discussion and Analysis
For the Financial Year Ended September 30, 2003

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 47.70% and 50.81% of total operating and nonoperating revenues in 2002 and 2003, respectively) are nonoperating because the Commonwealth Legislature provides them to the College and therefore they are not direct result of the College's operations.

Summary Statement of Revenue, Expenses and Changes in Net Assets

	<u>2003</u>	<u>2002</u>
Operating revenues	\$ 9,060,967	\$ 8,283,021
Operating expenses	<u>17,093,139</u>	<u>17,208,416</u>
Operating loss	(8,032,172)	(8,925,395)
Nonoperating revenues	<u>8,865,949</u>	<u>8,535,010</u>
Increase (Decrease) in net assets	<u>833,777</u>	<u>(390,385)</u>
Net assets - beginning of year	12,578,484	12,344,578
Cumulative effect of change in accounting principles	<u>-</u>	<u>624,291</u>
Net assets -- beginning of year, as restated	<u>12,578,484</u>	<u>12,968,869</u>
Net assets -- end of year	<u>\$ 13,412,261</u>	<u>\$ 12,578,484</u>

The Statement of Revenues, Expenses and Changes in Net Assets reflects a positive outcome for the financial year 2003 with an overall increase in net assets of approximately \$834K. Despite a net increase in assets for the financial year, the College posted a net operating loss of approximately \$8.03 million. 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 these 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 \$526K as a result of increases in rates for student tuition and fees and enrollment. GASB 34 & 35 require that tuition and fees 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 revenues from tuition and fees for nonpayroll related expenses of the College, including equipment renewals, replacements and maintenance.

NORTHERN MARIANAS COLLEGE

Management Discussion and Analysis
For the Financial Year Ended September 30, 2003

- Federal, state and private grants and contracts decreased by approximately \$226K, which is primarily attributable to slightly decreased levels of U.S. federal grant assistance for various programs at the College. However these decreases were partially offset by increased student enrollment translating into increased levels of Federal Pell Grant awards.
- Sales and services of the auxiliary services (The Book Store) are included in the fiscal year 2003 and 2002 revenues resulting in an increase in other revenues of approximately \$562K. 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 2003 to ensure an adequate allowance level for bad debts or to write off receivables deemed uncollectible.
- Appropriations from the CNMI decreased slightly over FY2002 funding levels.
- Another contributing factor to the increase in assets is the turn around in the market value of the College's Endowment Fund investments with such posting a net gain in fair value of approximately \$241K for the year.

Statement of Cash Flows

The final statements presented by the Northern Marianas College include 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. Some highlights of the information presented on the Statement of Cash Flows are as follows:

Summary Statement of Cash Flows

	<u>2003</u>	<u>2002</u>
Cash Provided By (Used In):		
Operating activities	\$ (8,046,039)	\$ (7,514,056)
Noncapital financing activities	8,391,674	8,199,046
Capital and related financing activities	<u>(354,177)</u>	<u>(349,720)</u>
Net change in cash and equivalents	(8,542)	335,270
Cash and equivalents, beginning of year	<u>522,000</u>	<u>186,730</u>
Cash and equivalents, end of year	<u>\$ 513,458</u>	<u>\$ 522,000</u>

NORTHERN MARIANAS COLLEGE

Management Discussion and Analysis
For the Financial Year Ended September 30, 2003

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 continues to be uncertain as of this date. Austerity measures continue to be in effect CNMI 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. However, tourism appears to be on the rebound with tourist arrivals into the CNMI increasing slightly in 2003. The garment industry, another major source of revenue for the CNMI, has also declined compounding the Commonwealth's economic woes.

Pacific Gateway USA

To counter the negative impact that the economy has had on the College, which is evidenced by reduced levels of funding from the CNMI Government, the College is looking for alternate means of generating additional revenues, with the Pacific Gateway Project (the Project) as a vehicle to do just that. The primary goal of the Project is to boost tuition and fees revenues through increased student enrollment primarily from East Asian countries including but not limited to China, Japan and Korea. Towards this end the College, in January 2004, acquired leasehold interests in various real properties and ownership of certain buildings on such properties located in the CNMI. Funding for this acquisition was in the form of a \$3.5 million grant from the CNMI Governor's office. The College is currently exploring funding options for the renovation of the buildings.

The end objective of the Project is to enable the College to enhance financial stability and to ensure that it continually accomplishes its mission as set forth in the CNMI 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."

NORTHERN MARIANAS COLLEGE

Statements of Net Assets
September 30, 2003 and 2002

	<u>2003</u>	<u>2002</u>
Assets:		
Current assets:		
Cash and cash equivalents	\$ 513,458	\$ 522,000
Accounts receivable and unbilled charges, net	1,190,345	1,682,261
Due from grantor agencies	1,933,426	1,343,190
Inventories	272,675	377,613
Prepaid expenses	5,514	-
Total current assets	<u>3,915,418</u>	<u>3,925,064</u>
Noncurrent assets:		
Investments	3,050,113	2,734,770
Property, plant and equipment, net	9,650,775	9,958,244
Total noncurrent assets	<u>12,700,888</u>	<u>12,693,014</u>
Total assets	<u>\$ 16,616,306</u>	<u>\$ 16,618,078</u>
Liabilities:		
Current liabilities:		
Bank overdraft	\$ -	\$ 50,932
Accounts payable	1,014,669	1,749,859
Accrued salaries and benefits payable	641,949	548,013
Deferred revenue	796,503	767,870
Due to CNMI	-	108,000
Total current liabilities	<u>2,453,121</u>	<u>3,224,674</u>
Noncurrent liabilities:		
Accrued payroll benefits payable	750,924	814,920
Total noncurrent liabilities	<u>750,924</u>	<u>814,920</u>
Total liabilities	<u>3,204,045</u>	<u>4,039,594</u>
Contingencies		
Net assets:		
Investment in capital assets	9,650,775	9,958,244
Restricted for:		
Nonexpendable	3,050,113	2,734,770
Expendable	2,243,647	528,334
Unrestricted	<u>(1,532,274)</u>	<u>(642,864)</u>
Total net assets	<u>13,412,261</u>	<u>12,578,484</u>
Total liabilities and net assets	<u>\$ 16,616,306</u>	<u>\$ 16,618,078</u>

See accompanying notes to financial statements.

NORTHERN MARIANAS COLLEGE

Statements of Revenues, Expenses and Changes in Net Assets
Years Ended September 30, 2003 and 2002

	<u>2003</u>	<u>2002</u>
Operating revenues:		
U.S. federal grants	\$ 6,238,724	\$ 6,464,992
Student tuition and fees (net of scholarship discounts and allowances of \$1,287,352 and \$1,596,961 in 2003 and 2002, respectively)	1,360,564	834,057
Private gifts, grants and donations - restricted	41,554	126,194
Other	<u>1,420,125</u>	<u>857,778</u>
Total operating revenues	<u>9,060,967</u>	<u>8,283,021</u>
Expenses:		
Salaries	8,452,193	8,577,495
Services	3,223,922	3,190,688
Benefits	2,443,968	2,498,721
Insurance, utilities and rent	745,800	795,372
Depreciation	661,646	593,380
Supplies	356,323	493,063
Miscellaneous	<u>1,209,287</u>	<u>1,059,697</u>
Total operating expenses	<u>17,093,139</u>	<u>17,208,416</u>
Operating loss	<u>(8,032,172)</u>	<u>(8,925,395)</u>
Nonoperating revenues (expenses):		
CNMI appropriations	8,550,606	8,650,439
Investment income, net of expenses	73,787	92,753
Change in fair value of investments	<u>241,556</u>	<u>(208,182)</u>
Total nonoperating revenues	<u>8,865,949</u>	<u>8,535,010</u>
Increase (decrease) in net assets	833,777	(390,385)
Net assets, beginning of the year	<u>12,578,484</u>	<u>12,968,869</u>
Net assets, end of the year	<u>\$ 13,412,261</u>	<u>\$ 12,578,484</u>

See accompanying notes to financial statements.

NORTHERN MARIANAS COLLEGE

Statements of Cash Flows
Years Ended September 30, 2003 and 2002

	<u>2003</u>	<u>2002</u>
Cash flows from operating activities:		
Student tuition and fees	\$ 2,019,895	\$ 2,350,577
U.S. federal grants	5,648,488	6,073,310
Other revenues	1,461,681	1,087,883
Payments to employees	(10,896,161)	(11,140,178)
Payments to suppliers	<u>(6,279,942)</u>	<u>(5,885,648)</u>
Net cash used in operating activities	<u>(8,046,039)</u>	<u>(7,514,056)</u>
Cash flows from noncapital financing activities:		
Repayment of bank overdrafts	(50,932)	(304,761)
CNMI appropriations	<u>8,442,606</u>	<u>8,503,807</u>
Net cash provided by noncapital financing activities	<u>8,391,674</u>	<u>8,199,046</u>
Cash flows from capital and related financing activities:		
Purchases of property, plant and equipment	<u>(354,177)</u>	<u>(349,720)</u>
Net cash used in capital and related financing activities	<u>(354,177)</u>	<u>(349,720)</u>
Net (decrease) increase in cash and cash equivalents	(8,542)	335,270
Cash and cash equivalents, beginning of year	<u>522,000</u>	<u>186,730</u>
Cash and cash equivalents, end of year	<u>\$ 513,458</u>	<u>\$ 522,000</u>
Reconciliation of net operating revenues (expenses) to net cash and cash equivalents used in operating activities:		
Operating loss	\$ (8,032,172)	\$ (8,925,395)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation expense	661,646	593,380
(Recovery of delinquent receivables) bad debts expense	(138,782)	278,486
Changes in assets and liabilities:		
Accounts receivable and unbilled charges	630,698	(233,552)
Inventories	104,938	(151,310)
Prepaid expenses	(5,514)	-
Due from grantor agencies	(590,236)	(287,771)
Accounts payable	(735,190)	995,833
Accrued salaries and benefits payable	29,940	63,162
Deferred revenue	<u>28,633</u>	<u>153,111</u>
Net cash used in operating activities	<u>\$ (8,046,039)</u>	<u>\$ (7,514,056)</u>

See accompanying notes to financial statements.

NORTHERN MARIANAS COLLEGE

Notes to Financial Statements
September 30, 2003 and 2002

(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

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.

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, 2003 and 2002, cash and cash equivalents were \$513,458 and \$522,000, respectively, and the corresponding bank balances were \$799,405 and \$722,376, respectively, which are maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2003 and 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.

NORTHERN MARIANAS COLLEGE

Notes to Financial Statements
September 30, 2003 and 2002

(2) Summary of Significant Accounting Policies, Continued

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.

Property, Plant 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.

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, 2003 and 2002, the College recorded accrued annual leave in the amount of \$750,924 and \$814,920, respectively, which is included within the statements 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.

NORTHERN MARIANAS COLLEGE

Notes to Financial Statements
September 30, 2003 and 2002

(2) Summary of Significant Accounting Policies, Continued

Retirement Plan, Continued

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 years ended September 30, 2003 and 2002 of \$2,006,979 and \$2,038,083, respectively, were equal to 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:

Investment 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.

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.

NORTHERN MARIANAS COLLEGE

Notes to Financial Statements
September 30, 2003 and 2002

(2) Summary of Significant Accounting Policies, Continued

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.

NORTHERN MARIANAS COLLEGE

Notes to Financial Statements
September 30, 2003 and 2002

(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, 2003 and 2002:

	2003			Total Carrying Amount
	Investment Risk Category			
	1	2	3	
Cash management	\$ -	\$ 61,247	\$ -	\$ 61,247
Corporate bonds	-	521,544	-	521,544
U.S. Government or government guaranteed securities	-	747,261	-	747,261
Common stocks	-	1,720,061	-	1,720,061
	<u>\$ -</u>	<u>\$ 3,050,113</u>	<u>\$ -</u>	<u>\$ 3,050,113</u>
	2002			
	Investment Risk Category			
	1	2	3	Total Carrying 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
	<u>\$ -</u>	<u>\$ 2,734,770</u>	<u>\$ -</u>	<u>\$ 2,734,770</u>

(5) Accounts Receivable and Unbilled Charges

Summarized below is the College's accounts receivable and unbilled charges as of September 30, 2003 and 2002:

NORTHERN MARIANAS COLLEGE

Notes to Financial Statements
September 30, 2003 and 2002

(5) Accounts Receivable and Unbilled Charges, Continued

	<u>2003</u>	<u>2002</u>
Student tuition and fees	\$ 2,659,648	\$ 3,810,454
Auxiliary enterprises	256,000	111,884
Other activities	<u>437,274</u>	<u>61,282</u>
	3,352,922	3,983,620
Less allowance for doubtful accounts	<u>(2,162,577)</u>	<u>(2,301,359)</u>
Net accounts receivable and unbilled charges	\$ <u>1,190,345</u>	\$ <u>1,682,261</u>

(6) Property, Plant and Equipment

Summarized below is the College's investment in property, plant and equipment and changes at September 30, 2003 and 2002:

	<u>Estimated Useful Lives</u>	<u>Balance at October 1, 2002</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at September 30, 2003</u>
Land	-	\$ 5,579,900	\$ -	\$ -	\$ 5,579,900
Building and improvements	5 - 30 years	6,185,727	-	-	6,185,727
Furniture and equipment	3 - 5 years	1,120,809	148,184	74,712	1,194,281
Vehicles	5 years	241,748	-	-	241,748
Computers	3 - 5 years	<u>1,300,522</u>	<u>222,689</u>	<u>-</u>	<u>1,523,211</u>
		14,428,706	370,873	74,712	14,724,867
Less accumulated depreciation		<u>(4,470,462)</u>	<u>(661,646)</u>	<u>(58,016)</u>	<u>(5,074,092)</u>
Net investment in plant		\$ <u>9,958,244</u>	\$ <u>(290,773)</u>	\$ <u>16,696</u>	\$ <u>9,650,775</u>
	<u>Estimated Useful Lives</u>	<u>Balance at October 1, 2001</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at September 30, 2002</u>
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	<u>1,116,652</u>	<u>183,870</u>	<u>-</u>	<u>1,300,522</u>
		14,087,494	341,212	-	14,428,706
Less accumulated depreciation		<u>(3,882,338)</u>	<u>(588,124)</u>	<u>-</u>	<u>(4,470,462)</u>
Net investment in plant		\$ <u>10,205,156</u>	\$ <u>(246,912)</u>	\$ <u>-</u>	\$ <u>9,958,244</u>

NORTHERN MARIANAS COLLEGE

Notes to Financial Statements
September 30, 2003 and 2002

(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 years ended September 30, 2003 and 2002, the College received approximately \$8,550,606 and \$8,650,439, respectively, in cash or in College expenses paid for by the CNMI Government.

(8) Natural Classifications With Functional Classification

For fiscal years prior to 2003, 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 years 2003 and 2002. The following table shows natural classifications with functional classifications:

	2003							
	Salaries	Benefits	Services	Supplies	Insurance, Utilities and Rent	Depreciation	Miscellaneous	Total
Instructional	\$ 8,445,725	\$ 2,443,968	\$ 222,831	\$ 33,422	\$ -	\$ -	\$ 46,768	\$11,192,714
Administration	-	-	625,098	322,901	745,800	-	1,162,519	2,856,318
Student expense	-	-	671,766	-	-	-	-	671,766
Student services	6,468	-	1,329,105	-	-	-	-	1,335,573
Operation and maintenance	-	-	375,122	-	-	661,646	-	1,036,768
	<u>\$ 8,452,193</u>	<u>\$ 2,443,968</u>	<u>\$ 3,223,922</u>	<u>\$ 356,323</u>	<u>\$ 745,800</u>	<u>\$ 661,646</u>	<u>\$ 1,209,287</u>	<u>\$17,093,139</u>
	2002							
	Salaries	Benefits	Services	Supplies	Insurance, Utilities and Rent	Depreciation	Miscellaneous	Total
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
	<u>\$ 8,577,495</u>	<u>\$ 2,498,721</u>	<u>\$ 3,190,688</u>	<u>\$ 493,063</u>	<u>\$ 795,372</u>	<u>\$ 593,380</u>	<u>\$ 1,059,697</u>	<u>\$17,208,416</u>

(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, \$421,315 and \$1,771,941 of outstanding purchase orders and purchase commitments are not reported in the financial statements for the years ended September 30, 2003 and 2002, respectively.

NORTHERN MARIANAS COLLEGE

Notes to Financial Statements
September 30, 2003 and 2002

(10) 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 \$1,803,797 relating to fiscal year 2003 and prior have been set forth in the College's Single Audit Report for the year ended September 30, 2003. 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.

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, 2003 and 2002, is \$1,778,735 and \$1,822,637, respectively.

(11) Subsequent Events

The College entered into various agreements to 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 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. Payments of \$3,500,000 were made for the purchase from grants from the CNMI Governor's Office. On January 1, 2004, the College officially acquired ownership to the buildings located on the real properties discussed above and assignment of the lease interests for the real properties on which the buildings are located. The remaining \$4,000,000 relates to the assignment of the leasehold interest and is payable in annual installments of \$200,000 with the first annual payment due on or before the last day of business of October 2004 and each subsequent annual payment being due on or before the last day of business in October of each consecutive year. The College expects to fund these additional installments through increased tuition and fees and through financing.

On January 23, 2004, the College was placed on Warning by the Accrediting Commission for Community and Junior Colleges, Western Association of Schools and Colleges. During the warning period, the accredited status of the College continues, but reaffirmation of the institution's accreditation is delayed.

NORTHERN MARIANAS COLLEGE

INDEPENDENT AUDITORS' REPORTS ON
INTERNAL CONTROL AND ON COMPLIANCE

YEAR ENDED SEPTEMBER 30, 2003

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL
CONTROL OVER FINANCIAL REPORTING BASED UPON THE AUDIT
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Regents
Northern Marianas College:

We have audited the financial statements of the Northern Marianas College (the College) as of and for the year ended September 30, 2003, and have issued our report thereon dated January 23, 2004, which was qualified due to our inability to determine the propriety of property, plant and equipment. Except as discussed in the preceding sentence, 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.

Compliance

As part of obtaining reasonable assurance about whether the College's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, 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 instances of noncompliance that are required to be reported under *Government Auditing Standards*, which are described in the accompanying Schedule of Findings and Questioned Costs (pages 11 through 32) as items 2003-9 through 2003-20.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the College's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the College's internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the College's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 2003-1 through 2003-8.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider all of the reportable conditions described above to be material weaknesses. We also noted other matters involving the internal control over financial reporting that we have reported to the management of the College in a separate letter dated January 23, 2004.

This report is intended solely for the information and use of the Board of Regents, management, federal awarding agencies, pass-through entities, and the cognizant audit and other federal agencies and is not intended to be and should not be used by anyone other than these specified parties.

Deloitte & Touche

January 23, 2004



INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND INTERNAL CONTROL
OVER COMPLIANCE APPLICABLE TO EACH MAJOR FEDERAL AWARD PROGRAM
AND ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Board of Regents
Northern Marianas College:

Compliance

We have audited the compliance of the Northern Marianas College (the College) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2003. 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 (pages 11 through 32). Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the College's management. Our responsibility is to express an opinion on the College's compliance based on our audit.

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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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. Our audit does not provide a legal determination on the College's compliance with those requirements.

As described in items 2003-9 through 2003-20 in the accompanying Schedule of Findings and Questioned Costs, the College did not comply with requirements regarding allowable costs/cost principles, procurement and suspension and debarment, period of availability of federal funds, cash management, equipment and real property management, matching, level of effort, and/or earmarking, and monitoring subrecipients that are applicable to each of its major federal programs. Compliance with such requirements is necessary, in our opinion, for the College to comply with requirements applicable to those programs.

In our opinion, except for the noncompliance described in the preceding paragraph, the College complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2003.

Internal Control Over Compliance

The management of the College is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the College's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the College's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 2003-9 through 2003-20.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider all the reportable conditions noted above to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the basic financial statements of the College as of and for the year ended September 30, 2003, and have issued our report thereon dated January 23, 2004, which was qualified due to our inability to determine the propriety of property, plant and equipment. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards (pages 8 and 9) is presented for the purpose of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. This schedule is the responsibility of the management of the College. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had the propriety of fixed assets and inventory been determinable, is fairly stated, in all material respects, when considered in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the Board of Regents, management, federal awarding agencies, pass-through entities, and the cognizant audit and other federal agencies and is not intended to be and should not be used by anyone other than these specified parties.

Deloitte & Touche

January 23, 2004

NORTHERN MARIANAS COLLEGE

Schedule of Awards Selected for Audit in
 Accordance with OMB Circular A-133
 Year Ended September 30, 2003

The following list specifies awards selected for detailed compliance testing in accordance with applicable A-133 requirements.

<u>Original Grantor</u>	<u>CFDA #</u>	<u>Description</u>	<u>Amount of Expenditures</u>
U.S. Department of Education	84.063	Federal Pell Grant	\$ 1,205,937
	84.007	Federal Supplemental Educational Opportunity Grant	42,463
	84.033	Federal Work-Study Program	<u>62,772</u>
		Subtotal Student Financial Aid Programs	<u>1,311,172</u>
U.S. Department of Education	84.002	Adult Basic Education	<u>366,669</u>
U.S. Department of Education	84.047	Upward Bound	702,703
	84.044	Talent Search	287,760
	84.042	Student Support Services Program	<u>232,348</u>
		Subtotal TRIO Cluster	<u>1,222,811</u>
U.S. Department of Education	84.031	Higher Education Institutional Aid - Strengthening Institutions	<u>321,680</u>
U.S. Department of Agriculture	10.203	Cooperative State Research Services - Hatch Act	<u>577,637</u>
U.S. Department of Agriculture	10.500	Cooperative Extension Services - Smith-Lever Act	<u>874,811</u>
		Total program expenditures tested	\$ <u>4,674,780</u>
		Total federal program expenditures	\$ <u>5,329,597</u>
		% of total federal program expenditures tested	<u>88%</u>

NORTHERN MARIANAS COLLEGE

Introduction to Federal Awards Funds
Year Ended September 30, 2003

United States Department of Education

- Student Financial Assistance Programs

The Northern Marianas College (the College) administers student financial aid (SFA) programs within the Commonwealth of the Northern Marianas Islands. During the year ended September 30, 2003, the College received directly from the U.S. Department of Education funds related to the Pell Grant Program, the Supplemental Educational Opportunity Grant Program (SEOG) and Federal Work-Study Program (FWS). The College's institutional matching share for the SEOG and FWS was waived by the grantor agency for the award year ended June 30, 2003.

- Direct Grants

The College receives other grants directly from the U.S. Department of Education. Projects to which the individual grants relate to are as follows:

- Adult Education - State Grant Program
- TRIO - Student Support Services
- TRIO - Upward Bound
- TRIO - Talent Search
- Teachers Technology Program
- Career Resource Network State Grants
- Corporation for National and Community Service
- Leveraging Education Assistance Partnership Program
- Pacific Basin Related Services Assistant Training Project
- Higher Education Institutional Aid - Strengthening Institutions

- Indirect Grant

The College also receives one U.S. Department of Education grant in a subrecipient capacity.

United States Department of Agriculture

- Direct Grants

The College receives the Land Grant Program Grants directly from the U.S. Department of Agriculture.

- Indirect Grants

The College also receives various other U.S. Department of Agriculture grants in a subrecipient capacity.

United States Department of Health and Human Services

- Indirect Grants

During fiscal year 2003, the College received several U.S. Department of Health and Human Services grants in a subrecipient capacity.

NORTHERN MARIANAS COLLEGE

Introduction to Federal Awards Funds, Continued
Year Ended September 30, 2003

United States Department of Commerce

- Direct Grants

During fiscal year 2003, the College received one grant directly from the U.S. Department of Commerce.

NORTHERN MARIANAS COLLEGE

Schedule of Expenditures of Federal Awards
Year Ended September 30, 2003

<u>Federal Grantor/Program Title</u>	<u>CFDA Number</u>	<u>Federal Program or Award Amount</u>	<u>Expenditures FY03</u>
<u>U.S. Department of Education</u>			
<u>Direct Programs</u>			
Student Financial Assistance Programs:			
Federal Supplemental Educational Opportunity Grant	84.007	\$ 42,459	\$ 42,463
Federal Work-Study	84.033	56,785	62,772
Federal Pell Grant	84.063	1,946,049	1,205,937
Subtotal Student Financial Assistance Program		2,045,293	1,311,172
TRIO Programs:			
Student Support Services Program	84.042	229,338	232,348
Talent Search	84.044	284,580	287,760
Upward Bound	84.047	784,307	702,723
Subtotal TRIO Programs		1,298,225	1,222,831
Adult Education - State Grant Program	84.002	396,343	366,669
Leveraging Educational Assistance Partnership Program	84.069	366	818
Teachers Technology Program	84.342	432,939	270,219
Career Resource Network State Grants	84.346	98,010	56,511
Higher Education Institutional Aid - Strengthening Institutions	84.031	365,000	321,680
Subtotal Direct Programs		4,636,176	3,549,900
<u>Indirect Program</u>			
Pacific Basin Related Services Assistant Training Project	84.325	132,270	78,334
Subtotal U.S. Department of Education		4,768,446	3,628,234
<u>U.S. Department of Health and Human Services</u>			
<u>Indirect Program</u>			
University Centers for Excellence in Developmental Disabilities Education, Research and Service	93.632	250,000	125,538
Subtotal U.S. Department of Health and Human Services		250,000	125,538
<u>U.S. Department of Agriculture</u>			
<u>Direct Programs</u>			
Land Grant Programs:			
Cooperative State Research Services - Hatch Act	10.203	655,092	577,637
Cooperative Extension Services - Smith-Lever Act	10.500	756,538	715,546
Penalty Mail	10.500	23,954	19,512

See accompanying notes to schedule of expenditures of federal awards.

NORTHERN MARIANAS COLLEGE

Schedule of Expenditures of Federal Awards, Continued
Year Ended September 30, 2003

<u>Federal Grantor/Program Title</u>	<u>CFDA Number</u>	<u>Federal Program or Award Amount</u>	<u>Expenditures FY03</u>
<u>U.S. Department of Agriculture, Continued</u>			
<u>Direct Programs, Continued</u>			
Balance forwarded		1,435,584	1,312,695
Nutrition Diet Health	10.500	54,016	73,608
Farm Safety	10.500	20,000	19,560
Integrated Pest Management	10.500	34,823	46,582
Indigenous Food Agriculture	10.303	100,000	76,513
Subtotal Direct Programs		<u>1,644,423</u>	<u>1,528,958</u>
<u>Indirect Programs</u>			
Management Services	10.200	17,610	5,224
HR Capacity Building	10.200	15,000	1,430
Enrichment Opportunity	10.200	6,790	884
Healthy Living Pacific	10.200	8,000	3,600
Subtotal Indirect Programs		<u>47,400</u>	<u>11,138</u>
Subtotal U.S. Department of Agriculture		<u>1,691,823</u>	<u>1,540,096</u>
<u>U.S. Department of Commerce</u>			
<u>Direct Program</u>			
National Oceanic and Atmospheric Administration	11.417	100,000	29,343
Subtotal U.S. Department of Commerce		<u>100,000</u>	<u>29,343</u>
<u>Direct Program</u>			
Corporation for National and Community Service	94.005	17,500	6,386
Total Federal Programs		<u>\$ 6,827,769</u>	<u>\$ 5,329,597</u>

See accompanying notes to schedule of expenditures of federal awards.

NORTHERN MARIANAS COLLEGE

Notes to Schedule of Expenditures of Federal Awards Year Ended September 30, 2003

(1) Scope of Review

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. The U.S. Department of the Interior has been designated as the College's cognizant agency.

a. Programs Subject to OMB A-133

The Schedule of Expenditures of Federal Awards presents each Federal program related to the U.S. Department of Education, U.S. Department of Health and Human Services and the U.S. Department of Agriculture which are subject to OMB A-133.

(2) Summary of Significant Accounting Policies

a. 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. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133. 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.

b. Cost Allocation

The College is currently allocating administrative costs to program awards based upon criteria prescribed in those program awards.

(3) Indirect Cost Allocation

The College has not entered into an approved indirect cost negotiation agreement covering the year ended September 30, 2003.

NORTHERN MARIANAS COLLEGE

Schedule of Findings and Questioned Costs
Year Ended September 30, 2003

Section I - Summary of Auditor's Results

1. The Independent Auditors' Report on the financial statements expressed a qualified opinion.
2. Reportable conditions in internal control over financial reporting were identified, some of which are considered to be material weaknesses.
3. Instances of noncompliance considered material to the financial statements were disclosed by the audit.
4. Reportable conditions in internal control over compliance with requirements applicable to major federal award programs were identified, some of which are considered to be material weaknesses.
5. The Independent Auditors' Report on compliance with requirements applicable to major federal award programs expressed a qualified opinion.
6. The audit disclosed findings required to be reported by OMB Circular A-133.
7. The College's major programs were:

<u>Name of Federal Program or Cluster</u>	<u>CFDA Number</u>
Student Financial Assistance Programs:	
Federal Pell Grant	84.063
Federal Supplemental Educational Opportunity Grant	84.007
Federal Work Study	84.033
TRIO Cluster:	
TRIO - Upward Bound	84.047
TRIO - Student Support Services	84.042
TRIO - Talent Search	84.044
Adult Basic Education - State Grant Program	84.002
Higher Education Institutional Aid - Strengthening Institutions	84.031
Land Grant Programs:	
Cooperative State Research Services - Hatch Act	10.203
Cooperative Extension Services - Smith-Lever Act	10.500

8. A threshold of \$300,000 was used to distinguish between Type A and Type B programs as those terms are defined in OMB Circular A-133.
9. The College did not qualify as a low-risk auditee as that term is defined in OMB Circular A-133.

NORTHERN MARIANAS COLLEGE

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2003

Section II - Financial Statement Findings

<u>Reference Number</u>	<u>Findings</u>	<u>Refer Page #</u>
2003-1	Fixed Assets	13
2003-2	Receivables	14
2003-3	Journal Vouchers	15
2003-4	Expenditures	16
2003-5	Inventory	17
2003-6	Accounts Payable	18
2003-7	Sales	19
2003-8	Payroll	20

Section III - Federal Award Findings and Questioned Costs

<u>Reference Number</u>	<u>Findings</u>	<u>Questioned Costs</u>	<u>Refer Page #</u>
2003-9 - 13	Allowable Costs/Cost Principles	\$ 162,228	21 - 25
2003-14 - 15	Procurement and Suspension and Debarment	\$ 17,772	26 - 27
2003-16	Period of Availability of Federal Funds	\$ -	28
2003-17	Cash Management	\$ -	29
2003-18	Matching, Level of Effort, and/or Earmarking	\$ -	30
2003-19	Subrecipient Monitoring	\$ -	31
2003-20	Equipment and Real Property Management	\$ -	32

NORTHERN MARIANAS COLLEGE

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2003

Section II - Financial Statement Findings

Fixed Assets

Finding No. 2003-1

Criteria: All fixed assets should be supported by original cost data. Periodic physical inventories of all fixed assets should be performed and accounting records updated accordingly.

Condition: A physical inventory of the College's fixed assets has not been performed within the past two years. Although the College was able to produce a schedule of fixed assets as of September 30, 2003, original cost data or alternative valuation data is not available.

Cause: The cause of the above condition is unknown.

Effect: The effect of the above condition is non-adherence to the College's established fixed asset capitalization policy and potential misstatement of amounts recorded in the College's financial statements.

Recommendation: We recommend that the College adhere to established policies and procedures relative to capitalization of fixed assets. Further, we recommend that periodic physical inventories of fixed assets be performed and the general ledger balances be updated.

Prior Year Status: Lack of support of recorded fixed assets and periodic inventory of fixed assets was reported as a finding in the audits of the College for fiscal years 2001 and 2002.

Auditee Response and Corrective Action Plan: See attachment to this report.

NORTHERN MARIANAS COLLEGE

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2003

Receivables

Finding No. 2003-2

Criteria: All receivable balances should be reconciled to subsidiary details and periodically assessed for validity and collectibility. Additionally, through this review process, the adequacy of the allowance for doubtful accounts should be assessed and collection efforts pursued.

Condition: A review such as that set forth in the criteria is not being performed. Numerous account balances have been outstanding for several fiscal years with little or no subsequent activity. An audit adjustment was proposed to increase the allowance for doubtful accounts for Bookstore as a result.

Cause: The cause of the above condition is that reviews contemplated in the criteria are not being performed.

Effect: The effect of the above condition is that the College's receivables are not being collected in a timely manner. Further, the interim financial statements are misstated due to a lack of adequate provision for doubtful receivables.

Recommendation: We recommend that the College implement procedures requiring periodic review of all receivable balances for validity and collectibility. This review process should also address the adequacy of related allowances for doubtful accounts.

Prior Year Status: Lack of review of receivable balances for validity and collectibility was reported as a finding in the audits of the College for fiscal years 2001 and 2002.

Auditee Response and Corrective Action Plan: See attachment to this report.

NORTHERN MARIANAS COLLEGE

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2003

Journal Vouchers

Finding No. 2003-3

Criteria: Proper segregation of duties and an adequate system of internal control requires that journal entries be reviewed for validity and accuracy by someone other than the preparer prior to posting.

Condition: Journal entries are not always reviewed and approved prior to posting to the accounting system.

Cause: The cause of the above condition is the absence of independent review of journal vouchers.

Effect: Lack of review and approval of journal entries could result in errors not being identified in a timely manner and financial statements being misstated as a result.

Recommendation: The College should establish policies and procedures requiring journal entries to be reviewed and approved for entry by someone other than the preparer and that this review be evidenced by the reviewer's signature.

Prior Year Status: Lack of review and approval of journal entries was reported as a finding in the audits of the College for fiscal years 2001 and 2002.

Auditee Response and Corrective Action Plan: See attachment to this report.

NORTHERN MARIANAS COLLEGE

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2003

Expenditures

Finding No. 2003-4

Criteria: Expenditures should be recorded based on when goods or services are received. Expenditures should not be recorded based on purchase orders.

Condition: Of twenty-five expenditures tested, three items (all related to check # 11601) were noted as having been expensed based on purchase orders prior to transfer of ownership of goods. Further, of ten accounts payables as of September 30, 2003 tested, five items (PO #s 105679, 105526, 105635, 105480 and 105482) were incorrectly recorded as expenditures per the criteria set forth above. Material adjustments were proposed in the audit process to decrease expenditures as a result.

Cause: The cause of the above condition is that the College is recording an expense at the time a purchase order is issued.

Effect: The effect of the above condition is that the College's expenditures may potentially be overstated.

Recommendation: We recommend that the College adhere to established policies and procedures and record expenditures when the College takes ownership of the goods or services.

Auditee Response and Corrective Action Plan: See attachment to this report.

NORTHERN MARIANAS COLLEGE

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2003

Inventory - Book Store

Finding No. 2003-5

Criteria: General ledger balances should be supported by subsidiary ledgers and variances between the two should be investigated and reconciled in a timely manner. The subsidiary ledger should reflect accurate information such as quantity, cost and items owned by the College. Further, the costing in the subledger should be substantiated by invoices.

Condition: Inventory items noted during our test counts were not included in the subledger. Furthermore, invoices substantiating costs set forth in the subledger were not made available for our review. This condition was resolved through proposed audit adjustments.

Cause: The cause of the above condition is unknown.

Effect: The effect of the above condition is that discrepancies between general ledger and subsidiary ledger balances are not being identified and resolved in a timely manner. Further, the lack of a working inventory subledger may result in a misstatement of inventory balances.

Recommendation: The College should adhere to established policies and procedures requiring monthly reconciliation of all general ledger balances against subsidiary details. We recommend that the College retain all invoices to substantiate inventory costs.

Auditee Response and Corrective Action Plan: See attachment to this report.

NORTHERN MARIANAS COLLEGE

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2003

Accounts Payable - Book Store

Finding No. 2003-6

Criteria: Liabilities should be recognized when ownership of goods have transferred to the College.

Condition: Our tests of subsequent disbursements noted that subsequent payments and open payables with F.O.B. shipping point terms dated in fiscal year 2003 were not recorded as liabilities as of September 30, 2003. Material adjustments were proposed in the audit process to record liabilities as a result.

Cause: The cause of the above condition is that the College is waiting to record liabilities until they receive goods. In some cases, the cause is due to poor recordkeeping.

Effect: The effect of the above condition is that the College's liabilities may potentially be understated.

Recommendation: We recommend that the College establish policies and procedures to record liabilities when ownership of goods and services occurs and to maintain proper records.

Auditee Response and Corrective Action Plan: See attachment to this report.

NORTHERN MARIANAS COLLEGE

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2003

Sales - Book Store

Finding No. 2003-7

Criteria: Sale balances should be substantiated by supporting documents such as sales invoices, cash deposits and/or related journal entries.

Condition: Of fourteen sales items tested, seven items (Reference #s 127356, 7247, 8170, 7670, 129787, 8172 and 127401) lacked documents as set forth in the criteria that substantiate the amount.

Cause: The cause of the above condition is unknown.

Effect: The effect of the above condition is a lack of substantiating documentation.

Recommendation: The College should retain all documents to substantiate all general ledger balances.

Auditee Response and Corrective Action Plan: See attachment to this report.

NORTHERN MARIANAS COLLEGE

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2003

Payroll

Finding No. 2003-8

Criteria: Employee personnel files should contain W-4 forms authorizing withholdings and data should correspond with that contained in the information system. Taxes withheld from employees should correspond to legal withholding rates as outlined in the CNMI tax table. Personnel files should contain complete documentation pertinent to employees' compensation, including housing allowances.

Condition: Of twenty-five personnel files tested, five personnel files (related to check #s 1660, 1668, 1809, 2074 and 2216) did not contain a W-4 authorizing withholdings or the data did not correspond with that contained in the information systems and/or the Chapter 7 tax withholdings were incorrectly calculated.

Cause: The cause of the above condition is the lack of adherence to established policies and procedures over payroll file documentation and lack of periodic review of payroll withholding calculations.

Effect: The effect of the above condition is lack of support for withholding should disputes arise.

Recommendation: The College should adhere to established policies and procedures requiring employee personnel files to be current and complete. Further, we recommend that a review process be established to ensure that withholdings are being properly computed.

Prior Year Status: Lack of adherence to established policies and procedures over payroll file documentation was reported as a finding in the audits of the College for fiscal years 2001 and 2002.

Auditee Response and Corrective Action Plan: See attachment to this report.

NORTHERN MARIANAS COLLEGE

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2003

Section III - Federal Award Findings and Questioned Costs

Allowable Costs/Cost Principles

Finding No. 2003-9

<u>Program</u>	<u>Reason for Questioned Costs</u>	<u>Questioned Costs</u>
U.S. Department of Education / TRIO - Upward Bound / CFDA # 84.047	<p><u>Criteria:</u> Per the terms of the grant agreement, the College is permitted to charge a maximum of 8% in indirect costs to the TRIO Programs. The College determines the amount charged for indirect costs by applying the allowable percentage to the total expenditures incurred under the program for the program year. Despite the grant agreement percentage, the College is required to perform a calculation of the indirect cost rate and to document such. The College should not charge any grant award in excess of this calculated rate.</p>	
U.S. Department of Education / TRIO - Student Support Services / CFDA # 84.042	<p><u>Condition:</u> During the year ended September 30, 2003, the College charged \$80,827 or 8% of total program expenditures to indirect costs. As such, the 8% indirect cost rate per the grant agreement was properly charged. However, the College has not calculated an indirect cost rate, and thus all indirect costs charged to this grant are questioned.</p>	
U.S. Department of Education / TRIO - Talent Search / CFDA # 84.044	<p><u>Cause:</u> The cause of the above condition is unknown.</p> <p><u>Effect:</u> The effect of the above condition is noncompliance with allowable indirect costs charges and questioned costs.</p> <p><u>Recommendation:</u> We recommend that the College ensure that only allowable indirect costs be charged to federal programs.</p> <p><u>Prior Year Status:</u> Lack of indirect cost rate calculation was reported as a finding in the audits of the College for fiscal years 2001 and 2002.</p> <p><u>Auditee Response and Corrective Action Plan:</u> See attachment to this report.</p>	80,827

NORTHERN MARIANAS COLLEGE

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2003

Allowable Costs/Cost Principles

Finding No. 2003-10

Program	Reason for Questioned Costs	Questioned Costs
U.S. Department of Education / Adult Basic Education/ CFDA # 84.002	<p><u>Criteria:</u> As provided for by the OMB Compliance Supplement, recipients of the Adult Basic Education - State Grant Program are permitted to charge 8% or the Restricted Indirect Cost Rate (RICR) to grants to recover their indirect costs. Despite the RICR, the College is required to perform a calculation of the indirect cost rate and to document such. The College should not charge any grant in excess of this calculated rate.</p> <p><u>Condition:</u> During the year ended September 30, 2003, the College charged \$34,503 or 10.75% of total program expenditures to indirect costs. As such, the 8% indirect cost rate per the grant agreement was exceeded by approximately 2.75%, which translates into an overcharge of \$8,836 in indirect costs to the program. Additionally, the College has not calculated an indirect cost rate, and thus all indirect costs charged to this grant are questioned.</p> <p><u>Cause:</u> The cause of the above condition appears to be inadequate procedures for accurate preparation and reporting of indirect cost charges.</p> <p><u>Effect:</u> The effect of the above condition is noncompliance with allowable indirect cost charges and questioned costs.</p> <p><u>Recommendation:</u> We recommend that the College ensure that only allowable indirect costs be charged to federal programs.</p> <p><u>Prior Year Status:</u> Noncompliance with allowable and indirect cost charges and questioned costs was reported as a finding in the audit of the College for fiscal year 2002.</p> <p><u>Auditee Response and Corrective Action Plan:</u> See attachment to this report.</p>	34,503

NORTHERN MARIANAS COLLEGE

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2003

Allowable Costs/Cost Principles

Finding No. 2003-11

<u>Program</u>	<u>Reason for Questioned Costs</u>	<u>Questioned Costs</u>
U.S. Department of Education / Higher Education Institutional Aid - Strengthening Institutions / CFDA # 84.031	<p><u>Criteria:</u> Per the terms of the grant agreement, the College is permitted to charge a maximum of 8% in indirect costs to the Higher Education Institutional Aid - Strengthening Institutions program. The College determines the amount charged for indirect costs by applying the allowable percentage to the total expenditures incurred under the program for the program year. Despite the grant agreement percentage, the College is required to perform a calculation of the indirect cost rate and to document such. The College should not charge any grant award in excess of this calculated rate.</p> <p><u>Condition:</u> During the year ended September 30, 2003, the College charged approximately \$25,013 or 8% of total program expenditures to indirect costs. As such, the 8% indirect cost rate per the grant agreement was properly charged. However, the College has not calculated an indirect cost rate, and thus all indirect costs charged to this grant are questioned.</p> <p><u>Cause:</u> The cause of the above condition is unknown.</p> <p><u>Effect:</u> The effect of the above condition is noncompliance with allowable indirect costs charges and questioned costs.</p> <p><u>Recommendation:</u> We recommend that the College ensure that only allowable indirect costs be charged to federal programs.</p> <p><u>Auditee Response and Corrective Action Plan:</u> See attachment to this report.</p>	25,013

NORTHERN MARIANAS COLLEGE

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2003

Allowable Costs/Cost Principles

Finding No. 2003-12

<u>Program</u>	<u>Reason for Questioned Costs</u>	<u>Questioned Costs</u>												
U.S. Department of Agriculture / Cooperative State Research and Extension Service - Smith Lever Act / CFDA # 10.500	<p><u>Criteria:</u> The Smith-Lever Act, Sections (b) & (c) grant requires a match by the College of 50% of total program expenditures for fiscal year 2003.</p> <p><u>Condition:</u> The College determines its match share by allocating a percentage of various department costs that benefit the grant programs. The allocation percentage is derived from the ratio of total Land Grant full-The College has not sought specific approval of the allocation method for FY2003 from the grantor agency.</p> <table border="1" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th></th> <th style="text-align: center;"><u>Amount Committed</u></th> <th style="text-align: center;"><u>Actual Match</u></th> <th style="text-align: center;"><u>Variance</u></th> </tr> </thead> <tbody> <tr> <td>NMC's share (50%)</td> <td style="text-align: right;">\$ 378,269</td> <td style="text-align: right;">\$ 273,809</td> <td style="text-align: right;">\$ 104,460</td> </tr> <tr> <td>Federal grantor</td> <td style="text-align: right;">\$ 756,538</td> <td style="text-align: right;">\$ 756,538</td> <td style="text-align: right;">\$ -</td> </tr> </tbody> </table> <p>Questioned costs reflect the variance in NMC's match. The grantor agency specifically waived \$84,325 of the matching requirement, therefore total questioned costs amount to \$20,135. Additional questioned costs may result based on the grantor's determination of whether the federal amount committed should have been reduced based on NMC's actual match.</p> <p><u>Cause:</u> The cause of the above condition is unknown.</p> <p><u>Effect:</u> The effect of the above condition is questioned costs.</p> <p><u>Recommendation:</u> We recommend that the College review the allocation percentage calculation and ensure that its match share of grant funds is accurate. Further, specific approval of the allocation percentage calculation should be obtained.</p> <p><u>Prior Year Status:</u> An improperly computed allocation percentage was reported as a finding in the audits of the College for fiscal years 2001 and 2002.</p> <p><u>Auditee Response and Corrective Action Plan:</u> See attachment to this report.</p>		<u>Amount Committed</u>	<u>Actual Match</u>	<u>Variance</u>	NMC's share (50%)	\$ 378,269	\$ 273,809	\$ 104,460	Federal grantor	\$ 756,538	\$ 756,538	\$ -	20,135
	<u>Amount Committed</u>	<u>Actual Match</u>	<u>Variance</u>											
NMC's share (50%)	\$ 378,269	\$ 273,809	\$ 104,460											
Federal grantor	\$ 756,538	\$ 756,538	\$ -											

NORTHERN MARIANAS COLLEGE

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2003

Allowable Costs/Cost Principles

Finding No. 2003-13

<u>Program</u>	<u>Reason for Questioned Costs</u>	<u>Questioned Costs</u>
U.S. Department of Education / TRIO - Talent Search / CFDA # 84.044	<p><u>Criteria:</u> OMB Circular A-21, <i>Cost Principles for Educational Institution</i>, establishes principles for determining the allowable costs incurred by educational institutions under grants with the Federal Government. Specifically, costs must be necessary and reasonable for proper and efficient performance and administration of the federal awards.</p> <p><u>Condition:</u> Of \$287,760 in expenditures of the Talent Search program, five non-payroll expenditures, totaling \$8,028 were tested. One item (TA # 100670 for \$1,750) lacked substantiating documents such as an invoice or a payment receipt in the amount of \$1,750.</p> <p><u>Cause:</u> The cause of the above condition is unknown.</p> <p><u>Effect:</u> The effect of the above condition is the possibility of disallowed costs.</p> <p><u>Recommendation:</u> We recommend that the College comply with OMB Circular A-21 and retain supporting documents to determine if costs are necessary and reasonable for proper and efficient performance and administration of federal grants.</p> <p><u>Auditee Response and Corrective Action Plan:</u> See attachment to this report.</p>	1,750

NORTHERN MARIANAS COLLEGE

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2003

Procurement and Suspension and Debarment

Finding No. 2003-14

<u>Program</u>	<u>Reason for Questioned Costs</u>	<u>Questioned Costs</u>
<p>U.S. Department of Education / Higher Education Institutional Aid – Strengthening Institutions / CFDA # 84.031</p>	<p><u>Criteria:</u> OMB Circular A-102, <i>Grants and Cooperative Agreements with State and Local Governments</i> and A-110, <i>Uniform Administrative Requirements for Grants and Agreements With Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations</i> require that procurements provide full and open competition, and document the rationale for the method of procurement, selection of contract type, contractor selection or rejection, and the basis of contract price.</p> <p><u>Condition:</u> Of \$321,680 in expenditures of the Strengthening Institutions program, thirteen non-payroll expenditures, totaling \$198,716 were tested. One item (check # 18711 for \$8,172) was procured through sole-source method of procurement without reasonable justification.</p> <p><u>Cause:</u> The cause of the above condition is unknown.</p> <p><u>Effect:</u> The effect of the above condition is noncompliance with federal procurement standards.</p> <p><u>Recommendation:</u> We recommend that the College adhere to established policies and procedures to ensure compliance with federal procurement standards.</p> <p><u>Auditee Response and Corrective Action Plan:</u> See attachment to this report.</p>	<p>8,172</p>

NORTHERN MARIANAS COLLEGE

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2003

Procurement and Suspension and Debarment

Finding No. 2003-15

<u>Program</u>	<u>Reason for Questioned Costs</u>	<u>Questioned Costs</u>
U.S. Department of Agriculture / Cooperative State Research and Extension - Smith Lever Act / CFDA # 10.500	<p><u>Criteria:</u> The federal government requires compliance with local procurement policy when it is more stringent than the federal requirement. The College's Procurement Regulation 11-c requires programs to first determine whether their requirements may be met by available in-house resources or through other employment options authorized by College policy, prior to initiating the acquisition of services via procurement procedures.</p> <p><u>Condition:</u> Of \$874,808 in expenditures of the Smith Lever Act program, seven expenditures, totaling \$106,764 were tested. One professional service contract (Contract # PS-2707 for \$9,600) did not evidence that the contracted services were not available internally at the College.</p> <p><u>Cause:</u> The cause of the above condition is unknown.</p> <p><u>Effect:</u> The effect of the above condition is noncompliance with procurement standards.</p> <p><u>Recommendation:</u> We recommend that the College adhere to established policies and procedures to ensure compliance with federal procurement standards.</p> <p><u>Auditee Response and Corrective Action Plan:</u> See attachment to this report.</p>	9,600
Total Questioned Costs		\$ <u>180,000</u>

NORTHERN MARIANAS COLLEGE

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2003

Period of Availability of Federal Funds - Cooperative Research and Extension Programs - Smith-Lever
CFDA # 10.500

Finding No. 2003-16

Criteria: The College is allowed to carry forward unexpended grant funds for up to 5 years from the year allocated under Smith Lever Act. Expenditures should not exceed the available grants for the program.

Condition: The amount of expenditures for the Smith-Lever Act as reported in the College's general ledger appears to have stayed within available grants for the program. However, available program grants included leftover funds from fiscal years 2002 and prior. There is, however, an uncertainty relative to the accuracy of these carried forward funds, as adequate documentation supporting such is not available.

Cause: The cause of the above condition is lack of adequate prior year documentation to ascertain the accuracy of funds carried forward.

Effect: The effect of the above condition is the College may have over expended the available grants.

Recommendation: The College should take steps to document the validity of the carried forward balances and obtain approval of the carry forward from the federal grantor agency.

Prior Year Status: Lack of adequate documentation from the prior years to ascertain accuracy of funds carried forward was reported as a finding in the audits of the College for fiscal years 2001 and 2002.

Auditee Response and Corrective Action Plan: See attachment to this report.

NORTHERN MARIANAS COLLEGE

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2003

Cash Management - Federal Pell Grant Program, Federal Work-Study Program and Federal Supplemental Educational Opportunity Grant
CFDA #s 84.063, 84.033 and 84.007

Finding No. 2003-17

Criteria: Section 668.164(e) of 34 CFR 668, *Student Assistance General Provisions*, requires that whenever an institution disburses Title IV program funds by crediting a student's account and the total amount of all funds credited exceeds the amount of tuition and fees, room and board, and other authorized charges assessed by the institution, the institution must pay the resulting credit balance directly to the student or parent as soon as possible, but no later than fourteen days after: (1) the date the balance occurred on the student's account, if the balance occurred after the first day of class of a payment period, or (2) the first day of classes of the payment period if the credit balance occurred on or before the first day of class of that payment period.

Condition: Based on a review of forty-seven student financial aid records, on all occasions, credit balances were not paid by the College in the required time frame (within the fourteen day grace period).

Cause: The cause of the above condition is unknown.

Effect: The effect of the above condition is noncompliance with cash management requirements concerning refunds of credit balances.

Recommendation: The College should establish policies and procedures to ensure compliance with cash management requirements concerning refunds of credit balances.

Prior Year Status: Noncompliance with cash management requirements concerning refunds to students of credit balances was reported as a finding in the audits of the College for fiscal years 2001 and 2002.

Auditee Response and Corrective Action Plan: See attachment to this report.

NORTHERN MARIANAS COLLEGE

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2003

Matching, Level of Effort, and/or Earmarking - SFA - Federal Work-Study Program
CFDA # 84.033

Finding No. 2003-18

Criteria: Section 675.18 of 34 CFR, *Federal Work-Study Programs*, requires an institution to use at least seven percent of the sum of its initial and supplemental federal work-study allocations for an award year to compensate students employed in community service activities unless waived by the Secretary.

Condition: The College did not allocate any amount to compensate students employed in community activities.

Cause: The cause of the above condition is no federal work-study students were employed in community service activities due to lack of transportation on students' part and students' preference to work on campus.

Effect: The effect of the above condition is noncompliance with grantor requirements.

Recommendation: We recommend that the College establish policies and procedures to ensure compliance with grantor requirements or obtain waiver from the Secretary.

Auditee Response and Corrective Action Plan: See attachment to this report.

NORTHERN MARIANAS COLLEGE

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2003

Subrecipient Monitoring - TRIO - Upward Bound
CFDA # 84.047A

Finding No. 2003-19

Criteria: OMB Circular A-110 Section 51, *Monitoring and Reporting Program Performance* requires recipients to monitor subawards to ensure subrecipients have met audit requirements as required in Section 26 Non-federal audits, which states "Recipients and subrecipients that are institutions of higher education or other non-profit organizations shall be subject to the audit requirements contained in the Single Audit Act Amendments of 1996 and revised OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organization*".

Condition: The audit report pertaining to subrecipient's federal program activities was not made available by the College. Accordingly, we were unable to determine whether the College complied with the subrecipient audit requirement as outlined in OMB Circular A-110. The College disbursed approximately \$304,283 to the subrecipient in FY2003.

Cause: The cause of the above condition is unknown.

Effect: The effect of the above condition is noncompliance with subrecipient monitoring requirements.

Recommendation: We recommend that the College establish policies and procedures to ensure compliance with subrecipient monitoring requirements.

Prior Year Status: Noncompliance with subrecipient monitoring requirements was reported as a finding in the audits of the College for fiscal years 2001 and 2002.

Auditee Response and Corrective Action Plan: See attachment to this report.

NORTHERN MARIANAS COLLEGE

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2003

Equipment and Real Property Management - All Federal Programs

Finding No. 2003-20

Criteria: Section 74.34 of 34 CFR 74, *Administration of Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations*, requires grant recipients to maintain property management records and to perform a physical inventory of equipment at least once every two years.

Condition: Property management records are not maintained. Furthermore, a physical inventory of equipment has not been taken within the past two years.

Cause: The cause of the above condition is unknown.

Effect: The effect of the above condition is noncompliance with federal property management standards.

Recommendation: We recommend that the College establish policies and procedures to ensure compliance with federal property management standards.

Prior Year Status: Noncompliance with federal property management standards was reported as a finding in the audits of the College for fiscal years 2001 and 2002.

Auditee Response and Corrective Action Plan: See attachment to this report.

NORTHERN MARIANAS COLLEGE

Unresolved Prior Year Findings and Questioned Costs
Year Ended September 30, 2003

Questioned Costs

The prior year Single Audit report on compliance with laws and regulations noted the following questioned costs and comments that were unresolved at September 30, 2003:

Questioned costs as previously reported	\$ 1,623,797
Questioned costs of fiscal year 2003 Single Audit	<u>180,000</u>
Unresolved questioned costs at September 30, 2003	\$ <u>1,803,797</u>

Unresolved Findings

The status of unresolved findings is discussed in the Schedule of Findings and Questioned Costs section of this report (pages 11 through 32).



Northern Marianas College

P.O. Box 501250 • Saipan, MP 96950 U.S.A. • Phone: (670) 234-5498

Fax: (670) 234-0759 • Web Site: www.nmcnet.edu

Corrective Action Plans to Findings and Questioned Costs included in the Independent Auditors' Reports on Internal Control and on Compliance for the Year Ended September 30, 2003

Financial Statement Findings Section

Fixed Assets

Finding No. 2003-1

We concur with the finding that a physical inventory of fixed assets be performed and reconciled to the schedule of fixed assets. The Procurement and Property Management Office initiated a physical inventory count of assets at the end of fiscal year 2001 but it was not completed due to the lack of sufficient staff in that office. The schedule of fixed assets is currently prepared using a spreadsheet program, which requires manual compilation, computation, and posting of asset purchases and depreciation to the general ledger. The College is researching the purchase and use of a fixed asset module and a property management module to its fund accounting software system. The two modules would enable NMC to track all assets of the institution, including the computation and posting of depreciation expense to the general ledger and the updating of the assets based on physical inventory counts on a regular basis. Due to financial constraints, this system will not be implemented until fiscal year 2005. However a manual physical inventory of all College fixed assets is currently underway and an updated listing will be available for the financial year ending September 30, 2004.

Receivables

Finding No. 2003-2

We concur with the finding. The College plans to review the accounts receivable subsidiary ledger on a regular basis to assess the validity and collectibility of receivables as well as the adequacy of the allowance for doubtful accounts. Reviewing receivables on a monthly basis is not possible at this time due to delays in processing student charges and payments as a result of limitations of the computerized accounts receivable system. In fiscal year 2004 NMC will be implementing its PowerCampus admissions and registration system, which includes a student billing/cash receipts/accounts receivable module. The PowerCampus software will greatly facilitate timely processing of student charges and payments to enable monthly review of accounts receivable.

Journal Vouchers

Finding No. 2003-3

We concur with the finding and recommendation that journal entries be reviewed and approved. The lack of a review process in FY2003 was the result of a lack of adequate staff in the Finance Office. As noted in the finding in FY2003, each Finance Office staff makes journal entries to the accounting system in his or her respective areas of responsibility on a daily basis (e.g., accounts payable, accounts receivable, payroll, etc.). In fiscal year 2004 the College hired a new Director of Finance and Procurement who now reviews all journal entries prior to such being posted. As such this finding is considered resolved in fiscal year 2004.

Financial Statement Findings Section, Continued

Expenditures Finding No. 2003-4

We concur with the finding. At the end of financial year 2003, several last minute purchase orders were processed as prepaid and the expenditures recorded based on the information on the purchase orders instead of the actual invoices although the related checks were not issued until fiscal year 2004. This was primarily a timing issue and the result of a lack of adequate planning by various departments of the College. All such expenditures have been reversed and accounting staff informed that no future transactions of this nature are to be processed.

Inventory Finding No. 2003-5

We concur with the finding and recommendation that the accounts receivable and accounts payable subsidiary ledgers should agree to the general ledger. In FY2004 all accounting of Book Store transactions has been transferred to the Finance Office and subsidiary ledgers will be reviewed on a monthly basis to ensure that such reconcile to general ledger balances. Further a new filing system has been implemented at the Book Store to ensure that all invoices are filed with corresponding check payments and cash receipts and sales invoices are also filed on a daily basis. These procedures should ensure that accounting documentation is complete and a proper audit trail is maintained going forward.

Accounts Payable Finding No. 2003-6

We concur with the finding and recommendation. In FY2004 a thorough review of invoices received subsequent to year-end was not performed to ensure that all liabilities were accounted for in the proper fiscal period. In FY2004 all accounting of Book Store transactions has been transferred to the Finance Office and procedures implemented to ensure that all transactions are reviewed periodically for accounting in the proper fiscal period. Further a new filing system has been implemented at the Book Store to ensure all invoices are filed with corresponding check payments and cash receipts and sales invoices are filed on a daily basis. These procedures should ensure that accounting documentation is complete and a proper audit trail is maintained going forward and also facilitate proper cut off of transactions.

Sales Finding No. 2003-7

We concur with the finding and the recommendation. In FY2004 all accounting of Book Store transactions has been transferred to the Finance Office. A new filing system has been implemented at the Book Store to ensure all invoices are filed with corresponding check payments and cash receipts and sales invoices are filed on a daily basis. These procedures should ensure that accounting documentation is complete and a proper audit trail is maintained going forward.

Financial Statement Findings Section, Continued

Payroll Finding No. 2003-8

We concur with the finding. To ensure that all employees are provided with the W-4 forms upon their hiring at the College, the Human Resources Office includes W-4 forms in an information packet provided to new employees. Adjunct faculty are provided the W-4 forms by the instructional departments that they are teaching courses for. W-4 forms are maintained in employees' payroll files in the Finance Office. However, if new employees, part-time and full-time, do not turn in their W-4 forms to the payroll section in the Finance Office, the payroll accountant will use a default set-up of single with zero allowances in order to process a payroll check for such employees each pay period. The payroll accountant has been instructed to not process the payroll for employees who have not submitted a W-4 form. NMC implemented a new payroll software system in fiscal year 2003. The annual maintenance agreement with the software manufacturer includes the regular update of all tax tables by the company. This will ensure that employee tax deductions are computed using the most current tax rates.

Federal Award Findings and Questioned Costs Section

Allowable Costs/Cost Principles Finding No. 2003-9

We concur with the finding that NMC did not obtain specific approval from the grantor agency on the rate to be charged for indirect costs to the federal grant. Although NMC has not negotiated and received approval for an indirect cost rate with the grant agency, it charged the maximum allowed, which was 8%. Historically NMC operated under the assumption that as an agency of the CNMI government its indirect cost rate is the same as the one approved for the CNMI as a whole. We have since learned that the College is not included in the CNMI wide indirect cost rate. The College has contacted the Office of the Indirect Cost Coordinator of the US Department of Interior (DOI), our cognizant audit agency, and begun the indirect cost rate negotiation process. In January 2004, the College's Director of Financial and Administrative Services met with the Indirect Cost Coordinator for DOI and as a result of that meeting and subsequent communications, we have received assurances that an indirect cost rate for financial year 2004 and retroactively for FY2001-2003 can be established and our approach for calculating such was verbally approved. However, we were informed that this process could take up to six months. We are confident however our indirect costs rates for fiscal year 2001-2003 and 2004 will be approved and in place by the end of financial year 2004.

Finding No. 2003-10

We concur with the finding that NMC did not obtain specific approval from the grantor agency on the rate to be charged for indirect costs to the federal grant. Although NMC has not negotiated and received approval for an indirect cost rate with the grant agency, it charged the maximum allowed, which was 8%. Historically NMC operated under the assumption that as an agency of the CNMI government its indirect cost rate is the same as the one approved for the CNMI as a whole. We have since learned that the College is not included in the CNMI wide indirect cost rate. The College has contacted the Office of the Indirect Cost Coordinator of the US Department of Interior (DOI), our cognizant audit agency, and begun the indirect cost rate negotiation process. In January 2004, the College's Director of Financial and Administrative Services met with the Indirect Cost Coordinator for DOI and as a result of that meeting and subsequent communications, we have received assurances that an indirect cost rate for financial year 2004 and retroactively for FY2001-2003 can be established and our approach for calculating such was verbally approved. However, we were informed that this process could take up to six months. We are confident however our indirect costs rates for fiscal year 2001-2003 and 2004 will be approved and in place by the end of financial year 2004.

Federal Award Findings and Questioned Costs Section, Continued

Allowable Costs/Cost Principles, Continued Finding No. 2003-11

We concur with the finding that NMC did not obtain specific approval from the grantor agency on the rate to be charged for indirect costs to the federal grant. Although NMC has not negotiated and received approval for an indirect cost rate with the grant agency, it charged the maximum allowed, which was 8%. Historically NMC operated under the assumption that as an agency of the CNMI government its indirect cost rate is the same as the one approved for the CNMI as a whole. We have since learned that the College is not included in the CNMI wide indirect cost rate. The College has contacted the Office of the Indirect Cost Coordinator of the US Department of Interior (DOI), our cognizant audit agency, and begun the indirect cost rate negotiation process. In January 2004, the College's Director of Financial and Administrative Services met with the Indirect Cost Coordinator for DOI and as a result of that meeting and subsequent communications, we have received assurances that an indirect cost rate for financial year 2004 and retroactively for FY2001-2003 can be established and our approach for calculating such was verbally approved. However, we were informed that this process could take up to six months. We are confident however our indirect costs rates for fiscal year 2001-2003 and 2004 will be approved and in place by the end of financial year 2004.

Finding No. 2003-12

We agree with the finding. The College requested and received a waiver for the matching portion it represented to USDA CSREES as being unmet for financial year 2003. However, the amount requested and approved for waiver was less than the actual shortfall for the Smith Lever Act by \$20,135, the amount questioned. We have receive communications from USDA CSREES that they are willing to consider a waiver for the additional amount and will be working with them to clear such.

Finding No. 2003-13

We concur with the finding that supporting documents were not immediately available for review by the auditors. The program staff is currently working on obtaining these documents from the traveler. If we are able to obtain the documents, we will submit such to the grantor agency and attempt to resolve the questioned cost through direct negotiations with grantor agency personnel.

Procurement and Suspension and Debarment Finding No. 2003-14

We agree with the auditors' conclusion that a detailed justification for the sole sourcing of this purchase is not available. However, the College has historically purchased all lab equipment from this vendor as no one on the island carries such equipment. In the future, we will ensure that a more detailed justification for all federal sole source purchases is provided. The College adhered to its internal sole source procurement standards and we will attempt to resolve the questioned cost with the grantor agency.

Finding No. 2003-15

We agree with the auditors' conclusion that a detailed justification for the sole sourcing of this purchase is not available. We will work with the program staff to obtain further justification for this contract and attempt to resolve the questioned cost with the grantor agency.

Federal Award Findings and Questioned Costs Section, Continued

Period of Availability of Federal Funds
Finding No. 2003-16

We concur with the finding that the carryover amount for the Smith-Lever fund may not be accurate. NMC has met with USDA officials and has requested copies of prior financial years reports submitted by the College for these grants. On receipt of these reports, the College will review the grant award, cash draw downs, and expenditures of the fund from the first year of the grant up to the current year to recompute the carryover amount and obtain concurrence as to the accuracy of such from the grantor agency.

Cash Management
Finding No. 2003-17

We concur with the finding. The Finance Office normally credits a student's account for the amount of Title IV funds used to cover his or her tuition, fees, and other authorized charges upon receipt of such information from the Financial Aid Office. Student accounts are immediately credited to ensure that their accounts are up to date to avoid any problems they may have with future registration for courses at the College. After students' accounts have been credited, funds were to be drawn down under the Title IV grant. A portion of such funds were to be used to refund students for the amount that their Title IV funds exceeded their tuition, fees, and other authorized charges. However, during fiscal year 2001, the drawdowns were made at a date much later than the date students' accounts were credited. This was attributed to internal delays in processing the draw down requests caused by the lack of sufficient staff handling student accounts receivable and accounts payable. Accordingly, the delay in the draw down of funds resulted in the delay in processing of student refunds. Obviously, the College cannot issue refund checks to students if the funds have not been drawn down. This situation continued into fiscal years 2002 and 2003. The College is working on improving its Title IV drawdown and student refund procedures to ensure that it complies with federal regulations.

Matching, Level of Effort, and/or Earmarking
Finding No. 2003-18

We concur with the finding. As noted in the finding, due to lack of transportation on students' part and preference of students' to work on campus none were employed in community service activities. The College will continue to work with our students to comply with this provision of the grant.

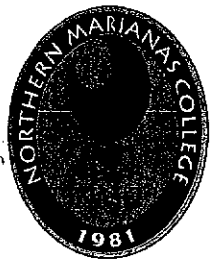
Subrecipient Monitoring
Finding No. 2003-19

We concur with the finding. The College has communicated with the President of American Samoa Community College for a copy of its audit report for the relevant period. A copy of the response is provided and such indicates that the audit is currently underway and expected to be completed in this fiscal year. Such will be obtained as soon as it is completed.

Federal Award Findings and Questioned Costs Section, Continued

Equipment and Real Property Management
Finding No. 2003-20

We concur with the finding. The Procurement and Property Management Office (PPMO) is responsible for maintaining property records and for performing a physical inventory count each year. The property records are maintained in a database but such information is incomplete. Furthermore, the office lacks sufficient staff to adequately perform a complete physical inventory count. The College is currently exploring the purchase of a software program to track its fixed assets and is compatible with the College's current fund accounting software. Due to financial constraints the software will not be purchased until financial 2005. However a physical inventory of College assets is currently underway and expected to be completed by the end of financial year 2004.



Northern Marianas College

P.O. Box 501250 • Saipan, MP 96950 U.S.A. • Phone: (670) 234-5498
Fax: (670) 234-0759 • Web Site: www.nmnet.edu

Summary of Schedule of Prior Audit Findings

Status of audit findings included in the schedule of findings and questioned costs for the year ended September 30, 2002:

Financial Statement Findings

- Finding No. 2002-1 - Not corrected. See corrective action plan to Finding No. 2003-1.
- Finding No. 2002-2 - Not corrected. See corrective action plan to Finding No. 2003-2.
- Finding No. 2002-3 - Not corrected. See corrective action plan to Finding No. 2003-3.
- Finding No. 2002-4 - Corrective action has been taken.
- Finding No. 2002-5 - Corrective action has been taken.
- Finding No. 2002-6 - Corrective action has been taken.
- Finding No. 2002-7 - Not corrected. See corrective action plan to Finding No. 2003-8.

Federal Award Findings and Questioned Costs

- Finding No. 2002-8 - Not corrected. See corrective action plan to Finding No. 2003-9.
- Finding No. 2002-9 - Not corrected. See corrective action plan to Finding No. 2003-10.
- Finding No. 2002-10 - Corrective action has been taken.
- Finding No. 2002-11 - Not corrected. See corrective action plan to Finding No. 2003-12.
- Finding No. 2002-12 - Corrective action has been taken.
- Finding No. 2002-13 - Corrective action has been taken.
- Finding No. 2002-14 - Not corrected. See corrective action plan to Finding No. 2003-16.
- Finding No. 2002-15 - Corrective action has been taken.
- Finding No. 2002-16 - Not corrected. See corrective action plan to Finding No. 2003-17.

Status of all audit findings included in the Schedule of Findings and Questioned Costs for the year ended September 30, 2002, Continued:

Page Two

Federal Award Findings and Questioned Costs, Continued

Finding No. 2002-17 - Not corrected. See corrective action plan to Finding No. 2003-19.

Finding No. 2002-18 - Corrective action has been taken.

Finding No. 2002-19 - Not corrected. See corrective action plan to Finding No. 2003-20.